



# Weekly Market Insight

August 6, 2010

## NORTH AMERICAN & INTERNATIONAL ECONOMIC HIGHLIGHTS

### Ben Bernanke's Bullets

By Avery Shenfeld

It's increasingly evident that America's economic recovery is simply not good enough. Not good enough to vanquish unemployment, power consumption, withstand fiscal tightening, and protect against deflation risks down the road. Canadians have a stake in that game, since growth here will slow if the US import engine sputters. Something must be done, and in the week ahead, it's Ben Bernanke's FOMC that will be looking at what role it can play in that effort.

What bullets are still left in Bernanke's arsenal? One suggestion, reducing the rate paid on deposits of excess reserves held at the Fed, would have a trivial impact, since the yield is already so low relative to, say, the yield on a car loan. The very slight movement in that spread is therefore unlikely to trigger a big wave of fresh credit flows.

Quantitative easing, printing even more money to buy securities, rather than winding down the Fed's balance sheet, can help defuse deflation expectations if done with sufficient aggression. Expectations of higher prices, perhaps abetted by announcing a formal CPI target, can get consumers to buy now rather than later, making savings less attractive. The impact on bond yields is actually ambiguous. Real rates (the key to economic activity) should fall as the Fed buys securities, but nominal Treasury rates could ultimately move higher if QE is successful in convincing markets that inflation is going to heat up. That said, the impact on the economy from QE will still be dulled to the extent that the money multiplier remains low, and the extra liquidity fails to spark a surge in lending and broader money aggregates.

If the US economy is in such a liquidity trap, two even more aggressive options remain. The Fed can agree to monetize an addition to Treasury debt that is used to finance another significant round of spending or tax cuts. A tax cut financed by printed money is equivalent to the "helicopter drop" of money that Bernanke spoke about in a speech on anti-deflation weapons a decade ago. Or it could print money to buy foreign currency, driving the dollar down in the process. That would boost US export prospects and at the same time reinforce expectations that inflation will stay positive, although it would draw the ire of America's trading partners who, at this point in the cycle, won't be happy seeing their currencies appreciate.

But before any of this is even considered, the Fed has to come to a consensus that *laissez faire* won't work. That will require a sea change in thinking. The likes of Hoenig and Fisher are more focused on unwinding stimulus than adding to it, and even Bernanke's recent testimony spent much more time on the former. Since the last two recoveries also started with a year or so of job losses, the FOMC could cling to hopes that a jobs revival is just 'round the corner.

New appointees at the table in September might tilt the balance towards the doves, but couple more quarters of sluggish jobs figures would be even more likely to do the trick. By early 2011, either fiscal tightening will be pushed off, or the Fed will be reaching for unconventional tools to get the economy moving again.

