



Economics & Strategy

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“Washington ... needs to raise its paltry 18 cent/gallon gas tax significantly.”

Raise, Don't Lower, the US Gasoline Tax

by Avery Shenfeld

Clinton and McCain have rightly named the US federal tax on gasoline as a policy instrument worth looking at. But their call for a temporary holiday from that tax is 180 degrees in the wrong direction. If Washington wants to stem the billions of dollars leaking from its economy to the Hugo Chavezs and the Mahmoud Ahmadinejads of the world, it needs to raise its paltry 18 cent/gallon gas tax significantly.

Because one way or another, Americans, and the world's drivers in general, are going to pay more, much more, for gasoline in the years ahead. Rising incomes in developing Asia, Russia and the OPEC countries are putting millions of new drivers on the road each year. To ration a very slow growing world supply, prices at the pump are going to have to be high enough to induce steady annual reductions in consumption in the developed West. So the only issue is who will keep the associated increase in revenues per gallon from America's gasoline consumers—the US, or its foreign oil suppliers.

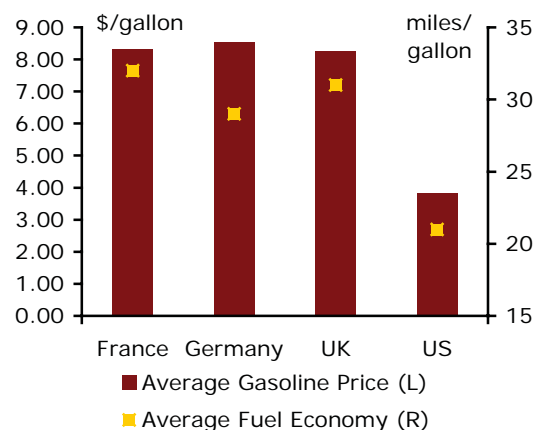
Oil exporters aside, Americans are among the least-taxed energy consumers. Europeans fill up at \$8-9/gallon and more than half of that is tax, and even diesel is much more expensive than in the US. It takes only a quick glance of the local streets to see the consequences in terms consumers' choices for vehicle sizes and fuel economy (Chart). A higher gasoline tax would depress US energy demand, and partially substitute for rising crude oil prices as a mechanism for helping to ration the limited world supply. True, the depressing impact on world crude

prices would theoretically reduce incentives for further exploration and development. But how many projects are now on the drawing board that need a \$125/bbl target to get a green light?

While a huge fuel tax would be a negative for consumer spending and the economy writ large, returning the gas tax revenues to the economy through the income tax system would offset that drag, while still retaining the incentives to conserve. The share raised from households could be matched by a refundable income tax credit, to ensure that those with incomes that are too low to pay personal income tax still benefit.

But for now, such a policy volte-face seems unlikely. Obama was cited for political courage in merely eschewing a call for a gasoline tax holiday. So instead of putting their own brakes on fuel consumption, Americans seem destined to let world crude prices and a huge import tab do it for them.

Higher Gasoline Prices Prompt Fuel Economy



Sources: US EIA (prices), World Resources Inst (fuel economy)

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



## Week Ahead's Market Call

by Avery Shenfeld

**In the US**, gasoline stations siphoned off spending power, leaving anemic retail sales for April. There's worse on that score ahead, and high pump prices look to cancel out much of the lift from income tax rebates. Headline CPI inflation remains way above where the Fed would like it, but neither the central bankers nor the bond market will worry about that until the economy starts to pick up late this year. Bernanke has two speaking engagements, both focused on the central bank's battle to restore liquidity. We see the Fed chair as more concerned about the credit crunch recession impacts than some of his more inflation-fearing colleagues, and markets might be surprised by hints that rate cuts aren't necessarily over.

