

focus

A Weekly Financial Digest

FEATURE ARTICLE, PAGE 5

Zeroing In on 6/30

- Canadian Employment Solid, Jobless Rate Dips
- Record Canadian Trade Deficit, U.S. Trade Deficit Narrows
- Canadian Housing Still Strong
- US\$ Slumps, Loonie Hits 1-Year High, Equities Rally
- RBA Unexpectedly Hikes; ECB, BoE on Hold



DOUGLAS PORTER

And the plot thickens. Canada's robust September employment report simply deepens the divide with the U.S. labour market. Jobs posted a hearty 30,600 gain, led by a whopping 91,600 spike in full-time positions, and carving the unemployment rate 3 ticks to 8.4%. As an exclamation point, Canadian payrolls are now essentially flat over the past six months versus a U.S. job loss of more than 2 million (or a 3% annualized pace) over the same period. Meantime, the amazing Canadian housing rebound continues apace, with sales again more than doubling from a year ago in Vancouver, and Toronto sales rising 28%, while single-family housing starts are doing their best impression of a V-shaped recovery. Consumer confidence continues to also rebound sharply, and Canadian auto sales have nearly drawn level with a year ago, without the helping hand of cash for clunkers. So, the Canadian economy is quite simply wildly outperforming...everywhere except in the GDP results! In fact, it now looks like Canadian output growth will trail the U.S. significantly in Q3, for the second quarter in a row. The great equalizer has been exports, with Canadian sales abroad still heavily undercut by soft U.S. demand and the soaring loonie. As a result, Canada's trade deficit continues to deepen, and overall growth simply can not separate significantly from the U.S. trend.

In a delicious morsel of irony, the Canadian dollar is suddenly supercharged again, at least partly owing to the tightening move by the Reserve Bank of Australia. The RBA's pre-emptive rate hike fuelled recovery hopes everywhere, and also stoked talk that the Bank of Canada may not be far behind. However, the irony is that the further the Canadian dollar rallies on such thoughts—and it powered up to a 12-month high of nearly 96 cents this week—the less likely it is that the Bank will actually raise rates, as concern mounts over the potential damage from the soaring loonie. The currency has now completely reversed last fall's meltdown, pulling a nifty 360 on the sagging U.S. dollar, and thanks to record gold prices and a broader healing in financial markets.

In a delicious morsel of symmetry, global equity markets just reeled off one of their best weeks of the year in the very same week that they suffered the deepest downdraft of all in 2008. Recall that in the first full week of October last year, the S&P 500 and Dow each plunged 18.2%, while the TSX slumped 16.1%, a distant cry from the gains of 4%-to-5% seen this past week. (A year ago also saw the co-ordinated 50 bp interest rate cut, while this year saw the RBA rate hike.) The snap-back in the TSX leaves it only slightly below its highs for the year, and on track for one of its best annual performances in the past 30 years. (Since 1980, the TSX has three times risen by close to 30%—in 1983, 1993 and 1999, with '83 highest at +30.4%.)




ROBERT KAVCIC

With the tightening talk now growing louder, equity markets continued to perform well this week—stocks rallied sharply after the Reserve Bank of Australia made their surprise move. While that might seem counterintuitive on the surface, it's actually normal behaviour for stocks to cheer rate hikes coming out of a recession. For equity investors, the benefit of strengthening economic and earnings growth outweighs the cost of higher interest rates this early in the cycle. As the cycle ages, and further rate

hikes are needed to quell inflation pressures, tightening eventually begins to weigh on stocks (for example, it's not totally uncommon to see them sell off on a strong employment report late in the cycle). Right now, however, we're still in the first phase.

Since 1982, the S&P 500 has posted average annualized monthly gains of just over 9%, with much stronger performances coming when the Fed has been on hold (after easing) and in the early part of the ensuing tightening campaign. While on hold, the S&P 500 has posted a 15.6% average annualized monthly gain, and a still-strong 13% in the first third of the following tightening cycle. At the same time, cyclicals (hence the name) have outperformed during these stages, as we're witnessing now. However, by the time the last two thirds of the tightening cycle roll around, stocks begin to post below-average gains (6% on average) as the impact of higher interest rates outweighs earnings growth. To sum it up in the simplest possible way, we're still in the sweet spot of the cycle for stocks.

Rob K.



