THE WEEK AHEAD

July 2-6, 2018

Economics

What Can We Af*Ford*?

by Avery Shenfeld

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

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

Andrew Grantham
(416) 956-3219
andrew.grantham@cibc.com

Royce Mendes
(416) 594-7354
royce.mendes@cibc.com

Katherine Judge
(416) 956-6527
katherine.judge@cibc.com

http://economics.cibccm.com

Forgive a Toronto-based economist for being Ontario centric, but when a new government takes office in a province that generates nearly 40% of the country's GDP, it's worth thinking about the economic implications. Doug Ford's PC party takes the helm of a province that is already close to full employment, has a debt burden that reflects the legacy of weaker years, and in which the outgoing government's plan entailed a return to deficit.

Unless the trade war with the US gets really ugly on a sustained basis, this isn't an opportune time for fiscal stimulus. Remember that we have the Bank of Canada actually working to slow economic growth to contain inflation. Moreover, while the province made progress on its debt/GDP ratio in the past three years, it had earlier seen a significant climb in that ratio as it fought to rebound from the global recession.

Ford's package of major tax relief, including reductions in gasoline levies and personal tax rates, as well as the elimination of cap-and-trade revenues, would on their own swing the province into a larger deficit. It would add a hefty dose of fiscal stimulus that might push the Bank of Canada into additional rate hikes, but at the same time put downward pressure on the energy components of the CPI.

Revenues forgone would include $1.2 bn in gasoline taxes, roughly $3 bn in personal income taxes, and $1.3 bn in business taxes. A further 12% reduction in power bills might not be a deficit item if it gets incorporated into the structure that Ontario was already using to defer higher electricity charges under the Liberals. Revenues from a carbon cap and trade system would also vanish, but would be offset by canceling the programs they funded.

Coming up with major "efficiency" savings on the spending side, with no mass layoffs of public servants, might take time. So should we build in a weaker fiscal outlook ahead? And allow for lower gasoline and electricity prices in the CPI? The federal government might prevent the pump price decline by imposing its own carbon tax.

On deficits, Ford has given himself a lot of elbow room by saying that his first order of business will be to go over the books "line by line." We've seen that movie before. A new party takes over, declares that the fiscal picture is "worse than we had been led to believe", and then opts to draw out the timetable for more expensive promises.

Note that the Tories agreed that they will start with a deficit, but pledged a "return to a balanced budget in a responsible timeframe." What remains to be seen is whether the tax cuts, or the deficit pledge, will take priority if there's a conflict. They already were expecting to defer items like income tax cuts into 2020/21. Look for the Premier and his new team to get down to work soon on figuring out what Ontario can actually afford in terms of providing tax relief, shrinking government costs, while keeping its lenders happy.

Week Ahead Calendar And Forecast

	CANADA			CIBC	Consensus	Prior
Monday July 2	**Markets Closed (Canada Day observed)**					
Tuesday July 3	**CASH MANAGEMENT BUYBACK (Aug'18 - Nov'19) $0.5B**					
Wednesday July 4						
Thursday July 5	**AUCTION: 5-YR CANADAS $3B**					
Friday July 6	**8:30 AM**					
	MERCHANDISE TRADE BALANCE	(May)	(H)	**-$2.1B**		-$1.9B
	EMPLOYMENT CHANGE	(Jun)	(H)	**23K**		-7.5K
	UNEMPLOYMENT RATE	(Jun)	(H)	**5.8%**		5.8%
	10:00 AM					
	IVEY PMI	(Jun)	(L)			62.5