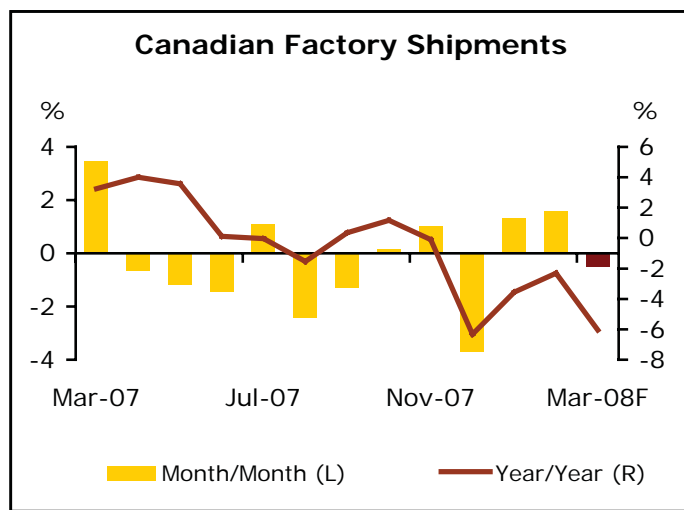
**In Canada**, manufacturing shipments won't look pretty, as the combination of a strong C\$ and flagging US demand leads to a drop in March. In any event, the prior month's surprising shipments bounce didn't translate into a gain in real GDP for the sector. Otherwise, it's a light week for economic news, with commodity prices, corporate earnings and US developments likely to set the trend for markets.

**Week Ahead’s Key Canadian Number:  
Manufacturing Shipments—March**

(Thursday, 8:30 a.m.)

Avery Shenfeld (416) 594-7356

	CIBC WM	Mkt	Prior
Manufacturing Shpts (m/m)	-0.5%	0.3%	1.6%



Weakness in exports suggests that Canadian manufacturing shipments will see a retreat in March after two months of gains. While a 0.5% drop won't entirely erase the January-February advance, signs point to a further erosion in shipments in the second quarter.

December marked an exaggerated trough in factory shipments as durable goods production took a dive. That allowed an overall trend towards weaker activity to be interrupted by a two-month climb from those depths over January and February. But the drop in March exports, and ongoing layoffs in manufacturing, hint that the rebound has come to an end. The only notable strength in exports came from crude oil and raw materials, not manufactured goods. In the trade data, automotive products fell from the prior month while machinery & equipment was close to flat. Look for similar trends for factory shipments.

**Forecast Implications** —A rise in real shipments in February failed to translate into a gain in real GDP for manufacturing, and our call for March points to a further drop in the sector's real output. Canadian manufacturing remains stuck in a recession with more challenging times ahead, given the slowdown in US demand and a high flying loonie. We're looking for real GDP growth below 0.5% in Q1, with factories part of the story for a continued soft performance in Q2.

**Market Impact** — We're below the early polls on the consensus, and if that remains the case, our call would be bearish for the C\$, and supportive for the bond market.

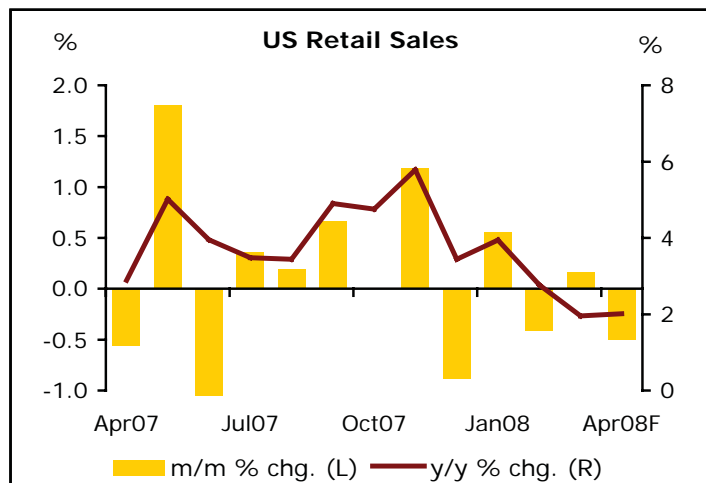
**Week Ahead’s Key US Number:**

**Retail Sales—April**

(Tuesday, 8:30 a.m.)

