ECONOMIC RESEARCH
BMO Capital Markets

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focus

A Weekly Financial Digest

FEATURE ARTICLE, PAGE 6

Dispelling Some Fiscal Myths

- Global Equity Markets, Commodities Hammered—US$ Rallies
- European Sovereign Debt Worries Roil Markets
- U.S. Payrolls Down But Jobless Rate Falls
- Solid Gain for Canadian Employment
- RBA, BoE and ECB on Hold

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Our Thoughts

DOUGLAS PORTER

And it all started so promising in 2010… As if dealing with mounting sovereign risks wasn't challenging enough, markets were dealt a cold chill of concerns over the U.S. recovery this week, sending stocks, commodities and the euro to yet another weekly loss. Fortunately, the all-important U.S. employment report had just enough positive aspects to slightly soothe jangled investor nerves. True, January payrolls were mildly disappointing with a 20,000 setback, and December's loss deepened to 150,000, but the underlying trend is improving and hours worked are finally rising. As well, the competing (and volatile) household survey saw a 541,000 jobs rebound, carving the unemployment rate three ticks to 9.7%, and even more deeply into the broadest jobless measure (to 16.5% from 17.3%). Still, there's lots of wood to chop, as revisions have left U.S. payrolls down a massive 8.4 million (or 6.1%) since the recession began, and we're still counting.

The jobs report didn't settle the debate on the economy, with plenty of skirmishing on earlier reports for January. The manufacturing ISM was robust at 58.4 (and reflected in the first factory job gains in three years), while the non-manufacturing index managed to creep into expansion terrain. However, auto sales dipped back below 11 million units, with the setback not fully explained by the Toyota sag. But most disconcerting was yet another back-up in last week's initial jobless claims to match their highest level since mid-November. Claims are erratic, but this marked the fourth rise in five weeks, casting some serious doubt on the broader recovery. In this environment, investors fled risk trades anew after a short-lived spurt to start February. As of Friday morning, the S&P 500 was down 8% from its January 19 peak, the CRB was off 11% from its early year high ("led" by a 20% plunge in copper), and 10-year Treasury yields were down more than 25 bps over the same period.

Here's another curious little fact you can whip out at your Super Bowl party to surprise and impress your friends during the breaks (assuming your friends are impressed by economic data): Canadian employment is now down just 0.1% from a year ago. True, that's compared with dismal conditions last January, but note that U.S. payrolls are down a still-hefty 3.0% y/y. Canada's upturn is looking sturdier by the week, at least for domestic spending. Led by a meaty 43,000 rise in employment (albeit mostly part-timers) and a further dip in the jobless rate to 8.3%, Canadian data were solid this week. Consumer sentiment charged higher in January, home sales in most major cities continued to roll, building permits rebounded and auto sales were up 6% y/y (admittedly from weak levels).

Despite the upbeat domestic data, the Canadian dollar was brought down even closer to earth this week—at one point dipping below 93 cents—as the broad-based slide in commodities and a rejuvenated U.S. dollar weighed again. The currency has been clipped by nearly 5% in just the past three weeks, sidelining parity chatter for the time being. But note that the currency suffered a very similar hammering in late October amid another correction in stocks, and an even deeper slide during last July's setback, only to come roaring back even stronger than before. Looking ahead, if sovereign risk is the biggest concern for markets, the loonie stands to benefit from Canada's better fundamentals. The much bigger risk for the currency would be if the U.S. (and thus global) recovery seriously stumbles. We believe that while there are still very real risks, the evidence suggests that the recovery is still gaining traction.

MICHAEL GREGORY

New York Fed President William Dudley said in an interview this week that the time was right to end the Fed's mortgage purchase program (scheduled to wrap up next month), because the economy was growing again. And, because the Fed had telegraphed its intentions, a subsequent jump in mortgage rates was unlikely. But, Dudley said *"if mortgage rates were to back up a lot and if that had a big consequence for the economy, then we very well could rethink the issue about whether we wanted to buy more mortgages."* Assuming Dudley's comments reflect the FOMC consensus (and why wouldn't they, he is Vice Chairman of the FOMC and a permanent voter), it seems that there is a limit to how much the Fed is prepared to allow long-term mortgage rates to rise. This, in effect, provides some insurance for mortgage investors against major price declines. Welcome to the "Bernanke Put".

This conjures up memories of the so-called "Greenspan Put". Through the turn of the last century, many U.S. equity market investors believed that the Greenspan-led Fed had increased the weighting of equity prices in its monetary policy function, particularly after the 1998 financial crisis. As the Maestro's own musings shifted from "irrational exuberance" to "new paradigm", market players bet that they were afforded some protection against major price declines. This belief, of course, contributed to the subsequent tech bubble.

