



Monthly Indicators

January 9, 2007

Jeffrey Rubin
(416) 594-7357

Avery Shenfeld
(416) 594-7356

Benjamin Tal
(416) 956-3698

Peter Buchanan
(416) 594-7354

Warren Lovely
(416) 594-7359

David Bezic
(416) 956-3219

The Carbon Wars

Take a good long look at California's newly implemented cap and trade system for CO₂ emissions. It will be playing in every state and province in North America by the end of the decade. As evidence of global warming becomes more dramatic, public anxiety is soaring, compelling legislators of all political persuasions to act. While North America has ignored implementing the Kyoto Accord, it's about to declare war on carbon emissions on its own terms. As that campaign unfolds, the economy's largest emitters of CO₂ will become increasingly dependent on the economy's greenest firms for emissions credits.

Nowhere will climate change, and the carbon abatement policies that it compels, have a more profound impact than in the energy sector, particularly in Canada where it accounts for some 20% of emissions. That percentage promises to rise steadily over the next decade as emissions-intensive oil sands production doubles and perhaps even triples, replacing depleting but less emission-intensive conventional oil production.

Right now energy markets seem focused on the perceived demand impacts of global warming, but over time it will be the supply impacts that will be far more important. Despite growing alarm of an oil price collapse, the demand impacts from temperature changes are surprisingly small (see pages 4-5). Home-heating has become a marginal component of US crude demand and is similarly a minor player in Europe, which is also experiencing a dramatically warmer winter.

The real impact of climate change, and attendant carbon abatement legislation, will instead be felt on the supply curve. If planned additions to bitumen production are delayed or mothballed altogether, oil prices can only move in one direction—higher. To the extent that oil sands production cannot grow, neither can global crude supply, because, net of depletion, oil sands and deep-water wells are where the new supply will come from. Conventional oil production has now not grown for over two years. Climate change also poses threats to production from deep-water wells. Gulf of Mexico production was spared last year the devastation it sustained in the 2005 record storm season, but most models of climate change predict increasing cyclonic activity in the region—home to 1.5 million barrels per day of crude production.

What investors have to be wary of is not the future direction of oil prices, but what the eventual net backs to oil producers will be in a carbon-regulated environment. While we know that oil sands producers will have to be huge purchasers of emissions credits, we don't know what the market-clearing price for those credits will be. The experience of the over-decade-long functioning SO₂ and NO_x emission trading systems in the US reveals that over time the market price for emissions credits rises sharply as emissions caps are gradually lowered. Depending upon how stringent the cap, the real investment risk is that much of the economic rents from rising oil prices may be diverted from shareholders of oil producers to owners of much-sought-after emissions credits.

MARKET CALL

- Strength evident in recent economic reports—most notably a healthy year-end in North American employment growth—has delayed the onset of central bank easing, and we now see the first rate cuts coming in Q2. Despite back-to-back benign tallies, core CPI remains a little warmer than what the Fed would like, and the emergence of labour market slack remains a critical ingredient before the policy bias can swing towards easing.
- We've lowered our near-term forecast for the C\$, with our Q1 target largely in line with today's level. As impressive as Canada's latest jobs tally was, GDP growth continues to miss the mark, with temporary commodity price weakness (partly a weather story) and the looming prospect of successive BoC rate cuts keeping the loonie on the defensive in coming months.
- Ultimately, Fed rate cuts, alongside renewed strength in commodities, should see the C\$ regain its footing, with our year-end target unchanged at 1.15. Expect the greenback to come under generalized selling pressure later this year, consistent with a deteriorating yield advantage versus other majors and further asset diversification by foreign central banks (notably China).

INTEREST & FOREIGN EXCHANGE RATES

		2007				
END OF PERIOD:		9-Jan	Mar.	June	Sep.	Dec.
CDA	Call loan (mid-point of range)	4.25	4.25	3.75	3.25	3.25
	98-Day Treasury Bills	4.16	4.10	3.60	3.20	3.20
	Chartered Bank Prime	6.00	6.00	5.50	5.00	5.00
	2-Year Gov't Bond (4.25% 12/08)	4.01	3.95	3.50	3.20	3.25
	10-Year Gov't Bond (4% 06/16)	4.05	3.90	3.65	3.40	3.50
	30-Year Gov't Bond (5.75% 06/33)	4.11	4.00	3.70	3.50	3.65
U.S.	Federal Funds Target	5.25	5.25	4.75	4.50	4.50
	91-Day Treasury Bills	4.95	4.80	4.45	4.20	4.25
	2-Year Gov't Note (4.75% 12/08)	4.79	4.65	4.40	4.20	4.25
	10-Year Gov't Note (4.625% 11/16)	4.65	4.50	4.35	4.25	4.30
	30-Year Gov't Bond (4.5% 02/36)	4.74	4.70	4.60	4.50	4.65
	Canada - US T-Bill Spread	-0.79	-0.70	-0.85	-1.00	-1.05
	Canada - US 10-Year Bond Spread	-0.60	-0.60	-0.70	-0.85	-0.80
	Canada Yield Curve (30-Year — 2-Year)	0.10	0.05	0.20	0.30	0.40
	US Yield Curve (30-Year — 2-Year)	-0.05	0.05	0.20	0.30	0.40
EXCHANGE RATES	— (US¢/C\$)	85.0	85.1	85.8	86.2	87.0
	— (C\$/US\$)	1.176	1.175	1.165	1.160	1.150
	— (Yen/US\$)	119	117	113	110	109
	— (US\$/euro)	1.30	1.34	1.36	1.34	1.33
	— (US\$/pound)	1.94	1.94	1.95	1.93	1.91
	— (US¢/A\$)	78.1	76.0	75.0	75.0	74.0

STRATEGY AND EARNINGS OUTLOOK

- We are optimistic that 2007 will prove to be another year of double-digit returns for Canadian equity investors, with the TSX expected to hit 14,250 by year end. We consequently open the year ten percentage points overweight stocks, offset by underweights in both cash and, to a lesser extent, bonds.
- Energy stocks should rebound as prices recover from overdone weather-related weakness (see pages 4-5) with oil sands and uranium issues leading the way. In addition to a continuing overweight in energy, a weakening North American economy should make Canadian banks a winner, particularly in terms of their superior credit position versus US banks, mired in exposure to an imploding sub-prime market (see pages 6-8). Bank stocks and utilities, another overweight, have historically been among the greatest beneficiaries within the TSX of anticipated interest rate cuts. Gold is the most likely of any commodity to benefit from expected US dollar weakness in 2007, so we've added a percentage point overweight to that sector, while maintaining an underweight exposure to the consumer groups and tech sector.

