



Economics

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THE WEEK AHEAD

October 9-13, 2017

Will Rate Hikes “Warsh” Over Us?

by Avery Shenfeld

President Trump has promised to announce his choice for Fed chair in two or three weeks, and, this time, he might mean it. If it's Yellen, of course, we can go back to our desks. Some on the short list, including Gary Cohn, are blank slates with not much of a track record. But two Republican non-economists, Kevin Warsh and Jerome Powell, are now seen as front runners, so it's worth thinking about their implications for 2018 Fed policy.

Under Powell, odds are that the path ahead wouldn't materially differ from a Yellen-led Fed. He's been in the consensus pack in both actual rate votes and speeches. If fiscal stimulus boosted GDP growth, barring firm evidence that the changes were lifting productivity or labour force participation (and therefore potential non-inflationary growth), a Powell (or Yellen) Fed would respond with offsetting monetary tightening.

The market's fear about Warsh is that he's been a critic of the Fed as having been too dovish, and has even advocated adopting a lower inflation target of 1-2%. But some have countered that while his base-case policy stance would be tighter, he would be less inclined to push for higher rates if growth were to accelerate in the wake of tax cuts.

Warsh is a believer that the economy's non-inflationary potential growth could accelerate to 3% in such a scenario. On that

basis, a recent Wall Street Journal article argued that Warsh would mean fewer rate hikes than Powell or Yellen.

The problem with that thesis is that Warsh, like any central banker, will be watching the data and responding to it. With a tax bill more likely to be delayed until next spring, and kicking in only in 2019, his first year in office would likely have the Fed looking at a faster QE unwind and perhaps additional rate hikes, based on his judgement that policy has been too loose thus far.

By 2019, a tax bill could be giving a lift to demand, depending on its ultimate design. While Warsh's camp theorizes that it would also lift the economy's non-inflationary speed limit, that's not a view well supported by empirical evidence. If, as we expect, it simply leads to tighter labour markets and capacity use, and more wage/price pressures, the 2019 inflation trend will pressure Warsh's Fed to deliver further monetary tightening.

So we're back to a view that a central banker with a more conventional view, be it Powell or Yellen, would end up with a shallower rate path than Warsh, tax cuts or not. If you really want a dove, Mr President, it's time to interview Neel Kashkari, Lael Brainard, or Narayana Kocherlakota, current or recent Fed members who have leaned against even the tame hikes of the Yellen era. None of those three have yet paid a visit to the White House, however.



Week Ahead Calendar And Forecast

CANADA		UNITED STATES	
Monday October 9	Thanksgiving Day (Holiday) Markets Closed	Columbus Day (Holiday) Treasury Markets Closed	Prior
Tuesday October 10	CASH MANAGEMENT BUYBACK (Nov'17 - Mar'19) - \$0.5B 8:15 AM HOUSING STARTS SAAR (Sep) (M) 205K 223K 8:30 AM BUILDING PERMITS M/M (Aug) (M) -3.5%	AUCTION: 4-WEEK BILLS \$35B AUCTION: 3-M BILLS \$42B, 6-M BILLS \$36B AUCTION: 52-WEEK BILLS \$20B Speaker: 8:00 PM Rob Kaplan (Dallas, President) Speaker: 10:00 AM Neel Kashkari (President, Minneapolis) AUCTION: 3-YR TREASURIES \$24B AUCTION: 10-YR TREASURIES \$20B	Consensus
Wednesday October 11	Speaker: 2:00 PM Carolyn Wilkins (Sr. Deputy Gov.) AUCTION: 2-YR CANADAS \$3.9B	7:00 AM MBA-APPLICATIONS (Oct 6) (L) 2:00 PM Minutes of Sep 20th FOMC Meeting Speaker: 2:40 PM John C. Williams (President, San Francisco) Speaker: 7:15 AM Charles L. Evans (President, Chicago) AUCTION: 30-YR TREASURIES \$12B	Prior
Thursday October 12	8:30 AM NEW HOUSING PRICES M/M (Aug) (L) 0.4%	8:30 AM INITIAL CLAIMS (Oct 7) (M) 260K CONTINUING CLAIMS (Sep 30) (L) 1938K PPI M/M (Sep) (L) 0.4% PPI M/M (core) (Sep) (L) 0.2% PPI Y/Y (Sep) (L) 0.1% PPI Y/Y (core) (Sep) (L) 2.6% TREASURY BUDGET (Sep) (L) 2.1%	Consensus
Friday October 13	Speaker: 3:15 PM Carolyn Wilkins (Sr. Deputy Gov.)	Speaker: 10:30 AM Jerome H Powell (Governor) Speaker: 10:15 AM Lael Brainard (Governor) 8:30 AM CPI M/M (Sep) (L) 0.6% CPI M/M (core) (Sep) (L) 0.2% CPI Y/Y (Sep) (L) 2.3% CPI Y/Y (core) (Sep) (L) 1.9% RETAIL SALES M/M (Sep) (L) 1.8% RETAIL SALES (X-AUTOS) M/M (Sep) (L) 1.4% RETAIL SALES CONTROL GROUP M/M (Sep) (L) 2.1% 10:00 AM BUSINESS INVENTORIES M/M (Aug) (L) 0.4% MICHIGAN CONSUMER SENTIMENT (Oct) (L) 95.3	Prior

