

# Financial Market Update

May 2012  
Prepared By: FCC Treasury

## Canada commentary

### Bank of Canada meeting

At the latest Bank of Canada (BoC) meeting on April 17, the BoC left the target for the overnight rate unchanged at one per cent. However, also during the meeting, the BoC upgraded its forecasts for Canada's gross domestic product (GDP) and inflation for the year and noted that "some modest withdrawal of the present considerable monetary policy stimulus may become appropriate". The BoC is steadily preparing the way for possible interest rate increases. It is important to note that less than a year ago, the BoC issued a similar message, only to back down on concerns over the euro zone and U.S. debt limit issue.

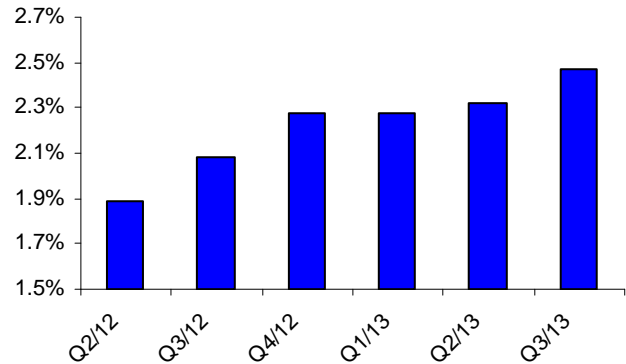
### Canadian retail sales decline

Retail sales in Canada fell for the first time in seven months in February, falling 0.2 per cent to \$38.9 billion. Sales in five of the 11 subsectors that make up retail sales reported by Statistics Canada also showed declines, representing 57 per cent of total retail sales. The auto sector suffered the biggest decline at 2.4 per cent followed by a 1.0 per cent decline in sporting goods, hobbies, music and book store sales. Offsetting some of the losses for the month was a 1.7 per cent increase in sales at gasoline stations, but this was largely due to higher fuel prices.

### Canada economic growth

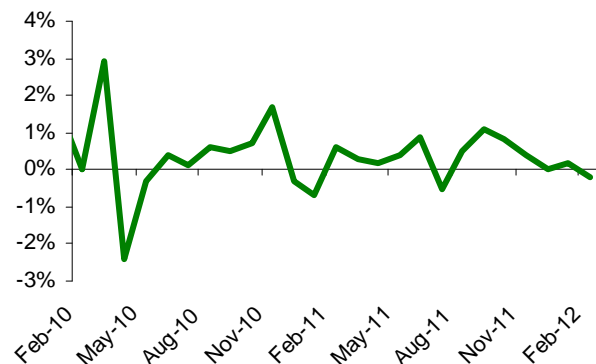
Statistics Canada's 2011 preliminary GDP data is out and it shows that the Canadian economy grew 2.6 per cent in 2011. Alberta led all of the provinces with GDP advancing 5.2 per cent as higher energy prices encouraged oil and gas extraction and exploration activity for the province. Saskatchewan also experienced strong economic growth at 4.8 per cent with strong export demand for its natural resources. The Northwest Territories was the only part of Canada that experienced a decline in GDP, falling 5.5 per cent as output of mining and oil and gas extraction declined by 13 per cent.

### Forecasted GDP rates in Canada (year-over-year)



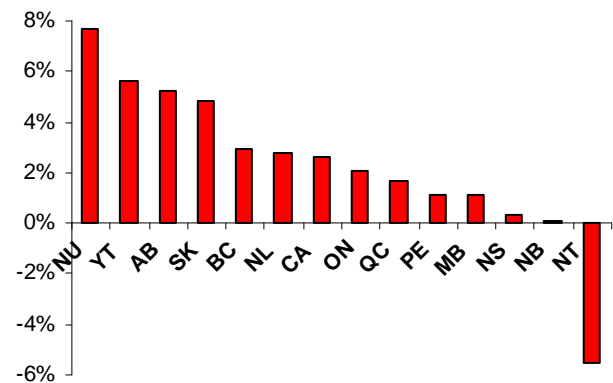
Source: Bloomberg

### Canada retail sales (monthly change)



Source: Bloomberg

### Canada GDP in 2011



Source: Statistics Canada

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### U.S. commentary

#### U.S. interest rates still near zero

The Federal Reserve (Fed) kept the target range for the federal funds rate at 0 to 0.25 per cent during its latest two-day meeting on April 24-25. The Fed repeated its stance that economic conditions “warrant exceptionally low levels for the federal funds rate at least through late 2014” even with recent improvements in the U.S. economy. It is clear that the Fed will need to see continual improvements in the labour market and overall economy before they alter their view on interest rates. Since the beginning of the year, the Fed’s forecast for 2012 economic growth marginally improved. Policymakers are now seeing growth between 2.4 per cent and 2.9 per cent compared with previous forecasts of between 2.2 per cent and 2.7 per cent. Their growth forecast for 2013 remains essentially unchanged at 2.7 to 3.2 per cent.