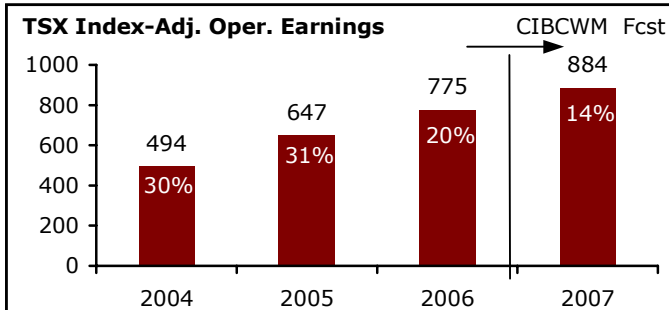
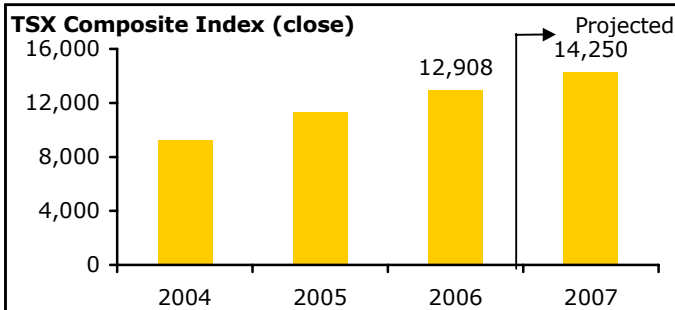
Table 1

ASSET MIX (%)	Benchmark	Strategy Recommendation
Stocks	56	66
Bonds	38	34
Cash	6	0
GICS SECTOR EQUITIES (%)		
Consumer Discretionary	5.2	1.2
Consumer Staples	2.6	0.1
Energy	27.9	32.4
Financials	32.1	36.6
-Banks	16.0	19.5
Healthcare	0.8	0.8
Industrials	5.3	3.3
Info Tech	3.5	0.0
Materials	16.1	18.1
-Gold	6.5	7.5
-Other Metals	5.3	6.3
Telecom	5.0	5.0
Utilities	1.5	2.5

Note: Bold indicates recommended overweight.

Table 2

TSX - Earnings Outlook & Forward PE					
	Operating Earnings (% chg)			4-qtr Fwd PE	
	2005	2006	2007	Latest	Last 10 yrs.
Energy	54.5	12.1	24.2	13.6	13.0
Materials	23.3	99.3	11.9	15.0	27.5
Industrials	19.7	13.9	11.9	14.4	15.6
Consumer Discretionary	6.5	14.7	-8.0	20.6	18.6
Consumer Staples	2.4	3.1	-4.9	16.9	17.0
Health Care	-6.1	3.3	-6.4	18.4	49.7
Financials	12.8	15.5	12.9	12.7	10.9
Info Tech	260.9	-50.2	14.8	42.3	32.3
Telecom Svcs	2.4	32.8	9.2	15.6	34.7
Utilities	10.4	20.1	8.1	16.1	13.9
TSX Composite	31.1	19.7	14.1	14.4	17.9



Are Energy Markets Paying Too Much Attention to the Weather?

Peter Buchanan

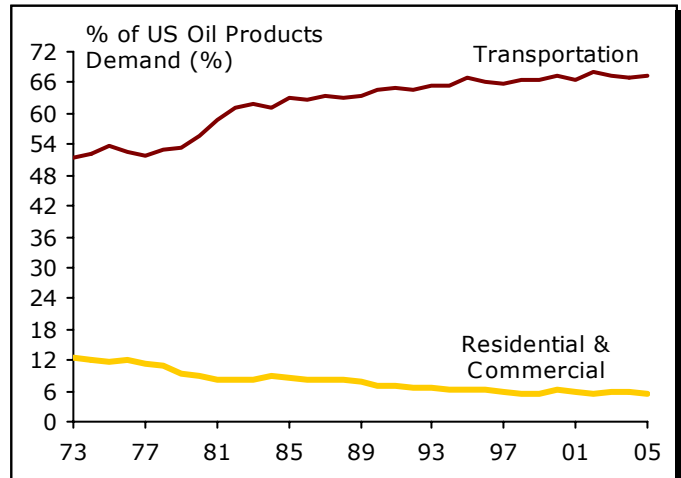
As in the stormy fall of 2005, energy markets have been taking their cue from the weather map. Record mild winter temperatures, not only in the US but many overseas jurisdictions (Chart 1), have helped push oil prices to 18-month lows and natural gas to 4-month lows. Are those declines warranted, given usage patterns for each fuel type and the historical record? How could demand and prices be impacted longer term if recent mild temperatures are part of the longer-term phenomenon of global warming, as many observers assert?

Oil Much Less Temperature-Sensitive Than Gas

Notwithstanding the market's apparent pricing-in of a huge demand hit from a balmy winter, about 70% of oil consumed in the US, which is still the world's largest single market for crude oil, is used in transportation, and as such is not strongly influenced by changing temperatures. Though the pattern fluctuates seasonally, only about 7% of oil products (Charts 2,3) are used in the residential and commercial sectors for space heating and other temperature-sensitive applications, like hot water.

Changing usage patterns, moreover, have greatly reduced and are likely to continue to dampen climatic influences on US oil demand. While the percentage

Chart 2
Oil Demand Increasingly Insensitive to Temperature



of oil used in transport has risen by 17%-pts since the early 1970s, the proportion used in the residential and commercial sectors, accounting for the lion's share of temperature-sensitive consumption, has fallen by over half, from 13% to under 6%. That sharp decline bears witness to two parallel but distinct ongoing trends. One is improving home insulation standards, which have helped reduce the energy needed to heat a given-sized house by nearly 30% since 1980. The other is fuel substitution, namely the continuing

Chart 1
Remarkably Mild Winter, Not Just in US

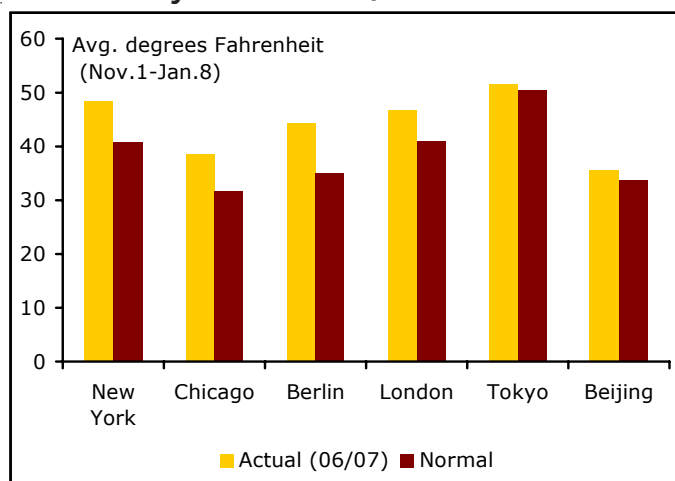
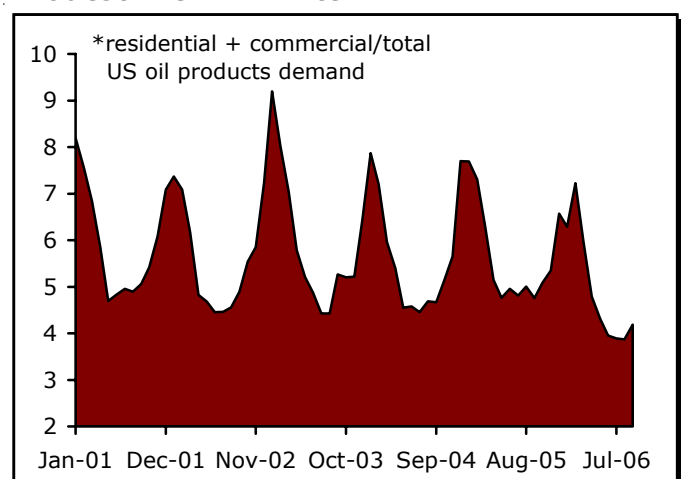


