TD Waterhouse
Investment Advice

Bond Buzz

September 29, 2004

Key Rates * wholesale bid, prior day closes

	Rate
CANADIAN	
3-month T-Bill	2.47%
Overnight Target	2.25%
Prime	4.00%
USA	
3 month T-Bill	1.71%
Fed Funds	1.50%
Prime	4.50%
DOLLAR	
CAD / USD	1.2716
USD / CAD	.7864

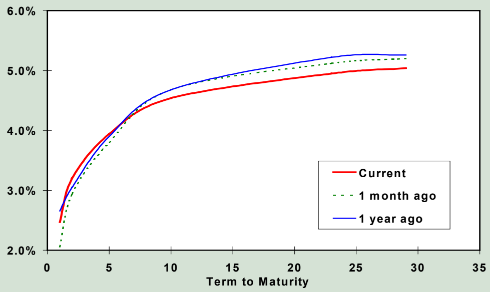
Benchmark Bonds *

	Price	Change	Yield
CANADIAN			
1-year T-Bill			2.85%
3.25%/06	100.03	+0.04	3.23%
4.25%/09	101.31	+0.07	3.95%
5.00%/14	103.70	+0.11	4.52%
5.75%/29	10.19	+0.16	5.02%
USA			
4.75%/14	105-31	-3	4.00%
5.375%/31	108-18	-15	4.80%

TD Economics Forecast *(as of Sep. 16/04)*

	Q4 2004	Q1 2005	Q4 2005	Q4 2006
CANADIAN	**(%)**			
Overnight	2.75	3.25	4.00	4.75
2-year	3.35	3.70	4.40	5.25
5-year	4.25	4.45	4.90	5.65
10-year	4.90	5.00	5.40	6.00
30-year	5.35	5.45	5.65	6.10
Cdn. $	.780	.783	.790	.83
USA	**(%)**			
Fed Funds	2.00	2.50	3.50	4.50
10-year	4.50	4.75	5.30	6.25
30-year	5.25	5.40	5.65	6.40

Canadian Yield Curve



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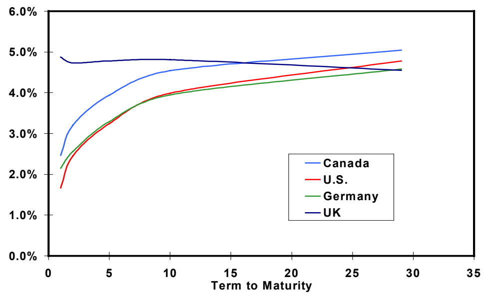
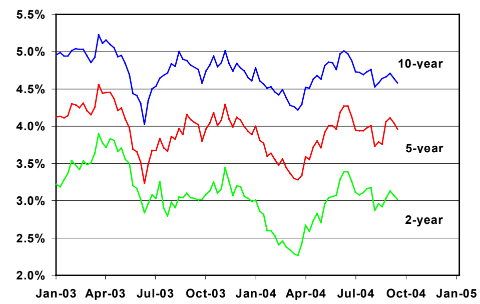
U.S. & Global Markets