Just as the U.S. housing market has been forging a long-awaited recovery (amid massive government help), the news for "that other" property market—the one that houses workers, tenants, machines and products—remains grim. Though you wouldn't know it from the recent jump in REIT values, the commercial real estate sector remains in deep distress, with rising vacancy rates and falling property prices (even worse than the 32% slide in home prices) contributing to rising delinquencies and distressed sales. With consumers hunkering down to mend holes in their balance sheets, shopping centre vacancy rates have hit 17-year highs at 10.3%. Furthermore, with fewer bodies around, office rents have fallen 8.5% in the past year under the crushing weight of a 16.5% vacancy rate.

Commercial real estate tends to lag the business cycle, and this time will surely be no different. This means more bank write-downs to come, and consequently continued tight lending standards. The IMF expects charge-off rates for U.S. commercial real estate loans to climb the fastest (from under 3% to a peak of 5½% next year) among the four main credit groups, topping the projected peaks for industrial loans (about 3%) and residential mortgages (4%), though falling short of the summit for consumer loans (7%). With banks holding more than half of the \$3.4 trillion in outstanding commercial real estate loans, it's no wonder they plan to keep a tight grip on lending standards well into 2010. That's not great news for a sector that relies largely on bank funding, especially with the market for commercial asset-backed securities playing dead the past two years. About \$50 billion of securitized commercial property loans will face refinancing in the coming year.

The commercial property shoe looks to leave a big scuff mark on the economic recovery for some time. While government policies have arrested the downward spiral in housing and financial markets, the vicious cycle for commercial real estate remains unbroken. Analysts will be poring over the release of bank earnings next week for signs of increased stress in commercial loans and securities. Meantime, the Fed will remain worried about this sector's enduring impact on the economy, providing further justification to keep rates low for an extended time.

Sal

Jennifer Lee, Economist

CANADA

- Two months of job creation
- Commodity rally (gold @ record high \$1,050 and oil > \$70) lifts TSX and CAD

UNITED STATES

- Risk appetite hearty thanks to good start to Q3 earnings season
- Officials reiterate strong dollar policy as greenback takes a drubbing

EUROPE

- BoE on hold @ 0.5%... APF to be completed in a month
- ECB on hold @ 1.0%
- Looks like the Eurozone exited the recession in Q3

JAPAN

- Finance Minister Fujii suggests he is comfortable w/ the strong JPY

AUSTRALIA

- RBA hikes rates 25 bps to 3.25%... first G-20 member to tighten

GOOD NEWS

Employment +30,600 (Sep.)
Jobless Rate -0.3 ppts to 8.4% (Sep.)
Building Permits +7.2% (Aug.)
Ivey PMI +6 pts to 61.7 (Sep.)
Average Hourly Wages slowed to +2.5% y/y (Sep.)
Bankruptcies -8.2% (Aug.)
BoC Business Outlook shows sales growth expectations @ record high, and improved hiring intentions (Q3)

Nonmanufacturing ISM +2.5 pts to 50.9 (Sep.)
Initial Claims -33,000 to 521,000 (Oct. 3 wk)
Chain-Store Sales +0.1% y/y (Sep.)—first increase in over a year
Redbook +0.4% (Oct. 3 wk)
Goods & Services Trade Deficit narrowed slightly to \$30.7 bln (Aug.)

Eurozone—Services PMI revised up to 50.9 (Sep.)
Germany—Factory Orders +1.4% (Aug.)
Germany—Industrial Production +1.7% (Aug.)
France—Industrial Production +1.8% (Aug.)
Italy—Industrial Production +7.0% (Aug.)
U.K.—Services PMI +1.2 pts to 55.3 (Sep.)
U.K.—Nationwide Consumer Confidence +6 pts to 71 (Sep.)—highest since April 2008
U.K.—Trade Deficit narrowed to £6.2 bln (Aug.)

Leading Index +0.8 pts to 83.3 (Aug. P)

Employment +40,600 (Sep.)
Jobless Rate -0.1 ppts to 5.7% (Sep.)
Trade Deficit narrowed to A\$1.5 bln (Aug.)

BAD NEWS

Merchandise Trade Deficit widened to \$2.0 bln (Aug.)—a record
Housing Starts -4.6% to 150,100 a.r. (Sep.)—but the level and August's upward revision are positive

Wholesale Inventories -1.3% (Aug.)
Consumer Credit -\$12 bln (Aug.)
Apartment Vacancy Rate 7.8% (Q3)—23-year high
Retail Vacancy Rate 10.3% (Q3)—17-year high
Office Vacancy Rate 16.5% (Q3)—5-year high

Eurozone—Real GDP revised down to -0.2% q/q (Q2)
Eurozone—Retail Sales -0.2% (Aug.)
Germany—Trade Surplus narrowed to €8.1 bln (Aug.)
France—Trade Deficit widened to €3.4 bln (Aug.)
U.K.—Industrial Production -2.5% (Aug.)
U.K.—Producer Prices +0.5% (Sep.)

