



Economics

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"Take advantage of cheap option vols to insure against larger swings."

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THE WEEK AHEAD

February 20-24, 2012

It's Quiet Out There, Too Quiet

by Avery Shenfeld

Financial markets are at the point in the movie where the sheriff peers out the window and worries that it's too quiet out there. The VIX, a measure of implied equity volatility, has been tracking at its softest levels since July. Similarly, the implied volatility in Canadian dollar options is also at the low end of its three year range. It almost seems like there's nothing to worry about any more.

But there is. On the downside for risk assets like equities and the C\$, we continue to caution that Europe's rescue effort for Greece, while likely to go ahead and prevent a March default, will be back in the headlines later this year. Upcoming elections aren't likely to prove friendly to parties signing on to extreme austerity, judging by current polls. And with the Greek economy melting away, revenue shortfalls will bring misses against deficit targets, particularly when benchmarked as a share of GDP. Even if Greece stays out of the limelight, Portugal will soon be in it, with its second bailout in need of completion before year end.

Iran poses another political risk. Looking at differentials between crude benchmarks, oil is clearly trading with a risk premium associated with the growing odds that Iranian deliveries to Europe will be cut off. For now, China and India are still seen as willing to accept Iranian oil, meaning that global prices do not reflect anywhere near the full brunt of a total disruption in Iranian supply.

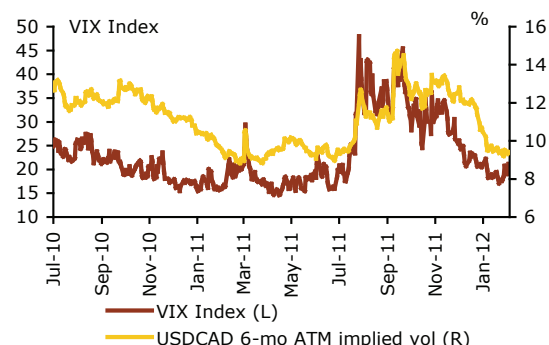
Oil could spike sharply higher in the event of war or an effective global blockade, taking the Canadian dollar to stronger levels, but hammering non-energy equities in the

process. Or, judging by weakening global demand and enhanced non-OPEC supply, we could easily be back at \$90/bbl for WTI if Iran becomes more conciliatory, weakening the C\$, but helping non-oil stocks.

Finally, there's one potential upside risk that might be under-priced in options volatilities, the "risk" that the US economy does a lot better than current forecasts. Forecasts for US GDP this year are in a narrow range centered in the mid-2% territory. But recent market indicators have raised the odds that job growth could fuel a virtuous circle of greater labour income financing rising confidence and more vigorous consumption spending. We still see a huge threat from fiscal tightening come 2013, but markets will still be reacting if this year's growth has pleasant surprises in store.

Given that risks are in both directions, what's a trader to do? Take advantage of cheap option vols to insure against larger swings. Treasurers with Canadian dollar foreign exchange exposures might think about establishing hedges even with the loonie looking so quiet, since it's perhaps too quiet given all the risks out there.

Options Market Expects Calm Waters





Week Ahead Calendar And Forecast

	CANADA	UNITED STATES			
		CIBC	Consensus	Prior	
Monday February 20	Family Day (Markets Closed)				President's Day (Markets Closed)
Tuesday February 21	CASH MANAGEMENT BUYBACK (Mar'12 - Jun'13) - \$500MM 8:30 AM RETAIL TRADE EX-AUTO M/M RETAIL TRADE TOTAL M/M WHOLESALE TRADE M/M	(Dec) (H) (Dec) (H) (Dec) (M)	0.3% 0.3% 0.2% -0.2% 0.5%	0.3% 0.3% 0.2% -0.4%	AUCTION: 3-M BILLS \$33B, 6-M BILLS \$31B AUCTION: 2-YR TREASURIES \$35B 8:30 AM CHICAGO FED NAT. ACTIVITY INDEX (Jan) (M) 0.2%
Wednesday February 22	Brisith Columbia Budget AUCTION: 30-YR RRB \$400MM				AUCTION: 4-WEEK BILLS \$40B (prev) AUCTION: 5-YR TREASURIES \$35B 7:00 AM MBA-APPLICATIONS Feb-17 (L) -1.0% 10:00 AM EXISTING HOME SALES SAAR (Jan) (M) EXISTING HOME SALES M/M (Jan) (M) 4.60M -0.01% 4.61M 5.0%
Thursday February 23					AUCTION: 7-YR TREASURIES \$29B 8:30 AM CONTINUING CLAIMS Feb-11 (L) INITIAL CLAIMS Feb-18 (H) 3426K 348K 10:00 AM HOUSE PRICE INDEX M/M (Dec) (M) 0.4% 1.0%
Friday February 24					9:55 AM MICHIGAN CONSUMER SENTIMENT Feb-F (H) 72.9 72.5 10:00 AM NEW HOME SALES SAAR (Jan) (H) NEW HOME SALES M/M (Jan) (H) 325K 3.1% 315K 2.6% 307K -2.2%
		Speaker: 11:35 AM James Bullard (St. Louis) Speaker: 1:30 PM William C. Dudley (New York, Vice Chairman) Speaker: 1:30 PM Charles I. Plosser (Philadelphia)			
		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 Europe, Monday and Tuesday will see yet more key meetings as Europe works towards the completion of the latest bailout deal for Greece. Somehow, these never end up being the last word on the subject. It almost seems like dragging things out to the last minute is how Europe (or the US, when it comes to debt ceilings and tax policies) likes to do things.

