ECONOMIC RESEARCH

BMO Capital Markets

DR. SHERRY COOPER Chief Economist

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focus

A Weekly Financial Digest

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DOUGLAS PORTER

We have commented in recent weeks on the profound shift in focus from weak growth (the frying pan) to rising inflation (the fire) among both global policymakers and markets. That shift kicked into overdrive this week, with Fed Chairman Bernanke bluntly stating that risks of a serious recession appeared to have diminished, while warning that the Fed "*will strongly resist an erosion of longer-term inflation expectations.*" Coming hard on the heels of hawkish remarks last week by the ECB's Trichet, and the Bank of Canada's view that inflation risks have tilted to the high side, this sent global bond markets into a tailspin. Adding to the deepening sell-off were a few reports which tended to confirm Bernanke's view that the economy is still managing to avoid an outright recession—the rebate-driven 1% spurt in May retail sales was the most obvious evidence. In the space of one week, 10-year Treasury yields jumped 27 bps to their highest level of the year, and are now up a towering 87 bps from the March lows, even with Friday's rally. The more Fed-sensitive 2-year yields spiked 56 bps on the week, and 160 bps from the post-Bear Stearns lows (i.e. more than doubling in less than three months).

While there is little doubt that the Fed's biggest concern has morphed from growth to inflation, and it's unlikely it will be cutting again (barring a more serious setback in the economy), Treasury yields may be getting a bit ahead of themselves. The recent pop in retail sales is unlikely to be sustained for long with employment sagging, confidence cratering, record gasoline prices sapping real spending power, and the housing market still probing for the bottom. At best, we look for GDP growth to barely keep its head above water over the second half of the year (i.e. 0%-to-1% growth). That's hardly a recipe for Fed rate hikes. Moreover, we will note the uncanny knack in recent years of the Treasury market to reach extremes in the month of June, usually on the high side. In each of the past five years, 10-year Treasury yields have either reached their annual peak or trough in June, with highs hit in 2007, 2006 and 2004, and lows set in 2005 and 2003. In each of the past two years, long-term yields marched to a high for the year of just over 5.25% in June, only to spend the rest of the year in major-league retreat. There has often been talk of a seasonal influence in the Treasury market (with the biggest rallies often in the fall), and this may be exaggerating the recent selling spree.

MICHAEL GREGORY

In recent weeks, we've witnessed surprising policy pronouncements from the Bank of Canada and elsewhere: Fed Chairman Bernanke worrying about the inflation impact of a weak dollar, ECB President Trichet raising the possibility of a European rate hike, and Treasury Secretary Paulson not ruling out coordinated FX market intervention. The RBA is also citing inflation concerns. With a G8 meeting this weekend (starting Friday), memories of the prior G7 confab's shift to concerns about greenback weakness and volatility are being prodded along with those of recent coordinated money market interventions. Speculation is swirling that there could be some joint announcement to boost the U.S. dollar or hike policy rates in a global effort to tame commodity prices and fight inflation. The Shakespearean warning to beware the ides of June (which fall on Friday the 13th no less) should be heeded, for fear of getting carried away by the market speculation.

Intervention to boost the USD is only probable if the Fed is prepared to raise rates (could be) while everybody else sits on their policy hands or cuts rates (recent shift in BoJ policy to neutral from tightening, but… oops… the opposite to what the ECB is signaling). Moreover, even an ECB rate hike, let alone copycat moves by other central banks to combat inflation, appears premature, if not downright destabilizing. Trichet, Bernanke and Carney all studied the same textbooks on central banking that emphasize that the credit creation process lies at the heart of the economy. When that process is diseased, fixing it becomes the supreme policy objective (surpassing even taming inflation expectations). The "fix" could include rate cuts but that's not necessary as non-rate measures can be employed. But as long as the credit creation process remains encumbered, using rate and non-rate measures that tighten policy or restrict liquidity could risk economic depression (Bernanke, by the way, wrote that particular textbook himself). So before one gets carried away by the potential for rate hikes, ask yourself these questions: Has the credit squeeze sufficiently loosened its grip? Can the ECB or the Fed raise rates while still adding oodles of liquidity to local money markets? This weekend's G8 gathering will likely result in a coordinated policy announcement to subdue inflation, but one cast more in words than in action. Ponti

SAL GUATIERI

The Bank of Canada surprised markets three ways this week: by not cutting rates, by shifting its policy bias 180 degrees to the right, and by not "prepping" the market for what it did (or didn't) do. The one explanation for all three is the unrelenting surge in energy prices (including the largest single-day spike in oil prices ever) coupled with the loonie's amazing decoupling act of recent weeks (that largely reflected expectations of a rate cut, hmmm). These developments likely came too fast and too close to the blackout period for the Bank to craft together a speech that would re-shape market expectations. Unlike the Fed, the Bank prefers to guide expectations using its Monetary Policy Report updates and rate announcement statements rather than speeches.