Chart 3
Share of Temperature-Sensitive Demand Modest Even in Winter



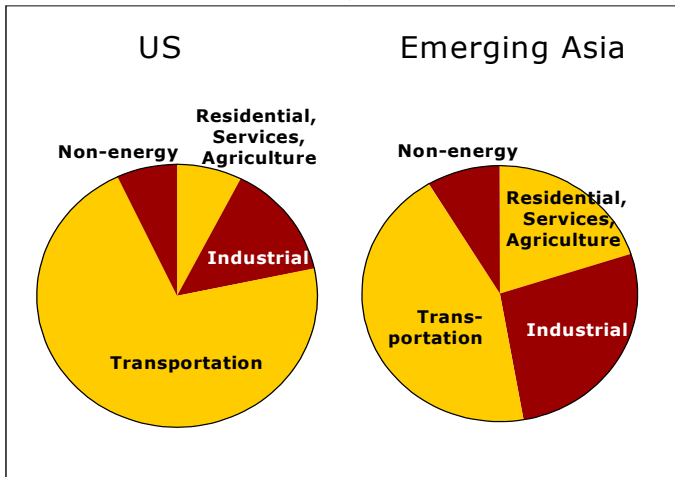
conversion of many existing residential and commercial fuel oil customers to natural gas, especially in the Northeast heating belt.

Asian Oil Demand More Geared to Industrial Demand & Transportation Than Weather

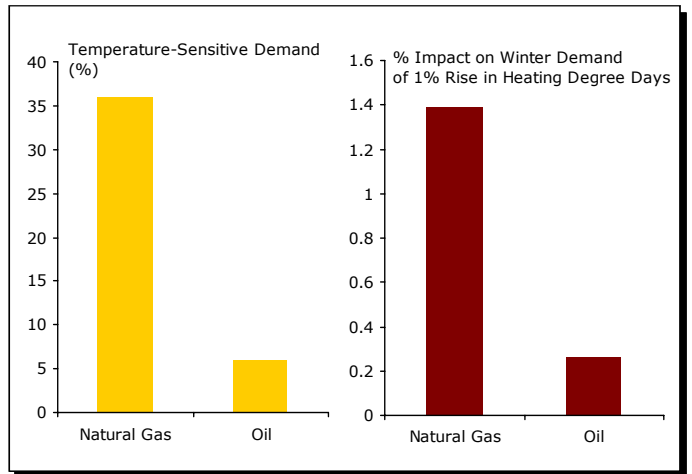
While the US is unique in the dominance of the transportation sector in the overall oil demand picture, the transportation sector’s reduced weight in other regions is partly offset by the greater weighting of the industrial sector, also characterized by temperature invariant demand. The industrial sector accounts for nearly 30% of oil demand in Emerging Asia, double its weight in US consumption. A strong rebound in Chinese demand bolstered Emerging Asia’s oil consumption in 2006. The region’s rising petroleum needs, linked to burgeoning vehicle ownership levels and breakneck industrial growth, will provide a solid lift to global demand for years to come (Chart 4).

Highlighting its greater susceptibility to wintertime temperature variations, about 36% of natural gas consumed in the US, in comparison, is used by the residential and commercial sectors, primarily for space heating. That is slightly more than in the early 1970s and it may also understate, to some degree, the sensitivity of demand to warm winter weather. Over 40 million households obtain some or all of their heat from the power grid, and about 20% of electricity in the US is generated from natural gas.

**Chart 4
Oil Products Demand by End Use Sector, 2004**



**Chart 5
Energy-Sensitive Demand, Oil vs Gas (L),
Impact of 1% Heating Degree Day Rise (R)**



Source: US EIA: "The Impact of Temperature Trends on Short-Term Energy Demand", CIBC WM

Estimates from a study commissioned by the US Department of Energy to assess the longer-term impact of climate change on fuel demand also highlight the much greater sensitivity of gas demand than oil demand to temperature shifts. While undertaken prior to the exceptionally warm weather of the last few winters, the study found that a 1% average observed reduction in heating degree-days could be expected to pare nearly 1½% from wintertime natural gas demand. That was over five times the projected impact on oil demand (Chart 5).

Weather Masking Longer-Term Positives for Oil

Light heating loads and the continuing drag on industrial demand from the relocation offshore of heavy users like petrochemicals have helped cut natural gas prices sharply from the fall’s peaks. While those factors remain overriding negatives, a fixation on the weather is masking some key positives for oil that could see prices set new records in coming quarters. Beyond continued near double-digit demand in countries like China, that includes a growing reliance on non-conventional sources, with as much as 6-8 times the capital costs as dwindling conventional supplies. Rampant energy nationalism also threatens to cripple much needed capacity investment in once-promising locales like Russia’s Far East and Venezuela’s Orinoco basin.

Banking on Low Rates

Avery Shenfeld and Benjamin Tal

Canadian bank stocks have had a great run, being significantly outpaced within the TSX only by the surging materials sector in the past year. Earnings have also had a banner year, but with the recent pace of equity price gains, are valuations now getting too rich?

One trend that might raise eyebrows, and tempt investors to look elsewhere, is Canadian banks' relative performance against their US counterparts. Canadian banks have outrun their American cousins by roughly 10% per year since the start of the decade (Chart 1 left). If the analysts' consensus is right, Canadian banks, as a group, now trade at a more expensive multiple of next year's earnings than their US counterparts (Chart 1, right). While the gap is small, over the prior decade, Canadian banks were typically available at a discount to their generally larger American peer group.

Lower Discount Rate

But a closer examination of earnings fundamentals, risks and relative interest rates in the two countries easily justifies that outperformance, and suggests that Canada's banks are still very much an attractive investment opportunity. For the most part, that owes to the divergence in central bank policy. While both the Fed and the Bank of Canada saw the need for a cooling off to quell inflation pressures, only the Fed faced core rates that were well above its implicit

target. And the Bank of Canada rightly saw most of the required slowing coming from exports, rather than interest-sensitive domestic demand.

As a result, the Fed tightened more aggressively, and the resulting differences in market interest rates, credit conditions, and loan demand will continue to filter into banking results. While Canadian banks do, of course, operate on both sides of the border, the domestic business is still their core franchise, and it should deliver earnings gains in excess of the current analysts' consensus.

Moreover, Canadian bank earnings should be more attractive in present value terms. Canadian bond yields, the discount rate applied to the stream of future earnings, are lower than those in the US. It was only in mid-2005 that 10-year Canada yields dropped below those on Treasuries, opening up the first significant negative differential in the past decade. In part, then, investors are willing to pay more for future Canadian dollar earnings because the risk-free alternative, government bonds, yields less on this side of the border.

