

focus

A Weekly Financial Digest

FEATURE ARTICLE, PAGE 5

Canada's Lopsided Recovery

- Fed Still on Hold for "Extended Period" and Stretches Out Agency/MBS Purchases
- Fed and Bank of Canada Pare Credit Supports
- U.S. Data Disappoint
- Canadian Retail Sales Soft
- Global Equity Markets and Commodities Pull Back



MICHAEL GREGORY

The Fed's policy statement this week changed two minor words that have major implications. In the past, the FOMC referred to its purchases of agency coupons, as "up to \$200 billion", and agency MBS, as "up to \$1.25 trillion", by the end of this year. It was expected that these purchases would be extended past December, in order to taper them and avoid any dislocations caused by abrupt stoppage. The period was extended to March 2010 (previously, the \$300 billion Treasury purchase program was extended by one month to October). However, the "up to" distinction was dropped from the MBS amount, meaning that the Fed intends to purchase the full amount.

As of September 23, holdings of agency coupons and MBS were \$129 billion and \$694 billion, respectively. For MBS purchases, during the latest four-week period, the average weekly ticket was \$17.7 billion. Continuing this pace through the end of March will lift the total to \$1.17 trillion, not allowing for any tapering. In other words, the Fed is going to have to increase the current pace of MBS purchases to attain its target in a tapered fashion, with incremental positive impacts for U.S. mortgage rates (by design).

Furthermore, committing to the full MBS amount means that asset purchases could soon start growing the Fed's balance sheet, and thus the base money supply, again. Despite more than \$1 trillion in asset purchases to date, the Fed's balance sheet and reserves in the banking system have hardly budged, as use of the Fed's credit and liquidity programs has fallen sharply from their crisis peaks. Indeed, reflecting this, the Fed also announced this week that the Term Auction Facility (currently \$196 bln vs. a \$493 bln peak) and the Term Securities Lending Facility (currently zero vs. a \$236 bln peak) would be reduced. In line with the Fed's TAF reduction, the European Central Bank, Bank of England and Swiss National Bank also announced reductions in their US-dollar liquidity programs (the resulting central bank swaps are currently \$59 bln vs. a \$583 bln peak).

The bottom line is that the Fed's credit-easing program will continue until March 2010 for agency securities and June 2010 for the Term Asset-backed Securities Loan Facility (the TALF extension was announced August 17). Should the Fed continue not to sterilize these transactions (allowing them to create net bank reserves), this will push back the inevitable policy shift to tightening. The elapsed time between the last easing move and first tightening action has been more than a year for recent policy cycles. Given that we are starting from an "emergency" situation, the elapsed time between easing and tightening should be shorter. The odds of making it through all of next year without a single rate hike are low, but are building. **Ponti**



DOUGLAS PORTER

While first markets and then policymakers have been toasting the end of the recession, the economic data seem a little slow on the uptake. This week brought a slew of nasty reminders that the recovery will be no one-way walk in the park. U.S. existing home sales and durable goods orders both stepped back more than 2% in August, against expectations of further gains, while new home sales only nudged up. The backlog of unsold inventory is coming down meaningfully for new and existing homes, but prices remain down in double digits from a year ago by most measures. Canada also saw some disappointing data, with the previously reliable consumer taking a breather, as

July retail sales fell 0.6% and one measure of consumer sentiment dipped in September. Looking across the pond, German business confidence (from the Ifo) and the Eurozone manufacturing PMI both rose again this month, but shy of expectations.

In the broader scheme, the latest results are mere pebbles on the road to recovery, although the market reaction was notable. Following a steady diet of upside surprises globally in recent months, these moderate economic setbacks took some steam out of equities, with most major averages stepping back this week (though still leaving September with some surprisingly snappy gains). Commodities were also thrown for a loss, with the CRB sliding 3%—partly on a sharp slide in oil, partly on slowing Chinese imports of resources, but also partly on questions over the strength of the broader recovery. In turn, this combination clobbered the Canadian dollar with a drop of more than 2%, just as the only concern for the currency seemed to be how far and how fast it would rise.

For most of the past six months, stocks and commodities typically shrugged off bad news and seized on even a shred of good economic news. That no longer seems to be the case, now that the S&P 500 has rebounded nearly 60% from the lows and is closer to fair value. Accordingly, the market may now be much more sensitive to downside economic surprises, raising the stakes on the trifecta of key U.S. releases for September—auto sales, ISM and employment—which are packed into the last two days of next week.




BENJAMIN REITZES

While August sales were disappointing for both existing and new homes, the trend in the U.S. has been upward since Q1. Part of that improvement is a result of the first-time homebuyers' tax credit, in effect since January and running until December 1st. The expiry is a bit misleading since it takes about 60 days to close a sale, so the "real" deadline is around September 30th. There has been talk of late that the credit could be extended into next year, as some fear that when it expires home sales will plunge.

