



Economics

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THE WEEK AHEAD

October 30-November 3, 2017

Short the Loonie

by Benjamin Tal

Currencies have a mind of their own, often moving with little regard to model predictions, economic theory or common sense. That of course has never stopped economists and strategists from trying to forecast them. In that spirit, we suggest that the Canadian dollar is still mispriced. Too many factors are pointing in unison to one direction—a lower loonie.

First, the full cent drop in the currency following the Bank of Canada's communication was highly predictable. It was an easy trade. And that trade is still very attractive.

Let's start with the very short term. The Fed Chief is not going to be Yellen, so it's between Jerome Powell and John Taylor. Powell is Yellen's clone, and Taylor has never seen a monetary policy rule that he didn't like, especially the Taylor rule, which suggests that today the fed funds rate should be around 3.5%. So it's an asymmetrical trade. If it's Powell, nothing happens, but if it's Taylor or even a combination of Powell and Taylor—look for the short end of the curve to show some action as the market is likely to attach an increased probability of a more aggressive Fed. That's a negative for the C\$.

In addition, when it comes to economic policy, the current level of expectation from Trump is basically zero. After all, his only achievement this year has been to appoint Neil Gorsuch to the Supreme Court. Therefore, any progress, or even perceived progress, on the corporate tax file could lead to a notable market reaction, benefiting US small caps and putting downward pressure on our currency.

The Canadian scene also provides some ammunition to that trade. For some odd reason the market is still attaching a 28% probability to a December move. That's 28% too high. You have to be extremely creative to generate a scenario in which the Bank moves in December. As that probability fades to zero in the coming weeks, the Canadian dollar will feel the pain.

And then we have NAFTA. It's not going well, and for the first time, Canadian officials, including the Prime Minister, have expressed real concern about the possibility that the US will exit NAFTA. Now, we can suggest until we are blue in the face that the Americans will eventually realize that such a move will cost them dearly. But it's not really about logic. Trump wants out, and although it's impossible to predict how things will unfold, we can guess that, at least in the near future, it will not be in a positive direction.

Yes, Congress has the power to block the President's attempts to kill NAFTA, but Congress under the Constitution, also delegates power to the President to act unilaterally on tariffs and other means to address national emergencies, in addition to balance of payment and national security situations. And with that power Trump can cause a lot of damage. Already two-thirds of SMEs in Canada are telling us that the uncertainty regarding NAFTA is impacting their investment decisions, and the ratio among larger firms is most likely higher. The apathy in the FX market to that unfolding reality is mind boggling. As a result, we see the loonie depreciating even more than previously forecast, with USDCAD hitting 1.33 in 18Q1.