Meny Grauman (416) 956-6527

	CIBC WM	Mkt	Prior
Retail Sales	-0.5%	-0.2%	0.2%
Retail Sales (x-autos)	0.0%	0.2%	0.1%



Despite the fact that the non-seasonally adjusted same-store sales data for the month of April came in better than expected, the aggregate retail sales number may still surprise on the downside. A large jump in gasoline prices likely helped results at service stations. However, a large 4.5% m/m drop in unit vehicle sales should prove to be a big negative. Heavy discounting may have provided some support for retail volumes, but the final sales tally may have suffered. American shoppers continue to be weighed down by a depressed real-estate market, and by a poor labour market. March’s retail sales report bounced back from February, but we expect it to turn negative in April.

**Forecast Implications** — The US economy managed to keep growing in Q1, but by a very small margin. This result was largely driven by a better-than-expected 1% annualized increase in consumer spending. Yet, despite the positive contribution to the headline, this was still the weakest performance since 1991, and was only driven higher at all by spending on services. Look for the second quarter to be quite a bit worse, with real consumption falling by over 1% and real GDP growth also turning negative.

**Market Impact** — Our retail sales call is weaker than consensus, and therefore should have a material market impact. Expectations for personal spending are already quite low, but some investors have put too much stock in better than expected first-quarter consumer data even though consumer confidence is at multi-year lows, and the US housing market continues to slide.

**Other US Releases:**

**Consumer Price Index—April**

(Wednesday, 8:30 a.m.)

Monetary policy continues to favour economic growth over inflation, but the FOMC’s recent decision to cut its target overnight rate by only 25 bps was motivated in large part by growing inflation concerns. While it is true that the majority of policy makers continue to insist that price gains will moderate by the end of the year, there are a growing number of fed officials who are getting

increasingly worried that this may not happen. Headline CPI has been growing by more than 4.0% y/y for the past five months and according to our own forecasts this streak should have extended into April. A large 6.6 % m/m jump in gasoline prices likely drove consumer inflation to 4.1% y/y for the month, while the core number is expected to have risen to 2.4%.

## Equity Insights

Meny Grauman

### Better Where it Counts

As record high energy prices continue to help push the Canadian equity market farther ahead of its US and European peers, it is worth noting that this outperformance is being driven in part by diverging earnings expectations. Analysts have been busy revising their EPS calls on both sides of the North American border, but Canada is clearly out front where it counts. Estimates for the energy sector have only been boosted by roughly 9% over the past 3 months in the US, compared to 26% in the Great White North. Similarly, financials' earning have been taken down by over 24% in the US, but by only 3% in Canada.

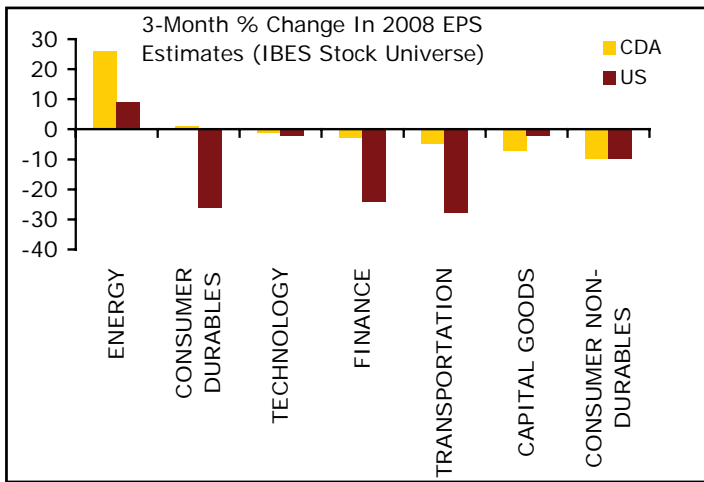
### Lending Standards: A Negative Signal for US Financials

This week the latest installment of the Fed's senior loan officer survey was released, and as expected the results were not good. Financial institutions continue to hike up lending standards across the board, and these measures are at or above their historical averages. The credit markets may be easing up, but this survey is not a bullish indicator for US financials, as it has historically pointed to tough times for S&P 500 financial stocks. This time around should be no different, with the survey continuing to provide investors with good reason to stay away.

