CAPITAL MARKETS RESEARCH

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Daily Points

— Tracking the Numbers

On Deck for Thursday, August 2

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	08/02	06:59	ICSC Chain Store Sales - Monthly (y/y)	Jul	--	--	0.2
US	08/02	08:30	Continuing Claims (000s)	JUL 21	3300	3287.5	3287.0
US	08/02	08:30	Initial Jobless Claims (000s)	JUL 28	370	370.0	353.0
US	08/02	10:00	Factory Orders (m/m)	Jun	0.9	0.5	0.7

KEY POINTS:

- Markets cautiously optimistic ahead of the ECB
- ECB leaves policy rate unchanged, all eyes on press conference
- BoE stands pat
- Modest US data risk today
- Consumer spending alive and kicking down under
- Spanish auction a success…
- …as Spanish regions make little progress on budget restraint
- Toronto's condo correction

CANADA

All's quiet in Canada as the country's markets will follow the broad global tone. Forty-five companies release earnings today, but only 17 of them are on the TSX.

Consistent with our warnings on the market, the unsold stock of **Toronto condos** hit a new record high by the end of Q2 according to figures released by Urbanation late yesterday (a firm that has the richest market details by individual project). New condo sales fell to their lowest level since 2010Q3. Sales fell 21% in Q2 over Q1 and 50% from 2011Q2 which were both highs for their respective quarters. The absorption rate (fraction of new units launched that were sold) fell to the lowest level since the peak of the crisis in 2008Q4. The not-for-occupancy investor that has been driving 45-60% of Toronto condo sales in recent years disappeared as the monthly net cash flow to financing and paying condo fees and then renting it out remains negative while rental rates and prices flatten out. This hard data confirms the anecdotes of pulled project openings and construction delays this year. The macro implication of key relevance here is that this will put downward pressure upon housing starts over 2012H2 as builders respond to the inventory overhang and given the big role that multiples in cities like Toronto and Vancouver have played in driving the headline construction figures. It also supports our view that housing is a risk that will keep the BoC on hold for a long time yet as per the research note that we put out yesterday.

UNITED STATES

The focus clearly isn't on the US market today, as the Fed passes the baton to European central banks. Data risk is light, and what happens to the US market tone will depend upon what the ECB does or doesn't deliver at 8:30amET.

BoC Events

BoC Overnight Lending Rate
Current Rate: 1.0%
Next Move: September 5 @ 1.0%
Bias: Neutral

Fed Events

Fed Funds Target Rate
Current Rate: 0-0.25%
Next Move: Sept. 13 @ 0-0.25%
Bias: Dovish

Key International Events

BoJ
Current Rate: 0.10%
Next Move: August 9 @ 0.10%
Bias: Dovish

BoE
Current Rate: 0.50%
Next Move: Sept. 6 @ 0.50%
Bias: Dovish

ECB
Current Rate: 0.75%
Next Move: Sept. 6 @ 0.75%%
Bias: Neutral

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Jobless claims (8:30amET) are for the end of July and thus don't matter to tomorrow's nonfarm call since they fall outside of the nonfarm survey reference period which is the pay period that includes the 12th of the month. Claims do matter, however, in terms of advancing the debate over to what extent shorter and fewer than usual seasonal auto plant shut downs have sparked unusual volatility in initial jobless claims through unstable seasonal adjustment factors. Only more data into August will help clarify this.

We already know half of this morning's **factory orders** report (10:00amET) for June. Durable goods orders climbed 1.6% m/m when they were reported last week. The fact that it was all because of transportation (ex transportation fell 1.1%) and weak consumer spending that is likely to translate into soft nondurables orders that are the other half of the report explain why consensus is playing it safe on just a 0.5% m/m expected rise in total factory orders.

INTERNATIONAL

The second most significant global central bank takes to the stage this morning, and that has markets positioned with cautious optimism concerning what may transpire. Most major currency is up against the USD today. European equities are gently bid, and Dow futures are hoping for a pop higher at the market open. All significant European and North American ten year sovereign notes are bid, particularly in the case of Italy and Spain with hoped-for bond buying by the ECB still driving the gains. Commodities are more uncertain with generally modest but mixed moves across each of the energy, metals, and agricultural benchmarks.

The ECB left its benchmark policy rate unchanged at 0.75% this morning, but the big show will be at 8:30amET when other possible policy measures and comments hit the tape as ECB President Mario Draghi holds his press conference.

ECB President Draghi's remarks last week that "the ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough," set a high bar for today's meeting. Less attention was paid to the remainder of his remarks, which emphasized that "the key strategy point here is that if we want to get out of this crisis, we have to repair this financial fragmentation" which he characterized as the malfunction of the interbank funding market. He framed the sovereign debt issue in that context: "Then there's another dimension to this that has to do with the premia that are being charged on sovereign stats borrowings. These premia have to do, as I said, with default, with liquidity, but they also have to do more and more with convertibility. Now to the extent that these premia do not have to do with factors inherent to my counterparty – they come within our mandate." The full text is available here: http://www.ecb.int/press/key/date/2012/html/sp120726.en.html

The **Bank of England** did what was widely expected and left its key policy rate unchanged at 0.5% and the asset purchase target unchanged at £375 billion. The BoE had already taken significant steps at its last meeting with the funding-for-lending program and a £50 billion hike in the asset purchase target. It is reserving judgement on the latest GDP report since it was likely heavily influenced by wetter than usual weather, an extra day's holiday for the Jubilee, and North Sea oil disruptions.