Week Ahead Calendar And Forecast

CANADA		UNITED STATES	
	CIBC	Consensus	Prior
Monday October 30			
Tuesday October 31	AUCTION: 3-M BILLS \$4.7B, 6-M BILLS \$1.9B, 1-YR BILLS \$1.9B CASH MANAGEMENT BUYBACK (Feb'18 - May'19) - \$0.5B 8:30 AM GDP M/M INDUSTRIAL PROD. PRICES M/M RAW MATERIALS M/M (Aug) (H) (Sep) (M) (Sep) (M)	0.1% 0.0% 0.3% 1.1%	
Wednesday November 1			
Thursday November 2	AUCTION: 2-YR CANADAS \$3.6B		
Friday November 3	8:30 AM MERCHANDISE TRADE BALANCE EMPLOYMENT CHANGE UNEMPLOYMENT RATE (Sep) (H) (Oct) (H) (Oct) (H)	-\$3.0B 16K 6.1%	- \$3.4B 10.0K 6.2%
UNITED STATES			
AUCTION: 3-M BILLS \$42B, 6-M BILLS \$36B			
8:30 AM PCE DEFLATOR Y/Y PCE DEFLATOR Y/Y (core) PERSONAL INCOME M/M PERSONAL SPENDING M/M (Sep) (L) (Sep) (L) (Sep) (L) (Sep) (L)	1.7% 1.3% 0.3% 0.8%	1.6% 1.3% 0.2% 0.8%	1.4% 1.3% 0.2% 0.1%
AUCTION: 4-WEEK BILLS \$45B (prev)			
8:30 AM EMPLOYMENT COST INDEX 9:00 AM S&P CASE SHILLER INDEX S&P CASE SHILLER Y/Y (Q3) (Oct-P) (L) (Oct-P) (L) (Sep) (L) (Sep) (L)	0.6%	0.7% 55.1	0.5% 201.99 5.8%
9:45 AM CHICAGO PMI 10:00 AM CONF. BOARD CONSUMER CONFIDENCE (Oct) (L) (Oct) (L)	60.0 119.5	60.0 121.0	65.2 119.80
7:00 AM MBA-APPLICATIONS (Oct 27) (L)			-4.6%
8:15 AM ADP EMPLOYMENT CHANGE (Oct) (L) #N/A (L)		200K	135K
9:45 AM MARKIT US MANUFACTURING PMI (Sep) (L)		54.5	54.5
10:00 AM ISM - MANUFACTURING CONSTRUCTION SPENDING M/M (Oct) (L) (Sep) (L)	58.6 -0.3%	59.5 -0.3%	60.8 0.5%
2:00 PM FOMC RATE DECISION (UPPER BOUND) FOMC RATE DECISION (LOWER BOUND) (L) (L)	1.25% 1.00%	1.25% 1.00%	1.25% 1.00%
NEW VEHICLE SALES (Oct) (L)		17.4M	18.5M
8:30 AM INITIAL CLAIMS CONTINUING CLAIMS NON-FARM PRODUCTIVITY (Oct 28) (M) (Oct 21) (L) (Q3 P) (L)	2.9%	235K 2.1%	233K 1893K 1.5%
Speaker: 12:15 PM Raphael Bostic (President, Atlanta)			
8:30 AM NON-FARM PAYROLLS UNEMPLOYMENT RATE AVERAGE HOURLY EARNINGS ALL EMPLOYEES M/M AVERAGE WEEKLY HOURS ALL EMPLOYEES MANUFACTURING PAYROLLS GOODS & SERVICES TRADE BALANCE (Oct) (L) (Oct) (L) (Oct) (L) (Oct) (L) (Oct) (L) (Sep) (L)	260K 4.4% 0.0% -\$43.6B	310K 4.2% 0.2% 34.4 18K -\$43.3B	-33K 4.2% 0.5% 34.4 -1K -\$42.4B
10:00 AM ISM - NON-MANUFACTURING FACTORY ORDERS M/M (Oct) (L) (Sep) (L)	57.6 1.1%	58.5 1.1%	59.80 1.2%
10:45 AM MARKIT US SERVICES PMI MARKIT US COMPOSITE PMI (Sep) (L) (Sep) (L)			55.9 55.7
Speaker: 12:15 PM Neel Kashkari (President, Minneapolis)			
SAAR = Seasonally Adjusted Annual Rate		Consensus Source: Bloomberg	
H, M, L = High, Medium or Low Significance			

Week Ahead's Market Call

by Andrew Grantham

In the US, October's employment report should undo most of the surprises from the storm-hit September release, with payrolls rebounding but the unemployment rate ticking back up and wage growth softening slightly. The Fed won't make its rate hike yet, but expect it to further lay the groundwork for a move in December by alluding to the strong Q3 GDP print and tentative signs of a stabilization in core inflation. And who knows, we should finally have a Fed Chair nominee.

In Canada, another flat GDP reading for August will justify the BoC's shift to a stand-pat stance and suggest that markets are still pricing in too high a likelihood of another move in the near-term. Trade and employment data should show some improvement from most recent readings, but remain a long way from the strength seen over the first half of the year.