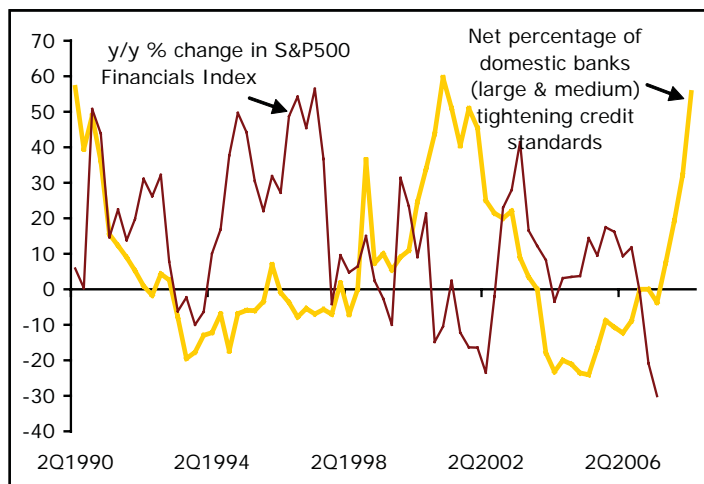
### Testing the Fundamentals

The ongoing bull-run in global commodity prices, most notably crude oil, has intensified the debate about whether performance is being primarily driven by solid fundamentals or speculation. Our ongoing view is that much of the price gains in the commodity space are supported by supply and demand. One look at the steady price increases of non-exchange-traded metals like rhodium and magnesium illustrate the importance of pure industrial demand in metals markets. In fact, it is worth noting that although some exchange traded metals did experience some selling pressure in early March, many non-exchange-traded metals continue to hold onto their gains.

