CAPITAL MARKETS RESEARCH

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Daily Points

— Tracking the Numbers

On Deck for Tuesday, June 14

Country	Date	Time	Event	Period	BNS	Consensus	Latest
CA	06/14	08:30	Capacity Utilization Rate (%)	1Q	--	77.2	76.4
US	06/14	08:30	Producer Price Index (MoM)	MAY	--	0.1	0.8
US	06/14	08:30	PPI Ex Food & Energy (MoM)	MAY	--	0.2	0.3
US	06/14	08:30	Advance Retail Sales (MoM)	MAY	-0.6	-0.5	0.5
US	06/14	08:30	Retail Sales Less Autos (MoM)	MAY	0.2	0.2	0.6
US	06/14	08:30	Retail Sales Ex Auto & Gas (MoM)	MAY	--	0.2	0.2
US	06/14	10:00	Business Inventories (MoM)	APR	--	0.9	1.1

KEY POINTS:

- China hikes reserve ratio, but markets relieved no rate pressure as yet
- EU finance ministers meet today; elevated headline risk
- US retail sales could come in weaker than expected
- Chinese growth indicators meet expectations
- US producer prices set to show only modest gains in May
- BoJ signals material stimulus is not forthcoming
- UK CPI inflation cools
- Bernanke will speak on fiscal sustainability this afternoon
- Canadian capacity use still at least 6ppts below pre-crisis levels

CANADA

Only **capacity utilization** (8:30amET) is on tap for release. There will be no market impact, but it is one of the gauges of spare capacity the BoC utilizes in addition to the broader output gap. Capacity use has climbed from a low of 70.1% in June of 2009 to 76.4% at the end of the last year. It will likely rise again in the 2011Q1 figures that are on tap, but remain far below the peak of 87.6% set back in 2008Q1, and the pre-crisis level of 83.2% in 2007Q2.

UNITED STATES

US retail sales (8:30am ET) are expected to decline in May on the back of weaker auto sales, the first decline in eleven months. Core sales (ex-autos), however, should post a modest gain although the risks are tilted to the down-side as terrible weather conditions and weak job and wage growth continue to limit consumer spending. In addition, May will likely witness lower retail gasoline prices after crude oil prices declined on the month although given that prices have been elevated for several months, discretionary spending will likely weaken again with both a price and volume effect. Offsetting some of this weakness will be a further gain in food sales as retail food prices contin-

BoC Events

BoC Overnight Lending Rate
Current Rate: 1.0%
Next Move: July 19 @ 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:
Fed Chairman Bernanke will speak on fiscal sustainability in Washington. Advanced text but no audience questions (2:30pm ET).

Key International Events

BoJ
Current Rate: 0.10%
Next Move: July 12 @ 0.10%
Bias: Dovish

BoE
Current Rate: 0.50%
Next Move: July 7 @ 0.50%
Bias: Dovish

ECB
Current Rate: 1.25%
Next Move: July 7 @ 1.25%
Bias: Dovish

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ued to rise in May. What is more important, however, are the price-adjusted figures which have been weakening over the past few months as high fuel and food prices reduce actual volumes given relatively sluggish wage growth. Indeed, real retail sales only rose 0.1% m/m in April according to the St. Louis Fed and declined by 0.1% m/m according to the BEA.

US producer prices (8:30am ET) for finished goods will likely show only modest growth on both the headline and core measures given recent declines in commodity prices in May after the sharp run-up in April. This should provide businesses with some relief, especially given that many did not elect to raise final consumer prices despite large gains in input costs. This report should also provide the Fed with further ammunition to keep rates on hold as recent gains in commodity prices have thus far proven to be relatively transitory in nature as the Fed had expected.

INTERNATIONAL

The risk trade is alive and kicking this morning, as European equities and the Nikkei 225 are all up by over 1% except for the FTSE100's more modest gains. The USD weakened on a broad DXY basis and the leading gainers were the A$, South Korean Won and the South African Rand. CAD is up slightly but is one of the weakest performers. That said, commodities are mixed to lower. Two possible catalysts include positive expectations for today's EU Finance Ministers meeting following yesterday's downgrade of Greece to the lowest rating in the world (CCC), and at least short-term relief that China still has not hiked interest rates even following another gain in headline CPI. A risk is US retail sales.

Right after new yuan loan growth cooled, **China hiked its reserve ratio** again but did not raise interest rates. The 50bps rise in the reserve ratio takes it to 21.5% which is a new all-time record. The ratio has climbed by six full percentage points since December 2008 after crisis-motivated cuts from the prior peak of 17.5% in September 2008. While an interest rate hike has been feared for the past couple of weeks and has not yet materialized, it is still a market risk factor over coming weeks.

China's overnight releases were generally in line with expectations, as they usually are because most of the local analysts are often thought to have pre-release connections to the data sources. CPI inflation rose to 5.5% y/y, up from 5.3% the prior month and on consensus. This is the strongest pace of inflation since July 2008. Retail sales rose at a 16.9% y/y pace (17% consensus), and industrial production climbed by 13.3% y/y (13.1% expected).