And, this might be the precise behaviour the Fed is attempting to prod… *don't be afraid to keep buying those agency MBS boys, because we've got your backs!* There will no doubt be some upward pressure on mortgage rates as the Fed ends its $1.25 trillion buying spree (MBS holdings were $970 billion on February 3rd, so there's another $280 billion to buy). It might only be minor pressure, but it could also be major pressure. A concern is that even a modest increase in mortgage rates could prove to be too onerous for the still-fledgling housing recovery, particularly in the wake of the April expiry of the expanded tax credit for home purchases. With bank credit continuing to contract, higher interest rates on any loan or of any tenor are unequivocally counterproductive. This then begs the question: Does the Bernanke Put apply to MBS only or, more broadly, to all Treasury securities? It's noteworthy that in his interview, Dudley also indicated that the Fed can be "quite patient" before raising rates (despite Hoenig's dissenting vote). Consider this: Should Treasury yields move up materially in anticipation of eventual Fed tightening, because of dysfunctional bank credit creation, the yield increases themselves could have the impact of extending the timing and clipping the magnitude of the very tightening being anticipated—a "put option" indeed. Ponti

SAL GUATIERI

Will U.S. companies lead the recovery? Recent signs are encouraging. After the deepest slump in half a century, business capital spending accelerated at the fastest rate in four years (13.3% a.r.) in Q4. Moreover, core capital goods orders rose at a double-digit rate the past two quarters, flagging further strength in capex ahead. The sparkling data are backed by positive comments on business spending from several tech giants (Intel, Microsoft and IBM) as well as Cisco, whose CEO credited a synchronized global recovery for spurring *"one of the most robust positive turnarounds I've seen in my career."*

Unlike households, American firms have the desire and ability to spend. Companies are eagerly buying productivity-enhancing technology—witness the 83% a.r. surge in computer demand in Q4 (the largest gain in a quarter century). Accordingly, productivity just reeled off its fastest three-quarter gain in four decades. While households remain income-constrained, businesses are enjoying soaring profits, thanks to galloping productivity and falling unit labour costs. Companies are also less debt-laden than households—they don't need to tighten their belts. Nonfinancial corporate debt has risen 71% in the past decade, household debt has ballooned 117%.

Although business spending should support the recovery this year, it is unlikely to lead growth. Apart from high-tech gear (accounting for 58% of capital expenditure), business spending remains subdued, partly because of massive spare capacity. In fact, demand for industrial equipment fell 3.6% in Q4, and, as noted by General Electric, the outlook remains cloudy with firms uncommitted to major expansion plans. In addition, total business capital spending accounts for just 7% of economic activity; so even if it grew at Q4's lofty rate, it would still add less than 1 ppt to growth. Moreover, companies continue to wring every last drop from productivity, relying on lean workforces to run new equipment. Until firms resume hiring, credit-constrained consumers (who account for a record 71% of GDP) will stay lethargic, and the recovery will remain on low simmer.


BENJAMIN REITZES

Fiscal worries remained front and centre in Europe this week. Faced with narrowing a 12.7% of GDP budget deficit to 3% by the end of 2012, Greece proposed drastic spending cuts, but is still dependent on some revenue growth over the period. The EU endorsed this plan, but Greece must follow through with its promises despite the inevitable fallout at home, before markets are convinced the situation is adequately resolved. In fact, Greece CDS spreads (a proxy for default risk) widened to a record high even after the proposal was accepted. Greece isn't the only concern in Europe, as Portugal and Spain are also challenged with fiscal gaps of 9.3% and 11.4% this past year. They, too, need to slash spending—always a tough sell—though more reliable statistical agencies make these two countries a little less worrisome than Greece. Market pressure will likely build until Portugal and Spain have a plan acceptable to the EU and show some progress.

CDS spreads hit a record high for Spain and Portugal this week, but remain well below Greece. Other than gaping budget deficits, the three countries have another significant common characteristic: they ran a current account deficit of at least 10% of GDP heading into the Great Recession. The deficit implies that overall spending outpaced income by a wide margin. As the downturn hit and private spending was curtailed, the government was forced to step in to avoid an even worse economic contraction. Private, and now public, spending was clearly unsustainable, and now we're seeing the consequences. These difficult situations will cause some consternation in markets, but they will almost certainly be resolved without any of the countries defaulting. The repercussions for the euro and the region would be extremely negative, which should keep default a remote possibility. However, the fiscal austerity necessary will keep Euro area growth subdued even as the global economy accelerates. BR

