



## Economics

Avery Shenfeld  
(416) 594-7356  
avery.shenfeld@cibc.ca

Benjamin Tal  
(416) 956-3698  
benjamin.tal@cibc.ca

Peter Buchanan  
(416) 594-7354  
peter.buchanan@cibc.ca

Warren Lovely  
(416) 594-8041  
warren.lovely@cibc.ca

Meny Grauman  
(416) 956-6527  
meny.grauman@cibc.ca

Krishen Rangasamy  
(416) 956-3219  
krishen.rangasamy@cibc.ca

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"... we seem to be following the pattern evident after US recessions of the past two decades, ..."

## What's Taking So Long?

by Avery Shenfeld

Concerns about the US all come down to one big worry—jobs. If hiring had picked up, as it did within months after the end of recessions prior to the 90s, we would have had the income growth needed to raise the savings rate, cover tax hikes and have something left over for spending. But it really hasn't. Instead, we seem to be following the pattern evident after US recessions of the past two decades, in which it took two to three years for hiring to gain serious momentum (Chart). Why, then, have these recent cycles been so different?

In part, it reflects a change in the nature of job losses. Temporary layoffs now account for a much smaller share of recessionary employment declines than they did prior to 1990. The globalized nature of today's economy has meant that recessionary earnings pressures often see businesses accelerate shifts in production locations, including those involving overseas plants, leading to more permanent shutdowns during the downturns. Furloughs have also not been as customary in the service sector, which has gained in its share of total US employment over the past few decades.

Furloughed workers are ready to be quickly recalled when demand picks up, without needing to go through the adjustment process of relocating or changing skills. Those frictions lead to a slower process in re-employing workers when their job loss was from a permanent shutdown, as is more often the case these days.

But that's not the whole story, because it's not as if there has been a groundswell of unfilled job vacancies. Perhaps the

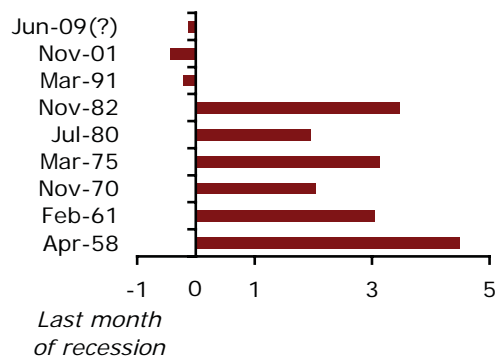
technology investments in recent decades have businesses under-appreciating how lean they can run. It's only under the profit pressures of a recession that they uncover all of the labour saving opportunities, so that rehiring doesn't have to coincide as directly with an output recovery.

Finally, in this cycle, we have the particular role played by the unprecedented slump in home building, and the inability of the traditional weapon, low interest rates, to reignite activity in the face of the huge inventory of foreclosed properties, an indebted household sector, and weakened financial intermediation. In Canada, where those factors have weighed less if at all, construction employment is nearly back to its pre-recession peak.

In the US, there are nearly three times as many employees in residential construction and related trades as there would typically be with this level of housing starts. So building could pick up without much hiring as the existing workforce simply extends its weekly hours. One more reason why it could be a long, long road back to full employment.

### Employment After US Recessions

(% chg in 1st year)



<http://research.cibcwm.com/res/Eco/EcoResearch.html>



## Week Ahead's Market Call

by Meny Grauman

**In the US**, the data calendar is pretty cluttered, but mostly with second-tier releases. The main focus of the week will no doubt be July's nonfarm payrolls report, which should come in only slightly worse than expected. As has been the practice over the past few months, census-related changes in the payrolls will be set aside, but what is left over is sure to be underwhelming.