	UNITED STATES			CIBC	Consensus	Prior
Monday July 2	**AUCTION: 3-M BILLS $48B, 6-M BILLS $42B** **AUCTION: 4-WEEK BILLS $35B**					
	9:45 AM					
	MARKIT US MANUFACTURING PMI	May F	(L)			54.6
	10:00 AM					
	ISM - MANUFACTURING	(Jun)	(H)	**58.4**	58.2	58.70
	CONSTRUCTION SPENDING M/M	(May)	(M)		0.5%	1.8%
Tuesday July 3	**10:00 AM**					
	FACTORY ORDERS M/M	(May)	(M)	**-0.1%**	0.0%	-0.8%
	NEW VEHICLE SALES	(Jun)	(M)		17.0M	16.8M
Wednesday July 4	**Markets Closed (Independence Day)**					
	7:00 AM					
	MBA-APPLICATIONS	(Jun 29)	(L)			-4.9%
Thursday July 5	**8:15 AM**					
	ADP EMPLOYMENT CHANGE	(Jun)	(M)		190K	178K
	8:30 AM					
	INITIAL CLAIMS	(Jun 30)	(M)		225K	227K
	CONTINUING CLAIMS	(Jun 23)	(L)		1720K	1705K
	9:45 AM					
	MARKIT US SERVICES PMI	May F	(L)		56.5	56.5
	MARKIT US COMPOSITE PMI	May F	(L)		#N/A N/A	56.0
	10:00 AM					
	ISM - NON-MANUFACTURING	(Jun)	(M)	**58.3**	58.2	58.60
	2:00 PM					
	Minutes of Jun. 13th FOMC Meeting					
Friday July 6	**8:15 AM**					
	ADP EMPLOYMENT CHANGE	(Jun)	(M)		190K	178K
	8:30 AM					
	GOODS & SERVICES TRADE BALANCE	(May)	(H)	**-$42.8B**	-$44.0B	-$46.2B
	NON-FARM PAYROLLS	(Jun)	(H)	**206K**	200K	223K
	UNEMPLOYMENT RATE	(Jun)	(H)	**3.7%**	3.8%	3.8%
	AVERAGE HOURLY EARNINGS ALL EMPLOYEES M/M	(Jun)	(H)	**0.3%**	0.3%	0.3%
	AVERAGE WEEKLY HOURS ALL EMPLOYEES	(Jun)	(H)		34.5	34.5
	MANUFACTURING PAYROLLS	(Jun)	(H)		13K	18K

H, M, L = High, Medium or Low Significance **SAAR = Seasonally Adjusted Annual Rate** **Consensus Source: Bloomberg**

Week Ahead's Market Call

by Avery Shenfeld

In the **US**, we could see a further dip in the jobless rate even if the payrolls count is in line with expectations, and while not climbing, the two ISM numbers ought to be consistent with a fairly healthy pace to growth. Nothing too worrying in any of this to disrupt the 4th of July holiday.

In **Canada**, both the three month trend in GDP and the latest outlook survey look much more positive than recent jobs data, so we're betting on a nice rebound in Canada's labour force survey for June. That will be the last piece of the puzzle for a Bank of Canada rate hike in July, but we're also of the view that economic growth will moderate enough after Q2 to force another extended pause on rates.

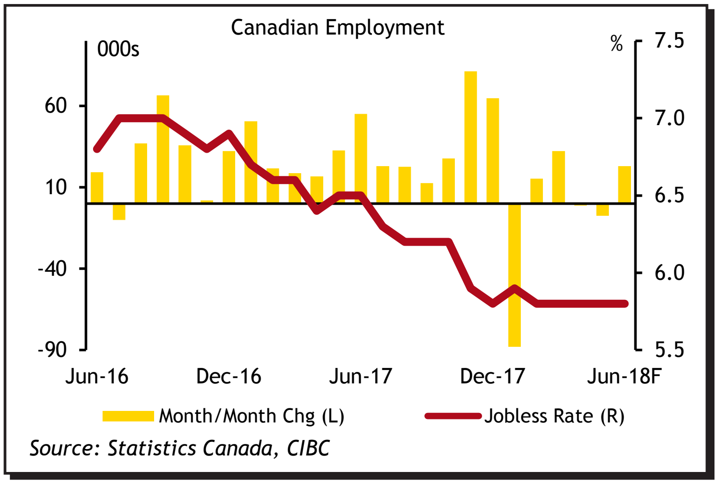
Week Ahead's Key Canadian Number:

Labour Force Survey—June

(Friday, 8:30 a.m.)

Royce Mendes (416) 594-7354

	CIBC	Mkt	Prior
Employment	23K	N/A	-7.5K
Unemployment Rate	5.8%	N/A	5.8%



Source: Statistics Canada, CIBC

For two consecutive months, the Canadian economy has shed jobs. While both were only modest in nature, there's little reason to believe that employment declined for three months in row. The last time that happened was early 2009 when, to say the least, the economy was in a different position.

In fact, given what we've seen in other activity indicators, we actually expect a healthy rebound in hiring. That won't be enough to push the year-to-date employment change into positive territory, nor lower the unemployment rate, but will show that the soft patch was simply transitory.

Forecast Implications—The up and down nature of employment this year reminds us just how volatile these survey results can be. Business plans are for more hiring ahead, but whether from rate hikes or other drags on growth we're sitting near the lows for the jobless rate in this cycle.

