



## Economics

Avery Shenfeld  
(416) 594-7356  
avery.shenfeld@cibc.ca

Benjamin Tal  
(416) 956-3698  
benjamin.tal@cibc.ca

Peter Buchanan  
(416) 594-7354  
peter.buchanan@cibc.ca

Warren Lovely  
(416) 594-8041  
warren.lovely@cibc.ca

Meny Grauman  
(416) 956-6527  
meny.grauman@cibc.ca

Krishen Rangasamy  
(416) 956-3219  
krishen.rangasamy@cibc.ca

*" ... being too conservative in asset allocations, in fear of swans of all sorts of colours, would risk a bottom quartile performance. "*

# THE WEEK AHEAD

February 15-19, 2010

## Swans of Many Colours

by Avery Shenfeld

Bankruptcy lawyers were not the only professionals whose careers saw a lift in the recession. An army of risk management specialists has been added to Wall Street and Bay Street ranks, in hope of avoiding the next financial perils. If you can identify where the "black swans" lie—those rare events that cause extraordinary losses—you can hedge against the downside risks. The problem today is that we are facing swans of many colours, implying very divergent portfolio risks.

Take foreign exchange, for example. A few months ago, the concern in Canada was that a pile-up of US debt, and the millions of Americans with negative equity in housing, posed risks that Washington would try to inflate its way out of both problems. The huge build-up of Fed assets was viewed with suspicion. If that was the black swan, prudent risk management would be to buy Canadian-dollar calls to hedge US-dollar holdings, since Canada's debts are less pressing and its inflation targeting is more stringent. On similar thinking, central banks were diversifying out of US dollar into other major currencies, like the euro.

The euro? But Europe is caught in its own fiscal mess. While nobody talks about the ECB inflating Greece or Italy out of their high debt-to-GDP burden, the tax hikes or spending restraints needed in several European countries will dampen growth, making ECB rate hikes less likely anytime soon. And Europe will need a cheap currency to boost exports, with no sign yet of consumer momentum. So instead of the black swan of a diving dollar, should one hedge against the blue swan of a ballooning buck?

Multi-hued risks extend to all other asset classes. A global war on government deficits, households burdened by housing losses, and tighter banking regulations risk a return of recession and Japan-style deflation. Gold, which looks good in the "US prints money" scenario, would be bad news in a deflationary world, as would most equities, while government bonds would be king. Long out-of-the-money Treasury options would be a cheap hedge against recession and deflation risks to a portfolio. But if governments simply avoid dealing with deficits, real interest rates will soar as supply swamps the markets, and being short Treasuries in the options market would be your risk mitigating tool.

Government bonds would also be a terrible hedge if inflation is used as the weapon of last resort for indebted governments. History shows that some episodes of high inflation were triggered by the temptation to inflate away high levels of domestic currency debt, as was the case, for example, in Brazil. Inflation-indexed Treasuries would be a good portfolio hedge in an inflation scenario, and Canadian equities would perform very well, given their heavy weight in precious metals, industrial materials and energy.

Finally, there is the "risk" that none of the disaster scenarios emerge, and the global economy simply muddles through, with perhaps a slower-than-normal recovery trajectory. Some well placed hedges to cover extreme outcomes could still be warranted. But being too conservative in asset allocations, in fear of swans of all sorts of colours, would risk a bottom quartile performance. Of all the risks, that's the one that many retail investors may now be making.

