

## Fixed Income Snapshot

July 25, 2008

CANADA BENCHMARKS					
TERM	COUPON	MATURITY	PRICE	YIELD	\$ CHANGE
2 YR	3.750	01-Jun-10	101.04	3.16	-0.08
5 YR	3.500	1-Jun-13	100.38	3.41	-0.18
10 YR	4.250	1-Jun-18	103.42	3.83	-0.34
30 YR	5.000	1-Jun-37	114.41	4.14	-0.27



US BENCHMARKS					
TERM	COUPON	MATURITY	PRICE	YIELD	\$ CHANGE
2 YR	2.750	31-Jul-10	100.18	2.66	-0.09
5 YR	3.375	31-Jul-13	99.92	3.39	-0.20
10 YR	3.875	15-May-18	98.70	4.04	-0.28
30 YR	4.375	15-Feb-38	95.97	4.63	-0.44



### FIXED INCOME

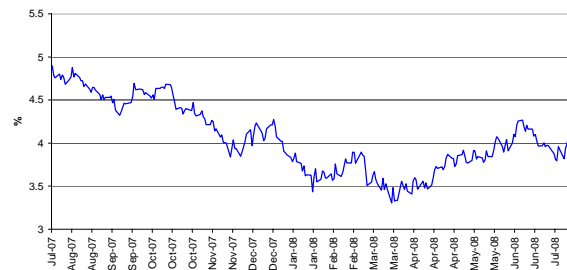
CAD\$ FOREIGN EXCHANGE CROSSES				US\$ FOREIGN EXCHANGE CROSSES				NOTABLE QUOTES
CROSS	SPOT	CHANGE	CAD Direction	CROSS	SPOT	CHANGE	USD direction	
USD/CAD	1.0153	0.0002	-	EUR/USD	1.5711	0.0036	-	
CAD/US	0.9849			GBP/USD	1.9924	0.0064	-	
EUR/CAD	1.5950	0.0042	-	USD/JPY	107.7000	0.3200	+	
GBP/CAD	2.0227	0.0074	-					
CAD/JPY	106.0200	0.2700	+					

1 Year Charts

Canada Ten Year Yield



US Ten Year Yield



CAD\$



### Daily Commentary

Chief economic cheerleader Larry Kudlow has pronounced yesterday's Existing home sale report as very strong and a sign that the housing market is on its way higher. We respectively disagree, as we wrote on the blog yesterday (here: <http://blackblog.rcc.rcnet.ca/index.php/2008/07/24/us-home-prices-further-to-fall-despite-gse-bailout/>).

While prices may not be dropping anymore, the inventory of homes is still massive, and foreclosures are still on the rise, all but ensuring that inventories stay high. The market took it as a negative as well, taking down names like Centex, Pulte and DR Horton. The S&P 500 Homebuilding Index **dropped 15%** after this news.

This morning, we'll get the same report for new home sales, which promises to be much lower. We'll remind everyone that Kudlow has been bullish since.... well, forever, really.

Bonds are holding onto yesterday's big gains, having rallied on the back of terrible equity performance and the aforementioned home sales numbers. Credit finally stumbled a bit, taking a step back yesterday. In Canada, the highest quality rallied, as Provincials and Agencies were better bid. Canada Housing Bonds, which we have spoken of as being great buys before (we're also long) were being bought up aggressively, as realization that they aren't Freddie or Fannie. We have, and always have had, explicit government guarantees on CanMors. At 40 basis points over Canada, they are still cheap, having rallied 20 bps from their lows. (Chart page 3)

Durable goods just came out, far better than expected. The headline came in at a gain of 0.8% after last month's flat number. Ex-transport was even more impressive, rising a whopping **2.0%** after last month's drop of 0.8%. Bonds are falling swiftly on this news, and equities have caught a bid. We will remind everyone that Durables is a notoriously volatile number. While we're encouraged by this, the market typically overreacts to it.

