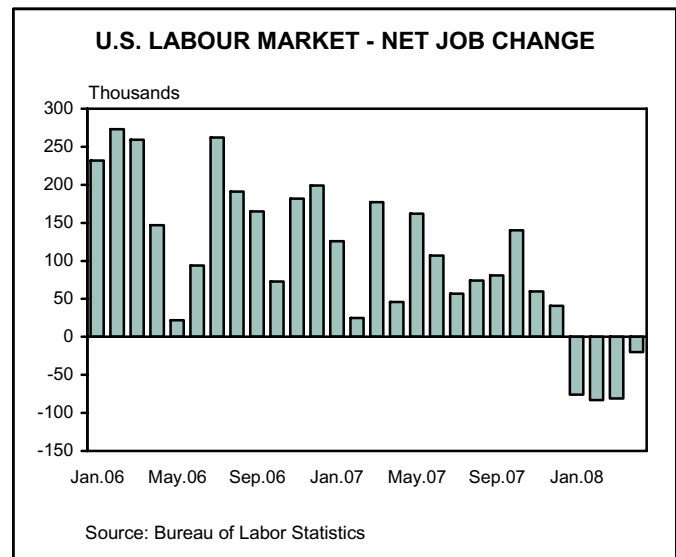


THE GLOOM BENEATH THE CHEER

Much has changed since early spring when the Fed was delivering monetary stimulus at a fast and furious pace. Though the U.S. economic data continues to point to broad based weakness, there have been some signs of improvement in the credit markets. It is against this backdrop that the Federal Reserve recently delivered a 25 basis point rate cut on April 30, lowering the fed funds rate to 2.0%.

The economic assessment was not quite as bad as feared. According to the Fed's last monetary policy statement, there is still a good deal of softness in the U.S. economy, with household and business spending remaining "subdued." In addition, labour markets "have softened further." Moreover, the Fed mentioned that "financial markets remain under considerable stress," which comes as little surprise. The housing contraction is also presumed to remain a drag on economic growth going forward. But the Fed was not nearly as clear as in the past about its intentions for the future. By leaving out the statement regarding downside risk to the economy, the Fed effectively created a neutral bias.

Even before the Fed delivered the rate cut, expectations for easing at the April 30 meeting had been scaled back. And with the statement that accompanied the deci-



sion, there are now indications that the Fed is not as worried about downside growth risks as it was just six weeks ago. What has shifted?

Not much, quite frankly, when assessing economic fundamentals. In fact, the U.S. economy seems to be decelerating at an accelerating pace. The labour market is clearly in contraction, though the damage in April was not nearly as bad as feared. In April nonfarm payrolls shrank by 20K, which was better than the expected 75K loss. And the unemployment rate actually fell modestly to 5.0% from 5.1% in February. Recent job losses have become increasingly broad based, as losses are now obvious in not only construction and manufacturing, but also retail and wholesale trade. Since January, the labour market has lost a total of 260K jobs and we think that the correction in the labour market is closer to the beginning than the end.

From the first quarter GDP data, it is also obvious that the economy is in the slow lane. In the first quarter, U.S. real GDP grew by 0.6% Q/Q (annualized). On the sur-

CONTENTS

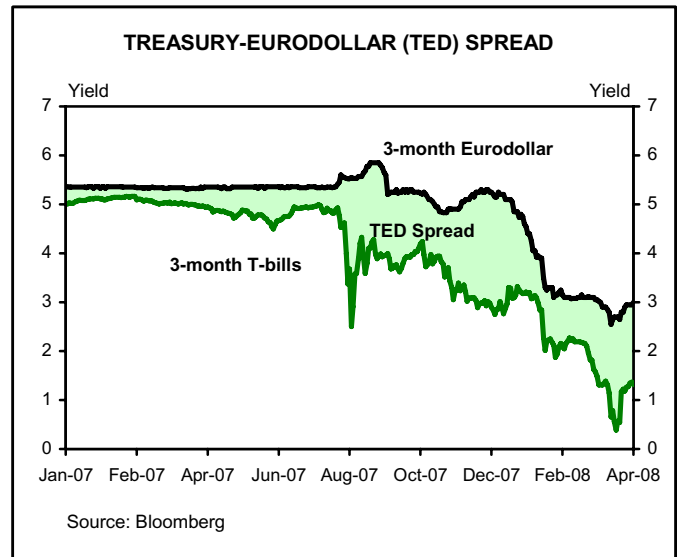
Lead Article: The Gloom Beneath The Cheer	1
U.S. Fixed Income	4
Canadian Fixed Income	5
U.S. Dollar	6
Canadian Dollar	7
Japanese Yen	8
Euro	9
U.K. Pound	10
Swiss Franc/Mexican Peso	11
Australian Dollar	12
Summary Foreign Exchange Table	13

face this may seem not nearly as bad as it could have been. But much of the gain in the first quarter was the result of a private nonfarm inventory build, which added 0.93 percentage points to GDP, and those inventories must ultimately be liquidated. This suggests downside in the second quarter. Moreover, final sales to domestic purchasers, which purely reflects domestic demand, fell 0.4% Q/Q annualized and points to a good deal of underlying weakness. For context, this was the first decline since the fourth quarter of 1991, which was the last comparable recession characterized by a housing market correction.

Credit Markets On the (Slow) Mend

Thanks in large part to the extended facilities that the Fed put in place over the last quarter, there have been incipient signs of repair in the credit markets. Credit spreads for a wide array of products have narrowed, though they remain wide by historical standards. Nevertheless, spreads for A and BBB versus Treasuries, as well as for emerging market bonds, are generally back to levels last seen in January, suggesting that investors have become a bit more comfortable with risk after numerous liquidity injections by the Fed. However, in the short term money market, spreads have not enjoyed the same narrowing as other securities and remain wide by historical standards, as measured by the spread between the 3-month T-bill yields versus Libor.

The narrowing in corporate spreads has been a welcome change of pace, considering the rocky first quarter. April earned the distinction of being a record month for corporate issuance in the U.S. At \$113.9 billion, corporate bond issuance was up 180% compared to last April, even



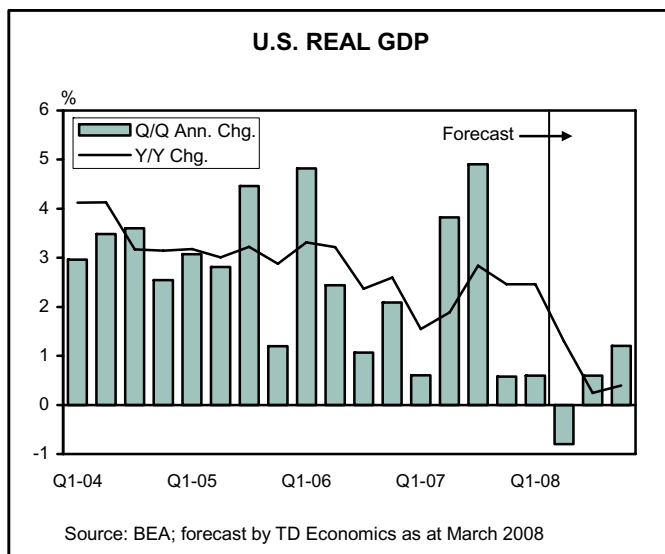
as spreads remain wide by historical comparisons. The underlying reasoning is that the markets have absorbed much of the bad news and it has become clear that, despite the bottlenecks in the banking system, widespread bankruptcies are unlikely. Therefore, with some modicum of assurances that default risk is limited, U.S. corporations are taking the opportunity to get back into the market and issue debt. This is encouraging.