Other Canadian Releases:

Merchandise Trade Balance—May

(Friday, 8:30 a.m.)

An earlier reported jump in May US exports suggests that Canada's trade deficit is set to widen, at least somewhat, when May data is released. But there are some factors working in Canada's favour. US data suggests that Canada might have seen a further drop in auto imports. Steel and aluminum exports to the US may have also benefitted from demand being rerouted away from countries which already faced US tariffs and we may have seen a rush to beat an imposition of such a tariff on Canada. Add in higher energy prices during the month, and it seems like a recipe for the deficit to widen only slightly to $2.1bn.

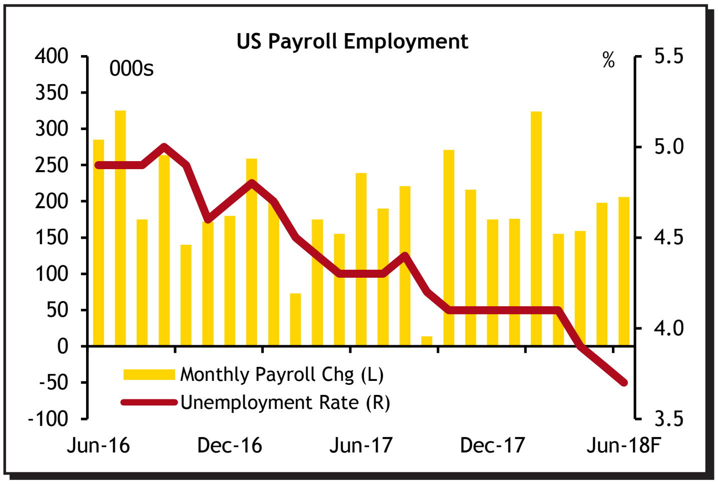
Week Ahead's Key US Number:

Employment Situation—June

(Friday, 8:30 a.m.)

Katherine Judge (416) 956-6527

	CIBC	Mkt	Prior
Employment (chg)	206K	195K	223K
Unemployment rate	3.7%	3.8%	3.8%
Average Hourly Earnings (%)	0.3%	0.3%	0.3%



Job creation picked up in May, and we expect another healthy print in June as momentum appears to have accelerated recently. While 206K is a slight pullback from the prior month, it's still above recent trend-growth in payrolls. Anecdotal evidence of labor shortages has yet to appear in the hard data and the prime-age employment-to-population ratio suggests that there is still a bit of slack that has yet to be absorbed in the labor market.

Another respectable employment print should lead the unemployment rate to tick lower to 3.7%. As the labor market tightens, stronger wage prints should become the norm and we expect a 0.3% monthly wage gain for the second consecutive month in June. That would leave the annual rate a hair higher at an unspectacular 2.8%.

Forecast Implications — Continued, healthy labor market gains should continue to support robust consumption into the end of Q2, helped by tax reform.

Market Impact — Other than on the jobless rate, our forecasts align with the consensus view and we therefore expect limited market reaction.

Other U.S. Releases:

ISM Manufacturing—June

(Monday, 10:00 a.m.)

Regional manufacturing surveys were tilted towards a slower pace of expansion in June, consistent with a dwindling supply of qualified workers. However, a slight ISM pullback to 58.4 is still in line with a strong pace of expansion. While higher wages will indeed impede profit margins going forward, survey evidence suggests that tariffs are also starting to feed through to production costs. That could limit growth in the future, especially for producers that lack pricing power.

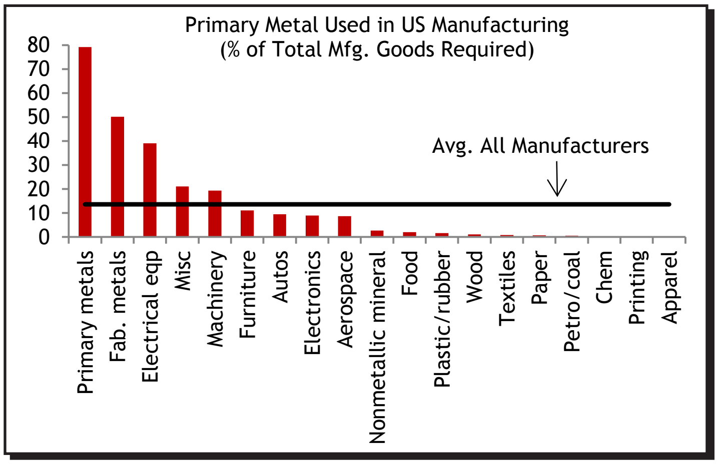
Equity Insights

Katherine Judge

Protectionism: Helping or Harming US Producers?

