



Weekly Market Insight

March 5, 2010

NORTH AMERICAN & INTERNATIONAL ECONOMIC HIGHLIGHTS

The federal budget introduced on March 4th will be forgotten within a week. In many ways this budget should be seen as a transitory budget, with no major initiatives. All the difficult decisions were postponed until the 2011 budget.

But what's very clear at this point is that from a global perspective, the stimulus and bailouts of yesterday will turn into the fiscal tightening of tomorrow. The US might turn out to be the most difficult case. The issue is not only that the US current budget deficit is close to 10% of GDP, but also the composition of the deficit. Note that "pure" expenditure growth (that is program spending) by the government was not very large and this boost was offset by a de-facto spending cuts by state and local governments. So at the end of the day over the past year, we have seen only \$40-\$50 billion of pure spending—nothing to write home about. The vast majority of "spending" (close to \$500 billion) was in the form of transfer to financial institutions, individuals and lower taxes. Note, for example, in US, all the growth in personal income currently is due to transfer payments and lower taxes. Wage income is actually falling. The point here is that when it comes to taxes and transfer payments, it is much more difficult (politically speaking) to cut when compared to pure fiscal spending.

Also remember that in both the US and Canada, the ability to cut the deficit in the 1990s was largely helped by falling interest rates, and in the case of Canada, a very weak dollar. Both factors are not at play in the current situation. Accordingly, look for any improvement in the fiscal situation to be limited.

The practical implication here is that huge budget deficits cannot co-exist with record low interest rates. Something will have to give. And this something must be interest rates. The new global fiscal reality suggests that long-term interest rates will probably rise faster than short-term rates in the coming 2-3 years—leading to a notable steepening in the yield curve.

In this context, Greece will try to sell enough bonds next week to finance the close to \$30 billion of debt that is about to mature in April and May. Note that after these two months, the refinancing situation of Greece will improve for a while with much less debt expected to mature in the following months. So they have to go through the next two months before getting a break. At this point it is far from clear that the market will be willing to absorb this amount of Greek debt—so look for some volatility next week.

The US labour market is still unable to create jobs and start reversing the trend that cost no less than 8 million jobs during the recession. But if you look at overall manufacturing activity in the US, you will see a very different picture with an impressive rebound in production activity. In fact, the manufacturing sectors on both sides of the 49th parallel are showing signs of life. But the improvement in the US is not only stronger, but also much more capital-intensive. The practical implication of the more capital-intensive manufacturing rebound south of the border is that despite the strong Canadian dollar, manufacturing employment in Canada will probably rise faster than in the US in the near term. However, given the increased prevalence of better-capitalized and more efficient production facilities stateside, Canadian manufactures will find it even more difficult to compete when the dust settles.