## Market Snapshot

US	Current*	yesterday*	a week ago*	a month ago*	a year ago
TED SPREAD (bps)	27	28	30	38	28
10Y / 2Y SPREAD (bps)	232	237	236	242	255
2Y SWAP SPREAD (bps)	19	18	18	31	49
3M T-Bill (%)	0.14	0.14	0.15	0.15	0.18
LIBOR 1 MONTH (%)	0.29	0.29	0.31	0.34	0.28
LIBOR 3 MONTH (%)	0.41	0.42	0.45	0.53	0.46
2-YR BOND (%)	0.51	0.55	0.56	0.63	1.32
5-YR BOND (%)	1.49	1.58	1.62	1.84	2.86
10-YR BOND (%)	2.83	2.91	2.93	3.06	3.87
A Rated / 10Y TREASURY (bps)	173	169	175	173	221
B Rated / 10Y TREASURY (bps)	686	685	687	660	726
BB Rated / 10Y TREASURY (bps)	446	449	453	452	557
<b>CANADA</b>					
PRIME / BA SPREAD (bps)	185	185	186	177	186
CDOR 3 MONTH (%)	1.01	1.01	0.99	0.85	0.60
CDOR 3 MONTH / 3M T-BILL SPREAD (bps)	32	33	34	38	35
10Y / 2Y SPREAD (bps)	161	160	165	150	214
2-YR BOND (%)	1.46	1.53	1.49	1.73	1.48
5-YR BOND (%)	2.25	2.34	2.32	2.55	2.74
10-YR BOND (%)	3.07	3.13	3.14	3.23	3.62
A Rated / 10Y TREASURY (bps)	129	130	136	124	145
BBB Rated / 10Y TREASURY (bps)	184	183	188	188	197
CAN Sovereign Agency / 10Y TREASURY (bps)	43	40	49	41	50
Provincial / 10Y TREASURY (bps)					
ALTA	70	69	71	69	83
BC	91	90	94	87	87
MAN	80	80	83	83	83
NB	89	87	91	91	85
PEI	104	104	108	102	114
NFLD	112	112	114	110	115
ONT	99	99	100	99	95
QUE	105	104	108	104	104
SASK	105	103	106	97	84
NS	100	99	107	97	102
<b>COMMODITIES</b>					
WTI CRUDE FUTURE (US\$ / bbl.)	81.4	82.1	77.6	75.5	71.3
NATURAL GAS (US\$ / MMBtu)	4.6	4.7	4.9	4.4	3.8
SILVER (US\$ / t oz.)	18.5	18.3	18.0	18.1	14.6
GOLD (US\$ / t oz.)	1210.1	1194.0	1175.0	1209.0	955.4
WHEAT (US¢ / bu.)	768.3	785.8	640.8	528.3	497.5
SOYBEANS (US¢ / bu.)	1055.5	1065.0	1042.8	1012.5	1188.0
SUGAR (US¢ / lb.)	18.3	18.9	19.5	17.2	20.6
CORN (US¢ / bu.)	396.5	415.5	385.3	376.0	332.8
<b>FX</b>					
C\$ / US\$	1.027	1.017	1.031	1.030	1.085
US\$ / EURO	1.330	1.315	1.304	1.264	1.420
C\$ / EURO	1.365	1.337	1.344	1.302	1.541
YEN / US\$	85.110	85.920	86.680	88.480	97.390
US\$ / BRITISH POUND	1.598	1.583	1.567	1.512	1.668
SWISS FRANCS / US\$	1.035	1.048	1.045	1.056	1.080

\* As of 11:00 a.m.

Note: Data is for reference only.