Machine Tool Orders -61.9% y/y (Sep. P)—but improving
Machine Orders +0.5% (Aug.)—weaker than expected

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

Zeroing In on 6/30

Michael Gregory, CFA, Senior Economist

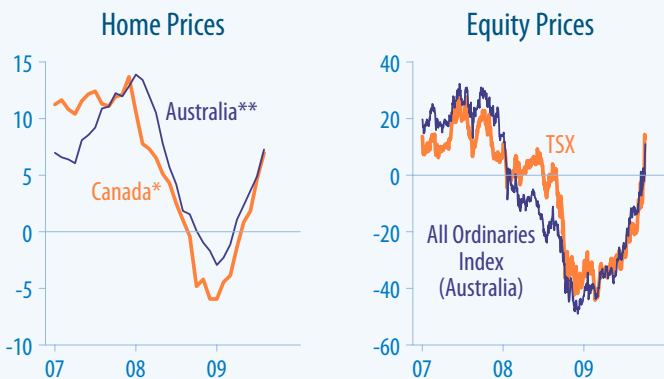
As the Bank of Canada cut its policy rate to its effective lower bound in April, it also committed to keeping the rate at 0.25% until the end of June 2010, conditional on inflation. This week, the Reserve Bank of Australia became the first G-20 central bank to hike policy rates this year, placing the Bank of Canada's June 30th commitment under increasing market scrutiny.

It's not that both nations are on the same policy page. Australia suffered just one quarter of contraction, with recovery stoked by China's strong economic growth. Canada had a three-quarter recession (3.3% lost GDP), with recovery so far restrained by relatively slow U.S. economic growth. But with both countries benefitting from rising commodity prices (thanks again, China), RBA Governor Stevens' observations that *"dwelling prices have risen appreciably over the past six months"* and that *"share markets have recovered significant ground"* could just as easily be describing Canada (Chart 1). And, with South Korea (another G-20 member) and Norway (a fellow oil producer) also leaning toward tightening, the Bank of Canada's emergency-low policy rate is starting to look out of place in the market's eye, let alone keeping it there for the next nine months.

The BoC's conditional commitment was crafted to apply downward pressure on term interest rates, in lieu of direct asset purchases under credit and quantitative easing, as the Bank ran out of room in cutting the policy rate. It's unclear where term rates would be right now if not for the commitment, but this non-traditional policy tool is effective only to the extent the market believes the Bank will stick to it (the latter is reinforced by the BoC's constant reiteration of the commitment in speeches and other policy pronouncements). Thus, to avoid a potential back-up in term rates (which could undermine Canada's nascent recovery) and to bolster their own credibility (so the market will believe they'll do what they say next time), the Bank of Canada is likely loath to shorten the commitment interval for any reason other than inflation. And, the broad inflation outlook remains quite benign.

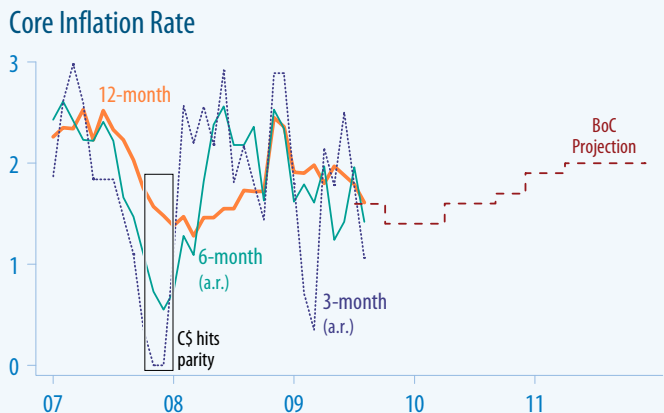
The Bank is projecting core inflation to cool to around 1.4% y/y through the turn of the year, down from 1.6% currently, before slowly grinding back to the 2% target by the spring of 2011 (Chart 2). Shorter-term inflation trends suggest the Bank should have no problem meeting or beating this projection: six-month annualized core

CHART 1
COMMON WEALTH
(y/y % chng)