Meantime, the inflation threat is clear: the only reason Canada has one of the lowest inflation rates in the world is that the loonie's drive to parity last year (and plenty of disgruntled customers crossing the border for better deals) unleashed a wave (or ripple tide, according to Doug's *Feature Article*) of retail discounting across the nation. But the loonie's wings have been severally clipped this year, suggesting the door-crasher sales may ebb. According to the Bank, if oil prices remain high, CPI inflation might top 3% (the upper end of the target range) later this year. With the U.S. economy showing tentative signs of life and credit strains easing, the two driving forces behind the Bank's rate-slashing campaign are wearing thin. Now that the inflation risks have "*shifted slightly to the upside*," the Bank probably won't hesitate to tighten **if** the gap between commodity prices and the currency continues to widen. It's worth noting that stagflation is more likely to spur tightening from the Bank than the Fed, since the former targets just inflation while the latter needs to juggle both the employment and inflation balls. If commodity-driven inflation continues to climb, even as the North American economy remains soft, the Bank could tighten before the Fed. That might put the wind back in the loonie's sails. Sal

Jennifer Lee, Economist

CANADA

- BoC shocks markets, staying on hold, citing inflation risks

GOOD NEWS		BAD NEWS
Manufacturing Sales +2.0% (Apr.) **Housing Starts** +3.5% to 221,300 (May) **Manpower** survey shows a net 11% of employers expect to increase payrolls (Q3)—up from 10% in Q2	CANADA	**Trade Surplus** narrowed to \$5.1 bln (Apr.) **Capacity Utilization** -2 ppts to 79.8% (Q1) **New House Price Index** slowed to +5.2% y/y (Apr.) **Labour Productivity** -0.3% (Q1) **Manufacturing New Orders** -2.0% (Apr.)

UNITED STATES

- Bernanke warns that inflation risks are on the upside...
- …igniting further speculation of a rate hike before summer's-end…
- ….although this week's inflation data calmed expectations
- Beige Book gloomy

GOOD NEWS		BAD NEWS
Retail Sales +1.0% (May)—and +1.2% ex. autos **Business Inventories** +0.5% (Apr.) **Pending Home Sales** +6.3% (Apr.) **U of M's 1-year and 5-year Inflation Expectations** did not deteriorate (Jun. P)	U.S.	**CPI** +0.6% (May)—but core steady at +0.2% **Trade Deficit** widened to \$60.9 bln (Apr.) **Redbook** -1.0% (Jun. 7 wk) **Initial Claims** +25,000 to 384,000 (Jun. 7 wk) **Manpower** survey shows a net 12% of employers expect to increase payrolls (Q3)—down from 14% in Q2 **Non-Petroleum Import Prices** +0.5% (May) **CEO Magazine CEO Confidence Index** -0.6 pts to 95.8; **NFIB Small Business Optimism Survey** -2.2 pts to 89.3 (May); **U of M's Consumer Sentiment Index** -3.1 pts to 56.7 (Jun. P)

EUROPE

- Stark clarifies the ECB is not discussing a string of rate hikes
- Inflation data in Eurozone and the U.K. are worrisome

GOOD NEWS		BAD NEWS
Eurozone—Industrial Production +0.9% (Apr. F)—led by France and Italy **Germany—Trade Surplus** widened to €18.7 bln (Apr.) **U.K.—RICS House Price Balance** +1.8 pts to -92.9 (May)—but still extremely weak **U.K.—Industrial Production** +0.2% (Apr.)	EUROPE	**Eurozone—Labour Costs** +3.3% y/y (Q1) **Germany—CPI** revised up to +3.1% y/y (May) **France—CPI** +0.6% (May) **U.K.—Output PPI** +8.9% y/y (May) **U.K.—Inflation Expectations** at record 4.3% y/y (Q2) **U.K.—Unemployment** +9,000 (May) **U.K.—Trade Gap** widened to £7.6 bln (Apr.)

