



# Weekly Market Insight

May 16, 2008

## **NORTH AMERICAN & INTERNATIONAL ECONOMIC HIGHLIGHTS**

What can we learn from the most recent numbers coming from the US? From the housing starts statistics we learn that housing starts of single-family units are now at the lowest level seen in seventeen years. But the rate of the decline is softening from 50% annualized rate to “only” 27%. But the more important message came from single-family housing permits that are now rising for the first time in more than a year. And given that permits lead residential construction by roughly six months, we might be seeing the light at the end of the tunnel.

What’s more, it is very apparent that the market is already pricing in all this bad news and some. That’s why we have not seen any reaction to the housing starts statistics and to the continued decline in house prices. In fact, based on the mortgage default swap index, we can calculate that the market is pricing in overall subprime-related losses of more than \$500 billion—a significant amount that will probably end up being higher than the actual tally. And that’s precisely the reason behind the fact that all major announcements regarding subprime-related writedowns over the past six weeks were followed by winning days in the stock market.

We also know that consumers are in a bad mood with the University of Michigan Consumer Sentiment Index dropping 3.1 points in May. The index came in at 59.5, the lowest reading since June 1980. The decline from April was larger for the current conditions component, although expectations also fell.

More importantly, inflation expectations continued to rise, especially short-term expectations. One-year expectations increased to 5.2%, their highest level since 1982, from 4.8% in April. Five-year expectations rose more modestly to 3.3% from April’s 3.2%. The latter was the highest since 1996.

What does all this mean for the Fed? With conditions in the financial system starting to stabilize and some indication of rising inflation expectations, the Fed will be much more guarded with regards to further monetary easing. In fact, the market is not expecting the Fed to cut any more.

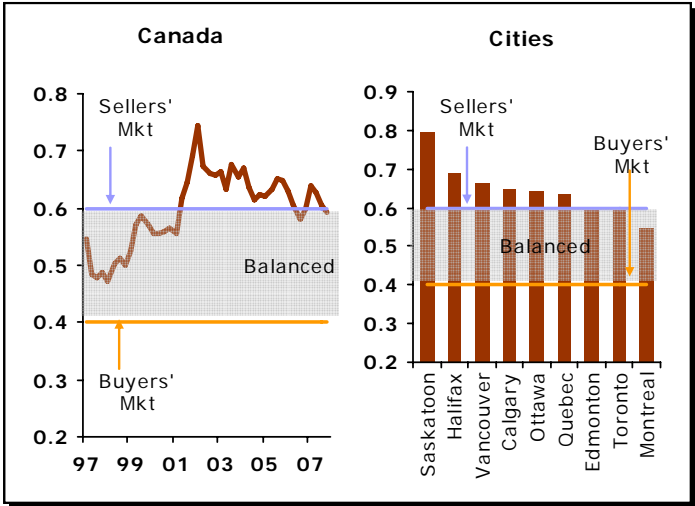
This also means that the Bank of Canada will be less willing to cut rates at the pace we have seen in the past two months. While it’s possible that the Bank will cut one more time, the days of the current easing cycle are numbered.

While we expect credit spreads to ease somewhat in the coming months, they probably will not return to pre-crisis levels any time soon. For Canadian mortgage rates, it means that any future relief will be minimal and we might see rates rising in 2009, as the Bank of Canada starts hiking rates and the bond market starts reacting to rising inflation.

As a result, the Canadian housing market which recently has entered a balanced position (Chart) will get even deeper into this position. But at this point we doubt that the market will turn into a buyers' market any time soon.

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**Unit Sales  
As a Share of New Listings**



