



Economics

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THE WEEK AHEAD

June 3-7, 2019

Really Mr. President?

by Avery Shenfeld

Really? A trade war with Mexico? Wasn't that one of the things that we had just put to bed with the removal of tariffs on metals imports from that country, and the White House pressing Congress to ratify the USMCA? Apparently not.

Clients often ask us whether Trump has a point in launching into various tariff wars. The right answer is, yes, to some extent. There are legitimate issues on whether China is fully meeting its WTO obligations, for example. Countries shouldn't be able to use lax environmental or labour standards as a competitive tool. Agricultural trade was never fully opened up under the WTO or NAFTA, and restraints remained (including, to be sure, US restraints) that could one day be addressed.

But there are much more appropriate tools in place to raise such concerns than the ones the US has pursued, and America's willingness to stretch the interpretation of its own trade laws has created a messy world that risks undermining business confidence. The China issues could have been dealt with on a multilateral basis at the WTO, as they affect other countries that trade with the Middle Kingdom. Had the US signed the Trans Pacific trade agreement, that could have created a trading bloc that could have then negotiated with China over the conditions of its membership.

What's roiling markets is not that the White House is engaged on the trade file, it's the non-transparent and capricious manner in which protectionist tools are being deployed. Today's move to threaten a 5% tariff on Mexico, with subsequent escalations, isn't a response to a trade dispute at all,

but to Trump's frustrations with migrants attempting to cross Mexico into the US.

The use of "national defense" tariffs in the case of metals imports from an ally like Canada – as if a NORAD and NATO partner would hold back the steel that the US needed to build tanks one day – was another case in point. One day, "national security" tariffs are coming on European and Japanese vehicles, the next day, they are postponed for a half year.

Trade has long been used as a weapon in the past. Sanctions have blocked trade with countries deemed to be bad actors (e.g. on Russia after its foray into Crimea, or South Africa under apartheid). But Canada, Mexico, Europe and Japan count themselves as US allies. In the case of Mexico, many of the goods coming into the US from that country are the product of American companies operating there.

As we saw with the breakdown of trade talks with China, the equity market is sending a message to the White House about what it thinks about the move to impose tariffs on Mexico. In a shaky global business climate, these added uncertainties are a clear and present danger to global growth and confidence, and thereby a danger to the economic expansion that the Trump administration enjoyed in its first two years in office.

Our forecasts assume that this message resonates enough for the US government to get back to the table with China, and now, with Mexico, before the full damage is done. But we, like the market, are even less sure of that today than yesterday.