Although President Trump's tariffs on metals are aimed at promoting expansion in manufacturing stateside, the extent to which metal is used as an input to production will result in varying degrees of harm to producers' margins across manufacturing sub-industries. Indeed, the US imports almost 50% more primary metals than it manufactures, using them to produce a range of goods including electrical equipment and furniture. That comes at a time when rising energy prices and wages are already pressuring profit margins. Add to that the threat of retalitory tariffs on US exports and a trade war is far from a win for US equities.

Metal is a Crucial Input in a Wide Range of Manufacturing Sub-industries

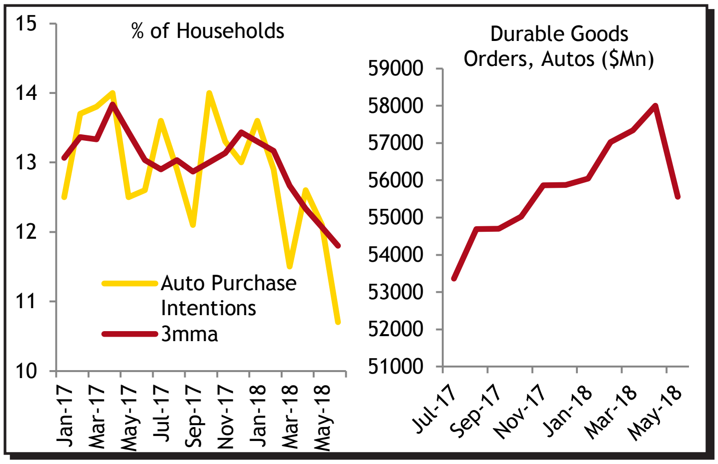


Source: BEA, CIBC

Auto Sector Indicators Continue to Lag

Things haven't been looking up for the auto industry in terms of purchase plans this year. With vehicle replacement from hurricanes likely all dried up, producers are just now coming to terms with the fall in demand that lies ahead. Auto spending intentions over the next six months sit at their lowest levels since 2015. Auto and parts manufacturers also saw their largest drop in orders since 2015. Looking ahead, rising interest rates are another negative for purchases. Throw in the threat of disruptive tariffs and there are some evident clouds overhanging Canadian and US auto stocks.

Car Purchase Plans Continue to Fall (L), Hitting Orders for Auto and Parts Manufacturers (R)

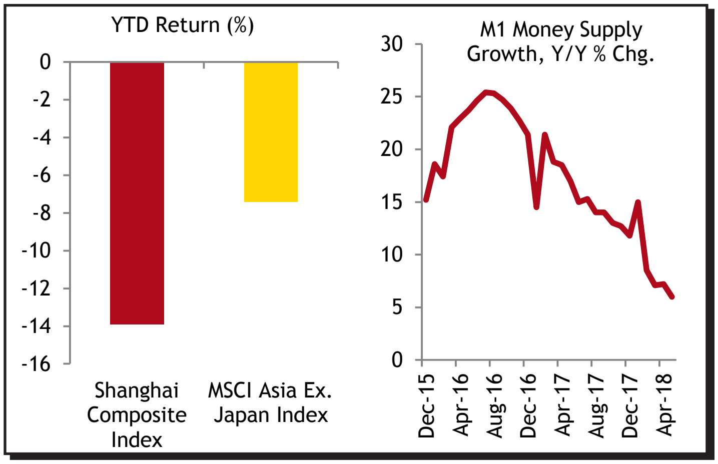


Source: BEA, CIBC

Relief Ahead for Chinese Equities?

The Trump administration's attack on Chinese exports has rattled investors exposed to Asia, leading the Shanghai composite index to underperform relative to the rest of Asia. But there may be relief in sight. A weaker renminbi could help cushion the blow to export volumes, and ultimately China will likely come to terms with Washington to pare back at least some of the threatened tariffs. At home, slowing credit growth has been limiting household spending, as implied by the descent in money supply growth. But here too, the recent cut in reserve requirements suggests that Beijing may be easing the reins somewhat on the banking sector.