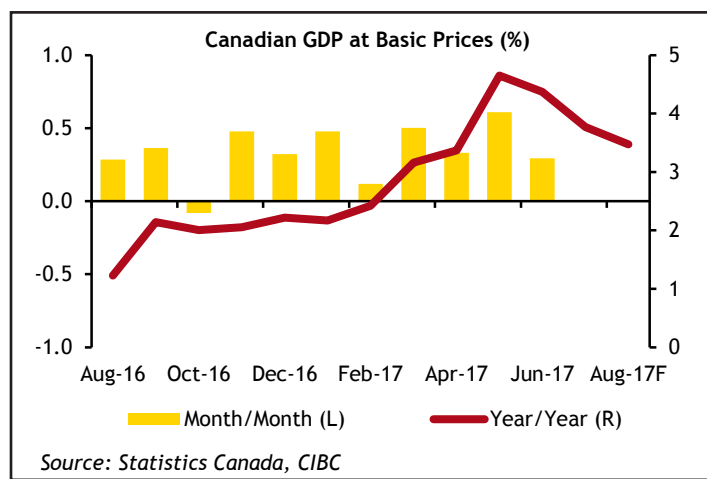
Week Ahead’s Key Canadian Number:

Real GDP (at Basic Prices)—August

(Tuesday, 8:30 a.m.)

Nick Exarhos (416) 956-6527

	CIBC	Mkt	Prior
GDP m/m	0.0%	0.1%	0.0%



Call it another month, and another flat reading for Canadian GDP. Although manufacturing bucked the recent trend lower in exports, slippage in retail sales for August suggests a further stalling in Canadian output.

The one swing factor could be the energy sector. After seeing weakness in production last month, we would be tempted to forecast a rebound. However, the softening in crude volumes sent stateside suggest that we may be due for production to come down further from the highs reached a few months ago.

Forecast Implications — Another soft reading in August keeps us on track to see a significant slowing in growth in the third quarter. Although the 2% or so pace isn’t a disaster by any stretch of the imagination, it isn’t hot enough to force the Bank of Canada’s hand toward another rate hike before the end of this year—something Governor Poloz apparently agrees with judging by the past week’s rate announcement and MPR.

Other Canadian Releases:

Labour Force Survey—October

(Friday, 8:30 a.m.)

We’ve seen a cooling in employment growth, but the fundamental story remains reasonably healthy. That should be the theme in next week’s Labour Force Survey, where a 16K gain will be slower than advances seen earlier in the year, although enough to push the unemployment rate a tick lower to 6.1%. There’s been huge swings over the past two months in the full-time/part-time split, something that has the potential to mute the reaction to the headline figure if we see another reversal toward part-time.

Merchandise Trade—September

(Friday, 8:30 a.m.)

It’s been an ugly run for Canadian export volumes but we’re forecasting (maybe even hoping) that September brought with it some respite. Indeed, our non-energy trade balance was a deficit of just over \$8bn, a gap that looks stretched versus what’s normally been seen over the past decade. A general rebound should offset what might be some stagnation in our crude exports, where softness in volumes will likely mute gains in pricing. Look for a deficit of \$3bn next week.

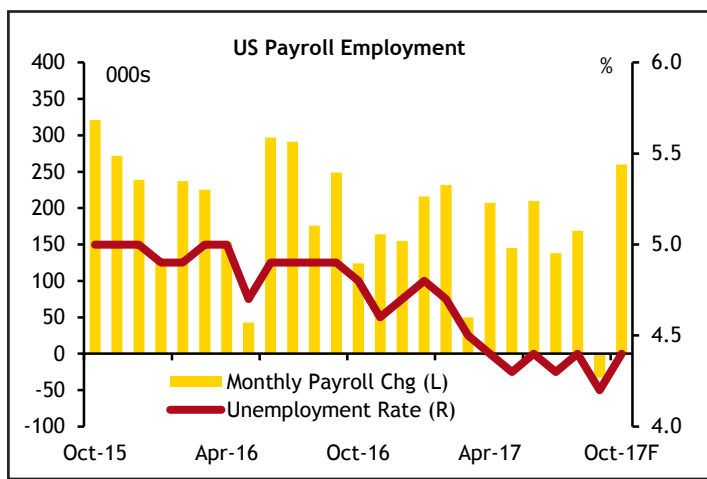
Week Ahead’s Key US Number:

Employment Situation—October

(Friday, 8:30 a.m.)