Benjamin Tal
Senior Economist

Market Snapshot

US	Current*	yesterday*	a week ago*	a month ago*	a year ago
TED SPREAD (bps)	11	12	14	17	108
10Y / 2Y SPREAD (bps)	277	277	280	284	192
2Y SWAP SPREAD (bps)	23	23	24	31	77
3M T-Bill (%)	0.14	0.13	0.11	0.08	0.21
LIBOR 1 MONTH (%)	0.23	0.23	0.23	0.23	0.55
LIBOR 3 MONTH (%)	0.25	0.25	0.25	0.25	1.29
2-YR BOND (%)	0.91	0.83	0.82	0.77	0.95
5-YR BOND (%)	2.35	2.26	2.32	2.27	1.88
10-YR BOND (%)	3.68	3.60	3.62	3.61	2.87
A Rated / 10Y TREASURY (bps)	148	157	158	156	362
B Rated / 10Y TREASURY (bps)	504	518	505	478	1271
BB Rated / 10Y TREASURY (bps)	393	406	401	389	946
CANADA					
PRIME / BA SPREAD (bps)	185	185	185	185	183
CDOR 3 MONTH (%)	0.40	0.40	0.40	0.43	1.20
CDOR 3 MONTH / 3M T-BILL SPREAD (bps)	21	22	24	27	75
10Y / 2Y SPREAD (bps)	194	194	211	210	198
2-YR BOND (%)	1.53	1.48	1.29	1.29	0.96
5-YR BOND (%)	2.77	2.61	2.49	2.45	1.87
10-YR BOND (%)	3.47	3.42	3.40	3.38	2.94
A Rated / 10Y TREASURY (bps)	99	105	106	98	327
BBB Rated / 10Y TREASURY (bps)	159	164	166	161	423
CAN Sovereign Agency / 10Y TREASURY (bps)	31	36	36	33	51
Provincial / 10Y TREASURY (bps)					
ALTA	52	57	61	57	140
BC	68	74	76	77	157
MAN	64	69	71	74	166
NB	67	72	75	70	164
PEI	101	106	107	104	171
NFLD	96	102	104	104	196
ONT	79	84	87	88	181
QUE	88	94	95	95	187
SASK	80	85	86	93	170
NS	75	80	81	84	165
COMMODITIES					
WTI CRUDE FUTURE (US\$ / bbl.)	82.0	79.8	79.0	73.0	45.5
NATURAL GAS (US\$ / MMBtu)	4.6	4.6	4.8	5.5	3.9
SILVER (US\$ / t oz.)	17.5	17.1	16.2	15.1	13.3
GOLD (US\$ / t oz.)	1139.8	1129.2	1111.4	1057.3	942.7
WHEAT (US¢ / bu.)	493.5	495.0	492.5	472.5	516.3
SOYBEANS (US¢ / bu.)	938.5	939.5	941.5	917.0	879.0
SUGAR (US¢ / lb.)	22.0	21.4	24.0	27.9	12.8
CORN (US¢ / bu.)	376.0	371.3	375.8	351.5	352.8
FX					
C\$ / US\$	1.027	1.032	1.058	1.069	1.287
US\$ / EURO	1.360	1.360	1.359	1.369	1.265
C\$ / EURO	1.397	1.404	1.438	1.463	1.629
YEN / US\$	90.490	88.970	88.940	89.520	98.250
US\$ / BRITISH POUND	1.505	1.506	1.519	1.564	1.409
SWISS FRANCS / US\$	1.076	1.076	1.077	1.073	1.158

* As of 11:00 a.m.

Note: Data is for reference only.