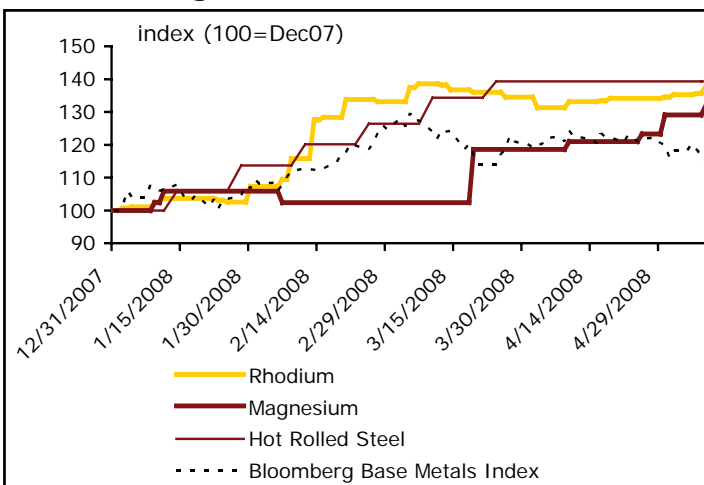
### Analysts' Earnings Revisions



### US Financial Stocks & Credit Standards



### Non-Exchange-Traded Metals Prices



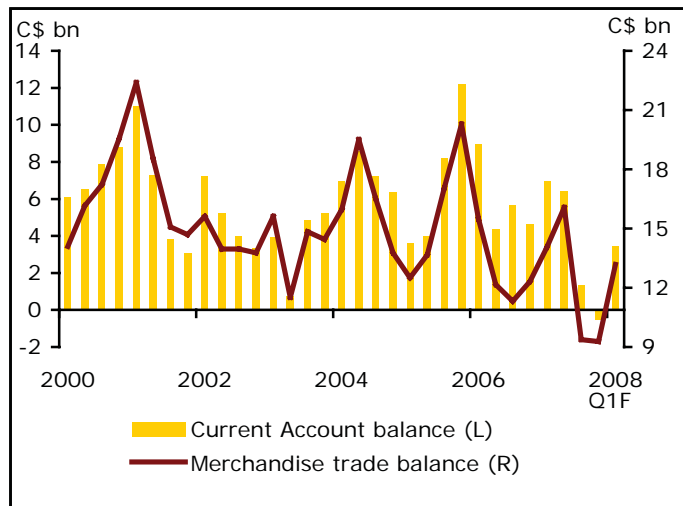
## Currency Currents

Avery Shenfeld and Krishen Rangasamy

### A Re-energized Current Account

Canada's trade balance hasn't been nearly as robust of late, owing to the depressing effect of a US recession on manufactured exports. March figures completed a quarter in which real exports retreated for the second straight quarter. But in terms of nominal exports, which feed into foreign exchange demand, things are looking brighter after the sharp climb in crude oil and natural gas. The price impacts on the dollar value of exports were likely enough to put the current account back in the black after a fourth-quarter deficit, and there's more to come on that score in Q2. The longer-term message is that, while manufacturers won't like it, there's nothing unsustainable about a C\$ near parity in a world in which natural resources are in high demand.

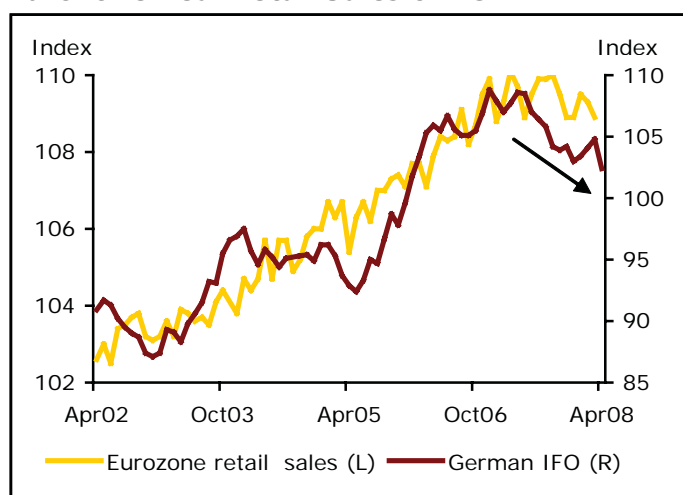
### Canadian Current Account & Trade



### European Spending Vacation

The euro has notably sagged on a series of disappointing economic reports, which while not yet spelling recession, belie Trichet's hawkish threats. While monthly numbers are subject to large revisions, real retail sales for the eurozone have been essentially flat for the past year. Industrial activity is also looking a bit less buoyant, with Germany's IFO index headed lower again after a few months of rebound. All told, we may have a tough time reaching our US\$1.62 euro target, although we still see some upside for the common currency given our expectation that the Fed isn't done with rate cuts just yet, while the eurozone will avoid easing this year.