In the US, a week short on trading days due to the President's Day holiday will also be light on data, with housing reports and weekly jobless claims featured. None of the scheduled reports are typically market movers, so look for the European story or corporate news to steer sentiment.

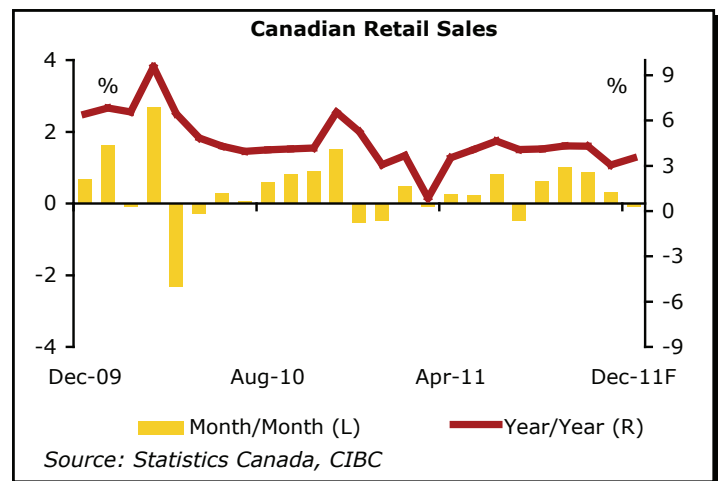
In Canada, B.C. brings down its budget on Tuesday, likely one with a bit more restraint than that delivered by its neighbour, Alberta. Retail sales for December might nudge above consensus, with a dip in autos (since reversed in a big jump in January) the only major stumbling block. We are also into the thick of earnings season.

Week Ahead's Key Canadian Number:**Retail Trade—December**

(Tuesday, 8:30 a.m.)

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	CIBC	Mkt	Prior
Retail Trade m/m	-0.1%	-0.2%	0.3%
Retail Trade ex-autos m/m	0.3%	0.2%	0.3%



Weak hiring as 2011 came to a close likely made for a tough retail environment. But with consumers continuing to pile on debt through the holiday season, and with industry reports suggesting aggressive holiday discounting, retailers may have had some luck in coaxing shoppers to the stores.

Auto sales were likely the sore spot in the month, as the StatCan unit auto sales report pointed to a drop in auto demand for the second straight month in December. But with auto sales roaring in January, based on the StatCan preview, the temporary downshift in December vehicle sales may not have reflected a more ingrained weakness in consumer attitudes that would hit demand for other categories.

Warmer than normal temperatures were again a factor in December, but that hasn't impacted seasonal apparel shopping, which has been rising in the last three retail reports. Pump prices were up mildly on a seasonally adjusted basis, likely nudging up gasoline receipts. Those factors could support a 0.3% increase in ex-auto sales.

Forecast Implications—With the month's retail weakness driven by falling sales of lower mark-up autos, the impact on December GDP (a value-added measure) should be limited. Thus, retail activity will likely be a mild positive for the month's output reading, and taken together with a lift from manufacturing, could seek GDP growth rebound to as much as 0.4% in December.

Market Impact—Our call for the retail number is a touch stronger than the consensus, which could modestly lift the C\$ if we're right.

There are no US Key Numbers this week.