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**, a holiday shortened week won't be short on data, with Friday's retail sales and CPI taking centre stage. A short-lived gasoline spike will distort the headline CPI, but a 0.2% monthly gain ex-food/energy would lift the 12-month core rate a tick to 1.8%. While that wouldn't be a market mover, we're expecting a big monthly retail sales gain, but a weaker than consensus control group reading for September, owing to storm impacts helping gasoline and auto sales, but hitting other discretionary shopping. Several Fed speakers and the September minutes are also worth watching.

In **Canada**, it's a short week with little news to chew on. A modest retreat in housing starts shouldn't come as a surprise. Two appearances by Bank of Canada Senior Deputy Governor Wilkins are also on tap.

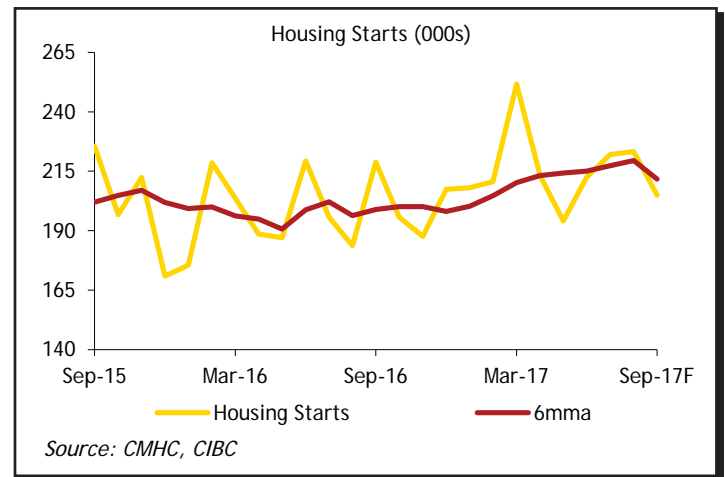
Week Ahead’s Key Canadian Number:

Housing Starts—September

(Tuesday, 8:15 a.m.)

Nick Exarhos (416) 956-6527

	CIBC	Mkt	Prior
Housing Starts SAAR	205K	n/a	223K



Permits have been running hot, but a smaller unused backlog of them will limit September’s housing starts reading. Still, at 205K the six-month average pace will be tracking modestly above 212K—a trend that’s at the upper end of what we’ve seen over the past half-decade. Although sales have slowed in some key markets, the undersupplied Toronto market will likely see multiples construction hold firm through at least the first part of 2018.

Forecast Implications—Residential investment has looked weak in the GDP figures, but that’s been a result of slowing resale volumes dampening realtors’ contributions to growth. Actual construction is likely to remain firm as recently commenced projects are seen through to completion, limiting the blow to 2018 output even as housing starts slightly cool in the year ahead.

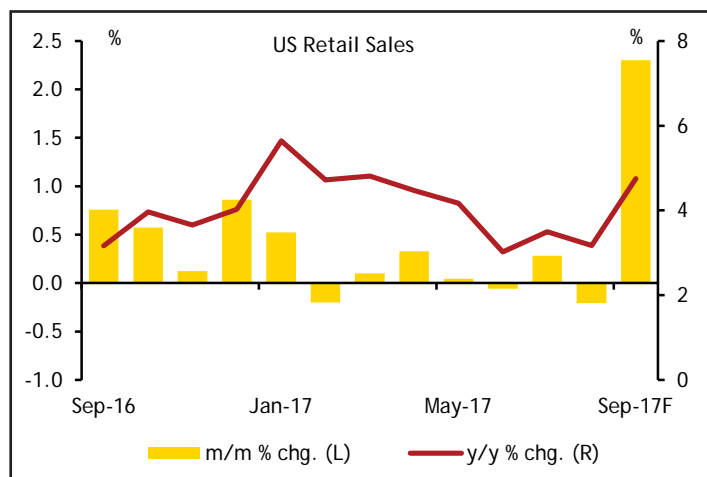
Week Ahead’s Key US Number:

Retail Sales—September

(Friday, 8:30 a.m.)