## International Stock Indexes

Thursday, August 05, 2010

Index (Region/Country)	DAILY				% Chg		YTD	52 WEEK			3-yr	
	High	Low	Close	Chg	-	+	% chg	High	Low	% Chg	% chg	
<b>Global</b>												
The Global Dow (World)	1914.53	1901.37	1907.45	4.26			0.22	-3.9	2087.12	1699.63	6	-8.3
The Global Dow (Euro) (World)	1367.59	1360.48	1365.25	1.86			0.14	4.8	1448.65	1171.86	15.7	-6.9
DJ Global Index (World)	227.59	225.83	226.47	0.13			0.06	-0.2	242.2	199.17	11.1	-8.2
DJ Global ex U.S. (World)	199.84	198	198.46	0.44			0.22	-1.3	210.96	170.93	9.1	-9
MSCI EAFE* (World)	n.a.	n.a.	1517.55	3.8			0.25	-4	1642.2	1305.13	4.5	-11.6
<b>Asia Pacific</b>												
DJ Asia-Pacific (Asia-Pacific)	125.43	124.24	125.24	0.96			0.77	1.8	132.22	111.94	9	-7.6
All Ordinaries (Australia)	4596.6	4566.7	4584.9	25.2			0.55	-6.1	5024.1	4250.6	5.9	-8.9
S & P/ASX 200 (Australia)	4580.5	4549.8	4566.5	24.42			0.54	-6.2	5001.9	4222.1	5.6	-8.8
DJ CBN China 600 (China)	24216.39	23858.87	24016.05	-133.86	-0.55			-17.3	29811.23	20950.68	-17.4	-12.5
Dow Jones China 88 (China)	234.18	229.96	231.13	-3.03	-1.29			-23.3	315.01	208.48	-26.6	-17
Shanghai Composite (China)	2640.59	2606.62	2620.76	-17.77	-0.67			-20	3356.33	2363.95	-21.9	-16.9
Hang Seng (Hong Kong)	21618.58	21462.23	21551.72	1.84		0.01		-1.5	22943.98	18985.5	3.1	-1.5
Bombay Sensex (India)	18295.43	18156.45	18172.83	-44.61	-0.24			4.1	18217.44	14784.92	17.1	6.3
Jakarta Composite (Indonesia)	3046.87	2983.84	3044.94	61.69		2.07		20.1	3096.82	2277.75	29	10.3
Nikkei 300 (Japan)	174.9	173.07	174.26	2.35		1.37		-5.8	202.75	164.24	-9.8	-19.6
Nikkei Stock Avg (Japan)	9688.87	9578.31	9653.92	164.58		1.73		-8.5	11339.3	9081.52	-7.1	-17.2
Topix Index (Japan)	859.98	851.31	857.09	11.16		1.32		-5.6	998.9	811.01	-10.5	-20
Kuala Lumpur Composite (Malaysia)	1364.82	1358.52	1362.08	-0.66	-0.05			7	1363.83	1155.53	15	0.7
NZSX-50 (New Zealand)	3044.67	3033.1	3044.67	6.53		0.22		-5.7	3335.51	2933.82	-0.4	-9.6
KSE 100 (Pakistan)	10435.93	10335.06	10351.72	-38.55	-0.37			10.3	10677.47	7822.32	32.3	-9.1
Manila Composite (Philippines)	3526.42	3504.41	3521.1	17.61		0.5		15.3	3521.1	2720.18	23.9	1.7
Straits Times (Singapore)	3016.01	3000.71	3006.76	4.89		0.16		3.8	3025.04	2522.78	15.6	-3.8
Kospi (South Korea)	1797.42	1773.49	1783.86	-5.4	-0.3			6	1790.6	1524.5	14	-1.7
Colombo Stock Exchange (Sri Lanka)	5224.12	5015.93	5137.38	-77.46	-1.49			51.7	5214.84	2500.46	103.2	28
Weighted (Taiwan)	8018.74	7921.98	7936.85	-35.81	-0.45			-3.1	8356.89	6654.8	15.6	-4.3
SET (Thailand)	875.42	870.08	874.92	7.58		0.87		19.1	874.92	631.28	34.8	1.5
<b>Europe</b>												
Stoxx Europe 600 (Europe)	263.75	261.1	261.48	-0.69	-0.26			3.3	272.14	224.23	14.7	-11.1
Stoxx Europe 50 (Europe)	2557.37	2531.96	2536.37	-8.37	-0.33			-1.7	2711.84	2281.63	9.4	-12
Euro Stoxx 50 (Euro zone)	2849.45	2812.66	2819.34	-5.74	-0.2			-5	3017.85	2488.5	5.9	-12.6
Euro Stoxx (Euro zone)	271.39	268.1	268.71	-0.38	-0.14			-2.2	284.91	237.29	8.9	-13.1