- The Treasury market suffered further bullish fatigue today, as fast-money accounts maintained their profit-taking motives (Bill Gross also recommended investors sell their 10-year Treasuries). This was not unexpected, as the last few trading sessions of a reporting quarter tends to be quite volatile, with many portfolio managers seeking to do some window dressing. In addition, there might be some market disruption caused by Fannie Mae's requirement to boost its capital 30% above the required minimum, as ordered by its regulator, after finding accounting errors. US Q2 GDP was revised higher to 3.3% from 2.8%, but the news is really backwards looking.
- Equity markets posted another strong session, but one wonders whether this has more to do with month and quarter-end preening rather with strong market convictions. Regardless, the technical health for equity indices has made a marked turnaround in the last two sessions.
- In his monthly investment outlook titled "Haute Con Job", Pimco's Bill Gross concluded that *"If those Moms are holders of government bonds based upon a benign outlook for inflation, they had better cash some of them in, especially at today's 4.0% yield for 10-year Treasuries."* This month's article appears more as a rant on the way how the U.S. government calculates inflation, as he makes his case again for investing in TIPS. Gross believes that after his adjustments, CPI inflation is really 1% higher than official figures and that real GDP is 1% less. His report can be found at www.pimco.com Seasoned bond professionals note that as active managers, Pimco can flip-flop on their bond positions as much as Senator John Kerry.
- Companies today with negative developments (profits/revenues/guidance/accounting) include **Wendy's Int'l** (same-store sales fell 1.4% in September), **Solectron** (Q1 forecast short of analysts' expectations), **Human Genome Sciences** (placed $250 mln of convertible debt), **ASML Holding** (taking *"more prudent"* Q4 outlook as some clients are pushing out delivery dates), **Munich Re** (contingent profit warning), **Renaissance Re** (Q3 hit of $425 mln due to hurricanes), **Mitsubishi Motors** (may miss global sales targets), **Man Group**.
- Companies with positive developments include **ConocoPhilipps** (acquired the Russian government's 7.6% share of Lukoil for $1.988 bln and said it would start a tender offer to buy up to 2.4% of Lukoil shares held by non-U.S. investors at $30.76 a share),**Orbitz** (agreed to be acquired by Cendant Corp. for $1.25 bln), **Computer Associates** (cutting workforce by 5%, or by 800 jobs), **Darden Restaurants** (share buyback), **Embraer** (Air Canada signed a purchase agreement for 45 aircraft, with options for an additional 45 with a firm value of $1.35 bln and a potential value of more than $2.7 bln if all options are exercised), **Advent Software** (share buyback), **Agere Systems** (500 job cuts), **American Greetings**, **McCormick & Co.**, **Nextel Partners** (raised 2004 earnings outlook), **Mylan Labs**, **Electricite de France** (sold its 2.3% stake in Total SA for 2.57 bln euros ($3.2 bln) to cut debt and fund pension liability), **UPM-Kymmene Oyj** (closing New Brunswick plant, cutting 400 jobs), **Vivendi Universal** (may pay 2004 dividend), **Gaz de France**, **Matsushita Electric**, **Medtronic** (won wider coverage from Medicare for its defibrillators), **Sirius Satellite** (Sanyo manufactured units will be available at Wal-Mart this month).
- Analyst downgrades include **Phelps Dodge**, **Freeport McMoRan**, **Liz Claiborne**, **Goodyear Tire** (JPM); **Entercom**, **Clear Channel**, **Baker Hughes** (MS); **Boeing** (BoA); **Devon Energy** (Jefferies); **Altrea** (UBS); **Micromuse** (Deutsche); **First Energy** (CSFB); **Advanced Energy**, **Avici Systems** (Lehman).
- Analyst upgrades include **KB Home** (AGE); **Semtech**, **National Semi**, **Credence Systems**, **Asyst Technologies**, **Novellus Systems**, **Lam Research**, **Kla-Tencor**, **Applied Materials** (American Technology); **Marriott**, **La Quinta** (CIBC); **Carl Zeiss** (Commerzbank); **Imperial Tobacco** (CSFB); **Cooper Cameron** (MS); **International Paper** (Pru); **Genesis Healthcare** (Wachovia); **Securitas** (ABN); **Scor** (WestLB); **Jones Apparel**, **Identix** (JPM); **Sirius Satellite** (BS).

International Yield Curves



Benchmark Canada Yield History



Benchmark Spreads

	5yr	10yr	Long
Ontario	+17	+39	+42
Quebec	+21	+44	+52
British Columbia	+15	+29	+35
Royal Bank	+38	+68	+87

Corporate Levels

	Bid	Ask	Chg
Citigroup Fin. Cda. 4.78% - 2009	+38	+33	
Royal Bank 5.45% - 2013	+68	+63	+1
Manulife 4.44% - 2008	+30	+25	
Hydro One 4.00% - 2008	+27	+22	
Bell Canada 5.50% - 2010	+55	+50	
Telus 7.50% - 2006	+55	+45	
TransCanada 5.65% - 2014	+65	+60	
Thomson 4.50% - 2009	+44	+39	
GMAC 4.65% - 2007	+130	+120	
Ford Motor Credit 4.60% - 2007	+117	+107	
DaimlerChrysler 4.60% -2007	+75	+70	
Rogers Cable 7.60% - 2007	103.25	104.75	
Bombardier 6.35% 2006	$97.50	$98.50	
Calpine 8.75%% - 2007	$71	$76	
Stelco 8.00% 2006	$82	$87	