Royce Mendes (416) 594-7354

	CIBC	Mkt	Prior
Retail Sales	2.1%	1.4%	-0.2%
Retail Sales – ex auto	0.8%	0.9%	0.2%
Retail Sales – control group	0.2%	0.4%	-0.2%



Auto sales had been running at a cool pace heading into September, but a hurricane-induced spike will change that narrative temporarily. As consumers begin replacing damaged and destroyed cars, unit auto sales data for the month of September have shown the largest one-month increase since the Obama government’s “cash for clunkers” scheme in August of 2009. That will seriously flatter the headline retail sales reading, and so too will elevated gasoline prices, another result of the hurricanes.

That said, other retailing categories won’t fare as well, as increased spending on necessities was likely offset by limited discretionary purchases in storm affected areas.

Forecast Implications—Ex-auto sales could be supported in the months to come by households’ need to rebuild and refurbish their homes, likely adding to the economic rebound in other sectors following the hurricanes.

Market Impact—We’re above the consensus on the headline number, but expect markets to take this volatility in stride as it will not materially affect the medium-term outlook for the US economy.

Other U.S. Releases:

Consumer Price Index—September

(Friday, 8:30 a.m.)

Over the past couple of months, hurricanes have caused a big jump in gas prices. As a result, look for headline CPI to have gained 0.7% in September, leaving the annual rate tracking 2.4%. While that’s the fastest pace since March, the Fed will be looking through the effects of recent weather disruptions, and a one-tick acceleration in the core rate will leave it only tracking 1.8%. That

said, with annual inflation rates still feeling the effects of one-time price declines earlier in the year, the Fed is most concerned with monthly changes in the core index. As a result, the healthy 0.2% month-over-month gain in that stripped down measure will be enough to keep the Fed on track for a December move.

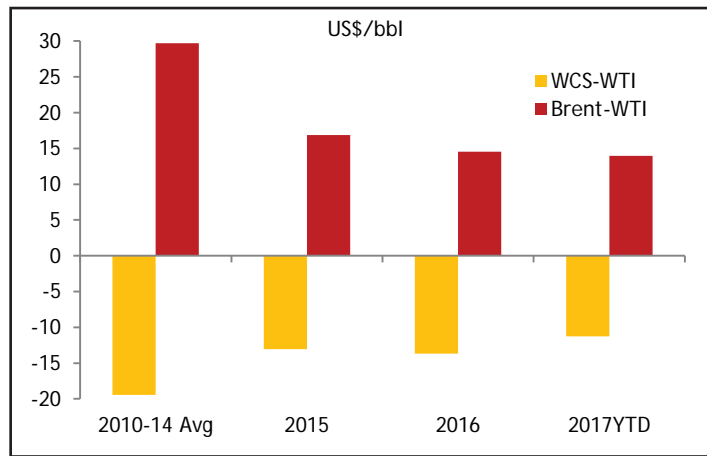
Equity Insights

Nick Exarhos

Tighter Oil Spreads, Less Incentive for Pipelines

Regulatory wins for Canadian pipelines have been hard to come by, but with oil pricing spreads narrowing globally, there may be less to lose for crude producers than there was earlier on in the business cycle. Indeed, the premium on Europe’s Brent benchmark is now less than half of what it was between 2010 and 2014. That lowers the incentive to move oil to the coasts, while a narrowing in the WCS spread suggested fewer bottle-necks for Canadian heavy oil.