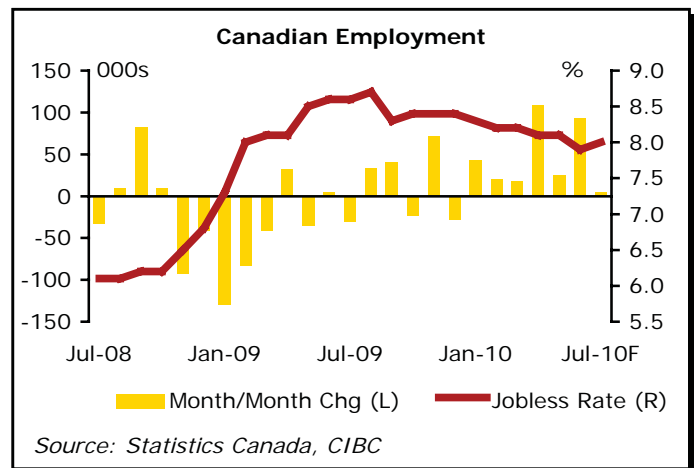
**In Canada**, employment will also take centre stage, although corporate earnings will share some of the spotlight as we head into the thick of reporting season. After June's outsized employment gain, we look for an essentially flat print in July. Looking further ahead, after adding nearly 230K new jobs over the past three months alone, the Canadian labour market is set to cool off in Q3. However, the pace of hiring should still be supportive of further BoC rate hikes.

**Week Ahead’s Key Canadian Number:  
Labour Force Survey—July**

(Friday, 7:00 a.m.)

Krishen Rangasamy (416) 956-3219

	CIBC	Mkt	Prior
Employment	5K	15K	93.2K
Unemployment Rate	8.0%	7.9%	7.9%



The acceleration in the rate of job creation lately has taken Canada to within touching distance of the pre-recession employment peak. The stunning Q2 average of 76,000 jobs/month was in lagged response to the strong 6.1% annualized output expansion in the preceding quarter and the massive government outlays in the build-up to June’s G8 and G20 summits. While the latter’s effect isn’t immediately visible in the LFS, it’s hard to imagine that the reported \$1 bn in government spending for the summits did not entice some hiring.

With fewer such steroids in the third quarter, don’t expect the labour market to replicate Q2’s impressive performance. A slowdown in Q2 GDP growth and further deceleration in the second half of the year will have employers exercise more caution in extending payrolls, which should cool down the rate of hiring, albeit to a still-healthy average pace of 10-20K jobs/month. For July, job creation could, however, lay below that range, reflecting

our expectation of a giveback from the outsized gains in the prior months. Our call for only 5,000 net new jobs for the month should get the unemployment rate to move up one tick to 8%.

**Forecast Implications**—After pumping 227,000 jobs in the economy in the last three months alone, the Canadian labour market is likely to ramp down a notch in line with a slowing economy. The rate of hiring in Q3 should, however, remain healthy enough to encourage the Bank of Canada to continue raising interest rates over the near term, although we anticipate a pause later on in the year, perhaps in December, when growth data for a slow Q3 becomes available.

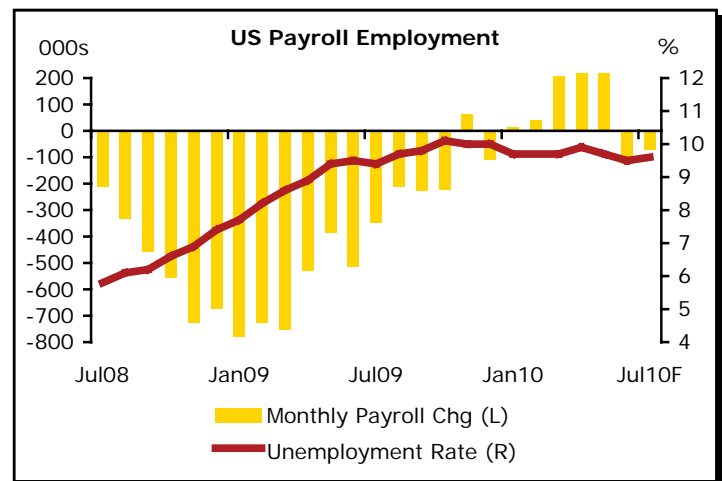
**Market Impact** — We are lower than consensus, which should be negative for the C\$ and positive for fixed income if we’re on the mark.