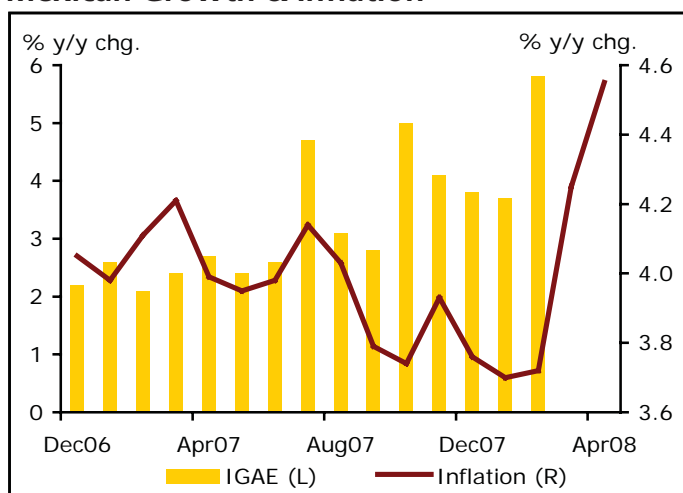
### Eurozone Real Retail Sales & IFO



### Mexican Jumping Prices

The peso is also likely to garner some support from rising spreads vs the US dollar. Inflation has notably heated up, with the last year-on-year figures jumping well above 4%. The IGAE index, a proxy for monthly real GDP, shot up to nearly 6% on a year-on-year basis in the most recent month. As in Europe, the case for a rate hike is still a weak one, given the downside risks to Mexican growth from its close ties to the US. But the Banco de Mexico is in no position to follow the Fed towards lower yields, a prospect that should see the peso creep a bit stronger against the greenback when Bernanke returns to the rate cutting table after a weak US Q2 GDP performance.

### Mexican Growth & Inflation



# CANADIAN RELEASE AND EVENT DATES May/June 2008



CIBC  
World Markets

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
<p>5</p> <p><b>INTERNATIONAL RESERVES</b></p> <p>8:15 AM \$BN \$BN CHANGE LEVEL</p> <p>FEB 1.352 43.6 MAR -0.556 43.1 APR 0.545 43.6</p>	<p>6</p> <p><b>BUILDING PERMITS (\$)</b></p> <p>8:30 AM M M (RES) (NON-RES)</p> <p>JAN -15.0 16.7 FEB 16.1 -18.9 MAR -5.7 -2.4</p> <p><b>IVEY PURCHASING MANAGERS' INDEX</b></p> <p>10:00 AM</p>	<p>7</p>	<p>8</p> <p><b>HOUSING STARTS</b></p> <p>8:15 AM 000's (AR)</p> <p>TOTAL SINGLES</p> <p>FEB 244 83 MAR 243 81 APR 214 72</p>	<p>9</p> <p><b>LABOUR FORCE SURVEY</b></p> <p>7:00 AM AVG EMPLOY UNEMP HRLY (HOUSE) RATE EARN</p> <p>M Y % Y</p> <p>FEB 0.3 2.2 5.8 4.7 MAR 0.1 1.9 6.0 4.7 APR 0.1 2.1 6.1 4.2</p> <p><b>MERCHANDISE TRADE</b></p> <p>8:30 AM \$MN 12 MO. BALANCE</p> <p>JAN 2,863 46,406 FEB 4,791 46,665 MAR 5,535 47,903</p>
