



Funding The Beast

This is a good business. To listen to what they say, EU leaders—at an all-night Summit last Wednesday—“increased” the size of their bailout fund to €1 trillion without putting a dime of real money on the table. Now they are keen to “tap” into resources that are not their own to fund this crazy scheme of guarantees leveraged off guarantees to sell bonds and bank shares that no one may want to buy to restore value in the banking system destroyed by other bonds that no one wants to own right now. This is a construct of Madoffian proportions.

The next challenge, we believe, is to investigate the economic consequences of funding this deal. We doubt much money is going to come from China. We discuss this in today’s edition of *Weekly Notes on China’s Economy*. Now we hear that the Europeans want to hit the IMF for a special facility to help the EFSF, its yet-to-be defined SIV counterpart and all the other schemes and sub-schemes without having to ask European taxpayers to put up any cash. *We do not think that is going to work, either. Despite the influence of a European Managing Director on a still-Eurocentric Board, we believe the IMF will sign up for only a limited role in funding this new scheme to bail out Euroland.* Non-European stakeholders in the IMF are interested in preserving the resources of the Fund to help needy countries stave off economic disaster. Helping rich countries avert an economic decline is not the primary agenda of the organization.

We very much believe that funding the Euroland bailout scheme outlined last Wednesday will cause severe economic hardship—probably a depression—in the Euro Zone. Our view is that unfunded guarantees are worthless. Raising the resources to fund the EFSF and the associated SIV will require diverting savings—domestic European savings, for the most part, not China’s savings, and not the savings kept on reserve at the IMF—from either domestic consumption or investment. This is called “crowding out” in traditional economic analysis. *We see no alternative to raising real cash to fund this program: Leveraging up “firepower” on the basis of government guarantees is worthless.*

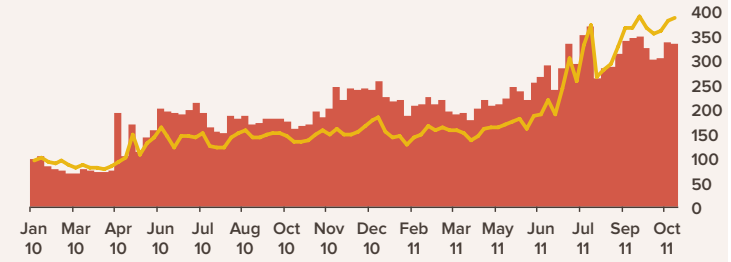
You do not need to be an economist to understand that funding a €1 trillion financial and economic rescue plan with new bond issuance—or tax revenues—will reduce GDP of the Euro Zone by more than 10%. If that funding is accomplished within the next year, the economy will have to contract that much. Jobs will be lost. Incomes will fall. Output and demand will drop. That may mean banks will fail, compounding the cost of the “bailout” and increasing the economic pain with “second-order effects.” These will be *real* losses, not the imagined knock-on price risks that Trichet has misguidedly feared for the last eight years. Indeed, prices are prone to **fall** in the wake of an economic shock as big as this, if economics teaches us anything.

We predict a catastrophic contraction of GDP in Euroland in a combined monetary and real-economy event. The event we envision is much more akin to the Great Depression of the 1930s than to any business cycle we have experienced in our lifetimes.

Why, then, did markets rally at the end of last week? Well, every trader you meet will tell you that the currency markets had oversold the euro, and that the equity markets were pricing in a failed Sum-

Spreads Between 10-Year Bunds, Italian And Spanish Bonds

Basis Points At Friday Closing, Italy Is Yellow Line, Spain Is Red Bar
Weekly Data Through October 28



mit. That did not occur... strictly speaking. *Outside the market for PIIGS debt, we believe traders have mistaken the emergence of a structure—to stabilize Greece’s finances, to backstop the debts of the other PIIGS and to increase bank capitalization as needed—for the actual funding and implementation of that structure.*

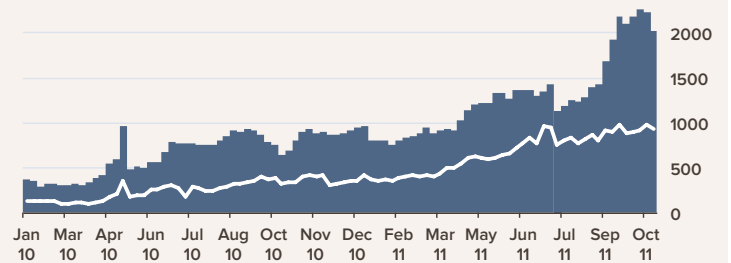
We saw a similar market rally in the aftermath of the July 21 Summit, which was also billed as a complete and final solution to the crisis. Traders bid Bund prices lower and the euro higher. The data show that big stock market gains in the days after the Summit were reversed within a week. Bond yields unwound risk and then put the trades back on, and currencies moved in parallel. *As people come back from this weekend’s reflections, we expect many to draw the same conclusion we have: Unfunded rescue plans are futile, and funding the programs as envisioned will break the back of the Euroland economy.*

Indeed, we can imagine that only the rally in Greek government bonds will survive reflection. Market prices there are clustered around 40 centimes on the euro, reflecting the “haircut” most institutions expect to take on these securities. Yields on Italy’s curve shot up last week, as investors balked at new bond issues in the face of growing implementation risk around Prime Minister Berlusconi’s fiscal rehab program. Auctions last week were sloppy.

The next move in the markets should be a steepening of the yield curves for the PIIGS, ex-Greece, as risk returns to the market. Expectations for a deep economic depression and deflation should pop to the fore in the rest of the Euro Zone, flattening the yield curve.

Spreads Between 10-Year Bunds, Greek And Portuguese Bonds

Basis Points At Friday Closing, Greece Is Blue Bar, Portugal Is White Line
Weekly Data Through October 28



Weekly Calendar of International Economic Events & Data Releases

High Frequency Economics®

	United States	Canada	Japan	France	Germany	United Kingdom	Australia	Europe & Global
Monday Oct 31	*Chicago PMI (10) Weekly T-Bill Auction	IPPI / RMPI (9) GDP (8)	Housing Starts (9) Construction (9)	PPI (9)	Retail Sales (9) Partial HOLIDAY <i>Reformation Day</i>	M4 (9) BoE Mortgages (9)	TD CPI (10) Domestic Credit (9)	MUICP (10p) Employment (9) Wkly Repos Allocated Wkly SMP Sterilization
Tuesday Nov 1	*ISM Mfg Survey (10) *Construction (9) Wkly Redbook Sales FOMC Meeting Begins		BoJ Minutes (10) Vehicle Sales (10) Wages (9)	HOLIDAY <i>All Saints Day</i>	Partial HOLIDAY <i>All Saints Day</i>	GDP (Q3a) CIPS Mfg Index (10) Nationwide Index (10)	RBA Board Meeting House Prices (Q3)	
Wednesday Nov 2	*FOMC Meeting Ends *Bernanke Press Conf *ADP Employment (10) Wkly MBA Mortgages			Reuters PMI Mfg (10)	Employment (10) Reuters PMI Mfg (10)	CIPS Construction (10)	Building Approvals (9)	Reuters PMI Mfg (10)
Thursday Nov 3	*Productivity (Q3p) *ISM Non-Mfg Svy (10) Factory Orders (9) *Wkly Initial Claims		HOLIDAY <i>Culture Day</i>			CIPS Services (10)	Retail Sales (9)	G-20 Summit ECB Council Meeting
Friday Nov 4	*Employment (10)	Employment (10) Ivey Index (10) Building Permits (9)			Factory Orders (9)	Vehicle Sales (10)	RBA Qtrly Statement	G-20 Summit PPI (9)
Sometime Soon	December 13: FOMC Meeting	November 30: GDP (Q3) December 6: BoC Rate Decision	November 14: GDP (Q3p) November 15 - 16: BoJ Board Meeting	November 10: Industrial Prod'n (9) November 15: GDP (Q3p)	November 7: Industrial Prod'n (9) November 15: GDP (Q3p)	November 9 - 10: MPC Meeting	December 6: RBA Board Meeting December 7: GDP (Q3)	November 7 - 8: EU FinMins Meet Nov 15: GDP (Q3p) Dec 8: ECB Council
Key Data	ISM & Jobs Up Modestly, Fed Unch	Flat GDP? Jobs Retrace!	Wages Falling Housing Dips	Watch The Banks As Greek Debt Folds	Employment Slows! Orders Drop Too!	GDP Flat Or Worse? Money & Credit Down	RBA Board Eases? Retail Stinks!	No ECB Action! MUICP Slows

