

Weekly Commentary – July 19, 2010

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Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
July 20	Building Permits	June 10	555K	574K
July 20	Housing Starts	June 10	563K	593K
July 22	Existing Home Sales	June 10	5.10M	5.66M
July 22	Leading Indicators	June 10	-0.5%	+0.4%
Canada				
July 19	Int'l Securities Transactions	May 10	n/a	\$12.36B
July 20	Bank of Canada Rate	July 20	0.75%	0.50%
July 21	Wholesale Sales	May 10	+0.3%	-0.3%
July 22	Retail Sales	May 10	+0.5%	-2.0%
July 22	Retail Sales ex. autos	May 10	+0.5%	-1.2%

Key Earnings:

July 21 – Bank Atlantic, Delta Airlines, Halliburton, Shoppers Drug Mart, Texas Instruments, Toromont Industries
 July 22 – BNY Mellon, Boston Scientific, Cintas, Goldman Sachs, Harley-Davidson, Illinois Tool Works, Linear Technologies, Pepsico, TD Ameritrade, Whirlpool, Yahoo
 July 23 – AMR Corporation, Baidu, BlackRock, Checkpoint Technologies, Cohen & Steers, Eaton, Ebay, EMC Corp, EnCana, Fiat, Freeport-McMoRan, GlaxoSmithKline, Kinder Morgan, Starbucks, Coca-Cola, TomTom, United Technologies, US Airways, Wells Fargo
 July 24 – 3M Company, ABB, Amazon.com, American Express, Bristol-Myers Squibb, Canadian National Railway, Capital One, Chubb, Celestica, Etrade, Eli Lilly, Flextronics, JetBlue, Loblaw, Legget & Platt, Medco Health, Microsoft, Nokia, Nucor, Philip Morris International, Precision Drilling, Sandisk, Starwood Hotels, Cheesecake Factory, Hershey, New York Times, UPS, Xerox
 July 25 – Akzo Nobel, Honeywell, Kimberly Clark, McDonald's, Schlumberger, Snap-on, McGraw-Hill

Source: CIBC World Markets, Bloomberg

Market Focus

Trade strengthens in North America

The latest round of trade figures for North America has helped to calm fears that tightening trade conditions could lead to a double-dip recession for the global economy. While Canada saw solid gains in trade with the United States (exports climbed 5.5% and imports rose 5.8% in May), Canada's trade also strengthened elsewhere. Exports to countries other than the U.S. grew 4.4%, led by a 25.2% increase in exports to the European Union. During May, U.S. imports also rose by 2.4% while imports climbed 2.9%. Nevertheless, risks of protectionism linger as the U.S. trade deficit with China expanded from US\$19.3 billion in April to \$22.3 billion during the month.

China cools - somewhat

Government efforts to cool China's economy appear to be having an impact as the nation's economic growth eased somewhat in the second quarter. According to figures from the National Statistics Bureau, China's GDP grew at an annual rate of 10.3% during the April to June period. This is a clear moderation from the 11.9% pace posted in the first quarter but continues to show that the country's economic expansion is considerably stronger than that seen in either North America or Europe. Investors will continue to watch for evidence that China will act on promises to revalue its currency as this would also slow export-driven growth.

U.S. Inflation remains tame

Price pressures in the U.S. remained at bay as both consumer and producer prices declined during June. On a year-over-year basis, producer prices rose 2.8% while at the consumer level they are up only a modest 1.1%. Unlike the situation in Canada, the ongoing economic recovery has shown only sporadic strength stateside as retail sales posted a decline in June. Without any clear evidence of an inflationary threat, the U.S. Federal Reserve will likely continue its policy of very low interest rates into the foreseeable future.

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

July 13:

Statistics Canada reported that Canada's merchandise exports rose 5.2% in May, led by higher volumes of automotive products, while imports increased 5.7%, reflecting broad-based gains in volumes. Canada posted a trade deficit with the world of \$503 million in May, compared with a deficit of \$330 million in April. While the trade balance was somewhat weaker than expected, the gains in exports and imports were ahead of expectations.

The U.S. Commerce Department reported that the international trade deficit increased 4.8% to US\$42.3 billion in May, the largest imbalance since November 2008. American exports of goods and services rose 2.4% but this increase was outpaced by a 2.9% rise in imports. While the deficit was wider than consensus the overall gains in trade were better than expected.

July 14:

The U.S. Census Bureau announced that U.S. retail sales totalled US\$360.2 billion in June, (seasonally adjusted). This was a decline of 0.5% from the previous month, but 4.8% above the June 2009 level. Excluding autos, sales were down a more modest 0.1% for the month. The April to May 2010 per cent change for overall sales was revised upward from -1.2% to -1.1%. These results were weaker than market consensus.

The U.S. Census Bureau announced that business inventories were estimated at an end-of-month level of US\$1.35 trillion in May, up 0.1% (seasonally adjusted) from April levels, but down 1.5% from May 2009. The business inventories/sales ratio at the end of May was 1.24. The May 2009 ratio was 1.41. These results are below expectations and continue to show that businesses are running with very low inventory positions.

July 15:

The U.S. Department of Labor announced that the number of people filing first-time jobless claims hit the lowest level since August 2008, falling 29,000 to 429,000 in the latest week. These results are much better than expected.

Also, the U.S. Bureau of Labor Statistics reported that the Producer Price Index fell 0.5% (seasonally adjusted) in June. This decrease followed declines of 0.3% in May and 0.1% in April. Excluding volatile food and energy components, the index rose 0.1% during the month. Overall, prices rose 2.8% at the producer level for the 12 months ended June 2010. The headline figure is below consensus estimates.

The U.S. Federal Reserve announced that industrial production edged up 0.1% in June after having risen 1.3% in May. For the second quarter as a whole, total industrial production increased at an annual rate of 6.6%. The capacity utilization rate for total industry remained unchanged in June at 74.1%, a rate 5.9 percentage points above the rate from a year earlier. These results are slightly below market consensus.

The Federal Reserve Bank of Philadelphia announced that the results from its Business Outlook Survey suggest that regional manufacturing activity continued to expand in July but has slowed over the past two months. The diffusion index of current activity, the survey's broadest measure of manufacturing conditions, decreased from a reading of 8.0 in June to 5.1 in July. This result is below market expectations.

July 16:

The U.S. Bureau of Labor Statistics reported that the consumer price index declined 0.1% (seasonally adjusted basis) in June, led by a 2.9% decline in energy prices. The index for all items, less volatile food and energy components, rose 0.2% during the month. On a 12-month basis, the overall CPI increased 1.1%. These results are generally in line with expectations.

Statistics Canada reported that its index of leading indicators rose by 1.0% in June, after upwardly revised gains of 1.1% in April and May. Growth again was concentrated in the manufacturing sector. These figures are stronger than expected.

The Reuters/University of Michigan Consumer Sentiment Index fell in the mid-July reading, down to a 66.5 reading from the 76.0 level reported at the end of June. Both the expectations sub-index and the current-conditions sub-index show roughly 10 point drops. These results are considerably weaker than anticipated.

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