Source: * CREA (sales weighted) ** RP Data-Rismark

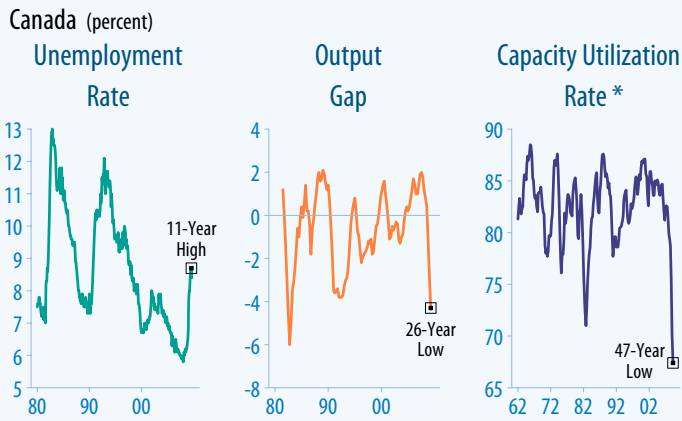
CHART 2
CORE BORES LOWER
Canada (% chng)



inflation is 1.4%, and it's just 1.1% over the past three months. Keeping a lid on inflation pressures is the combination of economic slack and a lofty loonie.

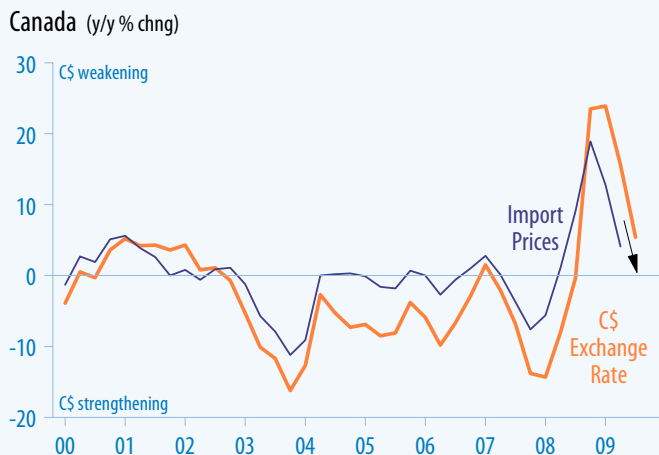
Although the unemployment rate has not risen into the double-digit territory of past recessions (*Chart 3*), the slack labour market is exerting downward pressure on wage inflation. The economy-wide capacity utilization rate decreased to 67.4% in Q2, the lowest level on record. These two metrics are incorporated into the Bank's overall assessment of economic slack: the output gap. It's currently estimated at -4.3%, the worst reading since the severe recession in the early 1980s. The last time Canada had this much economic slack, core inflation decelerated sharply to just one-quarter its peak pace. This is not to say we're on track for sub-1% core CPI readings; Canada's inflation dynamics have changed profoundly since the 1980s (e.g., better-anchored inflation expectations). But, it does emphasize the power of economic slack in dampening inflation pressures. (For the record, we judge GDP growth will fall short of the Bank's projection, implying a larger and longer-lasting output gap.)

CHART 3
MIND THE GAP



* pre-1987 on an SIC basis

CHART 4
DOWN IN LOONIE'S FEATHERS



The Canadian dollar is strengthening in the wake of generalized U.S. dollar weakness and rebounding commodity prices, applying downward pressure on import prices (*Chart 4*). With imports accounting for around one-third of the total spending, this applies downward pressure on core inflation. And, an additional dynamic appears to kick in when the currency starts getting close to parity. As we saw during 2007, parity facilitates Canada-U.S. price level comparisons, prods cross-border shopping and forces downward domestic retail price adjustments. Although the massive downward pressure on core inflation displayed during late 2007 might not be repeated (*Chart 2 again*), the approach to parity should still have a noticeable impact. Additionally, with some food prices part of the core CPI, recently-reported grocery price wars should augment the damper. Finally, since the Bank has traditionally employed the loonie's recent trading range in preparing its inflation projection, this all points to the potential for below-projection performance during the months ahead (we're calling for a 1.2% trough by Q2).

With respect to the market's angst over asset prices, the Bank of Canada traditionally waits for income and wealth effects to feed through to spending pressures before any policy response. Given that these effects emerge with a lag, and there already exists sufficient economic slack to absorb initial spending pressures, the Bank probably doesn't share the market's asset price angst, at least at this stage. Indeed, the Bank admits that it's difficult to discern how much of the

rebound in home resale volumes and prices is owing to unleashed pent-up demand that is temporary. The fact that the sharp rebound in existing home prices is not mirrored in household credit growth or lagged by new home prices argues against premature policy action (*Chart 5*). And, lest we forget, the increase in equity prices is partly mirroring the rebound in commodity prices, and some of the associated income and wealth effects are already being offset by appreciation in the Canadian dollar.