US Banks at Greater Risk

In part due to those lower interest rates and the lesser strain they put on borrowers, Canadian banks face a less risky business environment than those whose fortunes are primarily in the US—particularly relative to banks operating in the American household lending market. Just as the tech sector was the Achilles heel of the 1990s' credit cycle, housing looks to be the source of growing credit issues in the current economic softening. And it's in the US, where mortgage lending and the real estate boom were much more stretched, where the greatest risks lie.

Stateside, the much more rapid run-up in real estate prices meant that housing ballooned to roughly one-third of all household assets, a mile above their 20% share of Canadian household assets. Tapping into those assets by withdrawing equity, in the form of larger mortgages or lines of credit, exploded in the process. Canadians have been proportionately much less active in leveraging themselves up in this fashion.

Chart 1
Are Canadian Bank Stocks Expensive?

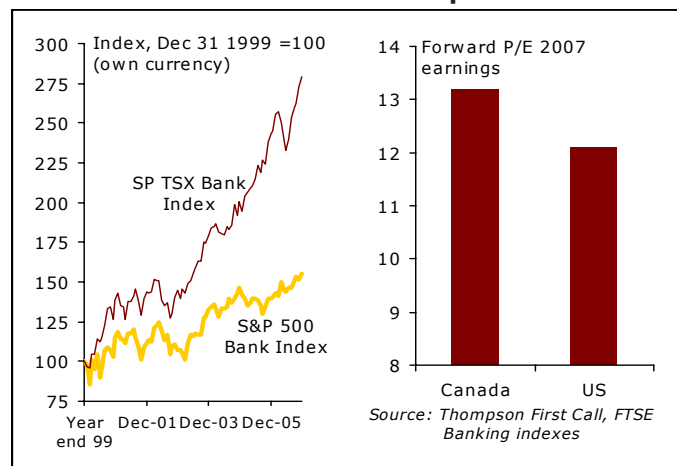
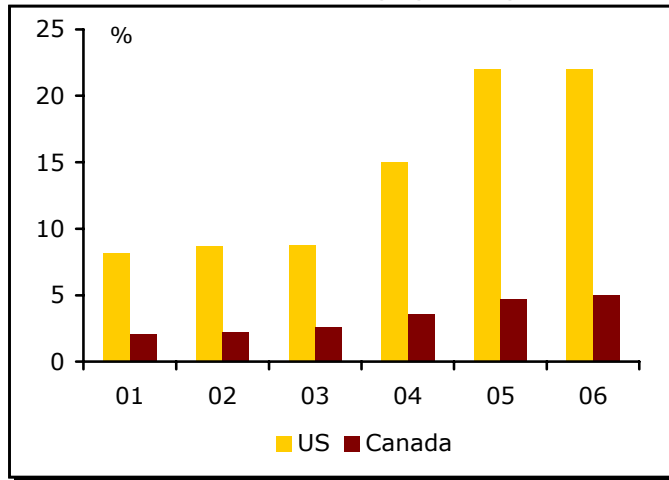


Chart 2
Sub-Prime Share of Mortgage Originations



US mortgage lenders also probed further down the credit quality spectrum, with sub-prime mortgages reaching 22% of new originations (Chart 2). Many of these offered low initial teaser rates, interest-only or negative amortization features that postponed the shock from rising rates. More conservative lending practices north of the border held the sub-prime share to only 5% of the market.

But now, in the wake of the Fed's more aggressive rate hike stance, the signs of stress are emerging in a deterioration in household credit quality in US lending portfolios. Debt servicing costs have been steadily rising (Chart 3), and there's more to come, as interest rates are reset on floating rate loans that had locked in low teaser rates or temporary interest-only features. While not strictly comparable (since the data do not include principal repayments), the less

Chart 3
Debt-Servicing Cost as Share of Income

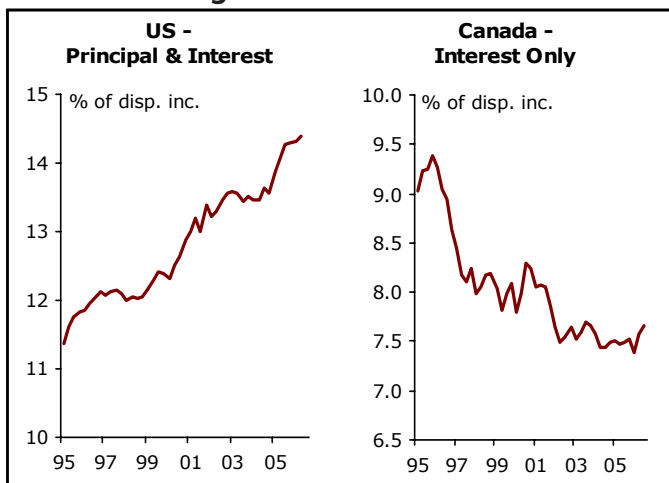
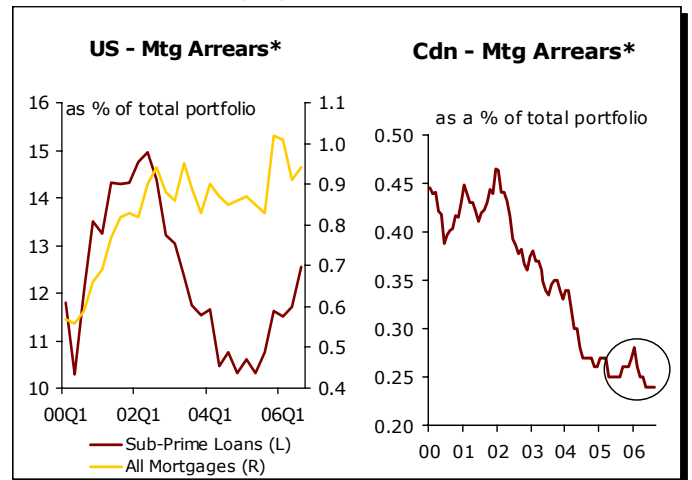


Chart 4
Canadian Mortgages in Better Shape



* 90+ days, except 30+ days for US sub-prime
Source: Mortgage Bankers Assoc., CBA

aggressive borrowing trend in Canada, and lower interest rates, have kept household payment obligations flat relative to incomes.