Some have likened the tax credit to the 'cash for clunkers' (CFC) program which boosted auto sales temporarily (from under 10 mln units a.r. in the months leading up to the program to over 14 mln in August). However, the comparison is tenuous. CFC provided a credit of \$3,500-to-\$4,500 on an average car price of \$28,400, equal to a significant 12%-to-16% discount. The homebuyer tax credit is \$8,000, which is only 1.7% of the average existing home price (\$177,700) in August. Early data indicate that new home buyers accounted for 45% of sales so far this year and half of those surveyed said the tax credit was a factor in making a purchase. While the tax credit is certainly an enticement, it's unlikely that such a small amount is the deciding factor. In fact, the 45% share for first-time buyers isn't that high, as they accounted for 40% of sales on average from 2001-2008. Two more important factors likely enticed new home buyers: 1) prices have stopped falling in most regions, and 2) mortgage rates remain at generational lows. The floor in home prices is especially important, as many potential buyers have been delaying purchases until prices stop falling. With prices apparently bottoming, or at least unlikely to fall much further, the pent-up demand is boosting sales. The expiry of the tax credit will probably weaken sales somewhat, but the drop-off shouldn't be as sharp as for car sales, assuming the recent improving trend in prices continues and mortgage rates stay low.



Jennifer Lee, Economist

CANADA

- BoC to let 2 emergency programs expire...
- ...but Ottawa may extend \$125 bln mortgage purchase plan

UNITED STATES

- FOMC pledges to keep rates low and upgrades view on economy...
- ...but extends \$1.45 trln purchase program for mortgages and agency debt to end of Q1
- A week after Bernanke says recession is "very likely" over, Geithner declares, "We are at the very beginnings of this recovery..."

EUROPE

- BoE minutes show unanimous vote to keep QE at £175 bln
- £ hit after BoE King's remarks that the currency's drop has been "helpful"

JAPAN

- BoJ minutes stress importance of explaining that ending emergency measures doesn't mean "an end to monetary easing policy"

GOOD NEWS

Foreigners buy a net \$0.4 bln of Canadian securities (July)—but smallest inflow so far this year

Leading Index +0.6% (Aug.)

New Home Sales +0.7% to 429,000 a.r. (Aug.)

Redbook +0.3% (Sep. 19 wk)

Initial Claims -21,000 to 530,000 (Sep. 19 wk)

Eurozone—Manufacturing PMI +0.8 pts to 49.0;

Services PMI +0.7 pts to 50.6 (Sep. A)

Eurozone—Industrial New Orders +2.6% (July)

Germany—Ifo Survey +0.8 pts to 91.3 (Sep.)

Germany—GfK Consumer Confidence +0.5 pts to 4.3 (Oct.)

U.K.—Rightmove House Prices +0.6% (Sep.)

All-Industry Activity Index +0.5% (July)

CANADA

U.S.

EUROPE

JAPAN

BAD NEWS

Retail Sales -0.6% (July)

Nova Scotia forecasts \$592 mln deficit (FY09/10)—first shortfall in a decade

FHFA House Price Index -4.1% y/y (July)—but slowly becoming less negative

Existing Home Sales -2.7% to 5.10 mln a.r. (Aug.)

Durable Goods Orders -2.4% (Aug.)—but 3-month trends still solid

Eurozone—M3 slowed to +3.0% y/y (3 mths to Aug.)

France—Consumer Spending -1.0% (Aug.)

Italy—Unemployment Rate +0.1 pts to 7.4% (Q2)

Italy—Retail Sales -0.4% (July)

Exports -36.3% y/y (Aug.)

Indications of stronger growth and a move toward price stability are good news for the economy.

Canada's Lopsided Recovery

Douglas Porter, CFA, Deputy Chief Economist

The overwhelming consensus view is that the emerging North American economic recovery will be substandard, largely owing to a chastened U.S. consumer. The only serious challenge to this view seems to be to the downside—many fret that the economy risks falling back into the dreaded double-dip after the inventory bounce and fiscal stimulus fade. On the flip side, seldom is heard an encouraging word about the upside risks, even though financial markets had been shouting from the hilltops that growth prospects were gaining momentum. Perhaps singed by the past year's searing economic and financial trauma, few dare listen to the markets' siren call, even though those markets did an excellent job foretelling the deep global recession.

While Fed Chairman Bernanke and Bank of Canada Governor Carney have effectively declared the recession over, they too have sounded starkly cautious on the recovery's strength. Yet, leading indicators in the U.S., Canada and the broader OECD have increased sharply in recent months, consistent with a normal, healthy recovery. For instance, Canada's leading index has surged from March's low, pointing to near-term annualized GDP growth of about 5% (Chart 1). One caveat is that some of this bounce in leading indicators is driven by the equity markets' surge. However, that's not the only factor—the rise in the S&P 500 has accounted for only a quarter of the rebound in the U.S. leading index from its March low. (The steep Treasury yield curve has made a much bigger impact.) But while leading indicators usually offer a reliable reading on GDP growth prospects, some of their most serious misfires in recent years have been in overestimating the strength of recoveries.

In Canada, there are solid grounds for a reasonably robust rebound in domestic spending. Even with July's retreat, real retail sales have risen 4.6% a.r. since the start of the year. Auto sales were never as hard hit as they were stateside, and have been mounting a consistent recovery from last December's lows (Chart 2). Ditto for consumer confidence. While Canadian households have not been paragons of thrift in recent years, they did not get as overextended as their U.S. counterparts, and thus face a much less prolonged period of retrenchment. As well, job losses were roughly half as deep in Canada versus the U.S.