Oil Market Spreads Tighten as Oil Prices Stay Lower for Longer

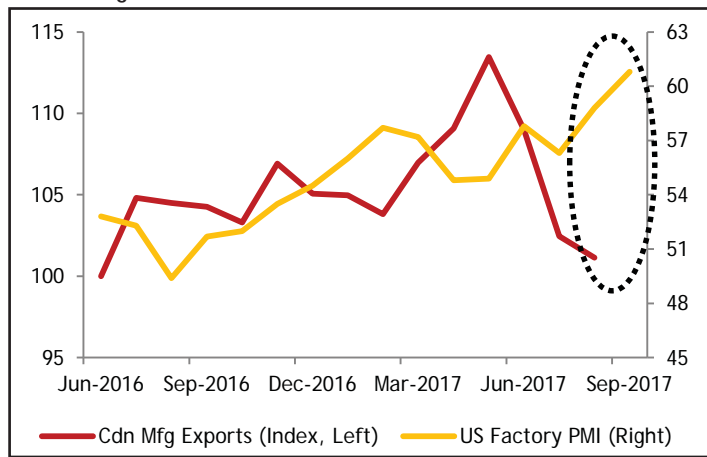


Source: Bloomberg, CIBC

Canadian and American Factory Part Ways

It was another disastrous trade report in Canada this past week, with manufactured exports down more than 10% over the past three months. That’s a negative near term omen for export-oriented industrial names on the TSX. There’s hope, however, showing in strong results for America’s factory sector, a target market for Canadian machinery, parts, and raw materials. It’s all the more important, then, for a favourable resolution to ongoing trade frictions coming from NAFTA talks, an aerospace trade case and threaten US protectionism in sectors like steel and aluminium.

Cdn Manufacturing Exports Plunge, While US Factory PMI Trends Higher

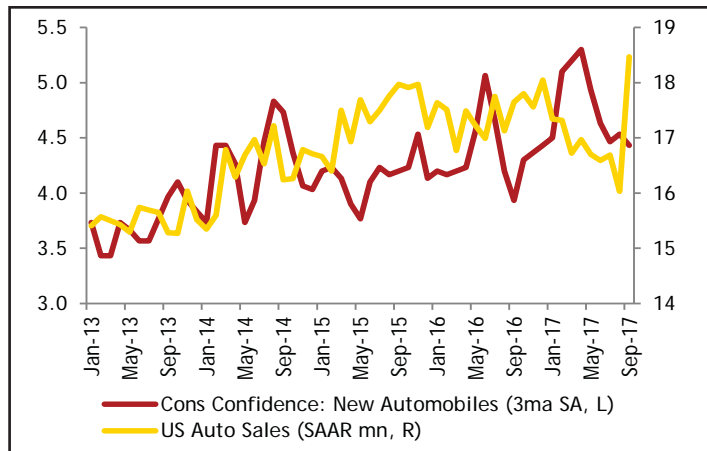


Source: Statistics Canada, ISM, CIBC

US Auto Sales: The Post-Hurricane Bump

Auto sales popped in the US in September, but we aren’t assuming a permanently firmer track to durables spending stateside, nor are we pricing in a higher path for earnings from related names on the S&P. That’s because underlying intentions—as indicated by the Conference Board’s consumer survey—have continued to weaken since the beginning of this year. We see the recent bump as temporary, and would see the resumption of a slow trend in US auto sales resume as the replacement efforts post-hurricanes fade.

New Car Sales Stateside Stray From Underlying Buying Intentions



Source: Conference Board, Wards, CIBC

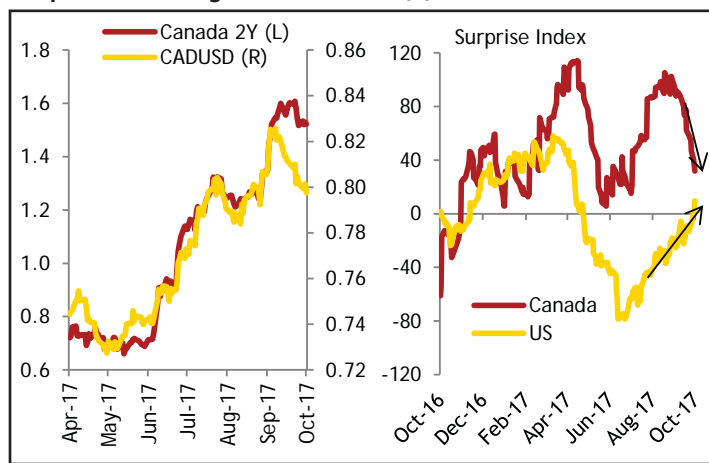
Currency Currents

Andrew Grantham

USDCAD: Reacting to the Good Not Bad

The C\$ has weakened further against the greenback, however the move continues to mainly reflect improved sentiment in the US rather than a worsening mood on Canada. Two-year yields in Canada, which tracked the C\$ stronger since mid-year, haven't come down much yet. However, the convergence of the respective surprise indexes in Canada and the US has come as much from the data flow here worsening, with latest trade figures adding to the list that shows a slowing in economic growth in Q3. So there's room for short-term bond yields in Canada to come down, dragging the C\$ with it. We expect USDCAD to touch 1.30 again by mid-year 2018.