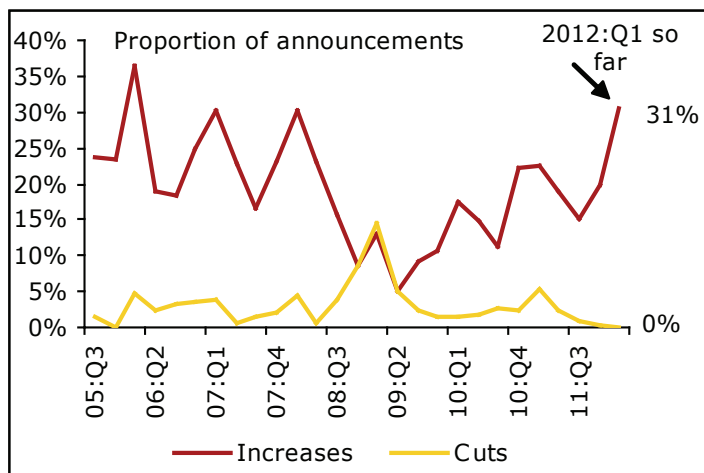
Equity Insights

Peter Buchanan

Six-Year High in TSX Dividend Hikes Signals Earnings Optimism

TSX listed companies are growing more confident on the earnings outlook, by one measure, as some key growth headwinds ease south of the border. The proportion of dividend announcements by Composite members providing for a increase rose to 20% in Q4 from 15% in Q3. The ratio so far in 2012 has been coming in well above that at close to 31%. If sustained, that would be the highest level in the last six years. Media, materials and transportation segments have had the largest proportion of firms announcing increases in shareholder distributions recently.

Dividend Hikes at Six-Year Highs

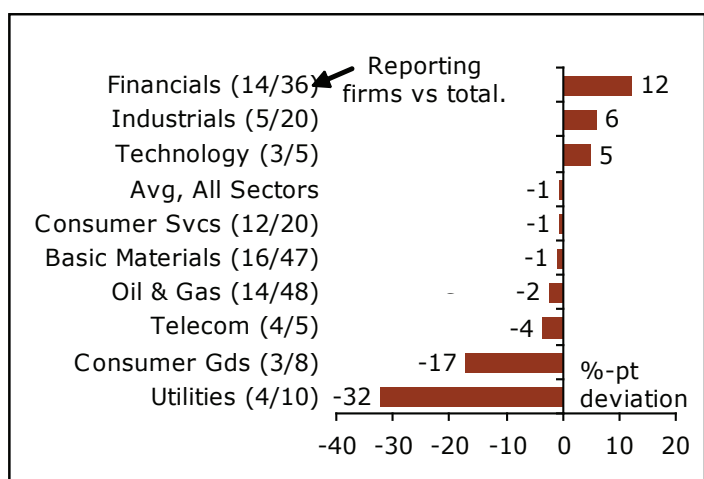


Source: Bloomberg, CIBC

TSX Resource Firms Meeting Expectations, Industrials, Transportation Exceeding

About a third of the TSX Composite has now reported for the quarter, and the calendar will remain heavy this week, with over 40 more firms on deck. Focusing on aggregate dollar values, the total EPS numbers so far have been tracking consensus expectations quite closely. But that masks some notable variations, within and across sectors. Earnings for oil and gas and mining and other materials firms that have reported have shown average gains in earnings of 37% and 21% on the year, effectively validating observers' earlier elevated expectations. Double digit gains by the rails and aerospace have helped the industrial sector top expectations. The REITs favourable performance has likewise helped the financials, although the full picture there won't emerge until the bank's reporting cycle starts late next week.

