

## Weekly Commentary – July 26, 2010

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### Economic Calendar

Date	Release	Period	Consensus	Previous
<b>U.S.</b>				
July 26	New Home Sales (m/m)	June 10	+6.7%	-32.7%
July 27	Case-Shiller Home Price Index	May 10	+3.7%	+3.8%
July 27	Consumer Confidence	July 10	52.0	52.9
July 28	Durable Orders	June 10	+1.0%	-0.6%
July 28	Durable Orders ex. transport	June 10	+0.6%	+1.6%
July 29	GDP – advance	Q2 10	+2.0%	+2.7%
July 30	Chicago PMI	July 10	57.0	59.1
July 30	Michigan Sentiment	July 10	68.0	66.5
<b>Canada</b>				
July 29	Industrial Product Price	June 10	+0.5%	+0.3%
July 29	Raw Materials Price Index	June 10	+1.0%	-7.2%
July 30	GDP	May 10	+0.2%	0.0%
July 30	Average Weekly Earnings	May 10	+0.3%	+0.5%

### Key Earnings:

July 26 – Coach, Cott, Legg Mason, Luxottica Group, Sanmina, Timberland  
 July 27 – Aetna, Aflac, Air France, Canon, C.H. Robinson, DreamWorks, Dupont, Deutsche Bank, Industrial Alliance, Nabors Industries, Office Depot, Santandar Bancorp, Rogers Communications, Teck Resources, UBS, Talisman Energy  
 July 28 – Agnico-Eagle Mines, ArcelorMittal, CP Rail, Comcast, ConocoPhillips, Eastman Kodak, Goldcorp, Husky Energy, Newmont Mining, TMX Group, Torstar, Visa  
 July 29 – AltaGas, ADP, Avon, Barrick Gold, Cenovus, Colgate-Palmolive, ExxonMobil, Franklin Resources, Goodyear, Hugo Boss, IMAX, MetLife, Motorola, Northrop Grumman, Panasonic, Potash Corp of Saskatchewan, Puma, Revlon, Sanofi-Aventis, Siemens, Suncor Energy, Vale, TransCanada, Tyco International, Wynn Resorts  
 July 30 – British Airways, Canadian Utilities, Fortune Brands, Hitachi, McKesson, Simon Property Group, Total

Source: CIBC World Markets, Bloomberg

### Market Focus

#### Bank of Canada hikes again

In line with market expectations, the Bank of Canada on July 20 raised administered interest rates by 25 basis points (a basis point is 1/100<sup>th</sup> of one per cent) following its latest policy deliberations. However, unlike the previous rate hike, the press release that accompanied the most recent announcement did not include text that highlighted “strong momentum in emerging market economies.” In fact, the central bank now “expects the economic recovery in Canada to be more gradual than it had projected in its April Monetary Policy Report, with growth of 3.5% in 2010 (3.7% previously), 2.9% in 2011 (3.1% previously), and 2.2% in 2012 (1.9% previously).” The tone of the release clearly suggests that the bank will remain ready to pause its tightening cycle if necessary.

#### U.S. housing market gives off mixed signals

In May, U.S. new-home sales hit their lowest level since this information was first collected in 1963. In addition, both housing starts and existing home sales tumbled lower in June. Still, pundits suggested that the slowdown was, at least in part, in line with the scheduled closing deadline for the home buyer tax credits. As well, building permits firmed in June after two consecutive monthly declines. It remains to be seen what level of housing activity can be sustained, in the absence of a stimulus package, with the U.S. unemployment rate near the 10% level.

### **Brazil signals policy shift**

In a surprise move, the Banco Central do Brazil raised its key Selic rate to 10.75% from 10.25% rather than to the 11.00% level that had been widely anticipated by the markets. Although inflation remained stubbornly above the central bank's target of 4.5%, price pressures eased through the mid-July period. Government data show a 4.74% annual inflation figure, down from the 5.06% level in mid-June. Budget Minister Paulo Bernardo stated that “there is no need to raise interest rates again this year, inflation is back under control.” Even though the nation’s gross domestic product grew at a 9% pace in the first quarter, evidence suggests a moderation in recent months.

### **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 19:**

Statistics Canada announced that foreign investment in Canadian securities increased substantially in May with inflows amounting to \$23.2 billion, most notably for federal government debt instruments. Meanwhile, Canadian investors sold \$2.9 billion of foreign securities from their holdings, the largest repatriation of funds from abroad since January. These figures are somewhat stronger than expected.

#### **July 20:**

The U.S. Census Bureau announced there were 549,000 housing starts in June on an annualized basis (seasonally adjusted). This is 5.0% below the May estimate of 578,000 and 5.8% below the June 2009 rate of 583,000. At the same time, the number of building permits issued in June reached an annual rate of 586,000 (seasonally adjusted). This is 2.1% above the May rate of 574,000, but 2.3% below the June 2009 estimate of 600,000. While the starts figures are below consensus expectations, the number of building permits issued was stronger than anticipated.

The Bank of Canada raised its target for the overnight borrowing rate by one-quarter of one percentage point to 0.75%. The bank rate is correspondingly 1.00% and the deposit rate is 0.50%. The central bank indicated that while the Canadian economy continues to perform well, economic risks remain as a result of imbalances in other regions. The change in policy matches market expectations.

#### **July 21:**

Statistics Canada reported that wholesale sales edged down 0.1% to \$44.1 billion in May. Despite increases in six of the seven subsectors, sales fell due to a sharp decline in the agricultural supplies industry. These results are weaker than anticipated.

#### **July 22:**

Statistics Canada reported that retail sales edged down 0.2% to \$36.0 billion in May, as lower sales were reported in six of 11 subsectors. The move was led by a 4.1% decline at building material and garden equipment and supplies dealers. These results are weaker than expected.

The U.S. National Association of Realtors reported that existing-home sales fell 5.1% to an annual rate of 5.37 million units (seasonally adjusted) in June from 5.66 million in May, but remain 9.8% higher than the 4.89 million-unit pace in June 2009. These results are better than expected.

The U.S. Conference Board announced that its Leading Economic Index (LEI) declined 0.2% in June to 109.8, following a 0.5% increase in May, and a 0.1% decline in April. The market was braced for a larger decline and these figures are better than expected.

**July 23:**

Statistics Canada reported that consumer prices fell 0.2% (seasonally adjusted monthly basis) in June, the same rate of decrease as in May. Over the past 12 months, consumer prices rose 1.0%, following a 1.4% increase in May. More importantly to the markets, the Bank of Canada's core rate fell 0.1% on the month to stand with a 1.7% annual rise, well inside the bank's 1% to 3% target range. These results are somewhat weaker than market expectations.

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