Royce Mendes (416) 594-7354

	CIBC	Mkt	Prior
Employment (chg.)	260K	310K	-33k
Unemployment rate	4.4%	4.2%	4.2%
Avg. Hourly Earnings	0.0%	0.2%	0.5%



Hurricanes did a number on job creation last month, but a solid rebound looks likely. Payrolls will benefit with many employees able to return to work in both Texas and Florida. That said, the labour market could take more than just one month to fully recover.

The unemployment rate is also likely to disappoint. The jobless rate was pushed lower last month by a massive surge in hiring according to the household survey. That should have at least partially reversed in October. Wages won't be spared from the disappointment either. Lower income workers were more likely to go unpaid when they missed work during hurricanes, meaning that average

wages were skewed in September towards higher paid employees. A flat reading for October will see the annual rate of earnings fall back to 2.5%.

Forecast Implications—The reading will be muddied by hurricane effects, so we'll have to wait for November to get a clearer picture of the labour market.

Market Impact — While the miss on headline might not be a market mover, weaker wages will show investors that last month's strength was largely illusory. As a result, the release should be positive for fixed income and negative for the dollar.

Other U.S. Releases:

ISM Manufacturing Survey—October

(Wednesday, 10:00 a.m.)

The ISM Manufacturing Index broke through the 60 mark last month, but that increase will be reversed when October's data is released. A massive spike in the supplier deliveries sub-index was due to delays resulting from hurricanes, rather than any material pick-up in demand that suppliers couldn't immediately handle. Nevertheless, at 58.6 the index will still be well in excess of the expansionary threshold, and should continue to reflect some of the strength seen in hard data on the manufacturing industry.

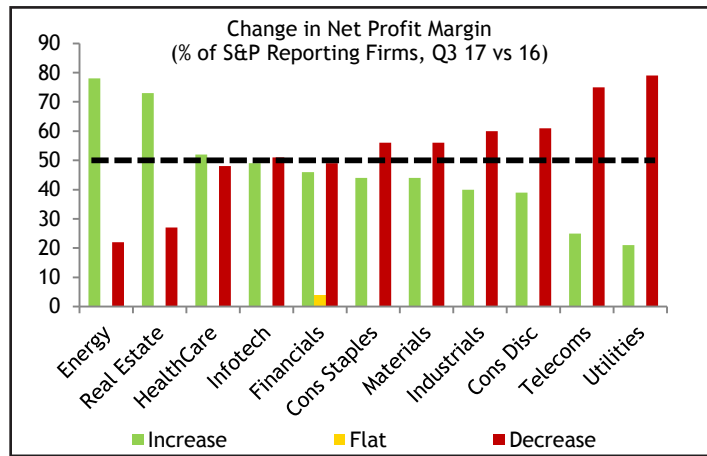
Equity Insights

Nick Exarhos

S&P Earnings: Sector Profitability Generally Softer

Earnings reports in the US are pouring through, and there are some signs that bottom-line growth on the S&P might be harder to come by in the year ahead. Although the general pace of year-on-year growth in the area of 1½-2% is only a touch weaker than the 3% for the third quarter expected at the beginning of the month, the details provided by firms on profitability paint a tougher picture when it comes to translating topline growth into bottom-line profits. Indeed, cost pressures typically build as we head deeper into the cycle, in particular from firmer wages. And most firms across most industries in the S&P have reported slippage in margins from a year ago. That should continue into the new year, leaving stocks particularly susceptible to news from Washington on tax reform.