**Week Ahead’s Key US Number:  
Employment Situation—July**

(Friday, 8:30 a.m.)

Meny Grauman (416) 956-6527

	CIBC	Mkt	Prior
Non-Farm Payrolls (chg)	-70K	-60K	-125K
Unemployment Rate	9.6%	9.6%	9.5%



When it comes to jobs, what the US census gives it also takes away. That was patently clear in June when census payrolls fell by 225K, but should also be a factor, albeit a somewhat more modest one, in July. Look for census-related layoffs to come in at about 150K this time around, and netting that out against another modest increase in private sector jobs of about 80K, the overall tally should be a decline of 70K. That weakness is consistent with the jobless claims data we have been seeing, which despite a temporary drop related to fewer seasonal shutdowns in the auto sector, has been remarkably stable at around the 460K mark since December. While the unemployment rate got some relief in June due to seasonal quirks resulting from the poor summer-job market for students, July’s employment decline should be enough to inch the jobless rate up one tick to 9.6%.

**Forecast Implications**—With the four-week moving average of initial jobless claims clearly not yet consistent with above-trend job growth, we continue to expect the recovery in the US labour market to be weak and slow. Although there are reasons to believe that the historical relationship between initial jobless claims and job growth has weakened over the past year it is hard to see private job growth anywhere near the level needed to materially lower the unemployment rate anytime soon. The slow improvement in the US labour market is a particular concern for the Federal Reserve, and a major reason why we believe policy makers will not begin to hike rates until 2012.

**Market Impact**—Once again, markets will look past census-related declines, but should still be disappointed by mediocre private sector hiring and a small uptick in the unemployment rate.

**Other US Releases:**

**ISM Manufacturing Index—July**

(Monday, 8:30 a.m.)

According to the latest installment of the Fed’s Beige Book, US manufacturing activity continued to expand in June and July. However, the pace of activity either slowed or leveled off in half of the districts. Production was clearly boosted by developments in the auto sector as a number of plants skipped their normal seasonal shutdowns in an

effort to fill depleted inventories. Not surprisingly, we look for July’s ISM reading to drop over two-points to a reading of 54, but still see it as signaling overall expansion. That is also consistent with the results of the various regional manufacturing surveys.

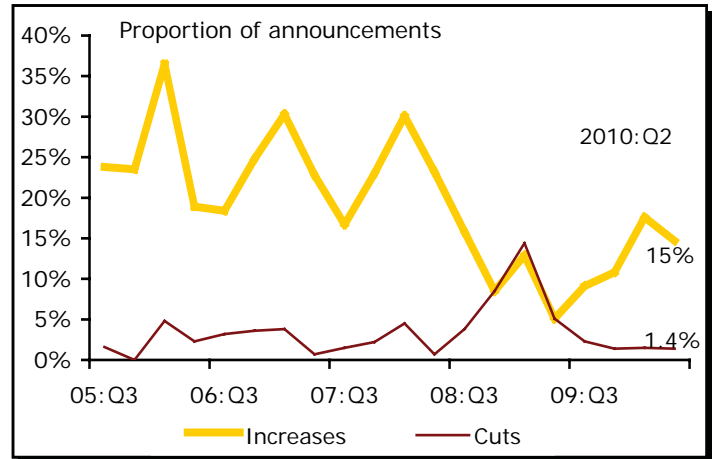
## Equity Insights

Peter Buchanan

### Dividend Policy: More Cdn Companies Hiking; Fewer "Dividend Traps"

TSX Composite members are holding about 20% more cash than usual, relative to sales levels. Companies have been moving, albeit still somewhat cautiously, to distribute some of that \$45 billion trove to shareholders. About 15% of dividend announcements in Q2 contained increases, up materially from early 2009 levels, but still short of the peak of 30% or more that were raising payouts before the recession struck. Firms have been paying out just over 50 cents of every dollar of earnings as dividends. The number of companies announcing cuts, meanwhile, has reverted to its normal low level after spiking during the recession. That reduces the risk posed by so-called dividend traps—firms paying juicy yields that aren't sustainable.