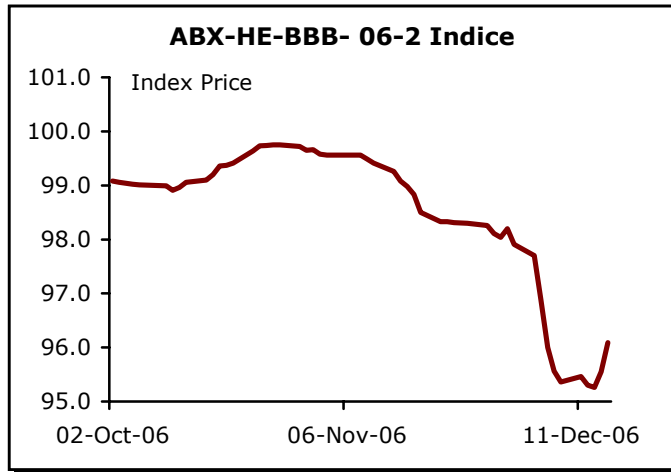
Although both economies are slowing, America's more extended market is taking a bite out of loan performance. US mortgage delinquencies shot up to 4.7% in the third quarter—a three-year high. Tough times lie ahead, signaled by a sharply rising 30-day delinquency bucket. In the sub-prime market, delinquencies have ballooned to 12.6% from just over 10% in early 2005. In contrast, Canadian bank mortgage portfolios, judged by available data on mortgage arrears, remain rock solid with the best stats in decades (Chart 4). Housing prices in the US appear to be falling, posing risks to recoveries on highly levered mortgages, against only a leveling off in Canadian house prices.

From MBS to Loan Supply/Demand

The troubles in America's household credit landscape haven't gone unnoticed by financial markets. That has been most evident in the market for mortgage-backed securities (MBS) tied to sub-prime loans, where a commonly tracked index has plunged since November (Chart 5).

While those loans are, in effect, now the burden of the security holder, the trend will represent a significant constraint on American banks' growth prospects in 2007 and beyond. For one, some lenders can be forced to repurchase securitized loans that run

**Chart 5
US Sub-Prime MBS Bonds Have Plunged**



into payment troubles within the first few months. That's increasingly an issue, with 15% of sub-prime mortgages now seeing at least one missed payment in their first quarter of life.

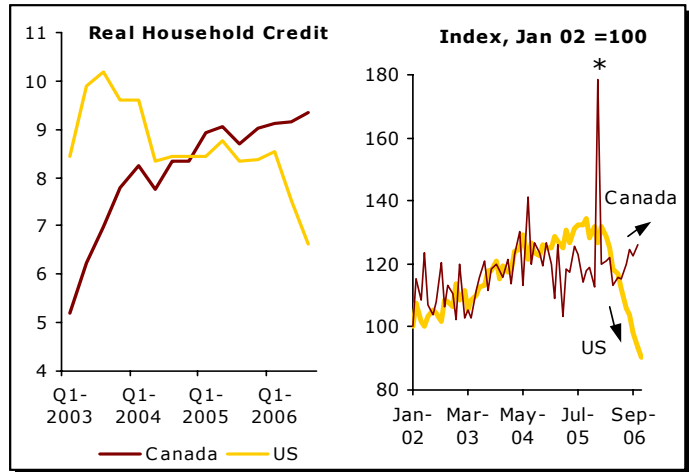
More importantly, the deterioration in the MBS market will make it much more expensive to originate and securitize new sub-prime mortgages, slowing activity in what had been a key growth area for many banks. As the trend broadens to weaker overall credit demand from already-stretched US households and tightening lending standards from their bankers, that will contribute to earnings misses for banks focused on American retail lending, with no parallel event in Canada.

Already, the trend towards that growth gap is evident in the macro data. Canadian household credit growth is holding up much better than what we are seeing stateside. And on the mortgage side, the plunge in US housing permits (a leading indicator of new home purchases), against improving growth in Canada, is indicative of a continuation in that trend ahead (Chart 6).

Paying Up for Dividends

A final twist in the Canadian story lies in the government's decision to clamp down on the growth of income trusts, to this point a preferred vehicle for investors seeking yield. That has investors willing to pay more for Canadian dividend-earning equities, the banks among them. Canadian banks' dividend yields are, at this point, typically in the 3% range. A number

**Chart 6
Credit Demand (L), Building Permits (R)**

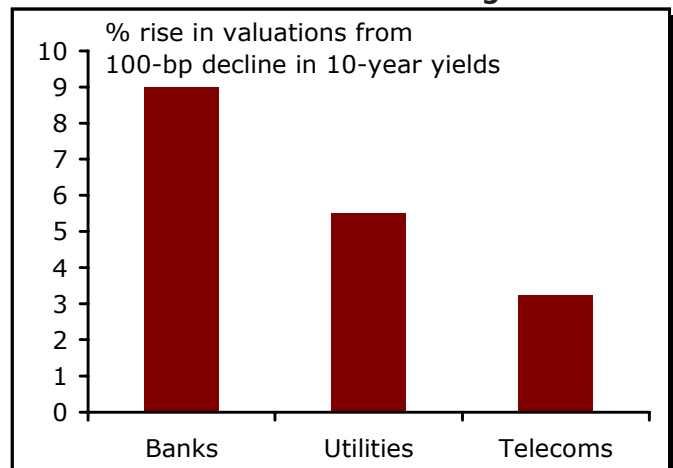


* jump ahead of permit fee hike

of larger US money centre banks offer a more generous 4% yield, but again, that is for the most part only commensurate with higher risk-free short-term interest rates stateside. Superior earnings growth prospects north of the border could see Canadian banks having more room to raise dividends in the coming year.

Finally, both US and Canadian bank equities should benefit from the falling interest rate environment expected in 2007. With core inflation in Canada more benign than in the US, and growth no faster, the Bank of Canada will have every reason to at least keep pace with Fed rate cuts, if only to prevent the C\$ from rising again and putting greater pressure on an already-troubled factory sector. Historically, financial services stocks have been among the most interest-sensitive sectors of the TSX (Chart 7).

**Chart 7
Bank Stocks Benefit From Falling Rates**



Government Issuance: What's Left to Come?

Warren Lovely

Having entered the final leg of fiscal 2006/07, what's left to come as far as Canadian government bond issuance is concerned? On the surface, a little under \$12 bn remains to be raised before fiscal year-end, a material sum to be sure, but one that implies a relatively slower issuance pace than that observed earlier this fiscal year.

Federal Government Will Be Quiet

For 2006/07 as a whole, Ottawa may end up issuing slightly more than the \$31 bn of domestic Canadas initially targeted. What matters most, however, is that very little of that issuance is still to come. The government will forgo a 2-year and a 5-year auction in fiscal Q4 (i.e., January-March), resulting in the smallest quarter of gross GoC issuance in 15 years. Given maturities and buybacks, the stock of outstanding Canadas should end 2006/07 roughly \$6 bn lower, with further reductions in net supply ahead.

Provincial Borrowing Status Varies Widely

Provincial borrowing plans can be impacted by conservative budgeting assumptions and, to the extent they are not used, by the setting aside of forecast allowances/reserves. Fiscal updates for 2006/07 point to above-plan budget balances in a number of provinces. That said, pre-funding—never explicitly planned for but common in some provinces—can result in greater-than-planned issuance.

Consider **British Columbia**. Out of the market during 2005/06, BC has more recently cut its bond/MTN borrowing requirement for 2006/07 to \$1.5 bn vs \$4.2 bn originally. Having raised \$500 mn so far, an outstanding requirement technically remains. However, with a \$550 mn forecast allowance and an ability to issue short-term, the province may not be back to the market in advance of its February 20th budget.