JAPAN

- BoJ on hold @ 0.50%, but also mention inflation risks

GOOD NEWS		BAD NEWS
Leading Index +2 pts to 92.8 (Apr. P) **Bank Lending** picked up to +1.6% y/y (May) **M2** grew to +2.0% y/y (May) **Machine Orders** +5.5% (Apr.) **Machine Tool Orders** +1.4% y/y (May P) **Real GDP** revised up to +1.0% a.r. (Q1 F)	JAPAN	**Corporate Goods Prices** +1.1% (May) **Consumer Confidence** -1.3 pts to 34.1 (May)

AUSTRALIA

- RBA's Stevens sounds hawkish, saying "*inflation… needs to be reduced*"

GOOD NEWS		BAD NEWS
	AUSTRALIA	**Employment** -19,700 (May)

CHINA

- PBoC raises banks' reserve requirements 100 bps in 2 stages

GOOD NEWS		BAD NEWS
CPI cools to +7.7% y/y (May)—but still high **M2** +18.1% y/y (May) **FDI** eased a bit to +55.0% (Jan.-to-May) **Retail Sales** +21.6% y/y (May)	CHINA	**Trade Surplus** widened to \$20.2 bln (May) **Producer Prices** +8.2% y/y (May)

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

Uh Oh… The Price Is *Still* Wrong

Douglas Porter, CFA, Deputy Chief Economist

One year ago, we pointed out that retail prices in Canada had been painfully slow to respond to the historic run-up in the Canadian dollar, creating a massive and unsustainable price gap for many goods between the U.S. and Canada. Among the many reasons cited for the gap in the months that followed was that it takes time to adjust for sudden changes in the currency. Well, the loonie has averaged almost parity over the past year (98.8 cents(US) to be precise), so time's up! Looking at a broad basket of items, we find that while there has been some movement in the past year, the price gap remains extraordinarily large, and there are plenty of signs to suggest that the bulk of the discounting is over. In other words, without further pressure, this may be as good as it gets for Canadian shoppers.

We first attempted to update our initial basket of 17 goods from last year, and found that the average price gap had narrowed from 24% in 2007 to 18% now (*Table 1*). The main items that saw serious movement in prices were books, autos and some magazines—arguably the most high-profile items on the list. We broadened the list to take a wider range of products into account this time, and found that this still produced an 18% price gap between the U.S. and Canada on the overall basket. Given that the loonie has dipped below parity again (currently 97.4 cents), this means that prices in Canada are now roughly 16% higher on an average basket of goods than stateside, taking today's exchange rate into account. We would point out that even with the hefty price cuts in both books and autos, we found quite considerable price differences remained even on these headline-grabbing items.

The loonie-led price cuts on many items have played a key role in keeping overall Canadian inflation in check at a time when the rest of the world is grappling with soaring food and energy costs. Next week's May CPI report is expected to reveal that Canada's inflation rate will pick up to around 2% (or about 2½% excluding the impact of the GST cut), but that will still be half the U.S. pace and the second lowest in the world aside from Japan. The most significant price declines since the 1950s for vehicles, books, and clothing—and all with much deeper drops than in the U.S. over the past year—have played a big part in keeping

TABLE 1

COMPARISON SHOPPING: STILL NO COMPARISON

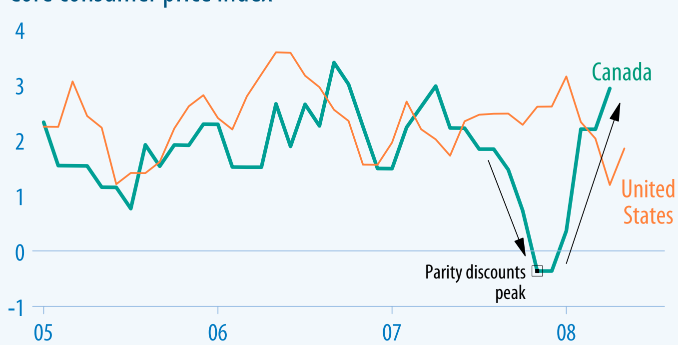
		Canadian Price (C$)	U.S. Price (US$)	Price Gap (percent)
	Original Basket (17 items, initially 24%):			18
Bestseller Books (sample of 6)	initial price	30.79	25.30	22
	discounted	19.27	15.99	21
New Vehicles	5 mid-range	32,766	27,485	19
	8 upper end	67,020	51,423	30
Tim Hortons Large Coffee & Doughnut		2.27	2.13	7
Grand Theft Auto Video Game		59.99	59.99	0
Nintendo Wii		279.99	249.99	12
Apple 16GB iPod Touch		419	399	5
Dell Laptop		774	699	11
All-Clad Copper Frying Pan		225	180	25
Coldplay CD		12.99	9.99	30
Gucci Shoulder Bag		920	830	11
Monopoly Board Game		19.99	13.97	43
Huggies Pullups (40)		18.97	14.97	27
Baseball Tickets (Jays, Tigers – sample of 3)		38.00	37.77	1
Point & Shoot Digital Cameras (sample of 8)		374	297	26
Digital Picture Frames (sample of 4)		203	178	14
Air Conditioners (sample of 4)		330	295	12
Cordless Drills (sample of 5)		134	111	21
Toro Snow Thrower		399	299	33
Homelite Chain Saw		149	129	16
Maytag Washer & Dryer		2,050	1,699	21
BBQs (sample of 3)		663	497	33
Lawn Mowers (sample of 2)		484	369	31
			New Items:	**19**
			Total Basket:	**18**