CCI or BCI = Consumer or Business Confidence Index. a = Advance. p = Preliminary. r = Revision. f = Final. Figures in parentheses are dates: (1) indicates January, (2) February, etc. ***These releases will be subjects of HFE Snapshots.** *Italics indicate HFE estimated release date.*

Carl B. Weinberg, Chief Economist

International Yield Curves

Euroland yield curves remain decoupled from most economic news and driven entirely by the vicissitudes of the sovereign debt crisis. The yields of PIIGS bonds—other than Greece—have not come down. This is a vote of no-confidence in the latest unfunded scheme to stabilize financial markets. The only reason Greek bonds rallied is because the scheme offers a haircut of only 50%, less punitive than the market had priced the paper. Italy's yield curve in particular continues to steepen on fiscal risks. Bunds sold off, and risk-takers returned to the OAT market. *We expect the crisis will not be stabilized until and unless the governments fund their scheme with hard cash, rather than promises. The diversion of funds from investment and consumption spending into the EMU-17 bailout scheme will, we believe, induce a double-digit decline in GDP. Nothing good can be said about that. Bond yields will rise in that depression, even though prices will fall and demand will be weak.* Most yield curves will steepen.

Britain's banks are not out of the water, even if Euroland's banks are stabilized by government support. Domestic conditions show a sagging economy and still-falling house prices. *So it is not clear that Britain's government is off the hook on financial system support measures. We think the sterling yield curve will be lucky not to steepen*

despite BoE gilt purchases, and even though the rate of headline CPI gains has likely peaked and GDP is down.

Japan's JGB market is stable for now, but big risks loom on the horizon as the trade and current account surpluses dwindle. *We should all worry about the day when Japan's savings prove insufficient to fund the government's cash needs. However, that day is unlikely to arrive this week. So the safe bet is on steady bond yields.* Last week's Nikkei rally will have a hard time not reversing with the economy in such bad shape. The growth needed to drive profits will be hard to find, as GDP and domestic spending decline, and as exports are hit by the strong yen and a weak global economy.

Canada's loonie continues to strangle the export sector, as the petro-currency tracks WTI prices higher. Inflation is no big risk here, the public finances are sound and GDP is slowing. *There is no reason for the yield curve not to flatten.* The BoC, however, has little scope to cut interest rates. So we think it will hold its next, and possibly only, rate cut until it is sure Euroland is not going to go up in smoke.

The market is geared up for a rate cut in **Australia** this week, after last week's CPI suggested inflation is slowing. *We think the yield curve still has room to bid yields lower on a rate cut, even though the expectation of an easing has been in the markets for a while.*

Yields On 90-Day Paper — October 28, 2011

Country	Yield	Spread Against:							Curve's Slope*
		U.S.	Canada	Japan	France	U.K.	Germany	Aus'	
U.S.	0.00	—	-0.91	-0.34	-1.59	-0.48	-1.59	-4.72	2.32
Canada	0.91	+0.91	—	+0.57	-0.69	+0.43	-0.69	-3.82	1.52
Japan	0.34	+0.34	-0.57	—	-1.26	-0.14	-1.26	-4.38	0.67
France	1.59	+1.59	+0.69	+1.26	—	+1.12	+0.00	-3.13	1.57
Britain	0.48	+0.48	-0.43	+0.14	-1.12	—	-1.12	-4.25	1.96
Germany	1.59	+1.59	+0.69	+1.26	+0.00	+1.12	—	-3.13	0.57
Australia	4.72	+4.72	+3.82	+4.38	+3.13	+4.25	+3.13	—	-0.18

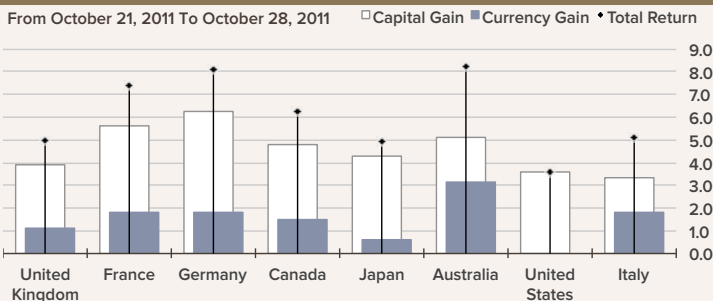
*Calculated as 10-year yield minus 90-day yield for each currency.

Yields On 10-Year Bonds — October 28, 2011

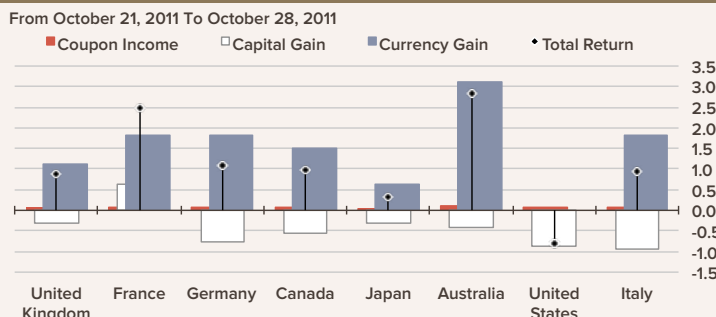
Country	Yield	Spread Against:						
		U.S.	Canada	Japan	France	U.K.	Germany	Aus'
U.S.	2.32	—	-0.11	+1.31	-0.85	-0.12	+0.15	-2.23
Canada	2.43	+0.11	—	+1.42	-0.73	-0.01	+0.27	-2.12
Japan	1.01	-1.31	-1.42	—	-2.15	-1.43	-1.16	-3.54
France	3.16	+0.85	+0.73	+2.15	—	+0.72	+1.00	-1.38
Britain	2.44	+0.12	+0.01	+1.43	-0.72	—	+0.28	-2.11
Germany	2.16	-0.15	-0.27	+1.16	-1.00	-0.28	—	-2.38
Australia	4.55	+2.23	+2.12	+3.54	+1.38	+2.11	+2.38	—

Japanese 10-year simple interest yield converted to semi-annual compound yield.

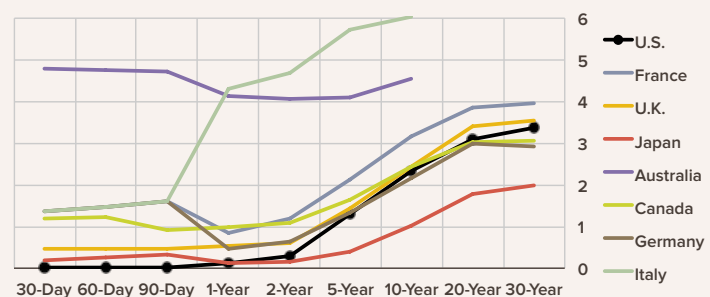
Capital Return In U.S. Dollars, Equity Market Indexes, Percent



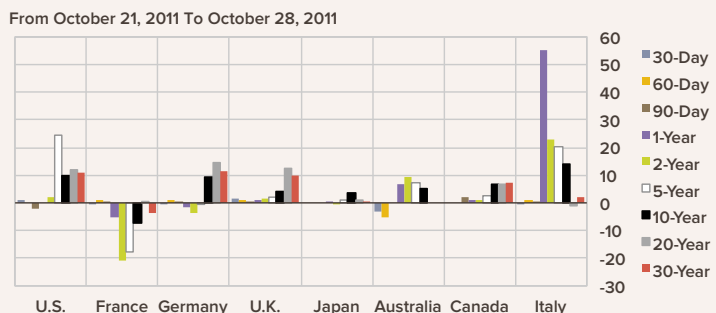
Total Return On Ten-Year Bonds In U.S. Dollars, Percent