Nevertheless, given the unprecedented degree of monetary ease, the Bank of Canada is unlikely to wait indefinitely for signs of spending pressures before reacting to escalating asset prices, if only to mitigate the risk of bubbles forming. In his recent Jackson Hole speech, BoC Governor Carney argued, from a purely theoretical perspective, that financial stability should be a monetary policy objective alongside price stability. This is not the Bank's current focus, but it does highlight that asset prices will probably have a greater policy influence than they've had in the past. Federal Reserve Governor Warsh sang a similar tune in a recent Wall Street Journal op-ed.

As such, once the commitment period passes, we look for the Bank to begin the policy rate renormalization process (7/20), even though inflation prospects and a lofty loonie will probably provide strong arguments to postpone. Of course, to the extent currency gains are the Type II variety, i.e., are not associated with rising commodity prices, the Bank is more likely to listen to these arguments.

This also probably means that the Bank of Canada will be acting ahead of the Federal Reserve, which will, no doubt, push the Canadian dollar even stronger. While this would likely lead the Bank to hike rates more cautiously, the tightening cadence could ultimately be dictated by the performance of the BoC's Financial Conditions Index. The FCI measures the level of key financial variables relative to their historic norms; as the index rises, financial conditions are deemed to be more supportive of economic growth. The variables include short-term interest rates and the Canadian dollar (recall the old Monetary Conditions Index), along with long-term interest rates, credit spreads, bank lending standards, equity prices and new home prices. Already, the FCI stands at its highest level in its 10-year history (*Chart 6*), suggesting that the economy is finding relief from the lofty loonie in plenty of other areas.

Bottom line: The Bank of Canada will keep its policy rate at 0.25% until June 2010. However, come Canada Day, all rate hike bets are on.

CHART 5
HOUSING HOT, BUT NOT RED HOT

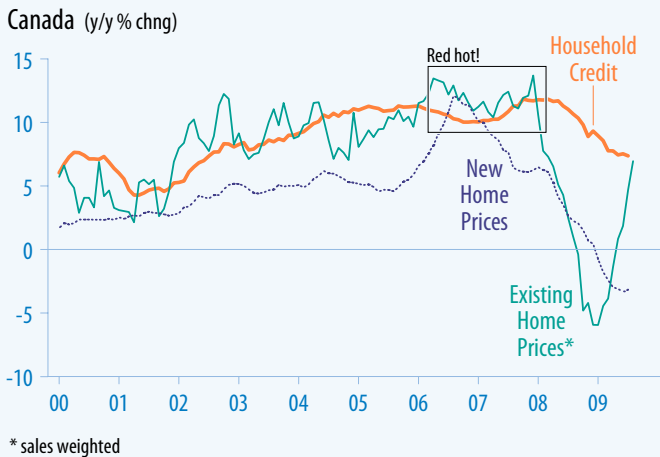
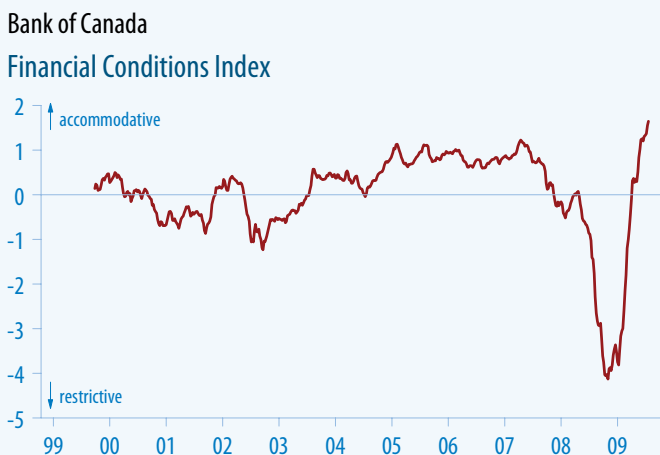