Against this backdrop, it is obvious the economy is not out of the woods yet, and although there are heartening signs of improvement in the credit market, it too, has much work still to do. The U.S. economic slowdown in this cycle is expected to be worse than that in 2001, and on this condition alone one can justify further Fed easing to address the situation. We continue to expect another 75 basis points of rate cuts based on our expectation that economic conditions will get much worse before staging a convincing and sustained turnaround.

Bank of Canada to Stay the Course

The Canadian economy has started to show signs of strain, due to the headwinds from the U.S. economy creating a substantial drag on Canadian exports. Canadian real GDP is, therefore, on track to disappoint the Bank of Canada's forecast for a 1% pace of growth in the first quarter.

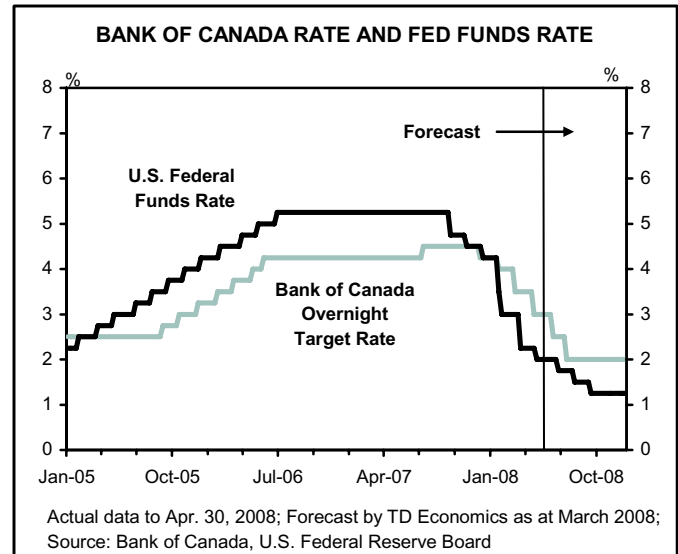
At their last meeting, the Bank of Canada delivered a 50 basis point rate cut and issued a fairly dovish statement detailing worries about "a deeper and more protracted slowdown in the U.S. economy" as well as "tightening credit conditions and softening sentiment." Against this



backdrop, the Bank left the door open for further rate cuts noting that the “timing of any further monetary stimulus will depend on the evolution of the global economy and domestic demand, and their impact on inflation in Canada.”

And if their new downwardly revised forecasts that were issued in the last Monetary Policy Report come to fruition, the scope for further rate cuts remains wide open. The Bank is expecting to see growth come in at 1.4% in 2008 (versus our forecast of 1.1%) and 2.4% in 2009 (versus our forecast of 1.8%), before picking up to 3.3% in 2010. This is a fairly substantial downward revision, but necessary given that the U.S. slowdown appears to be gaining some traction and has definite knock-on effects for Canada, given its trade exposure.

On the inflation front, the Bank sees core CPI inflation picking up a bit through the second half of 2008 and into 2009, although does not expect it to hit the 2.0% target again until the beginning of 2010. The combination of little upside for growth and few imminently concerning price pressures makes a good recipe for further rate cuts. And



as a result we continue to expect two more 50 basis point rate cuts by the Bank of Canada, which ultimately leaves rates at a cyclical nadir of 2.0%.

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U.S. FIXED INCOME

Since mid-March, U.S. bonds have sold off sharply, by a substantial 98 basis points. The move has been a steady one, with yields rising across six out of the seven intervening weeks. As this move has occurred, the U.S. yield curve has flattened substantially, with the spread between the 2yr and the 10yr bond narrowing by 60 basis points to just 140 basis points.

There has been a combination of factors motivating this sharp market action. The U.S. Federal Reserve has signalled that it would prefer not to cut rates further, and this has forced the market to scale back some of its rate cut expectations. The banking sector has managed to hold itself together, and as the memory of the Bear Stearns crisis fades, the flight-to-safety mentality that first sent U.S. bond yields so low has diminished with it. Economic data has been broadly bad, but not horrible.

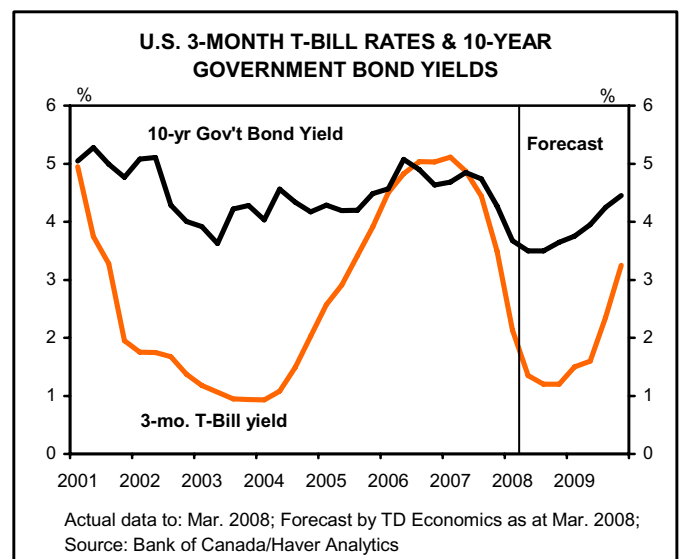
All told, the market is now doubtful that any further Fed easing will occur, and it indeed prices in cautious rate hiking by the end of 2008.

The TD perspective is that the market may be unrealistically optimistic. Ultimately, TD forecasts several further Fed eases, and a final fed funds rate that could fall as low as 1.25% – below the 2.00% rate of today. The motivation for this off-consensus view comes from several beliefs. Prime among them is the notion that there are two separate problems at hand. One is the credit crunch, which may or may not be improving as the Fed throws a variety of solutions at it. But even if the credit crunch itself is solved, there is a more fundamental problem at hand, namely that the U.S. real economy is in serious trouble itself. Fed cutting has only partially wormed its way through to the real economy, and further stimulus

is necessary to rescue a housing sector that is locked in a downward spiral. Inflation fears are real, but the threat will ultimately be defused by softening wages that short-circuit any potential wage-price spiral.

In alignment with these beliefs, TD forecasts bonds to rally somewhat further, and for the yield curve to steepen. The U.S. 2yr bond yield is predicted to return to the 1.65% range, and the 10yr yield should return to 3.50% territory. The 2yr-10yr spread should widen back out to the 185 basis points range as inflation fears remain active, the Fed cuts, and the flight-to-safety returns to prominence.