Government Bond Yield Curves — October 28, 2011



Changes In Government Bond Yield Curves, Basis Points



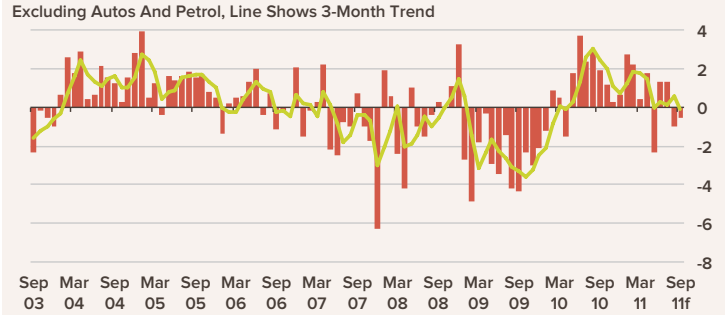
Germany: The Fall

You do not have to be an economist to look at the chart to the right and conclude that consumer spending is not so hot. In the chart below, it is clear that employment trends are not so good, either. Worse, everyone can see that the IFO and ZEW indexes have taken a sharp downturn. *No matter how you slice it, the economy is not doing well.* Last week, headline CPI was reported slowing in October, nearing the 2% ECB ideal “inflation” rate. We expect to learn next week that core CPI increases are down to 1-1/2%, below target and slowing.

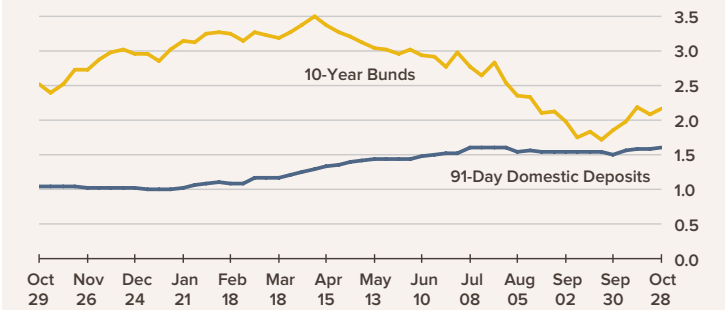
Why, then, are Bund yields rising? The bond market in Euroland is in a topsy-turvy state, where credit risk perceptions dominate economic fundamentals. *Bunds have been severely overbought on the perception that Germany is “safe” within the euro area in the event of a sovereign debt crisis.* Now, not only are these long Bund positions being closed out in the afterglow of last week’s Summit, but people are starting to think through the funding of that deal. Germany is “in” for 23.5% of the cost of funding the EFSF, the cost of recapitalizing the ECB if needed, plus the cost of restoring the capital ratios of its own large banks. We project that will come to about €235 billion in the end. So about 10% of GDP has to be diverted out of savings for investment or consumption. Ultimately, we expect hard cash, not assurances or guarantees, will be needed to stabilize Euroland. *As bad as the economy is, we believe it will get worse... a lot worse. Bunds, as well as stocks, will see prices fall as public sector borrowing needs rise.* No nation in Euroland can stand alone, not even Germany.

So look for Bund yields to rise and the yield curve to steepen.

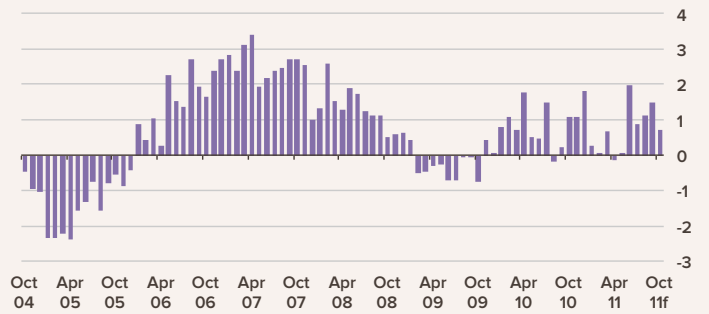
Germany: Retail Sales Index, Percent Change Year Ago



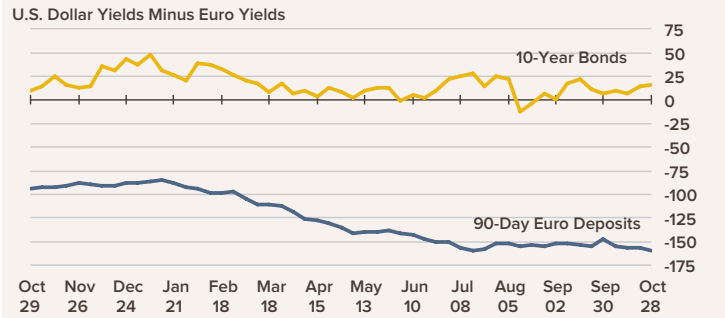
Germany: Yields, Percent



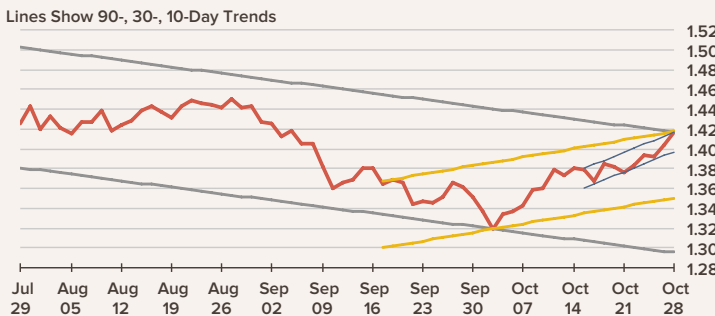
Germany: Employment, Percent Change Year Ago



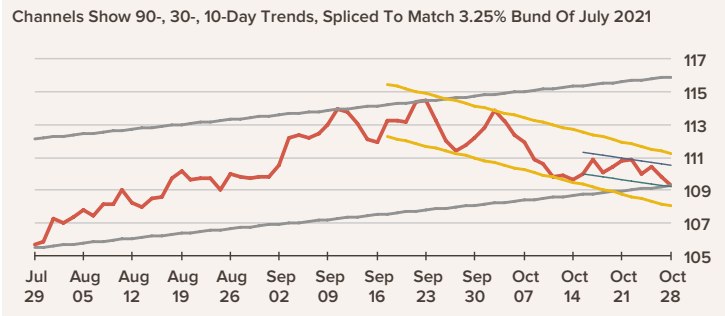
Euro Vs U.S. Dollar Yield Spreads, Basis Points



The Euro In U.S. Dollars, Daily Exchange Rate & Trends



Germany: Daily Price Of 10-Year Bund



Monday 3

Retail Sales	%ch	%chya
Sep 10	-0.7	1.9
Jun 11	4.0	1.3
Jul 11	0.3	1.3
Aug 11	-2.9	-1.0
Sep 11f	-0.2	-0.5

Monday 3

Partial HOLIDAY
Reformation Day

Tuesday 1

Partial HOLIDAY
All Saints Day

Wednesday 2

Unemployment	%	000s	Δ
Oct 10	7.5	3146	-4
Jul 11	7.0	2957	-10
Aug 11	7.0	2948	-9
Sep 11	6.9	2922	-26
Oct 11f	7.0	2920	-2

Wednesday 2

Reuters PMI Manufacturing (10)

Friday 4

Industrial Orders	%chya	%chSP
Sep 10	14.0	-15.5
Jun 11	9.4	-5.5
Jul 11	8.9	-7.9
Aug 11	3.6	-9.2
Sep 11f	6.8	-9.7

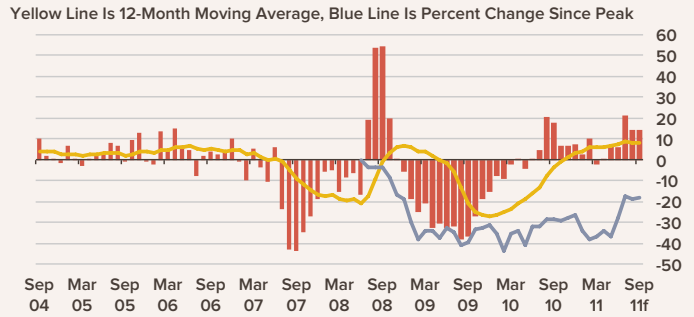
Japan: Ever Worsening

Japan's bond market is sailing through the Euroland debt crisis as though nothing were wrong. Japan seems to be getting away with a public sector debt 2-1/2 times GDP! The owners of the biggest part of the debt market are institutions with a mandate never to short the JGB market. *With investors like that, who needs credit ratings?* Japan's debt will never be the object of market speculation. JGBs are safe as long as the big pools of money still see enough inflows to keep assets growing as fast as the public debt.