<http://research.cibcwm.com/res/Eco/EcoResearch.html>



# Week Ahead Calendar And Forecast

		CANADA			UNITED STATES		
		CIBC	Consensus	Prior	CIBC	Consensus	Prior
<b>Monday</b> <b>February 15</b>	Family Day Holiday (Markets Closed)						
<b>Tuesday</b> <b>February 16</b>	CASH MANAGEMENT BUYBACK (Jun '09 - Dec '09) - \$1B AUCTION: 3-M BILLS \$6.8B, 6-M BILLS \$2.6B, 1-YR BILLS \$2.6B						
	8:30 AM MANUFACTURING SHIPMENTS M/M	(Dec)	(H)	1.8%	1.8%	0.1%	
							15.9
							\$126.8B
							15
							-48.0
<b>Wednesday</b> <b>February 17</b>	AUCTION: 30-YR CANADAS \$1.4B, Jun-1-2041						
	8:30 AM WHOLESALE TRADE M/M	(Dec)	(M)	1.0%	0.5%	2.5%	-1.2%
							0.0%
							653K
							557K
							0.6%
							72.0%
<b>Thursday</b> <b>February 18</b>	7:00 AM CPI M/M CPI M/M (Bank of Canada core) CPI Y/Y CPI Y/Y (Bank of Canada core) 8:30 AM INT'L SEC. TRANSACTIONS	(Jan)	(H)	0.1%	0.3%	-0.3%	0.2%
		(Jan)	(H)	0.1%	0.0%	-0.3%	0.0%
		(Jan)	(H)	1.7%	1.9%	1.3%	0.1%
		(Jan)	(H)	2.0%	1.9%	1.5%	0.0%
		(Dec)	(M)			\$10.5B	4.4%
							0.9%
							4538K
							440K
<b>Friday</b> <b>February 19</b>	8:30 AM LEADING INDICATORS M/M RETAIL TRADE EX-AUTO M/M RETAIL TRADE TOTAL M/M	(Jan)	(M)	0.5%	1.0%	1.5%	0.1%
		(Dec)	(H)	1.1%	0.2%	0.0%	0.1%
		(Dec)	(H)		0.3%	-0.3%	2.7%
							1.8%

H, M, L = High, Medium or Low Significance

SAAR = Seasonally Adjusted Annual Rate

Consensus Source: Reuters (Canada), Bloomberg (US)

## Week Ahead's Market Call

by Avery Shenfeld

**In the US**, Friday's CPI report would appear to be the most significant indicator on the calendar, but with trend-like gains of 0.2% for the headline, and 0.1% for core, we wouldn't anticipate a market response. Housing starts should remain in the doldrums, dropping again in January in a month where weather may have been a factor. Rather than economic news, markets may still have their eyes on the Greek debt story, looking for details from a meeting of European finance ministers that begins on Monday.

**In Canada**, core CPI could approach the midpoint of the Bank of Canada's target as a soft result from January 2009 drops out from the 12-month figure, but that looks to be the near-term high. December looks to have been a solid month for retailing, a factor in a strong gain for monthly GDP, and capping a quarter of just over 4% overall growth.

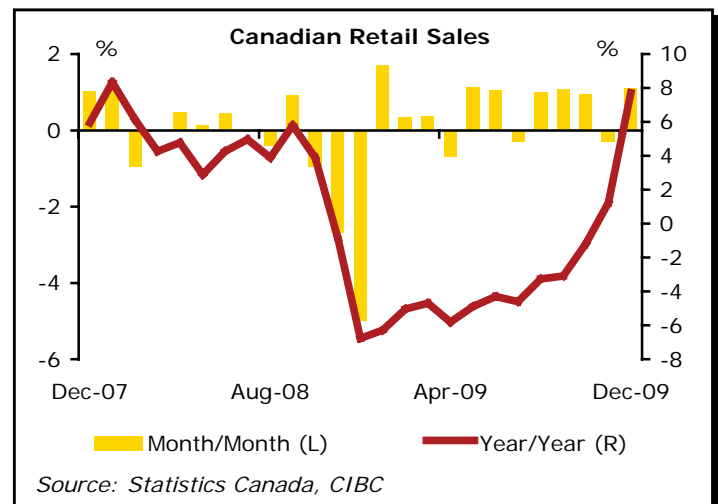
**Week Ahead’s Key Canadian Number:**

**Retail Sales—December**

(Friday, 8:30 a.m.)

Peter Buchanan (416) 594-7354

	CIBC	Mkt	Prior
Retail Sales	1.1%	0.3%	-0.3%
Retail Sales (ex autos)	0.5%	0.2%	0.0%



Canadian retail sales were dented by a skid in autos in November. The decline in that category, interrupting a 6-month rising trend, looks to have been temporary. We expect a return to dealer show rooms and stronger clothing sales to help lift total December sales by 1.1% on the month. Excluding the auto sector, sales should be up 0.5% from November after seasonal adjustment.

