CAPITAL MARKETS RESEARCH

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Daily Points

— Tracking the Numbers

On Deck for Tuesday, May 3

Country	Date	Time	Event	Period	BNS	Consensus	Latest
US	05/03	10:00	Factory Orders (MoM)	MAR	1.8	2.0	-0.1
US	05/03	17:00	Total Vehicle Sales (millions)	APR	12.8	13.0	13.1

KEY POINTS:

- Markets totally shrug off CDN election due to bigger concerns
- No Bin Laden rally after all
- RBI hikes 50bps
- UK manufacturing slows despite strong exports
- RBA continues pause
- Sweden's Riksbank strikes a more dovish tone
- US factory orders should rebound after an unexpected decline in February
- US vehicle sales stalling out on higher gasoline prices
- US Fed to purchase US$6-8 billion in notes

CANADA

If there was an election effect in overnight Asian and London trading, then it disappeared in a hurry. CAD had strengthened at first while the late evening results increasingly pointed toward an opposition-stifling Conservative majority that discounts the significance of whomever sits on the other side. I went to bed fully expecting the rally to march further, only to awake to markets that had fully shaken off the effects and returned CAD to where it was pre-election results due to broadly based and renewed USD strength after a miserable slide lower. CDN 2s were little impacted, drifting only around 1bp lower, and 10s did likewise. If there is any election effect stemming from a Conservative majority, then so far it is tiny and nearly impossible to discern relative to a host of other more important factors. Theoretically, the results could be bullish by restoring certainty over corporate tax policy and the environment for foreign and domestic investment, enhancing fiscal stability compared to alternatives, and removing the Quebec separatist agenda entirely from Federal parliament. Then again, markets were fine with the checks and balances of minority governments, so the theoretical impact was always in doubt. But as we noted throughout the campaign, global markets have bigger issues to think about than the fourth Canadian election in seven years that might finally buy four years of peace and take Canada out of the league of Italy and Japan in terms of political instability across developed nations. Those issues include the reduced appetite for risk on waning US growth figures, how that translates into monetary policy as a symptom rather than a root cause of market turmoil, looming US fiscal worries in light of each of the debt ceiling, the approaching election year and rating agency warnings, ongoing European debt concerns. Whether or not this medley of factors is carving out a bottom in the USD after only one day's evidence is uncertain, but there are enough market participants concerned about the viability of the near-term risk trade to make it a risk not to be glossed over.

BoC Events

BoC Overnight Lending Rate
Current Rate: 1.0%
Next Move: May 31 @ 1.0%
Bias: Neutral

Fed Events

Fed Funds Target Rate
Current Rate: 0-0.25%
Next Move: June 22 @ 0-0.25%
Bias: Dovish

Today's Speeches:
Kansas City Fed President Hoenig (non-voting) speaks to community bankers in Washington (8:30am ET).

Key International Events

BoJ
Current Rate: 0.10%
Next Move: May 20 @ 0.10%
Bias: Dovish

BoE
Current Rate: 0.50%
Next Move: May 5 @ 0.50%
Bias: Dovish

ECB
Current Rate: 1.25%
Next Move: May 5 @ 1.25%
Bias: Dovish

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UNITED STATES
The Bin Laden effect disappeared from markets in a hurry including handing off to further erosion of the risk trade this morning. If anything, while a victory for the Obama administration, his death could add to geopolitical instability. It also does nothing to bigger debates like slowing growth, the impact of an oil shock, US and European fiscal policy concerns, and conventional monetary policy as opposed to sloppy thinking on unconventional policy.

US factory orders (10:00am ET) are set to rebound in March after an unexpected decline in February. A strong durable goods report released earlier in the month will likely be the main contributor, with further weakness in nondurable goods orders limiting the gain. Having said that, watch for revisions to past factory orders as well as the advanced durable goods orders as these could swing results substantially.

US vehicle sales will be disclosed over the afternoon at the company level, with the industry wide add-up available by 5pmET. Consensus is expecting a flat reading at 13 million in total sales. If that happens, then US auto sales will have essentially stalled out over the past three months compared to what had been an upward trajectory in place over the prior year. No doubt higher gasoline prices are playing a role as the DOE's average regular unleaded price hits US$3.88 a gallon compared to the 2008 peak of US$4.11, and up from the US$1.6 trough in late 2008.

The **US Fed** (11:00amET) will purchase US$6-8 billion notes/bonds.

INTERNATIONAL
The risk trade is slowly back peddling into the North American open, as European and Asian equities sell off, several key commodities including oil push lower, and the trade-weighted USD on a DXY basis is gaining strength. US bill yields continue to drift tightly along bottom due to a paucity of supply owing to the debt ceiling debate. Bearish overnight fundamentals and policy variables add to concerns over slowing global growth.