#### U.S. first quarter GDP

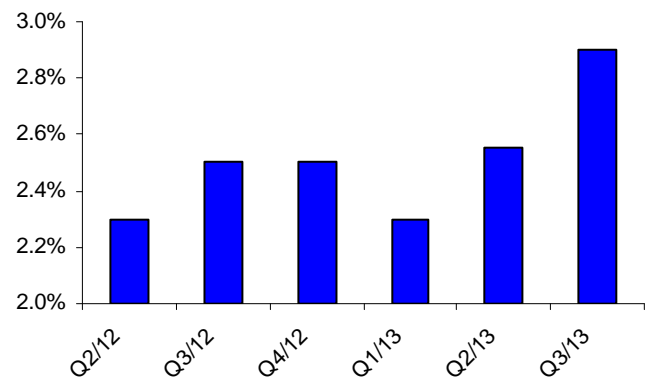
U.S. economic growth in the first quarter of 2012 was reported at 2.2 per cent, following a stronger 3.0 per cent increase in the previous quarter. The strongest component of the growth came from consumer spending, up at a 2.9 per cent annual rate – the fastest pace in more than a year. Exports, housing and autos also contributed to the increase in growth. Business and government spending did their part in lowering the GDP figure. Government spending has either declined or been flat for six straight quarters, reducing GDP by 0.6 per cent in the most recent quarter.

### Global commentary

#### Economic woes in Spain

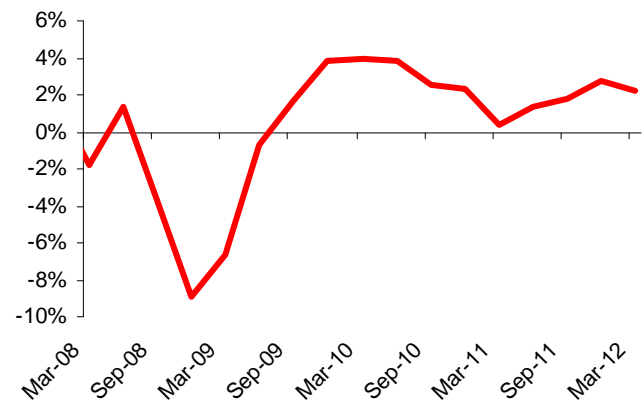
Spain’s economy has fallen back into recession in the first quarter of this year after reporting a second consecutive decline in GDP. First quarter GDP was reported at negative 0.3 per cent, matching the previous decline in the fourth quarter of last year. This is the second recession for the euro zone’s fourth-largest economy since the end of 2009. According to some economists, Spain will experience an increased pace of economic contraction in the coming quarters as the government pushes forward with deep spending cuts to reduce its huge public deficit. Along with the recession, it was reported that 365,900 more people lost their jobs in the first quarter, bringing the total number of people out of work to 5.6 million. Spain’s unemployment rate rose to 24.4 per cent from 22.9 per cent in the fourth quarter of 2011.