TSX Earnings, Actual vs. Consensus EPS, Current Qtr

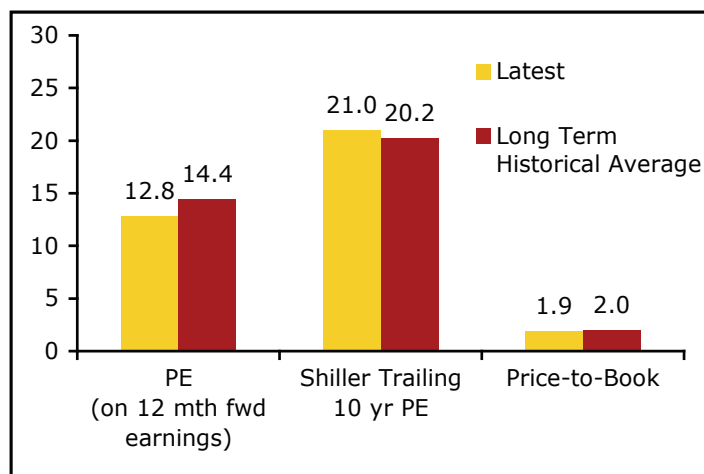


Source: Bloomberg, CIBC

Toronto Stocks Still Inexpensive by Most Metrics

After an energized start to the year spearheaded by materials, IT and consumer discretionary, the TSX's performance has flattened in the last couple of weeks. Where to from here? Valuations still look fairly affordable on a price to book ratio and a forward PE basis. In fact, the forward PE at 12.9 is about 10% below its long term average. An alternative preferred by some observers is the Shiller CAPE, which uses the average level of real earnings in the preceding decade, to smooth out variations due to the business cycle. At the current 21, that ratio is well within a quarter standard deviation of its historical average, giving a broadly neutral reading for valuations.

TSX Valuation Indicators



Source: Bloomberg, CIBC

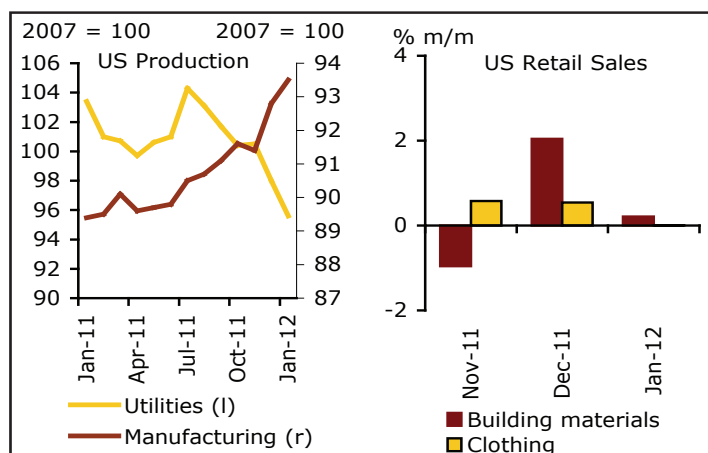
Currency Currents

Andrew Grantham and Emanuella Enenajor

Weathering the Mild US Winter

Mild winter weather is wreaking its own kind of havoc on some areas of the US economy. Utilities output has seen the brunt of the hit, with lower heating needs contributing to two consecutive 2.5% declines in December and January. Meanwhile retail sales of apparel were held back to a flat trend in January, as winter lines remain on the racks. However, positive effects from mild weather have been less apparent. Sales of building materials may have seen a healthy increase in December, but failed to repeat that performance in January. Meanwhile housing starts, while beating expectations, have failed to match November's heights. An unwinding of these effects in coming months could flatter US data, and support the dollar as European tensions continue.

Mild Weather: A Mixed Bag

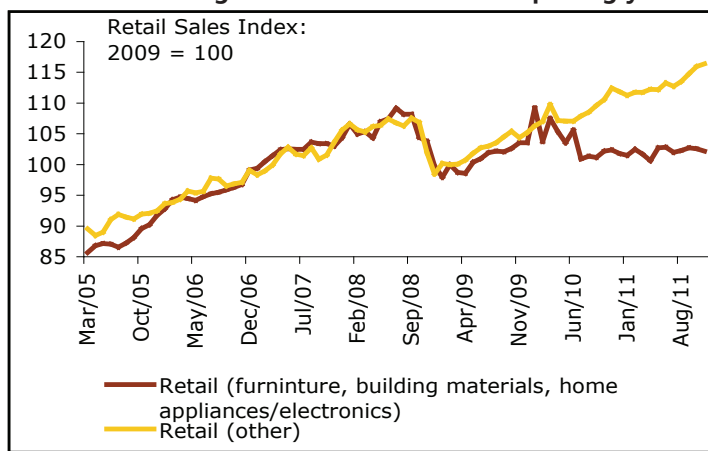


Source: Federal Reserve, Census Bureau, CIBC

What's In Store for Canadian Housing?

December's retail report (Tue) should point to a mild contraction, with soft auto sales offsetting strength elsewhere. But there is one category that has been surprisingly weak despite otherwise broadly rising consumer appetites—retail sales associated with housing. Even taking into account a pull-forward of purchases (related to earlier tax incentives for renovations), the trend is still quite weak. Stagnant housing-related retail sales data are in line with sideways housing starts and decelerating house price gains seen recently—indicators that the housing segment is cooling. Further softness there could be a reason to remain cautious about the C\$'s recent rise.