The return of more usual weather patterns should spur sales of clothing and other seasonal goods, which were hurt in the preceding month by unusually mild weather in many areas. Building suppliers and furniture stores should also show strength, benefiting from both the continued strength of home sales and a last minute spurt in renovation activity ahead of the Feb. 1 expiry of the Home Renovation Tax Credit. Softer fuel prices could hurt service stations, however.

**Forecast Implications**—Consumer spending expanded at a 3.1% real pace in Q3 and our estimate for December suggests the Q4 figure could come in somewhat higher. That, and a swing in the trade sector’s contribution from negative to positive, should tip GDP growth above 4%.

**Market Impact**— A strong rebound in retail sales from month-earlier weakness should be constructive for the Canadian dollar and consumer equities, weighing on fixed income.

**Other Canadian Releases:**

**Consumer Price Index—January**

(Thursday, 8:30 am)

Inflation probably inched up a bit further in December, with all-in prices advancing by 0.1% on a monthly basis, or by 1.7% on the year. Excluding volatile items, prices are likely to also have advanced by 0.1%, taking the year-on-year rate to 2.0% to match the Bank of Canada’s target. Although gasoline will again be a restraint, bad weather likely contributed to further upward pressure on food prices during the month. The shelter component probably

continued its recent level ride as lower mortgage costs counteracted increased home replacement costs. With inventories a bit leaner, reduced discounting could also lift some areas, particularly clothing prices, which posted an unusually sharp decline in December. The rise in the core rate back to the target give could the C\$ a modest lift, hurting fixed income.

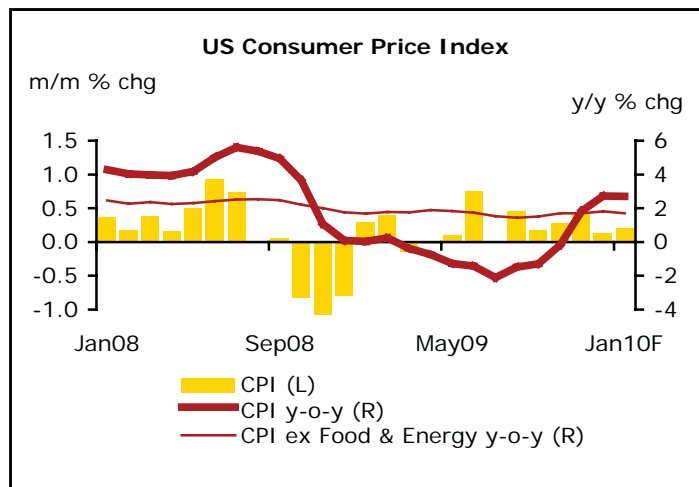
**Week Ahead’s Key US Number:**

**Consumer Price Index—January**

(Friday, 8:30 a.m.)

Meny Grauman (416) 956-6527

	CIBC	Mkt	Prior
CPI m/m	0.2%	0.3%	0.1%
CPI y/y	2.7%	2.8%	2.7%
Core CPI m/m (Ex F&E)	0.1%	0.2%	0.1%
Core CPI y/y (ex-F&E)	1.7%	1.8%	1.8%



After spending virtually all of 2009 in the red, headline year-over-year US consumer inflation turned positive again in November and climbed even higher in December. However, that dramatic run-up in the 12-month CPI rate was largely a function of last year’s record drop in energy prices, not a sign of a rapidly developing inflation problem.

In fact, monthly headline and core inflation have remained very modest over the past few months, and will likely continue to only inch slightly higher in 2010. Focusing in on January, look for total CPI to rise by just 0.2% on the month, and for the core rate to climb by just 0.1%. That should inch the headline rate up one tick to 2.8%, but actually take the core measure down by an equal amount to 1.7%. Consumer inflation excluding the volatile food and energy components is comfortably below the Fed’s

implied 2% target, and should trend lower into the second half of 2010 as economic growth remains well below potential.