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U.S. FIXED INCOME OUTLOOK													
	Spot Rate 5/2/2008	2007				2008				2009			
		Q1	Q2	Q3	Q4	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate (%)	2.00	5.25	5.25	4.75	4.25	2.25	1.75	1.25	1.25	1.25	1.50	2.25	3.25
3-mth T-Bill Rate (%)	1.45	5.06	4.81	3.91	3.27	1.37	1.35	1.20	1.20	1.50	1.60	2.35	3.25
2-yr Govt. Bond Yield (%)	2.47	4.57	4.86	3.98	3.05	1.58	1.85	1.65	2.00	2.10	2.50	2.85	3.30
5-yr Govt. Bond Yield (%)	3.19	4.53	4.92	4.24	3.44	2.44	2.80	2.70	2.90	3.00	3.30	3.60	3.90
10-yr Govt. Bond Yield (%)	3.87	4.64	5.02	4.59	4.02	3.41	3.50	3.50	3.65	3.75	3.95	4.25	4.45
30-yr Govt. Bond Yield (%)	4.58	4.84	5.12	4.84	4.45	4.29	4.30	4.30	4.35	4.35	4.40	4.55	4.60
10-yr-2-yr Govt. Spread (%)	1.40	0.07	0.16	0.61	0.97	1.83	1.65	1.85	1.65	1.65	1.45	1.40	1.15

f: Forecast by TD Economics as at May 2008; All forecasts are for end of period. Source: Bloomberg, TD Economics

CANADIAN FIXED INCOME

In Canada, the bond market move since mid-March has been much more muted than in the U.S. The 2yr bond has sold off by a more pedestrian 35 basis points, and the 2yr-10yr spread has fallen by only 22 basis points, to roughly 80 basis points. Relative to the U.S., Canadian bonds have sharply outperformed, with the 2yr spread down an astonishing 63 basis points to just a 34 basis point gap presently.

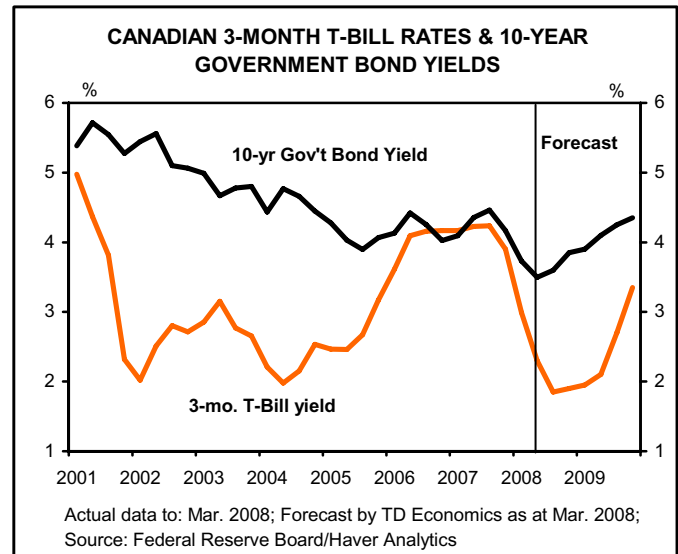
There are several factors that have driven these moves. The overall sell off was prompted by the U.S. sell off. The two bond markets are intertwined, and the Canadian market is always susceptible to U.S. moves. The fact that Canada managed to substantially outperform the U.S. in bonds is perhaps the more relevant fact. The Bank of Canada has proven eminently willing to cut rates, and has eased by a total of 150 basis points so far.

At present, market expectations call for two further 25 basis point rate cuts by the Bank of Canada. Recent Bank of Canada comments are largely consistent with this view.

However, TD believes that the Bank of Canada may find itself forced to respond somewhat more aggressively to the deteriorating economic situation, and that two further 50bp rate cuts will ultimately prove necessary. This will take the overnight rate down to just 2.00%. Supporting this view, Canadian GDP appears to be on track for a sub-1% performance in the first quarter of 2008 – less than the Bank of Canada had forecast. Providing further motivation for rate cuts, Canadian inflation remains very soft – in sharp contrast to the rest of the world – thanks to the deflationary influence of the strong Canadian dollar.

From a bond market perspective, TD's below consensus view argues for a rally in Canadian bonds. The TD forecast calls for the 2yr bond yield to decline to 2.40%, and for the 2yr-10yr spread to steepen from 80 basis points to 120 basis points. Relative to the U.S., the situation is somewhat more nuanced. TD looks for both central banks to cut by more than the market expects. Relative to each other, the TD view is further off consensus on the U.S. than Canada, and so this argues for U.S. bond yields declining faster than Canadian bonds. In turn, the Canada-U.S. spread may widen somewhat going forward.

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CANADIAN FIXED INCOME OUTLOOK

	Spot Rate 5/2/2008	2007				2008				2009			
		Q1	Q2	Q3	Q4	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Overnight Target Rate (%)	3.00	4.25	4.25	4.50	4.25	3.50	2.50	2.00	2.00	2.00	2.00	2.50	3.25
3-mth T-Bill Rate (%)	2.67	4.20	4.40	4.01	3.84	1.97	2.30	1.85	1.90	1.95	2.10	2.70	3.35
2-yr Govt. Bond Yield (%)	2.81	3.98	4.59	4.08	3.75	2.62	2.50	2.40	2.80	2.80	3.05	3.25	3.40
5-yr Govt. Bond Yield (%)	3.10	4.02	4.56	4.21	3.87	2.91	2.95	2.95	3.25	3.30	3.55	3.70	3.80
10-yr Govt. Bond Yield (%)	3.61	4.11	4.56	4.34	3.99	3.44	3.50	3.60	3.85	3.90	4.10	4.25	4.35
30-yr Govt. Bond Yield (%)	4.09	4.20	4.49	4.44	4.10	3.94	4.05	4.15	4.30	4.30	4.35	4.50	4.55
10-yr-2-yr Govt. Spread (%)	0.80	0.13	-0.03	0.26	0.24	0.82	1.00	1.20	1.05	1.10	1.05	1.00	0.95
Canada-U.S. Spreads													
3-mth T-Bill Rate (%)	1.22	-0.86	-0.41	0.10	0.57	0.60	0.95	0.65	0.70	0.45	0.50	0.35	0.10
2-yr Govt. Bond Yield (%)	0.34	-0.59	-0.27	0.10	0.70	1.04	0.65	0.75	0.80	0.70	0.55	0.40	0.10
5-yr Govt. Bond Yield (%)	-0.09	-0.51	-0.36	-0.03	0.43	0.47	0.15	0.25	0.35	0.30	0.25	0.10	-0.10
10-yr Govt. Bond Yield (%)	-0.26	-0.53	-0.46	-0.25	-0.03	0.03	0.00	0.10	0.20	0.15	0.15	0.00	-0.10
30-yr Govt. Bond Yield (%)	-0.49	-0.64	-0.63	-0.40	-0.35	-0.35	-0.25	-0.15	-0.05	-0.05	-0.05	-0.05	-0.05

f: Forecast by TD Economics as at May 2008; All forecasts are for end of period. Source: Bloomberg, TD Economics