Chinese Stocks Lag (L); While Domestic Fundamentals Come Under Further Pressure (R)



Source: Bloomberg, CIBC

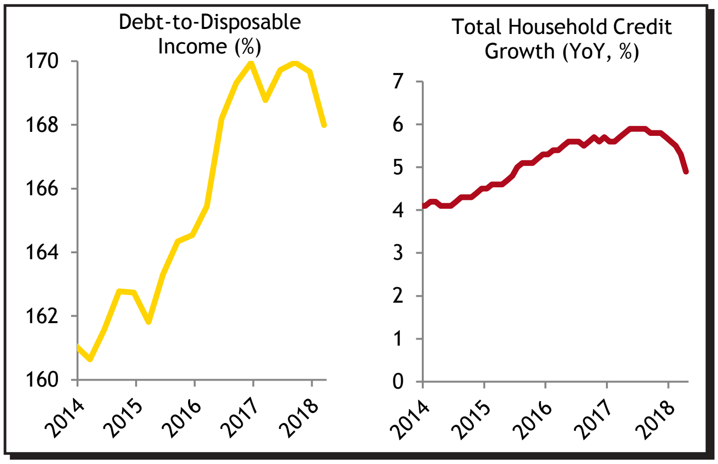
Currency Currents

Royce Mendes

Slower Credit Growth Reduces Pace for BoC Hikes

The need for monetary policy to cool household credit growth lessened on January 1st, when new B20 rules tightened lending standards. Now, roughly halfway through the year, we have clear evidence that the macroprudential policy is having its intended effect. Household credit is growing at its slowest pace in three years, and that's driven an improvement in the closely watched household debt-to-disposable income ratio. Despite an only mediocre rise in incomes during the first quarter, the ratio fell to its lowest level since early 2016 on the back of even slower credit growth. The reduced access to household credit support our view that the BoC only has one more hike left this year, keeping the loonie weak.

Cooler Credit Growth (L) Improving Debt Ratios (R)

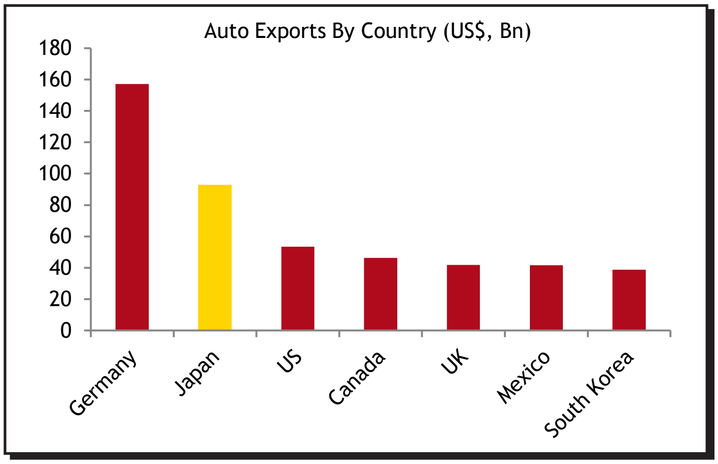


Source: Statistics Canada, CIBC

Japan's Closed Economy Keeping It Safe? Maybe Not

Sakoku, meaning closed country, was the name of Japan's isolationist foreign policy which began in the mid-1600s. While the economy was opened up almost 200 years ago, on a relative basis, it's still more insulated than many other developed nations. That has seen the sentiment around the yen remain more positive recently than other more trade-exposed economies. But auto tariffs could turn the tables. Japan is the world's second largest auto exporter, with many of these vehicles headed to America. So, while the Japanese economy is better protected from an overall slowdown in global trade, US auto tariffs would be a painful reminder that no one is completely safe.

Despite its Relatively Closed Economy, Japan is Exposed to Auto Tariffs

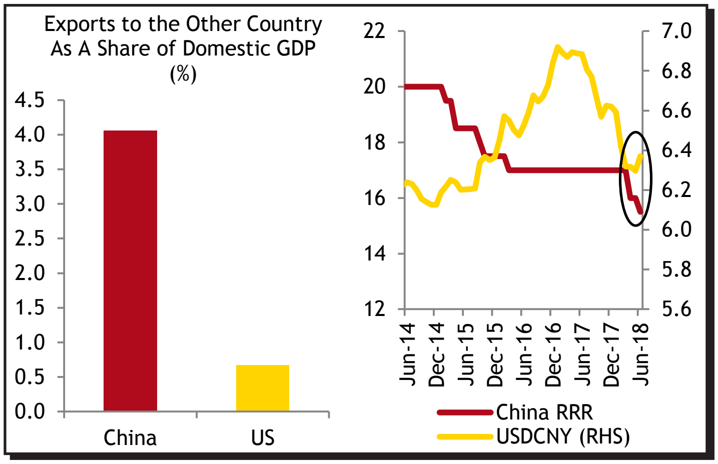


Source: ITC, CIBC

US Tariffs: How Can China Fight Back?