- Fitch downgraded **Fannie Mae's** subordinated debt and preferred stock ratings to AA- from AA. Yesterday, Moody's lowered its outlook on Fannie Mae's Aa2 subordinated debt rating to 'negative'. Moody's placed 6 of Japan's electronics makers for a possible upgrade.
- From a technical perspective, the Treasury market appears to have a neutral bias over the shorter term (1-2 weeks). Longer-term trends remain neutral. Intermediate-term trading range for the 10-yr note appears to be 3.70% to 4.30%. The long Treasury is currently down 1-01/32 at 4.86% and our intermediate-term trading target is 4.65% to 5.10%.

Canada Markets

- The Canadian dollar managed a marginally new 11-year high today at $.7888 (1.2677), before pulling back slightly. The nearer-term technical profile remains positive, with 1.2682 seen as the key hurdle to overcome. The IMF provided further fodder for strength today by raising its forecast for 2004 growth to 2.9% from 2.6%. 2005 growth is pegged at 3.1%.
- The Canadian bond market fell back modestly, as heavy profit-taking pressures emerged in the U.S. Treasury market. Overall, price action for Canadian bonds continue to reflect reactions to market noise, rather than to strong convictions.
- The lack of corporate bond issuance has been a common complaint among investors this year, but it simply appears that borrowers do not have strong requirements with improving cash-flow and financial health. According to CIBC World Markets, there has been C$23.9 bln of new corporate issuance so far this year, which is 27% less than the first 9 months last year. CIBC forecasts approximately C$4 bln of new issuance for Q4.
- The S&P/TSX finished with a modest gain of 16 points, with the energy sector providing the biggest drag. The price of oil price slipped $0.39, with November crude oil closing at $49.51. December gold edged $0.50 higher to close at $414.70, with traders focusing on the $416.80 August 20 high as technical resistance.
- **Merrill Lynch Financial Assets** has launched a new CAN-14 CMBS issue with a total size of C$474.1 mln, consisting of 8 tranches. The transaction is a securitization of 51 commercial mortgages on 65 properties. The properties are diversified by class (office at 35.3% and anchored retail at 27.1%) and by geography (61.4% in Ontario and the rest spread over 7 other provinces). **Eurofima** (Aaa/AAA) priced a C$150 mln 4.0$ Jan. 30, 2009 issue at C$102.261, providing a spread of +20 bps over the Canada curve.
- **Bombardier's** settlement with **DaimlerChrysler** over the purchase price of Adtranz should be viewed as mildly credit positive, as the estimated US$209 mln will be utilized for debt reduction.
- **Alcan** is spinning off its rolled-products division into a new company called **Novelis**. Alcan plans to pass on US$2.8 bln of debt to Novelis should improve its own credit profile.
- Companies posting positive developments include **Imperial Oil** (relocating its head office to Calgary from Toronto (cost savings – Alberta taxation vs. Ontario) **Biomira** (U.S. FDA granted 'Fast Track' status for its BLP25 Liopsome vaccine, developed in conjunction with Merck KGaA), **AGF Management** (Q3 net income of C427.5 mln or 30 cents a share), **CAE** (won C$16 mln in contracts), **CGI** (won US$30 mln Florida housing contract).
- Companies posting negative developments include **Lions Gate Entertainment** (plans to sell as much as US4150 mln in convertible debt), **Orion Securities** (C$8.5 mln lawsuit by former executive).
- Analyst upgrades include **Terasen**, **TransCanada**, **Alliance Atlantis***, **Fortis***, **Enbridge***, **Emera***, **Eldorado Gold***(TD - * denotes price target. Please note that TD Newcrest Research is available from your Investment Advisor); **Dalsa** (Paradigm); **Cameco** (Canaccord); **Harvest Energy Trust** (CIBC).
- Analyst downgrades include **Inco**, **Abitibi-Consolidated*** (TD - * denotes price target. Please note that TD Newcrest Research is available from your Investment Advisor); **Ketch Resources** (Tristone Capital); **AGF Management** (BMO); **Paramount Resources** (RBC); **Fairmont Hotels** (CIBC); **Inco** (UBS).
- Long bonds are currently down $0.65, 10-years are down $0.47, 5-years are down $0.27 and 2-years are down $0.10. The bond market appears to have a **neutral bias** over the