International Stock Indexes

Thursday, March 04, 2010

Index (Regiona/Country)	DAILY				% Chg		YTD % chg	52 WEEK			3-yr % chg
	High	Low	Close	Chg	-	+		High	Low	% Chg	
Global											
The Global Dow (World)	1940.8	1926.78	1935.55	-3.17	-0.16		-2.5	2047.33	1139.9	66.2	-3.2
The Global Dow (Euro) (World)	1341.42	1333.59	1339.4	5.95		0.45	2.8	1339.4	849.42	53.3	-4.2
DJ Global Index (World)	225.18	223.62	224.57	-0.44	-0.2		-1	234.99	130.29	69.4	-6.6
DJ Global ex U.S. (World)	197.35	195.3	195.97	-1.14	-0.58		-2.5	209.06	111.8	71.2	-6.9
MSCI EAFE* (World)	n.a.	n.a.	1527.84	-10.02	-0.65		-3.3	1642.2	911.39	63.3	-9.7
Asia Pacific											
DJ Asia-Pacific (Asia-Pacific)	123.89	122.31	122.52	-1.07	-0.87		-0.4	129.57	73.76	60.5	-6.5
All Ordinaries (Australia)	4758.9	4733.6	4757.6	13.86		0.29	-2.6	4981.2	3111.7	51.1	-6.3
S & P/ASX 200 (Australia)	4750.7	4724.8	4750.5	14.83		0.31	-2.5	4950.7	3145.5	49	-6.4
DJ CBN China 600 (China)	27887.55	26976.57	27030.99	-762.33	-2.74		-7	29890.92	18054.21	42.9	11
Dow Jones China 88 (China)	275.22	268.17	268.52	-6.12	-2.23		-10.9	327.69	193.16	33.1	6.4
Shanghai Composite (China)	3102.4	3016.22	3023.37	-73.63	-2.38		-7.7	3471.44	2118.75	36.1	2.2
Hang Seng (Hong Kong)	21000.13	20575.78	20575.78	-301.01	-1.44		-5.9	22943.98	11344.58	68.5	1.9
Bombay Sensex (India)	17024.96	16888.05	16971.7	-28.31	-0.17		-2.8	17701.13	8160.4	107	9.6
Jakarta Composite (Indonesia)	2579.53	2557.37	2565.65	-1.44	-0.06		1.2	2667.27	1286.69	99.2	13.4
Nikkei 300 (Japan)	184.46	182.49	182.7	-1.65	-0.9		-1.3	197.22	140.76	22.3	-1.9
Nikkei Stock Avg (Japan)	10263.48	10134.37	10145.72	-107.42	-1.05		-3.8	10982.1	7054.98	36.5	-16.2
Topix Index (Japan)	906.18	896.68	897.64	-8.01	-0.88		-1.1	975.59	700.93	21	-19.5
Kuala Lumpur Composite (Malaysia)	1287.78	1284.09	1284.09	-2.01	-0.16		0.9	1308.36	838.39	47.7	3.3
NZSX-50 (New Zealand)	3213.56	3192.22	3213.56	15.03		0.47	-0.5	3310.23	2462.71	29	-7.8
KSE 100 (Pakistan)	9518.12	9370.8	9511.53	92.1		0.98	1.3	9954.41	5557.92	64.3	-5.1
Manila Composite (Philippines)	3067.08	3034.13	3034.13	-35.16	-1.15		-0.6	3121.91	1759.33	57.7	-1.1
Straits Times (Singapore)	2792.64	2761.47	2768.7	-14.09	-0.51		-4.4	2933.53	1456.95	82.3	-2.7
Kospi (South Korea)	1631.1	1612.47	1618.2	-4.24	-0.26		-3.8	1722.01	1055.03	52.9	4.6
Colombo Stock Exchange (Sri Lanka)	3816.84	3774.03	3805.85	31.82		0.84	12.4	3825.3	1612.33	135.5	8.5
Weighted (Taiwan)	7664	7524.19	7569.8	-59.72	-0.78		-7.6	8356.89	4628.24	63.2	-0.4
SET (Thailand)	736.34	730.04	730.82	-4.22	-0.57		-0.5	751.86	411.27	75.2	2.5
Europe											
Stoxx Europe 600 (Europe)	253.93	251.01	253	0.4		0.16	-0.1	260.26	157.97	56.6	-11.2
Stoxx Europe 50 (Europe)	2543.27	2513.48	2533.26	0.6		0.02	-1.8	2634.1	1614.75	53.8	-11.2
Euro Stoxx 50 (Euro zone)	2832.7	2797.97	2816.1	-6.49	-0.23		-5.1	3017.85	1809.98	52	-11.1
Euro Stoxx (Euro zone)	267.27	264.09	265.98	-0.02	-0.01		-3.2	281.41	169.38	53.7	-12.1