China can't go dollar for dollar on tariffs with the US. The numbers being proposed by President Trump are more than the total value of American exports to the Middle Kingdom. Furthermore, China is far more exposed to any escalation in a tariff war. Goods exports to the US as a share of GDP add up to roughly 4%, more than six times larger than what US exports to China are as a portion of American GDP. But Chinese policymakers have other tools at their disposal. Weakening the yuan would work to blunt the effect of US tariffs. The recent move to cut China's reserve requirements could have been the first step in that direction. As a result, expect the dollar to trade at least slightly stronger than we had previously expected against CNY before tensions increased.

Chinese Economy More Exposed to Trade Barriers (L); Easier Financial Conditions a Way to Fight Back (R)



Source: BEA, CIBC

CANADIAN RELEASE AND EVENT DATES

June/July 2018

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
25	26	27	28 **PAYROLL EMPLOYMENT, EARNINGS & HOURS** 8:30 AM	29 **GDP BY INDUSTRY** 8:30 AM (2002$) GDP IND.PROD. M M FEB 0.4 1.2 MAR 0.3 0.9 APR 0.1 0.4 **INDUSTRIAL PRICES** 8:30 AM M (NSA) Y MAR 0.9 2.4 APR 0.4 2.3 MAY 1.0 3.1 **Bank of Canada Business Outlook Survey**
2 **CANADA DAY OBSERVED (HOLIDAY) (Markets Closed)**	3	4	5 **INTERNATIONAL RESERVES** 8:15 AM $BN CHANGE $BN LEVEL APR -1,074 82.2 MAY -1,444 80.8 JUN	6 **LABOUR FORCE SURVEY** 8:30 AM EMPLOY (HSHOLD) M Y, UNEMP RATE %, AVG HRLY EARN Y APR 0.0 1.5 5.8 3.3 MAY 0.0 1.3 5.8 3.9 JUN **MERCHANDISE TRADE** 8:30 AM $MN 12 MO. BALANCE MAR -3,933 -29,839 APR -1,902 -30,634 MAY **IVEY PURCHASING MANAGERS' INDEX** 10:00 AM
9	10 **HOUSING STARTS** 8:15 AM 000's (AR) TOTAL SINGLES APR 217 57 MAY 196 58 JUN **BUILDING PERMITS ($)** 8:30 AM M (RES) M (NON-RES) MAR 1.1 1.7 APR -4.3 -5.2 MAY	11 **Bank of Canada Interest Rate Announcement** **Bank of Canada Monetary Policy Report** **Bank of Canada Governor Poloz & Sr. Dep. Gov. Wilkins speak at 11:15 AM ET**	12 **NEW HOUSING PRICE INDEX** 8:30 AM	13
16 **INT'L TRANSACTIONS IN SECURITIES C$BN, NET** 8:30 AM BONDS MONEY MARKET STOCKS TOT MAR -0.2 6.3 0.4 6.4 APR 8.8 -2.1 2.4 9.1 MAY	17 **SURVEY OF MANUFACTURING** 8:30 AM SHIPMENTS M Y MAR 1.4 6.0 APR -1.3 3.6 MAY	18	19	20
23 **WHOLESALE TRADE** 8:30 AM	24	25	26 **PAYROLL EMPLOYMENT, EARNINGS & HOURS** 8:30 AM	27