**Forecast Implications**—Despite the recent run-up in year-over-year headline CPI, Inflation is still not a serious worry for US policymakers, who are more focused on shepherding a fragile economy onto a sustainable recovery path. Although inflation expectations are starting to head higher ever so slightly, consumer prices should remain a side bar to the broader economic outlook for most of 2010.

**Market Impact**—Our inflation call is too close to consensus to have a material impact on financial markets.

**Other US Releases:**

**Housing Starts—January**

(Wednesday, 8:30 a.m.)

After a late summer lift, nonresidential construction spending has fallen flat. Builder confidence has waned, and the National Association of Home Builders Market Index has been trending lower since September. Housing starts are above their recent cycle low, but are miles below even a modest historical baseline of one million annualized units. The US economy is improving, but home builders remained very cautious as they continue

to be under cut by a steady wave of distressed properties coming on the market. Conventional inventories are very low, but when one takes into account the looming shadow inventory of homes in or awaiting foreclosure, the market remains extremely saturated. Despite the bump up in December building permits we look for a further 3% drop in housing starts in January, led by a decline in multi-unit builds to 540K annualized units.

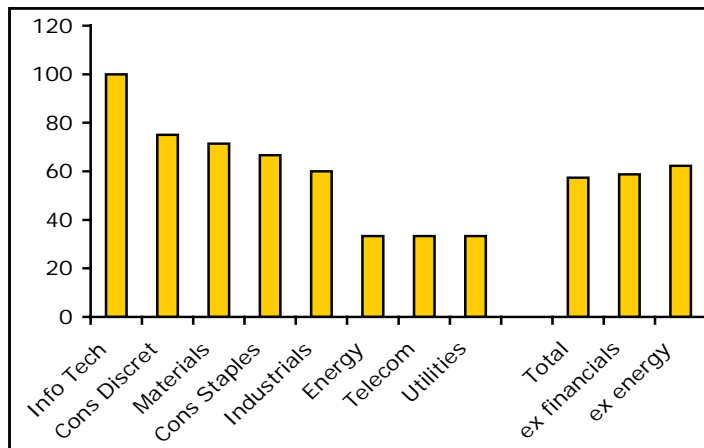
## Equity Insights

Peter Buchanan and Meny Grauman

### Good Showing by Infotech, Material and Consumer Firms Contributes to 57% TSX Q4 Beat Rate

As of Thursday 54 members of the TSX Composite—just under 40% of index cap—had reported Q4 earnings. So far, 57% of companies have beaten the analysts' consensus based on the Bloomberg survey numbers, 4%pts more than the proportion that did in Q3. Excluding sectors with just a tiny proportion of cap reported, the two best sectors have been technology and the consumer discretionary group. Along with the mining-dominated material sector, consumer staples firms have also done well, rounding out a generally positive performance by consumer-levered companies.

### % of TSX Composite Members Beating EPS Expectations So Far in Q4

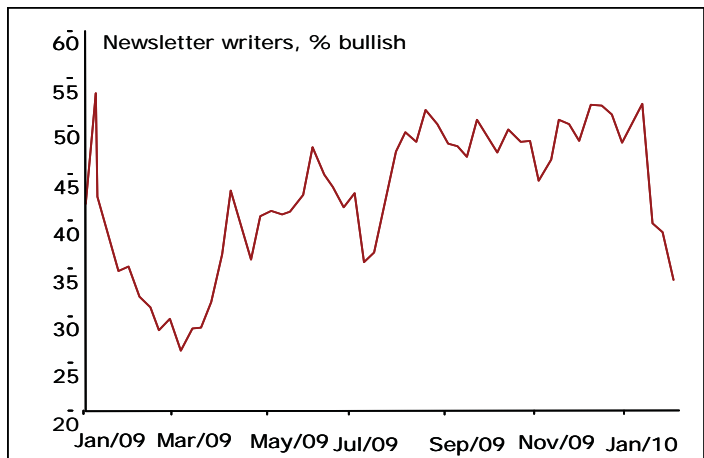


Source: Bloomberg, CIBC calculations, Finance & Health sectors excluded due to small number of reporters.