CHART 1

DOLLAR DISCOUNT DAYS OVER?

(3-mnth ann % chng : sa)

Core consumer price index



Canada = All items ex 8 volatile items and indirect taxes   U.S. = All items less food & energy

TABLE 2

INFLATION AND DEFLATION

Consumer price index – Canada (y/y % chng : as of April 2008)

Deflationary		Inflationary	
Vegetables	-12.7	Bread	16.9
Books	-8.3	Gasoline	11.6
Video equipment	-7.6	Water charges	9.4
New cars	-6.6	Mortgage interest	8.7
Clothing	-5.1	Housing (New homes)	4.6
Tools	-4.7	Home insurance	3.9
Household appliances	-1.3	Milk	3.6

CHART 2

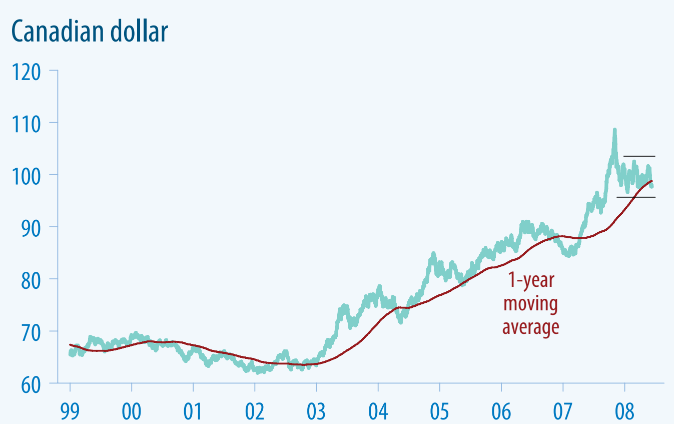
TRAVEL IMBALANCE

(mlns)

CHART 3

LOONIE GROUNDED

(US¢/C$)



Canadian inflation under wraps (*Chart 1 and Table 2*). So, Canadian consumers clearly have reaped some rewards from the loonie's surge.

Still, those gains could be even larger. Against a backdrop of rampaging energy prices, growing Bank of Canada inflation concern, sagging consumer confidence and a reeling manufacturing sector, it is arguably more important than ever that Canadian consumers see a more complete pass-through of the strong currency to lower retail prices, to help cushion the blow from other global economic forces. However, if anything, it seems that the days of the deepest price cuts are already behind us. The three-month pace of core consumer prices has now risen faster in Canada than in the U.S., in sharp contrast to the deep discounts late last year (*Chart 1 again)*.

The modest narrowing in the Canada/US price gap since last year has apparently been just enough to staunch the wave of cross-border shopping, with sky-high gasoline prices playing a loud second fiddle. (Note that when the currency peaked in early November, the price gap was more than 30%, and that month coincided with the peak in Canadian visits to the U.S.) Even so, visits to the U.S. have risen almost 14% so far this year, even as Americans have almost stopped coming to Canada (*Chart 2*). The strong loonie (and the associated price gap), the hassle of crossing the border and record pump prices have dealt a hammer blow to tourism across most of Canada.

Meantime, the loonie has conspicuously failed to rise since the start of 2008, despite a 40% sprint in oil prices and a 20% increase in broader commodities over that period (*Chart 3*). With the currency stuck in the doldrums, and many predicting it could even retreat in the year ahead, it seems unlikely that there will be another big spontaneous push to drive Canadian prices considerably lower.

Endnote: We discovered that the exercise of price comparisons across borders has become a bit more challenging. Many published materials no longer openly show both Canadian and U.S. prices, while a number of products have tiny differences in specifications between Canada and the U.S. Wherever possible we compared apples to apples, all from similar retail outlets. Thanks to the team of intrepid shoppers – Jennifer Lee, Benjamin Reitzes, Carl Campus and Robert Kavcic.