Jennifer Lee, Senior Economist

CANADA

- Good week for Canadian data…
- …but CAD and stocks hit by sovereign debt fears

GOOD NEWS		BAD NEWS
Employment +43,000 (Jan.) **Jobless Rate** -0.1 ppts to 8.3% (Jan.) **Average Hourly Earnings** +1.8% y/y (Jan.) **Conference Board's Consumer Confidence Index** +13.8 pts to 96.6 (Jan.)—a 23-month high **Auto Sales** +6.2% y/y (Jan.) **Building Permits** +2.4% (Dec.) **Ivey PMI** +2.4 pts to 50.8 (Jan.)	CANADA	**Conference Board's Business Confidence Index** -1.8 pts to 96.0 (Q4)
Jobless Rate -0.3 ppts to 9.7% (Jan.) **Average Hourly Earnings** +0.3% (Jan.) **Manufacturing ISM** +3.5 pts to 58.4; **Nonmanufacturing ISM** +0.7 pts to 50.5 (Jan.) **Pending Home Sales** +1.0% (Dec.) **Real Personal Spending** +0.1% (Dec.) **Senior Loan Officers' Survey** showed credit easing for the first time in nearly three years (Q1) **Nonfarm Productivity** +6.2% a.r. (Q4 P) **Unit Labour Costs** -4.4% a.r. (Q4 P) **Chain-Store Sales** +3.0% y/y (Jan.) **Factory Orders** +1.0% (Dec.)	U.S.	**Nonfarm Payrolls** -20,000 (Jan.) **Initial Claims** +8,000 to 480,000 (Jan. 30 wk) **Construction Spending** -1.2% (Dec.) **Redbook** -1.5% (Jan. 30 wk) **Homeownership Rate** -0.1 ppts to 67.3% (Q4) **Auto Sales** slowed to 10.8 mln a.r. (Jan.)
Eurozone—Manufacturing PMI revised up to 52.4; **Services PMI** bumped up to 52.5 (Jan.) **Eurozone—Producer Prices** +0.1% (Dec.)—modest **Germany—Retail Sales** +0.8% (Dec.) **France—Trade Deficit** narrowed to €4.3 bln (Dec.) **U.K.— Manufacturing PMI** +2.1 pts to 56.7 (Jan.) **U.K.—Nationwide Consumer Confidence** +3 pts to 73 (Jan.)	EUROPE	**Eurozone—Retail Sales** unch (Dec.) **Germany—Factory Orders** -2.3% (Dec.) **Germany—Industrial Production** -2.6% (Dec.) **U.K.— Services PMI** -2.3 pts to 54.5 (Jan.) **U.K.—Producer Prices** +0.4% (Jan.)
Building Approvals +2.2% (Dec.)	AUSTRALIA	**Retail Sales** -0.7% (Dec.) **House Prices** +5.2% (Q4) **Trade Deficit** widened to A$2.3 bln (Dec.)

UNITED STATES

- U.S. economic outlook still cloudy, but hopeful signs are emerging
- A number of "first time since…" developments… credit easing, factory jobs created

EUROPE

- ECB stays on hold, as expected
- BoE also remains on the sidelines; does not extend its APF
- Sovereign debt fears spread to Portugal

AUSTRALIA

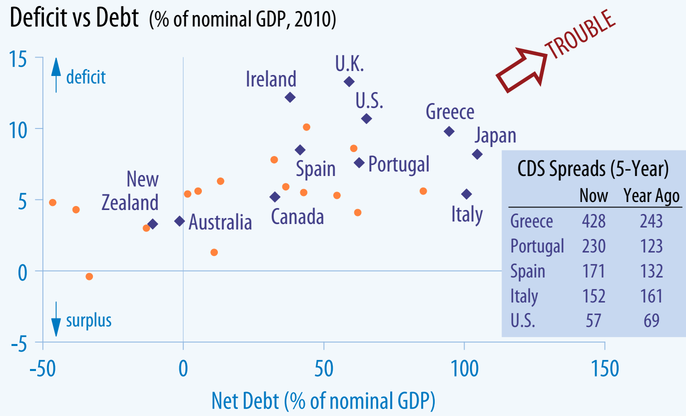
- RBA shocks by keeping rates steady

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

CHART 1

OECD FISCAL LANDSCAPE

Deficit vs Debt (% of nominal GDP, 2010)



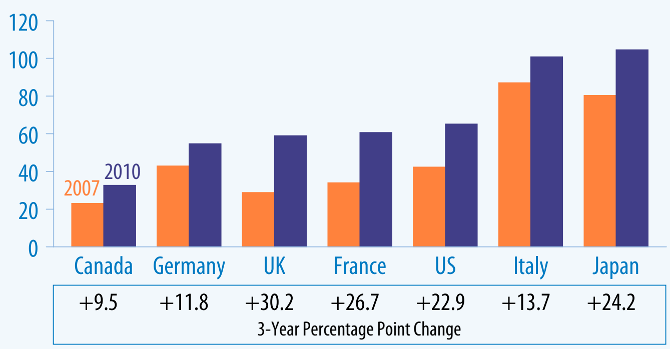
Dots represent countries in the OECD; except Norway, which has huge assets

CHART 2

CANADA'S FISCAL FITNESS

(% of GDP)