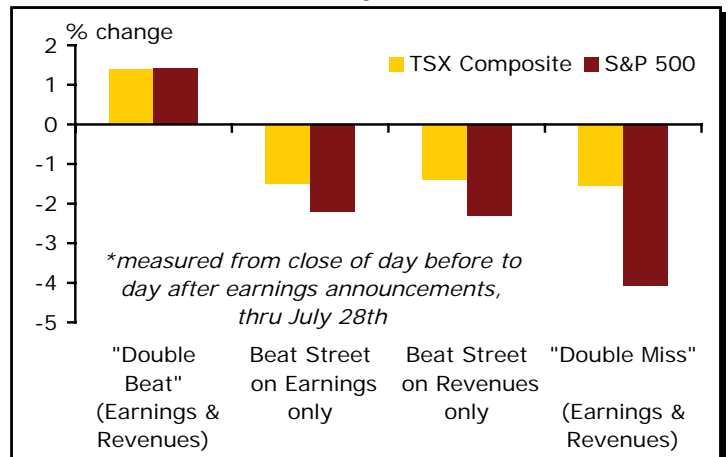
### More TSX Firms Hiking Dividends, Way Fewer Cutting



### Canada Stocks: Less of a Hostage to the Quarterly Reporting Cycle?

The unusual juxtaposition of solid earnings numbers and weak data on the economy continues. A glance at the recent results suggests that better than expected earnings do lift share valuations, although not necessarily enough to offset a broad shift in market sentiment. The share prices of S&P 500 members that have notched up a "double-barreled" win—beating the street's expectations on both earnings and revenues—have outperformed those that have missed on both counts by about five percentage points, in the time period right around the release. Canadian share prices do not appear to respond quite as strongly to beats or misses. That's another reason for investors to also look closely at each individual company's longer term profit and revenue prospects.

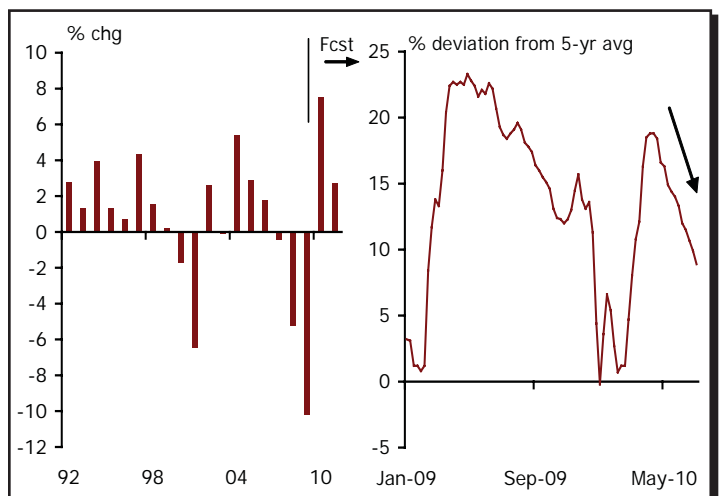
### Reaction of Share Prices to Q2 Boardroom Numbers



### Natural Gas Rally May Still Have Legs

Natural gas prices posted further gains this week, as high demand due to the sweltering heat helped to sop up high inventories. Beyond the demand-side effects of recent hot weather, we see other factors that could help to sustain the rally. One is an expected near-8% rise in US gas-weighted industrial production this year, aided by the rebound in key consuming sector like the agricultural chemicals industry. The other is a gradual deceleration in yr/yr marketable production growth. The hurricane season is off to a somewhat slow start, but the two peak months for activity are around the corner. Damage to energy infrastructure in the Gulf could also send prices higher.