### Sentiment: Be Wary of the Consensus?

When you're braced for the worst, even not-so-good news can have a pleasant ring. Sentiment among newsletter writers—considered a contrarian indicator by many, since it influences the actions of a broad range of investors—has retreated to levels last seen last March. The last time readings were at current levels was, of course, right before the rally began. The message from the numbers is that many investors are still quite cautious and that may indicate some further potential for cash to move back into stocks, as solid Q1 economic reports roll in.

### Market Surged Last Time Sentiment Was at These Levels

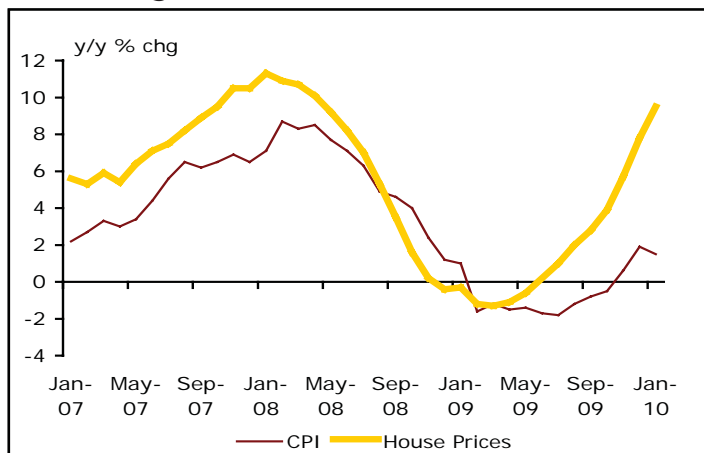


Source: Investor Intelligence

### China's Reserve Requirement Hike Rattles Markets

Metals prices gave back some of Thursday's outsized gain as China decided to hike reserve requirements again despite benign CPI data the day before. The latest 50-bp increase in requirements will help to rein in fast credit growth but will not directly effect borrowing costs for companies, since the People's Banks left its benchmark loan rates unchanged. The latest move is a sign authorities believe that ambitious loan growth is no longer needed to support the economy as the export sector recovers. The economy kept on rolling for over a year after more aggressive tightening in 2007, until the global recession flattened exports.

### China's CPI Still Tame Despite re-Acceleration in Housing Prices



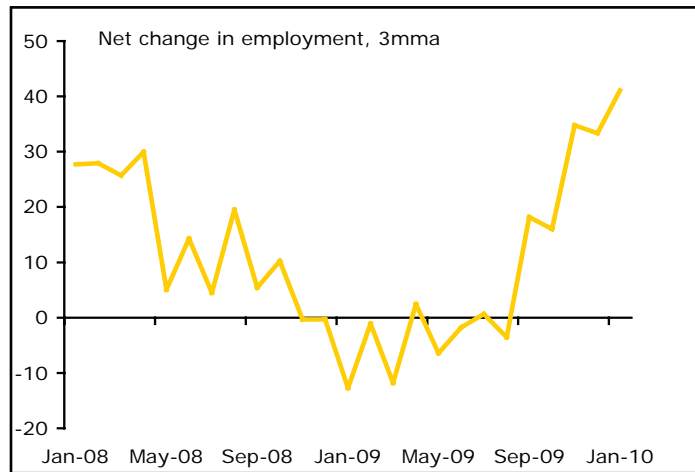
## Currency Currents

Peter Buchanan and Meny Grauman

### Australia: The Right Place and the Right Time

Every real estate investor knows the importance of location, location, location. That adage also goes a long way explaining the remarkable resilience of the Australian economy throughout this last recession, as well as its outperformance in the early stages of the global recovery. Australia is clearly benefiting from its close proximity to the economic powerhouse that is China, and despite the RBA's cautious stance at their last policy meeting, a much stronger-than-expected employment report this week suggests that rate hikes will continue next month. The Aussie dollar rallied over 2% on this news, but is still down over 5% from its January peak versus the USD, suggesting that there is more upside left. Especially considering that the Australian labour market is enjoying its largest jobs boom in 5 years, while US nonfarm payrolls are expected to remain anemic into 2011.