Most Firms in Most Sectors Report Slippage in Margins

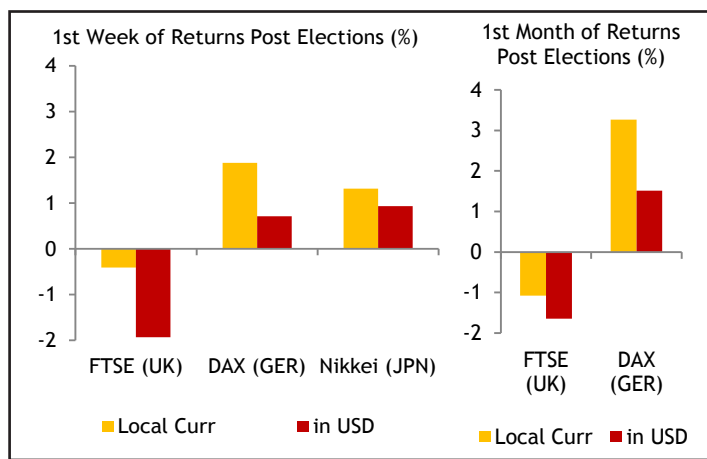


Source: FactSet, CIBC

Japanese Election Reaction Looking German

Prime Minister Abe took home a resounding victory last weekend, with the market interpreting it as a sign of more stimulus ahead. And judging from follow-on reaction from other recent vote results, there could be more left on the table for investors. Fundamentally, in both Germany and Japan incumbent victories are likely to be followed by promises kept on stimulus to already strengthening economies. That wasn't the case in the UK. A steady hand and the potential for further growth-oriented reforms should be supportive for Japanese assets, something Canadian investors should keep in mind when looking for diversification opportunities.

Major Market Reaction To Recent Elections

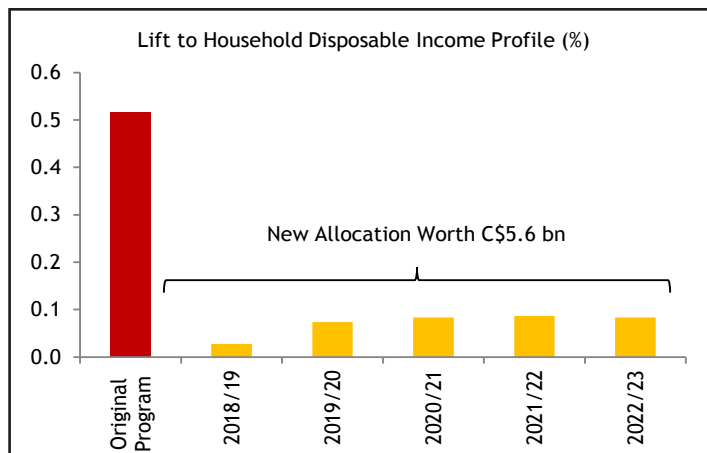


Source: Bloomberg, CIBC

Child Care Benefit Boost Helps, But Not a Game Changer

The Federal Government in Canada used some of the fiscal room created by a surging economy to index the Family Child Benefit to inflation two years earlier. Although the \$5.6bn allocation is a positive for a Canadian consumer that has enjoyed the tailwind of a strong employment market, it isn't a game changer. Indeed, the lift to the profile of household disposable incomes is a fraction of what was in the Liberals' first budget. We're calling for a solid consumer profile in the year ahead, although one that's a bit softer than what we've seen over the past year.

Federal Boost to Child Care Benefit Positive, But Small Compared to Original Program