### Gas-Weighted Industrial Production Rebounds (L) as Inventories Decline (R)



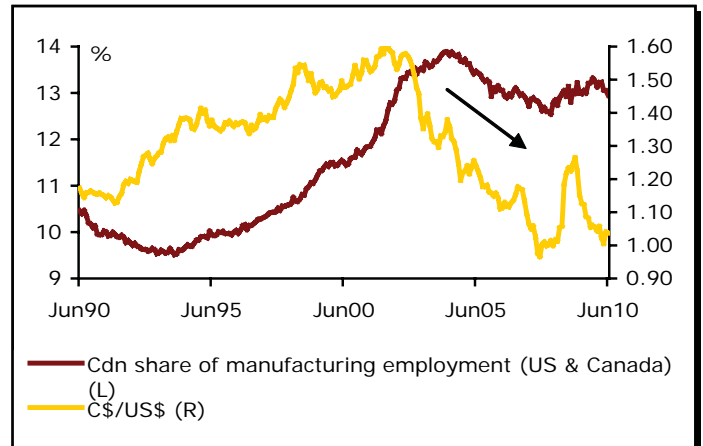
## Currency Currents

Krishen Rangasamy

### Loonie's Impact on Canadian Employment

While Canadian employment has held up better than in the US lately despite the strong loonie, that doesn't necessarily mean that our labour market is now in the clear. There's generally a lag between the exchange rate and its impact on Canada's share of North American manufacturing activity and hence employment. The C\$'s appreciation over the last eight years has led to the gradual erosion of Canada's share of North American factory employment, and that trend will likely continue even further into the economic recovery.

### Canada's Share of Manufacturing Employment Dependent on C\$

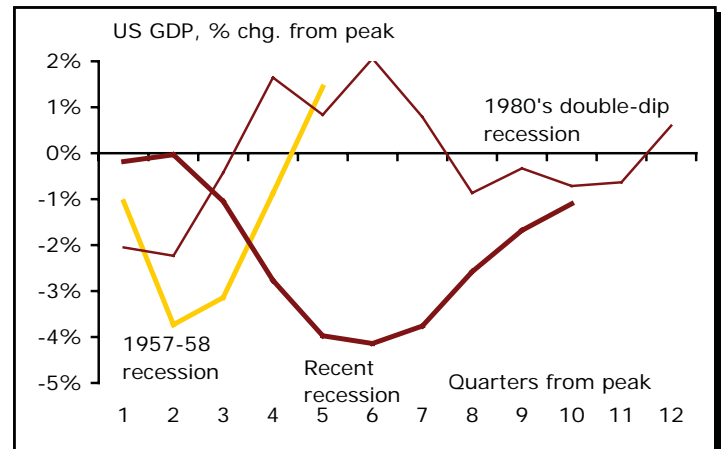


Source: US Bureau of Labor Statistics, Statistics Canada, CIBC

### US Negative Output Gap May Be Larger than First Thought

After today's revision to US GDP data, the recent recession is now officially the worst in the post-World War II era, with a 4% peak-to-trough decline. While that's now water under the bridge, it just means that the negative output gap assumed by the Fed may be slightly larger than thought, which would push out the date for the start of a tightening cycle. We continue to expect no rate hike before 2012, and that should put pressure on the US\$ to weaken against most majors next year.