Net Government Debt



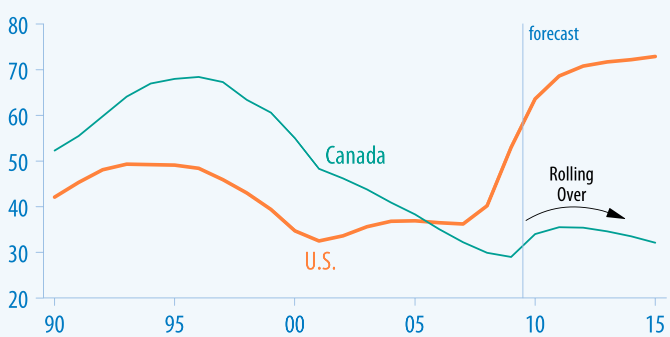
Source: OECD, December 2009 Economic Outlook

CHART 3

OTTAWA VERSUS WASHINGTON: CROSSOVER

(% of GDP)

Federal Government Debt



Sources: [U.S.] OMB; [Canada] Federal Budget Update

Dispelling Some Fiscal Myths

Douglas Porter and **Robert Kavcic**

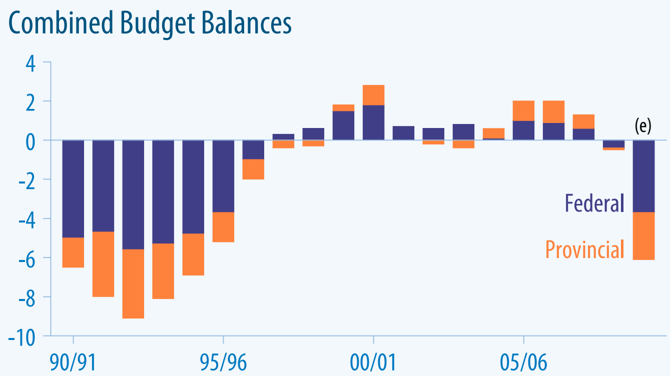
With sovereign credit concerns tearing through Europe like an out-of-control brush fire, analysts have divided into two solitudes on Canada's fiscal position. In one camp are those who fret that today's record budget deficits and the prospect of red ink lingering five years down the road could cast Canada back into a fiscal quagmire, just a few steps removed from Greece. The other camp appears to believe that our fiscal backdrop is so healthy that the biggest challenge will be dealing with an impending wave of capital inflows attracted by Canada's pristine fundamentals. Of course, the reality is somewhere in between.

Myth #1: Canada's finances are in need of urgent repair: The heightened sensitivity of global financial markets to sovereign risk has suddenly turned the spotlight from the weak economy to weak government finances. Canada has no doubt suffered some serious fiscal bruising in the downturn, but entered the recession in much better shape than most other major economies and will emerge much healthier (*Charts 1-3*). With the recovery still in its infancy, it is simply premature to focus on withdrawing the fiscal stimulus measures, particularly at the federal level.

Myth #2: Canada's finances are wildly superior: While Canada's fiscal position stands tall next to the weaklings in Europe, as well as Japan, the U.S. and Britain, it is by no means extraordinary (*Chart 1, again*). Many smaller European nations (and even Italy) are now running total government deficits similar in size to Canada, while Australia and New Zealand's gaps are smaller. In contrast to other OECD nations, Canada has significant budget shortfalls at the sub-national level, so focusing solely on Ottawa's relatively healthy finances can give a misleading impression of the overall position. Indeed, the provinces are projected to run a combined $38 bln deficit in FY09/10, widening the national shortfall to more than 6% of GDP versus 3.7% if the provinces are excluded (*Chart 4*).

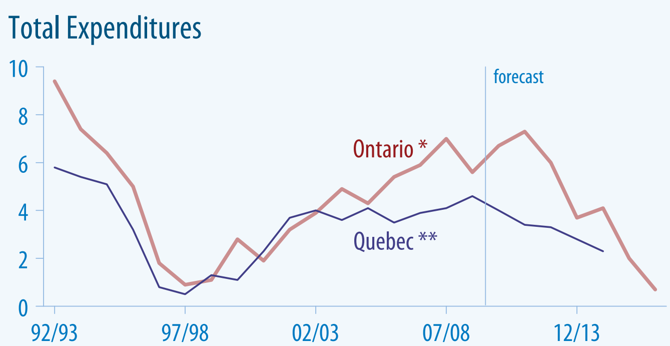
Righting the fiscal ship will be tough for some provinces, particularly in Central Canada. Ontario's deficit weighs in at a record 4.3% of GDP, while Quebec's eventual return to balance hinges on $5 bln of yet-to-be-found annual cost

CHART 4
THE PROVINCES COUNT
(% of GDP)



