

Tincho's letter

Toronto, Wednesday, May 13th, 2009

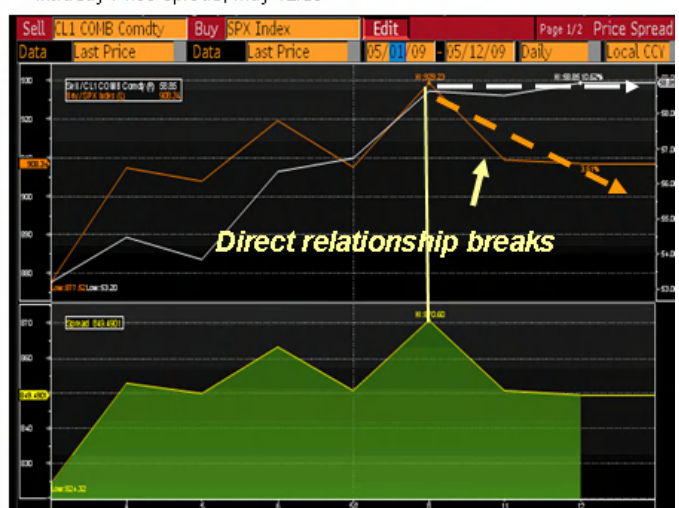
Good morning,

In the chart below, I show the price of crude oil (NYMEX) and the S&P500 index. In general, the demand for crude oil is related to the world's aggregate demand. In 2008, as it was clear that the wealth effect of the markets crash was going to bring output down, crude oil dropped from \$145 in July to \$33 in December. Since the credit and equity markets peaked last Friday, crude oil has somehow embarked on a different path. Yesterday, oil rose to a 6-month record high, as it touched \$60/bl intraday. However, stocks finished lower. Also in the graph, we can see that the correlation between the price of crude oil and the S&P500 has been steadily decreasing. Along the same line, gold rose yesterday to from 913.65 to 923.70 (+1.14%). **Is this telling us something? Will the ongoing monetary expansion disconnect commodity prices from aggregate demand? To me, the case is perfectly possible, and I would be surprised if it happened otherwise. Is this the time to allocate capital into commodities and away from debt and stocks?**

Crude Oil (White) vs. S&P500 (orange)

Nov 12/08 to May 11/09 Price spread graph (above) / Correlation (below)

Intraday Price spread, May 12/09



Source: Bloomberg

Analysis: Tincho's Letter

Should the Canadian dollar reflect this trend? I am not sure. Politics (fiscal policy) may soon play an important role in the future of the Canadian dollar.

30-yr Treasury (white) vs. S&P500 (orange)



Source: Bloomberg

Analysis: Tincho's Letter

Yesterday, the inverse relationship between Treasuries and stocks also broke. The S&P 500 finished slightly lower, at 908.35pts (-0.10%), with the 30-yr yield at 4.157%. In another letter, I **must** write about the ongoing pressure on swap spreads, with the 30 yr currently in negative territory, soon to be followed by shorter maturities. This is a technical, but is concerning because of the structural changes taking place in the cost of capital (interest rates). The Fed bought yesterday \$6BN of Treasuries due 2012/13. And while Mr. Greenspan said the Fed policy didn't cause the current crisis, the US posted its first budget deficit for April, since 1983 (\$21BN). The CDX IG12 closed at 148bps.

The issuing window remained open: We had Sempra Energy (\$750MM, T+387.5), Canadian Pacific Railway (\$350MM, 7.25%, 10-yr), Illinois Toll (2024/34 BABs at T+210/200bps) and Occidental Petroleum (\$750MM, 7-yr), among others.

Martin Sibleau

martin@sibleau.com

(647) 999-2055

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