CHART 6
LOOSEY GOOSEY DESPITE LOFTY LOONIE



	2009				2010				ANNUAL		
CANADA	I	II	III	IV	I	II	III	IV	2008	2009	2010
Real GDP (q/q % chng : a.r.)	-6.1	-3.4	1.3	3.4	2.9	3.3	3.5	2.9	0.4	-2.4	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	8.6	8.8 ↓	8.9 ↓	8.7 ↓	8.5 ↓	8.3 ↓	6.1	8.3 ↓	8.6 ↓
Housing Starts (000s : a.r.)	140	128	149	149	147 ↑	148 ↑	150 ↑	155 ↑	211	141 ↑	150 ↑
Current Account Balance (\$blns : a.r.)	-30.9	-44.8	-54.1 ↓	-50.2 ↓	-50.4 ↓	-51.7 ↓	-52.9 ↓	-53.1 ↓	8.1	-45.0 ↓	-52.0 ↓
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	0.30	0.78	1.25	2.33	0.33	0.64
10-year Bond	2.89	3.20	3.42	3.30	3.43	3.54	3.65	3.76	3.61	3.20	3.60
Canada/U.S. Interest Rate Spreads											
(average for the quarter : bps)											
90-day	43	8	6	12	12	20	55	53	94	17	35
10-year	15	-11	-10	0	-7	-11	-15	-19	-6	-2	-13
UNITED STATES											
Real GDP (q/q % chng : a.r.)	-6.4	-0.7	3.8	2.7	2.3	2.5	2.7	2.9	0.4	-2.4	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	10.2	10.0	9.9	9.8	5.8	9.2	10.0
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	-409	-379	-375	-373	-369	-361	-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	0.10	0.10	0.10	0.23	0.73	1.39	0.16	0.29
10-year Note	2.74	3.31	3.52	3.31	3.50	3.65	3.80	3.95	3.67	3.22	3.73
EXCHANGE RATES											
(average for the quarter)											
US¢/C\$	80.3	85.6	91.1	94.3	96.5	98.4	100.3	100.3	94.3	87.8	98.9
C\$/US\$	1.245	1.168	1.097	1.061	1.037	1.017	0.997	0.997	1.067	1.143	1.012
¥/US\$	94	97	94	94	96	97	98	100	103	95	98
US\$/Euro	1.30	1.36	1.43	1.47	1.49	1.51	1.53	1.54	1.47	1.39	1.52
US\$/£	1.44	1.55	1.64	1.66	1.70	1.75	1.79	1.84	1.85	1.57	1.77

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

CANADA

Douglas Porter, CFA, Deputy Chief Economist

Existing Home Sales

Thursday am (expected)

		Average Prices
Sep. (e)	+16.0% y/y	+11.0% y/y
Aug.	+18.5% y/y	+11.3% y/y

Continuing its comeback-kid routine, Canada's housing market is expected to churn out yet another double-digit sales gain from year-ago levels in September, with an additional sizeable price advance. However, the gaudy increases from prior months are likely over, with sales probably again little-changed from August levels in seasonally adjusted terms. The yearly increase will again be led by a massive 125% leap in Vancouver sales, and by a 28% rise in Toronto. Elsewhere, the growth is a little more comprehensible, but still impressive. Keep an eye on the backlog of unsold homes; it crept up to a still-tight 5 months' supply in August.

Manufacturing Sales

Thursday, 8:30 am

		Mfg. New Orders
Aug. (e)	-2.0%	+1.0%
Consensus	+0.5%	n.a.
July	+5.5%	-3.7%

After one of the strongest monthly gains on record in July, we look for manufacturing sales to retreat by 2% in August. While U.S. industrial production managed to grind out a second solid advance in the month, and industrial prices were up, early indications suggest that auto production took another step back—and that's despite the much ballyhooed cash-for-clunkers jump in U.S. auto sales in that month. Most of those sales came out of inventories, and had little immediate impact on output. The expected drop in factory sales will set the stage for another soggy GDP report, suggesting that overall growth will struggle to even hit 1% in Q3.

Consumer Prices

Friday, 7:00 am

	m/m (nsa)	y/y
Sep. (e)	-0.1% (unch sa)	-1.0%
Consensus	unch	-0.9%
Aug.	unch	-0.8%
Core CPI		
Sep. (e)	+1.4% y/y	
Consensus	+1.4% y/y	
Aug.	+1.6% y/y	

Canadian inflation will remain at a very low ebb in September, with prices expected to dip 0.1%, pulling the annual inflation rate down to -1.0%. If correct, that would mark a new low on Canadian headline inflation since the 1950s, with another pullback in gasoline prices the primary driver. However, it's probably all uphill from here. A series of hefty declines in pump prices a year ago are about to drop out of the calculation, which will quickly drive the inflation rate back into positive terrain in the next three months. The core story is much more docile (which is why policymakers focus on core), where underlying prices are expected to nudge up 0.1% in September. However, that will be tame enough to trim the annual inflation rate to 1.4% y/y, the lowest reading since early 2008. Core inflation was handed a rude upward jolt late last year by the sudden swan dive in the loonie, which boosted many imported prices. With the loonie ascendant again, the underlying economy still soft, and grocery price wars erupting, look for core inflation to fade further in the months ahead, even as the gasoline-soaked headline heads the other way.