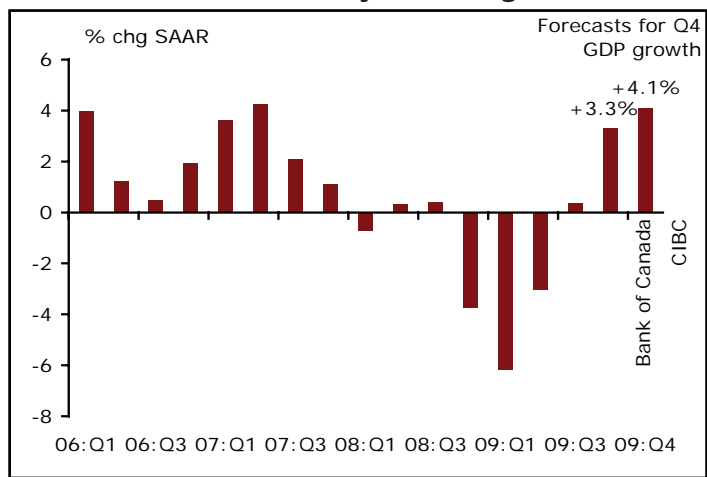
### Aussie Job Boom Fuels Expectations for Further Rate Hikes



### Loonie Gains on News from Greece, US and China

A trifecta of positives contributed to the loonie's sharp 1.1 cent rise on Thursday. Alongside reduced risk aversion due to the Greek rescue, commodity prices benefited from an unexpected decline in US jobless claims. A surprise easing in China's inflation rate also eased policy fears there. While any rejoicing on that front was cut short by Beijing's announcement of a second reserve hike a day later, the loonie could get a further lift towards our mid-year target of 1.03 in the days ahead. An expected better-looking December retail sales number should set the stage for a rise of 4% or more in Q4 GDP. That would lay the groundwork for the Bank to start tightening in Q3.

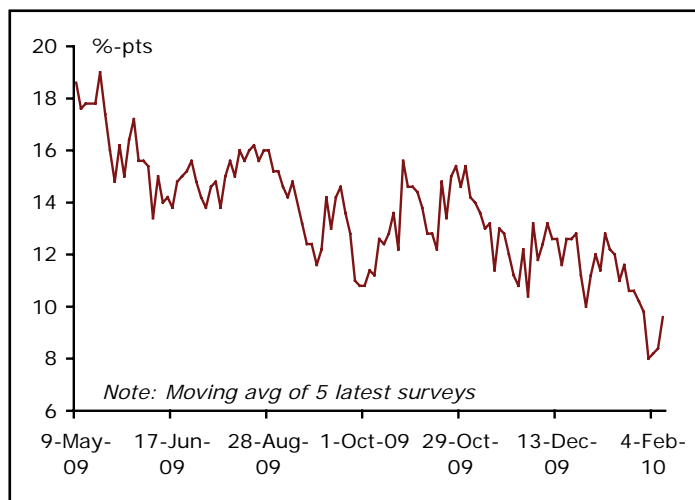
### CDN GDP Growth Finally Showing Momentum



### Economic, Political Uncertainties Tarnish Sterling

The euro has looked weak against the big dollar recently, but not interestingly against a local kid, sterling, which lost more ground on the Bank of England's latest and decidedly more downbeat economic forecast. The sharp cuts in the Bank's central growth estimates for both 2010 and 2011 are a clear sign that monetary policy will remain loose for quite some time. On the political front, Britons face a trip to the polls by early June. The opposition Conservatives dwindling lead over Labour opens up the possibility of a hung Parliament which could further hobble the currency.