Source: Federal Government, Statistics Canada, CIBC

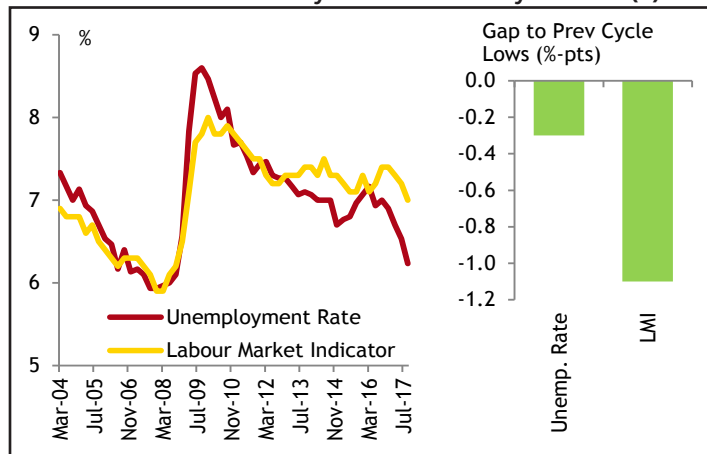
Currency Currents

Andrew Grantham and Royce Mendes

Dovish BoC Brings LMI Back in Focus

Rates were left on hold—no surprise there. Equally unsurprising, given past comments, was the mention that export growth could be lower than previously assumed due to the stronger C\$. However, in explicitly stating the uncertainties surrounding NAFTA and that there is still “some slack” in the labour market, the statement had a dovish tone. The accompanying MPR made use once again of the Labour Market Indicator, used first in 2014 to demonstrate that there was much more slack than the headline unemployment rate suggested. So as Poloz himself said a “lot of things have to come together” before the next rate hike, we think there’s still more downside in the C\$ with USDCAD hitting 1.33 in Q1.

BoC Renews Focus on Broader Labour Market Indicator (L), Which is a Lot Further Away From Previous Cycle Lows (R)

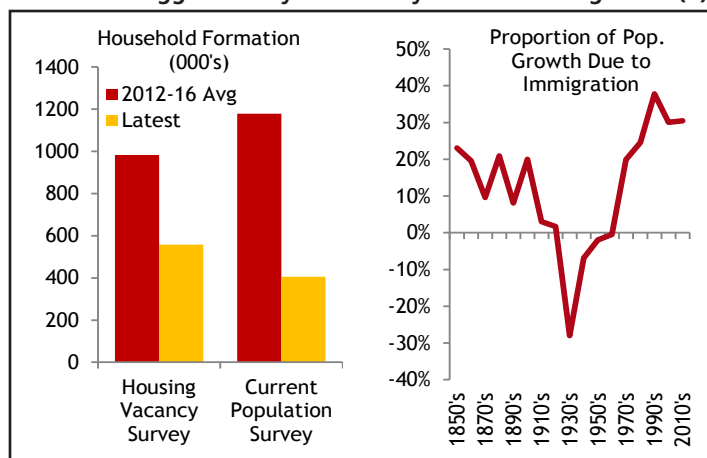


Source: BoC, Statistics Canada, CIBC

US: Housing Headwind Ahead?

GDP figures showed that the US economy fared well during the hurricane hit Q3, and rebuilding efforts will flatter components such as housing construction in the quarter ahead. However, there could be a longer term headwind for that component already showing up in the form of a deceleration in household formation. It doesn't always happen, but both monthly and annual figures for household formation are pointing in the same direction—towards a slowing. And given how important immigration has been for population growth, President Trump's policy in that respect could limit scope for a rebound. That could be a dampener for GDP in 2018 and another reason not to extrapolate the strengthening trend in the US\$ into next year.

Household Formation Has Slowed (L), A Trend That Could be Exaggerated By New Policy Towards Immigration (R)