Economic Forecast

CANADA	2007 I	II	III	IV	2008 I	II	III	IV	ANNUAL 2007	2008	2009
Real GDP (q/q % chng : a.r.)	4.1	3.9	2.3	0.8	-0.3	0.9	2.2	2.4	2.7	1.2	2.4
Consumer Price Index (y/y % chng)	1.8	2.2	2.1	2.4	1.8	2.2 ↑	2.8 ↑	2.9 ↑	2.1	2.4 ↑	2.2 ↑
Unemployment Rate (%)	6.1	6.1	6.0	5.9	5.9	6.1	6.3	6.4	6.0	6.2	6.3
Housing Starts (000s : a.r.)	226	228	243	214	234	212	197	196	228	210	200
Current Account Balance ($blns : a.r.)	15.8	28.5	7.0	3.1	22.2	23.0	12.4	2.3	13.6	15.0	1.0
Interest Rates (average for the quarter : %)											
Overnight Rate	4.25	4.25	4.50	4.42	3.83	3.00 ↑	3.00 ↑	3.00 ↑	4.35	3.21 ↑	3.44 ↑
3-month Treasury Bill	4.17	4.35	4.00	3.84	2.16	2.75 ↑	3.00 ↑	2.98 ↑	4.09	2.72 ↑	3.56 ↑
10-year Bond	4.05	4.61	4.36	4.02	3.52	3.75	3.85	3.70	4.26	3.70	4.04
Canada/U.S. Interest Rate Spreads (average for the quarter : bps)											
90-day	-95	-64	-19	43	90	94 ↓	103 ↓	127 ↑	-34	103 ↓	77 ↓
10-year	-58	-49	-27	-9	7	-23 ↑	-39 ↑	-27	-36	-20	-23
UNITED STATES											
Real GDP (q/q % chng : a.r.)	0.6	3.8	4.9	0.6	0.9	0.7 ↑	0.9 ↓	0.4	2.2	1.4 ↑	1.8
Consumer Price Index (y/y % chng)	2.4	2.6	2.4	4.0	4.2	4.1 ↑	4.3 ↑	3.7 ↑	2.9	4.0 ↑	2.5 ↑
Unemployment Rate (%)	4.5	4.5	4.7	4.8	4.9	5.2	5.5	5.7	4.6	5.3	5.8
Housing Starts (mlns : a.r.)	1.45	1.46	1.30	1.15	1.04	0.95	0.84	0.81	1.34	0.91	0.87
Current Account Balance ($blns : a.r.)	-793	-760	-710	-692	-684	-657 ↑	-630 ↑	-609 ↑	-739	-645 ↑	-580 ↑
Interest Rates (average for the quarter : %)											
Fed Funds Target Rate	5.25	5.25	5.08	4.42	2.75	2.00	2.00	2.00	5.00	2.19	2.77 ↑
3-month Treasury Bill	5.12	4.87	4.42	3.47	2.09	1.65 ↑	1.89 ↑	1.72 ↑	4.47	1.84 ↑	2.66 ↑
10-year Note	4.68	4.85	4.73	4.26	3.66	3.89	4.20	4.02	4.63	3.94	4.23
EXCHANGE RATES (average for the quarter)											
US¢/C$	85.3	91.0	95.7	101.9	99.6	99.9	101.8	100.7	93.5	100.5	97.2
C$/US$	1.172	1.098	1.045	0.982	1.004	1.001	0.983	0.993	1.074	0.995	1.029
¥/US$	119	121	118	113	105	104	107	109	118	106	113
US$/Euro	1.31	1.35	1.38	1.45	1.50	1.56	1.54	1.51	1.37	1.53	1.42
US$/£	1.96	1.99	2.02	2.04	1.98	1.97	1.95	1.94	2.00	1.96	1.89

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

CANADA

Douglas Porter, CFA, Deputy Chief Economist

Consumer Prices

Thursday, 7:00 am

	Consumer Price Index m/m (nsa)	y/y
May (e)	**+0.8% (+0.6% sa)**	**+2.1%**
Consensus	*+0.6%*	*+1.9%*
Apr.	+0.8%	+1.7%

	Core CPI
May (e)	**+1.5% y/y**
Consensus	*+1.4% y/y*
Apr.	+1.5% y/y

With the Bank of Canada shifting its primary concern to inflation, the May CPI report takes on added weight. Another big run-up in gasoline prices (we estimate a pop of more than 8%) and other energy costs, along with some new pressure on food, is likely to lift the headline CPI 0.8% in the month, similar to the April increase. This is expected to boost the annual headline inflation rate from 1.7% to 2.1%. Recall that this figure was slimmed by the 1-point GST cut at the start of the year. With gasoline prices raging yet again in June, the overall inflation rate is poised to jump again next month, and may soon approach the Bank's 3% upper band. Meantime, the core inflation rate is expected to remain quite mild at a 1.5% y/y pace, at least partly thanks to a dip in new home prices, but the Bank appears to be taking much less comfort in this fact (and rightly so).