Week Ahead Calendar And Forecast

	CANADA			UNITED STATES			
	CIBC	Consensus	Prior	CIBC	Consensus	Prior	
Monday June 3			0.3%				
	8:30 AM LEADING INDICATORS M/M	(Apr) (L)					
Tuesday June 4							
	CASH MANAGEMENT BUYBACK (Aug'19 - Nov'20) - \$0.5B						
Wednesday June 5							
	AUCTION: 2-YR CANADAS \$3B						
	8:30 AM LABOUR PRODUCTIVITY Q/Q	(Q1) (M)	-0.4%				
Thursday June 6							
	8:30 AM MERCHANDISE TRADE BALANCE	(Apr) (H)	-\$2.8B				
	10:00 AM IVEY PMI	(May) (L)	5590.0%				
Friday June 7							
	8:30 AM EMPLOYMENT CHANGE	(May) (H)	106.5K				
	UNEMPLOYMENT RATE	(May) (H)	5.7%				
	CAPACITY UTILIZATION	(Q1) (L)	81.7%				
	9:45 AM MARKIT US MANUFACTURING PMI	(May F) (L)					
	10:00 AM ISM - MANUFACTURING	(May) (H)	52.8				
	CONSTRUCTION SPENDING M/M	(Apr) (M)	0.5%				
	NEW VEHICLE SALES	(May) (M)	16.4M				
	Speaker: 9:10 AM Randai Keith Quarles (Vice Chairman) (Voter, Neutral) Speaker: 12:40 PM Thomas I. Barkin (President, Richmond) (Non-Voter, Hawkish) Speaker: 1:25 PM James Bullard (President, St. Louis) (Voter, Dovish)						
	10:00 AM FACTORY ORDERS M/M	(Apr) (M)	-1.0%				
	Speaker: 8:30 AM John C. Williams (President, New York) (Voter, Neutral) Speaker: 9:55 AM Jerome H Powell (Chairman) (Voter, Neutral) Speaker: 3:45 PM Lael S Brainard (Governor) (Voter, Neutral)						
	7:00 AM MBA-APPLICATIONS	(May 31) (L)	-3.3%				
	8:15 AM ADP EMPLOYMENT CHANGE	(May) (M)	180K				
	9:45 AM MARKIT US SERVICES PMI	(May F) (L)	50.9				
	MARKIT US COMPOSITE PMI	(May F) (L)	50.9				
	10:00 AM ISM - NON-MANUFACTURING	(May) (M)	55.9				
	2:00 PM FED'S BEIGE BOOK						
	Speaker: 9:45 AM Richard Clarida (Vice Chairman) (Voter, Neutral) Speaker: 10:00 AM Michelle W Bowman (Governor) (Voter, Hawkish) Speaker: 11:00 AM Raphael W. Bostic (President, Atlanta) (Non-Voter, Dovish)						
Thursday June 6							
	8:30 AM INITIAL CLAIMS	(Jun 1) (M)	215K				
	CONTINUING CLAIMS	(May 25) (L)	1657K				
	GOODS & SERVICES TRADE BALANCE	(Apr) (H)	-\$50.7B				
	NON-FARM PRODUCTIVITY	(Q1 F) (M)	3.6%				
	Speaker: 8:40 AM Robert Steven Kaplan (Dallas, President) (Non-Voter, Neutral) Speaker: 1:00 PM John C. Williams (President, New York) (Voter, Neutral)						
Friday June 7							
	8:30 AM NON-FARM PAYROLLS	(May) (H)	168K				
	UNEMPLOYMENT RATE	(May) (H)	3.7%				
	AVERAGE HOURLY EARNINGS ALL EMPLOYEES M/M	(May) (H)	0.3%				
	AVERAGE WEEKLY HOURS ALL EMPLOYEES	(May) (H)	34.5				
	MANUFACTURING PAYROLLS	(May) (H)	4K				
	10:00 AM WHOLESALE INVENTORIES M/M	(Apr) (L)	0.7%				
	3:00 PM CONSUMER CREDIT	(Apr) (L)	\$11.5B				
	Speaker: 12:00 AM Mary C. Daly (President, San Francisco) (Non-Voter, Dovish)						
	SAAR = Seasonally Adjusted Annual Rate			Consensus Source: Bloomberg			

Week Ahead's Market Call

by Avery Shenfeld

In the US, despite gains in some of the regional indexes, we don't see any reason for the factory ISM to improve in May, given that the trends in manufacturing production and orders data haven't looked as positive as the purchasing managers figures. Payrolls growth has been the backbone of this expansion, but the drag on GDP in Q2 from inventories should be trimming hiring needs for May, and we are therefore a bit below consensus on that reading. Best keep an eye on someone's Twitter page as well.

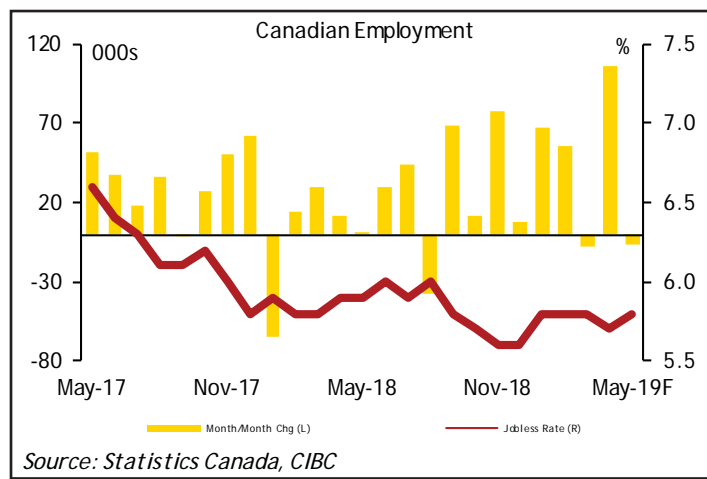
In Canada, the often surprising household employment data had one of its biggest surprises ever in the prior month. While its year-on-year pace isn't out of line with what we've seen in the separate payrolls (SEPH) report, we'll pencil in a small give back for May, with a corresponding uptick in the jobless rate. April's trade deficit should see at least a modest improvement, but we'll be watching to see how much of that comes from muted imports rather than export gains.

