CAPITAL MARKETS RESEARCH

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Daily Points

— Tracking the Numbers

On Deck for Monday, May 30

North America

Country	Date	Time	Event	Period	BNS	Consensus	Latest
CA	05/30	08:30	Current Account (BOP)	1Q	--	-7.2	-11.0
CA	05/30	08:30	Gross Domestic Product (MoM)	MAR	0.3	0.2	-0.2
CA	05/30	08:30	Quarterly GDP Annualized	1Q	4.0	4.0	3.3

KEY POINTS:

- CAD appreciating on GDP expectations….
- ….but look through Q1 CDN GDP
- What consensus really missed about the BoC
- Movement accelerating toward a new Greek deal
- Russia unexpectedly raises is overnight deposit rate
- Imports dive, causing strong NZ trade surplus
- Australian new home sales retain prior month's gain
- Philippine GDP disappoints on revisions
- US markets closed for Memorial Day

CANADA

Canada releases **monthly GDP for March and quarterly GDP for 2011Q1** (8:30amET). CAD is among the strongest performing currencies to start the week, having appreciated against the USD since Friday's close alongside only the Korean Won, Singapore dollar, and the Taiwanese dollar across liquid relatively high volume currencies. Some of this may be in anticipation of a bullish print for Q1 growth that we expect to come in at around 4%. See our column "Look Through Q1 Canadian GDP to Sharp Downsides Into Q2," p.3 in this week's Global Views for two key reasons why we think the report means little – particularly the extreme weakness coming in some key indicators. For such reasons, we expect the BoC to give flight to the doves in tomorrow's statement and validate market pricing for no real action by the BoC this year.

But what has motivated this change in market pricing and consensus over recent months? Recent events are being used as a scapegoat; consensus was always far too aggressive and is using the current soft patch for a way out. Yes, a soft patch in global growth raises uncertainties, and it's unlikely that the BoC would shift its bias during a period in which much softer Q2 global readings are arriving. But the reason for shifting out consensus strikes much deeper. This has never been your father's global recession, so consensus has been too aggressive in pricing in rate hikes and too aggressive on neutral rate assumptions during the recovery phase. We've maintained throughout that global growth would stumble on fiscal exits and rolling fiscal shocks across developed economies precisely because of the two-fold effects of governments taking on private sector excesses while funding massive stimulus. We've entered – or in some countries like the US, will soon enter - the clean-up phase on government balance sheets.

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

Key International Events

BoJ
Current Rate: 0.10%
Next Move: June 14 @ 0.10%
Bias: Dovish

BoE
Current Rate: 0.50%
Next Move: June 9 @ 0.50%
Bias: Dovish

ECB
Current Rate: 1.25%
Next Move: June 9 @ 1.25%
Bias: Dovish

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As Europe's peripheral economies run out of time within the broad funding apparatus and as the US is given until 2013 by rating agencies to put in place a credible fiscal exit plan – charitably following the Presidential Election since no real austerity will be implemented before or during the campaign – downsides to growth stemming from an abrupt reversal of stimulus will be more clearly evident. As the bill comes due, the transition toward the second phase of the global crisis is apparent, and this will require monetary policy to remain more accommodative than comparable points during past cycles. Canada is facing its own restrictive fiscal policy this year that requires accommodative monetary policy, and yet the question arises whether or not Canada will reap the benefits of relatively strong fiscal fundamentals or get caught up in a broader global bond rout that raises borrowing costs. This period is also likely to be one of further turmoil brought to appetite for the USD and Treasuries, as high volatility in FX markets will remain with us for a long time yet. Each of the BoC, Fed, and most of the BoE get this, and the ECB is having a second thought.

UNITED STATES
Happy Memorial Day! US markets are closed today.

INTERNATIONAL
Global markets are mixed ahead of a very light day, but key risks over the rest of the week (see our Week Ahead column in this week's Global Views).

While nothing has been announced as yet, there are growing signs of a strong movement to put in place a **more aggressive action plan to counter the near-term risk of Greek default**. A decent summary that we'll summarize while providing our own colour on some of the concerns is available in today's FT at: http://www.ft.com/intl/cms/s/0/eb91ba84-8a27-11e0-beff-00144feab49a.html?ftcamp=rss&ftcamp=crm/email/2011530/nbe/InTodaysFT/product#axzz1NpV6gSwT. The rush to get something in place is geared toward two concerns. One is that the IMF is threatening to withhold €12 billion in funding due this month if Greece cannot present a credible financing plan covering the next year. Second is that Greece is thought to be unable to return to financial markets for funding requirements next March as originally planned in the first round of bail-outs. Given the disarray in Greek politics, it's looking unlikely that such a plan will indeed be in place. A concern is that the proposal sounds like a restructuring to me in that it will include 'incentives' to encourage investors to extend Greece's repayment schedule; I suppose the incentive is a donut (or the alternative of nothing, in Canadian slang). That's a change in payment terms that triggers a potential credit event. Further, the proposal requires additional austerity measures, yet opposition parties just denied a chance at this on Friday. A feature of the proposal involves greater international role in domestic policies such as privatization and tax collection in order to bring more Greeks onto tax rolls, but this may be optimistic in terms of the numbers. It is hoped that asset sales and reprofiling would come up with up to €100 billion in financing until the end of 2013, with new loans of €30-35 billion covering the rest. If there is one lesson about the crisis across the peripherals, it has been not to trust the estimates of additional financing that are required, or the optimistic scenarios under which such financing is met, or the public line that all is well in Europe's house. But with hundreds of billions in loans and contingent liabilities being back-stopped principally by Germany and France, the risk remains that of challenging the ratings of the backer states in an elaborate shell game that has thus far merely shuffled the growing debts under a different house.