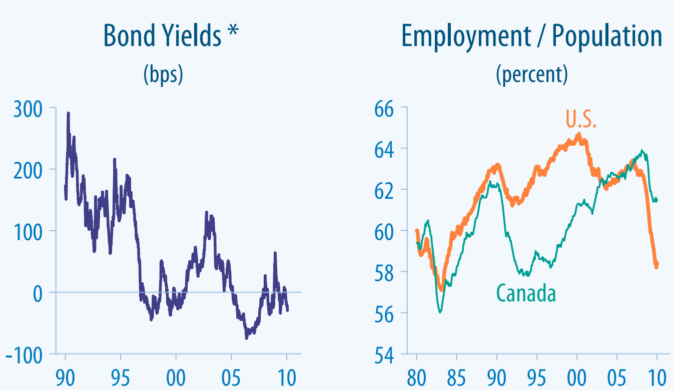
(e) = estimate

CHART 5
SPENDING RESTRAINT
(5-yr CAGR : %)



Source: Provincial Budgets
* Excludes $4 bln of auto-sector aid in FY2009/10
** Assumes "measures to be identified" taken out of spending (FY2010/11–13/14)

CHART 6
MIND THE GAP



* Canada-U.S. 10-year spread

savings, even after accounting for the one point increase in the provincial sales tax rate in 2011. These provinces also face a revenue challenge, given their greater reliance on personal and corporate income taxes, and expected mild economic recoveries. Short of new revenue measures, the burden will thus land on spending, a tall order given that combined spending in these provinces grew at more than 5% annually in the past five years (*Chart 5*). All else equal, spending restraint akin to the mid-1990s will be needed to repair public finances in Central Canada over the next five years.

Myth #3: Tax increases are inevitable: Some jurisdictions will opt to lean on revenues to rein in deficits in the years ahead. We already know that Quebec will raise its sales tax. However, it is not at all clear that tax hikes are required or necessary to repair Canadian government finances more broadly. The combination of even a moderate economic recovery and real program spending growth held to 3% over a five-year period (i.e. 0.6% per year) would bring Ottawa's budget deficit down to 1% of GDP by mid-decade.

Myth #4: The budget must be balanced for a clean bill of fiscal health: Part of the reason why we believe tax increases are not inevitable is that we question whether the medium-term deficit target of policymakers should be zero. The debate around the fiscal outlook often assumes prima facie that the budget must be balanced. However, given that Canada's debt/GDP ratio is still low in both an international and historical perspective, it's highly debatable that we "must" balance the budget. The debt/GDP ratio would begin to fall again in the years ahead if Ottawa's budget deficit were to drop to around 1% of GDP or less. To some extent, investors are already giving Canada a relatively clean bill of fiscal health through the bond market (*Chart 6*): Canada/U.S. 10-year spreads are back into the red, despite the fact that Canada's economy has held up better (at least gauged by jobs) and the Bank of Canada is likely to start hiking rates ahead of the Fed.

Bottom Line: Ensuring that the economic recovery fully takes root should be policymakers' number one priority in the coming budget season, with the possible exception of Ontario and Quebec. However, looking beyond this year, the emphasis will (appropriately) shift to restraint, and the first order of business should be to reverse some of the hefty spending increases seen over the past year.

	2009				2010				ANNUAL		
CANADA	I	II	III	IV	I	II	III	IV	2008	2009	2010
Real GDP (q/q % chng : a.r.)	-6.2	-3.1	0.4	4.0	3.0	3.4	3.5	2.9	0.4	-2.5	2.6
Consumer Price Index (y/y % chng)	1.2	0.1	-0.9	0.8	1.3	1.6	2.1	1.6	2.4	0.3	1.6
Unemployment Rate (%)	7.8	8.4	8.5	8.4	8.3 ↓	8.3 ↓	8.2	8.1	6.1	8.3	8.2 ↓
Housing Starts (000s : a.r.)	139	131	150	171	173	181	170	176	213	148	175
Current Account Balance ($blns : a.r.)	-31.1	-47.7	-52.5	-44.8	-46.7	-46.8	-47.2	-47.1	8.1	-44.0	-47.0
Interest Rates (average for the quarter : %)											
Overnight Rate	0.83	0.25	0.25	0.25	0.25	0.25	0.58	1.08	2.96	0.40	0.54
3-month Treasury Bill	0.64	0.25	0.22	0.21	0.16	0.25	0.77	1.25	2.33	0.33	0.61
10-year Bond	2.89	3.20	3.42	3.41	3.40 ↓	3.47 ↓	3.61	3.72 ↓	3.61	3.23	3.55 ↓
Canada/U.S. Interest Rate Spreads (average for the quarter : bps)											
90-day	43	8	6	15	9 ↓	17 ↓	57 ↓	54 ↓	94	18	34 ↓
10-year	15	-11	-10	-5	-27 ↓	-29 ↓	-30 ↓	-33 ↓	-6	-3	-30 ↓
UNITED STATES											
Real GDP (q/q % chng : a.r.)	-6.4	-0.7	2.2	5.7	3.0	2.2	2.3	2.7	0.4	-2.4	2.9
Consumer Price Index (y/y % chng)	-0.2	-0.9	-1.6	1.5	2.6	2.8	2.3	1.9	3.8	-0.3	2.4
Unemployment Rate (%)	8.2	9.3	9.7	10.0	9.8 ↓	10.0 ↓	9.8 ↓	9.6 ↓	5.8	9.3	9.8 ↓
Housing Starts (mlns : a.r.)	0.53	0.54	0.59	0.55	0.60	0.64	0.69	0.76	0.90	0.55	0.67
Current Account Balance ($blns : a.r.)	-418	-392	-432	-480	-468	-467	-471	-474	-706	-430	-470
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	0.06	0.07	0.08	0.21	0.71	1.39	0.15	0.27
10-year Note	2.74	3.31	3.52	3.46	3.68	3.77	3.90 ↓	4.05 ↓	3.67	3.26	3.85 ↓
EXCHANGE RATES (average for the quarter)											
US¢/C$	80.3	85.6	91.1	94.7	95.7	97.6	100.1	100.3	94.3	88.0	98.4
C$/US$	1.245	1.168	1.097	1.056	1.045	1.024	0.999	0.997	1.067	1.141	1.016
¥/US$	94	97	94	90	91	92	96	99	103	94	94
US$/Euro	1.30	1.36	1.43	1.48	1.41	1.43	1.46	1.49	1.47	1.39	1.45
US$/£	1.44	1.55	1.64	1.63	1.62 ↓	1.66 ↓	1.70 ↓	1.74	1.85	1.57	1.68 ↓

