

Weekly Commentary – June 14, 2010

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Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
June 15	Import Prices	May 10	-1.2%	+0.9%
June 15	Empire Manufacturing	June 10	20.0	19.1
June 16	Producer Price Index	May 10	-0.5%	-0.1%
June 16	PPI ex. food & energy	May 10	+0.2%	+0.2%
June 16	Housing Starts	May 10	650K	672K
June 16	Building Permits	May 10	628K	606K
June 16	Industrial Production	May 10	+0.9%	+0.8%
June 16	Capacity Utilization	May 10	74.5%	73.7%
June 17	Consumer Price Index	May 10	-0.2%	-0.1%
June 17	CPI ex. food & energy	May 10	+0.1%	0.0%
June 17	Initial Jobless Claims	Week ending June 12	453K	456K
June 17	Current Account Balance	Q1 10	-\$119.3B	-\$115.6B
June 17	Philadelphia Fed	June 10	21.0	21.4
Canada				
June 14	New Motor Vehicle Sales	April 10	-5.0%	-4.2%
June 15	Labour Productivity	Q1 10	+1.2%	+1.4%
June 15	Manufacturing Sales	April 10	+0.5%	+1.2%
June 17	Wholesale Sales	April 10	+0.5%	+1.4%
June 18	Int'l Securities Transactions	April 10	+\$1.0B	-\$0.6B
June 18	Leading Indicators	May 10	+0.5%	+0.9%

Key Earnings:

June 14 – Discover Financial Services, First Uranium, La-Z-Boy

June 15 – Best Buy, Factset

June 16 – FedEx

June 17 – Pier 1 Imports, J.M. Smucker, Kroger

Source: CIBC World Markets, Bloomberg

Market Focus

Trade numbers raise concerns

Both Canada and the U.S. reported declines in trade during April as exports and imports both slid lower. Specifically, trade with Europe saw some significant shifts. U.S. exports to the European Union decreased 9.5%, while imports dropped 11.8%. A similar profile was evident in the Canadian figures as exports to the EU plunged 23.4% and imports tumbled 14.3%. Analysts suggest that fallout from the European debt crisis may continue to limit trade flows in coming months. Currency watchers will be closely monitoring the euro as the rise of the U.S. and Canadian currencies relative to the euro have made export goods less competitive abroad.

U.S. consumer spending slumps

U.S. retail sales tumbled 1.2% in May, the biggest one-month drop since September 2009. Analysts pointed to the end of a government appliance rebate program as one reason for the decline. Still, the fundamental link between the appearance of weaker job growth and weaker consumer spending seems compelling. Since the beginning of 2010, the U.S. has created 982,000 new jobs. However, this represents only a modest 11.7% of the 8.4 million jobs lost to the recession. By comparison, Canada has

reclaimed 74.3% of its job losses. While markets always move ahead of the economy, traders will continue to weigh the appropriate degree of expectation pricing.

Brazil looks to trade to fight inflation

Brazil drew international applause as Finance Minister Guido Mantega stated that the nation would look to cut import duties in an effort to rein in inflation. Recent government statistics show that wholesale prices rose 2.1% in May, the most in two years while overall inflation climbed 2.2%, the highest monthly reading since 2003. Mantega's focus is on a reduction in duties on steel imports, stating "What concerns us the most is steel, because it has an impact on the economy as a whole. If an industry exaggerates when increasing prices, it knows what will happen – we will lower the import tariff."

Longer View

We expect 2010 will be a volatile year characterized by modest global economic growth and increasing interest rates. Some companies will no doubt fail in this less-than-robust environment while the stronger ones will grow at the expense of their competitors. Having the ability to selectively pick securities, as opposed to owning everything in the markets, will be the key to success, in our opinion. Our long-term view is constructive and optimistic. We believe emerging countries will continue to drive global growth. Rapid economic growth will eventually drive consumption. This will not only benefit businesses in regions throughout the world, we believe, but also the multinational companies that own the desirable brand names.

Playbook - Market Alert! Weekly Summary

June 8:

The Canada Mortgage and Housing Corporation announced that housing starts came in at 189,100 units (seasonally adjusted annual rate) in May, down 6.3% from April's downwardly revised 201,800 units. These results are weaker than consensus estimates.

June 9:

The U.S. Census Bureau announced that wholesale sales totalled US\$351.1 billion, up 0.7% (seasonally adjusted) in April from the revised March level and were up 16.3% from the April 2009 level. The March preliminary estimate was revised upward \$0.7 billion or 0.2%. These results are better than expected.

June 10:

Statistics Canada announced that Canada's trade balance with the world went to a surplus of \$175 million in April from a deficit of \$236 million in March. Merchandise exports declined 1.0% while imports fell 2.2% in April. While the overall surplus is better than anticipated, the decline in both exports and imports suggests some slowing in global trade.

Statscan also reported that its New Housing Price Index (NHPI) rose 0.3% in April following an identical increase in March. Year-over-year, the NHPI was up 2.5% in April following a 1.6% increase in March. These results are in line with expectations.

The U.S. Commerce Department reported that the trade deficit widened to US\$40.3 billion in April, up by 0.6% from March. U.S. exports dropped 0.6% while imports declined by 0.4%. As in the Canadian data, the overall deficit result is better than anticipated but the drop in both exports and imports is troubling.

The U.S. Department of Labor announced that initial jobless claims were 456,000 (seasonally adjusted) in the week ending June 5. This is a decrease of 3,000 from the previous week's upwardly revised figure of 459,000. The four-week moving average was 463,000, an increase of 2,500 from the previous week's revised average of 460,500. These figures are weaker than expected.

June 11:

The U.S. Census Bureau announced that retail sales for May totalled US\$362.5 billion, a decrease of 1.2% (seasonally adjusted) from the previous month, but 6.9% above the May 2009 figure. The March to April 2010 per cent change was revised upward from +0.4% to +0.6%. These results are much weaker than anticipated.

Statistics Canada reported that Canadian industries operated at 74.2% of their production capacity in the first quarter of 2010, up from 71.3% in the fourth quarter of 2009. This was the third consecutive quarterly increase. This is marginally stronger than consensus estimates.

The U.S. Census Bureau announced that business inventories were estimated at US\$1.3 billion at the end of April, up 0.4% (seasonally adjusted) from March 2010, but down 2.8% from April 2009. At the same, time business sales climbed 0.6% during the month. The business inventories/sales ratio was unchanged at 1.23. The April 2009 ratio was 1.43. These figures are modestly stronger than expected.

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