CHART 1
CANADIAN LEADING INDICATORS: STRONG LIKE BULL

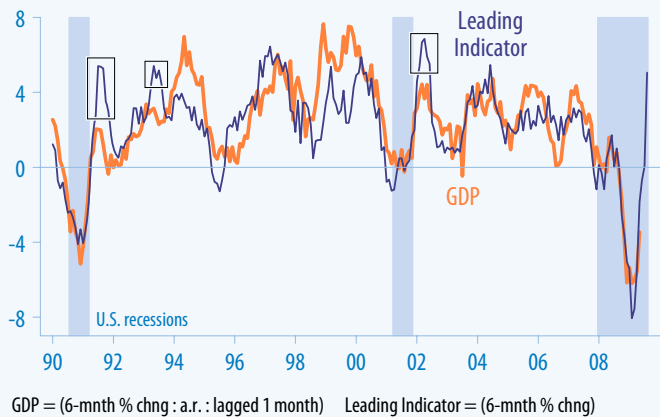


CHART 2
CANADIAN SPENDING HOLDS UP

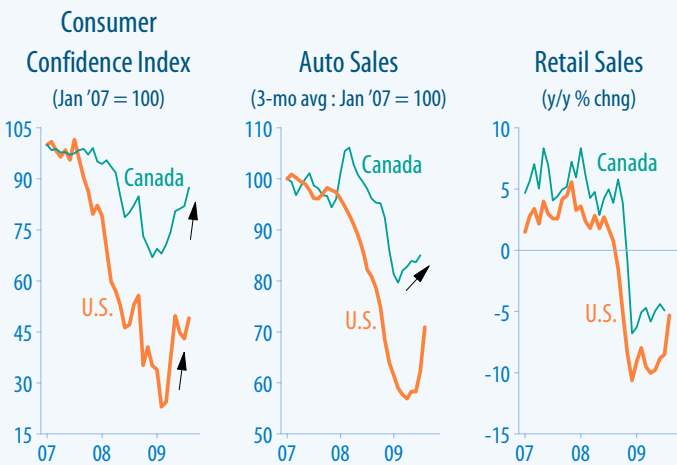


CHART 3
HOUSING: CANADA'S AMAZING ABOUT-FACE

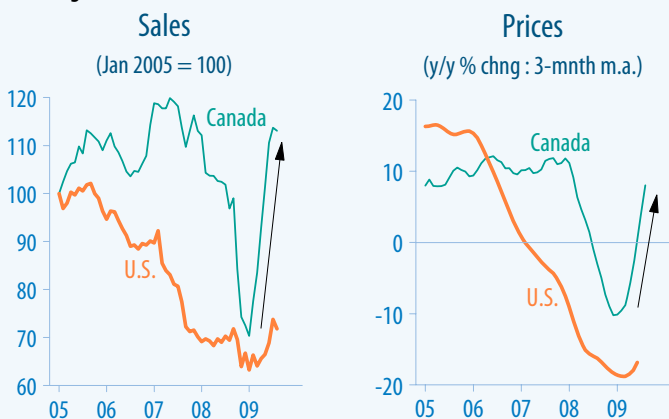


CHART 4
GDP: SERVICE IS LOUSY, GOODS ARE WORSE

Canada (y/y % chng)

Real GDP

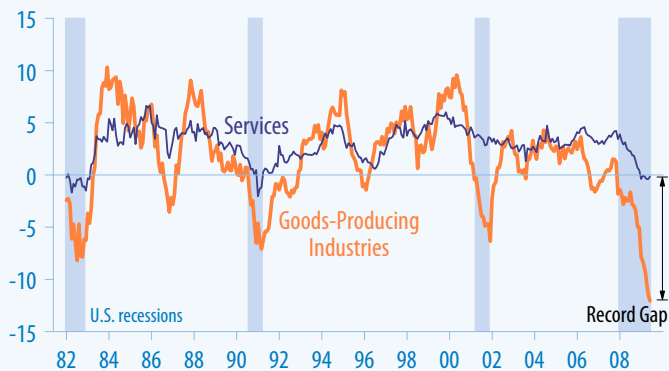
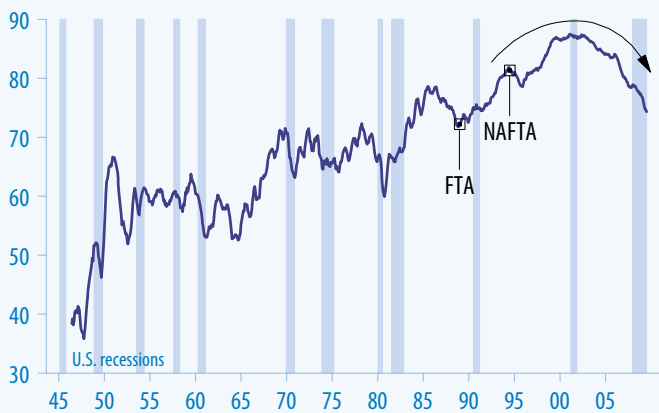


CHART 5
CANADIAN EXPORTS TO U.S.: OVER THE TOP

(% share : 6-mnth trend)



this recession, also casting a less bleak shadow on the spending outlook here.

The relative resiliency in employment played a role in helping Canada's housing market recover Lazarus-like from the early-year depths (*Chart 3*). The rebound in existing home sales and prices, which is showing few signs of relapse, is translating into stronger homebuilding activity. Meantime, government infrastructure spending is only now cranking into high gear, and should provide important support to the fledgling recovery. Business investment is likely to lag the broader economy due to massive existing spare capacity in many industries, which is typical in the early recovery stages. Overall, stimulative monetary and fiscal policies, rebounding financial markets and the recovery in consumer sentiment suggest that almost all systems are go for Canadian domestic demand.