The **Reserve Bank of India** hiked its repo rate by 50bps, twice market expectations. Upside risks to inflation are motivating the tightening bias, as well as the introduction of price controls on fuels. This means there are two forms of tightening in place. One is the negative impact upon real wages in an economy that has a high proportion of total consumer spending devoted to basic commodities. Second is policy tightening that will only make the risks to Indian growth more material as it attempts to influence globally set sources of domestic inflation – likely with little success.

UK manufacturing weakened more than expected in April with the PMI manufacturing index falling to a 7-month low of 54.6, while the March report was revised down as well. New orders slowed sharply, with domestic weakness at the heart of it. Exports, on the other hand, continued to expand, supported by a weaker pound and further growth in emerging markets. Higher input costs remained as well although the pace of growth continued to ease after hitting a record peak in January. After a strong start following the recent recession, UK manufacturing is showing signs that it is flagging as consumer demand weakens, leaving export growth as its main support.

Minutes to the April 19th meeting of **Sweden's Riksbank** were generally in line with expectations but signaled a tone shift compared to past meetings. Gone is the dissenting talk of the need for 50bps moves. Erased is the reference to household debt growth that is now slowing. The minutes noted that "One important condition for not adjusting the repo-rate path upwards is that the currently high CPI inflation doesn't make a more significant impact on various agents' long-term inflation expectations and on wage formation." Thus far it is not. The Swedish Krona was one of the worst performers against the USD overnight, dropping 0.7%.

Fixed Income	Government Yield Curves (%):											
	2-YEAR			5-YEAR			10-YEAR			30-YEAR		
	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk
U.S.	0.60	0.61	0.61	196	197	2.01	3.27	3.28	3.31	4.38	4.38	4.39
CANADA	169	170	174	2.56	2.58	2.60	3.18	3.20	3.19	3.67	3.69	3.68
GERMANY	181	181	173	2.63	2.62	2.61	3.26	3.25	3.25	3.71	3.70	3.75
JAPAN	0.20	0.20	0.21	0.46	0.48	0.50	121	121	122	2.15	2.14	2.12
U.K.	103	110	115	2.12	2.20	2.27	3.44	3.48	3.58	4.17	4.19	4.30
	Foreign - U.S. Spreads (bps):											
CANADA	109	110	113	60	61	58	-9	-8	-12	-70	-69	-71
GERMANY	121	121	112	68	65	60	-1	-4	-6	-66	-68	-64
JAPAN	-40	-40	-40	-149	-149	-152	-206	-207	-209	-223	-224	-227
U.K.	43	49	55	16	23	26	17	20	27	-21	-19	-10

Equities			% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	13934.51	-10.28	-0.1	0.2	-1.4	14.2
Dow 30	12807.36	-3.18	-0.0	2.6	3.5	14.8
S&P 500	1361.22	-2.39	-0.2	1.9	2.2	13.2
Nasdaq	2864.08	-9.46	-0.3	1.4	2.7	14.6
DAX	6052.80	-17.10	-0.3	0.5	2.0	7.7
FTSE	7447.51	-80.13	-1.1	1.2	3.7	20.8
Nikkei	10004.20	154.46	1.6	3.3	3.0	-9.5
Hang Seng	23633.25	-87.56	-0.4	-2.1	-0.7	12.0
CAC	4071.16	-37.61	-0.9	0.6	0.4	6.3
Commodities			% change:			
WTI Crude	112.37	-1.15	-1.0	0.1	4.1	30.4
Natural Gas	4.68	-0.02	-0.4	6.6	7.2	16.9
Gold	1535.50	24.50	1.6	3.0	8.4	32.3
Silver	48.70	3.40	7.5	12.7	33.0	171.2
CRB Index	368.17	-2.39	-0.6	0.4	2.0	32.4
Currencies			% change:			
USDCAD	0.9539	0.0033	0.3	0.2	-1.4	-5.6
EURUSD	1.4771	-0.0059	-0.4	0.9	3.9	11.9
USDJPY	80.8500	-0.3700	-0.5	-0.9	-3.8	-14.5
AUDUSD	1.0860	-0.0084	-0.8	0.7	4.8	17.3
GBPUSD	1.6489	-0.0166	-1.0	0.0	2.2	8.1
USDCHF	0.8672	0.0020	0.2	-0.9	-6.1	-20.1

Source: Bloomberg. All quotes reflect Bloomberg data as at the time of publishing. While this source is believed to be reliable, Scotia Capital cannot guarantee its accuracy.