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

(Friday, 8:30 a.m.)

Royce Mendes (416) 594-7354

	CIBC	Mkt	Prior
Employment	-6K	N/A	107K
Unemployment Rate	5.8%	N/A	5.7%



It’s never fun trying to forecast the LFS, not even after a puzzlingly large print in the prior month. Massive gains, like the one seen in April, don’t always lead to a negative print in the subsequent month. In fact, in 2012, an outsized increase was followed up with another one of equal magnitude, and others have simply been followed by a moderation rather than an outright drop.

But, with so little to go on for May, we’ll still call for a slight reduction in employment to bring the employment numbers more in line with what we’ve been seeing on the growth front over the past six months.

Forecast Implications — Recent readings on employment suggest that the transitory slowdown in growth is a thing of the past. However, both the LFS and SEPH data show that gains have been overweighted to retail jobs, specifically at grocers. Assuming those are lower-than-average productivity jobs, it may not add up to as much GDP as some expect.

Other Canadian Releases:

Merchandise Trade Balance – April

(Thursday, 8:30 am)

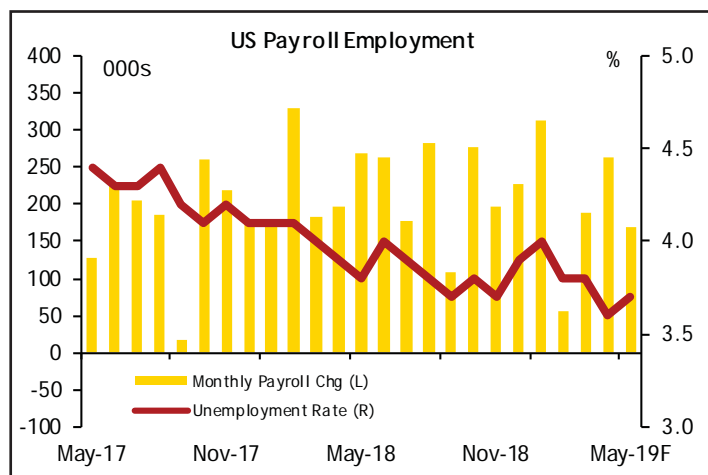
After looking historically wide in December, Canada’s trade deficit has been creeping in the right direction recently. With higher prices and volumes being shipped out, energy exports should help continue that trend. More progress could have been seen had it not been for a fall in natural gas prices and waning US demand for autos. At \$2.8bn, the deficit still suggests there’s more work to be done. Look for a weak loonie over the coming few years to help out.

Week Ahead's Key US Number:**Employment Situation — May**

(Friday, 8:30 a.m.)

Katherine Judge (416) 956-6527

	CIBC	Mkt	Prior
Employment (change)	168K	193K	263K
Unemployment rate	3.7%	3.6%	3.6%
Avg. Hourly Earnings (%)	0.3%	0.3%	0.2%



After a massive hiring gain in April, job creation likely settled back down to a more sustainable pace in May, consistent with a cooling in growth indicators seen so far for Q2. The expected 168K gain in jobs would mark a deceleration in hiring on a trend basis as the economy reaches full employment.

A drop in participation caused the unemployment rate to fall by two ticks in the prior month, even though the household survey from which it is derived actually showed a fall in employment for that month. A rise in participation in April would cause the unemployment rate to edge up to 3.7%, while wages likely rose by 0.3%, leaving annual wage growth at 3.2%.

Forecast Implications — Continued wage gains amidst tame inflation and solid job gains will provide ammunition for consumer spending ahead, a key to keeping the Fed from having to cut rates this year.