ATX (Austria)	2564.04	2528.48	2540.31	-17.29	-0.68			1.8	2795.32	2216.84	8.1	-18.1
Bel-20 (Belgium)	2616.63	2581.8	2586.09	-1.73	-0.07			3	2716.7	2226.5	16.2	-15.5
PX 50 (Czech Republic)	1209	1197.1	1197.1	-8.8	-0.73			7.1	1314.6	1092.8	4.6	-12.3
OMX Copenhagen (Denmark)	399.22	395.42	395.42	1.08		0.27		25.3	395.76	298.59	30	-6
OMX Helsinki (Finland)	6875.32	6825.82	6844.82	32.18		0.47		6	7452.62	5800.72	16.5	-15
CAC 40 (France)	3802.94	3758.52	3764.19	3.47		0.09		-4.4	4065.65	3331.29	8.2	-12.4
DAX (Germany)	6382.56	6321.38	6333.58	2.25		0.04		6.3	6333.58	5201.61	17.9	-5.2
BUX (Hungary)	23368.23	22865.87	22981.64	-417.97	-1.79			8.3	25322.96	17613.39	28.7	-6.9
FTSE MIB (Italy)	21581.29	21221.85	21302.97	-163.47	-0.76			-8.4	24425.98	18382.71	0.8	-18.5
AEX (Netherlands)	340.61	335.66	336.57	-2.63	-0.78			0.4	357.43	282.01	16.8	-13.6
All-Shares (Norway)	424.03	419.8	421.1	1.22		0.29		0.2	444.01	341.8	19.9	-8.8
WIG (Poland)	43645.04	43309.25	43436.84	-98.23	-0.23			8.6	44078.65	34945.56	24.2	-11
PSI 20 (Portugal)	7614.19	7529.88	7544.55	-24.48	-0.32			-10.9	8882.69	6624.29	0.8	-17.2
DJ Russia Titans 10 (Russia)	5708.11	5599.71	5635.61	-6.95	-0.12			1.1	6071.02	4192.47	23.2	-6.2
RTS Index (Russia)	1534.72	1510.43	1517.87	-5.93	-0.39			6.4	1676.27	993.57	40.1	-8.3
IBEX 35 (Spain)	10953.1	10786.4	10840	-3.3	-0.03			-9.2	12222.5	8669.8	0.6	-9.3
SX All Share (Sweden)	337.98	333.95	335.37	1.3		0.39		12	337.54	265.39	24.6	-5.4
Swiss Market (Switzerland)	6408.87	6361.57	6374.89	-5.41	-0.08			-2.6	6967.56	5883.7	6.8	-9.8
Istanbul National 100 (Turkey)	60137.08	58967.43	59603.14	-277.54	-0.46			12.8	60737.28	43678.98	36	5.5
FTSE 100 (U.K.)	5416.8	5356.8	5365.78	-20.38	-0.38			-0.9	5825	4645	14.4	-4.8
FTSE 250 (U.K.)	10200.74	10124.09	10166.13	39.72		0.39		9.2	10690.08	8274.09	21.3	-3.1
<b>Americas</b>												
DJ Americas (Americas)	301.87	299.54	301.02	-0.46	-0.15			1.5	324.75	256.77	14.6	-6.1
Merval (Argentina)	2456.9	2415.86	2432.85	-22.87	-0.93			4.8	2487.76	1727.76	36.9	4.2
Sao Paulo Bovespa (Brazil)	68470.97	68002.47	68411.72	139.72		0.2		-0.3	71784.77	55218.37	22.7	9
S & P/TSX Comp (Canada)	11845.43	11747.79	11774.77	-70.28	-0.59			0.2	12280.97	10531.59	9.1	-4.6
Santiago IPSA (Chile)	4445.14	4418.77	4441.34	18.98		0.43		24	4441.34	3132.55	35.5	10.2
IPC All-Share (Mexico)	32961.92	32793.64	32907.19	6.71		0.02		2.4	34134.23	27299.58	18.4	3.5
Caracas General (Venezuela)	64228.16	63438.08	63843.32	-308.12	-0.48			15.9	66061.09	46097.32	38.5	14.9
<b>Other Countries</b>												
CASE 30 (Egypt)	6411.66	6361.45	6407.06	99.23		1.57		3.2	7603.04	5850.38	-1.9	-7.6
Tel Aviv (Israel)	1153.54	1144.04	1149.6	3.74		0.33		0.4	1237.85	922.49	16.5	3
Johannesburg All Share (South Africa)	28740.59	28460.37	28527.88	-12.58	-0.04			3.1	29565.1	24074.12	13.9	1.1

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

Three year percent change is annualized.

Sources: Reuters; WSJ.com

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