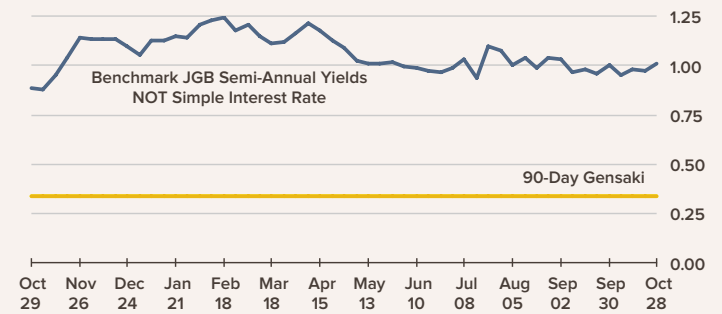
The rating agencies have bought into the notion of "net debt" as the right metric for Japan. The idea is that if the government sells a bond to an entity like Japan Post Bank, which is government-owned, then it owes the money to itself. *It sticks in our craw that some people believe you can simply erase the obligations of the public sector through clever bond placement.* Japan Post has a liability to a depositor, and that liability is backed by a JGB held as an asset. The sum of those end-investor liabilities must equal the **gross** debt issuance of the government! *Were the government to default, the postal savings system would fail and the depositors would lose their money.* We dismiss the notion that Japan's net debt is not that much. *Who cares?*

Net inflows into Japan's big pools of money are dwindling. They are already repatriating funds from abroad to cover current cash needs: This is why the yen is so strong. *When domestic savings become insufficient to finance the government deficit, yields will have to rise to global levels. That is when the banks and non-life insurers will fail. Japan then will have a bigger problem than Euroland!*

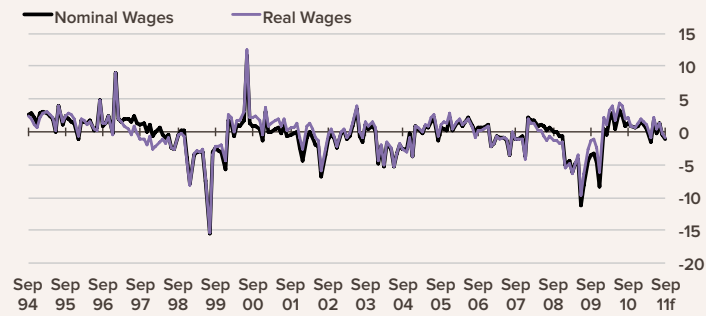
Japan: Housing Starts, Percent Change Year Ago



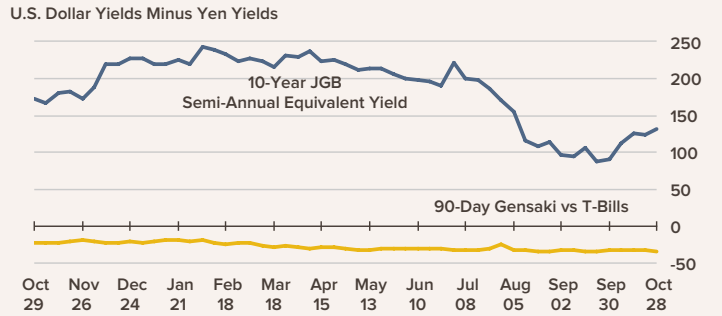
Japan: Yields, Percent



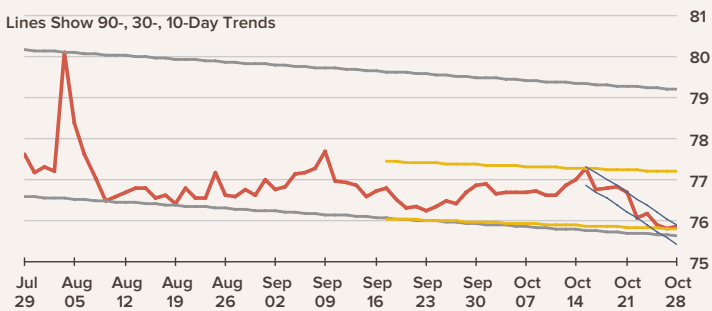
Japan: Real And Nominal Wages, Percent Change Year Ago



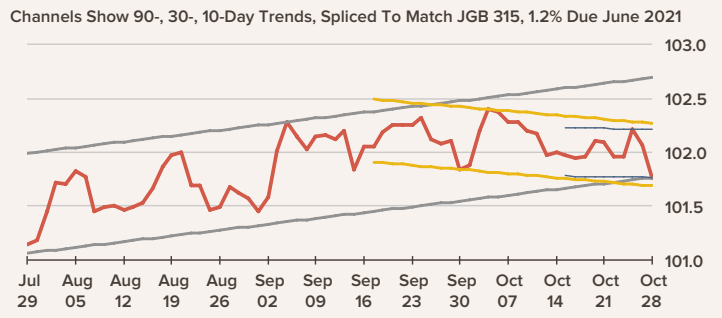
Yen Vs U.S. Dollar Yield Spreads, Basis Points



Yen Per U.S. Dollar, Daily Exchange Rate & Trends



Japan: Daily Price Of 10-Year Benchmark JGB



Monday 31	Monday 31	Tuesday 1	Tuesday 1	Wednesday 2	Thursday 3	Friday 4
Housing Starts	Construction (9)	Wages	BoJ Minutes (10)		HOLIDAY	
%chya %chSP		Nominal Real	Vehicle Sales (10)		Culture Day	
Sep 10 17.7 -28.7		%chya %chya				
Jun 11 5.8 -28.0		Sep 10 1.3 2.2				
Jul 11 21.2 -17.4		Jun 11 -0.2 0.4				
Aug 11 14.0 -18.8		Jul 11 1.3 1.2				
Sep 11f 14.6 -18.3		Aug 11 -0.5 -0.3				
		Sep 11f -1.1 -0.9				

France & Euroland: Draghi's First Stand

Mario Draghi takes over at the ECB with this week's Council meeting. He is confronted at once with two hot-button issues—the extension of the ECB's market-supporting sterilized bond purchase program and the setting of interest rates. We look forward to his first press conference following the Council meeting, when we expect a cogent explanation of the Bank's thinking, for a change.

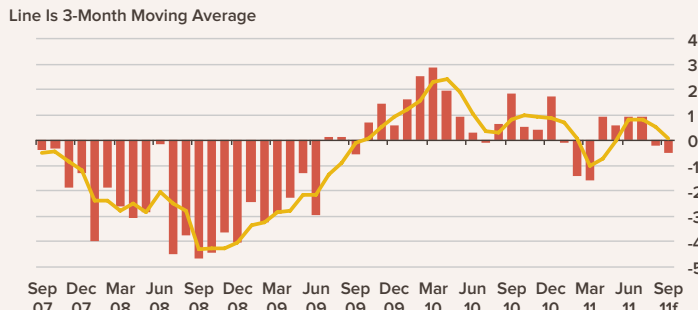
Yes, we welcome the fact that the ECB finally has someone with advanced education in economics—**Dr.** Draghi earned his doctorate in economics from MIT—to speak cogently on the Bank's behalf about the relationship of money and credit to growth and inflation. We are sure **M.** Trichet's engineering degree and political training at ENA and *Sciences Po* prepared him well for civil service, but it perhaps left him short on economic grounding. *We expect a refreshing return to good analysis of the monetary trends under Dr. Draghi's tenure.*

On the bond purchase side, Dr. Draghi is already on record as “determined to avoid a poor functioning of money and financial markets.” His professor Franco Modigliani would have taught Dr. Draghi the same thing at MIT that his co-researcher Albert Ando taught us at Penn in the early 1970s, which is that there is no harm in printing money—monetizing sovereign debt—in moderate size as long as there is slack in the economy. *We see ample slack in the Euroland economy, and every indicator suggests the degree of slack is going to increase.*

