



Weekly Market Insight

April 8, 2011

NORTH AMERICAN & INTERNATIONAL ECONOMIC HIGHLIGHTS

Freight Trains

By Avery Shenfeld

The hot money has built up a head of steam, and like a freight train, it's rumbling down the track allowing nothing to get in its way. In this case, it's a freight train that wants to buy the higher yielding currencies, the commodities currencies, oil and gold. It's a cliché, but few traders really are brave enough to step in front of a moving freight train.

As a case in point, the euro didn't so much as take a one-day breather as Portugal became the latest common currency member to need a eurozone financing package. The market is ignoring all of Europe's fiscal and banking troubles and trading off a single indicator, interest differentials, and the prospect they will widen further in Europe's favour as the Fed stands pat and the ECB hikes.

Indeed, such differentials have historically rewarded investors who shifted assets to the higher yielding currency. Economists have long puzzled over that tendency, since in theory, the reverse should be true. Currencies that offer a higher yield should be expected to fall over time, enough to offset the higher interest rate they pay. Since that's what the forward rates will in fact show, the market's opposing tendency is known as the "forward premium puzzle," and there are as many suggestions in the literature to explain it as there are economists and finance professors looking to get tenure.

The Bank of Canada will note that growth has topped its forecast in its policy report next week. With it now expected to begin raising rates in July, the Canadian dollar has barrelled ahead, even after employment showed a dip in March.

It's been helped by another moving freight train, the climb in oil prices. Oil markets leapt on news of a fire at a Libyan field, even though nobody was really expecting much in the way of crude deliveries from that troubled country for now. Oil also ignored the impacts on China's demand when that country raised petroleum product prices and hiked interest rates. With so much momentum, there's no reason why oil can't tack on another \$20, no reason why the Canadian dollar can't touch US\$1.10, no reason why the euro can't be driven to \$1.50 US.

We've seen this movie before, however. With enough leverage, hedge funds and hot money traders can push just about any financial variable to any extreme they fancy. But we economists, or at least the economy, eventually rule the roost. When market prices get far enough out of line, a stern enough reality check from the fundamentals can send the same investors fleeing in the other direction.

So what reality checks are likely to derail the freight train this time around? For oil, a turn in the news on the ground in Libya; for the euro, data showing flagging growth in the face of fiscal tightening and the loss of the export momentum that it had under a much cheaper euro. For the Canadian dollar, a retreat in oil below \$100/bbl is the most likely signal for markets to go the other way, or alternatively, a message from the Bank of Canada later this year that with the currency so strong, rate hikes will be delayed. Don't get caught by being the last off the moving freight train.

Market Snapshot

US	Current*	yesterday*	a week ago*	a month ago*	a year ago*
TED SPREAD (bps)	25	25	23	24	14
10Y / 2Y SPREAD (bps)	277	273	263	276	283
2Y SWAP SPREAD (bps)	18	18	17	19	14
3M T-Bill (%)	0.04	0.04	0.07	0.07	0.16
LIBOR 1 MONTH (%)	0.23	0.23	0.24	0.26	0.25
LIBOR 3 MONTH (%)	0.29	0.29	0.30	0.31	0.30
2-YR BOND (%)	0.81	0.79	0.84	0.63	1.09
5-YR BOND (%)	2.32	2.26	2.27	2.05	2.67
10-YR BOND (%)	3.58	3.52	3.46	3.39	3.92
A Rated / 10Y TREASURY (bps)	137	146	145	139	144
B Rated / 10Y TREASURY (bps)	456	464	460	437	479
BB Rated / 10Y TREASURY (bps)	288	296	304	293	360
CANADA					
PRIME / BA SPREAD (bps)	180	180	180	180	180
CDOR 3 MONTH (%)	1.20	1.20	1.20	1.22	0.42
CDOR 3 MONTH / 3M T-BILL SPREAD (bps)	23	23	27	27	14
10Y / 2Y SPREAD (bps)	155	156	151	152	182
2-YR BOND (%)	1.91	1.86	1.85	1.74	1.85
5-YR BOND (%)	2.88	2.83	2.78	2.67	3.05
10-YR BOND (%)	3.46	3.42	3.36	3.27	3.67
A Rated / 10Y TREASURY (bps)	113	115	115	115	99
BBB Rated / 10Y TREASURY (bps)	187	189	189	184	160
CAN Sovereign Agency / 10Y TREASURY (bps)	38	38	42	42	37
COMMODITIES					
WTI CRUDE FUTURE (US\$ / bbl.)	111.1	109.3	106.9	100.3	85.9
NATURAL GAS (US\$ / MMBtu)	4.0	4.1	4.3	3.9	4.0
SILVER (US\$ / t oz.)	40.1	39.6	37.3	34.5	18.4
GOLD (US\$ / t oz.)	1467.2	1458.7	1421.9	1413.8	1154.1
WHEAT (US¢ / bu.)	776.5	764.3	768.5	696.0	472.3
SOYBEANS (US¢ / bu.)	1380.3	1361.5	1405.8	1320.3	949.0
SUGAR (US¢ / lb.)	26.1	26.4	27.3	28.3	16.0
CORN (US¢ / bu.)	767.0	760.0	738.3	656.3	350.8
FX					
C\$ / US\$	0.955	0.961	0.966	0.977	1.004
US\$ / EURO	1.444	1.427	1.414	1.383	1.346
C\$ / EURO	1.379	1.371	1.366	1.351	1.352
YEN / US\$	85.130	84.770	84.240	82.080	93.390
US\$ / BRITISH POUND	1.639	1.629	1.603	1.603	1.535
SWISS FRANCS / US\$	0.911	0.917	0.929	0.930	1.067

* As of 11:00 a.m.