<p>12</p> <p><b>NEW HOUSING PRICE INDEX</b></p> <p>8:30 AM</p>	<p>13</p>	<p>14</p>	<p>15</p> <p><b>SURVEY OF MANUFACTURING</b></p> <p>8:30 AM SHIPMENTS M Y</p> <p>JAN 1.3 -3.6 FEB 1.6 -2.3</p> <p><b>WAGE SETTLEMENTS</b></p> <p>10:00 AM (%)</p> <p>PVT. PUB. TOT.</p> <p>JAN 4.5 2.9 3.3 FEB 3.9 3.1 3.4 MAR</p>	<p>16</p> <p><b>CAR &amp; TRUCK SALES</b></p> <p>8:30 AM 000's (AR)</p> <p>TOTAL DOM. BUILT CAR SALES</p> <p>JAN 1,853 644 FEB 1,793 606 MAR</p>
<p>19</p> <p>VICTORIA DAY (HOLIDAY) (Markets Closed)</p>	<p>20</p> <p><b>WHOLESALE TRADE</b></p> <p>8:30 AM</p> <p><b>INT'L TRANSACTIONS IN SECURITIES C\$BN</b></p> <p>8:30 AM</p> <p>NET NET NET NET BONDS MONEY STOCKS TOT MARKET</p> <p>JAN 6.3 -2.1 -3.3 0.9 FEB 3.7 -1.2 1.3 3.8 MAR</p>	<p>21</p> <p><b>CONSUMER PRICE INDEX</b></p> <p>7:00 AM</p> <p>M (NSA) Y</p> <p>FEB 0.4 1.8 MAR 0.4 1.4 APR</p> <p><b>LEADING INDICATOR</b></p> <p>8:30 AM</p>	<p>22</p> <p><b>RETAIL TRADE</b></p> <p>8:30 AM (Current\$)</p> <p>M Y</p> <p>JAN 1.4 7.8 FEB -0.7 5.7 MAR</p> <p><b>QUARTERLY FINANCIAL STATISTICS</b></p> <p>8:30 AM</p>	<p>23</p>
<p>26</p>	<p>27</p>	<p>28</p>	<p>29</p> <p><b>BALANCE OF INT'L PAYMENTS</b></p> <p>8:30 AM CURR. ACCT. BAL. \$BN(QR) \$BN(AR)</p> <p>07:Q3 1.3 5.3 07:Q4 -0.5 -2.1 08:Q1</p>	<p>30</p> <p><b>GDP BY INDUSTRY</b></p> <p>8:30 AM (2002\$)</p> <p>GDP IND.PROD. M M</p> <p>JAN 0.6 1.0 FEB -0.2 -0.6 MAR</p> <p><b>NATIONAL ACCOUNTS</b></p> <p>8:30 AM REAL PRICE GDP DEFLATOR</p> <p>%ch AR %ch AR</p> <p>07:Q3 3.0 -0.7 07:Q4 0.8 4.5 08:Q1</p> <p><b>INDUSTRIAL PRICES</b></p> <p>8:30 AM M (NSA) Y</p> <p>FEB 0.2 -0.7 MAR 1.7 -0.3 APR</p>
<p>2</p>	<p>3</p>	<p>4</p> <p><b>INTERNATIONAL RESERVES</b></p> <p>8:15 AM \$BN \$BN CHANGE LEVEL</p> <p>MAR -0.556 43.1 APR 0.545 43.6 MAY</p>	<p>5</p> <p><b>BUILDING PERMITS (\$)</b></p> <p>8:30 AM M M (RES) (NON-RES)</p> <p>FEB 16.1 -18.9 MAR -5.7 -2.4 APR</p> <p><b>IVEY PURCHASING MANAGERS' INDEX</b></p> <p>10:00 AM</p>	<p>6</p> <p><b>LABOUR FORCE SURVEY</b></p> <p>7:00 AM AVG EMPLOY UNEMP HRLY (HOUSE) RATE EARN</p> <p>M Y % Y</p> <p>MAR 0.1 1.9 6.0 4.7 APR 0.1 2.1 6.1 4.2 MAY</p>