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

CANADA

Michael Gregory, Senior Economist

Housing Starts

Monday, 8:15 am

Jan. (e)	**182,000 a.r. (+2.4%)**	
Consensus	*180,000 a.r. (+1.2%)*	
Dec.	177,800 a.r. (+5.8%)	

New Housing Price Index

Thursday, 8:30 am

Dec. (e)	**+0.4%**	**-0.9% y/y**
Consensus	*+0.3%*	*-1.0% y/y*
Nov.	+0.4%	-1.4% y/y

Housing starts probably rose 2.4% to 182,000 units (annualized) in January, as the recent surge in building permits kept the backhoes digging and cement mixers pouring. The value of residential permits dipped 0.1% in December, but this followed a huge 85% surge since the spring. Construction activity has picked up (but with a bit of a lag) as home sales rocketed from their Jan-09 lows. Sales of existing homes, for example, ended last year up 76% from their crisis trough. Last month's sales figures are starting to filter in and appear to have remained vibrant, buoyed by low borrowing costs along with improving employment prospects and consumer confidence. The rebound in demand, particularly in the resale segment, has pushed home price inflation back solidly into double-digit territory. As for newly constructed homes, prices likely increased for the sixth consecutive month in December (+0.4% m/m), but they will still remain 0.9% below year-ago levels. At the current pace, a shift into positive space is probable within a month or two.

Merchandise Trade Balance

Wednesday, 8:30 am

Dec. (e)	**+$0.6 bln**
Consensus	*-$0.2 bln*
Nov.	-$0.3 bln

Higher natural gas prices (along with other commodities) should provide some lift for the merchandise trade balance in December, with additional gains driven by the automotive sector. We look for a $0.6 billion surplus, which will be a nine-month high, following November's $0.3 billion deficit. But sturdy domestic spending continues to suck in a boatload (and truckload, and trainload, and planeload) of imports which will constrain further gains in the trade balance. Indeed, while net exports in December and Q4 as a whole will likely contribute a bit to economic growth, the combination of strong domestic demand, sluggish U.S. sales and a lofty loonie seems destined to return net exports to an economic drag, despite an expected moderate rise in commodity prices.

UNITED STATES

Sal Guatieri, Senior Economist

Goods & Services Trade Deficit

Wednesday, 8:30 am

Dec. (e)	**$34.0 bln**
Consensus	*$35.0 bln*
Nov.	$36.4 bln

The U.S. trade deficit likely narrowed from a 10-month high of $36.4 billion in November to $34 billion in December. Exports should climb for an eighth straight month, supported by firmer global demand, a weaker dollar and higher Boeing aircraft shipments. Imports likely advanced for the fourth month in a row, albeit at a slower rate than exports amid sluggish consumer spending and slipping oil prices. After adding a half percentage point to Q4 GDP growth, trade should provide further modest support to the economy this year.

Retail Sales

Thursday, 8:30 am

		Ex. Autos
Jan. (e)	**+0.3%**	**+0.4%**
Consensus	*+0.4%*	+0.4%
Dec.	-0.3%	-0.2%

A 4% pullback in unit auto sales (more than half of which stemmed from Toyota's recall) and sluggish chain-store sales (+0.4% m/m) suggest consumer spending remained listless in the New Year. Retail sales likely rose a moderate 0.3% in January, while sales excluding autos should be a bit firmer. Consumer spending in Q1 will likely match the prior quarter's modest 2% annualized gain. This is probably the best we can hope for considering the triple-whammy of high unemployment, crushing debts and tight credit.

