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The Daily
Market Moving Issues

July 8, 2009
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Market Shrugs Off Upgrade

Despite a dearth of data today, there was still a reasonable amount of price action in financial markets. The focus today centered around the IMF's upwardly revised global forecast which was released today. Initially, equity markets were encouraged by this upgrade, but very quickly unwound those gains, and the downturn quickly gathered force sending the S&P to its lowest level in two months. Both Canadian and U.S. bonds rallied through the day. In the U.S., strong appetite for the 10-yr auction underpinned some downside pressure on yields, as it indicated that even with more supply, demand for U.S. debt remains robust. In Canada, a very successful 3-yr auction helped appetite at the short end. In addition, as the market seemed to revisit the theme of risk, the U.S dollar saw further firmness and in conjunction with oil prices falling further to just over $60/bbl, the Canadian dollar remained under pressure.

Global issues were on the radar today, as the G8 kicked off its meeting. In addition, the IMF released updated forecasts today, which included a modest downgrade of the global GDP forecast for 2009, but a 0.6 ppt upgrade for global GDP for 2010. The IMF noted that "the world is stabilizing, helped by unprecedented macroeconomic and financial policy support." And while global growth was disappointing in the first quarter, "high frequency data point to a return to modest growth at the global level."

The IMF did not revise the outlook for the U.S. for 2009 but boosted its 2010 projection by 0.6 ppt to 0.6%. The GDP projections for Canada were revised 0.2 ppt higher to -2.3% in 2009 and 0.4ppt higher to 1.6% in 2010. These upward revisions are encouraging, but definitely do not suggest a wholesale change in the broad contours of the recovery. It is still likely to be a pretty shallow recovery by historical standards.

The only data released in the U.S. was very much second tier in nature. The mortgage bankers association reported that mortgage applications were up 10.9% for the week of July 2. This is a partial reversal of the prior week's 18.9% slump, and refinancing's were also higher for the week as well. In terms of actual applications, this is only the second weekly gain in seven weeks, which makes it clear that potential homeowners are still shying away from possibly purchasing a house.

In addition, U.S. consumer credit contracted by $3.2 billion to $2.5 trillion in May. This result was better than consensus expectations and comes on the back of a $16.5 billion contraction in consumer credit in April. The pace of decline in non-revolving credit eased as it fell 3.7% to $928 billion. But while the pace of contraction in consumer credit materially eased in May, it is still down 1.8% Y/Y and until there is a convincing turnaround in consumers' access to credit, consumers are unlikely to be the engine of economic growth that they generally are.

Finally, Chicago Fed President Evans spoke today on the economic outlook and though his comments were largely in line with recent Fed rhetoric. He said that policy is likely to be accommodative for "a considerable time", which certainly comes as no surprise. However, he did acknowledge that a "significant portion of our balance sheet may not shrink on its own or at the appropriate rate." This suggests a degree of management, but details beyond that were not alluded to.

Tomorrow's calendar heats up with the weekly jobless claims data for the U.S., as well as Canadian housing starts for June. We are a bit more optimistic than the market for housing starts and look for a print of 135K. The rise in construction activity is likely to be spread between single family and multi family units. But as the labour market remains weak, and stifled credit markets keep financing unattractive, any gains seen in the near term could easily unwind.

Fed Governor Duke speaks at 9am tomorrow.

DEBT MARKETS

	LAST	NET CHANGE (BPS)
CDA 3MO	0.25	2.13
CDA 2YR	1.16	-0.30
CDA 10YR	3.26	-6.70
CDA 30YR	3.83	-2.90
US 2YR	0.90	-6.41
US 10YR	3.29	-16.14
US 30YR	4.18	-13.35
JPN 10YR	1.30	-2.00
EURO 10YR	3.28	-4.10
AUS 10YR	5.31	-15.60
NZ 10YR	5.64	-6.10
CDA 90 BA	0.44	0.00
US 90 EURFT	0.54	4.00
AUS 90DAY	3.12	-2.00

FOREX

	LAST	% CHANGE
EUR/USD	1.3874	-0.36
USD/JPY	92.6900	-2.32
USD/CAD	1.1679	0.12
GBP/USD	1.6051	-0.55
AUD/USD	0.7770	-1.53
NZD/USD	0.6253	-1.53

COMMODITIES

	LAST	NET CHANGE	% CHANGE
CRB	231.21	-5.34	-1.49
OIL	60.07	-2.86	-4.54
GOLD	909.07	-15.61	-1.69
COPPER	2.24	0.00	0.40

EQUITIES

	LAST	NET CHANGE	% CHANGE
S&P500	879.56	-1.47	-0.17
DOW	8178.41	14.81	0.18
NASDAQ	1747.17	1.00	0.06
S&P/TSX	9659.11	-185.24	-1.88
FTSE100	4140.23	-46.77	-1.12
DAX	4572.65	-25.54	-0.56
NIKKEI	9420.75	-227.04	-2.35
S&P/ASX200	3767.90	1.00	0.03

Data as of 4:10 PM July 08, 2009

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