Market Impact — Although our forecast is still one of labor market health, we are below consensus on payrolls which could see the USD weaken and bond yields fall.

Other U.S. Releases:**ISM Manufacturing – May**

(Monday, 10:00 am)

The ISM manufacturing index has been falling since mid-2018, with the production and new orders sub-indices behind a large portion of that. Despite regional manufacturing indices rising marginally in May, the ISM index likely remained around its current level in May, at 52.6. While that is still consistent with an expansion in US factory activity, the overall trend is towards a slowdown, in line with softer domestic demand, which will be amplified by the added burden of new tariffs.

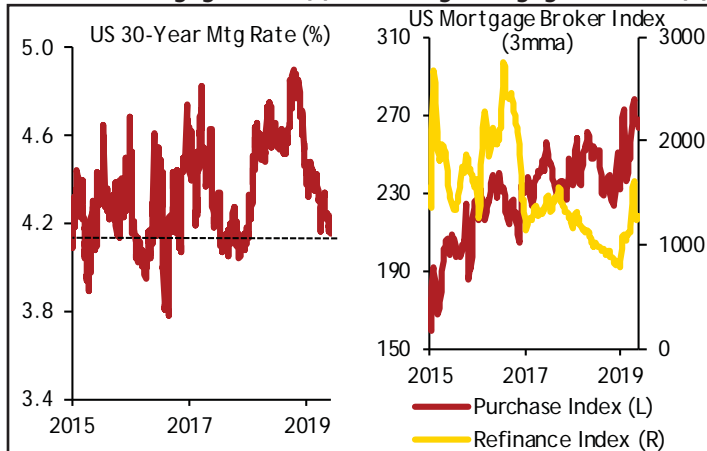
Equity Insights

Katherine Judge and Avery Shenfeld

Slide in US Mortgage Rates Positive for Lumber

US housing market demand could get a breather from the slide in 30-year mortgage rates. Since late 2018 when global growth started to deteriorate, those rates have fallen by 70bps and now sit at levels consistent with those seen during accommodative monetary policy in 2015. That has shown up in an increase in the Mortgage Banker Association’s purchase and refinancing indices. US homebuilding might not have much upside from here, but lumber prices and related stocks could garner some support from a stabilization rather than a further fall in home construction.

Fall in US Mortgage Rates (L) Bolstering Mortgage Demand (R)

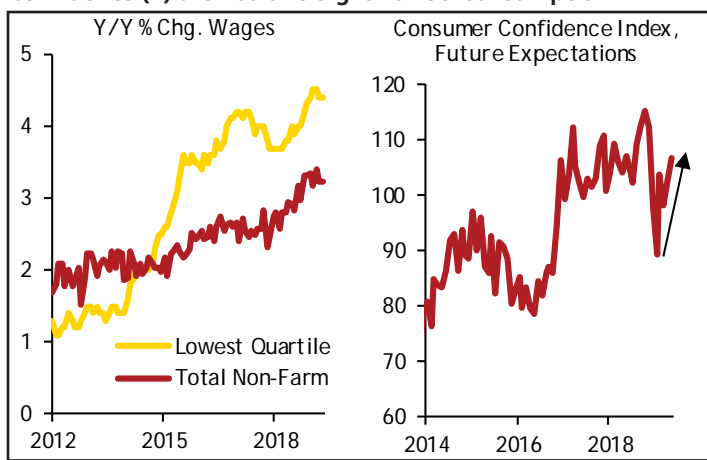


Source: Bloomberg, MBA, CIBC

US Consumer Backdrop Improving

A stronger labor market is resulting in higher paychecks for US workers, and the gains are amplified in the lowest-earning quartile of the workforce. The median hourly wage in that group is growing by 4.4%, well above other employees. Given that low-income earners have the highest marginal propensity to consume, that’s a positive for the near-term consumption outlook. And when combined with the recent uptick in consumer confidence, that could be a sign that the slow start to Q2 in terms of spending will prove transitory, a bit of reassurance for challenged US retail stocks.