## International Stock Indexes

Thursday, May 15, 2008

Region/Country	Index	DAILY					52 WEEK				3-yr % chg
		High	Low	Close	Chg	% Chg -   +	YTD % chg	High	Low	% Chg	
<b>World</b>											
World	DJ World Index	294.19	291.08	294.07	2.99	1.03	-2.3	320.33	261.44	-1.9	12.8
World	DJ World ex U.S.	266.42	263.5	266.09	2.59	0.98	-2.1	291.11	231.73	0.6	17
World	MSCI EAFE*	n.a.	n.a.	2171.51	16.82	0.78	-3.6	2388.74	1913.54	-2.7	14.4
<b>Asia Pacific</b>											
Asia-Pacific	DJ Asia-Pacific	156.01	153.28	155.64	2.3	1.5	-1.6	172.49	133.78	1.1	14.3
Australia	All Ordinaries	5985.5	5934.3	5964.9	24.6	0.41	-7.1	6853.6	5163.8	-6.4	14.6
Australia	S & P/ASX 200	5911.9	5863.8	5890.7	18	0.31	-7.1	6828.7	5086.1	-7.5	13.7
China	DJ CBN China 600	31963.31	31238.87	31241.54	-236.62	-0.75	-24.6	44631.83	26024.77	2.9	52.3
China	Dow Jones China 88	347.06	339.24	339.31	-2.33	-0.68	-28.2	530.54	288.35	7.3	50.1
China	Shanghai Composite	3706.72	3636.22	3637.32	-20.1	-0.55	-30.9	6092.06	3094.67	-10.2	n.a.
Hong Kong	Hang Seng	25736.56	25208.22	25513.71	-19.77	-0.08	-8.3	31638.22	20293.76	21.5	22.5
India	Bombay Sensex	17366.19	17079.94	17353.54	375.19	2.21	-14.5	20873.33	13989.11	21.4	39.1
Indonesia	Jakarta Composite	2469.27	2439.85	2449.81	0.47	0.02	-10.8	2830.26	1908.64	18.7	32.2
Malaysia	Kuala Lumpur Composite	1296.28	1285.06	1294.15	6.41	0.5	-10.4	1516.22	1173.22	-4.8	13.2
New Zealand	NZSX-50	3635.99	3607.55	3614.23	-14.33	-0.39	-10.6	4333.24	3404.55	-15.5	7.1
Pakistan	KSE 100	14628.7	14474.27	14479.87	-113.57	-0.78	2.9	15676.34	11958.09	18.2	25
Philippines	Manila Composite	2879.82	2854.12	2878.26	15.73	0.55	-20.5	3873.5	2722.95	-15.8	15.2
Singapore	Straits Times	3228.3	3203.35	3207.43	8.92	0.28	-7.5	3831.19	2792.75	-7	15.3
South Korea	Kospi	1886.95	1852.67	1885.71	41.96	2.28	-0.6	2064.85	1574.44	16.7	26.9
Sri Lanka	Colombo Stock Exchange	2619.25	2607.9	2609.85	1.95	0.07	2.7	2681.27	2354.98	4.7	10.8
Taiwan	Weighted	9158.95	9087.95	9157.18	138.76	1.54	7.7	9809.88	7408.4	13.9	15.3
Thailand	SET	856	852.27	855.61	6.67	0.79	-0.3	915.03	719.14	18.1	8
Japan	Nikkei Stock Avg	14352.84	14167.02	14251.74	133.19	0.94	-6.9	18261.98	11787.51	-18.6	8.9
Japan	Nikkei 300	285.09	280.81	282.82	3.79	1.36	-6.1	359.95	234.2	-17.7	9.5
<b>Europe</b>											
Europe	DJ Stoxx 600	328.52	324.76	328.41	1.21	0.37	-9.9	400.31	290.26	-15.9	8.1
Europe	DJ Stoxx 50	3274	3228.13	3271.5	13.6	0.42	-11.2	3998.93	2873.33	-15.6	4.6
Euro zone	DJ Euro Stoxx 50	3858.58	3830.67	3854.86	-2.6	-0.07	-12.4	4557.57	3431.82	-13	8.8
Euro zone	DJ Euro Stoxx	371.39	368.89	371.31	-0.06	-0.02	-10.5	442.87	328.12	-13.7	10.7
Austria	ATX	4417	4385.1	4410.7	8	0.18	-2.3	4981.87	3524.64	-7.5	19.4
Belgium	Bel-20	3820.96	3777.65	3798.99	-32.67	-0.85	-8	4756.82	3460	-19	7.7
Czech Republic	PX 50	1670.1	1651.2	1668.4	13.2	0.8	-8.1	1936.9	1405.1	-8	15.4
Denmark	OMX Copenhagen	430.15	420.27	430.05	7.86	1.86	-4.2	492.84	368.52	-8.1	14.7
Finland	OMX Helsinki	9816.37	9707.17	9743.05	-73.32	-0.75	-16	12656.77	9190.48	-11.6	12.8
France	CAC 40	5060.28	5020.39	5057.51	2.27	0.04	-9.9	6168.15	4431.04	-16.1	8
Germany	DAX	7088.67	7037.09	7081.05	-2.19	-0.03	-12.2	8105.69	6182.3	-5.6	18.3
Hungary	BUX	23456.74	23120.26	23230.94	-276.92	-1.18	-11.5	30118.12	21073.23	-9.6	13.7
Italy	S & P/MIB	34283	33991	34233	-37	-0.11	-11.2	44364	30371	-22.1	3
Netherlands	AEX	490.64	485.93	489.9	1.51	0.31	-5	561.9	415.92	-7.8	11.3
Norway	All-Shares	579.6	564.92	578.37	12.2	2.15	1.5	605.05	442.79	6.1	28.9
Poland	WIG	48083.11	47640.03	47760.75	-560.6	-1.16	-14.2	67568.51	44509.36	-19.5	23
Portugal	PSI 20	11122.76	10964.79	11020.04	-115.19	-1.03	-15.4	13702.03	9814.88	-11.4	12.9
Russia	DJ Russia Titans 10	7784.09	7685.26	7685.44	-20.7	-0.27	0.2	7920.96	6035.72	18.5	55
Russia	RTS Index	2439.05	2403.78	2411.95	5.9	0.25	5.3	2411.95	1724.69	30.9	55.6
Spain	IBEX 35	14186.4	14078.9	14186.4	-0.8	-0.01	-6.6	15945.7	12254.6	-5.2	15.4
Sweden	SX All Share	328.75	324.58	328.61	1.15	0.35	-6.6	427.24	293.53	-19.8	11.2
Switzerland	Swiss Market	7698.25	7566.26	7683.43	88.82	1.17	-9.4	9531.46	6774.26	-17.9	8.9
Turkey	Istanbul National 100	42692.39	42089.05	42624.17	101.43	0.24	-23.3	58231.9	39015.44	-7.1	19
U.K.	FTSE 100	6258.5	6168.8	6251.8	35.8	0.58	-3.2	6732.4	5414.4	-5	8.6
U.K.	FTSE 250	10340.3	10216.9	10338.9	63.6	0.62	-3	12220.2	9260.6	-14.9	15
<b>Americas</b>											
Americas	DJ Americas	373.39	368.75	373.16	4.29	1.16	-1	399.86	330.4	-1.9	10.7
Argentina	Merval	2122.12	2089.7	2122.12	33.34	1.6	-1.38	2351.44	1833.71	-2.3	13.8
Brazil	Sao Paulo Bovespa	71492.36	70031.13	71492.36	1465.74	2.09	11.9	71492.36	48015.55	38.5	44.1
Canada	S & P/TSX Comp	14828.06	14626.31	14828.06	201.75	1.38	7.2	14828.06	12132.13	5.2	16.9
Chile	Santiago IPSA	2922.51	2906.45	2918.57	9.26	0.32	-4.4	3499.5	2427.11	-9.3	14.4
Mexico	IPC All-Share	31548.51	31240.89	31542.97	206.4	0.66	6.8	32836.12	25284.88	3.5	36.7
Venezuela	Caracas General	36427.04	36214.05	36268.71	-138.52	-0.38	-4.3	42249.77	34172.43	-11.1	14.7
<b>Other Countries</b>											
Egypt	CASE 30	10709.21	10159.61	10169.27	-496.55	-4.66	-3.6	11935.67	7424.53	37	n.a.
Israel	Tel Aviv	1105.25	1094.96	1099.03	-1.38	-0.125	-9.7	1237.13	964.38	-1.4	17.5
South Africa	Johannesburg All Share	32647.43	32126.67	32647.43	260.42	0.8	12.7	32647.43	25135.13	17.1	36.1