	FEB 5 *	JAN 29	CHANGE FROM: (BASIS POINTS) WEEK AGO	4 WEEKS AGO	DEC. 31/09
Canadian Money Market					
Call Money	0.25	0.25	0	0	0
Prime Rate	2.25	2.25	0	0	0
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	0.16	0.16	0	-2	-3
United States	0.08	0.07	2	4	4
Japan	0.20	0.12	9	8	8
Eurozone	0.66	0.67	0	-3	-4
United Kingdom	0.62	0.62	0	1	1
Australia	4.02	4.13	-11	-3	0
Bond Markets					
2-year Bond					
Canada	1.27	1.19	9	-4	-20
United States	0.76	0.82	-6	-22	-38
10-year Bond					
Canada	3.37	3.35	2	-23	-24
United States	3.58	3.59	-1	-26	-26
Japan	1.36	1.33	4	0	7
Germany	3.12	3.20	-8	-27	-27
United Kingdom	3.86	3.91	-5	-20	-16
Australia	5.39	5.38	1	-29	-25
Risk Indicators					
VIX	26.2	24.6	1.6 pts	8.0 pts	4.5 pts
TED Spread	17	18	-1	-5	-4
Inv. Grade CDS Spread **	100	97	3	22	14
High Yield CDS Spread **	580	581	-1	96	63
Currencies				(% CHANGE)	
US¢/C$	93.47	93.42	0.1	-3.7	-1.6
C$/US$	1.070	1.070	—	—	—
¥/US$	89.19	90.27	-1.2	-3.7	-4.1
US$/Euro	1.3673	1.3863	-1.4	-5.1	-4.5
US$/£	1.563	1.599	-2.2	-2.5	-3.3
US¢/A$	86.48	88.38	-2.1	-6.5	-3.7
Commodities					
CRB Futures Index	262.55	265.59	-1.1	-9.7	-7.4
Oil (generic contract)	72.81	72.89	-0.1	-12.0	-8.3
Natural Gas (generic contract)	5.56	5.13	8.4	-3.3	-0.2
Gold (spot price)	1059.60	1080.85	-2.0	-6.9	-3.4
Equities					
S&P/TSX Composite	11036	11094	-0.5	-7.7	-6.0
S&P 500	1059	1074	-1.4	-7.5	-5.0
Nasdaq	2120	2147	-1.3	-8.5	-6.6
Dow Jones Industrial	9977	10067	-0.9	-6.0	-4.3
Nikkei	10057	10198	-1.4	-6.9	-4.6
Frankfurt DAX	5457	5609	-2.7	-9.6	-8.4
London FT100	5047	5189	-2.7	-8.8	-6.8
France CAC40	3586	3739	-4.1	-11.3	-8.9
S&P ASX 200	4514	4570	-1.2	-8.1	-7.3

* as of 10:30 am   ** One day delay

ECONOMIC RESEARCH

FEBRUARY 8 – FEBRUARY 12 — Global Calendar

MONDAY FEBRUARY 8

JAPAN

Current Account Surplus

Dec. '09 (e)	**¥1.0 trln**	
Dec. '08	¥0.2 trln	

Trade Balance

Dec. '09 (e)	**+¥0.7 trln**	
Dec. '08	-¥0.2 trln	

Bank Lending

Jan.		
Dec.	-1.2% y/y	

OTHER

China: Lunar New Year (Markets Closed All Week)

TUESDAY FEBRUARY 9

JAPAN

Machine Tool Orders

Jan. P		
Dec.	+63.4% y/y	

EUROZONE

GERMANY

Trade Surplus

Dec. (e)	**€15.0 bln**	
Nov.	€17.4 bln	

Consumer Price Index

Jan. F (e)	**-0.7%**	**+0.7% y/y**
Dec.	+0.9%	+0.8% y/y

U.K.

RICS House Price Balance

Jan. (e)	**27**	
Dec.	30	

	Trade Deficit	Non-EU
Dec. (e)	**£6.7 bln**	**£3.1 bln**
Nov.	£6.8 bln	£3.0 bln

OTHER

MEXICO

	CPI	Core CPI
Jan. (e)	**+1.0%**	**+0.6%**
Dec.	+0.4%	+0.5%

WEDNESDAY FEBRUARY 10

JAPAN

Machine Orders

Dec. (e)	**+8.0%**	**-10.8% y/y**
Nov.	-11.3%	-20.5% y/y

Corporate Goods Prices

Jan. (e)	**+0.1%**	**-2.3% y/y**
Dec.	+0.1%	-3.9% y/y

EUROZONE

FRANCE

Industrial Production

Dec. (e)	**+0.5%**	**-1.6% y/y**
Nov.	+1.1%	-3.8% y/y

Manufacturing Production

Dec. (e)	**+0.2%**	**-0.8% y/y**
Nov.	+1.6%	-2.9% y/y

ITALY

Industrial Production

Dec. (e)	**+0.1%**	**-4.6% y/y**
Nov.	+0.2%	-7.9% y/y

U.K.