Wage Gains for Lower-Income Earners (L) And Recovering Confidence (R) are Positive Signs for US Consumption

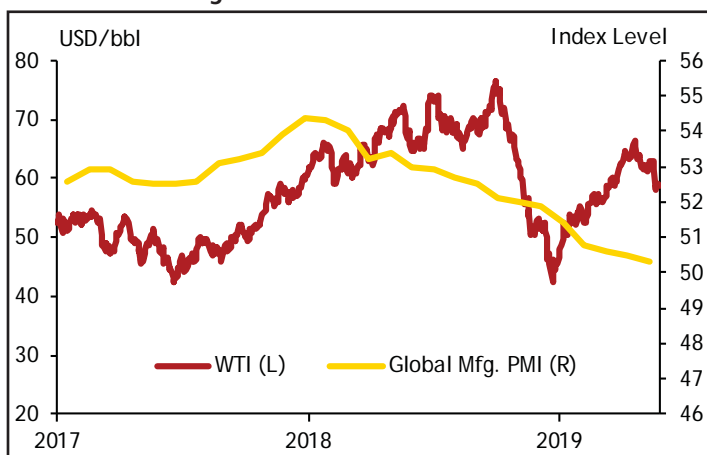


Source: Atlanta Fed, BLS, Bloomberg, CIBC

Oil: Back to Demand Forces

The price of crude was lifted by capacity constraints earlier in the year despite a soft patch in global growth, but recent moves lower in WTI are more reflective of the global growth picture. Building trade tensions have sent the price of WTI back below \$58, the lowest level since early March, proving that the market recognizes that demand and not just OPEC decisions can be a driving force behind WTI movements. On that score, oil prices, like stocks, will be following the twists and turns in trade war news.

Price of Oil Coming Back Down to Fundamentals



Source: Bloomberg, CIBC

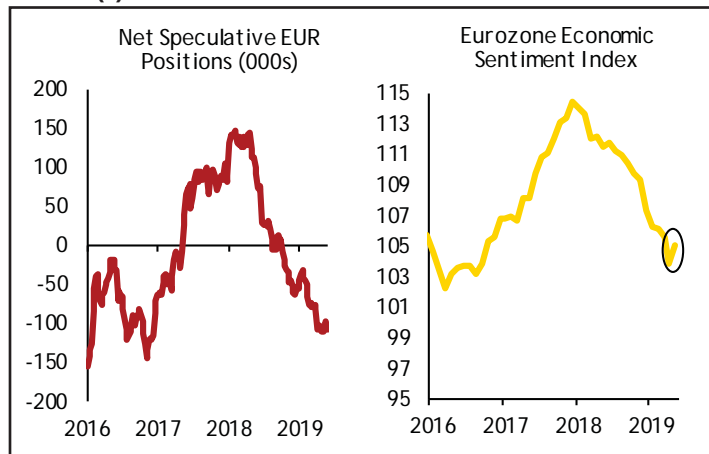
Currency Currents

Andrew Grantham and Royce Mendes

It's Not Much, But It May Not Take Much

The euro has been steadily losing ground since the beginning of last year, but it might not take much to change the currency's fortunes. Net speculative shorts are currently at their largest levels since 2016, leaving ample room for a rally, and some leading indicators are finally starting to show signs of turning, with Eurozone economic confidence rising for the first time in almost a year. While that hasn't been enough to turn the tide on the currency just yet, with such a large part of the market short euros, it might not take all that much more.

Speculators Are Short Euros (L); Leading Indicators Beginning to Turn (L)