Canadian Yields Haven't Fallen much Yet (L),
Despite Worsening Economic Data (R)

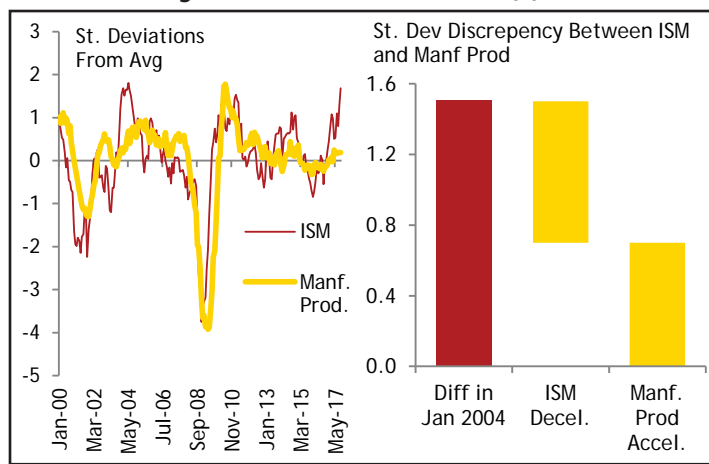


Source: Bloomberg, Citi, CIBC

US Manufacturing: What to Believe

The ISM manufacturing index continues to surge higher, yet the hard data hasn't followed suit. On a standardized basis, such deviations in the two series are very rare. Indeed, the only other non-recessionary period where such a discrepancy was seen came in 2004. That gap was closed within a year, thanks to both a decline in the ISM and a pickup in actual manufacturing production. So while the greenback is likely to see some near-term strength on the Fed, trend growth isn't likely to be as strong as the ISM suggests which will see the US\$ slip against most majors in 2018.

ISM Divergence With Actual Data at Extremes (L),
in 2004 Convergence Came From Both Sides (R)

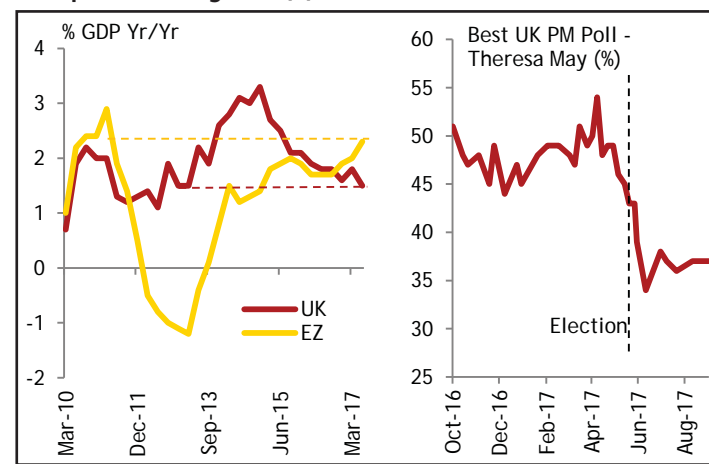


Source: ISM, BEA, CIBC

UK: From Bad to Worse

For the economy and for the PM, things went from bad to worse this past week. Firstly, revisions showed the UK economy growing at its slowest year-over-year pace since 2012, leaving it now well behind the pace seen in Europe. Then PM Theresa May failed to impress in a conference speech, which will likely do more harm than good to her already poor opinion poll performance. The BoE could still hike in early November, which would be a short-term positive for sterling. However, given the worsening economic and political backdrop that could prove to be a mistake, and as such we still expect that GBP will be an underperformer longer-term.