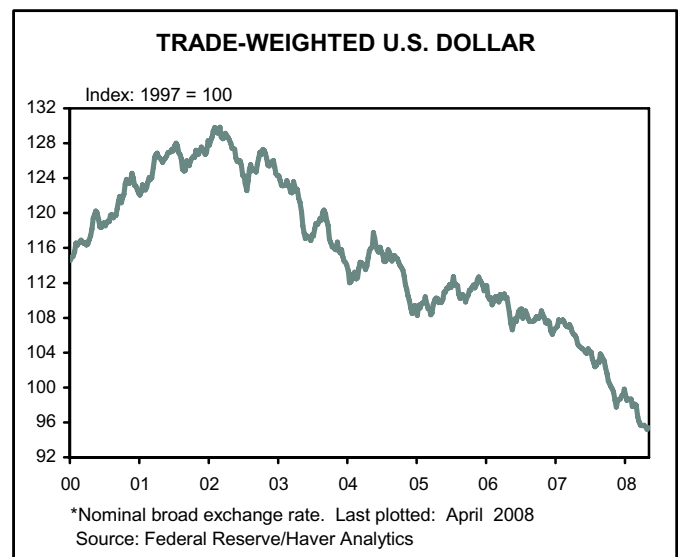
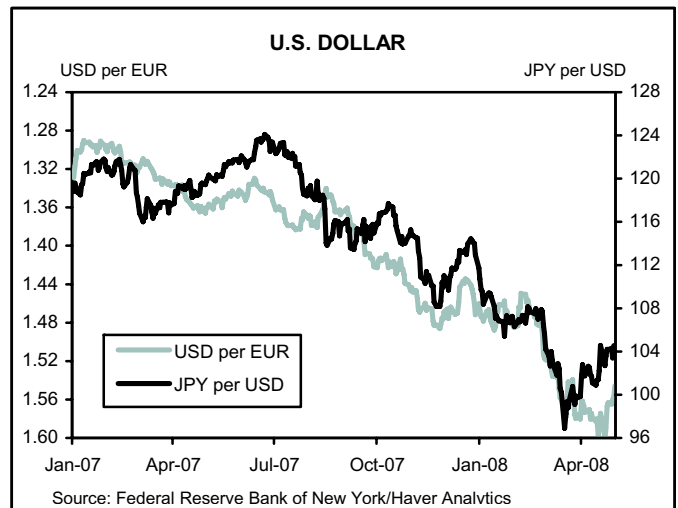
U.S. DOLLAR

The USD remains weak, notwithstanding the modest rebound against the EUR and other currencies seen in the past couple of weeks. Although top-tier US data – such as Q1 GDP and the April non-farm payroll data – came in a little better than expectations, it perhaps says more about market positioning or psychology than the USD itself that 0.6% (annualized) growth and a 20k fall in employment are considered “good news”. The Fed did not draw a definitive line under the rate cutting cycle at the April meeting and we remain of the view that the weak economic backdrop will force rates lower again later this year. The USD may gain modestly in the near term on the view that the Fed may be done easing but without a clear turn in the interest rate cycle, a significant – or sustained – rise in the USD is hard to envision at this stage.

While the US economy may not be falling apart, it is a long way from looking robust, given the continued weakness in housing and plunging consumer confidence. And while the Fed suggested that rate policy may remain on hold for now (it does not meet again until June anyway), its decision to add significantly to pre-existing liquidity provisions to the banking system suggests that the credit market remains a long way from functioning properly and that a long period of low (or lower) interest rates lies ahead.

The change in the language concerning currencies contained in the G7’s April communiqué may have helped the current USD rebound by encouraging speculative accounts to lighten up on USD short positions but the limited rhetorical changes (mentioning market volatility rather than EUR strength or USD weakness specifically) suggests little common concern over the USD at the moment still.

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U.S. DOLLAR FUNDAMENTALS			
Interest Rate Spreads	-	Business Cycle	-
Inflation Differential	-	Fiscal Balances	-
Current Account	-	Politics	N

Legend: - is negative, + is positive, N is neutral for currency

U.S. DOLLAR OUTLOOK																	
	Spot Price 5/5/2008	2006				2007				2008				2009			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Trade-wtd. USD	95.9	110.6	108.8	108.1	107.1	105.8	104.3	100.9	99.2	96.0	95.3	96.2	96.7	97.9	98.3	99.8	100.4
JPY per USD	105.2	118	114	118	119	118	123	115	112	104	96	95	90	93	92	98	98
USD per EUR	1.544	1.211	1.279	1.267	1.320	1.337	1.354	1.410	1.459	1.562	1.600	1.550	1.500	1.450	1.420	1.400	1.370
USD per GBP	1.973	1.737	1.848	1.873	1.958	1.978	2.009	2.014	1.985	1.987	1.975	1.890	1.807	1.813	1.797	1.772	1.756

f: Forecast by TD Economics as at May 5, 2008; All forecasts are for end of period; Source: Federal Reserve of New York, TD Economics

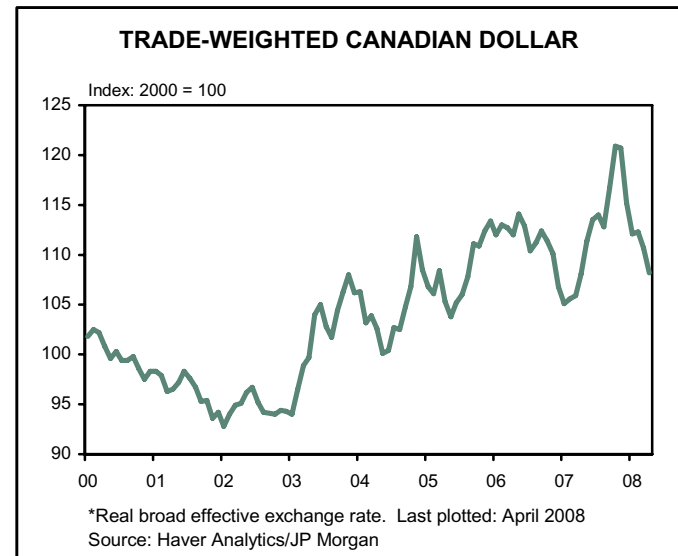
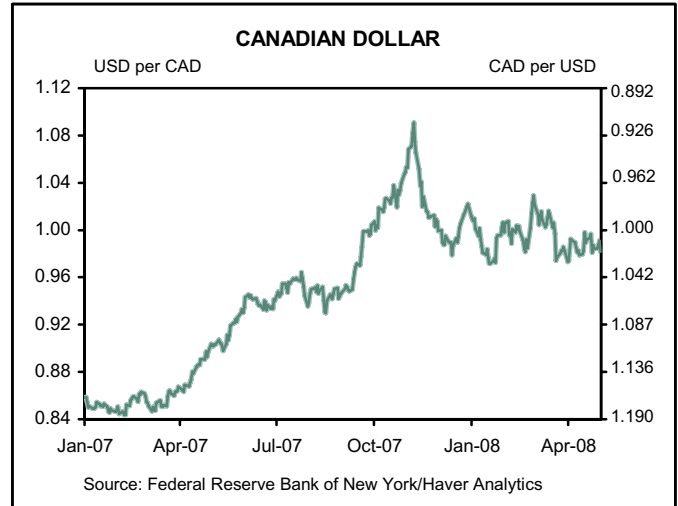
CANADIAN DOLLAR

The CAD has traded in a tight range around par against the USD since December last year; there is no sign that the market is poised to break out of its range any time soon. Canadian economic prospects remain closely tied to the US economic outlook and so, as a consequence, are monetary policy and the CAD to a large degree. Bank of Canada officials continue to suggest that further monetary accommodation may be required over time and the weak reports from domestic wholesalers, retailers and manufacturers in February suggest that caution on growth prospects remains warranted.

CAD scope for independent movement has been curtailed by the currency's complete and utter break away from oil prices in the past few months. When the CAD peaked against the USD in early November, its correlation with crude oil movement was almost perfect (94%, according to our models); as the CAD settled back into its range and crude oil continued to rally, the correlation has steadily dropped to effectively zero.