Industrial Production

Dec. (e)	**+0.2%**	**-4.1% y/y**
Nov.	+0.4%	-6.0% y/y

Manufacturing Production

Dec. (e)	**+0.3%**	**-3.0% y/y**
Nov.	unch	-5.4% y/y

Bank of England Quarterly Inflation Report

OTHER

AUSTRALIA

Westpac Consumer Confidence

Feb.		
Jan.	+5.6%	

MEXICO

Trade Deficit

Dec. F (e)	**$248 mln**	
Nov.	$195 mln	

THURSDAY FEBRUARY 11

EUROZONE

ECB Monthly Report

OTHER

AUSTRALIA

Employment

Jan. (e)	**+15,000**	
Dec.	+35,200	

Jobless Rate

Jan. (e)	**5.6%**	
Dec.	5.5%	

MEXICO

Industrial Production

Dec. (e)	**+1.0% y/y**	
Nov.	-1.0% y/y	

FRIDAY FEBRUARY 12

JAPAN

Consumer Confidence

Jan.		
Dec.	37.9	

EUROZONE

EUROZONE

Real GDP

Q4 A (e)	**+0.3%**	**-1.9% y/y**
Q3	+0.4%	-4.0% y/y

Industrial Production

Dec. (e)	**+0.1%**	**-1.7% y/y**
Nov.	+1.0%	-7.1% y/y

GERMANY

Real GDP

Q4 P (e)	**+0.2%**	**-2.2% y/y**
Q3	+0.7%	-4.8% y/y

FRANCE

Real GDP

Q4 P (e)	**+0.5%**	**-0.3% y/y**
Q3	+0.3%	-2.3% y/y

ITALY

Real GDP

Q4 P (e)	**+0.1%**	**-2.6% y/y**
Q3	+0.6%	-4.6% y/y

* date approximate

ECONOMIC RESEARCH

FEBRUARY 8 – FEBRUARY 12 North American Calendar

	MONDAY **FEBRUARY 8**	TUESDAY **FEBRUARY 9**	WEDNESDAY **FEBRUARY 10**	THURSDAY **FEBRUARY 11**	FRIDAY **FEBRUARY 12**
CANADA	**8:15 am Housing Starts** **Jan. (e) 182,000 a.r. (+2.4%)** *Consensus 180,000 a.r. (+1.2%)* Dec. 177,800 a.r. (+5.8%) **12:15 pm BoC Deputy Governor Duguay speaks in Lévis, Quebec**	**5:00 pm Alberta Budget**	**8:30 am Merchandise Trade Balance** **Dec. (e) +$0.6 bln** *Consensus -$0.2 bln* Nov. -$0.3 bln **12:05 pm 3-year bond auction $3.2 bln** (New cash $3.2 bln)	**8:30 am New Housing Price Index** **Dec. (e) +0.4% -0.9% y/y** *Consensus +0.3% -1.0% y/y* Nov. +0.4% -1.4% y/y 30-year bond auction announcement	**8:30 am New Motor Vehicle Sales** **Dec. (e) +2.0%** Nov. -6.0%
UNITED STATES	**1:00 pm 3 & 6-month T-bill auction $51.0 bln** (New cash -$9.0 bln) **TAF auction**	**8:55 am Redbook** **Feb. 6** Jan. 30 -1.5% **10:00 am Wholesale Inventories** **Dec. (e) +0.2%** *Consensus +0.5%* Nov. +1.5% **5:00 pm ABC News/Washington Post Consumer Comfort Index** **Feb. 7** Jan. 31 -49 **1:00 pm 3-year note auction $40.0 bln** **1:00 pm 1-year T-bill auction $26.0 bln**	**8:30 am Goods & Services Trade Deficit** **Dec. (e) $34.0 bln** *Consensus $35.0 bln* Nov. $36.4 bln **10:00 am Fed Chairman Bernanke testifies to the House Financial Services Committee** **10:30 am DoE's Petroleum Status Report (Feb. 5 week)** **2:00 pm Budget Deficit** **Jan. '10 (e) $60.0 bln **** Jan. '09 $63.5 bln **1:00 pm 10-year note auction $25.0 bln**	**8:30 am Initial Claims** **Feb. 6 (e) 460,000 (-20,000)** Jan. 30 480,000 (+8,000) **8:30 am Retail Sales / Ex. Autos** **Jan. (e) +0.3% +0.4%** *Consensus +0.4% +0.4%* Dec. -0.3% -0.2% **10:00 am Business Inventories** **Dec. (e) +0.1%** Nov. +0.4% **10:30 am DoE's Natural Gas Status Report (Feb. 5 week)** **1:00 pm 30-year bond auction $16.0 bln**	**10:00 am Univ. of Michigan Consumer Sentiment** **Feb. P (e) 75.0** *Consensus 75.0* Jan. 74.4