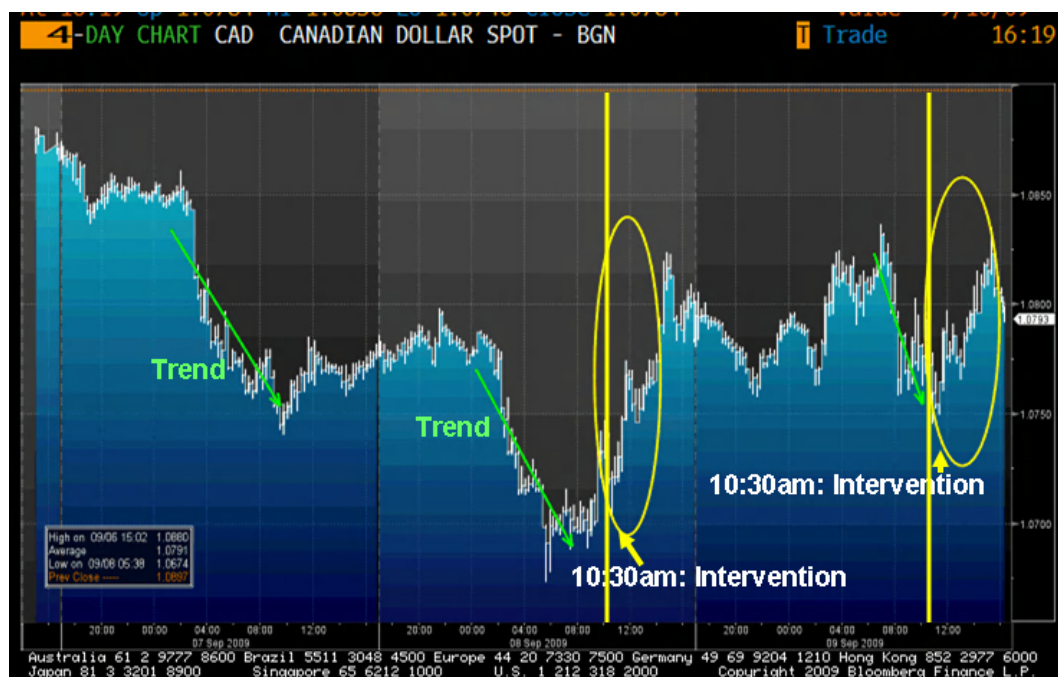


A View from the Trenches Toronto, Thursday, September 10th, 2009

Good morning,

The week is passing by and yesterday I did not see any noteworthy changes to the ongoing trend of more liquidity (3-mo Libor - OIS spread now below 13bps), central bank intervention (i.e. the Bank of Canada bought C\$500MM in another repurchase agreement), stocks sneaking higher (S&P500 at 1033.37, +0.78%), corporate credit (CDX IG12 at 113bps, HY12 at 89 11/16, mid) and emerging markets sovereign risk tightening. There was also some profit taking in gold post-Barrick news, but in general and in particular in fixed income, the session was flat. On the news, the Mortgage Bankers Association's weekly mortgage application index was reported 17% higher, as mortgage rates make record lows. The refinancing and new purchase applications increased to 23% and 10% respectively (this week), suggesting a recovery in the housing market (This is in line with the negative convexity trades in Treasuries we were suggesting weeks ago and the bull flattening move a week ago). I would leave things here, but perhaps there are two additional points to make:

1) One has the feeling that central banks are bracing for an increase in intervention, be it only vocal (i.e. Fed's Evans speech yesterday), indirect (i.e. China's efforts to tighten credit expansion, the rising role of the IMF) or explicitly direct (i.e. the Bank of Canada's repurchase agreements). On the latter, I thought I would include the chart below (in CAD per 1 USD), corresponding to the last few sessions (source: Bloomberg). In it, you can see how the general trend is for the CAD to appreciate as well as the impact of these transactions (announced at 10:30am), which send the CAD lower vs. the USD. Individually, these interventions may or may not be effective in the long-term. However, we are in a global world, and they are coordinated, and in my view, on aggregate, they influence the shape of this global asset inflation (also known as recovery).



2) One cannot help to sense that the political events of the last weeks are starting to have some unwanted influence. Call me crazy if you like, but I am willing to put some weight on them behind the latest appreciation in gold. What am I talking about? I am talking about the developments in Iran, Venezuela, Poland, the east Baltic states and the US (i.e. health care reform). I sense an increasing polarization between left and right in the world that rarefies the air. There was no such thing last year, when every politician was willing to discuss a safety net for deposits and there is one now, where atomic weapons, military expansion, alliances and potential trade wars are at the table.

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