Note: Data is for reference only.

International Stock Indexes

Thursday, April 07, 2011

Index (Regiona/Country)	DAILY					% Chg - +	YTD % chg	52 WEEK			3-yr % chg
	High	Low	Close	Chg	High			Low	% Chg		
Global											
The Global Dow (World)	2211.46	2196.76	2201.13	-7.34	-0.33		5.4	2241.29	1699.63	8.1	-5.7
The Global Dow (Euro) (World)	1458.56	1447.73	1450.32	0.89		0.06	-1	1548.75	1272.45	1.1	-2.7
DJ Global Index (World)	267.72	265.97	266.51	-0.68	-0.25		5	267.19	203.56	12.6	-2.2
DJ Global ex U.S. (World)	231.19	229.93	230.11	-0.67	-0.29		3.9	230.78	170.93	11.7	-3.9
MSCI EAFE* (World)	n.a.	n.a.	1717.73	-5.73	-0.33		3.6	1758.97	1305.13	8.2	-7
Asia Pacific											
DJ Asia-Pacific (Asia-Pacific)	139.95	139.21	139.62	0.35		0.25	-2	145.15	111.94	6.9	-2.3
All Ordinaries (Australia)	5022.8	4998.3	5005.5	-5.84	-0.12		3.3	5026.1	4250.6	0.9	-4.2
S & P/ASX 200 (Australia)	4924	4899.8	4908.13	-4.78	-0.1		3.4	5001.9	4222.1	-0.6	-4.4
DJ CBN China 600 (China)	28110.03	27873.51	28071.78	116.06		0.42	5.1	29974.75	20950.68	0.3	-2.6
Dow Jones China 88 (China)	265.55	263.08	264.63	0.99		0.38	8.6	279.1	208.48	-3.8	-8.1
Shanghai Composite (China)	3012.29	2990.31	3007.91	40.5		1.36	7.1	3166.18	2363.95	-3.6	-5.8
Hang Seng (Hong Kong)	24368.76	24195.61	24281.8	-3.25	-0.01		5.4	24964.37	18985.5	11	-0.4
Bombay Sensex (India)	19665.09	19537.02	19591.18	-21.02	-0.11		-4.5	21004.96	16022.48	10.6	7.5
Jakarta Composite (Indonesia)	3741.83	3704.43	3730.58	2.79		0.07	0.7	3786.1	2514.12	30.9	17.7
Nikkei 300 (Japan)	173	171.12	171.35	0.57		0.33	-6	202.75	156.93	-14.5	-13.6
Nikkei Stock Avg (Japan)	9687.18	9578.47	9590.93	6.56		0.07	-6.2	11273.79	8605.15	-14.1	-10.7
Topix Index (Japan)	850.02	840.26	841.1	1.49		0.18	-6.4	998.9	766.73	-14.7	-13.6
Kuala Lumpur Composite (Malaysia)	1561.93	1554.6	1561.93	9.04		0.58	2.8	1574.49	1248.94	17.2	8.6
NZSX-50 (New Zealand)	3456.57	3445.35	3450.36	0.48		0.01	4.3	3469.38	2933.82	4.3	-1.8
KSE 100 (Pakistan)	11953.25	11842.74	11848.84	-84.33	-0.71		-1.4	12681.94	9229.6	12.5	-8.5
Manila Composite (Philippines)	4242.96	4209.95	4219.43	6.91		0.16	0.4	4397.3	3102.59	29.6	12.3
Straits Times (Singapore)	3174.21	3157.42	3171.65	1.32		0.04	-0.6	3313.61	2650.61	7	-0.1
Kospi (South Korea)	2135.73	2111.54	2122.14	-4.57	-0.21		3.5	2130.43	1560.83	22.4	6.2
Colombo Stock Exchange (Sri Lanka)	7440.68	7359.85	7378.73	18.83		0.26	11.2	7811.82	3939.62	87.3	41.4
Weighted (Taiwan)	8901.72	8828.92	8901.72	49.74		0.56	-0.8	9145.35	7071.67	10.5	0.7
SET (Thailand)	1089.21	1081.95	1089.21	13.08		1.22	5.5	1089.21	721.29	38.9	9.7
Europe											
Stoxx Europe 600 (Europe)	282.99	280.72	280.78	-0.79	-0.28		1.8	291.16	232.11	5.4	-4.5
Stoxx Europe 50 (Europe)	2660.75	2638.24	2639.36	3.74		0.14	2	2768.65	2285.13	-0.3	-6.3
Euro Stoxx 50 (Euro zone)	2992.21	2960.45	2963.69	-7.79	-0.26		6.1	3068	2488.5	0.7	-8.2
Euro Stoxx (Euro zone)	291.47	288.82	289.01	-1.22	-0.42		5.3	296.96	237.29	3.8	-7.4