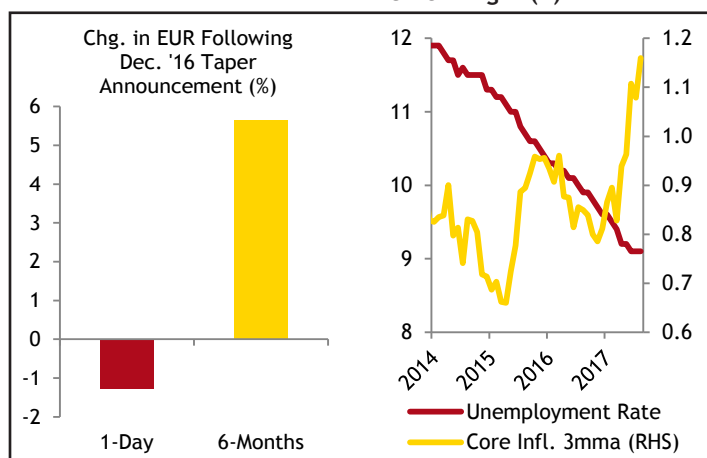


Source: BEA, Census Bureau, CIBC

ECB Decision Only Short-Term Headwind for Euro

The euro sold off more than 1% following this week's ECB announcement, but that move might not hold. The situation actually mirrors the last time Eurozone policymakers cut bond purchases, which also came alongside a dovish statement. The currency depreciated by a similar amount. However, as strong economic data continued to roll in, the euro reversed course and made substantial gains in the following months. The Eurozone is actually a rare developed economy that has seen tightening labour markets translate into some strengthening in inflation. We expect that trend to continue, giving policymakers more confidence to openly discuss tighter financial conditions. As a result, look for the euro to make gains in the coming year.

ECB Announcement Effect Short-Lived (L), Positive Economic Data To Drive EUR Strength (R)



Source: Bloomberg, Eurostat, CIBC

CANADIAN RELEASE AND EVENT DATES October/November 2017



MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
23 WHOLESALE TRADE 8:30 AM	24	25 Bank of Canada Interest Rate Announcement Bank of Canada Monetary Policy Report	26 PAYROLL EMPLOYMENT, EARNINGS & HOURS 8:30 AM	27
30	31 GDP BY INDUSTRY 8:30 AM (2002\$) GDP IND.PROD. M M JUN 0.3 0.3 JUL 0.0 -0.5 AUG INDUSTRIAL PRICES 8:30 AM M (NSA) Y JUL -1.6 1.3 AUG 0.3 1.9 SEP	1	2	3 INTERNATIONAL RESERVES 8:15 AM \$BN \$BN CHANGE LEVEL AUG 0.155 85.1 SEP -0.764 84.3 OCT LABOUR FORCE SURVEY 8:30 AM AVG EMPLOY UNEMP HRLY (HSHOLD) RATE EARN M Y % Y AUG 0.1 2.1 6.2 1.7 SEP 0.1 1.8 6.2 2.2 OCT MERCHANDISE TRADE 8:30 AM \$MN 12 MO. BALANCE JUL -2,983 -16,896 AUG -3,413 -18,382 SEP
6	7 Bank of Canada Governor Poloz speaks at 2:00 PM ET in Montreal	8 HOUSING STARTS 8:15 AM 000's (AR) TOTAL SINGLES AUG 226 62 SEP 217 68 OCT BUILDING PERMITS (\$) 8:30 AM M M (RES) (NON-RES) JUL -2.1 -4.0 AUG -2.8 -10.0 SEP	9	10 NEW HOUSING PRICE INDEX 8:30 AM
13	14	15 Bank of Canada Dep. Governor Wilkins speaks in NYC at 6:45 PM ET	16 SURVEY OF MANUFACTURING 8:30 AM SHIPMENTS M Y JUL -2.6 3.7 AUG 1.6 4.3 SEP INT'L TRANSACTIONS IN SECURITIES C\$BN, NET 8:30 AM BONDS MONEY STOCKS TOT MARKET JUL 23.8 -1.5 1.6 24.0 AUG 8.2 1.5 0.2 9.8 SEP	17 CPI 8:30 AM M Y AUG 0.1 1.4 SEP 0.2 1.6 OCT
20	21 WHOLESALE TRADE 8:30 AM	22	23 RETAIL TRADE 8:30 AM (Current\$) M Y JUL 0.4 7.7 AUG -0.3 6.9 SEP	24 QUARTERLY FINANCIAL STATISTICS 8:30 AM

