

## Weekly Commentary – May 31, 2010

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### Economic Calendar

Date	Release	Period	Consensus	Previous
<b>U.S.</b>				
June 1	ISM Manufacturing	May 10	59.4	60.4
June 1	Construction Spending	April 10	0.0%	+0.2%
June 2	Pending Home Sales (m/m)	April 10	+6.0%	+5.3%
June 2	Domestic Vehicle Sales	May 10	8.90M	8.78M
June 2	Total Vehicle Sales	May 10	11.40M	11.21M
June 3	ADP Employment Change	May 10	+58K	+32K
June 3	Initial Jobless Claims	Week ending May 29	450K	460K
June 3	Factory Orders	April 10	+1.3%	+1.3%
June 3	ISM Services	May 10	55.9	55.4
June 4	Non-farm Payrolls	May 10	+500K	+290K
June 4	Unemployment Rate	May 10	9.8%	9.9%
<b>Canada</b>				
May 31	GDP	Q1 10	+5.8%	+5.0%
May 31	GDP (m/m)	March 10	+0.5%	+0.3%
May 31	Industrial Product Price	April 10	-0.3%	-0.4%
May 31	Raw Materials Price Index	April 10	+1.0%	+0.8%
June 1	Bank of Canada Rate Decision	June 1	0.50%	0.25%

### Key Earnings:

May 31 – Reitmans  
 June 1 – Bank of Nova Scotia, Lionsgate, Stanley Inc.  
 June 2 – Automation Tooling Systems, Canadian Solar, Hovnanian Enterprises  
 June 3 – Joy Global, Krispy Kreme, Quiksilver  
 June 4 – Canadian Western Bank

Source: CIBC World Markets, Bloomberg

### Market Focus

#### U.S. housing market shows additional strength

The latest U.S. data show that new-home sales surged to 504,000 (seasonally adjusted annual rate) in April, the fastest sales pace since May 2008. Not surprisingly, while sales were up, inventories of unsold homes diminished. The tally of unsold new houses stood at 211,000 in April or a five-month supply at the current sales rate. This is the smallest inventory level seen since December 2005. Despite the positive results, market players will continue to weigh the influence of government incentives and foreclosure activity on the U.S.

#### China's reserve position supports euro

Recent troubles with Greece, and worries that other European countries would follow down the same path, have battered the euro. In fact, the euro is the worst performer so far this year among all of the major currencies, having plunged 15% against the U.S. dollar and 16% versus the Japanese yen. Still, China continues to buy the currency. In a recent statement, China's State Administration of Foreign Exchange said that "Europe has been, and will be one of the major markets for investing China's exchange reserves." While analysts have been focused on its U.S. dollar peg, attention may shift to China's trading activities with other international currencies as trade spats continue to grab headlines.

### **Gains in trade help Canada's current account**

Canada's current account remained mired in the red during the first quarter of 2010. This was a sixth consecutive quarterly deficit. Nevertheless, the improving global economy has helped produce more robust demand for Canadian exports. Canada's exports of goods strengthened over the last three quarters, gaining \$11.8 billion since the 10-year low reported during the second quarter of 2009. Investors will continue to anticipate gains in domestic activity based on foreign demand for domestic goods and materials.

### **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**

#### **May 25:**

The U.S. Conference Board announced that its Consumer Confidence Index increased in May, its third consecutive monthly gain. The index now stands at 63.3, up from 57.7 in April. The Present Situation sub-index increased to 30.2 from 28.2 and the Expectations sub-index improved to 85.3 from 77.4 last month. These results are well ahead of consensus expectations.

#### **May 26:**

Statistics Canada reported that in March, average weekly earnings, including overtime, of non-farm payroll employees was \$844.45, up 2.9% from March 2009. In recent months, the pace of growth in average weekly earnings has accelerated. This result is stronger than anticipated.

The U.S. Commerce Department announced that orders for durable goods increased 2.9% in April. This was the strongest advance in three months. Excluding transportation, orders in the highly volatile manufacturing sector fell 1%, but that came after the March figures were revised to show a 4.8% jump. These figures are much stronger than consensus forecast.

The U.S. Census Bureau reported that new home sales reached 504,000 (seasonally adjusted annual rate) in April, up 14.8% from the revised March rate of 439,000. This is also 47.8% higher than the April 2009 level of 341,000. The estimate of new houses still available for sale at the end of the month was 211,000. This represents a 5.0-month supply at the current sales rate. These data far exceeded expectations.

#### **May 27:**

The U.S. Bureau of Economic Analysis reported that the economy grew at a 3.0% rate (annualized) from January to March. That was weaker than an initial estimate of 3.2% growth. The downward adjustment was based on more complete information, including softer growth in personal consumption and upward revisions to imports. These results are weaker than consensus estimates.

The U.S. Department of Labor announced that initial jobless claims fell by 14,000 to 460,000 in the week ending May 22. At the same time, the four-week moving average was 456,500, an increase of 2,250 from the previous week's revised average of 454,250. These figures are weaker than anticipated.

#### **May 28:**

Statistics Canada reported that the current account deficit narrowed to \$7.8 billion (seasonally adjusted) in the first quarter. This was down from a current account deficit of \$10.2 billion in the fourth quarter of 2009. The improvement was led by a larger trade in goods surplus and a reduced deficit on international travel. This result was marginally weaker than anticipated.

The U.S. Bureau of Economic Analysis announced that personal income increased US\$54.4 billion, or 0.4% in April while personal consumption expenditures (PCE) increased \$4.0 billion, or less than 0.1%. Based on upwardly revised estimates, personal income increased \$46.7 billion, or 0.4% while PCE increased \$59.8 billion, or 0.6% in March. While the income growth was better than anticipated, spending growth was below consensus estimates.

The Chicago Institute for Supply Management reported that its purchasing manager's index came in at 59.7 in May. This is the eighth consecutive reading in the "generally expanding" range (above 50.0). The move was led by robustness in new orders. However, the overall reading is below consensus forecast.

The Reuters/University of Michigan Consumer Sentiment Index for May rose 1.4 points to 73.6 from April's 72.2 reading and is well above the 68.7 reported for May of 2009. The survey also suggests that consumers anticipate improving employment conditions. These figures are better than expected.

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