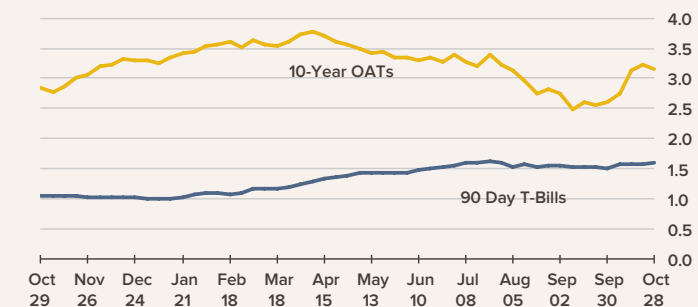
The EC's economic confidence index averaged only 98.8 in the third quarter. It fell to 95 for October, a bad start to Q4. Levels below 100 are associated with below-potential GDP growth on a year-over-year basis. Potential growth is down near zero, according to our estimates. Do the math to figure that flat GDP in Q3 relative to a year ago implies a 1-1/4% decline on the quarter. *A contracting economy means a drop in unemployment and a slowdown of prices.*

An **economist** surely will read these data as suggesting that there is no risk of inflation in the foreseeable future. *We expect to see language referring to inflation risks softened or dropped in the first Draghi communiqué. We believe Dr. Draghi will extend the ECB's bond purchases to stabilize markets, but he will be compelled by the institution to sterilize the monetary impact of the purchases.* As for interest rates, we still see no scope for the ECB to ease given the mandate to sterilize its bond purchases. ECB lending rates must remain higher than the rates at which it drains liquidity from the markets.

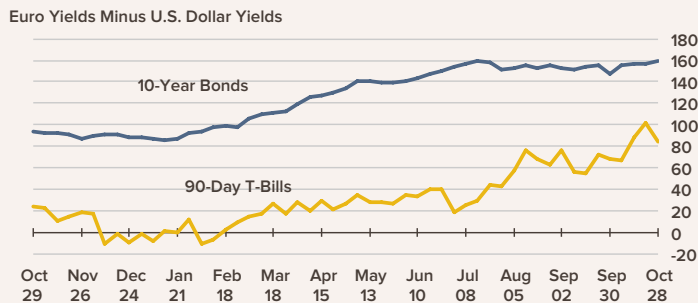
Euro Zone: Employment Growth, Percent Change Year Ago



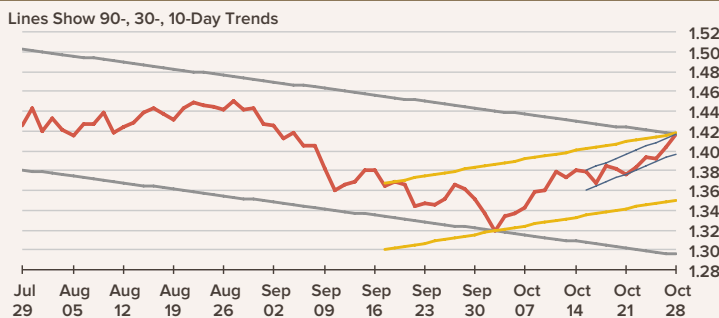
France: Yields, Percent



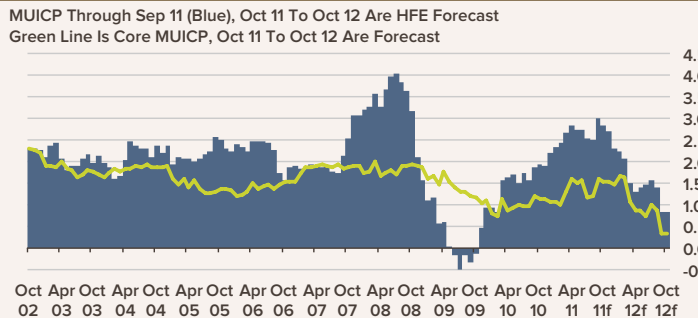
Euro Vs U.S. Dollar Yield Spreads, Basis Points



The Euro In U.S. Dollars, Daily Exchange Rate & Trends



Euro Zone: MUICP, Percent Change Year Ago



Monday 31	Monday 31	Monday 31	Tuesday 1	Wednesday 2	Thursday 3	Friday 4
EZ MUICP	EZ Unemployment	FR PPI (9)	HOLIDAY FR All Saints Day	Reuters PMI Mfg (10)	G-20 Summit ECB Council Meeting	G-20 Summit EZ PPI (9)
%ch %chya	% Level					
Oct 10 0.3 1.9	Sep 10 10.1 23128					
Jul 11 -0.6 2.5	Jun 11 10.0 22852					
Aug 11 0.2 2.5	Jul 11 10.0 22847					
Sep 11 0.8 3.0	Aug 11 10.0 22785					
Oct 11f 0.1 2.8	Sep 11f 10.1 22897					

United Kingdom: Is England Safe?

This week's economic news is not going to be so good. GDP should turn out lower in the third quarter than in the second by about half a percentage point. Our model is driven by retail sales volumes, which declined by about one-quarter percent, if the monthly reports are any guide; by our expectation of a decline in public sector spending, if fiscal austerity is for real; by a drop in investment spending in a decelerating economy; and by a flat trade balance. On the output side, both gross exports and industrial production look flat based on July and August data alone. We still do not have complete data for the third quarter on the trade balance.

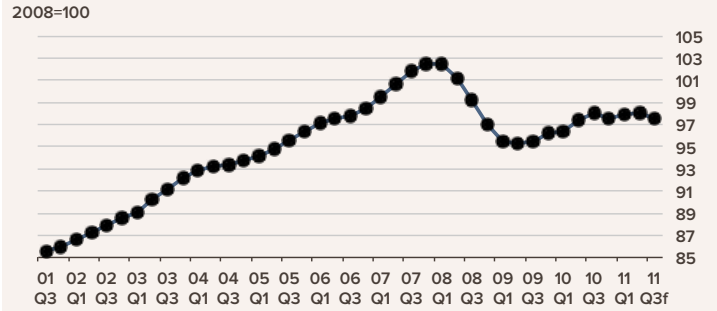
Tuesday 1

GDP	%chya	%SAAR
10 Q3	2.6	2.5
10 Q4	1.4	-2.0
11 Q1	1.6	1.7
11 Q2	0.6	0.4
11 Q3f	-0.4	-1.7

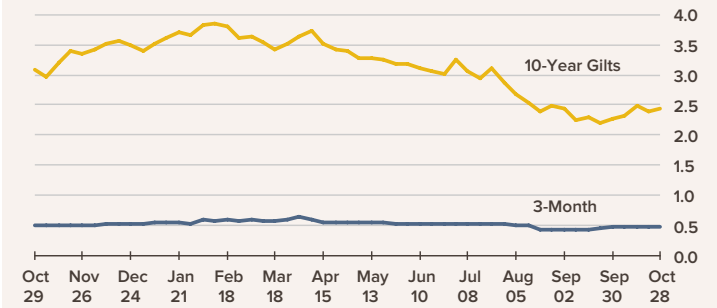
With demand and incomes falling, house prices are falling. Declines in house prices erode the asset base of the banking system, which is already impaired. *We have no delusions that bank lending or M4 rose last month.* Renewed asset purchases would not have affected these data. *Without money and credit, no economy can grow. So a drop in GDP is consistent with monetary- and demand-based analysis.*

The risk for investors in Britain is that banks are still vulnerable, at least until a Euroland meltdown has been averted. While the banks themselves may have little direct exposure, their clients—count all the hedge funds in London, please—are vulnerable in a crash. *We do not see risk as being at all removed for investors in Britain. Economic news this week will fan fears of renewed banking sector problems.*