Unfortunately, the missing ingredient for a full-fledged V-shaped recovery in Canada—and it's a big one—is robust U.S. demand. That's not as poisonous as it may seem, since some other cycles were burdened with slow export growth in the early going of recovery (eg. 1975 and 2002). However, it does suggest that Canada's recovery will be lopsided, dependent on domestic spending over exports, and the service sector over goods-producing industries (which are export-heavy). Note that there was a record gap between services and goods industries growth in the year to July, and it will remain wide (*Chart 4*).

Renewed CAD strength, which the BoC highlights as a key risk to growth, will also remain a thorn. However, underlying

U.S. softness is the overriding concern, and increasingly Canada will rely more on sales elsewhere for growth. After a nearly non-stop increase in the dependence of Canadian exports on the U.S. since WWII, the trend appears to have broken decisively at the start of this decade, just as commodities turned higher (*Chart 5*).

Some key implications of Canada's lopsided outlook are:

- 1) Overall growth is unlikely to live up to the gaudy gains in leading indicators or the equity markets.
- 2) With domestic spending reviving and export prospects still dim, the trade deficit could widen further, even with a recovery in commodity prices.
- 3) The nature of the recovery—strong services, weak goods-producing output—is relatively friendly for employment, but bad news for productivity.
- 4) While Ontario may get a near-term bounce from this year's lows, the province will continue to struggle versus the rest of the country with the U.S. consumer hobbled.

| CANADA | 2009 | | | | 2010 | | | | ANNUAL | | |
|--|-------|-------|-------|--------|--------|--------|---------|---------|--------|-------|--------|
| | I | II | III | IV | I | II | III | IV | 2008 | 2009 | 2010 |
| Real GDP (q/q % chng : a.r.) | -6.1 | -3.4 | 2.6 | 2.5 | 2.9 | 3.3 | 3.5 | 2.9 | 0.4 | -2.3 | 2.6 |
| Consumer Price Index (y/y % chng) | 1.2 | 0.1 | -0.9 | 0.7 | 1.2 | 1.4 ↓ | 1.9 ↑ | 1.7 ↑ | 2.4 | 0.3 | 1.5 |
| Unemployment Rate (%) | 7.6 | 8.4 | 8.7 | 9.2 | 9.3 | 9.2 | 8.9 | 8.7 | 6.1 | 8.5 | 9.0 |
| Housing Starts (000s : a.r.) | 140 | 128 | 142 | 139 | 142 | 143 | 142 | 153 | 211 | 137 | 145 |
| Current Account Balance (\$blns : a.r.) | -30.9 | -44.8 | -41.5 | -42.8 | -43.1 | -44.6 | -46.0 | -46.3 | 8.1 | -40.0 | -45.0 |
| Interest Rates | | | | | | | | | | | |
| (average for the quarter : %) | | | | | | | | | | | |
| Overnight Rate | 0.83 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.58 | 1.08 | 2.96 | 0.40 | 0.54 |
| 3-month Treasury Bill | 0.64 | 0.25 | 0.22 | 0.22 ↑ | 0.22 ↑ | 0.46 ↑ | 0.93 ↑ | 1.41 ↑ | 2.33 | 0.33 | 0.75 ↑ |
| 10-year Bond | 2.89 | 3.20 | 3.42 | 3.43 ↓ | 3.50 ↓ | 3.58 ↓ | 3.65 ↓ | 3.73 ↓ | 3.61 | 3.23 | 3.61 ↓ |
| Canada/U.S. Interest Rate Spreads | | | | | | | | | | | |
| (average for the quarter : bps) | | | | | | | | | | | |
| 90-day | 43 | 8 | 6 ↑ | 10 ↑ | 10 ↑ | 34 ↑ | 69 ↑ | 66 ↑ | 94 | 17 ↑ | 45 ↑ |
| 10-year | 15 | -11 | -10 | -8 ↑ | -13 ↑ | -16 ↑ | -20 ↑ | -24 ↑ | -6 | -3 ↑ | -18 ↑ |
| UNITED STATES | | | | | | | | | | | |
| Real GDP (q/q % chng : a.r.) | -6.4 | -1.0 | 3.8 | 3.1 | 2.3 | 2.5 | 2.7 | 2.9 | 0.4 | -2.5 | 2.5 |
| Consumer Price Index (y/y % chng) | -0.2 | -0.9 | -1.6 | 1.0 | 2.0 | 2.3 | 2.0 | 2.0 | 3.8 | -0.4 | 2.1 |
| Unemployment Rate (%) | 8.1 | 9.2 | 9.6 | 10.0 | 10.1 | 10.0 | 9.9 | 9.7 | 5.8 | 9.2 | 9.9 |
| Housing Starts (mlns : a.r.) | 0.53 | 0.54 | 0.60 | 0.62 | 0.68 | 0.74 | 0.78 | 0.82 | 0.90 | 0.57 | 0.75 |
| Current Account Balance (\$blns : a.r.) | -418 | -395 | -408 | -379 | -374 | -373 | -369 | -364 | -706 | -400 | -370 |
| Interest Rates | | | | | | | | | | | |
| (average for the quarter : %) | | | | | | | | | | | |
| Fed Funds Target Rate | 0.13 | 0.13 | 0.13 | 0.13 | 0.13 | 0.13 | 0.25 ↓ | 0.75 ↓ | 1.86 | 0.13 | 0.31 ↓ |
| 3-month Treasury Bill | 0.21 | 0.17 | 0.16 | 0.12 ↓ | 0.12 ↓ | 0.12 ↓ | 0.25 ↓ | 0.75 ↓ | 1.39 | 0.17 | 0.31 ↓ |
| 10-year Note | 2.74 | 3.31 | 3.52 | 3.51 ↓ | 3.63 ↓ | 3.74 ↓ | 3.85 ↓ | 3.96 ↓ | 3.67 | 3.27 | 3.79 ↓ |
| EXCHANGE RATES | | | | | | | | | | | |
| (average for the quarter) | | | | | | | | | | | |
| US\$/C\$ | 80.3 | 85.6 | 91.2 | 94.4 | 96.5 ↑ | 98.4 ↑ | 100.3 ↑ | 100.3 ↑ | 94.3 | 87.9 | 98.9 ↑ |
| C\$/US\$ | 1.245 | 1.168 | 1.096 | 1.059 | 1.037 | 1.017 | 0.997 | 0.997 | 1.067 | 1.142 | 1.012 |
| ¥/US\$ | 94 | 97 | 94 | 94 | 96 | 97 | 98 | 100 | 103 | 95 | 98 |
| US\$/Euro | 1.30 | 1.36 | 1.42 | 1.44 | 1.47 | 1.49 | 1.52 | 1.54 | 1.47 | 1.38 | 1.50 |
| US\$/£ | 1.44 | 1.55 | 1.65 | 1.68 ↓ | 1.73 ↓ | 1.78 ↓ | 1.83 ↓ | 1.88 ↓ | 1.85 | 1.58 | 1.81 ↓ |