The CAD seems poised to hold around par for a little longer but we continue to look for a modest decline in the level of the CAD overall this year and suspect that slower North American growth prospects, lower domestic interest rates along with erosion in Canada's twin surplus position will pull the currency lower in the next few quarters.

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CANADIAN DOLLAR FUNDAMENTALS			
Interest Rate Spreads	+	Business Cycle	N
Inflation Differential	+	Fiscal Balances	+
Current Account	+	Politics	N

Legend: - is negative, + is positive, N is neutral for currency

CANADIAN DOLLAR OUTLOOK																	
	Spot Price 5/5/2008	2006				2007				2008				2009			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
CAD per USD	1.020	1.167	1.116	1.118	1.166	1.119	1.075	0.995	0.998	1.008	1.020	1.042	1.053	1.053	1.064	1.075	1.087
USD per CAD	0.980	0.857	0.896	0.895	0.858	0.894	0.930	1.005	1.002	0.992	0.980	0.960	0.950	0.950	0.940	0.930	0.920
JPY per CAD	103	101	103	106	102	105	115	116	112	103	94	91	86	88	86	91	90
CAD per EUR	1.575	1.413	1.428	1.417	1.538	1.496	1.456	1.403	1.456	1.575	1.633	1.615	1.579	1.526	1.511	1.505	1.489
CAD per GBP	2.01	2.027	2.063	2.093	2.283	2.212	2.160	2.004	1.981	2.003	2.016	1.969	1.902	1.908	1.912	1.906	1.909

f: Forecast by TD Economics as at May 5, 2008; All forecasts are for end of period; Source: Federal Reserve of New York, TD Economics

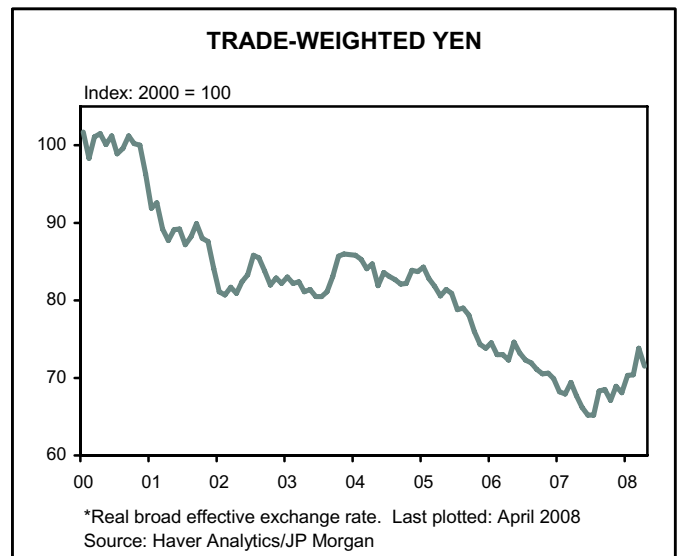
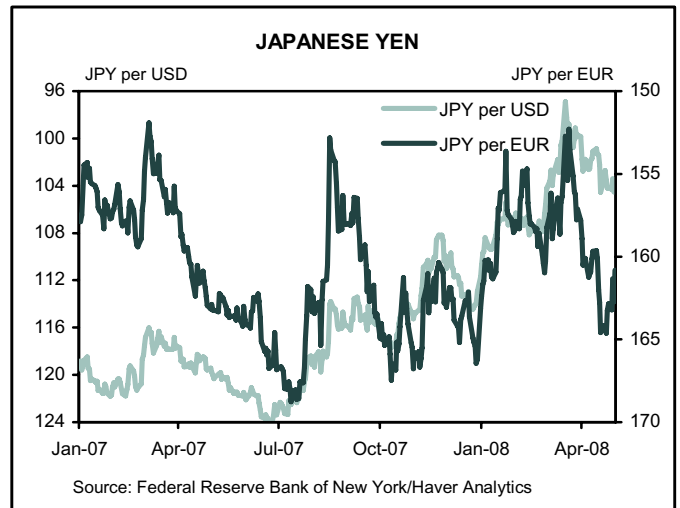
JAPANESE YEN

We expect the JPY to remain strong against the USD overall this year; the JPY remains competitively priced in real effective terms, affording domestic exporters a considerable advantage that Japan's competitors remain keen to reduce. Asia's current account-generating economies remain under considerable external pressure to allow their currencies to appreciate and facilitate a reduction in global imbalances. However, the near term outlook for the currency has become less than clear and some scope for weakness is apparent in the next few weeks.

The markets have clearly started to embrace risk again – including a tentative move back into JPY-debilitating carry trades – as fears regarding the global credit crunch abate. The JPY is one of the worst performing currencies over the past month, with its low-yielding, safe-haven peer, the CHF the only major currency to have under performed it. Overall, however, we expect that the broader economic uncertainties and tighter credit conditions will limit the market's enthusiasm for carry over time.

Equally, the short term JPY outlook has been muddled by weaker domestic economic data; construction remains soft and industrial output weakened unexpectedly in March. The Bank of Japan, meeting for the first time under the leadership of newly appointed Governor Shirakawa, opted to leave interest rates unchanged in April but also moved from a tightening to a neutral bias to reflect the uncertain growth outlook, even as inflation pushed higher.

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YEN FUNDAMENTALS			
Interest Rate Spreads	-	Business Cycle	+
Inflation Differential	+	Fiscal Balances	-
Current Account	+	Politics	N
Legend: - is negative, + is positive, N is neutral for currency			

JAPANESE YEN OUTLOOK																	
	Spot Price 5/5/2008	2006				2007				2008				2009			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4F	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
JPY per USD	105	118	114	118	119	118	123	115	112	104	96	95	90	93	92	98	98
JPY per EUR	162	143	146	150	157	157	167	162	163	162	154	147	135	135	131	137	134
JPY per GBP	208	205	211	221	233	233	248	232	222	206	190	180	163	169	165	174	172
JPY per CAD	103	101	103	106	102	105	115	116	112	103	94	91	86	88	86	91	90

f: Forecast by TD Economics as at May 5, 2008; All forecasts are for end of period; Source: Federal Reserve of New York, TD Economics