UNITED STATES

Sal Guatieri, Senior Economist

Retail Sales

Wednesday, 8:30 am

		Ex. Autos
Sep. (e)	-1.8%	+0.1%
Consensus	-2.1%	+0.2%
Aug.	+2.7%	+1.1%

A 35% plunge in unit auto sales to below pre-clunker levels will leave big tire marks on September retail sales, reversing more than half of the prior month's 2.7% gain. However, chain-store receipts rose modestly, so despite a pullback in gas prices the ex-autos figure should eke out a gain after a solid 1.1% advance in August. The report should show that, looking beyond the boom-bust auto figures, consumers are slowly forging ahead. Real consumer spending should rebound 3% annualized in Q3 after retrenching 0.9% in Q2, due mostly (though not wholly) to the clunkers program.

**Fed Policy Meeting Minutes
for September 22-23**

Wednesday, 2:00 pm

A few policymakers are crowing that policy must renormalize quickly once the Fed begins to tighten. But no one strongly objects to keeping rates low for an “*extended period*”, given the rocky recovery, massive slack, and view that “*inflation will remain subdued for some time*”. In September, the Fed pledged to complete its full purchase of \$1.25 trillion of agency MBS, while stretching out the purchases over a longer period to March. The minutes could indicate whether a few members balked at priming the monetary pump right into the New Year, when a sustained recovery might be established.

Consumer Price Index

Thursday, 8:30 am

Sep. (e)	unch	-1.5% y/y
Consensus	+0.2%	-1.4% y/y
Aug.	+0.4%	-1.5% y/y
	Ex. Food & Energy	
Sep. (e)	+0.1%	+1.4% y/y
Consensus	+0.1%	+1.4% y/y
Aug.	+0.1%	+1.4% y/y

Consumer prices were probably flat in September, as lower gasoline prices offset rising health care costs. The yearly rate should remain at -1.5%, after its steepest dive since 1950 in July. However, headline inflation will turn positive by November as the massive declines in energy prices late last year drop out of the picture. For the most part, consumer prices remain tame, with rents damped by rising vacancy rates and import prices curbed by global excess capacity. The core index should rise 0.1% for the third straight month, keeping the annual rate at a five-year low of 1.4% and below the Fed’s long-run “target” of 1.7% to 2.0%. The possibility that auto dealers cranked up incentives at the end of the clunkers program adds some downside risk.

Industrial Production

Friday, 9:15 am

		Capacity Utilization
Sep. (e)	+0.3%	69.8%
Consensus	+0.2%	69.8%
Aug.	+0.8%	69.6%

Industrial production is expected to expand for the third straight month in September, albeit modestly after zooming 0.8% in August. Auto production has ramped higher. Mining could also see a third straight gain in the wake of rising metal prices. A further increase in output of business equipment would signal a recovery in capex. The capacity utilization rate likely stayed at 69.6%, not far from June’s record-low of 68.3% and well below the long-run norm of 81%, meaning you could drive a bus through the output gap.

	OCT 9*	OCT 2	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	0.20	0.21	-1	0	-63
United States	0.06	0.09	-3	-8	-2
Japan	0.20	0.15	6	6	0
Eurozone	0.74	0.75	-1	-3	-215
United Kingdom	0.56	0.54	1	-7	-221
Australia	3.49	3.31	19	19	-136
Bond Markets					
2-year Bond					
Canada	1.66	1.19	47	46	57
United States	0.97	0.87	10	6	20
10-year Bond					
Canada	3.46	3.26	20	14	77
United States	3.33	3.22	10	-2	111
Japan	1.28	1.26	2	-3	11
Germany	3.20	3.12	8	-4	25
United Kingdom	3.45	3.44	1	-16	43
Australia	5.22	5.11	12	-5	123
Currencies					
				(% CHANGE)	
US\$/C\$	95.59	92.62	3.2	2.9	16.5
C\$/US\$	1.046	1.080	—	—	—
¥/US\$	89.51	89.81	-0.3	-1.3	-1.2
US\$/Euro	1.4756	1.4576	1.2	1.3	5.6
US\$/£	1.592	1.595	-0.2	-4.4	9.1
US\$/A\$	90.52	86.52	4.6	4.8	28.8
Commodities					
CRB Futures Index	263.47	252.87	4.2	4.9	14.8
Oil (generic contract)	71.79	69.95	2.6	3.6	61.0
Natural Gas (generic contract)	4.89	4.72	3.6	65.2	-13.0
Gold (spot price)	1048.85	1002.80	4.6	4.3	18.9
Equities					
S&P/TSX Composite	11483	10958	4.8	2.0	27.8
S&P 500	1067	1025	4.1	2.3	18.1
Nasdaq	2131	2048	4.1	2.4	35.1
Dow Jones Industrial	9812	9488	3.4	2.2	11.8
Nikkei	10016	9732	2.9	-4.1	13.1
Frankfurt DAX	5717	5468	4.5	1.6	18.8
London FT100	5156	4989	3.4	2.9	16.3
France CAC40	3800	3650	4.1	1.7	18.1
S&P ASX 200	4753	4602	3.3	3.4	27.7