Note: Blocked areas represent BMO Capital Markets forecasts
Up and down arrows indicate changes to the forecast ↑↓

CANADA

Michael Gregory, CFA, Senior Economist

Real GDP at Basic Prices

Wednesday, 8:30 am

| | |
|-----------------|--------------|
| July (e) | +0.5% |
| Consensus | +0.4% |
| June | +0.1% |

A rebound in automotive output drove Canadian economic growth in July. Manufacturers' sales volumes rose 5.5% in the month, the most in a dozen years, as vehicle and parts production returned after an extended shutdown. This provided a net boost to the wholesale and transportation sectors, with activity in the latter damped a bit by the short-lived Via Rail strike. The Toronto civic workers' strike should make a bigger dent on industries such as waste management and recreation. Meantime, retail sales volumes inched down 0.1% and emerging stability in housing starts eased the continued contraction in construction. On balance, we look for real GDP to expand 0.5% in July, up from 0.1% in June. The two positive readings follow 10 consecutive declines and provide more evidence that Canada's economy emerged from recession this summer. Indeed, even if the remaining months in the quarter are flat, the full quarter will still show growth at a 1.6% annual rate after contracting more than 3% in Q2. As it stands, we judge Q3 will come closer to around 2½%.

UNITED STATES

Sal Guatieri, Senior Economist

S&P/Case-Shiller Home Price Index

Tuesday, 9:00 am

| | |
|-----------------|-------------------|
| July (e) | -14.3% y/y |
| Consensus | -14.3% y/y |
| June | -15.4% y/y |

Home prices have stabilized after sliding 33% since mid-2006, with steadily rising demand countering the still-large supply overhang. An increase in FHFA house prices suggests the Case-Shiller index rose for the third straight month in July (0.3%), which should slow the annual rate of decline to -14.3% y/y from -15.4% the prior month. With the market bottoming, some positive feedback should develop between prices and demand as nervous Nellies come off the fence.

Conference Board Consumer Confidence

Tuesday, 10:00 am

| | |
|-----------------|-------------|
| Sep. (e) | 57.0 |
| Consensus | 57.0 |
| Aug. | 54.1 |

Despite the odd setback, consumer confidence has picked up from the record depths of despair in February, with soaring equity values, steadying house prices and slowing job losses buoying spirits. The Conference Board's index likely jumped 3 points to 57 in September, still a long way from the long-run norm of 95 but heading in the right direction. The employment measure will provide a clue for the September jobless rate.

Personal Income & Spending

Thursday, 8:30 am

| | Personal Income | Personal Spending |
|-----------------|--------------------------|--------------------------|
| Aug. (e) | +0.2% | +1.4% |
| Consensus | +0.1% | +1.1% |
| July | unch | +0.2% |
| | Core PCE Deflator | |
| Aug. (e) | +0.1% | +1.3% y/y |
| Consensus | +0.1% | +1.3% y/y |
| July | +0.1% | +1.4% y/y |
| | Savings Rate | |
| Aug. (e) | 3.0% | |
| July | 4.2% | |

Consumers are showing some signs of life. The cash-for-clunkers program ramped unit auto sales up 25% in August, and more surprisingly, retail sales ex-autos and gas jumped 0.6%. These numbers signal a 1.4% gain in personal expenditures in August, and a hearty 3% advance (annualized) in Q3 despite indications that auto sales went into full reverse in September. Personal income likely rose for the first time in three months (0.2%), with still-rising wages (due to strong productivity growth) offsetting lingering job cuts. Americans had to dig deeper into their piggy banks to purchase a new car in August, so the savings rate likely reversed to 3.0% from 4.2%. On the inflation front, lower new vehicle prices should hold the core PCE deflator to a mild 0.1% gain, reducing the yearly rate a notch to 1.3%—well below last summer's peak of 2.7% and significantly below the Fed's long-run goal of 1.7% to 2%.