Canada's Housing-Related Retail Sales Surprisingly Weak

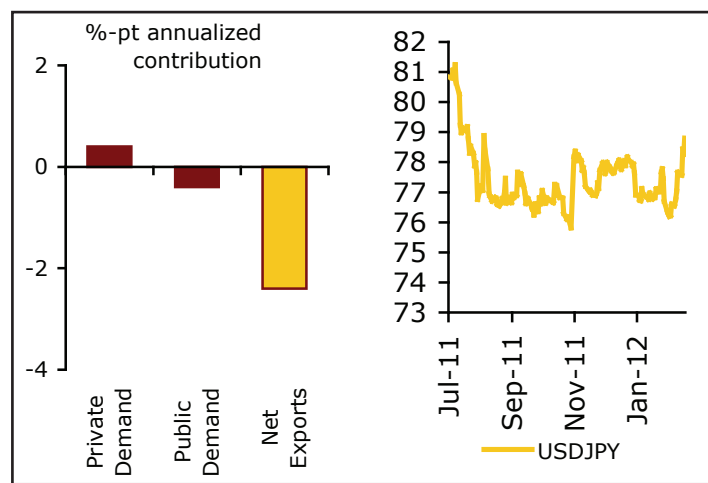


Source: Statistics Canada, CIBC

BoJ Spurred into Action as Economy Contracts

The Japanese economy was battered in Q4 by a perfect storm of external factors. The strength of the yen, flooding in Thailand and weakening overseas demand (particularly in Europe) dragged GDP down at an annualized rate of 2.3% in Q4 2011. The response by the BoJ was swift and aggressive, extending their quantitative easing program by ¥10 trillion and setting a specific price target for the first time. It was said this could require "powerful monetary easing" to achieve. The surprise decision has seen the yen fall to the weakest in six months, and break free of its recent bound. However, that may be a fleeting escape, as repatriation flows and a turn in risk sentiment could see the yen well supported in coming months, and USDJPY trending largely sideways.

Aggressive Action From BoJ Aimed at Supporting Economy (L) and Weakening the Yen (R)



