

Weekly Commentary – June 28, 2010

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Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
June 28	Personal Income (m/m)	May 10	+0.6%	+0.4%
June 28	Consumption Expenditure (m/m)	May 10	+0.2%	unch.
June 29	Consumer Confidence	June 10	62.0	63.3
July 1	ISM Index	June 10	58.0	59.7
July 1	Construction Spending (m/m)	June 10	-0.7%	+2.7%
July 2	Non-farm Payrolls	June 10	-150.0K	+431.0K
July 2	Unemployment Rate	June 10	9.8%	9.7%
Canada				
June 29	Industrial Price Index (m/m)	May 10	-0.5%	+0.3%
June 29	Raw Material Price Index (m/m)	May 10	-1.0%	+1.7%
June 30	GDP (m/m)	April 10	+0.2%	+0.6%

Source: CIBC World Markets, Bloomberg

Market Focus

China announces increased currency flexibility

Amid a growing chorus of critics, Chinese authorities announced that the People's Bank of China would allow greater flexibility in the value of its currency. Chinese officials indicated that the renminbi would begin to move in relation to an unspecified basket of currencies and not just the U.S. dollar. The currency peg to the dollar has produced a 15% appreciation against the euro in recent weeks, raising concerns over trade with these countries. Despite the apparent willingness to increase flexibility, the central bank was quite clear that "the basis for large-scale appreciation of the RMB exchange rate does not exist."

Canadian consumers rein in spending

The latest data from Statistics Canada revealed a dramatic 2.0% monthly decline in retail sales during May. Declines were widespread as 10 of the 11 major sub-groups and all of the provinces reported lower levels. Clothing stores posted the largest per cent decline as sales tumbled 5.2% while electronics and appliance stores (0.6%) recorded the lone advance. Despite the monthly decline, retail sales were still up 6.6% from the same period in 2009. It remains to be seen if ongoing improvements in Canadian labour markets will foster additional consumer spending.

U.S. housing market hits record low

U.S. new-home sales plummeted 32.7% to a seasonally adjusted rate of 300,000 in May, a new record low. The decline snapped a two-month streak of solid gains and came in the first month following the expiration of the homebuyer tax credit. The latest figure is the slowest pace of new home sales since the Commerce Department began tracking data in 1963. The prior record was set in September 1981, when new homes sold at an annual rate of 338,000. Sustainability in the housing recovery will be foremost in investors' minds going forward.

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 22:

Statistics Canada reported that overall CPI declined 0.1% (seasonally adjusted monthly basis) in May, after remaining unchanged from March to April. The monthly change allowed the annual pace of the consumer price index to slip to 1.4% for the 12 months ending in May, following a 1.8% annual increase to April 2010. More important to the markets, the Bank of Canada's core index advanced 1.8% in the 12 months to May, following a 1.9% rise in April. These results are in line with expectations.

According to the U.S. National Association of Realtors, existing home sales were at an annual rate of 5.66 million units (seasonally adjusted) in May, down 2.2% from an upwardly revised level of 5.79 million units in April. These results are weaker than expected.

June 23:

Statistics Canada reported that retail sales decreased 2.0% to \$36.2 billion in April following a gain of similar magnitude in March. Sales decreased in 10 of 11 retail subsectors and in all provinces. Excluding autos, sales fell 1.2%. These results are weaker than expected.

The U.S. Commerce Department reported that new-home sales declined 32.7% to a seasonally adjusted rate of 300,000 in May, down from a downwardly revised 446,000 in April. Sales year-over-year fell 18.3%. These results are considerably weaker than expected.

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