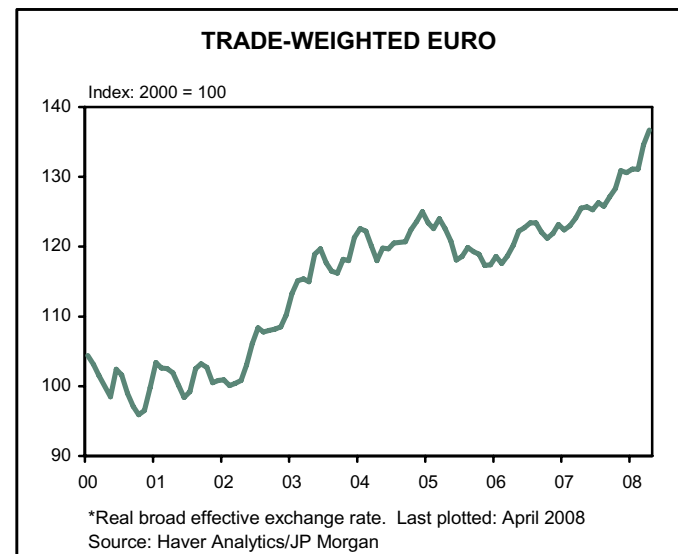
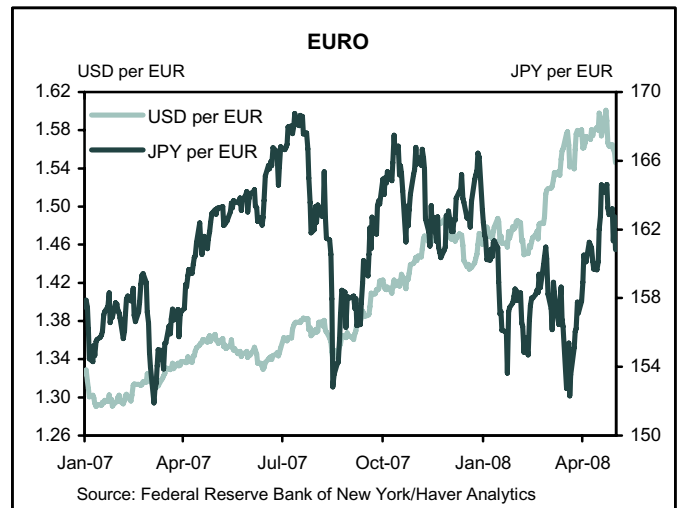
EURO

While we suspect that the EUR may be close to a medium to long term peak against the USD, the prerequisites for a clear turn in the USD's trend have yet to be fulfilled, we think. We would prefer to see stronger evidence of a trough in the US interest rate cycle, a turn in the euro zone rate cycle and a little more obvious concern among US policy makers that the USD weakness has gone far enough to be fully convinced that the EUR has topped out and there is scant evidence of any of those factors being firmly in place at this point.

We have noted the uncertainties regarding US interest rate policy and feel that the European Central Bank (ECB) is not yet willing to consider a rate cut at this stage. There has been an obvious increase in indirect political pressure on the ECB in recent weeks as the EUR appreciated to record highs and, although euro zone growth momentum is slowing (clearly so in the traditionally "weaker" economies at the periphery of the euro zone, such as Italy, Spain, Ireland etc.), criticism of the central bank usually sees the institution dig in its heels even harder. Euro zone inflation (the sole mandate of the ECB) at 3.3% (April) is simply too far above the central bank's 2% target to consider an ease right now.

It is notable that the change in the language of the G7's communiqué has been lauded almost exclusively by France, which tried to set the April statement on par with 1985's Plaza Accord. That seems a stretch. There is precious little sign that the G7 overall would be willing to back up words with action and the US has not modulated its "strong dollar" message at all to reflect any heightened concern about the currency.

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EURO FUNDAMENTALS			
Interest Rate Spreads	+	Business Cycle	+
Inflation Differential	+	Fiscal Balances	-
Current Account	+	Politics	N
Legend: - is negative, + is positive, N is neutral for currency			

EURO OUTLOOK																	
	Spot Price 5/5/2008	2006				2007				2008				2009			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
USD per EUR	1.544	1.211	1.279	1.267	1.320	1.337	1.354	1.410	1.459	1.562	1.600	1.550	1.500	1.450	1.420	1.400	1.370
JPY per EUR	162	143	146	150	157	157	167	162	163	162	154	147	135	135	131	137	134
GBP per EUR	0.782	0.697	0.692	0.677	0.674	0.676	0.674	0.700	0.735	0.786	0.810	0.820	0.830	0.800	0.790	0.790	0.780
CAD per EUR	1.575	1.413	1.428	1.417	1.538	1.496	1.456	1.403	1.456	1.575	1.633	1.615	1.579	1.526	1.511	1.505	1.489

f. Forecast by TD Economics as at May 5, 2008; All forecasts are for end of period; Source: Federal Reserve of New York, TD Economics

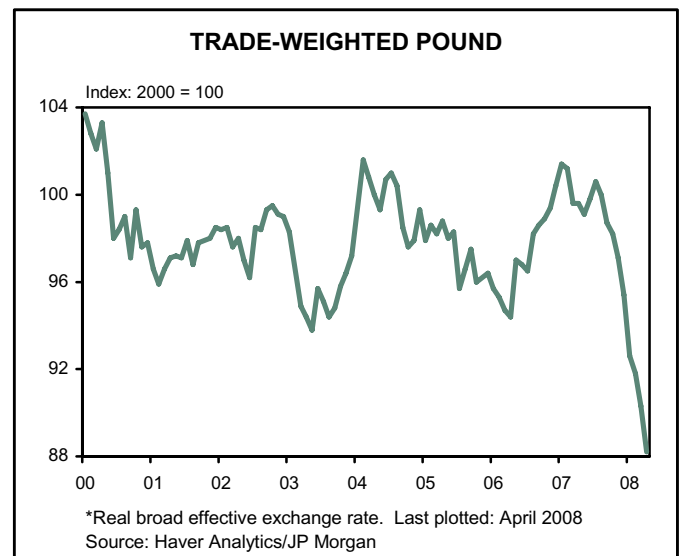
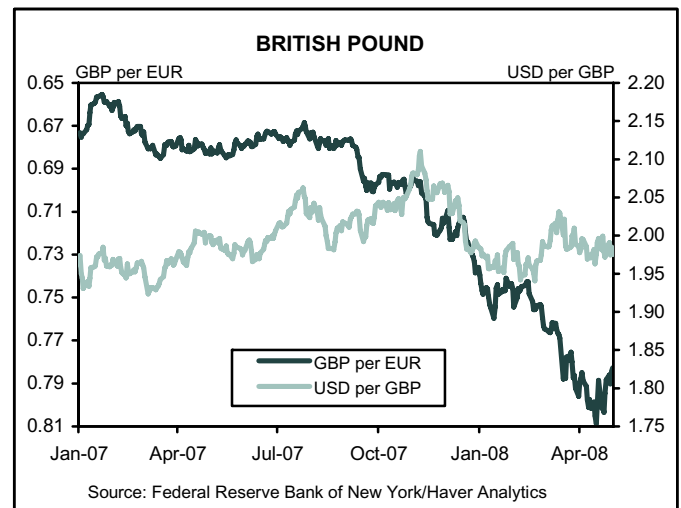
U.K. POUND

We expect the GBP to under perform its major currency peers in the next few months. The UK housing sector continues to weaken sharply – all the major price indices reflect negative year on year house price growth now – and evidence from the High St suggests that the slowdown is making its impact felt on retail demand (the Confederation of British Industry’s April survey of retail trade dropped sharply to its lowest level since late 2005); we expect that the retail slowdown will be quickly reflected in overall levels of growth, which will result in further reductions in UK interest rates.

Bank of England (BoE) policy makers are unusually divided on policy at the moment – which in and of itself counts as a GBP-negative; the most recent meeting concluded with an agreement to cut rates 25bps though there were dissenting votes for no change as well as for a deeper cut. Rate doves appear to worry about recession risks while the hawks are concerned about above target inflation. We think that a rapid weakening in growth will keep policy makers erring on the side of caution in the next few months and bring rates down towards 4.00% by early 2009.

Slower growth, lower interest rates and a renewed widening in the UK’s current account deficit (after an unexpected – and likely temporary – narrowing in Q1) will combine to push the GBP lower overall in the next few months.