### Recent Recession Now Officially the Worst in Post-WWII Era

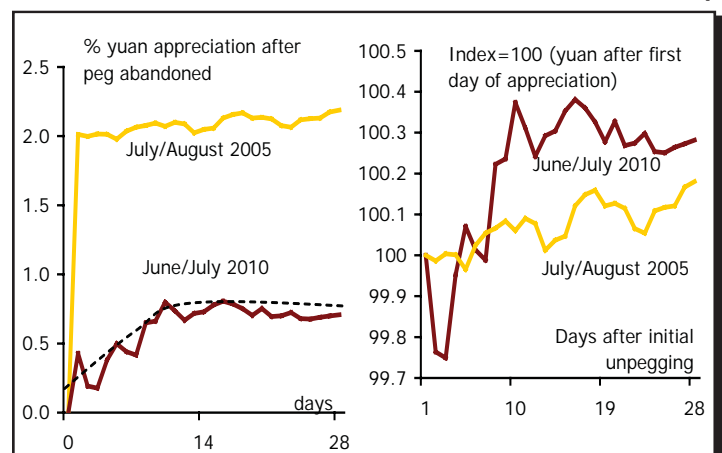


Source: US Bureau of Economic Analysis, CIBC

### Yuan Appreciation Slows

A month after unpegging the yuan, it's becoming clear that Chinese authorities are adopting a more cautious approach to exchange rate policy than in 2005, the last time they let the yuan float. The currency seems to have plateaued, barely a month into the floating exercise. While critics will view this as China renegeing on its commitments to help rebalance the global economy, it must be noted that the rate of yuan appreciation did slow down markedly in 2005 as well after an early boost. And that did not mean the end of yuan revaluation, with the currency going on to appreciate another 15% over the subsequent two years. We continue to expect a 3-5% appreciation in the first year before a ramp-up in the rate of appreciation, depending on how well the Chinese economy absorbs the stronger currency.

### Yuan Appreciation Less Impressive This Time (L), But Profitable After Initial Boost Not all That Different From 2005 (R)



7 Source: Bloomberg, CIBC

# CANADIAN RELEASE AND EVENT DATES

## July/August 2010



MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
26	27	28	29	30
			<b>INDUSTRIAL PRICES</b> 8:30 AM M (NSA) Y APR 0.3 -0.3 MAY 0.4 1.5 JUN -0.9 0.2	<b>GDP BY INDUSTRY</b> (2002\$) 8:30 AM GDP IND.PROD. M M MAR 0.6 1.8 APR 0.0 0.1 MAY 0.1 1.2
2	3	4	5	6
CIVIC HOLIDAY (Markets Closed)			<b>INTERNATIONAL RESERVES</b> 8:15 AM \$BN \$BN CHANGE LEVEL MAY -0.816 56.0 JUN -0.634 55.4 JUL <b>BUILDING PERMITS (\$)</b> 8:30 AM M M (RES) (NON-RES) APR -8.3 34.0 MAY -5.3 -18.3 JUN	<b>LABOUR FORCE SURVEY</b> 7:00 AM AVG EMPLOY UNEMP HRLY (HOUSE) RATE EARN M Y % Y MAY 0.1 1.7 8.1 2.7 JUN 0.5 2.2 7.9 2.7 JUL <b>IVEY PURCHASING MANAGERS' INDEX</b> 10:00 AM
9	10	11	12	13
	<b>HOUSING STARTS</b> 8:15 AM 000's (AR) TOTAL SINGLES MAY 199 77 JUN 193 77 JUL <b>NEW HOUSING PRICE INDEX</b> 8:30 AM	<b>MERCHANDISE TRADE</b> 8:30 AM \$MN 12 MO. BALANCE APR -330 -3,569 MAY -503 -2,699 JUN		<b>CAR &amp; TRUCK SALES</b> 8:30 AM 000's (AR) TOTAL DOM.BUILT CAR SALE APR 1,514 386 MAY 1,518 371 JUN
16	17	18	19	20
<b>WAGE SETTLEMENTS</b> 10:00 AM (%) PVT. PUB. TOT. APR 2.3 1.8 1.8 MAY 2.4 1.9 2.3 JUN	<b>INT'L TRANSACTIONS IN SECURITIES C\$BN, NET</b> 8:30 AM BONDS MONEY STOCKS TOT MARKET APR 10.0 -0.4 2.8 12.4 MAY 15.2 2.7 5.3 23.2 JUN <b>SURVEY OF MANUFACTURING</b> 8:30 AM SHIPMENTS M Y APR 0.4 10.8 MAY 0.4 16.5 JUN		<b>LEADING INDICATOR</b> 8:30 AM <b>WHOLESALE TRADE</b> 8:30 AM	<b>CONSUMER PRICE INDEX</b> 7:00 AM M (NSA) Y MAY 0.3 1.4 JUN -0.1 1.0 JUL
23	24	25	26	27
	<b>RETAIL TRADE</b> 8:30 AM (Current\$) M Y APR -2.2 6.4 MAY -0.2 5.2 JUN	<b>QUARTERLY FINANCIAL STATISTICS</b> 8:30 AM		