Gross Issuance: Plan vs Fiscal Year-to-Date

C\$Billions	2006/07: Gross Bond/MTN Borrowing ¹			
	Planned Issuance	Complete 9-Jan-07	Still To Come	Per cent Funded
British Columbia ²	1.529	0.500	1.029	33
Alberta	0.127	0.000	0.127	0
ACFA ³	0.600	0.600	0.000	100
ATB Financial	0.800	0.600	0.200	75
Saskatchewan	1.000	0.592	0.408	59
Manitoba	1.873	1.505	0.368	80
Ontario ^{4,5}	19.100	15.200	3.900	80
Québec ⁶	7.295	11.218	0.000	154
Financement-Québec	2.000	1.828	0.172	91
Hydro-Québec ³	3.100	3.400	0.000	110
New Brunswick	0.928	0.340	0.588	37
NB EFC	0.460	0.360	0.100	78
NB MFC	0.138	0.138	0.000	100
Nova Scotia	0.799	0.800	0.000	100
Prince Edward Island	0.000	0.000	0.000	NA
Newfoundland & Lab.	0.800	0.350	0.450	44
Nfld & Lab. Hydro ³	0.200	0.225	0.000	113
Provincial Government	33.451	30.505	6.870	79
Oth. Prov'l Entities⁷	7.298	7.151	0.472	94
Federal Government⁸	31.750	27.344	4.406	86
TOTAL	72.499	65.001	11.748	84

1. Marketable bonds/MTNs only; excl CPP, savings bonds & other retail products

2. Underlying budget balance includes \$550M forecast allowance

3. Borrowing on calendar yr basis; amt completed reflects actuals for calendar 2006

4. Underlying budget balance includes \$1.0B reserve

5. Ontario Electricity Financial Corporation (OEFC) consolidated with province

6. Excludes CPP Investment Fund & Immigrant Investor Program

7. Borrowing in addition to provincial governments

8. Borrowing relates to C\$ bonds only

Ontario's borrowing program, incorporating a \$1 bn reserve, looks appropriately advanced, with \$3.9 bn still to be raised. **Québec** has already surpassed planned borrowing by nearly \$4 bn, implying significant "pre-funding" for fiscal 2007/08. **Nova Scotia** is fully funded, although large discretionary sinking funds enable it to borrow on an opportunistic basis. Based on current projections, **Manitoba, Saskatchewan** and **Newfoundland & Labrador** each have roughly \$400 mn to raise before fiscal year-end. A funding blackout tied to last September's election means **New Brunswick** has a larger share of its program to complete, although a recent issue leaves borrowing on behalf of New Brunswick Electric Finance Corporation closer to completion.

Elections now loom in a number of provincial jurisdictions, and the prospect of funding blackouts—along with today's still-attractive interest rate environment—could incent a larger-than-normal amount of pre-funding in the final quarter of the fiscal year.

Please refer to our forthcoming (January 2007) issue of *Canadian Financing Quarterly* for a more complete analysis of government borrowing requirements and a look at likely themes emerging from the 2007 budget season.

ECONOMIC UPDATE

CANADA	06Q3A	06Q4A/F	07Q1F	07Q2F	07Q3F	2005A	2006A/F	2007F
Real GDP Growth (AR)	1.7	1.2	2.4	2.3	2.5	2.9	2.7	2.2
Real Final Domestic Demand (AR)	2.8	3.1	3.2	2.9	3.0	4.3	4.2	3.1
All Items CPI Inflation (Y/Y)	1.7	1.3	1.4	1.4	2.4	2.2	2.0	2.1
Core CPI Ex Indirect Taxes (Y/Y)	2.1	2.2	2.1	2.1	1.9	1.6	1.9	2.0
Unemployment Rate (%)	6.4	6.2	6.2	6.3	6.4	6.8	6.3	6.4
Merchandise Trade Balance (C\$ Bn)	49.3	48.3	43.4	45.4	50.6	64.8	53.8	48.5
U.S.								
Real GDP Growth (AR)	2.0	2.2	2.1	2.2	2.4	3.2	3.3	2.2
Real Final Sales (AR)	1.9	2.7	2.1	2.1	2.5	3.5	3.0	2.3
All Items CPI Inflation (Y/Y)	3.3	1.9	2.3	2.0	2.3	3.4	3.2	2.6
Core CPI Inflation (Y/Y)	2.8	2.6	2.5	2.0	1.8	2.2	2.5	2.0
Unemployment Rate (%)	4.7	4.5	4.7	4.9	5.2	5.1	4.6	5.0

CANADA

A raft of new jobs have thus far failed to translate into much economic growth, with real GDP likely to limp out of 2006 at a decidedly anemic pace (annualized growth of little more than 1% is now expected). Weather is once again impacting growth patterns. While crimping demand for utilities and recreational services, balmy temperatures delay seasonal layoffs and set the stage for "better-than-normal" residential investment. Recall that the last solid quarterly growth performance Canada saw was itself tied to unusually mild temperatures in Q1:2006. But unlike a year ago, demand from the US has clearly decelerated, and Canada's overall muted economic prospects point to a well-contained inflation threat and reduced demand for workers ahead.

UNITED STATES

We raised our Q4 GDP forecast by about a half-point on the back of stronger consumer spending figures, though softness in residential construction, inventory accumulation (particularly autos) and business equipment spending will leave a tame 2.2% pace overall. Job creation has surprised on the high side, as falling employment in cyclical industries has yet to create a contagion effect elsewhere. History suggests, however, that the cyclical industries do, of course, lead economic turning points, and that a rising jobless rate is in the cards for the first half of 2007.

Conflicts of Interest: CIBC World Markets' analysts and economists are compensated from revenues generated by various CIBC World Markets businesses, including CIBC World Markets' Investment Banking Department. CIBC World Markets may have a long or short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should not rely solely on this report in evaluating whether or not to buy or sell the securities of the subject company.

Legal Matters: This report is issued and approved for distribution by (i) in Canada by CIBC World Markets Inc., a member of the IDA and CIPF, (ii) in the UK, CIBC World Markets plc, which is regulated by the FSA, and (iii) in Australia, CIBC World Markets Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC World Markets"). This report has not been reviewed or approved by CIBC World Markets Corp., a member of the NYSE and SIPC, and is intended for distribution in the United States only to Major Institutional Investors (as such term is defined in SEC Rule 15a-6 and Section 15 of the Securities Act of 1934, as amended). This document and any information contained herein are not intended for the use of private investors in the UK. The comments and views expressed in this document are meant for the general interests of clients of CIBC World Markets Australia Limited. This report is provided for informational purposes only.

This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets Inc. Before making an investment decision on the basis of any information contained in this report, the recipient should consider whether such information is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets Inc. suggests that, prior to acting on any information contained herein, you contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice; as with any transaction having potential tax implications, clients should consult with their own tax advisors. Past performance is not a guarantee of future results.

The information and any statistical data contained herein were obtained from sources that we believe to be reliable, but we do not represent that they are accurate or complete, and they should not be relied upon as such. All estimates and opinions expressed herein constitute judgements as of the date of this report and are subject to change without notice.

Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

© 2007 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets Inc. is prohibited by law and may result in prosecution.

CANADA RELEASE AND EVENT DATES January 2007



MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY																																																
<p>1</p> <p>NEW YEARS DAY (HOLIDAY) (Markets Closed)</p>	<p>2</p>	<p>3</p>	<p>4</p> <p>INTERNATIONAL RESERVES</p> <p>8:15 AM M \$BN CHANGE LEVEL</p> <p>OCT -0.374 35.6 NOV 0.834 36.5 DEC -1.414 35.1</p> <p>INDUSTRIAL PRICES</p> <p>8:30 AM M (NSA) Y</p> <p>SEP -1.5 1.4 OCT 0.0 1.2 NOV 0.0 1.9</p>	<p>5</p> <p>LABOUR FORCE SURVEY</p> <p>7:00 AM AVG EMPLOY UNEMP HRLY (HOUSE) RATE EARN</p> <p>M Y % Y</p> <p>OCT 0.3 1.8 6.2 3.1 NOV 0.1 1.7 6.3 2.8 DEC 0.4 2.1 6.1 2.3</p> <p>IVEY PURCHASING MANAGERS' INDEX</p> <p>10:00 AM</p>																																																
<p>8</p> <p>Bank of Canada Business Outlook Survey</p>	<p>9</p> <p>HOUSING STARTS</p> <p>8:15 AM 000's (AR)</p> <table border="1"> <tr> <th>TOTAL</th> <th>SINGLES</th> </tr> <tr> <td>OCT 225</td> <td>93</td> </tr> <tr> <td>NOV 229</td> <td>89</td> </tr> <tr> <td>DEC 212</td> <td>87</td> </tr> </table>	TOTAL	SINGLES	OCT 225	93	NOV 229	89	DEC 212	87	<p>10</p> <p>MERCHANDISE TRADE</p> <p>8:30 AM \$MN 12 MO. BALANCE</p> <table border="1"> <tr> <th>M</th> <th>BALANCE</th> </tr> <tr> <td>SEP 4,541</td> <td>62,188</td> </tr> <tr> <td>OCT 3,778</td> <td>58,933</td> </tr> <tr> <td>NOV</td> <td></td> </tr> </table> <p>BUILDING PERMITS</p> <p>8:30 AM (RES) (NON-RES)</p> <table border="1"> <tr> <th>M</th> <th>Y</th> </tr> <tr> <td>SEP -3.9</td> <td>0.1</td> </tr> <tr> <td>OCT 4.3</td> <td>9.1</td> </tr> <tr> <td>NOV</td> <td></td> </tr> </table> <p>NEW HOUSING PRICE INDEX</p> <p>8:30 AM</p>	M	BALANCE	SEP 4,541	62,188	OCT 3,778	58,933	NOV		M	Y	SEP -3.9	0.1	OCT 4.3	9.1	NOV		<p>11</p>	<p>12</p>																								
TOTAL	SINGLES																																																			
OCT 225	93																																																			
NOV 229	89																																																			
DEC 212	87																																																			
M	BALANCE																																																			
SEP 4,541	62,188																																																			
OCT 3,778	58,933																																																			
NOV																																																				
M	Y																																																			
SEP -3.9	0.1																																																			
OCT 4.3	9.1																																																			
NOV																																																				
<p>15</p> <p>CAR & TRUCK SALES</p> <p>8:30 AM 000's (AR)</p> <table border="1"> <tr> <th>TOTAL</th> <th>DOM. BUILT</th> <th>CAR SALES</th> </tr> <tr> <td>SEP 1,663</td> <td></td> <td>589</td> </tr> <tr> <td>OCT 1,636</td> <td></td> <td>526</td> </tr> <tr> <td>NOV</td> <td></td> <td></td> </tr> </table> <p>WAGE SETTLEMENTS</p> <p>10:00 AM (%)</p> <table border="1"> <tr> <th>PVT.</th> <th>PUB.</th> <th>TOT.</th> </tr> <tr> <td>SEP 2.6</td> <td>2.5</td> <td>2.5</td> </tr> <tr> <td>OCT 1.1</td> <td>2.9</td> <td>1.7</td> </tr> <tr> <td>NOV</td> <td></td> <td></td> </tr> </table>	TOTAL	DOM. BUILT	CAR SALES	SEP 1,663		589	OCT 1,636		526	NOV			PVT.	PUB.	TOT.	SEP 2.6	2.5	2.5	OCT 1.1	2.9	1.7	NOV			<p>16</p> <p>Bank of Canada Interest Rate Announcement</p>	<p>17</p>	<p>18</p> <p>INT'L TRANSACTIONS IN SECURITIES C\$BN</p> <p>8:30 AM NET NET NET NET BONDS MONEY STOCKS TOTAL MARKET</p> <table border="1"> <tr> <th>M</th> <th>Y</th> <th>M</th> <th>Y</th> </tr> <tr> <td>SEP -0.5</td> <td>0.3</td> <td>-2.7</td> <td>-2.9</td> </tr> <tr> <td>OCT 0.8</td> <td>-0.4</td> <td>-5.4</td> <td>-5.0</td> </tr> <tr> <td>NOV</td> <td></td> <td></td> <td></td> </tr> </table> <p>SURVEY OF MANUFACTURING</p> <p>8:30 AM SHIPMENTS</p> <table border="1"> <tr> <th>M</th> <th>Y</th> </tr> <tr> <td>SEP -3.2</td> <td>-4.0</td> </tr> <tr> <td>OCT -0.1</td> <td>-5.2</td> </tr> <tr> <td>NOV</td> <td></td> </tr> </table> <p>Bank of Canada Monetary Policy Report Update</p>	M	Y	M	Y	SEP -0.5	0.3	-2.7	-2.9	OCT 0.8	-0.4	-5.4	-5.0	NOV				M	Y	SEP -3.2	-4.0	OCT -0.1	-5.2	NOV		<p>19</p> <p>WHOLESALE TRADE</p> <p>8:30 AM</p>
TOTAL	DOM. BUILT	CAR SALES																																																		
SEP 1,663		589																																																		
OCT 1,636		526																																																		
NOV																																																				
PVT.	PUB.	TOT.																																																		
SEP 2.6	2.5	2.5																																																		
OCT 1.1	2.9	1.7																																																		
NOV																																																				
M	Y	M	Y																																																	
SEP -0.5	0.3	-2.7	-2.9																																																	
OCT 0.8	-0.4	-5.4	-5.0																																																	
NOV																																																				
M	Y																																																			
SEP -3.2	-4.0																																																			
OCT -0.1	-5.2																																																			
NOV																																																				
<p>22</p>	<p>23</p> <p>CONSUMER PRICE INDEX</p> <p>7:00 AM M (NSA) Y</p> <table border="1"> <tr> <th>M</th> <th>Y</th> </tr> <tr> <td>OCT -0.2</td> <td>0.9</td> </tr> <tr> <td>NOV 0.2</td> <td>1.4</td> </tr> <tr> <td>DEC</td> <td></td> </tr> </table> <p>RETAILTRADE</p> <p>8:30 AM (Current\$) M Y</p> <table border="1"> <tr> <th>M</th> <th>Y</th> </tr> <tr> <td>SEP -1.2</td> <td>7.1</td> </tr> <tr> <td>OCT -0.7</td> <td>5.7</td> </tr> <tr> <td>NOV</td> <td></td> </tr> </table> <p>LEADING INDICATOR</p> <p>8:30 AM</p>	M	Y	OCT -0.2	0.9	NOV 0.2	1.4	DEC		M	Y	SEP -1.2	7.1	OCT -0.7	5.7	NOV		<p>24</p>	<p>25</p>	<p>26</p> <p>MONEY SUPPLY M-2</p> <table border="1"> <tr> <th>M</th> <th>Y</th> </tr> <tr> <td>OCT 1.7</td> <td>8.6</td> </tr> <tr> <td>NOV 0.1</td> <td>8.8</td> </tr> <tr> <td>DEC</td> <td></td> </tr> </table>	M	Y	OCT 1.7	8.6	NOV 0.1	8.8	DEC																									
M	Y																																																			
OCT -0.2	0.9																																																			
NOV 0.2	1.4																																																			
DEC																																																				
M	Y																																																			
SEP -1.2	7.1																																																			
OCT -0.7	5.7																																																			
NOV																																																				
M	Y																																																			
OCT 1.7	8.6																																																			
NOV 0.1	8.8																																																			
DEC																																																				
<p>29</p> <p>BUSINESS CONDITIONS SURVEY</p> <p>8:30 AM</p>	<p>30</p> <p>INDUSTRIAL PRICES</p> <p>8:30 AM M (NSA) Y</p> <table border="1"> <tr> <th>M</th> <th>Y</th> </tr> <tr> <td>OCT 0.0</td> <td>1.2</td> </tr> <tr> <td>NOV 0.0</td> <td>1.9</td> </tr> <tr> <td>DEC</td> <td></td> </tr> </table>	M	Y	OCT 0.0	1.2	NOV 0.0	1.9	DEC		<p>31</p> <p>GDP AT BASIC PRICES</p> <p>8:30 AM (1997\$) INDUST. PROD. M</p> <table border="1"> <tr> <th>M</th> <th>Y</th> </tr> <tr> <td>SEP -0.4</td> <td>-1.8</td> </tr> <tr> <td>OCT 0.0</td> <td>0.0</td> </tr> <tr> <td>NOV</td> <td></td> </tr> </table>	M	Y	SEP -0.4	-1.8	OCT 0.0	0.0	NOV		<p>1</p>	<p>2</p>																																
M	Y																																																			
OCT 0.0	1.2																																																			
NOV 0.0	1.9																																																			
DEC																																																				
M	Y																																																			
SEP -0.4	-1.8																																																			
OCT 0.0	0.0																																																			
NOV																																																				