This could be a key day for event risk in Europe. **EU Finance Ministers** hold a dinner meeting on economic governance legislation and recommendations for national budget policies (1pmET). When added to speeches by a variety of high level European officials like EU Financial Markets Commissioner Michel Barnier, European Commission President Manuel Barrosa, French President Nikolas Sarkozy, and the likely next ECB President Mario Draghi, the headline risk could well be elevated today. Greek 10 years soared overnight, rising 33bps to 17.3%. Portuguese 10s also climbed a modest 4bps to 10.7%. A successful Spanish auction helped the market tone, however, and led to a flat overnight curve. Spain sold €5.4 billion in 12-month Treasury bills which was almost at the upper allotment. The yield at auction rose to 2.7%, up from 2.55% at an auction a month ago. Thus, judging the auction's success has to take into account the juiced yield that was demanded.

UK headline CPI climbed by only 0.2% m/m, which is the weakest pace since January and follows the 1% m/m rise the prior month. On year-ago base effects, however, that wasn't enough to cool the y/y headline pace of inflation which still stands at 4.5%. Cooler commodity prices in May were the main catalyst. Core inflation also decelerated by posting a flat m/m print and is running at a 3.3% y/y pace from 3.7% the prior month. The BoE continues to argue that inflation will cool abruptly into next year once the temporary effects of the January VAT tax hike falls out, and once commodity prices rebase to this year's higher levels and don't repeat the gains into next year without causing greater demand destruction. It's not the small group of dissenters who matter at the BoE, as opposed to Governor King who holds court with the majority of the Monetary Policy Council members. That likely means that the BoE is not hiking for a considerable time yet.

The **Bank of Japan** left its key target rate unchanged at 0.1% overnight, and offered small additional assistance through a ¥500 billion (US$6 billion) loan program. The loans will be offered to banks in order to fund equity investments and lending. The amount is inconsequential and more importantly signals that the BoJ feels strong enough about a post-earthquake rebound in the second half of the year and into 2012 that it is not prepared to offer a more material expansion of stimulus.

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	0.40	0.39	0.41	1.60	1.58	1.57	3.00	2.99	3.00	4.21	4.20	4.26
CANADA	1.47	1.46	1.45	2.25	2.24	2.25	3.02	3.00	3.03	3.47	3.46	3.52
GERMANY	1.54	1.54	1.71	2.19	2.18	2.38	2.97	2.96	3.09	3.54	3.52	3.62
JAPAN	0.17	0.17	0.17	0.44	0.43	0.44	1.16	1.15	1.17	2.08	2.09	2.06
UK	0.83	0.84	0.89	2.01	2.01	1.90	3.26	3.25	3.33	4.17	4.17	4.21
	Foreign - US Spreads (bps):											
CANADA	106	107	104	65	67	68	2	1	3	-74	-74	-74
GERMANY	114	115	130	59	60	81	-3	-3	10	-68	-68	-64
JAPAN	-23	-23	-24	-116	-115	-114	-184	-184	-183	-214	-211	-220
UK	43	45	48	42	43	33	26	27	34	-4	-3	-5

Equities			% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	12939.72	-144.28	-1.1	-2.8	-3.3	10.9
Dow 30	11952.97	1.06	0.0	-1.1	-5.1	17.3
S&P 500	1271.83	0.85	0.1	-1.1	-4.9	16.7
Nasdaq	2639.69	-4.04	-0.2	-2.3	-6.7	17.6
DAX	5787.57	14.11	0.2	-1.3	-2.3	11.3
FTSE	7183.91	98.77	1.4	1.1	-3.0	17.3
Nikkei	9547.79	99.58	1.1	1.1	-1.0	-3.4
Hang Seng	22496.00	-12.08	-0.1	-1.6	-3.4	12.2
CAC	3838.09	30.48	0.8	-0.9	-4.5	5.8
Commodities			% change:			
WTI Crude	96.67	-0.63	-0.6	-2.4	-3.0	28.7
Natural Gas	4.65	0.01	0.2	-3.7	9.6	-7.1
Gold	1526.25	-3.00	-0.2	-1.5	1.4	25.1
Silver	35.51	-1.87	-5.0	-3.7	-1.9	93.9
CRB Index	344.56	-3.48	-1.0	-0.2	1.8	32.5
Currencies			% change:			
USDCAD	0.9755	-0.0006	-0.1	0.1	-0.0	-5.6
EURUSD	1.4427	0.0014	0.1	-1.8	1.9	18.1
USDJPY	80.1800	-0.0600	-0.1	0.1	-0.8	-12.4
AUDUSD	1.0638	0.0036	0.3	-0.8	0.8	23.9
GBPUSD	1.6397	0.0020	0.1	-0.3	1.3	11.2
USDCHF	0.8391	0.0019	0.2	0.3	-5.1	-26.5

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