

## Weekly Commentary – March 22, 2010

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### Economic Calendar

Date	Release	Period	Consensus	Previous
<b>U.S.</b>				
Mar 23	Existing Home Sales (m/m)	Feb 10	-1.1%	-1.6%
Mar 23	Home Price Index	Jan 10	-1.0%	+0.9%
Mar 24	Durable Goods Orders	Feb 10	+1.0%	+2.6%
Mar 24	Durable Goods ex. transport	Feb 10	+0.5%	-1.0%
Mar 24	New Home Sales (m/m)	Feb 10	+1.9%	-11.2%
Mar 25	Weekly Initial Jobless Claims	Mar 20	455K	457K
<b>Canada</b>				
Mar 23	Leading Indicators	Feb 10	+1.0%	+0.9%

### Key Earnings:

Mar 22 – China Construction Bank, China Telecom, Rite Aid, Scholastic, Tiffany's

Mar 23 – Carnival, Darden, DundeeWealth, Walgreen

Mar 24 – AGF, Lennar, General Mills

Mar 25 – Best Buy, ConAgra Foods, Lululemon Athletica, Oracle

Source: CIBC World Markets, Bloomberg

### Market Focus

#### China sends mixed signals on currency peg

In response to continuing foreign pressure, Chinese Premier Wen Jiabao stated that the renminbi is not undervalued and said that criticism of China's policy amounted to "protectionism." Nevertheless, the latest round of sabre-rattling came at the same time that the China's Council for the Promotion of International Trade was conducting currency tests at more than 1,000 companies in 12 industries in order to determine the influence of a stronger renminbi. China has kept its currency little changed at around 6.83 per U.S. dollar since July 2008, in order to help its exporters. Traders are left to speculate on how the political fallout will influence the currency market as the situation evolves.

#### Central banks eye inflation news

The U.S. Federal Reserve and the Bank of Canada have committed to keeping rates low "for an extended period" and up until now the inflation data have been supportive. On the domestic front, the pace of CPI has ranged from -0.9% to +3.5% on an annual basis during the past 18 months. Still, the Bank of Canada's core rate has been far more stable, moving between +1.5% and +2.4% over the same period and at 2.1% it remains very close to the mid-point of the bank's 1%-3% target range. Concerns over the amount of stimulus in the system and the apparent improvement in the economy continue to raise questions with respect to the timing of any rate hike. However, the Canadian dollar's recent move through the US\$0.99 level gives Canada's central bank some material breathing room as the stronger loonie acts as a drag on economic growth.

#### Canadian shoppers revel in tax breaks

The most recent data from Statistics Canada showed a solid 0.7% gain in retail sales in January, the final month of the federal government's Home Renovation Tax Credit. With only one of the eight major sub-groups posting a monthly decline (automotive, down 1.5%), it was clear that stimulus from the tax credit was at work. Building and outdoor home supplies stores reported a massive 7.4% one-month sales gain, enough to push the annual growth rate to 17.7% and lead the index to a 6.0% year-over-year advance. It remains to be seen what sort of follow-through will be evident for the February figures now that this stimulus plan has wound down.

## 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

### March 15:

The U.S. Federal Reserve reported that industrial production edged up 0.1% in February following a gain of 0.9% in January. Production was likely held down somewhat by winter storms in the Northeast. Manufacturing decreased 0.2% in February, with mixed results among major industries. The output of mines rose 2.0%, while the index for utilities climbed 0.5%. Industrial production in February was 1.7% higher than during the same period in 2009. Capacity utilization for total industry moved up 0.2% to 72.7%. These figures are in line with consensus expectations.

### March 16:

The U.S. Census Bureau announced there were 575,000 housing starts (seasonally adjusted annual rate) in February. This is 5.9% below the revised January figure of 611,000, but is 0.2% above the February 2009 rate of 574,000. At the same time, building permits came in at 612,000 for February, down 1.6% from the revised January level of 622,000, but up 11.3% from the February 2009 reading of 550,000. These figures are stronger than consensus estimates.

Statistics Canada reported that manufacturing sales rose 2.4% in January to \$44.6 billion. This is 10.0% higher than at the same time in 2009. With this January gain, sales have advanced for five consecutive months. Meanwhile inventories have declined 10.9% during the year, pushing the inventories/sales ratio down to 1.33. These figures are much stronger than expected.

Statscan also announced that labour productivity of Canadian businesses grew 1.4% in the fourth quarter of 2009, the first increase since the third quarter of 2008. This marks the fastest quarterly growth rate since the first quarter of 1998. Even with the fourth quarter surge, productivity rose only 0.1% in Canada during 2009. This does not compare well to the 3.8% gain seen in the U.S. during 2009. These results are better than expected.

The U.S. Federal Reserve Board's Open Market Committee announced at the conclusion of its policy meeting that it would leave interest rates unchanged. The target range for the federal funds rate remains at 0% to 0.25%. The press release that accompanied the announcement continued to indicate that the low interest rate environment would remain in place for an "extended period." This is in line with market expectations.

### March 17:

The U.S. Bureau of Labor Statistics reported that the Producer Price Index declined 0.6% (seasonally adjusted) in February while the less volatile core rate (excludes food and energy) edged 0.1% higher. The index's overall decrease followed a 1.4% advance in January and a 0.4% increase in December. The index recorded a 4.4% advance over the past 12 months (ending February 2010), a fourth consecutive 12-month increase but below the 4.6% annual gain recorded in January. While the decline in the headline figure was larger than expected, the move in the core rate matched market consensus.

### March 18:

The U.S. Bureau of Labor Statistics reported that the consumer price index was unchanged in February (seasonally adjusted basis). Excluding volatile food and energy components, the index increased by 0.1% during the month. Over the last 12 months, the overall index increased 2.1% while the core rate rose a more modest 1.3%. These results are in line with market expectations.

The U.S. Labor Department reported there were 457,000 initial jobless claims filed in the week ended March 13, down 5,000 from 462,000 reported for the previous week. At the same time, the four-week average fell 4,250 to 471,250. These results are in line with expectations.

The U.S. Commerce Department announced that the current account deficit in the October-December quarter jumped 12.9% to US\$115.6 billion, as imports of oil, autos and other foreign products outpaced the gains in exports. For 2009 as a whole, the deficit plunged by 40.5% to \$419.9 billion, the smallest imbalance since 2001. The 2009 deficit represented 2.9% of the total U.S. economy, the smallest percentage in 11 years. These figures are consistent with market forecasts.

The Federal Reserve Bank of Philadelphia announced the results of its latest survey of manufacturing conditions. The diffusion index of current activity increased from a reading of 17.6 in February to 18.9 in March. The index has now remained in positive territory for seven consecutive months. The future general activity index remained positive for the 15th consecutive month and increased from 35.8 in February to 52.0 in March. These figures are better than anticipated.

#### **March 19:**

Statistics Canada reported that the consumer price index rose 0.4% (not seasonally adjusted basis) in February. Taking out the volatile food and energy components, the index climbed 0.7%. The monthly gain left the overall index up 1.6% compared to the same time in 2009, while the index that excludes food and energy was 1.4% higher. These increases are higher than expected.

Statscan also reported that retail sales rose 0.7% (seasonally adjusted) in January to \$35.7 billion. Building and outdoor home supplies stores led the gainers, climbing 7.4%. On a year-over-year basis, retail sales were up 6.0%. These results are better than expected.

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