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 Labour, and U.S. Federal Reserve Board.

U.S. RELEASE AND EVENT DATES January 2007



MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
1 NEW YEAR'S DAY (HOLIDAY) (Markets Closed)	2	3 ISM MANUFACTURING SURVEY (Formerly NAPM) 10:00 AM COMP. PRICES INDEX INDEX OCT 51.2 47.0 NOV 49.5 53.5 DEC 51.4 47.5 FOMC Minutes DOMESTIC AUTO SALES	4 FACTORY ORDERS 10:00 AM M Y SEP 1.7 7.3 OCT -4.5 0.8 NOV 0.9 -0.8 ISM NON-MFG SURVEY 10:00 AM	5 EMPLOYMENT SITUATION 8:30 AM NON- CIV AVG FARM UNEMP HRLY PAYROLL RATE EARN (000s) M % Y OCT 86 4.4 3.9 NOV 154 4.5 4.2 DEC 167 4.5 4.2
8 CONSUMER CREDIT 3:00PM	9	10 GOODS & SERVICES BALANCE (BOP) 8:30 AM GDS SERV TOT SEP -70.3 6.0 -64.3 OCT -65.1 6.2 -58.9 NOV WHOLESALE TRADE 10:00 AM	11 TREASURY BUDGET 2:00 PM MONEY SUPPLY M-2 4:30 PM M Y OCT 0.9 4.8 NOV 0.5 5.1 DEC	12 RETAIL SALES 8:30 AM M Y OCT -0.1 4.9 NOV 1.0 5.6 DEC BUSINESS INVENTORIES 10:00 AM
15	16	17 PRODUCER PRICE INDEX 8:30 AM M (SA) Y (NSA) OCT -1.6 -1.6 NOV 2.0 0.9 DEC NET CAPITAL INFLOWS TICS 9:00 AM CAPACITY UTIL/IND. PROD. 9:15 AM LEV M Y OCT 81.8 0.0 4.7 NOV 81.8 0.2 3.8 DEC Beige Book	18 CONSUMER PRICE INDEX 8:30 AM M (SA) Y (NSA) OCT -0.5 1.3 NOV 0.0 2.0 DEC HOUSING STARTS 8:30 AM MIL (AR) M OCT 1.488 -13.7 NOV 1.588 6.7 DEC LEADING INDICATOR 10:00 AM PHILADELPHIA FED INDEX 12:00 PM	19 MICHIGAN SENTIMENT (P) 10:00 AM
22	23	24	25 EXISTING HOME SALES 10:00 AM	26 DURABLE GOODS ORDERS 8:30 AM M Y OCT -8.1 2.6 NOV 1.6 -0.2 DEC NEW HOME SALES 10:00 AM
29	30 CONSUMER CONFIDENCE 10:00 AM	31 8:30 AM GDP (AR) REAL IMPLICIT GDP DEFLATOR 06:Q2(F) 2.6 3.3 06:3Q(F) 2.0 1.9 06:Q4(A) EMPLOYMENT COST INDEX 8:30 AM WAGES & TOTAL SALARY BEN. 06:Q2 0.9 0.9 0.8 06:Q3 1.0 0.9 1.1 06:Q4 CHICAGO PMI 10:00 AM FOMC Rate Decision	1 PERS. INCOME & OUTLAYS 8:30 AM SAVING INCOME CONS RATE OCT 0.3 0.3 -0.7 NOV 0.3 0.5 -1.0 DEC ISM MANUFACTURING SURVEY (Formerly NAPM) 10:00 AM COMP. PRICES INDEX INDEX NOV 49.5 53.5 DEC 51.4 47.5 JAN DOMESTIC AUTO SALES	2 EMPLOYMENT SITUATION 8:30 AM NON- CIV AVG FARM UNEMP HRLY PAYROLL RATE EARN (000s) M % Y NOV 154 4.5 4.2 DEC 167 4.5 4.2 JAN FACTORY ORDERS 10:00 AM M Y OCT -4.5 0.8 NOV 0.9 -0.8 DEC MICHIGAN SENTIMENT (F) 10:00 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. Dates are subject to change. Sources for historical data: U.S. Department of Commerce, U.S. Department of Labour, and U.S. Federal Reserve Board.