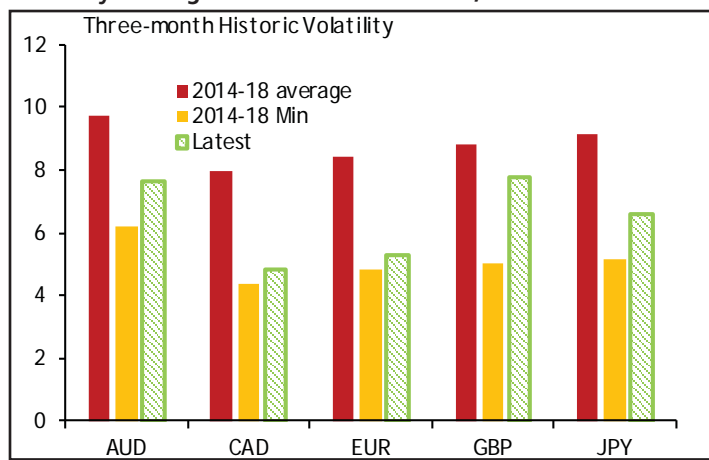


Source: Bloomberg, European Commission, CIBC

Needed a Spark...But Not This

Major currency markets have been pretty quiet over the past three months, with volatility in some, including CAD, closing in on the lows seen in 2014 just before oil prices tumbled. We thought the BoC and signs of improvement in the details of Q1 GDP would be the catalysts for more volatility in the loonie. Instead, the C\$ was driven out of its recent range by an escalation of trade tensions once again between Mexico and the US, and the implications that could have on ratifying the USMCA trade deal. However, if, hopefully, those threatened tariffs are not imposed, a reduction of trade uncertainties and an improving Canadian growth picture over the summer could lead to a short-term rally in the loonie.

Volatility Closing in on 2014 Lows in CAD, EUR

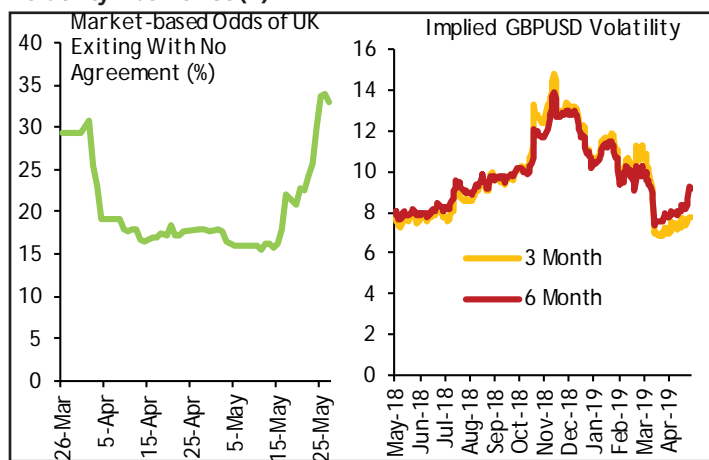


Source: Bloomberg, CIBC

Is Sterling Not Stirring Enough to Risks?

Since PM May announced she was stepping aside and Boris Johnson was placed by pollsters as the favourite to take over, sterling has fallen versus the US\$ and euro. But perhaps it could and should have performed worse. Odds for a hard Brexit have doubled since the start of the month. Yet, while implied volatility for six months' time (covering the Brexit deadline) has risen more than that for three months' time, both remain well below levels reached toward the end of last year and into the start of this year. As such, perhaps it would still be wise to take out protection against further volatility, and expect further near-term weakness in sterling.

Odds of No Deal Brexit Have Risen Sharply (L), But Implied Volatility Hasn't Yet (R)