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
June/July 2018

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
25 **NEW HOME SALES** 10:00 AM	26 **S&P CORE LOGIC/CASE-SHILLER HOUSE PRICE INDEX** 9:00 AM **CONSUMER CONFIDENCE** 10:00 AM *2-Yr NOTE AUCTION* *BOT (9:00) REDBOOK (8:55)*	27 **ADV. TRADE IN INTERNATIONAL GOODS** 8:30 AM **DURABLE GOODS ORDERS** 8:30 AM M Y MAR 2.7 11.2 APR -1.0 8.5 MAY -0.6 9.2 *5-Yr NOTE AUCTION*	28 **GDP** 8:30 AM (AR) REAL IMPLICIT GDP DEFLATOR 17:Q4(F) 2.9 2.3 18:Q1(P) 2.2 1.9 18:Q1(F) 1.9 2.4 **CORPORATE PROFITS** 8:30 AM *7-Yr NOTE AUCTION* *INITIAL JOBLESS CLAIMS (8:30)*	29 **PERS. INC & OUT.** 8:30 AM SAVING INCOME CONS RATE M M AR MAR 0.3 0.6 3.2 APR 0.2 0.5 3.0 MAY 0.4 0.2 3.2 **CHICAGO PMI** 9:45 AM **MICHIGAN SENTIMENT (F)** 10:00 AM
2 **ISM MFG SURVEY** 10:00 AM COMP. PRICES INDEX INDEX APR 57.3 79.3 MAY 58.7 79.5 JUN *2, 5-, 7-Yr NOTE SETTLEMENT*	3 **FACTORY ORDERS** 10:00 AM M(SA) Y(NSA) MAR 1.7 9.1 APR -0.8 7.4 MAY **LIGHT VEHICLES** SALES MIL (AR) Y APR 17,113 0.9 MAY 16,806 0.6 JUN *BOT (9:00) REDBOOK (8:55)*	4 **INDEPENDENCE DAY (HOLIDAY) (Markets Closed)**	5 **ADP SURVEY** 8:15 AM **ISM NON-MFG SURVEY** 10:00 AM **FOMC Minutes** *3, 10-Yr NOTE ANNOUNCEMENT* *30-Yr NOTE ANNOUNCEMENT* *INITIAL JOBLESS CLAIMS (8:30)*	6 **EMPLOY. SITUATION** 8:30 AM NON- CIV AVG FARM UNEMP HRLY PAYROLL RATE EARN APR 159 3.9 2.6 MAY 223 3.8 2.8 JUN **GOODS & SERV. BALANCE (BOP) $B** 8:30 AM GDS SERV TOT MAR -69.3 22.1 -47.2 APR -68.3 22.1 -46.2 MAY
9 **CONSUMER CREDIT** 3:00 PM	10 *3-Yr NOTE AUCTION* *BOT (9:00) REDBOOK (8:55)*	11 **PPI** 8:30 AM M (SA) Y (NSA) APR 0.1 2.7 MAY 0.5 3.1 JUN *10-Yr NOTE AUCTION*	12 **CPI** 8:30 AM M(SA) Y (NSA) APR 0.2 2.5 MAY 0.2 2.8 JUN **TREASURY BUDGET** 2:00 PM *30-Yr BOND AUCTION* *INITIAL JOBLESS CLAIMS (8:30)*	13 **MICHIGAN SENTIMENT (P)** 10:00 AM
16 **RETAIL SALES** 8:30 AM M Y APR 0.4 4.8 MAY 0.8 5.9 JUN **BUSINESS INVENTORIES** 10:00 AM	17 **CAPACITY UTIL/IND. PROD.** 9:15 AM LEV M Y APR 78.1 0.9 3.6 MAY 77.9 -0.1 3.5 JUN **NET CAPITAL INFLOWS TICS** 4:00 PM *BOT (9:00) REDBOOK (8:55)*	18 **HOUSING STARTS** 8:30 AM Mn. M/M APR 1.286 -3.1 MAY 1.350 5.0 JUN **Beige Book**	19 **PHILADELPHIA FED INDEX** 8:30 PM **LEADING INDICATOR** 10:00 AM *INITIAL JOBLESS CLAIMS (8:30)*	20
23 **EXISTING HOME SALES** 10:00 AM	24 *2-Yr NOTE AUCTION* *BOT (9:00) REDBOOK (8:55)*	25 **NEW HOME SALES** 10:00 AM *5-Yr NOTE AUCTION*	26 **ADV. TRADE IN INTERNATIONAL GOODS** 8:30 AM **DURABLE GOODS ORDERS** 8:30 AM M Y APR -1.0 8.5 MAY -0.6 9.2 APR *7-Yr NOTE AUCTION* *INITIAL JOBLESS CLAIMS (8:30)*	27 **GDP** 8:30 AM (AR) REAL IMPLICIT GDP DEFLATOR 18:Q1(P) 2.2 1.9 18:Q1(F) 1.9 2.4 18:Q2(P) **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 inc. 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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