### Forecasted GDP rates in the U.S.



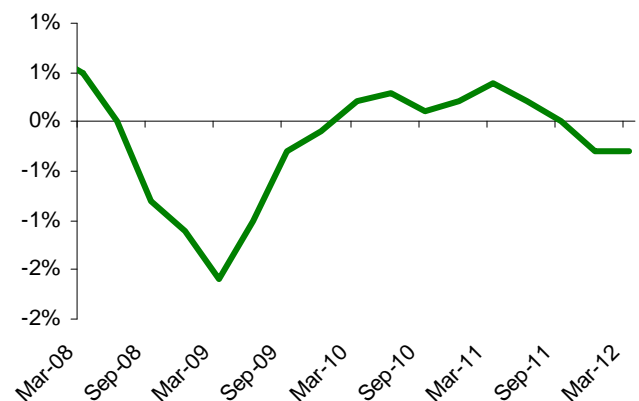
Source: Bloomberg

### U.S. GDP rates



Source: Bloomberg

### Spain GDP rates

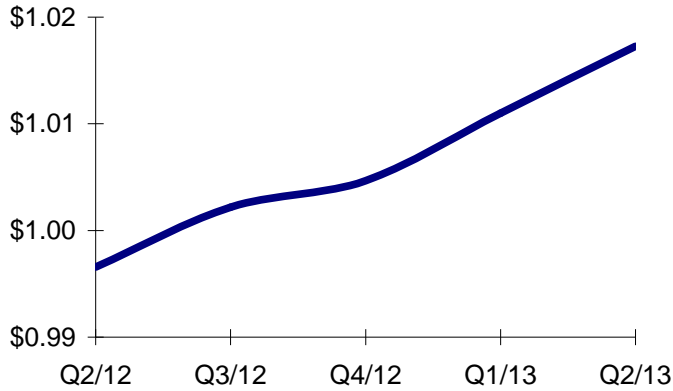


Source: Bloomberg

# Financial Market Update

## Canadian Dollar Forecasts

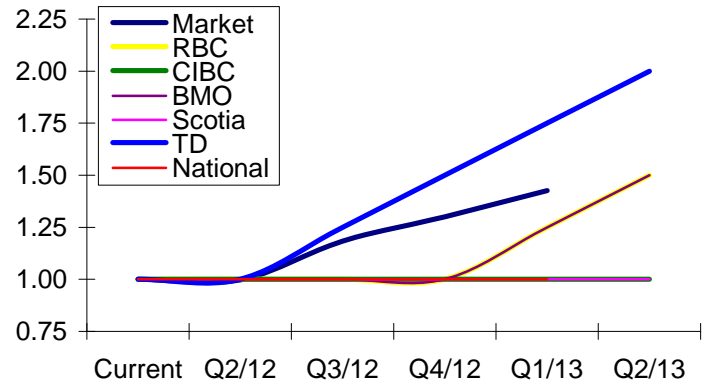
**Canadian Dollar – Bank Forecasts Average**