ATX (Austria)	2925.8	2882.14	2882.14	-36.56	-1.25		-0.8	3000.7	2216.84	5.9	-10.4
Bel-20 (Belgium)	2729.65	2710.83	2712.26	0.57		0.02	5.2	2770.81	2296.81	1.6	-11.2
PX 50 (Czech Republic)	1277.5	1269.8	1272.6	-2.8	-0.22		3.9	1314.6	1097	4.3	-7.1
OMX Copenhagen (Denmark)	437.98	434.86	435.36	-2.95	-0.67		2	441.74	344.55	18.7	1.6
OMX Helsinki (Finland)	7611.66	7534.63	7542.74	-68.44	-0.9		-1.6	7912.33	6134.78	2.6	-9.3
CAC 40 (France)	4070.89	4025.02	4028.3	-19.86	-0.49		5.9	4157.14	3331.29	1.3	-6.6
DAX (Germany)	7241.09	7175.35	7178.78	-36.33	-0.5		3.8	7426.81	5670.04	16.3	1.7
BUX (Hungary)	24530.59	24079.66	24451.38	114.82		0.47	14.6	25163.09	20221.37	-0.1	3.4
FTSE MIB (Italy)	22479.57	22202.56	22243.99	-82.53	-0.37		10.3	23539.24	18382.71	-2.5	-12.9
AEX (Netherlands)	370.89	367.39	367.39	-2.25	-0.61		3.6	374.19	305.03	4.7	-7.6
All-Shares (Norway)	514.24	507.71	508.43	-5.17	-1.01		4.5	513.6	367.63	17.4	0.3
WIG (Poland)	50371.74	50077.15	50371.74	42.01		0.08	6.1	50371.74	39109.37	17.9	1
PSI 20 (Portugal)	7946.96	7886.72	7909	92.27		1.18	4.2	8344.29	6624.29	-2	-10.4
DJ Russia Titans 10 (Russia)	7576.87	7457.52	7467.2	-98.46	-1.3		10.6	7565.66	4801.88	27.4	3.6
RTS Index (Russia)	2106.86	2084.62	2089.52	-21.38	-1.01		18	2110.9	1226.57	30.5	-0.2
IBEX 35 (Spain)	10928.1	10778.4	10849.1	4		0.04	10	11523.5	8669.8	-2.1	-8
SX All Share (Sweden)	370.07	367.25	367.44	-3.29	-0.89		-0.3	375.82	292.66	11.3	4.3
Swiss Market (Switzerland)	6507.8	6456.02	6465.57	22.51		0.35	0.5	6967.56	5942.25	-4.8	-5.4
Istanbul National 100 (Turkey)	69653	67886.87	69490.47	841.23		1.23	5.3	71543.26	52257.07	19	18
FTSE 100 (U.K.)	6053.1	6007.4	6007.37	-33.76	-0.56		1.8	6091.3	4805.8	5.2	unch.
FTSE 250 (U.K.)	11781.36	11644.17	11659.42	-121.95	-1.04		0.9	11833.94	9139.65	12.3	4.4
Americas											
DJ Americas (Americas)	364.46	361.08	362.67	-0.89	-0.24		6.4	363.56	272.7	14.5	0.6
Merval (Argentina)	3509.6	3446.95	3456.52	-47.47	-1.35		-1.9	3664.82	2061.07	39.9	17.2
Sao Paulo Bovespa (Brazil)	69333.72	68695.01	69176.12	139.21		0.2	-0.2	72995.69	58192.08	-3.6	2.5
S & P/TSX Comp (Canada)	14215.61	14096.87	14107.77	-94.88	-0.67		4.9	14270.53	11092.5	16.5	0.9
Santiago IPSA (Chile)	4793.04	4725.46	4741.31	-40.35	-0.84		-3.8	5040.97	3727.84	23.8	17.2
IPC All-Share (Mexico)	37951.24	37338.94	37471.54	-390.27	-1.03		-2.8	38696.24	30368.08	11.6	5.7
Caracas General (Venezuela)	70366.02	70366.02	70366.02	...	unch.		7.7	71587.9	58939.62	17.6	21
Other Countries											
CASE 30 (Egypt)	5474.84	5413.14	5425.98	-51.65	-0.94		-24	7603.04	4950.82	-25.1	-22.4
Tel Aviv (Israel)	1335.84	1317.69	1317.69	-17.41	-1.3		-0.7	1340.31	1045.7	8.7	7.8
Johannesburg All Share (South Africa)	32887.47	32464.1	32633.25	-254.22	-0.77		1.6	33094.06	26009.53	12.4	1.8

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

Three year percent change is annualized.

Sources: Reuters; WSJ.com

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