ISM Manufacturing

Thursday, 10:00 am

| | | | |
|------------------|-------------|--------------------|-------------|
| Sep. (e) | 53.5 | Prices-Paid | 67.0 |
| <i>Consensus</i> | 54.0 | | 67.0 |
| Aug. | 52.9 | | 65.0 |

Jump-started by the clunkers program, manufacturing is gaining traction even outside the auto sector as a result of firmer exports and the need to replenish lean inventories. Regional surveys point to a modest rise in the national ISM index to 53.5 in September, suggesting that manufacturing expanded for the second consecutive month and at the fastest rate in more than three years. Last month, 11 out of 18 industries reported growth, a marked improvement from just one in the spring, meaning the recovery has broadened beyond autos. The ISM new orders index has jumped to a five-year high, indicating that production gains will be sustained if demand holds up.

Auto Sales

Thursday (expected)

| | |
|------------------|---------------------|
| Sep. (e) | 9.5 mln a.r. |
| <i>Consensus</i> | 9.9 mln a.r. |
| Aug. | 14.1 mln a.r. |

With the cash-for-clunkers program out of the way, auto sales likely fell heavily in September. We believe they could retreat all the way back to levels prevailing in Q2 (just over a 9.5 million annualized pace) from the clunkers level of just over 14 million in August.

Nonfarm Payrolls

Friday, 8:30 am

| | |
|------------------|-----------------|
| Sep. (e) | -170,000 |
| <i>Consensus</i> | -188,000 |
| Aug. | -216,000 |

Unemployment Rate

| | |
|------------------|-------------|
| Sep. (e) | 9.8% |
| <i>Consensus</i> | 9.8% |
| Aug. | 9.7% |

Average Hourly Earnings

| | |
|------------------|--------------|
| Sep. (e) | +0.2% |
| <i>Consensus</i> | +0.2% |
| Aug. | +0.3% |

The worst spate of job losses in six decades probably eased further in September, with nonfarm payrolls expected to contract 170,000, compared with 216,000 in August and an average 691,000 in Q1. The expected decline would take total job cuts since December 2007 to over 7 million or 5.1%, just shy of the 5.2% decline recorded in the late 1940s. The blood-letting in manufacturing and residential construction should ebb now that both sectors have stabilized. The possibility that temporary help services (a leading indicator of labour market trends) rose for the first time in almost two years could flag renewed job growth in the fall. The unemployment rate is expected to climb another tenth to a 26-year high of 9.8%, and will likely drift modestly higher in coming months before falling slowly in 2010.

| | SEP 25* | SEP 18 | CHANGE FROM: (BASIS POINTS) | | |
|--------------------------------|---------|---------|-----------------------------|-------------|------------|
| | | | WEEK AGO | 4 WEEKS AGO | DEC. 31/08 |
| Canadian Money Market | | | | | |
| Call Money | 0.25 | 0.25 | 0 | 0 | -125 |
| Prime Rate | 2.25 | 2.25 | 0 | 0 | -125 |
| U.S. Money Market | | | | | |
| Fed Funds (effective) | 0.25 | 0.25 | 0 | 0 | 0 |
| Prime Rate | 3.25 | 3.25 | 0 | 0 | 0 |
| 3-Month Rates | | | | | |
| Canada | 0.24 | 0.22 | 2 | 4 | -59 |
| United States | 0.09 | 0.08 | 2 | -4 | 2 |
| Japan | 0.20 | 0.15 | 5 | 6 | 0 |
| Eurozone | 0.74 | 0.76 | -2 | -8 | -215 |
| United Kingdom | 0.55 | 0.58 | -3 | -14 | -222 |
| Australia | 3.29 | 3.28 | 0 | -4 | -156 |
| Bond Markets | | | | | |
| 2-year Bond | | | | | |
| Canada | 1.29 | 1.29 | 1 | 0 | 20 |
| United States | 0.99 | 1.00 | -1 | -3 | 22 |
| 10-year Bond | | | | | |
| Canada | 3.40 | 3.40 | 0 | 0 | 72 |
| United States | 3.39 | 3.47 | -7 | -5 | 118 |
| Japan | 1.31 | 1.35 | -4 | -1 | 13 |
| Germany | 3.28 | 3.38 | -10 | 3 | 33 |
| United Kingdom | 3.63 | 3.74 | -11 | 8 | 61 |
| Australia | 5.23 | 5.28 | -5 | -18 | 124 |
| Currencies | | | | | |
| | | | | (% CHANGE) | |
| US\$/C\$ | 91.58 | 93.53 | -2.1 | 0.0 | 11.6 |
| C\$/US\$ | 1.092 | 1.069 | — | — | — |
| ¥/US\$ | 90.11 | 91.29 | -1.3 | -3.7 | -0.6 |
| US\$/Euro | 1.4691 | 1.4712 | -0.1 | 2.7 | 5.2 |
| US\$/£ | 1.598 | 1.627 | -1.8 | -1.8 | 9.5 |
| US\$/A\$ | 86.55 | 86.75 | -0.2 | 2.9 | 23.2 |
| Commodities | | | | | |
| CRB Futures Index | 251.85 | 259.99 | -3.1 | -2.3 | 9.7 |
| Oil (generic contract) | 66.46 | 72.49 | -8.3 | -8.6 | 49.0 |
| Natural Gas (generic contract) | 3.91 | 3.78 | 3.5 | 29.0 | -30.4 |
| Gold (spot price) | 990.30 | 1007.60 | -1.7 | 3.7 | 12.3 |
| Equities | | | | | |
| S&P/TSX Composite | 11247 | 11446 | -1.7 | 2.5 | 25.1 |
| S&P 500 | 1050 | 1068 | -1.7 | 2.0 | 16.2 |
| Nasdaq | 2101 | 2133 | -1.5 | 3.6 | 33.2 |
| Dow Jones Industrial | 9702 | 9820 | -1.2 | 1.7 | 10.5 |
| Nikkei | 10266 | 10371 | -1.0 | -2.5 | 15.9 |
| Frankfurt DAX | 5602 | 5704 | -1.8 | 1.5 | 16.5 |
| London FT100 | 5118 | 5173 | -1.1 | 4.3 | 15.4 |
| France CAC40 | 3757 | 3828 | -1.8 | 1.7 | 16.8 |
| S&P ASX 200 | 4713 | 4693 | 0.4 | 5.0 | 26.6 |