ATX (Austria)	2458.2	2409.54	2409.54	-47.44	-1.93		-3.4	2752.39	1411.95	66.6	-17.9
Bel-20 (Belgium)	2590.46	2559.02	2582.96	-9.6	-0.37		2.8	2606.93	1527.27	66.4	-15.4
PX 50 (Czech Republic)	1149.9	1142.7	1147	-2.1	-0.18		2.7	1220.3	639.7	79.3	-10.7
OMX Copenhagen (Denmark)	343.43	341	342.47	-2.93	-0.85		8.5	345.4	193.26	71.4	-7.6
OMX Helsinki (Finland)	6922.89	6850.21	6895.91	-0.91	-0.01		6.8	6896.82	4110.31	63.5	-11.5
CAC 40 (France)	3850.73	3809.72	3828.41	-14.11	-0.37		-2.7	4045.14	2519.29	49	-11
DAX (Germany)	5823.11	5767.65	5795.32	-22.56	-0.39		-2.7	6048.3	3666.41	56.8	-4.3
BUX (Hungary)	21659.91	21290.42	21579.93	105.14		0.49	1.7	22981.48	9461.29	124.9	-2.2
FTSE MIB (Italy)	21956.9	21571.37	21844.56	99.5		0.46	-6	24425.98	12621	61.5	-18.7
AEX (Netherlands)	333.68	329.86	332.45	0.59		0.18	-0.9	343.03	199.25	65.7	-11.5
All-Shares (Norway)	412.82	407.53	409.79	-0.47	-0.11		-2.5	434.23	243.98	68	-6.3
WIG (Poland)	40026.82	39589.58	39885.37	88.5		0.22	-0.3	41617.21	22547.31	76.9	-8.4
PSI 20 (Portugal)	7841.19	7724.26	7792.99	37.2		0.48	-7.9	8882.69	5748.94	35.6	-12.4
DJ Russia Titans 10 (Russia)	5562.84	5513.2	5524.93	13		0.24	-0.9	5929.42	3044.63	81.5	-4
RTS Index (Russia)	1480.23	1449.5	1470.41	10.21		0.7	3	1581.09	559.09	163	-6.5
IBEX 35 (Spain)	10814.6	10577.1	10745.3	80.8		0.76	-10	12222.5	6817.4	52.9	-8.4
SX All Share (Sweden)	311.75	308.78	311.11	0.87		0.28	3.9	311.11	186.64	65.8	-6.3
Swiss Market (Switzerland)	6813.01	6760.01	6804.87	-8.29	-0.12		4	6820.04	4307.67	55	-8.2
Istanbul National 100 (Turkey)	51638.45	51056.25	51440.71	-258.35	-0.5		-2.6	55526.01	23035.95	123.3	8.3
FTSE 100 (U.K.)	5544.2	5501.1	5527.16	-6.05	-0.11		2.1	5538.1	3529.9	56.6	-3.3
FTSE 250 (U.K.)	9685.33	9588.04	9665.29	53.12		0.55	3.9	9726.44	5769.79	62.8	-4.4
Americas											
DJ Americas (Americas)	299.88	297.7	299.44	0.64		0.21	1	305.67	172.41	71.9	-4.7
Merval (Argentina)	2305.46	2277.3	2284.26	-7.06	-0.31		-1.6	2401.75	952.64	139.2	4.6
Sao Paulo Bovespa (Brazil)	68197.72	66923.97	67814.7	173.36		0.26	-1.1	70729.34	36741.35	81.5	17
S & P/TSX Comp (Canada)	11876.7	11792.35	11824.97	-27.88	-0.24		0.7	11953.83	7566.94	55	-2.8
Santiago IPSA (Chile)	3761.23	3708.91	3742.17	33.26		0.9	4.5	3860.71	2360	57	9.7
IPC All-Share (Mexico)	32508.27	32085.06	32202	-151.54	-0.47		0.3	33064.57	16964.36	85.4	7
Caracas General (Venezuela)	57029.06	56924.35	56944.76	-70.66	-0.12		3.4	60299.4	37102.53	52	3.2
Other Countries											
CASE 30 (Egypt)	6842.57	6783.83	6783.83	0.45		0.01	9.3	7249.55	3575.93	89.7	-1.9
Tel Aviv (Israel)	1207.63	1188.59	1207.63	12.6		1.05	5.5	1207.63	638.03	89.1	7.7
Johannesburg All Share (South Africa)	27817.93	27506.87	27774.1	90.45		0.33	0.4	28346.78	18152.43	50.8	2.8

*Europe, Australia, Far East: U.S.-dollar terms.

Three year percent change is annualized.

Sources: Reuters; WSJ.com

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