United Kingdom: Real GDP Index

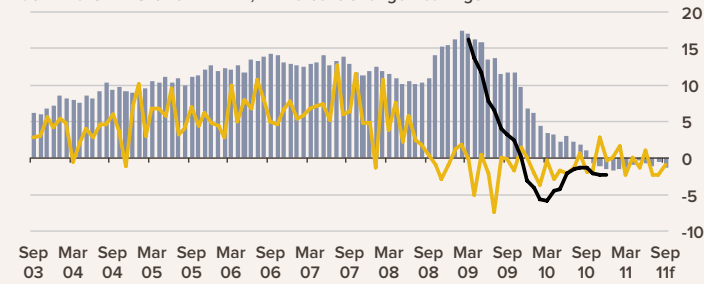


United Kingdom: Yields, Percent

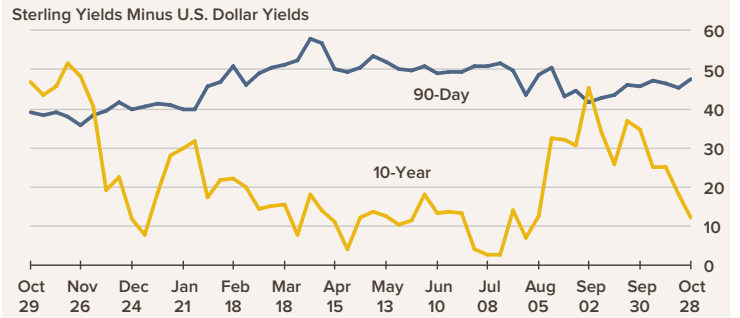


United Kingdom: Growth Of Broad Money & Credit

Columns Show M4, Yellow Line Is Lending To Non-Banks, £Billions
Black Line Is M4 Growth Ex-APF, All Percent Change Year-Ago

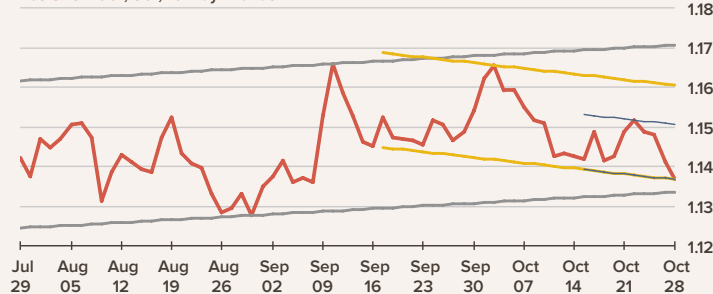


Sterling Vs U.S Dollar Yield Spreads, Basis Points



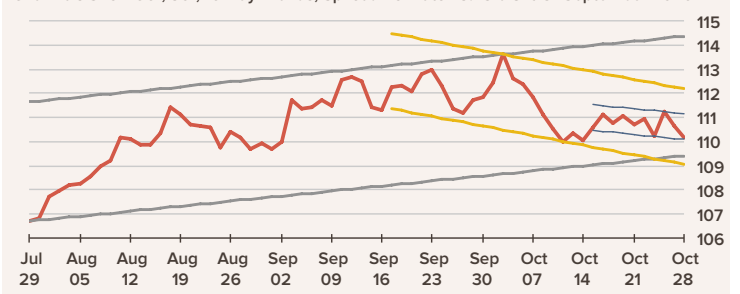
The Pound Sterling In Euros, Daily Exchange Rate & Trends

Lines Show 90-, 30-, 10-Day Trends



United Kingdom: Daily Price Of 10-Year Gilt

Channels Show 90-, 30-, 10-Day Trends, Spliced To Match 3.75% Gilt Of September 2020



Monday 31	Monday 31	Tuesday 1	Tuesday 1	Wednesday 2	Thursday 3	Friday 4
£M4	BoE Mortgage Approvals	CIPS Manufacturing	Nationwide House	CIPS Construction (10)	CIPS Services (10)	Vehicle Sales (10)
%chya	000s %chya %chSP	Index	Prices %chya 3mma			
Sep 10 1.1	Sep 10 46879 -15.0 -63.4	Oct 11 55.4	Oct 10 1.5 2.8			
Jun 11 -0.7	Jun 11 48783 0.4 -61.9	Jul 11 49.4	Jul 11 -0.5 -1.0			
Jul 11 -1.1	Jul 11 49644 2.8 -61.2	Aug 11 49.4	Aug 11 -0.4 -0.7			
Aug 11 -0.6	Aug 11 52410 11.9 -59.1	Sep 11 51.1	Sep 11 -0.3 -0.4			
Sep 11f -1.3	Sep 11f 52326 11.6 -59.1	Oct 11f ?	Oct 11f 0.5 -0.1			

Canada: Loonie Jump

Everyone, including us, is keen to find a risk-aversion story behind the recent rally in Canada's dollar. Of course, the economic outlook has been marked down by the BoC, and usually that is not good for the currency. The trade deficit does not look too hot, either, and that is another reason to mark down the currency.

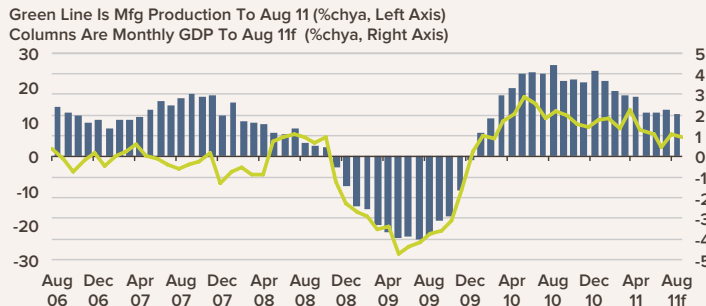
Yet the loonie continues to rise, risk-on or risk-off, growth stronger or growth weaker, regardless of the magnitude of the trade deficit. A simpler explanation of the loonie's fate is required... and is evident.

Petro-loonie is rallying with the price of oil. The price of WTI at the Cushing terminal has risen to \$93 from \$75 over the month of October, and the price of Canada's dollar has rallied to US\$1.008 from US\$0.945 in the same period. The oil price story is driven by rising expectations for economic growth in the United States, which is the dominant partner for Canada's crude oil exporters.

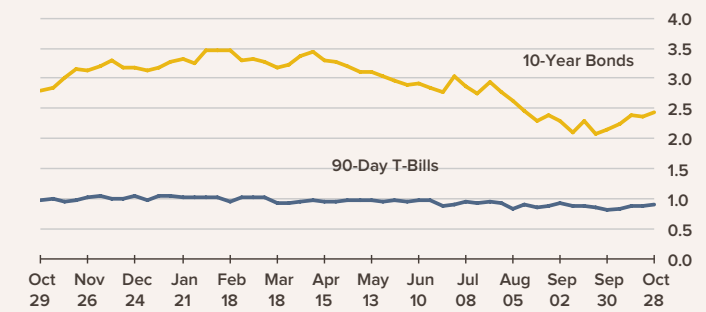
A rising loonie is unwelcome by all Canadians except those who winter in the United States. Manufacturing output is depressed and still slowing because exports to the United States have simply dried up. China has become the low-cost producer of consumer goods for the U.S. economy—the strong loonie and the undervalued yuan are two important parts of that story. As a result, we expect this week's report to show GDP flat and employment stagnant and falling in the private sector.