* as of 10:30 am

JAPAN

EUROZONE

U.K.

OTHER

MONDAY SEPTEMBER 28

| GERMANY | | |
|-----------------------------|-------|-----------|
| Consumer Price Index | | |
| Sep. P (e) | -0.2% | -0.2% y/y |
| Aug. | +0.3% | -0.1% y/y |

German Federal Election
(Sunday Sep. 27)

RBA Governor Stevens Speaks to
Senate Committee in Sydney

TUESDAY SEPTEMBER 29

| | CPI | Core CPI |
|----------|-----------|-----------|
| Aug. (e) | -2.2% y/y | -2.4% y/y |
| July | -2.2% y/y | -2.2% y/y |

| EUROZONE | |
|----------------------------|------|
| Economic Confidence | |
| Sep. (e) | 82.7 |
| Aug. | 80.6 |

| Real GDP | | |
|----------|-------|-----------|
| Q2 F (e) | -0.6% | -5.4% y/y |
| Q1 | -2.4% | -4.9% y/y |

| M4 Money Supply | |
|-----------------|------------|
| Aug. F (e) | +12.6% y/y |
| July | +14.4% y/y |

WEDNESDAY SEPTEMBER 30

| Manufacturing PMI | | |
|-------------------|------|--|
| Sep. | 53.6 | |
| Aug. | 53.6 | |

| Industrial Production | | |
|-----------------------|-------|------------|
| Aug. P (e) | +1.8% | -18.8% y/y |
| July | +2.1% | -22.7% y/y |

| EUROZONE | | |
|-----------------------------|-----------|--|
| Consumer Price Index | | |
| Sep. P (e) | -0.2% y/y | |
| Aug. | -0.2% y/y | |

| GERMANY | |
|---------------------|---------|
| Unemployment | |
| Sep. (e) | +20,000 |
| Aug. | -1,000 |

| Jobless Rate | |
|--------------|------|
| Sep. (e) | 8.4% |
| Aug. | 8.3% |

| FRANCE | | |
|-----------------------------|-------|-----------|
| Producer Price Index | | |
| Aug. (e) | +0.2% | -8.9% y/y |
| July | +0.6% | -8.7% y/y |

| ITALY | | |
|-----------------------------|-------|-----------|
| Consumer Price Index | | |
| Sep. P (e) | +0.7% | +0.3% y/y |
| Aug. | +0.3% | +0.2% y/y |

| Producer Price Index | | |
|----------------------|-------|-----------|
| Aug. (e) | +0.2% | -8.1% y/y |
| July | +0.6% | -8.7% y/y |

| GfK Consumer Confidence | |
|-------------------------|-----|
| Sep. (e) | -24 |
| Aug. | -25 |

| AUSTRALIA | | |
|---------------------|-------|--|
| Retail Sales | | |
| Aug. (e) | +0.5% | |
| July | -1.0% | |

| Building Approvals | | |
|--------------------|-------|-----------|
| Aug. (e) | +2.5% | +1.5% y/y |
| July | +7.7% | -3.9% y/y |

THURSDAY OCTOBER 1

| Tankan Survey | | |
|---------------|-----|--|
| Q3 (e) | -33 | |
| Q2 | -48 | |

| Retail Sales | | |
|--------------|-------|-----------|
| Aug. (e) | +0.3% | -2.4% y/y |
| July | +0.5% | -2.4% y/y |

| EUROZONE | | |
|--------------------------|------|--|
| Manufacturing PMI | | |
| Sep. F (e) | 49.0 | |
| Aug. | 48.2 | |

| Jobless Rate | |
|--------------|------|
| Aug. (e) | 9.6% |
| July | 9.5% |

| GERMANY | | |
|---------------------|-------|-----------|
| Retail Sales | | |
| Aug. (e) | +0.2% | -0.8% y/y |
| July | +0.7% | -1.0% y/y |

| Manufacturing PMI | |
|-------------------|------|
| Sep. (e) | 50.2 |
| Aug. | 49.7 |

| CHINA | |
|--------------------------|------|
| Manufacturing PMI | |
| Sep. (e) | 55.0 |
| Aug. | 54.0 |

FRIDAY OCTOBER 2

| Jobless Rate | |
|--------------|------|
| Aug. (e) | 5.8% |
| July | 5.7% |

| Household Spending | |
|--------------------|-----------|
| Aug. (e) | -0.2% y/y |
| July | -2.0% y/y |

| EUROZONE | | |
|-----------------------------|-------|-----------|
| Producer Price Index | | |
| Aug. (e) | +0.4% | -7.6% y/y |
| July | -0.8% | -8.5% y/y |

| Nationwide House Prices | | |
|-------------------------|-------|-----------|
| Sep. (e) | +0.7% | -0.3% y/y |
| Aug. | +1.6% | -2.7% y/y |

CANADA

UNITED STATES

MONDAY SEPTEMBER 28
Ottawa's Budget Balance *
July '09
 July '08 \$1.7 bln

3:40 pm BoC Governor Carney speaks in Victoria, B.C.