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shorter term. Monthly technical indicators continue to show neutral underlying bond market trends for longer maturities. Intermediate-term technical targets are suggested at 4.40%-4.85% for the 10-year maturity and 5.00%-5.40% for the 30-year.

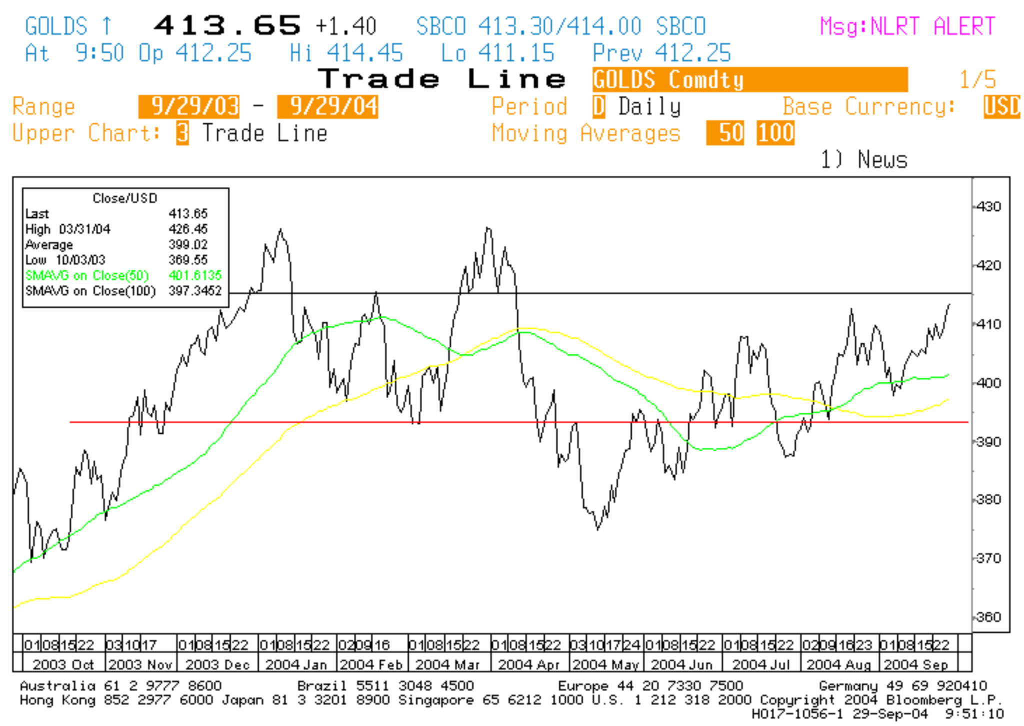
FX Markets

- The USD is weaker against the yen at 110.91 and stable vs. the euro at 1.2329. Shorter-term technical profile for the **US$ appears neutral/positive.** The suggested shorter-term ranges are 1.20-1.25 for the euro and 108 to 112 for the yen.
- The C$ is stronger today at .7875 (1.2698) The shorter-term technical profile **appears positive/neutral**. Shorter-term trading range suggested at .7519 to .7885 (1.2682 to 1.330).

Key Events

Date	Event	Consensus	Last
Thur. Sep. 30	Cda GDP (July)	0.3%	0.3%
	U.S. Chicago PMI (Sep.)	57.5	57.3
	PCE Deflator (y/y)	2.2%	2.4%
	PCE Core (y/y)	1.5%	1.5%

Spot Gold Forming a Nice Technical Picture



"People always ask me, 'Were you funny as a child?' Well, no, I was an accountant."…Ellen DeGeneres

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