While the BoC has no reason not to cut rates, it has little scope to do so. *We think the Bank will hold rates steady, leaving some room for maneuver just in case Euroland banks do blow up. That risk persists.*

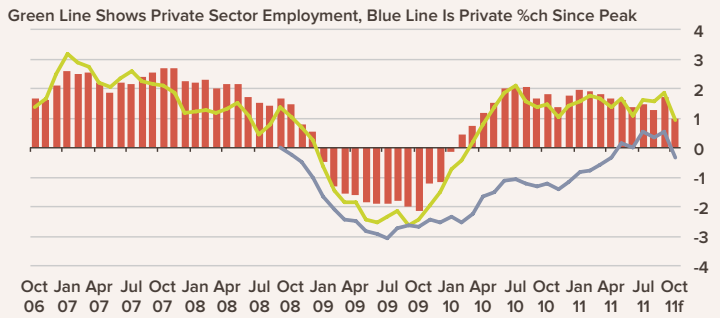
Canada: Monthly Domestic Product & Manufacturing Output



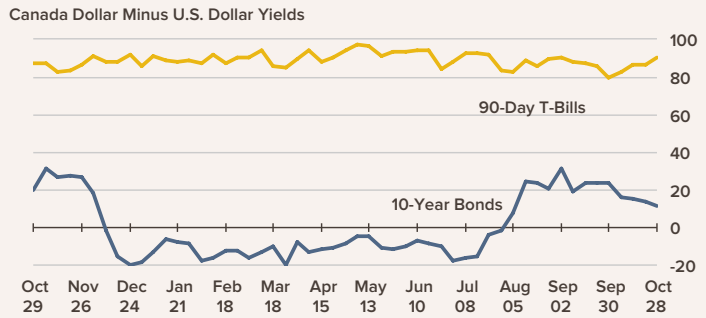
Canada: Yields, Percent



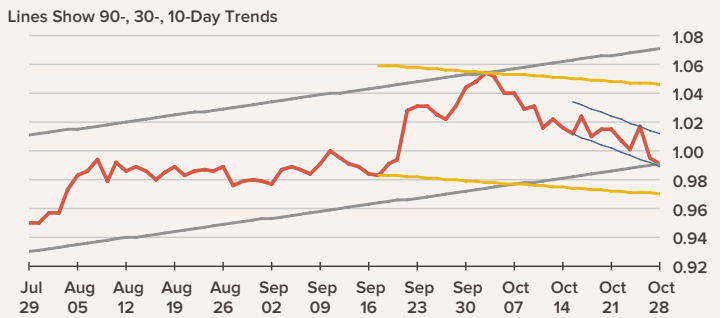
Canada: Employment, Percent Change Year Ago



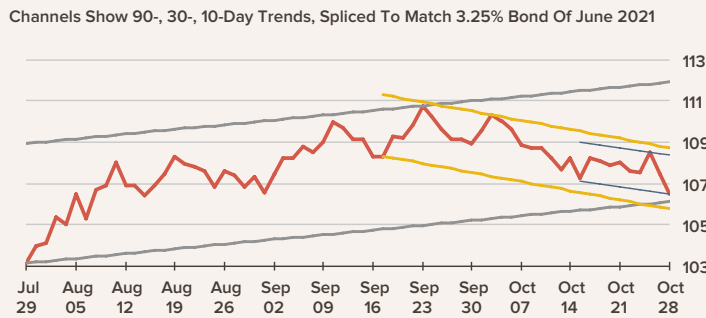
Canada Vs United States Yield Spreads, Basis Points



Canadian Dollar Per US\$, Daily Exchange Rate & Trends



Canada: Daily Price Of 10-Year Bond



Monday 31

GDP	%chya	%ch
Aug 10	4.4	0.3
May 11	2.2	-0.3
Jun 11	2.1	0.2
Jul 11	2.3	0.3
Aug 11f	2.1	0.1

Monday 31

RMPI	IPPI	
%chya	%chya	
Sep 10	5.7	4.6
Jun 11	23.3	5.3
Jul 11	19.6	5.1
Aug 11	13.3	5.2
Sep 11f	13.8	4.8

Friday 4

Unemployment	000s	%
Oct 10	1455.2	7.8
Jul 11	1351.9	7.2
Aug 11	1367.9	7.3
Sep 11	1334.2	7.1
Oct 11f	1370.0	7.3

Friday 4

Building Permits	Value	%chya
Sep 10	21.2	
Jun 11	0.0	
Jul 11	4.6	
Aug 11	3.9	
Sep 11f	-4.9	

Friday 4

Ivey Index (10)

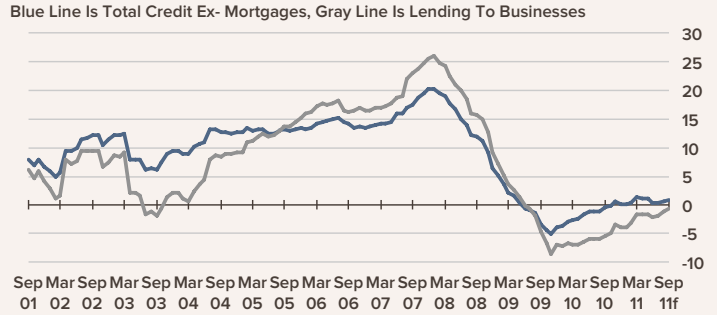
Australia: Rate Cut Fever

Traders are sort-of expecting a rate cut by the RBA this week. *We think they will get one.* The Board has been clear that it sees domestic demand fizzling, with most of the growth coming from a terms-of-trade windfall on commodities. The retail sales and domestic credit charts on this page show that the domestic economy is sour. The retail sales data show consumer demand slowing. There is no reading of the domestic credit chart that does not conclude that households and businesses are being squeezed. *Other things being equal, a push from monetary policy is both welcome and needed.*

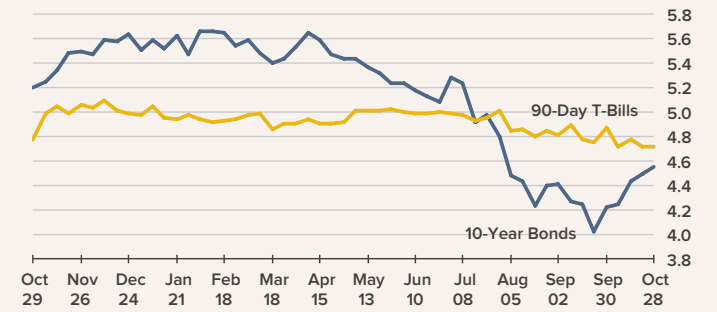
The Board's minutes make it clear that the high rate of increase of the CPI—everyone's favorite metric for "inflation"—was the remaining obstacle to easing monetary conditions: "Members believed that an improved inflation outlook, if confirmed by further data, would increase the scope for monetary policy to provide some support to demand, should that prove necessary." Last week's report revised away recent evidence of too-fast price increases and showed a slow-down of the CPI. We expect this week's report from TD on its monthly CPI measure to confirm a slowing trend, too.

Barring an unexpected uptick in the retail sales data due this week, or a rogue explosion of the credit indicators, we believe the RBA will cut rates tomorrow. It strikes us that this move is not entirely priced into the markets, with some locals reasoning that the "fix" in Euroland is real enough to obviate the need for domestic monetary easing. *We think, and we think the RBA thinks, that Ozzie domestic demand merits a kick regardless of the state of the tragedy in the Euroland.*

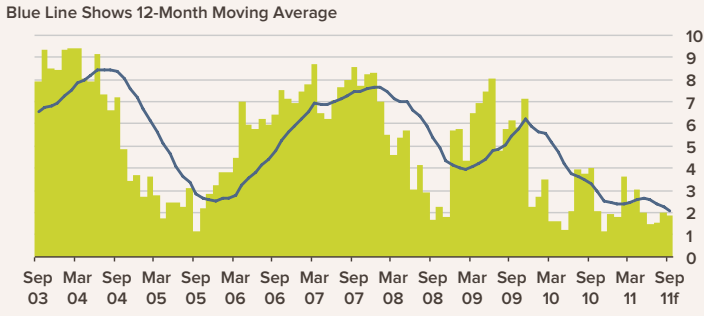
Australia: Domestic Credit, Percent Change Year Ago



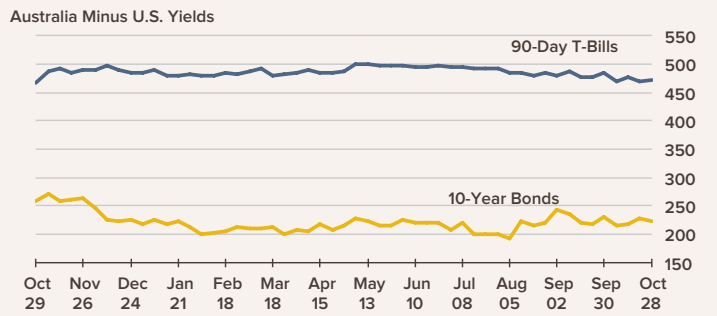
Australia: Yields, Percent



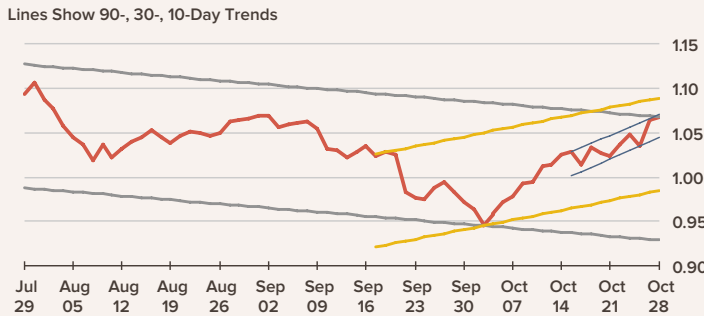
Australia: Retail Sales, Percent Change Year Ago