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

U.S. RELEASE AND EVENT DATES October/November 2017



MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
23	24	25	26	27
		DURABLE GOODS ORDERS 8:30 AM M Y JUL -6.8 4.1 AUG 2.0 5.5 SEP 2.2 8.3 NEW HOME SALES 10:00 AM 5-Yr NOTE AUCTION	ADV. TRADE IN INTERNATIONAL GOODS 8:30 AM 7-Yr NOTE AUCTION INITIAL JOBLESS CLAIMS (8:30)	GDP 8:30 AM (AR) REAL IMPLICIT GDP DEFLATOR 17:Q1(F) 2.0 1.2 17:Q2(F) 1.0 3.1 17:Q3(A) 2.1 3.3 MICHIGAN SENTIMENT (F) 10:00 AM
30	31	1	2	3
PERS. INC & OUT. 8:30 AM INCOME CONS SAVING RATE M M AR JUL 0.3 0.3 3.6 AUG 0.2 0.1 3.6 SEP	ECI 8:30 AM WAGES & TOTAL SALARY BEN. 17:Q1 0.8 0.8 0.7 17:Q2 0.5 0.5 0.6 17:Q3 S&P/CASE-SHILLER HOUSE PRICE INDEX 9:00 AM CHICAGO PMI 9:45 AM CONSUMER CONFIDENCE 10:00 AM 2-, 5-, 7-Yr NOTE SETTLEMENT BOT (9:00) REDBOOK (8:55)	ADP SURVEY 8:15 AM ISM MFG SURVEY 10:00 AM COMP. PRICES INDEX INDEX AUG 58.8 62.0 SEP 60.8 71.5 OCT FOMC Rate Decision LIGHT VEHICLES SALES MIL (AR) Y AUG 16,024 -6.5 SEP 18,470 4.6 OCT 3, 10-Yr NOTE ANNOUNCE. 30-Yr BOND ANNOUNCE.	NON-FARM PRODUCTIVITY 8:30 AM Q/Q (AR) Y/Y 17:Q1 (R) 0.1 1.2 17:Q2 (R) 1.5 1.3 17:Q3 (P) INITIAL JOBLESS CLAIMS (8:30)	EMPLOY. SITUATION 8:30 AM NON- CIV AVG FARM UNEMP HRLY PAYROLL RATE EARN AUG 169 4.4 2.4 SEP -33 4.2 2.5 OCT GOODS & SERV. BALANCE (BOP) \$B 8:30 AM GDS SERV TOT JUL -65.3 21.7 -43.6 AUG -64.4 22.0 -42.4 SEP FACTORY ORDERS 10:00 AM M(SA) Y(NSA) JUL -3.3 4.9 AUG 1.2 5.7 SEP ISM NON-MFG SURVEY 10:00 AM
6	7	8	9	10
	CONSUMER CREDIT 3:00 PM 3-Yr NOTE AUCTION BOT (9:00) REDBOOK (8:55)	10-Yr NOTE AUCTION	WHOLESALE TRADE 10:00 AM 30-Yr BOND AUCTION INITIAL JOBLESS CLAIMS (8:30)	MICHIGAN SENTIMENT (P) 10:00 AM TREASURY BUDGET 2:00 PM
13	14	15	16	17
	BOT (9:00) REDBOOK (8:55)	CPI 8:30 AM M(SA) Y (NSA) AUG 1.9 5.1 SEP 2.2 5.2 OCT RETAIL SALES 8:30 AM M Y AUG -0.1 3.5 SEP 1.6 4.4 OCT BUSINESS INVENTORIES 10:00 AM NET CAPITAL INFLOWS TICS 4:00 PM 3, 10-Yr NOTE SETTLEMENT 30-Yr BOND SETTLEMENT	PHILADELPHIA FED INDEX 8:30 AM CAPACITY UTIL/IND. PROD. 9:15 AM LEV M Y AUG 75.8 -0.7 1.2 SEP 76.0 0.3 1.6 OCT INITIAL JOBLESS CLAIMS (8:30)	HOUSING STARTS 8:30 AM Mn. M/M AUG 1.183 -0.2 SEP 1.127 -4.7 OCT
20	21	22	23	24
	EXISTING HOME SALES 10:00 AM BOT (9:00) REDBOOK (8:55)	DURABLE GOODS ORDERS 8:30 AM M Y AUG 2.0 5.5 SEP 2.2 8.3 OCT MICHIGAN SENTIMENT (F) 10:00 AM FOMC Minutes 2-,5-,7-Yr NOTE ANNOUNCE. INITIAL JOBLESS CLAIMS (8:30)	THANKSGIVING DAY (HOLIDAY) (Markets Closed)	

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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