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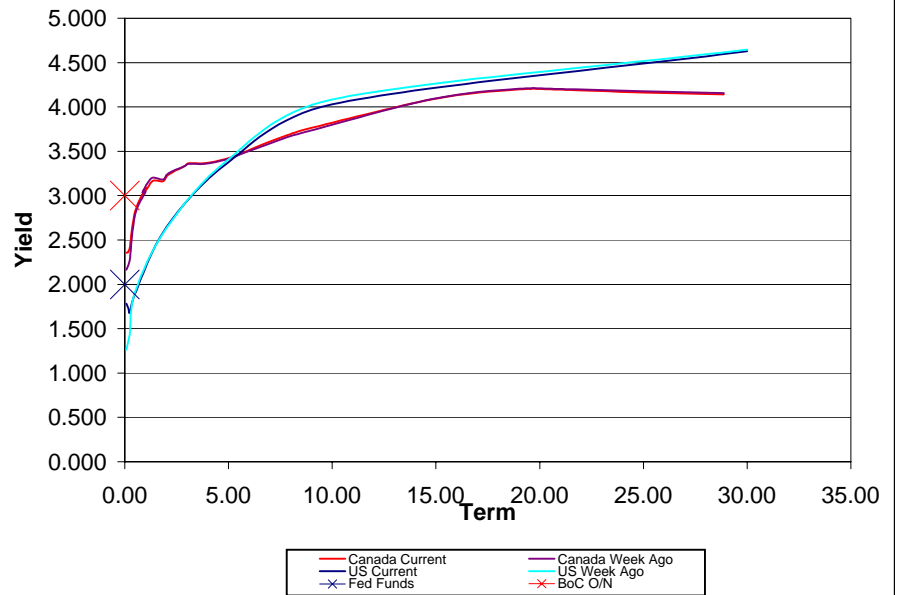
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July 25, 2008

ECONOMIC NEWS SCHEDULED FOR RELEASE						
Date	CANADA	EST	ACTUAL	US	EST	ACTUAL
<b>MON 21</b>	No news			Leading Indicators	0.1%	0.1%
<b>TUES 22</b>	Retail Sales Retail sales less autos	0.6% 0.8%	0.4% 0.4%	Richmond Fed House Price Index	-9 -0.6%	-16 -0.3%
<b>WED 23</b>	CPI MoM CPI YoY CPI Core MoM CPI core YoY	0.5% 2.9% 0.1% 1.6%	0.7% 3.1% 0.1% 1.5%	ABC Consumer Confidence MBA Mortgage Apps	-42	-41 -6.2%
<b>THURS 24</b>	No News			Existing Home Sales Existing Home Sales MoM	4.93M -1.2%	4.86M -2.6%
<b>FRI 25</b>	No News			Initial Jobless Claims Continuing Claims Durable Goods Durables ex-trans U.Mich Confidence New Home Sales New Home Sales MoM	380k 3190k -0.3% -0.2% 56.30 503k -1.8%	406k 3107k 0.8% 2.0%

**Canada/US Yield Curve**



Other Notable Economic Events	CDN Money Market	CANADIAN RATES	US RATES	CANADA-US SPREADS	YIELD CURVE SHIFTS	
	Bankers Acceptance	PRIME 4.75	PRIME 5.00	TERM 3M 70.0 -6.6	ROLL 2yr -5yr 25.2 -0.5	
	30 Day 2.92	BANK RATE 3.00	BANK RATE 3.75	FED FUNDS 2 2Y 50.8 -0.1	SPREAD 2yr -10yr 66.8 -0.7	
	60 Day 3.01		DISCOUNT 2.25 5Y 2.9 -0.7	DISCOUNT 2 yr -30yr 97.8 -3.0		
	90 Day 3.10		LIBOR 3M 2.7931	LIBOR 10Y -20.9 0.1	SPREAD 5yr -10yr 41.6 -0.2	
	indication only - actual rates may vary			LIBOR 30Y -49.0 -96.1	SPREAD 10yr -30yr 31.0 -0.7	
						TED Spread Week ago 1.32 1.55

Canada Mortgage Housing Bond 4.55% 6/15/2012 vs. Canada 3.75% 2012 Yield difference

Sell CAN3 3/4 06/01/12 Co Buy CANHOU4.55 12/12 C Edit Yield Spread



Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000  
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000  
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