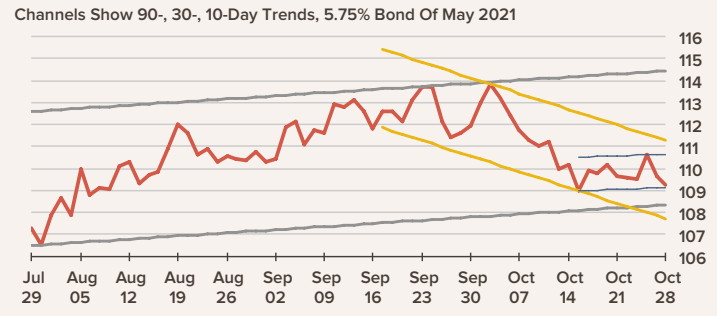
Australia Dollar Vs U.S. Dollar Yield Spreads, Basis Points



U.S. Dollars Per Australian Dollar, Daily Exchange Rate & Trends



Australia: Daily Price Of 10-Year Bond



Monday 31			Monday 31			Tuesday 1			Tuesday 1			Wednesday 2			Thursday 3			Friday 4										
TD CPI	%ch	%chya	Domestic Credit	Ex-Housing	RBA Board Meeting	House Prices	%chya	Building Permits	%ch	%chya	%chSP	Retail Sales	%ch	%chya	RBA Quarterly Statement													
	Oct 10	0.3														3.8	Sep 10	2.7	-0.5	10 Q3	9.9	Sep 10	-9.4	-3.1	-10.5	Sep 10	0.5	4.0
	Jul 11	0.3														3.2	Jun 11	2.9	0.4	10 Q4	4.6	Jun 11	-3.5	-13.9	-17.4	Jun 11	-0.1	1.5
	Aug 11	-0.1														2.9	Jul 11	2.7	0.4	11 Q1	0.0	Jul 11	1.8	-13.9	-15.9	Jul 11	0.6	1.5
	Sep 11	0.1														2.8	Aug 11	2.9	0.7	11 Q2	-1.9	Aug 11	11.4	-5.1	-6.3	Aug 11	0.6	2.0
Oct 11f	0.0	2.6	Sep 11f	2.9	0.8	11 Q3f	-1.0	Sep 11f	0.6	5.4	-5.7	Sep 11f	0.3	1.8														

Month Ahead Planning Calendar of Economic Releases & Events**Sunday, November 6**

U.S. & Canada Daylight Saving Time Ends

Sometime In The Week Of November 7Germany WPI (9)
United Kingdom Halifax House Prices (10)**Monday, November 7**Australia ANZ Job Ads (10)
Euro Zone Retail Sales (9)
Germany Industrial Production (9)
Japan LEI (9p)
United States Consumer Credit (9)
United States Weekly T-Bill Auction**Tuesday, November 8**Australia TRADE (9)
Canada Housing Starts (10)
Canada Governor Carney Speaks
France TRADE (9)
Germany TRADE (9)
United Kingdom BRC Retail Monitor (10)
United Kingdom Industrial Production (9)
United States NFIB Survey (10)
United States Weekly Redbook Sales**Wednesday, November 9**Australia Mortgage Approvals (9)
Canada New Housing Prices (9)
France BdF Business Sentiment (10)
France Fiscal Deficit (9)
Japan Bank Lending (10)
Japan Business Failures (10)
Japan Current Account (9)
United Kingdom BRC Shop Prices (10)
United Kingdom TRADE (9)
United Kingdom MPC Meeting
United States Wholesale Trade (9)
United States Weekly MBA Mortgages
United States Bernanke Speaks**Thursday, November 10**Australia Employment (10)
Canada TRADE (9)
Euro Zone ECB Monthly Report
France CPI (10)
France Industrial Production (9)
Germany CPI (10r)
Japan M2+CDs (10)
Japan Consumer Confidence (10)
Japan Machine Tool Orders (10p)
Japan Machinery Orders (9)
United Kingdom MPC Meeting
United States Import Prices (10)
United States Treasury Budget (10)
United States TRADE (9)
United States Weekly Initial Claims**Friday, November 11**Canada HOLIDAY
France HOLIDAY
Japan CGPI (10)
Japan Tertiary Index (9)
United Kingdom PPI (9)
United States Michigan Sentiment (11p)
United States HOLIDAY**Sometime In The Week Of November 14**Japan Department Store Sales (10)
United Kingdom CBI Orders Index (11)**Monday, November 14**Euro Zone Industrial Production (9)
France Current Account (9)
Japan GDP (Q3p)
Japan Industrial Production (9r)
United States Weekly T-Bill Auction**Tuesday, November 15**Australia RBA Minutes (11)
Australia Vehicle Sales (10)
Canada Manufacturing Survey (9)
Canada Vehicle Sales (9)
Euro Zone GDP (Q3p)
Euro Zone TRADE (9)
France GDP (Q3p)
France Payrolls (Q3p)
France Wages (Q3p)
Germany GDP (Q3p)
Germany ZEW Survey (11)
Japan BoJ Board Meeting
United Kingdom CPI (10)
United States Empire State Survey (11)
United States Retail Sales (10)
United States PPI (10)
United States Inventories (9)
United States Weekly Redbook Sales**Wednesday, November 16**Australia Wage Cost Index (Q3)
Euro Zone Vehicle Registrations (10)
Euro Zone CPI (10)
Japan BoJ Board Meeting
United Kingdom BoE Inflation Report
United Kingdom Employment (10)
United Kingdom Average Earnings (9)
United States NAHB Index (11)
United States CPI (10)
United States Industrial Production (10)
United States TIC Flows (9)
United States Weekly MBA Mortgages**Thursday, November 17**Australia Avg Weekly Wages (Q3)
Canada Int'l Securities Flows (9)
Canada UI Claims (9)
Euro Zone Construction (9)
Japan Machine Tool Orders (10r)
Japan BoJ Monthly Report
United Kingdom Retail Sales (10)
United States Philly Fed Survey (11)
United States Housing Starts (10)
United States Weekly Initial Claims**Friday, November 18**Canada CPI (10)
Canada LEI (10)
Germany PPI (10)
United States LEI (10)**Sometime In The Week Of November 21**Germany Import Prices (10)
United Kingdom CBI Retail Survey (11)**Monday, November 21**Canada Wholesale Sales (9)
Euro Zone Current Account (9)
Japan TRADE (10)
Japan BoJ Minutes (10)
Japan LEI (9r)
United States Existing Home Sales (10)
United States Weekly T-Bill Auction**Tuesday, November 22**Canada Retail Sales (9)
United Kingdom PSNCR (10)
United States GDP (Q3r)
United States FOMC Minutes (11)
United States Weekly Redbook Sales**Wednesday, November 23**Australia Construction (Q3)
Euro Zone Industrial Orders (9)
France Business Confidence (11)
Germany GDP (Q3r)
Germany IFO Survey (11)
Japan HOLIDAY
United Kingdom Monetary Minutes (11)
United Kingdom BBA Mortgages (10)
United States Michigan Sentiment (11f)
United States Durable Goods (10)
United States Personal Income (10)
United States Weekly MBA Mortgages
United States Weekly Initial Claims**Thursday, November 24**Canada Average Earnings (9)
United Kingdom GDP (Q3p)
United Kingdom Investment (Q3p)
United States HOLIDAY**Friday, November 25**France Consumer Confidence (11)
Japan CPI (11)
Japan CSPI (10)*Data in italics are estimated release date by High Frequency Economics. This calendar is compiled as accurately as possible from sources believed to be reliable.***Carl B. Weinberg, Chief Economist**