*Shaun Osborne, Chief Currency Strategist
416-983-2629*



POUND FUNDAMENTALS			
Interest Rate Spreads	+	Business Cycle	+
Inflation Differential	+	Fiscal Balances	+
Current Account	-	Politics	N

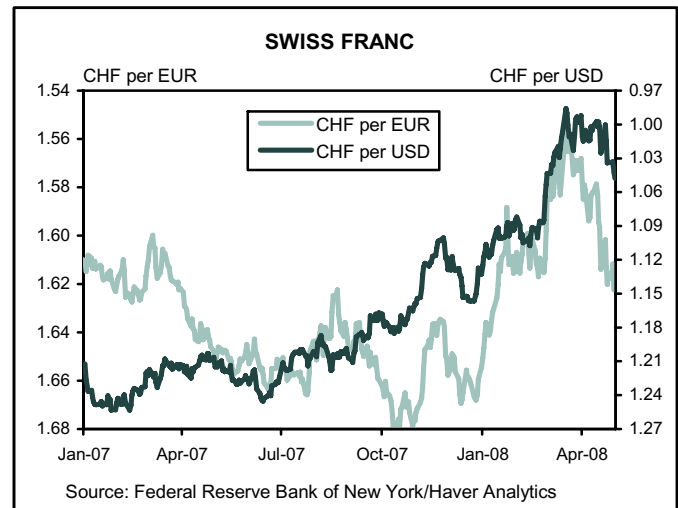
Legend: - is negative, + is positive, N is neutral for currency

UNITED KINGDOM POUND																	
	Spot Price 5/5/2008	2006				2007				2008				2009			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
USD per GBP	1.973	1.737	1.848	1.873	1.958	1.978	2.009	2.014	1.985	1.987	1.975	1.890	1.807	1.813	1.797	1.772	1.756
GBP per EUR	0.782	0.697	0.692	0.677	0.674	0.676	0.674	0.700	0.735	0.786	0.810	0.820	0.830	0.800	0.790	0.790	0.780
CAD per GBP	2.01	2.03	2.06	2.09	2.28	2.21	2.16	2.00	1.98	2.00	2.02	1.97	1.90	1.91	1.91	1.91	1.91

f: Forecast by TD Economics as at May 5, 2008; All forecasts are for end of period; Source: Federal Reserve of New York, TD Economics

SWISS FRANC

A renewed preference for higher-risk investments has led to a marked softening in the CHF in the past month or so, taking the shine off of the currency's "safe haven" status. Economic developments remain closely aligned to the euro zone economy and weaker business confidence indicators point to slower growth in both jurisdictions in the months ahead. The Swiss National Bank, like the ECB remains somewhat perturbed by higher inflation pressures but policy makers have also noted weaker global growth prospects and heightened uncertainty as factors that may drive policy. That suggests the current status quo between Swiss and euro zone interest rates is likely to be maintained for a little longer.



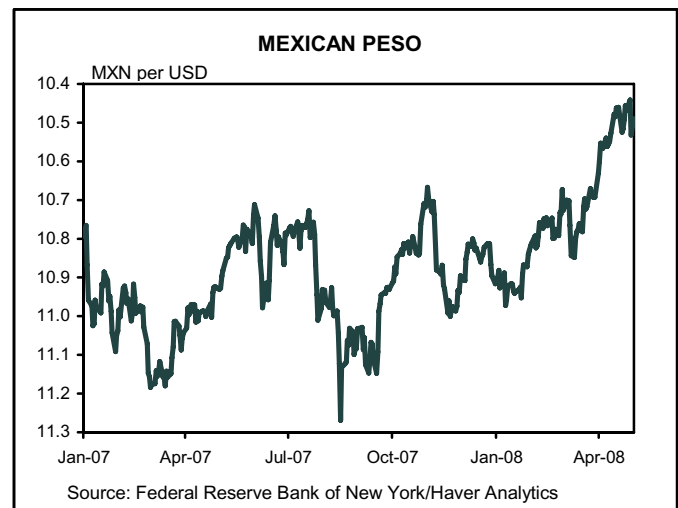
SWISS FRANC OUTLOOK

	Spot Price 5/5/2008	2006				2007				2008				2009			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
CHF per USD	1.056	1.305	1.223	1.251	1.220	1.214	1.221	1.170	1.133	1.034	0.963	0.987	1.013	1.034	1.056	1.086	1.109
CHF per EUR	1.630	1.580	1.564	1.585	1.610	1.624	1.654	1.650	1.654	1.616	1.540	1.530	1.520	1.500	1.500	1.520	1.520
CHF per CAD	1.035	1.119	1.096	1.119	1.047	1.086	1.136	1.176	1.136	1.026	0.943	0.948	0.963	0.983	0.993	1.010	1.021

f: Forecast by TD Economics as at May 5, 2008; All forecasts are for end of period; Source: Federal Reserve of New York, TD Economics

MEXICAN PESO

The MXN continues to perform well; record oil prices, positive domestic data and the broader weakness in the USD allowed USD/MXN to drop back to the 10.44 area in late March, the lowest rate since early 2006. Despite the economy's close ties to US demand, there has been no obvious growth spill over from the US slowdown so far; Q1 growth measured 3.0% and officials have indicated that Q2 growth has held up relatively well also. Government spending on infrastructure projects may be offsetting some of the domestic slowdown. Firm growth and a nudge up in inflation suggest little or no room for local rates to follow the Fed lower. The peso is liable to remain well supported in the short term.



MEXICAN PESO OUTLOOK

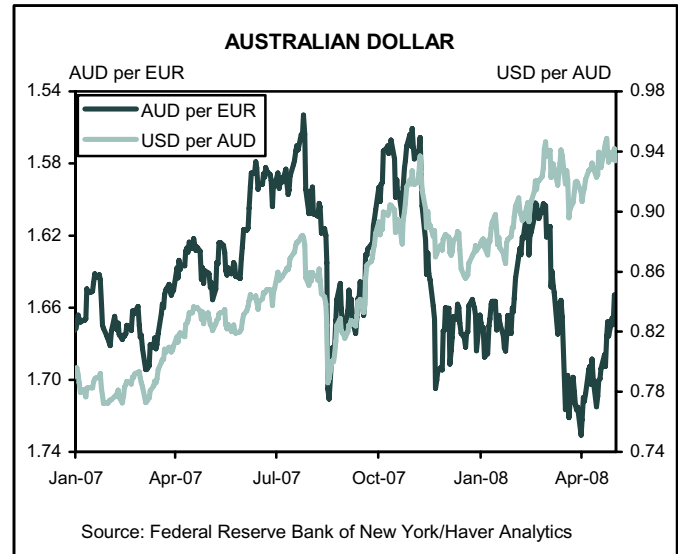
	Spot Price 5/5/2008	2006				2007				2008				2009			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
MXN per USD	10.46	10.90	11.34	10.98	10.82	11.05	10.81	10.92	10.90	10.47	10.85	10.85	10.90	10.95	10.95	11.00	11.00
MXN per EUR	16.15	13.20	14.50	13.92	14.28	14.77	14.64	15.40	15.90	16.36	17.36	16.82	16.35	15.88	15.55	15.40	15.07
MXN per CAD	10.25	9.34	10.16	9.82	9.28	9.88	10.05	10.97	10.92	10.39	10.63	10.42	10.36	10.40	10.29	10.23	10.12

f: Forecast by TD Economics as at May 5, 2008; All forecasts are for end of period; Source: Federal Reserve of New York, TD Economics

AUSTRALIAN DOLLAR

Signs that high domestic interest rates are starting to bite on the Australian economy have moderated out views on the AUD; slower growth and cooling consumer spending have raised the prospect that the March tightening in the cash rate to 7.25% (a 13-year peak) represents a “high water mark” for interest rates. The issue for the AUD is how quickly rates will fall from here. We expect interest rates to start easing in late 2008 as inflation falls back into line and for the Reserve Bank of Australian to implement 125-175 basis points of rate cuts by the end of next year. We expect the AUD to remain a little better supported in the near term above the 0.90 level before easing back to 0.86 by year end.