1:00 pm 3 & 6-month T-bill auction \$59.0 bln (New cash -\$4.0 bln)

TUESDAY SEPTEMBER 29
10:35 am 3, 6 & 12-month T-bill auction \$15.0 bln (New cash -\$0.5 bln)

| | |
|-----------------|--|
| 8:55 am | Redbook |
| Sep. 26 | +0.3% |
| Sep. 19 | +0.3% |
| 9:00 am | S&P Case-Shiller Home Price Index |
| July (e) | -14.3% y/y |
| Consensus | -14.3% y/y |
| June | -15.4% y/y |
| 10:00 am | Conference Board Consumer Confidence Index |
| Sep. (e) | 57.0 |
| Consensus | 57.0 |
| Aug. | 54.1 |
| 12:00 pm | Business Roundtable CEO Economic Outlook Survey |
| Q3 | |
| Q2 | 18.5 |
| 5:00 pm | ABC News/Washington Post Consumer Comfort Index |
| Sep. 27 | |
| Sep. 20 | -46 |

WEDNESDAY SEPTEMBER 30

| | | |
|----------------|---------------------------------------|----------------------------------|
| 8:30 am | Real GDP at Basic Prices | |
| July (e) | +0.5% | |
| Consensus | +0.4% | |
| June | +0.1% | |
| 8:30 am | Average Weekly Earnings | |
| July (e) | +1.7% y/y | |
| June | +3.3% y/y | |
| 8:30 am | Industrial Product Price Index | Raw Materials Price Index |
| Aug. (e) | +0.3% | +1.4% |
| Consensus | +0.4% | +2.9% |
| July | -0.5% | -3.8% |

| | | |
|-----------------|---|------------------------------|
| 8:15 am | ADP National Employment Report | |
| Sep. (e) | -190,000 | |
| Consensus | -190,000 | |
| Aug. | -298,000 | |
| 8:30 am | Real GDP Q2 F (e) | GDP Deflator Q2 F (e) |
| Consensus | -1.2% a.r. | unch |
| Q2 P | -1.0% a.r. | unch |
| Q1 | -6.4% a.r. | +1.9% a.r. |
| 8:30 am | Pre-Tax Corporate Profits Q2 R (e) | |
| Q2 P | -10.9% y/y | |
| Q1 | -19.0% y/y | |
| 9:45 am | Chicago PMI | |
| Sep. (e) | 52.0 | |
| Consensus | 51.5 | |
| Aug. | 50.0 | |
| 10:30 am | DoE's Petroleum Status Report (Sep. 25 week) | |

THURSDAY OCTOBER 1

| | | |
|-----------------|---|--------------------------|
| | Auto Sales * | |
| Sep. | | |
| Aug. | -7.9% y/y | |
| 7:30 am | Challenger Layoff Report | |
| Sep. | | |
| Aug. | -13.8% y/y | |
| 8:30 am | Initial Claims | |
| Sep. 26 (e) | 535,000 (+5,000) | |
| Sep. 19 | 530,000 (-21,000) | |
| 8:30 am | Personal Income | Personal Spending |
| Aug. (e) | +0.2% | +1.4% |
| Consensus | +0.1% | +1.1% |
| July | unch | +0.2% |
| 8:30 am | Core PCE Deflator | |
| Aug. (e) | +0.1% | |
| Consensus | +0.1% | |
| July | +0.1% | |
| 8:30 am | Savings Rate | |
| Aug. (e) | 3.0% | |
| July | 4.2% | |
| 9:00 am | Fed Chairman Bernanke testifies before the House Financial Serv. Committee | |
| 10:00 am | ISM | Prices-Paid |
| Sep. (e) | 53.5 | 67.0 |
| Consensus | 54.0 | 67.0 |
| Aug. | 52.9 | 65.0 |
| 10:00 am | Construction Spending | |
| Aug. (e) | -0.2% | |
| July | -0.2% | |
| 10:00 am | Pending Home Sales | |
| Aug. (e) | +2.0% | |
| July | +3.2% | |
| 10:30 am | DoE's Natural Gas Status Report (Sep. 25 week) | |
| | Vehicle Sales * | |
| Sep. (e) | 9.5 mln a.r. | |
| Consensus | 9.9 mln a.r. | |
| Aug. | 14.1 mln a.r. | |
| | 3, 10 & 30-year note auction announcement | |
| | 10-year TIPS auction announcement | |

FRIDAY OCTOBER 2

| | |
|-----------------|--------------------------------|
| 8:30 am | Nonfarm Payrolls |
| Sep. (e) | -170,000 |
| Consensus | -188,000 |
| Aug. | -216,000 |
| 8:30 am | Unemployment Rate |
| Sep. (e) | 9.8% |
| Consensus | 9.8% |
| Aug. | 9.7% |
| 8:30 am | Average Hourly Earnings |
| Sep. (e) | +0.2% |
| Consensus | +0.2% |
| Aug. | +0.3% |
| 10:00 am | Factory Orders |
| Aug. (e) | -0.9% |
| Consensus | +1.0% |
| July | +1.2% |

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