* as of 10:30 am

CANADA

MONDAY OCTOBER 12

Thanksgiving Day
(markets closed)

TUESDAY OCTOBER 13

8:30 am New Housing Price Index
Aug. (e) **+0.2%** **-2.9% y/y**
July **+0.3%** **-3.2% y/y**

10:35 am 3, 6 & 12-month T-bill auction \$16.0 bln
(New cash -\$1.0 bln)

8:55 am Redbook
Oct. 10
Oct. 3 **+0.4%**
2:00 pm Budget Balance
Sep. '09 (e) -\$81.0 bln
Consensus **-\$80.7 bln**
Sep. '08 **\$45.7 bln**
5:00 pm ABC News/Washington Post Consumer Comfort Index
Oct. 11
Oct. 4 **-45**

1:00 pm 3 & 6-month T-bill auction \$60.0 bln
(New cash \$1.0 bln)

WEDNESDAY OCTOBER 14

8:30 am New Motor Vehicle Sales
Aug. (e) **-0.5%**
July **+5.3%**

8:30 am Retail Sales Ex. Autos
Sep. (e) -1.8% **+0.1%**
Consensus **-2.1%** **+0.2%**
Aug. **+2.7%** **+1.1%**
8:30 am Import Prices
Sep. (e) +0.3%
Consensus **+0.2%**
Aug. **+2.0%**
10:00 am Business Inventories
Aug. (e) -1.0%
Consensus **-0.9%**
July **-1.0%**

2:00 pm FOMC Minutes from September meeting

THURSDAY OCTOBER 15

8:30 am Mfg. Sales Mfg. New Orders
Aug. (e) -2.0% **+1.0%**
Consensus **+0.5%** **n.a.**
July **+5.5%** **-3.7%**
Existing Home Sales* Average Prices
Sep. (e) +16.0% y/y +11.0% y/y
Aug. **+18.5% y/y +11.3% y/y**

12:05 pm 30-year bond auction \$1.5 bln
(New cash \$1.5 bln)

8:30 am Initial Claims
Oct. 10 (e) 510,000 (-11,000)
Oct. 3 **521,000 (-33,000)**
8:30 am CPI
Sep. (e) unch -1.5% y/y
Consensus **+0.2%** **-1.4% y/y**
Aug. **+0.4%** **-1.5% y/y**
8:30 am CPI Ex. Food & Energy
Sep. (e) +0.1% +1.4% y/y
Consensus **+0.1%** **+1.4% y/y**
Aug. **+0.1%** **+1.4% y/y**
8:30 am Empire State Manufacturing Survey
Oct. (e) 17.0
Consensus **18.0**
Sep. **18.9**
10:00 am Philadelphia Fed Index
Oct. (e) 13.0
Consensus **12.0**
Sep. **14.1**
10:30 am DoE's Natural Gas Status Report (Oct. 9 week)

FRIDAY OCTOBER 16

7:00 am Consumer Price Index m/m (nsa) y/y
Sep. (e) -0.1% **-1.0%**
(unch sa)
Consensus **unch -0.9%**
Aug. **unch -0.8%**
7:00 am Core CPI
Sep. (e) +1.4% y/y
Consensus **+1.4% y/y**
Aug. **+1.6% y/y**

9:00 am Net TIC Flows
Total Long Term
Aug.
July **-\$97.5 bln \$15.3 bln**
9:15 am Industrial Capacity Production Utilization
Sep. (e) +0.3% **69.8%**
Consensus **+0.2%** **69.8%**
Aug. **+0.8%** **69.6%**
10:00 am Univ. of Michigan Consumer Sentiment
Oct. P (e) 74.0
Consensus **73.5**
Sep. **73.5**

UNITED STATES

Columbus Day
(stock markets open,
bond markets closed)

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