Source: Canadian Big 6 Banks

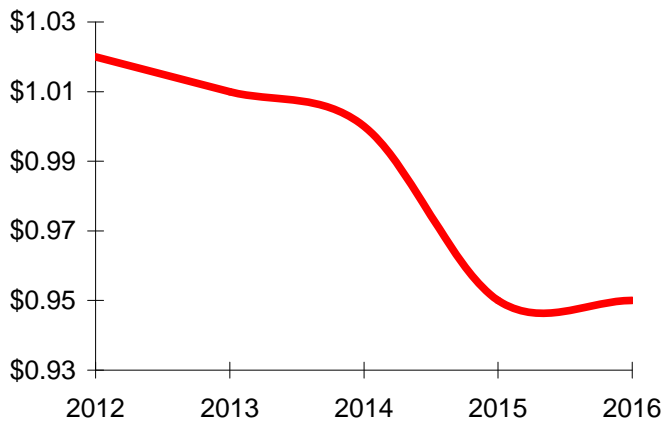
## Interest Rate Forecasts

**Bank of Canada Overnight Rate Forecasts (%)**



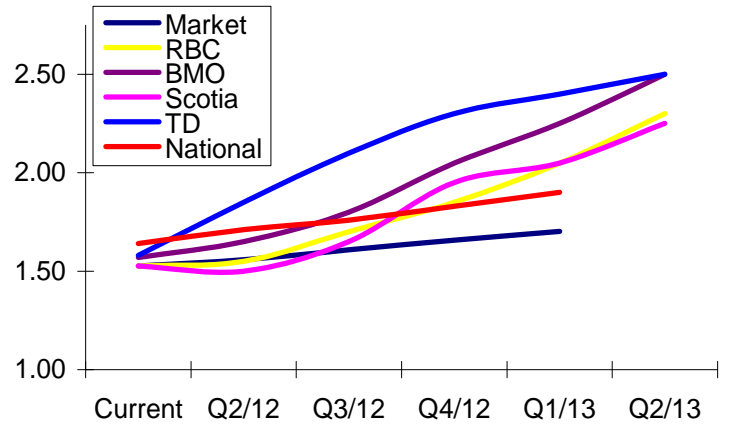
Source: Bloomberg, Canadian Big 6 Banks

**Canadian Dollar – Bloomberg Composite Forecast**



Source: Bloomberg

**5 Year Government of Canada Rate Forecasts (%)**



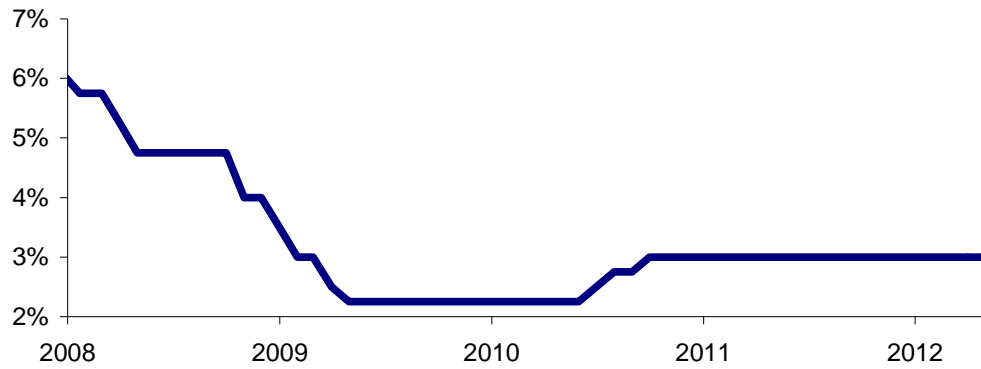
Source: Bloomberg, Canadian Big 6 Banks

# Financial Market Update

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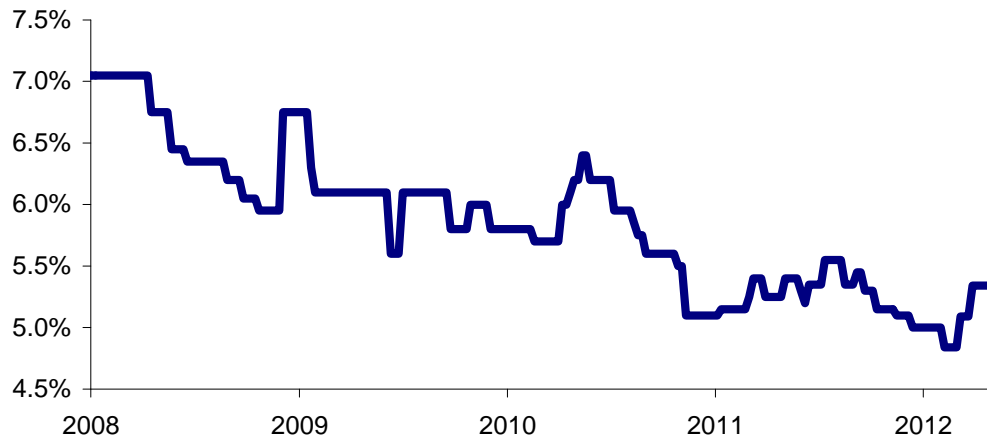
## Historical Rates

### Prime



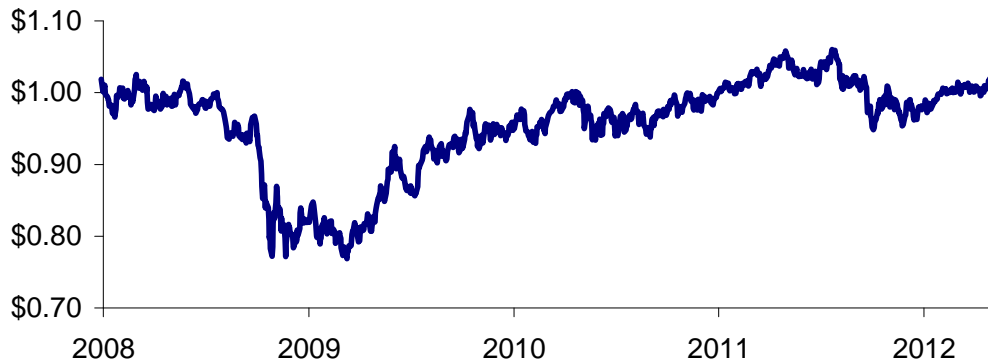
Source: Bloomberg

### FCC 5 Year Fixed Rate



Source: FCC

### Canadian Dollar



Source: Bloomberg