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AUSTRALIAN DOLLAR OUTLOOK

	Spot Price 5/5/2008	2006				2007				2008				2009			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
USD per AUD	0.930	0.711	0.742	0.746	0.789	0.809	0.840	0.875	0.875	0.944	0.900	0.890	0.880	0.870	0.870	0.810	0.840
JPY per AUD	97.84	83.84	84.93	88.15	93.97	95.30	103.49	100.63	97.74	98.08	86.40	84.55	79.20	80.91	80.04	79.38	82.32
AUD per CAD	1.054	1.205	1.207	1.199	1.087	1.105	1.107	1.149	1.145	1.051	1.089	1.079	1.080	1.092	1.080	1.148	1.095

f: Forecast by TD Economics as at May 5, 2008; All forecasts are for end of period; Source: Federal Reserve of New York, TD Economics

SUMMARY FOREIGN EXCHANGE TABLE																			
		Spot Price 5/5/2008	2006				2007				2008				2009				
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	
Exchange rate to U.S. dollar																			
Japanese yen	JPY per USD	105.2	118	114	118	119	118	123	115	112	104	96	95	90	93	92	98	98	
Euro	USD per EUR	1.544	1.211	1.279	1.267	1.320	1.337	1.354	1.410	1.459	1.562	1.600	1.550	1.500	1.450	1.420	1.400	1.370	
U.K. pound	USD per GBP	1.973	1.737	1.848	1.873	1.958	1.978	2.009	2.014	1.985	1.987	1.975	1.890	1.807	1.813	1.797	1.772	1.756	
Swiss franc	CHF per USD	1.056	1.305	1.223	1.251	1.220	1.214	1.221	1.170	1.133	1.034	0.963	0.987	1.013	1.034	1.056	1.086	1.109	
Canadian dollar	CAD per USD	1.020	1.167	1.116	1.118	1.166	1.119	1.075	0.995	0.998	1.008	1.020	1.042	1.053	1.053	1.064	1.075	1.087	
Mexican peso	MXN per USD	10.46	10.90	11.34	10.98	10.82	11.05	10.81	10.92	10.90	10.47	10.85	10.85	10.90	10.95	10.95	11.00	11.00	
Australian dollar	USD per AUD	0.930	0.711	0.742	0.746	0.789	0.809	0.840	0.875	0.875	0.944	0.900	0.890	0.880	0.870	0.870	0.840	0.840	
Exchange rate to Euro																			
U.S. dollar	USD per EUR	1.544	1.211	1.279	1.267	1.320	1.337	1.354	1.410	1.459	1.562	1.600	1.550	1.500	1.450	1.420	1.400	1.370	
Japanese yen	JPY per EUR	162	143	146	150	157	157	167	162	163	162	154	147	135	135	131	137	134	
U.K. pound	GBP per EUR	0.782	0.697	0.692	0.677	0.674	0.676	0.674	0.700	0.735	0.786	0.810	0.820	0.830	0.800	0.790	0.790	0.780	
Swiss franc	CHF per EUR	1.630	1.580	1.564	1.585	1.610	1.624	1.654	1.650	1.654	1.616	1.540	1.530	1.520	1.500	1.500	1.520	1.520	
Canadian dollar	CAD per EUR	1.575	1.413	1.428	1.417	1.538	1.496	1.456	1.403	1.456	1.575	1.633	1.615	1.579	1.526	1.511	1.505	1.489	
Mexican peso	MXN per EUR	16.15	13.20	14.50	13.92	14.28	14.77	14.64	15.40	15.90	16.36	17.36	16.82	16.35	15.88	15.55	15.40	15.07	
Australian dollar	AUD per EUR	1.660	1.703	1.723	1.699	1.673	1.653	1.612	1.611	1.667	1.655	1.778	1.742	1.705	1.667	1.632	1.667	1.631	
Exchange rate to Japanese yen																			
U.S. dollar	JPY per USD	105.2	118	114	118	119	118	123	115	112	104	96	95	90	93	92	98	98	
Euro	JPY per EUR	162.4	143	146	150	157	157	167	162	163	162	154	147	135	135	131	137	134	
U.K. pound	JPY per GBP	208	205	211	221	233	233	248	232	222	206	190	180	163	169	165	174	172	
Swiss franc	JPY per CHF	99.6	90.4	93.6	94.5	97.6	97.0	100.9	98.3	98.5	100.4	99.7	96.2	88.8	89.9	87.1	90.3	88.3	
Canadian dollar	JPY per CAD	103.1	101.1	102.5	105.7	102.2	105.3	114.6	115.6	111.9	103.1	94.1	91.2	85.5	88.4	86.5	91.1	90.2	
Mexican peso	JPY per MXN	10.1	10.8	10.1	10.8	11.0	10.7	11.4	10.5	10.2	9.9	8.8	8.8	8.3	8.5	8.4	8.9	8.9	
Australian dollar	JPY per AUD	97.8	83.8	84.9	88.2	94.0	95.3	103.5	100.6	97.7	98.1	86.4	84.6	79.2	80.9	80.0	82.3	82.3	
Exchange rate to Canadian dollar																			
U.S. dollar	USD per CAD	0.980	0.857	0.896	0.895	0.858	0.894	0.930	1.005	1.002	0.992	0.980	0.960	0.950	0.950	0.940	0.930	0.920	
Japanese yen	JPY per CAD	103	101	103	106	102	105	115	116	112	103	94	91	86	88	86	91	90	
Euro	CAD per EUR	1.575	1.413	1.428	1.417	1.538	1.496	1.456	1.403	1.456	1.575	1.633	1.615	1.579	1.526	1.511	1.505	1.489	
U.K. pound	CAD per GBP	2.01	2.03	2.06	2.09	2.28	2.21	2.16	2.00	1.98	2.00	2.02	1.97	1.90	1.91	1.91	1.91	1.91	
Swiss franc	CHF per CAD	1.035	1.119	1.096	1.119	1.047	1.086	1.136	1.176	1.136	1.026	0.943	0.948	0.963	0.983	0.993	1.010	1.021	
Mexican peso	MXN per CAD	10.25	9.34	10.16	9.82	9.28	9.88	10.05	10.97	10.92	10.39	10.63	10.42	10.36	10.40	10.29	10.23	10.12	
Australian dollar	AUD per CAD	1.054	1.205	1.207	1.199	1.087	1.105	1.107	1.149	1.145	1.051	1.089	1.079	1.080	1.092	1.080	1.107	1.095	
f: Forecast by TD Economics as at May 5, 2008; All forecasts are for end of period																			
Source: Federal Reserve of New York, TD Economics																			

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