

DEBT MARKETS

	LAST	NET CHANGE (BPS)
CDA 3MO	3.55	-4.0
CDA 2YR	3.24	-4.4
CDA 10YR	3.77	-5.3
CDA 30YR	4.06	-2.8
US 2YR	2.38	-12.3
US 10YR	3.61	-11.9
US 30YR	4.24	-9.7
JPN 10YR	1.42	2.8
EURO 10YR	3.98	-0.3
AUS 10YR	6.03	4.1
NZ 10YR	6.28	-2.8
CDA 90 BA	4.22	-2.1
US 90 EURFT	3.51	0.0
AUS 90DAY	7.16	-0.8

FOREX

	LAST	% CHANGE
EUR/USD	1.4661	-0.02
USD/JPY	106.75	-0.69
USD/CAD	1.0296	0.50
GBP/USD	1.9706	0.39
AUD/USD	0.8780	-0.09
NZD/USD	0.7665	-0.58

COMMODITIES

	LAST	NET CHANGE	% CHANGE
CRB	361.41	0.15	0.04
OIL	90.13	-0.71	-0.78
GOLD	877.16	-1.19	-0.14
COPPER	3.19	-0.05	-1.51

EQUITIES

	LAST	NET CHANGE	% CHANGE
S&P500	1333.27	-39.93	-2.91
DOW	12159.21	-306.95	-2.46
NASDAQ	2346.90	-47.69	-1.99
S&P/TSX	12805.93	-290.71	-2.22
FTSE100	5902.40	-40.50	-0.68
DAX	7413.53	-58.04	-0.78
NIKKEI	13783.45	278.94	2.07
S&P/ASX200	5796.10	-13.60	-0.23

Data as of 4:07 PM January 17, 2008

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Fed Chairman Bernanke Signals Support For Fiscal Stimulus

Today there was further evidence that the U.S economy may be slowing faster than markets expected, on account of the weaker than expected report on the U.S housing sector for December, and the pronounced drop in the January Philadelphia Fed Index. There were no major data releases in Canada. Besides the data, markets were also focused on the testimony by Fed Chairman Bernanke, who appeared before the House Budget Committee. In his remarks, Chairman Bernanke offered his support for a "temporary" expansionary fiscal stimulus to complement the ongoing monetary accommodation to resuscitate the U.S. economy.

By the close of play, bonds rallied massively across the curve in both Canada and the U.S. as fears of a U.S. recession grew. Yields on the 2 yr and 10 yr treasuries fell by 12 bps and 13 bps, respectively, while yields on 2 yr and 10 yr Canadian government bonds dropped by 5 bps each.

A significantly weaker than expected U.S. housing starts report for December indicated that the ongoing housing recession may be accelerating. In the release today, residential housing starts fell by 14.2% M/M to 1.006 million, which was much lower than the consensus call for a drop to 1.145 million. This was the lowest level of housing construction activity since April 1991. There was also a pronounced drop in building permits during the month, which fell by 8.1% M/M to 1.068 million (market consensus was for 1.135 million). As a result of this sobering report, we expect the U.S. housing sector to continue being a key source of drag on the U.S. economy.

Aside from the dire news on the housing sector, the precipitous drop in the Philadelphia Fed Index reignited fear that the economic outlook for the U.S. manufacturing sector has soured. The January Philly Index fell to -20.9 from -1.6 in December. This was the lowest level of this indicator since October 2001. On the employment front, there was a rare ray of hope with the weekly jobless claims coming in at a better than expected 301K, compared to the 331K expected by the markets, and less than the 322K recorded in the previous week. Though continuing claims rose modestly during the week.

Against this backdrop, Fed Chairman Bernanke appeared before the House Budget Committee today. In his testimony he reiterated his position that the Fed "stands ready to take substantive additional action as needed to support growth, and to provide adequate insurance against downside risks." Chairman Bernanke also offered some support to a fiscal stimulus package that he suggested "might usefully complement monetary policy in supporting economic growth over the next year or so." However, he cautioned that any such fiscal stimulus package "should be implemented quickly, and structured so that its effects on aggregate spending are felt as much as possible within the next twelve months or so." He further noted that the package should be "explicitly temporary".

Tomorrow, we will get the preliminary Michigan consumer confidence index for January, and the December leading indicator for the U.S. Markets are expecting consumer confidence to slip to 74.5 (down from 75.5 for December), while the leading indicator index is expected to decline by 0.1% M/M, following a 0.4% M/M drop in November. In Canada, the manufacturing sector will take the spotlight when the November manufacturing shipments will be reported. Our call is for an above consensus 0.8% M/M gain in shipments, following the modest 0.1% M/M increase recorded in October. The market consensus is for a 0.5% M/M jump.

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