Source: Bloomberg, CIBC

CANADIAN RELEASE AND EVENT DATES

May/June 2019



MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
27	28	29	30	31
		Bank of Canada Interest Rate Announcement	PAYROLL EMPLOYMENT, EARNINGS & HOURS 8:30 AM BALANCE OF INT'L PAYMENTS 8:30 AM CURR. ACCT. BAL. \$BN(QR) \$BN(AR) 18:Q3 -10.2 -40.6 18:Q4 -16.6 -66.5 19:Q1 -17.3 -69.4 Bank of Canada Sr. Dep. Governor Wilkins speaks in Calgary at 2:15 PM ET	GDP BY INDUSTRY 8:30 AM (2002\$) GDP IND.PROD. M M JAN 0.3 0.1 FEB -0.2 -0.7 MAR 0.5 0.8 INDUSTRIAL PRICES 8:30 AM M (NSA) Y FEB 0.3 1.2 MAR 1.3 1.5 APR 0.8 1.8 NATIONAL ACCTS 8:30 AM REAL PRICE GDP DEFULATOR %ch AR %ch AR 18:Q3 2.1 1.9 18:Q4 0.3 -3.3 19:Q1 0.4 4.5
3	4	5	6	7
		LABOUR PRODUCTIVITY 8:30 AM	MERCHANDISE TRADE 8:30 AM \$MN 12 MO. BALANCE FEB -3418 -41,017 MAR -3211 -38,534 APR IVEY PURCHASING MANAGERS' INDEX 10:00 AM	LABOUR FORCE SURVEY 8:30 AM AVG EMPLOY UNEMP HRLY (HSHOLD) RATE EARN M Y % Y MAR 0.3 2.0 5.8 2.2 APR 0.6 2.3 5.7 2.6 MAY CAPACITY UTILIZATION 8:30 AM LEVEL (%) TOTAL MANUF. 18:Q3 82.8 80.1 18:Q4 81.7 78.5 19:Q1
10	11	12	13	14
HOUSING STARTS 8:15 AM 000's (AR) TOTAL SINGLES MAR 192 42 APR 235 45 MAY BUILDING PERMITS (\$) 8:30 AM M M (RES) (NON-RES) FEB -8.6 1.2 MAR -1.5 7.9 APR		CANADA'S INTERNATIONAL INVESTMENT POSITION 8:30 AM	NEW HOUSING PRICE INDEX 8:30 AM	
17	18	19	20	21
INT'L TRANSACTIONS IN SECURITIES C\$BN, NET 8:30 AM BONDS MONEY STOCKS TOT MARKET FEB 6.8 -1.0 6.6 12.4 MAR 4.8 -5.4 -0.8 -1.5 APR	SURVEY OF MANUFACTURING SHIPMENTS 8:30 AM M Y FEB -0.2 0.8 MAR 2.1 2.0 APR	CPI 8:30 AM M Y MAR 0.7 1.9 APR 0.4 2.0 MAY	ADP EMPLOYMENT SURVEY 8:30 AM	RETAIL TRADE 8:30 AM (Current\$) M Y FEB 1.0 2.1 MAR 1.1 2.6 APR
24	25	26	27	28
	WHOLESALE TRADE 8:30 AM		PAYROLL EMPLOYMENT, EARNINGS & HOURS 8:30 AM	GDP BY INDUSTRY 8:30 AM (2002\$) GDP IND.PROD. M M FEB -0.2 -0.7 MAR 0.5 0.8 APR INDUSTRIAL PRICES 8:30 AM M (NSA) Y MAR 1.3 1.5 APR 0.8 1.8 MAY