UK Economy Decelerating Well Below EZ (L),
PM Opinion Rating Low (R)



Source: ONS, Eurostat, YouGov, CIBC

CANADIAN RELEASE AND EVENT DATES October/November 2017



MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
2	3	4	5	6
		INTERNATIONAL RESERVES 8:15 AM \$BN \$BN CHANGE LEVEL JUL 0.322 84.9 AUG 0.155 85.1 SEP -0.764 84.3	MERCHANDISE TRADE 8:30 AM \$MN 12 MO. BALANCE JUN -3,693 -16,089 JUL -2,983 -16,896 AUG -3,413 -18,382	LABOUR FORCE SURVEY 8:30 AM AVG EMPLOY UNEMP HRLY (HSHOLD) RATE EARN M Y % Y JUL 0.1 2.1 6.3 1.2 AUG 0.1 2.1 6.2 1.7 SEP 0.1 1.8 6.2 2.2 IVEY PURCHASING MANAGERS' INDEX 10:00 AM
9	10	11	12	13
THANKSGIVING DAY (HOLIDAY) (Markets Closed)	HOUSING STARTS 8:15 AM 000's (AR) TOTAL SINGLES JUL 222 64 AUG 223 62 BUILDING PERMITS (\$) 8:30 AM M M (RES) (NON-RES) JUN 0.5 11.6 JUL -2.2 -5.7 AUG		NEW HOUSING PRICE INDEX 8:30 AM	
16	17	18	19	20
INT'L TRANSACTIONS IN SECURITIES C\$BN, NET 8:30 AM BONDS MONEY STOCKS TOT MARKET JUN -2.6 -0.1 1.8 -0.9 JUL 23.8 -1.5 1.6 24.0 AUG Bank of Canada Business Outlook Survey		SURVEY OF MANUFACTURING 8:30 AM SHIPMENTS M Y JUN -1.9 6.4 JUL -2.6 3.4 AUG		CPI 8:30 AM M Y JUL 0.0 1.2 AUG 0.1 1.4 SEP RETAIL TRADE 8:30 AM (Current\$) M Y JUN 0.0 7.2 JUL 0.1 7.8 AUG
23	24	25	26	27
WHOLESALE TRADE 8:30 AM		Bank of Canada Interest Rate Announcement Bank of Canada Monetary Policy Report Bank of Canada Governor Poloz & Senior Deputy Governor Wilkins speak @ 11:15 AM ET	PAYROLL EMPLOYMENT, EARNINGS & HOURS 8:30 AM	GDP BY INDUSTRY 8:30 AM (2002\$) GDP IND.PROD. M M JUN 0.3 0.0 JUL 0.0 0.3 AUG INDUSTRIAL PRICES 8:30 AM M (NSA) Y JUL -1.6 1.3 AUG 0.3 1.9 SEP
30	31	1	2	3
	GDP BY INDUSTRY 8:30 AM (2002\$) GDP IND.PROD. M M JUN 0.3 0.0 JUL 0.0 0.3 AUG INDUSTRIAL PRICES 8:30 AM M (NSA) Y JUL -1.6 1.3 AUG 0.3 1.9 SEP			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