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

Three year percent change is annualized.

Sources: Reuters; WSJ.com

MARKET INDICES	May 15	a month ago	a year ago
S&P/TSX Composite	14828.06	13850.95	13934.64
S&P 500	1423.57	1334.43	1501.19
Dow Jones Industrial Average	12992.66	12362.5	13383.8

INTEREST / FX RATES	May 16	a month ago	a year ago
Prime Can (%)	4.75	5.25	6.00
Prime US (%)	5.00	5.25	8.25
30 Day BA Can (%)	3.157	3.602	4.36286
3 month US T-Bill (%)	1.83	1.28	4.79
3 month Can T-Bill (%)	2.660	2.588	4.239
10yr US Bond (%)	3.778	3.797	4.768
10yr Can Bond (%)	3.57	3.73	4.34
10yr-2yr US Spread (bps)	137.30	160.10	13.00
10yr-2yr Spread Can (bps)	78.00	82.00	-7.00
US\$/Cdn\$	1.0028	0.9919	1.0923
US\$/Euro	1.5587	1.5746	1.3481
Yen/US\$	103.705	104.14	120.93

INTERNATIONAL INTEREST RATES	May 16		
	3 mo LIBOR (%)	Spread vs US (bps)	a wk ago (Spread—bps)
United States	2.70	NA	NA
Canada	3.29	60	65
Euro-zone	4.86	216	217
Switzerland	2.78	8	9
Japan	0.91	-178	-177
Australia	7.82	513	512
	10 Year Bond (%)	Spread vs US (bps)	a wk ago (Spread—bps)
United States	3.78	NA	NA
Canada	3.57	-20.8	-15.9
Euro-zone	4.59	81.5	73.2
Switzerland	3.03	-75.0	-77.0
Japan	1.69	-208.4	-219.5
Australia	6.32	254.4	245.6

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