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. 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 May/June 2008



CIBC  
World Markets

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
5  ISM NON-MFG SURVEY 10:00 AM	6  BOT (9:00) REDBOOK (10:40)	7 <b>NON-FARM PRODUCTIVITY</b> 8:30 AM Q/Q (AR) Y/Y 07:Q3 (R) 6.3 2.9 07:Q4 (R) 1.8 2.9 08:Q1 (P) 2.2 3.2 <b>CONSUMER CREDIT</b> 3:00PM  10-NOTE AUCTION	8  30-Yr (r) NOTE AUCTION  INITIAL JOBLESS CLAIMS (8:30)	9 <b>GOODS &amp; SERVICES BALANCE (BOP) \$B</b> 8:30 AM GDS SERV TOT JAN -69.4 10.5 -59.0 FEB -72.1 10.4 -61.7 MAR -68.6 10.4 -58.2
12  TREASURY BUDGET 2:00 PM	13 <b>Chairman Bernanke speaks at Atlanta Fed Conf. via satellite on financial market reforms @ 8:20 AM ET</b> <b>RETAIL SALES</b> 8:30 AM M Y FEB -0.4 2.8 MAR 0.2 2.0 APR <b>BUSINESS INVENTORIES</b> 10:00 AM  BOT (9:00) REDBOOK (10:40)	14 <b>CONSUMER PRICE INDEX</b> 8:30 AM M (SA) Y (NSA) FEB 0.0 4.0 MAR 0.3 4.0 APR	15 <b>NET CAPITAL INFLOWS TICS</b> 9:00 AM <b>CAPACITY UTIL/IND. PROD.</b> 9:15 AM LEV M Y FEB 80.3 -0.7 1.2 MAR 80.5 0.3 1.5 APR <b>Chairman Bernanke speaks on credit market turmoil in Chicago at Fed Conference @ 9:30 AM ET</b> <b>PHILADELPHIA FED INDEX</b> 10:00 PM <b>MONEY SUPPLY M-2</b> 4:30 PM M Y FEB 1.4 6.6 MAR 1.0 7.0 APR  10-Yr, 30-Yr (r) NOTE SETTLEMENT  INITIAL JOBLESS CLAIMS (8:30)	16 <b>HOUSING STARTS</b> 8:30 AM MIL (AR) M FEB 1.075 -0.7 MAR 0.947 -11.9 APR <b>MICHIGAN SENTIMENT (P)</b> 10:00 AM
19 <b>LEADING INDICATOR</b> 10:00 AM	20 <b>PRODUCER PRICE INDEX</b> 8:30 AM M (SA) Y (NSA) FEB 0.3 6.4 MAR 1.1 6.9 APR  BOT (9:00) REDBOOK (10:40)	21 <b>FOMC Minutes</b>	22  2-, 5-Yr NOTE ANNOUNCEMENT  INITIAL JOBLESS CLAIMS (8:30)	23 <b>EXISTING HOME SALES</b> 10:00 AM
26 <b>MEMORIAL DAY (HOLIDAY)</b> (Markets Closed)	27 <b>S&amp;P/CASE-SHILLER HOUSE PRICE INDEX</b> 9:00 AM <b>NEW HOME SALES</b> 10:00 AM <b>CONSUMER CONFIDENCE</b> 10:00 AM	28 <b>DURABLE GOODS ORDERS</b> 8:30 AM M Y FEB -0.6 3.5 MAR 0.1 -1.4 APR  2-Yr NOTE AUCTION  BOT (9:00) REDBOOK (10:40)	29 <b>GDP</b> 8:30 AM (AR) REAL IMPLICIT GDP DEF LATOR 07:Q4(F) 0.6 2.4 08:Q1(A) 0.6 2.6 08:Q1(P) <b>CORPORATE PROFITS</b> 8:30 AM  5-Yr NOTE AUCTION  INITIAL JOBLESS CLAIMS (8:30)	30 <b>PERS. INCOME &amp; OUTLAYS</b> 8:30 AM SAVING INCOME CONS RATE M M AR FEB 0.5 0.1 0.4 MAR 0.3 0.4 0.2 APR <b>CHICAGO PMI</b> 9:45 AM <b>MICHIGAN SENTIMENT (F)</b> 10:00 AM
2  ISM MFG SURVEY 10:00 AM COMP. PRICES INDEX INDEX MAR 48.6 83.5 APR 48.6 84.5 MAY  2-, 5-Yr NOTE SETTLEMENT	3 <b>FACTORY ORDERS</b> 10:00 AM M Y FEB -0.9 6.5 MAR 1.4 3.7 APR	4 <b>ADP SURVEY</b> 8:15 AM <b>NON-FARM PRODUCTIVITY</b> 8:30 AM Q/Q (AR) Y/Y 07:Q4 (R) 1.8 2.9 08:Q1 (P) 2.2 3.2 08:Q1 (R) <b>ISM NON-MFG SURVEY</b> 10:00 AM	5  INITIAL JOBLESS CLAIMS (8:30)	6 <b>EMP. SITUATION</b> 8:30 AM NON- CIV AVG FARM UNEMP HRLY PAYROLL RATE EARN (000s) M % Y MAR -81 5.1 3.7 APR -20 5.0 3.4 MAY  <b>CONSUMER CREDIT</b> 3:00PM

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. Dates are subject to change. Sources for historical data: U.S. Department of Commerce, U.S. Department of Labor and U.S. Federal Reserve Board.

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