Retail Sales

Friday, 8:30 am

	Retail Sales	Ex. Autos
Apr. (e)	**+0.8%**	**+0.9%**
Mar.	+0.1%	unch

The ongoing surge in gasoline prices is also expected to fire up retail sales figures (note that this report is for April, while the CPI is for May). The combination of a 6% rise in pump prices, another solid month for auto sales and a return to nearly normal weather is expected to push up overall retail sales 0.8% in April, after two months of no net growth. Ex-auto sales are likely to post an even heftier advance. However, adjusted for price increases, retail sales growth is expected to be much lighter, barely registering any growth. While consumer spending remains quite healthy in Canada, it is losing momentum as consumers turn more cautious in the face of record gasoline prices and a sagging U.S. economy.

UNITED STATES

Sal Guatieri, Senior Economist

Producer Price Index

Tuesday, 8:30 am

May (e)	**+1.0%**	**+6.8% y/y**
Consensus	*+1.0%*	*+6.7% y/y*
Apr.	+0.2%	+6.5% y/y

	PPI Ex. Food & Energy	
May (e)	**+0.2%**	**+3.0% y/y**
Consensus	*+0.2%*	*+3.0% y/y*
Apr.	+0.4%	+3.0% y/y

Given that inflation concerns are front and centre these days, investors will eye this report with more than the usual amount of interest. Surging gas prices likely sparked a 1.0% jump in producer prices in May, lifting the yearly rate to 6.8% and within striking range of January's 26-year high of 7.4%. Excluding food and energy prices, the core measure is expected to rise 0.2% on the back of surging import costs, keeping the yearly rate elevated at a 17-year peak of 3.0%. More upward pressure lies ahead given the recent sharp upswing in crude goods prices.

Housing Starts

Tuesday, 8:30 am

May (e)	**0.97 mln a.r. (-6.0%)**
Consensus	*0.98 mln a.r. (-5.0%)*
Apr.	1.03 mln a.r. (+8.2%)

It's likely payback time for housing starts following April's condo-led upward spike. Homebuilders' sentiment remains mired near all-time lows. Sales of new single-family homes have fallen as much as starts in the past year, creating an inventory overhang of nearly 11 months at the current sales rate, almost double the norm. Although overall inventories are down 17% in the past year, they likely need to decline an additional 20% to return to long-run norms. We look for housing starts to plunge 6% to an annual 0.970 million units in May, not far off March's 17-year low of 0.954 million. For fear of sounding like a broken iPod, residential construction could carve another full percentage point from Q2 GDP growth.

Current Account Deficit

Tuesday, 8:30 am

Q1 (e)	**$171.0 bln**
Consensus	*$173.9 bln*
Q4	$172.9 bln

Despite surging oil prices, the U.S. current account deficit likely narrowed for the fourth straight quarter, to $171 billion in Q1 from $172.9 in Q4. The real trade balance in goods and services has shrunk 25% since late 2005, supported by a weak greenback and solid foreign demand. As a per cent of GDP, the current account shortfall is expected to drop to a four-year low of 4.8%, two full percentage points below its record peak in late 2005.

Industrial Production

Tuesday, 9:15 am

	Industrial Production	**Capacity Utilization**
May (e)	**+0.2%**	**79.7%**
Consensus	*+0.1%*	*79.7%*
Apr.	-0.7%	79.7%

After plunging 0.7% in April, industrial production likely bounced 0.2% in May, consistent with an upturn in the ISM production index. Manufacturing has been depressed by skidding auto sales, with the weakness aggravated by the recently settled American Axle strike. A partial rebound in May won't alter the recent downward trend in overall production, with weak domestic sales more than offsetting still-healthy foreign demand. The CAPU rate should remain near 2½-year lows at 79.7%, keeping a lid on cost pressures.