All data seasonally adjusted except where noted "NSA". M: per cent change from previous month. Q: per cent change from previous quarter at annual rates. Y: per cent change from year earlier. AR: Annual Rate. YTD: Year to date. Release dates are provided by sources outside CIBC World Markets Inc. Dates are subject to change. Sources for historical data: Statistics Canada, CMHC, Human Resources Development Canada and the Bank of Canada.

# U.S. RELEASE AND EVENT DATES July/August 2010



MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
<p>26</p> <p><b>NEW HOME SALES</b> 10:00 AM</p>	<p>27</p> <p><b>S&amp;P/CASE-SHILLER HOUSE PRICE INDEX</b> 9:00 AM</p> <p><b>CONSUMER CONFIDENCE</b> 10:00 AM</p> <p>2-Yr NOTE AUCTION</p> <p><i>BOT (9:00) REDBOOK (10:40)</i></p>	<p>28</p> <p><b>DURABLE GOODS ORDERS</b> 8:30 AM M Y APR 2.9 19.0 MAY -0.8 15.2 JUN -1.0 15.9</p> <p><b>Beige Book</b></p> <p>5-Yr NOTE AUCTION</p>	<p>29</p> <p>7-Yr NOTE AUCTION</p> <p><i>INITIAL JOBLESS CLAIMS (8:30)</i></p>	<p>30</p> <p><b>GDP</b> 8:30 AM (AR) REAL IMPLICIT GDP DEFLATOR 09:Q4(F) 5.0 -0.3 10:Q1(F) 3.7 1.1 10:Q2(A) 2.4 0.8</p> <p><b>EMPLOYMENT COST INDEX</b> 8:30 AM WAGES &amp; BEN. TOTAL SALARY 09:Q4 0.4 0.5 0.5 10:Q1 0.6 0.4 1.1 10:Q2 0.5 0.4 1.6</p> <p><b>CHICAGO PMI</b> 9:45 AM</p> <p><b>MICHIGAN SENTIMENT (F)</b> 10:00 AM</p>
<p>2</p> <p><b>ISM MFG SURVEY</b> 10:00 AM COMP. PRICES INDEX INDEX MAY 59.7 77.5 JUN 56.2 57.0 JUL</p> <p><b>Chairman Bernanke speaks in S. Carolina on challenges for the economy &amp; state govts. @ 10:15 AM ET</b></p> <p>2, 5, 7-Yr NOTE SETTLEMENT</p>	<p>3</p> <p><b>PERS. INCOME &amp; OUTLAYS</b> 8:30 AM SAVING INCOME CONS RATE M M AR APR 0.5 0.0 3.8 MAY 0.4 0.2 4.0 JUN</p> <p><b>FACTORY ORDERS</b> 10:00 AM M Y APR 1.0 17.7 MAY -1.5 14.3 JUN</p> <p><b>LIGHT VEHICLES SALES MIL (AR)</b> Y MAY 11.611 17.9 JUN 11.054 14.3 JUL</p> <p><i>BOT (9:00) REDBOOK (10:40)</i></p>	<p>4</p> <p><b>ADP SURVEY</b> 8:15 AM</p> <p><b>ISM NON-MFG SURVEY</b> 10:00 AM</p> <p>3, 10-Yr BOND ANNOUNCEMENT 30-Yr NOTE ANNOUNCEMENT</p>	<p>5</p> <p><i>INITIAL JOBLESS CLAIMS (8:30)</i></p>	<p>6</p> <p><b>EMPLOY. SITUATION</b> 8:30 AM NON-CIV AVG FARM UNEMP HRLY PAYROLL RATE EARN (000s) M % Y MAY 433 9.7 2.4 JUN -125 9.5 2.3 AUG</p> <p><b>CONSUMER CREDIT</b> 3:00PM</p>