Australian retail sales came in fairly strong in June, increasing 1% m/m (retail sales in May were revised higher to 0.8% m/m from 0.5% m/m on the first pass). Both months' gains were fairly well rounded with five out of six broad categories advancing in June (the exception was sales of household goods, which declined 0.2%) and all six advancing in the revised May numbers. The implication is that consumption of goods should make a solid contribution to Q2 GDP growth, mitigating some of the domestic growth concerns that the RBA has voiced in its recent statements. The A$ was the second strongest performing currency cross against the USD overnight (behind the NZ$) and appreciated against all major crosses except the NZ$.

Spain auctioned €3.13bn of bonds in a decently bid auction which was somewhat of a trial balloon to see if markets are open or closed to the troubled European sovereign. The results were not bad (the target amount for the auction was a low €3bn, which Spain exceeded, and the bonds richened after the auction according to Bloomberg). It sold €1.06bn of bonds maturing 7/30/2014 at an average yield of 4.77% (bid to cover: 3.0), €1.02bn of 10/31/2016 paper at an average yield of 5.97% (bid to cover: 2.7), and €1.04bn of 1/31/2022 paper at an average yield of 6.6% (bid to cover: 2.4).

Amidst the widespread panning of the US federal government's debt ceiling rules and the process of brinksmanship that it introduces to congressional politics, **Spain is introducing debt ceilings** of its own for its 17 semi-autonomous regions. The ceilings are to take the formulation of being a percentage of GDP (i.e. not an absolute amount) based on the outstanding indebtedness of the regions at present (e.g. Catalonia's debt-to-GDP ratio is 21% at present while the average among the regions is a debt-to-GDP ratio of 15.1%). The percentages were set at a meeting that concluded on Tuesday, however they are by no means a fait accompli. The most indebted regions are also the ones most highly opposed to the debt ceilings. Catalonia (the largest region in economic terms) boycotted the meeting at which the debt ceilings were negotiated while Andalucia (the third largest) left early. Spanish regional politics and Spanish federalism are highly controversial during the best of times, with different linguistic and regional 'national' groups demanding different degrees of sovereignty within the context of federal Spain. The process of negotiating regional finance in Spain is therefore more than a merely economic issue, and in a sense will therefore be more difficult to negotiate than the banking difficulties or for that matter the federal budget. A report by Bloomberg that Spanish banks loaned €41bn euros to the regions this year implies that Spain has been using the banking system to paper over the political issues involving the regions, which are harder to solve. An interesting write up from Bloomberg is available here: http://www.bloomberg.com/news/2012-07-31/spain-introduces-regional-debt-ceilings-to-achieve-budget-goals.html

Equities			% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	11618.53	-46.18	-0.4	1.1	0.2	-8.9
Dow 30	12971.06	-37.62	-0.3	2.3	0.8	9.3
S&P 500	1375.14	-4.18	-0.3	2.8	0.7	9.7
Nasdaq	2920.21	-19.31	-0.7	2.3	-1.1	9.4
DAX	6791.66	37.20	0.6	3.2	4.6	-0.1
FTSE	5728.46	15.64	0.3	2.8	1.6	0.2
Nikkei	8653.18	11.33	0.1	2.5	-3.9	-12.1
Hang Seng	19690.20	-130.18	-0.7	4.2	1.3	-12.2
CAC	3334.05	12.49	0.4	4.0	2.9	-5.4
Commodities			% change:			
WTI Crude	89.11	0.20	0.2	-0.3	6.4	-5.0
Natural Gas	3.13	-0.04	-1.4	0.7	10.7	-24.8
Gold	1599.00	-23.00	-1.4	-0.1	0.0	-1.5
Silver	27.42	-0.45	-1.6	-1.4	0.2	-31.0
CRB Index	299.23	-0.28	-0.1	0.7	5.3	-12.5
Currencies			% change:			
USDCAD	1.0033	-0.0023	-0.2	-0.7	-1.4	4.4
EURUSD	1.2270	0.0045	0.4	-0.1	-2.4	-13.6
USDJPY	78.21	-0.2300	-0.3	0.0	-1.6	1.4
AUDUSD	1.0519	0.0058	0.6	1.2	2.6	-2.4
GBPUSD	1.5572	0.0036	0.2	-0.7	-0.8	-4.5
USDCHF	0.9797	-0.0032	-0.3	0.2	2.6	28.5

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.	0.23	0.23	0.23	0.63	0.64	0.59	1.52	1.52	1.44	2.60	2.60	2.50
CANADA	1.09	1.09	1.02	1.29	1.29	1.22	1.71	1.71	1.65	2.29	2.29	2.27
GERMANY	-0.08	-0.08	-0.05	0.34	0.36	0.35	1.35	1.37	1.32	2.19	2.22	2.20
JAPAN	0.10	0.10	0.10	0.18	0.18	0.19	0.78	0.78	0.74	1.82	1.81	1.77
U.K.	0.07	0.10	0.09	0.49	0.52	0.49	1.49	1.52	1.48	2.91	2.93	2.89
	Foreign - U.S. Spreads (bps):											
CANADA	86	86	78	66	66	62	18	18	21	-30	-30	-23
GERMANY	-31	-31	-28	-30	-28	-24	-18	-16	-12	-41	-38	-30
JAPAN	-13	-13	-13	-46	-46	-41	-75	-74	-70	-78	-79	-73
U.K.	-16	-13	-14	-14	-12	-10	-3	-1	4	32	33	39

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