	JUN 13*	JUN 6	CHANGE FROM: (BASIS POINTS) WEEK AGO	4 WEEKS AGO	DEC. 31/07
Canadian Money Market					
Call Money	3.00	3.00	0	0	-125
Prime Rate	4.75	4.75	0	0	-125
U.S. Money Market					
Fed Funds (effective)	2.00	2.00	0	0	-225
Prime Rate	5.00	5.00	0	0	-225
3-Month Rates					
Canada	2.76	2.51	25	15	-106
United States	1.97	1.83	13	13	-127
Japan	0.59	0.58	1	1	3
Eurozone	4.96	4.97	-1	10	28
United Kingdom	5.95	5.89	7	11	-4
Australia	7.69	7.66	3	5	76
Bond Markets					
2-year Bond					
Canada	3.35	2.88	47	54	-40
United States	2.92	2.38	55	48	-13
10-year Bond					
Canada	3.86	3.66	20	28	-13
United States	4.19	3.91	28	34	16
Japan	1.86	1.80	6	16	35
Germany	4.60	4.42	18	42	29
United Kingdom	5.22	4.99	23	45	71
Australia	6.73	6.64	9	41	40
Currencies				(% CHANGE)	
US¢/C$	97.45	98.08	-0.6	-2.6	-2.7
C$/US$	1.026	1.020	—	—	—
¥/US$	108.07	104.92	3.0	3.8	-3.3
US$/Euro	1.5339	1.5777	-2.8	-1.5	5.1
US$/£	1.944	1.971	-1.3	-0.7	-2.0
US¢/A$	93.81	96.26	-2.5	-1.8	7.2
Commodities					
CRB Futures Index	443.61	441.51	0.5	4.0	23.7
Oil (generic contract)	133.88	138.54	-3.4	6.0	39.5
Natural Gas (generic contract)	12.62	12.69	-0.6	13.7	68.6
Gold (spot price)	864.59	902.25	-4.2	-4.2	3.7
Equities					
S&P/TSX Composite	14747	14970	-1.5	-1.6	6.6
S&P 500	1357	1361	-0.3	-4.8	-7.6
Nasdaq	2452	2475	-0.9	-3.0	-7.5
Dow Jones Industrial	12278	12210	0.6	-5.5	-7.4
Nikkei	13974	14489	-3.6	-1.7	-8.7
Frankfurt DAX	6753	6804	-0.7	-5.6	-16.3
London FT100	5790	5907	-2.0	-8.2	-10.3
France CAC40	4687	4795	-2.3	-7.7	-16.5
S&P ASX 200	5378	5592	-3.8	-9.3	-15.2

* as of 10:30 am

JUNE 16 – JUNE 20

	MONDAY JUNE 16	TUESDAY JUNE 17	WEDNESDAY JUNE 18	THURSDAY JUNE 19	FRIDAY JUNE 20
JAPAN		**Tertiary Index** **Apr. (e) +0.6%** Mar. +0.3% **Machine Tool Orders** **May F (e) +1.4% y/y** Apr. +0.4% y/y	**Leading Index** **Apr. F (e) 92.8** Mar. 90.8 **Nationwide Dept. Store Sales** **May** Apr. -3.4% y/y Minutes from the April 30 & May 19-20 BoJ Monetary Policy Meetings	**All-Industry Activity Index** **Apr. (e) +0.4%** Mar. +0.5%	
EUROZONE	EUROZONE **Consumer Price Index** **May F (e) +0.6% +3.6% y/y** Apr. +0.3% +3.3% y/y **Consumer Price Index—Core** **May (e) +1.8% y/y** Apr. +1.6% y/y	EUROZONE **Trade Deficit** **Apr. (e) €0.5bln** Mar. €2.4 bln GERMANY **ZEW Survey** **Jun. (e) -42.5** May -41.4		ITALY **Jobless Rate** **Q1 (e) 6.1%** Q4 6.1%	GERMANY **Producer Price Index** **May (e) +0.9% +5.8% y/y** Apr. +1.1% +5.2% y/y ITALY **Industrial Orders** **Apr. (e) +0.4% +4.7% y/y** Mar. -0.8% -3.7% y/y
U.K.		**Consumer Price Index** **May (e) +0.4% +3.2% y/y** Apr. +0.8% +3.0% y/y **Consumer Price Index—Core** **May (e) +1.5% y/y** Apr. +1.4% y/y	Minutes from the June BoE Monetary Policy Meeting	**Retail Sales** **May (e) -0.1% +4.1% y/y** Apr. -0.2% +4.2% y/y **Money Supply—M4** **May P (e) +10.5% y/y** Apr. +11.1% y/y	
OTHER	CHINA **Industrial Production** **May (e) +16.0% y/y** Apr. +15.7% y/y	MEXICO **Industrial Production** **Apr. (e) +4.6% y/y** Mar. -4.9% y/y CHINA **Fixed Asset Investment** **May (e) +25.6% y/y** Apr. +25.7% y/y Minutes from the June Reserve Bank of Australia Monetary Policy Meeting			MEXICO **Jobless Rate** **May (e) 3.5%** Apr. 3.6%