New Zealand's trade balance came in at double expectations for April's print. That was mostly because of a NZ$500 million m/m drop (-12.3% m/m) in imports that the newswires didn't pick up. Thus, discount the optimism that is being expressed as I'm not sure that such a steep decline in imports says wonderful things about the economy's pulling power. Exports were largely flat (+0.8% m/m), but came in higher than expectations.

Philippine GDP came in well below expectations mostly due to revisions. 2010Q1 growth was revised a percentage point lower to 0.5% q/q, while 2011Q1 came in just a touch above expectations at 1.9% q/q.

Australian new home sales retained the prior month's gain of 4.3% by putting in a largely unchanged print for April (+0.2%).

Bank Rossii (Russia's central bank) unexpectedly raised its overnight deposit rate by 25bps to 3.5%, while leaving benchmark rates and reserve ratios unchanged. Inflation is running at 9.6% y/y. The weekend's announcement that Russia is lifting its ban on grain exports is encouraging, and reflects expectations for a vastly improved crop. That is not thought to be bearish for food prices that are grappling with depressed Spring planting conditions in significant parts of North America, and soft global inventories. But it does signal that domestic price pressures in Russia may ease on the heels of a softening in domestic food price inflation that motivated the export ban in the first place.

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
US	0.48	0.48	0.53	1.72	1.72	1.78	3.07	3.07	3.13	4.24	4.24	4.27
CANADA	1.50	1.51	1.59	2.31	2.32	2.41	3.06	3.06	3.10	3.49	3.50	3.53
GERMANY	1.59	1.56	1.69	2.26	2.25	2.35	2.99	2.99	3.01	3.51	3.51	3.53
JAPAN	0.18	0.18	0.18	0.41	0.42	0.43	1.13	1.13	1.14	2.02	2.02	2.06
UK	0.95	0.93	0.98	1.97	1.98	2.03	3.28	3.32	3.35	4.11	4.13	4.20
	Foreign - US Spreads (bps):											
CANADA	102	103	107	59	60	63	-2	-1	-3	-75	-75	-73
GERMANY	111	109	117	54	53	56	-8	-9	-12	-73	-74	-74
JAPAN	-30	-30	-35	-131	-130	-136	-194	-194	-200	-223	-223	-221
UK	48	46	45	25	26	25	21	24	22	-13	-11	-7

Equities			% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	13797.59	21.69	0.2	1.3	-1.1	18.2
Dow 30	12441.58	38.82	0.3	-0.6	-2.9	22.7
S&P 500	1331.10	5.41	0.4	-0.2	-2.4	22.2
Nasdaq	2796.86	13.94	0.5	-0.2	-2.7	23.9
DAX	5938.87	57.88	1.0	-0.2	-2.2	14.5
FTSE	7191.88	28.41	0.4	1.0	-4.3	20.9
Nikkei	9504.97	-16.97	-0.2	0.5	-3.5	-2.6
Hang Seng	23184.32	66.25	0.3	2.1	-2.3	17.3
CAC	3955.90	4.92	0.1	1.3	-3.7	12.5
Commodities			% change:			
WTI Crude	100.15	-0.44	-0.4	2.5	-12.1	35.4
Natural Gas	4.56	0.04	0.9	4.9	-3.0	5.0
Gold	1533.00	14.50	1.0	2.8	1.5	26.6
Silver	37.69	0.74	2.0	8.3	-16.8	105.3
CRB Index	346.27	2.94	0.9	1.4	-6.6	35.9
Currencies			% change:			
USDCAD	0.9754	-0.0007	-0.1	-0.3	2.6	-6.6
EURUSD	1.4286	-0.0033	-0.2	1.7	-3.7	16.1
USDJPY	80.8100	0.0100	0.0	-1.5	-0.5	-11.5
AUDUSD	1.0696	-0.0010	-0.1	1.8	-2.3	26.4
GBPUSD	1.6470	-0.0040	-0.2	2.2	-1.1	13.3
USDCHF	0.8497	0.0003	0.0	-3.9	-1.8	-26.4

Source: Bloomberg. All quotes reflect Bloomberg data as at the time of publishing.
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