### UK Conservatives' Poll Lead Over Labour



# CANADIAN RELEASE AND EVENT DATES February/March 2010



MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY																																																																
<p>8</p> <p><b>HOUSING STARTS</b> 8:15 AM 000's (AR)</p> <table border="1"> <thead> <tr> <th>TOTAL</th> <th>SINGLES</th> </tr> </thead> <tbody> <tr> <td>OCT 167</td> <td>72</td> </tr> <tr> <td>NOV 168</td> <td>75</td> </tr> <tr> <td>DEC 178</td> <td>79</td> </tr> </tbody> </table>	TOTAL	SINGLES	OCT 167	72	NOV 168	75	DEC 178	79	<p>9</p> <p><b>Alberta Provincial Budget</b></p>	<p>10</p> <p><b>MERCHANDISE TRADE</b> 8:30 AM \$MN 12 MO. BALANCE</p> <table border="1"> <tbody> <tr> <td>OCT</td> <td>560</td> <td>-4,015</td> </tr> <tr> <td>NOV</td> <td>-201</td> <td>-5,265</td> </tr> <tr> <td>DEC</td> <td>-246</td> <td>-4,790</td> </tr> </tbody> </table>	OCT	560	-4,015	NOV	-201	-5,265	DEC	-246	-4,790	<p>11</p> <p><b>NEW HOUSING PRICE INDEX</b> 8:30 AM</p>	<p>12</p> <p><b>CAR &amp; TRUCK SALES</b> 8:30 AM 000's (AR)</p> <table border="1"> <thead> <tr> <th>TOTAL</th> <th>DOM. BUILT</th> <th>CAR SALES</th> </tr> </thead> <tbody> <tr> <td>OCT</td> <td>1,606</td> <td>475</td> </tr> <tr> <td>NOV</td> <td>1,505</td> <td>431</td> </tr> <tr> <td>DEC</td> <td>1,544</td> <td>453</td> </tr> </tbody> </table>	TOTAL	DOM. BUILT	CAR SALES	OCT	1,606	475	NOV	1,505	431	DEC	1,544	453																																			
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<p>22</p>	<p>23</p>	<p>24</p> <p><b>QUARTERLY FINANCIAL STATISTICS</b> 8:30 AM</p>	<p>25</p>	<p>26</p> <p><b>BALANCE OF INT'L PAYMENTS</b> 8:30 AM CURR. ACCT. BAL.</p> <table border="1"> <thead> <tr> <th></th> <th>\$BN(QR)</th> <th>\$BN(AR)</th> </tr> </thead> <tbody> <tr> <td>09:Q2</td> <td>-11.9</td> <td>-47.8</td> </tr> <tr> <td>09:Q3</td> <td>-13.1</td> <td>-52.5</td> </tr> <tr> <td>09:Q4</td> <td></td> <td></td> </tr> </tbody> </table>		\$BN(QR)	\$BN(AR)	09:Q2	-11.9	-47.8	09:Q3	-13.1	-52.5	09:Q4																																																						
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# U.S. RELEASE AND EVENT DATES February/March 2010



MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
8	9	10	11	12
		<b>GOODS &amp; SERVICES BALANCE (BOP) \$B</b> 8:30 AM GDS SERV TOT OCT -45.2 12.0 -33.2 NOV -48.4 12.0 -36.4 DEC -51.8 11.7 -40.2  <b>TREASURY BUDGET</b> 2:00 PM  3-Yr NOTE AUCTION BOT (9:00) REDBOOK (10:40)	<b>BUSINESS INVENTORIES</b> 10:00 AM  <b>MONEY SUPPLY M-2</b> 4:30 PM M Y NOV 0.3 5.1 DEC 0.2 3.45JAN -0.7 1.9  30-Yr BOND AUCTION  INITIAL JOBLESS CLAIMS (8:30)	<b>RETAIL SALES</b> 8:30 AM M Y NOV 2.0 2.7 DEC -0.1 5.5 JAN 0.5 4.7  <b>MICHIGAN SENTIMENT (P)</b> 10:00 AM
15	16	17	18	19
PRESIDENT'S DAY (HOLIDAY) (Markets Closed)	<b>NET CAPITAL INFLOWS TICS</b> 9:00 AM  3, 10, 30-Yr NOTE SETTLEMENT	<b>HOUSING STARTS</b> 8:30 AM MIL (AR) M NOV 0.580 10.7 DEC 0.557 -4.0 JAN  <b>CAPACITY UTIL/IND. PROD.</b> 9:15 AM LEV M Y NOV 71.5 0.6 -4.9 DEC 72.0 0.6 -2.1 JAN  <b>FOMC Minutes</b> BOT (9:00) REDBOOK (10:40)	<b>PRODUCE PRICE INDEX</b> 8:30 AM M (SA) Y (NSA) NOV 1.8 2.4 DEC 0.2 4.4 JAN  <b>PHILADELPHIA FED INDEX</b> 10:00 AM  <b>LEADING INDICATOR</b> 10:00 AM  2, 5, 7-Yr NOTE ANNOUNCEMENT  INITIAL JOBLESS CLAIMS (8:30)	<b>CONSUMER PRICE INDEX</b> 8:30 AM M (SA) Y (NSA) NOV 0.4 1.8 DEC 0.1 2.7 JAN
22	23	24	25	26
	<b>S&amp;P/CASE-SHILLER HOUSE PRICE INDEX</b> 9:00 AM  <b>CONSUMER CONFIDENCE</b> 10:00 AM  2-Yr NOTE AUCTION  BOT (9:00) REDBOOK (10:40)	<b>NEW HOME SALES</b> 10:00 AM  5-Yr NOTE AUCTION	<b>DURABLE GOODS ORDERS</b> 8:30 AM M Y NOV -0.4 -7.0 DEC 1.0 -2.5 JAN  7-Yr NOTE AUCTION  INITIAL JOBLESS CLAIMS (8:30)	<b>GDP</b> 8:30 AM (AR) REAL IMPLICIT GDP DEFULATOR 09:Q3(F) 2.2 0.4 09:Q4(A) 5.7 0.6 09:Q4(P)  <b>CHICAGO PMI</b> 9:45 AM  <b>MICHIGAN SENTIMENT (F)</b> 10:00 AM  <b>EXISTING HOME SALES</b> 10:00 AM
1	2	3	4	5
<b>PERS. INCOME &amp; OUTLAYS</b> 8:30 AM SAVING INCOME CONS RATE M M AR NOV 0.5 0.7 4.5 DEC 0.4 0.2 4.8 JAN  <b>ISM MFG SURVEY</b> 10:00 AM COMP. PRICES INDEX INDEX DEC 54.9 61.5 JAN 58.4 70.0 FEB  2, 5, 7-Yr NOTE SETTLEMENT	<b>LIGHT VEHICLES SALES MIL (AR) Y</b> DEC 11.201 8.7 JAN 10.757 12.2 FEB  BOT (9:00) REDBOOK (10:40)	<b>ADP SURVEY</b> 8:15 AM  <b>ISM NON-MFG SURVEY</b> 10:00 AM  Beige Book	<b>NON-FARM PRODUCTIVITY</b> 8:30 AM Q/Q (AR) Y/Y 09:Q3 (R) 7.2 3.8 09:Q4 (P) 6.2 5.1 09:Q4 (R)  <b>FACTORY ORDERS</b> 10:00 AM M Y NOV 1.0 -2.0 DEC 1.0 3.6 JAN  3, 10-Yr NOTE ANNOUNCEMENT 30-Yr BOND ANNOUNCEMENT  INITIAL JOBLESS CLAIMS (8:30)	<b>EMPLOY. SITUATION</b> 8:30 AM NON-CIV AVG FARM UNEMP HRLY PAYROLL RATE EARN (000s) M % Y DEC -150 10.0 2.4 JAN -20 9.7 2.5 FEB  <b>CONSUMER CREDIT</b> 3:00PM
8	9	10	11	12
	3-Yr NOTE AUCTION  BOT (9:00) REDBOOK (10:40)	10-Yr NOTE AUCTION  <b>TREASURY BUDGET</b> 2:00 PM	<b>GOODS &amp; SERVICES BALANCE (BOP) \$B</b> 8:30 AM GDS SERV TOT NOV -48.4 12.0 -36.4 DEC -51.8 11.7 -40.2 JAN  30-Yr BOND AUCTION  <b>MONEY SUPPLY M-2</b> 4:30 PM M Y DEC 0.2 3.45 JAN -0.7 1.9 FEB  INITIAL JOBLESS CLAIMS (8:30)	<b>RETAIL SALES</b> 8:30 AM M Y DEC -0.1 5.5 JAN 0.5 4.7 FEB  <b>MICHIGAN SENTIMENT (P)</b> 10:00 AM  <b>BUSINESS INVENTORIES</b> 10:00 AM

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