ECONOMIC RESEARCH

JUNE 16 – JUNE 20

North American Calendar

MONDAY JUNE 16

CANADA

8:30 am **New Motor Vehicle Sales**

Apr. (e)	**+0.5%**
Mar.	-0.5%

UNITED STATES

8:30 am **Empire State Manufacturing Survey**

Jun. (e)	**-1.8**
Consensus	*-1.8*
May	-3.2

9:00 am **Net TIC Flows**

	Total	**Long Term**
Apr.		
Mar.	-$48.2 bln	$80.4 bln

1:00 pm **NAHB Housing Index**

Jun. (e)	**18**
Consensus	*19*
May	19

10:00 am **Fed Chairman Bernanke speaks in Washington on health care**

1:00 pm **3 & 6-month T-bill auction $47.0 bln** (New cash $3.0 bln)

TUESDAY JUNE 17

CANADA

8:30 am **Int'l Securities Transactions**

	Inflows	**Outflows**
Apr. (e)	**$2.5 bln**	**$3.0 bln**
Mar.	$5.3 bln	-$3.3 bln

UNITED STATES

8:30 am **Current Account Deficit**

Q1 (e)	**$171.0 bln**
Consensus	*$173.9 bln*
Q4	$172.9 bln

8:30 am **PPI**

May (e)	**+1.0%**	**+6.8% y/y**
Consensus	*+1.0%*	*+6.7% y/y*
Apr.	+0.2%	+6.5% y/y

8:30 am **PPI Ex. Food & Energy**

May (e)	**+0.2%**	**+3.0% y/y**
Consensus	*+0.2%*	*+3.0% y/y*
Apr.	+0.4%	+3.0% y/y

8:30 am **Housing Starts**

May (e)	**0.97 mln a.r. (-6.0%)**
Consensus	*0.98 mln a.r. (-5.0%)*
Apr.	1.03 mln a.r. (+8.2%)

8:30 am **Building Permits**

May (e)	**0.95 mln a.r.**
Consensus	*0.95 mln a.r.*
Apr.	0.98 mln a.r.

8:55 am **Redbook**

Jun. 14	
Jun. 7	-1.0%

9:15 am

	Industrial Production	**Capacity Utilization**
May (e)	**+0.2%**	**79.7%**
Consensus	*+0.1%*	*79.7%*
Apr.	-0.7%	79.7%

5:00 pm **ABC News/Washington Post Consumer Comfort Index**

Jun. 15	
Jun. 8	-45

WEDNESDAY JUNE 18

CANADA

8:30 am **Leading Indicator**

May (e)	**+0.2%**
Consensus	*+0.1%*
Apr.	+0.1%

UNITED STATES

10:30 am **DoE's Petroleum Status Report (Jun. 13 week)**

12:00 pm **Business Roundtable CEO Economic Outlook Survey** *

Q2	
Q1	79.5

THURSDAY JUNE 19

CANADA

7:00 am **Consumer Price Index**

	m/m (nsa)	**y/y**
May (e)	**+0.8% (+0.6% sa)**	**+2.1%**
Consensus	*+0.6%*	*+1.9%*
Apr.	+0.8%	+1.7%

7:00 am **Core CPI**

May (e)	**+1.5% y/y**
Consensus	*+1.4% y/y*
Apr.	+1.5% y/y

8:30 am **Wholesale Trade**

Apr. (e)	**+0.9%**
Mar.	+0.6%

UNITED STATES

8:30 am **Initial Claims**

Jun. 14 (e)	**388,000 (+4,000)**
Jun. 7	384,000 (+25,000)

10:00 am **Philadelphia Fed Index**

Jun. (e)	**-12.0**
Consensus	*-12.0*
May	-15.6

10:00 am **Leading Indicator**

May (e)	**unch**
Consensus	*unch*
Apr.	+0.1%

10:30 am **DoE's Natural Gas Status Report (Jun. 13 week)**

2 & 5-year note auction announcement

FRIDAY JUNE 20

CANADA

8:30 am

	Retail Sales	**Ex. Autos**
Apr. (e)	**+0.8%**	**+0.9%**
Mar.	+0.1%	unch

UNITED STATES

* date approximate

Upcoming Policy Meetings | **Bank of Canada:** July 15, September 3, October 21 | **FOMC:** June 24-25, August 5, September 16

BMO Capital Markets