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 May/June 2019



MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
27 MEMORIAL DAY (HOLIDAY) (Markets Closed)	28 S&P/CASE-SHILLER HOUSE PRICE INDEX 9:00 AM CONSUMER CONFIDENCE 10:00 AM <i>2-Yr NOTE AUCTION</i> <i>5-Yr NOTE AUCTION</i>	29 <i>7-Yr NOTE AUCTION</i> <i>BOT (9:00) REDBOOK (8:55)</i>	30 GDP 8:30 AM (AR) REAL IMPLICIT GDP DEFLATOR 18: Q3(A) 3.4 1.8 18: Q4(A) 2.2 1.7 19: Q1 (2 nd Est) 3.1 0.9 ADV. TRADE IN INTERNATIONAL GOODS 8:30 AM CORPORATE PROFITS 8:30 AM <i>INITIAL JOBLESS CLAIMS (8:30)</i>	31 PERS. INC & OUT. 8:30 AM SAVING INCOME CONS RATE M M AR FEB 0.2 0.0 7.0 MAR 0.1 1.1 6.1 APR 0.5 0.3 6.2 CHICAGO PMI 9:45 AM MICHIGAN SENTIMENT (F) 10:00 AM <i>2, 5, 7-Yr NOTE SETTLEMENT</i>
3 ISM MFG SURVEY 10:00 AM COMP. PRICES INDEX INDEX MAR 55.3 54.3 APR 52.8 50.0 MAY	4 FACTORY ORDERS 10:00 AM M(SA) Y(NSA) FEB -0.3 1.7 MAR 1.9 2.0 APR <i>BOT (9:00) REDBOOK (8:55)</i>	5 ADP SURVEY 8:15 AM ISM NON-MFG SURVEY 10:00 AM Beige Book	6 GOODS & SERV. BALANCE (BOP) \$B 8:30 AM GDS SERV TOT FEB -71.9 22.6 -49.3 MAR -72.4 22.4 -50.0 APR NON-FARM PRODUCTIVITY 8:30 AM Q/Q (AR) Y/Y 18: Q3 (A) 1.9 1.3 18: Q4 (A) 1.3 1.7 19: Q1 (Final) <i>3, 10-Yr NOTE ANNOUNCEMENT</i> <i>30-Yr BOND ANNOUNCEMENT</i> <i>INITIAL JOBLESS CLAIMS (8:30)</i>	7 EMPLOY. SITUATION 8:30 AM NON- CIV AVG FARM UNEMP HRLY PAYROLL RATE EARN MAR 189 3.8 3.3 APR 263 3.6 3.4 MAY WHOLESALE TRADE 10:00 PM CONSUMER CREDIT 3:00PM
10	11 PPI 8:30 AM M (SA) Y (NSA) MAR 0.6 2.2 APR 0.2 2.3 MAY <i>3-Yr NOTE ANNOUNCEMENT</i> <i>BOT (9:00) REDBOOK (8:55)</i>	12 CPI 8:30 AM M(SA) Y (NSA) MAR 0.4 1.9 APR 0.3 2.0 MAY TREASURY BUDGET 2:00 PM <i>10-Yr NOTE ANNOUNCEMENT</i>	13 <i>30-Yr BOND AUCTION</i> <i>INITIAL JOBLESS CLAIMS (8:30)</i>	14 RETAIL SALES 8:30 AM M Y MAR 1.7 3.8 APR -0.2 3.1 MAY CAPACITY UTIL./IND. PROD. 9:15 AM LEV M Y MAR 78.5 0.2 2.2 APR 77.9 -0.5 0.9 MAY BUSINESS INVENTORIES 10:00 AM MICHIGAN SENTIMENT (P) 10:00 AM
17 NET CAPITAL INFLOWS TICS 4:00 PM <i>3, 10-Yr NOTE SETTLEMENT</i> <i>30-Yr BOND SETTLEMENT</i>	18 HOUSING STARTS 8:30 AM Mn. M/M MAR 1.168 1.7 APR 1.235 5.7 MAY <i>BOT (9:00) REDBOOK (8:55)</i>	19 FOMC Rate Decision Fed Chair Powell speaks @ 2:30 PM ET	20 CURRENT ACCOUNT BALANCE 8:30 AM PHILADELPHIA FED INDEX 8:30 PM LEADING INDICATOR 10:00 AM <i>2, 5, 7-Yr NOTE ANNOUNCEMENT</i> <i>INITIAL JOBLESS CLAIMS (8:30)</i>	21 EXISTING HOME SALES 10:00 AM
24	25 S&P/CASE-SHILLER HOUSE PRICE INDEX 9:00 AM NEW HOME SALES 10:00 AM <i>2-Yr NOTE AUCTION</i> <i>BOT (9:00) REDBOOK (8:55)</i>	26 DURABLE GOODS ORDERS 8:30 AM M Y MAR 1.7 0.8 APR -2.1 0.0 MAY GOODS & SERV. BALANCE (BOP) \$B 8:30 AM GDS SERV TOT MAR -72.4 22.4 -50.0 APR MAY ADV. TRADE IN INTERNATIONAL GOODS 8:30 AM <i>5-Yr NOTE AUCTION</i>	27 GDP 8:30 AM (AR) REAL IMPLICIT GDP DEFLATOR 18: Q4(A) 2.2 1.7 19: Q1 (2 nd Est) 3.1 0.9 19: Q2(F) CORPORATE PROFITS 8:30 AM <i>7-Yr NOTE AUCTION</i> <i>INITIAL JOBLESS CLAIMS (8:30)</i>	28 PERS. INC & OUT. 8:30 AM SAVING INCOME CONS RATE M M AR MAR 0.1 1.1 6.1 APR 0.5 0.3 6.2 MAY CHICAGO PMI 9:45 AM MICHIGAN SENTIMENT (F) 10:00 AM

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