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



MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
<p>2</p> <p>ISM MFG SURVEY 10:00 AM COMP. PRICES INDEX INDEX JUL 56.3 62.0 AUG 58.8 62.0 SEP 60.8 71.5</p> <p>2-, 5-, 7-Yr NOTE SETTLEMENT</p>	<p>3</p> <p>LIGHT VEHICLES SALES MIL (AR) Y JUL 16,689 -6.0 AUG 16,024 -6.5 SEP 18,470 4.6</p> <p>BOT (9:00) REDBOOK (8:55)</p>	<p>4</p> <p>ADP SURVEY 8:15 AM</p> <p>ISM NON-MFG SURVEY 10:00 AM</p>	<p>5</p> <p>GOODS & SERV. BALANCE (BOP) \$B 8:30 AM GDS SERV TOT JUN -65.4 21.8 -43.5 JUL -65.3 21.7 -43.6 AUG -64.4 22.0 -42.4</p> <p>FACTORY ORDERS 10:00 AM M(SA) Y(NSA) JUN 3.2 10.0 JUL -3.3 4.9 AUG 1.2 5.7</p> <p>INITIAL JOBLESS CLAIMS (8:30)</p>	<p>6</p> <p>EMPLOY. SITUATION 8:30 AM NON-CIV AVG FARM UNEMP HRLY PAYROLL RATE EARN JUL 138 4.3 2.3 AUG 169 4.4 2.4 SEP -33 4.2 2.5</p> <p>WHOLESALE TRADE 10:00 AM</p> <p>CONSUMER CREDIT 3:00 PM</p>
<p>9</p> <p>COLUMBUS DAY (HOLIDAY) (Treasury Markets Closed)</p>	<p>10</p> <p>BOT (9:00) REDBOOK (8:55)</p>	<p>11</p> <p>FOMC Minutes 3-, 10-Yr NOTE AUCTION</p>	<p>12</p> <p>PPI 8:30 AM M(SA) Y(NSA) JUL -0.1 2.0 AUG 0.2 2.4 SEP</p> <p>TREASURY BUDGET 2:00 PM</p> <p>30-Yr BOND AUCTION</p> <p>INITIAL JOBLESS CLAIMS (8:30)</p>	<p>13</p> <p>CPI 8:30 AM M(SA) Y(NSA) JUL 1.7 4.2 AUG 1.9 5.1 SEP</p> <p>RETAIL SALES 8:30 AM M Y JUL 0.3 3.5 AUG -0.2 3.2 SEP</p> <p>BUSINESS INVENTORIES 10:00 AM</p> <p>MICHIGAN SENTIMENT (P) 10:00 AM</p>
<p>16</p> <p>3-, 10-Yr NOTE SETTLEMENT 30-Yr BOND SETTLEMENT</p>	<p>17</p> <p>CAPACITY UTIL./IND. PROD. 9:15 AM LEV M Y JUL 76.9 0.4 2.4 AUG 76.1 -0.9 1.6 SEP</p> <p>NET CAPITAL INFLOWS TICS 4:00 PM</p> <p>BOT (9:00) REDBOOK (8:55)</p>	<p>18</p> <p>HOUSING STARTS 8:30 AM Mn. M/M JUL 1.190 -2.2 AUG 1.180 -0.8 SEP</p> <p>Beige Book</p>	<p>19</p> <p>PHILADELPHIA FED INDEX 8:30 AM</p> <p>LEADING INDICATOR 10:00 AM</p> <p>2-, 5-, 7-Yr NOTE ANNOUNCE.</p> <p>INITIAL JOBLESS CLAIMS (8:30)</p>	<p>20</p> <p>EXISTING HOME SALES 10:00 AM</p>
<p>23</p>	<p>24</p> <p>2-Yr NOTE AUCTION BOT (9:00) REDBOOK (8:55)</p>	<p>25</p> <p>DURABLE GOODS ORDERS 8:30 AM M Y JUL -6.8 4.6 AUG 1.7 5.1 SEP</p> <p>NEW HOME SALES 10:00 AM</p> <p>5-Yr NOTE AUCTION</p>	<p>26</p> <p>ADV. TRADE IN INTERNATIONAL GOODS 8:30 AM</p> <p>7-Yr NOTE AUCTION</p> <p>INITIAL JOBLESS CLAIMS (8:30)</p>	<p>27</p> <p>GDP 8:30 AM (AR) REAL IMPLICIT GDP DEFULATOR 17:Q1(F) 2.0 1.2 17:Q2(F) 1.0 3.1 17:Q3(A)</p> <p>MICHIGAN SENTIMENT (F) 10:00 AM</p>
<p>30</p> <p>PERS. INC & OUT. 8:30 AM SAVING INCOME CONS RATE AR M M AR JUL 0.3 0.3 3.6 AUG 0.2 0.1 3.6 SEP</p>	<p>31</p> <p>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</p> <p>S&P/CASE-SHILLER HOUSE PRICE INDEX 9:00 AM</p> <p>CHICAGO PMI 9:45 AM</p> <p>CONSUMER CONFIDENCE 10:00 AM</p>	<p>1</p> <p>ADP SURVEY 8:15 AM</p> <p>ISM MFG SURVEY 10:00 AM COMP. PRICES INDEX INDEX AUG 58.8 62.0 SEP 60.8 71.5 OCT</p> <p>FOMC Rate Decision</p> <p>LIGHT VEHICLES SALES MIL (AR) Y AUG 16,024 -6.5 SEP 18,470 4.6 OCT</p>	<p>2</p> <p>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)</p>	<p>3</p> <p>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</p> <p>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</p> <p>FACTORY ORDERS 10:00 AM M(SA) Y(NSA) JUL -3.3 4.9 AUG 1.2 5.7 SEP</p> <p>ISM NON-MFG SURVEY 10:00 AM</p>

All data seasonally adjusted except where noted "NSA". M: per cent change from previous month. Q: per cent change from previous quarter at annual rates. Y: per cent change from year earlier. AR: Annual Rate. YTD: Year to date. Release dates are provided by sources outside CIBC World Markets 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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