<p>9</p>	<p>10</p> <p><b>NON-FARM PRODUCTIVITY</b> 8:30 AM Q/Q (AR) Y/Y 09:Q4 (R) 6.3 5.6 10:Q1 (R) 2.8 6.1 10:Q2 (P)</p> <p><b>FOMC Meeting</b></p> <p>3-Yr NOTE AUCTION <i>BOT (9:00) REDBOOK (10:40)</i></p>	<p>11</p> <p><b>GOODS &amp; SERVICES BALANCE (BOP) \$B</b> 8:30 AM GDS SERV TOT APR -52.5 12.2 -40.3 MAY -54.5 12.2 -42.3 JUN</p> <p><b>TREASURY BUDGET</b> 2:00 PM</p> <p>10-Yr NOTE AUCTION</p>	<p>12</p> <p><b>MONEY SUPPLY M-2</b> 4:30 PM M Y MAY 1.0 1.7 JUN 0.4 1.9 JUL</p> <p>30-Yr BOND AUCTION <i>INITIAL JOBLESS CLAIMS (8:30)</i></p>	<p>13</p> <p><b>CPI</b> 8:30 AM M(SA) Y (NSA) MAY -0.2 2.0 JUN -0.1 1.1 JUL</p> <p><b>RETAIL SALES</b> 8:30 AM M Y MAY -1.1 6.9 JUN -0.5 4.8 JUL</p> <p><b>MICHIGAN SENTIMENT (P)</b> 10:00 AM <b>BUSINESS INVENTORIES</b> 10:00 AM</p>
<p>16</p> <p><b>NET CAPITAL INFLOWS TICS</b> 9:00 AM</p> <p>3, 10, 30-Yr NOTE SETTLEMENT</p>	<p>17</p> <p><b>PRODUCER PRICE INDEX</b> 8:30 AM M (SA) Y (NSA) MAY -0.3 5.3 JUN -0.5 2.8 JUL</p> <p><b>HOUSING STARTS</b> 8:30 AM MIL (AR) M MAY 0.578 -14.9 JUN 0.549 -5.0 JUL</p> <p><b>CAPACITY UTIL./IND. PROD.</b> 9:15 AM LEV M Y MAY 74.1 1.3 7.9 JUN 74.1 2.3 8.2 JUL</p> <p><i>BOT (9:00) REDBOOK (10:40)</i></p>	<p>18</p>	<p>19</p> <p><b>LEADING INDICATOR</b> 10:00 AM</p> <p><b>PHILADELPHIA FED INDEX</b> 10:00 AM</p> <p>2, 5, 7-Yr NOTE ANNOUNCEMENT</p> <p><i>INITIAL JOBLESS CLAIMS (8:30)</i></p>	<p>20</p>
<p>23</p>	<p>24</p> <p><i>BOT (9:00) REDBOOK (10:40)</i></p>	<p>25</p> <p><b>DURABLE GOODS ORDERS</b> 8:30 AM M Y MAY -0.8 15.2 JUN -1.0 15.9 JUL</p> <p><b>NEW HOME SALES</b> 10:00 AM</p>	<p>26</p> <p><i>INITIAL JOBLESS CLAIMS (8:30)</i></p>	<p>27</p> <p><b>GDP</b> 8:30 AM (AR) REAL IMPLICIT GDP DEFLATOR 10:Q1(F) 3.7 1.1 10:Q2(A) 2.4 0.8 10:Q2(P)</p> <p><b>CORPORATE PROFITS</b> 8:30 AM</p>

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