Source: Japanese Statistics Bureau, Bloomberg, CIBC

CANADIAN RELEASE AND EVENT DATES February/March 2012



MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
13	14	15	16	17
	CAR & TRUCK SALES 8:30 AM 000's (AR) TOTAL DOM.BUILT CAR SALE OCT 1,671 440 NOV 1,648 433 DEC 1,598 432	WAGE SETTLEMENTS 10:00 AM (%) PVT. PUB. TOT. OCT 2.5 1.2 1.5 NOV 2.0 1.4 1.7 DEC 1.7 2.3 2.1	SURVEY OF MANUFACTURING 8:30 AM SHIPMENTS M Y OCT -0.4 7.4 NOV 1.9 10.2 DEC 0.6 9.1 INT'L TRANSACTIONS IN SECURITIES C\$BN, NET 8:30 AM BONDS MONEY STOCKS TOT MARKET OCT 3.3 0.6 0.2 4.1 NOV 5.9 5.7 3.1 14.6 DEC 2.1 3.5 1.7 7.4	CONSUMER PRICE INDEX 7:00 AM M (NSA) Y NOV 0.1 2.9 DEC -0.6 2.3 JAN 0.4 2.5 LEADING INDICATOR 8:30 AM
20	21	22	23	24
FAMILY DAY (HOLIDAY) (Markets Closed)	RETAIL TRADE 8:30 AM (Current\$) M Y OCT 0.9 4.3 NOV 0.3 3.1 DEC WHOLESALE TRADE 8:30 AM British Columbia Provincial Budget		PAYROLL EMPLOYMENT, EARNINGS & HOURS 8:30 AM QUARTERLY FINANCIAL STATISTICS 8:30 AM	Bank of Canada Governor Carney speaks NYC at 9:45 AM ET
27	28	29		
		INVESTMENT INTENTIONS 8:30 AM	BALANCE OF INT'L PAYMENTS 1 8:30 AM CURR. ACCT. BAL. \$BN(QR) \$BN(AR) 11:Q2 -16.1 -64.5 11:Q3 -12.1 -48.5 11:Q4 INDUSTRIAL PRICES 8:30 AM M (NSA) Y NOV 0.3 4.3 DEC -0.7 2.8 JAN	NATIONAL ACCOUNTS 2 8:30 AM REAL PRICE GDP DEFATOR %ch AR %ch AR 11:Q2 -0.5 2.6 11:Q3 3.5 1.3 11:Q4 GDP BY INDUSTRY 8:30 AM (2002\$) GDP IND.PROD. M M OCT 0.0 -0.1 NOV -0.1 -0.8 DEC
5	6	7	8	9
INTERNATIONAL RESERVES 8:15 AM \$BN \$BN CHANGE LEVEL DEC 0.079 65.8 JAN 0.557 66.4 FEB	IVEY PURCHASING MANAGERS' INDEX 10:00 AM	BUILDING PERMITS (\$) 8:30 AM M M TOTAL (NON-RES) NOV 6.9 -15.1 DEC 16.1 2.8 JAN	HOUSING STARTS 8:15 AM 000's (AR) TOTAL SINGLES DEC 200 70 JAN 198 65 FEB NEW HOUSING PRICE INDEX 8:30 AM Bank of Canada Interest Rate Announcement	LABOUR FORCE SURVEY 9 7:00 AM AVG EMPLOY UNEMP HRLY (HSHOLD) RATE EARN M Y % Y DEC 0.1 1.1 7.5 2.4 JAN 0.0 0.7 7.6 2.2 FEB MERCHANDISE TRADE 8:30 AM \$MN 12 MO. BALANCE NOV 1,167 608 DEC 2,687 1,399 JAN LABOUR PRODUCTIVITY 8:30 AM
12	13	14	15	16
		CAR & TRUCK SALES 8:30 AM 000's (AR) TOTAL DOM.BUILT CAR SALE NOV 1,648 433 DEC 1,598 432 JAN CAPACITY UTILIZATION 8:30 AM LEVEL (%) TOTAL MANUF. 11:Q2 79.9 79.5 11:Q3 81.3 81.1 11:Q4	WAGE SETTLEMENTS 10:00 AM (%) PVT. PUB. TOT. NOV 2.0 1.4 1.7 DEC 1.7 2.3 2.1 JAN	SURVEY OF MANUFACTURING 8:30 AM SHIPMENTS M Y NOV 1.9 10.2 DEC 0.6 9.1 JAN INT'L TRANSACTIONS IN SECURITIES C\$BN, NET 8:30 AM BONDS MONEY STOCKS TOT MARKET NOV 5.9 5.7 3.1 14.6 DEC 2.1 3.5 1.7 7.4 JAN

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 February/March 2012



MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
13	14	15	16	17
	RETAIL SALES 8:30 AM M Y NOV 0.3 6.9 DEC 0.0 6.2 JAN 0.4 5.8 BUSINESS INVENTORIES 10:00 AM	NET CAPITAL INFLOWS TICS 9:00 AM CAPACITY UTIL/IND. PROD. 9:15 AM LEV M Y NOV 77.9 0.0 3.8 DEC 78.6 0.1 3.6 JAN 78.5 0.0 3.3 FOMC Minutes 3,10-Yr NOTE SETTLEMENT 30-Yr BOND SETTLEMENT	HOUSING STARTS 8:30 AM MIL (AR) M NOV 0.702 11.8 DEC 0.689 -1.9 JAN 0.699 1.5 PRODUCER PRICE INDEX 8:30 AM M (SA) Y (NSA) NOV 0.2 5.7 DEC -0.1 4.8 JAN 0.1 4.1 PHILADELPHIA FED INDEX 10:00 AM MONEY SUPPLY M-2 4:30 PM M Y NOV 0.5 9.6 DEC 0.5 9.6 JAN 1.3 10.2 2,5,7-Yr NOTE ANNOUNCEMENT INITIAL JOBLESS CLAIMS (8:30)	CPI 8:30 AM M(SA) Y (NSA) NOV 0.1 3.4 DEC 0.0 3.0 JAN 0.2 2.9 LEADING INDICATOR 10:00 AM
20	21	22	23	24
PRESIDENT'S DAY (HOLIDAY) (Markets Closed)	2-Yr NOTE AUCTION	EXISTING HOME SALES 10:00 AM 5-Yr NOTE AUCTION BOT (9:00) REDBOOK (8:55)	7-Yr NOTE AUCTION INITIAL JOBLESS CLAIMS (8:30)	MICHIGAN SENTIMENT (F) 9:55 AM NEW HOME SALES 10:00 AM
27	28	29	1	2
	DURABLE GOODS ORDERS 8:30 AM M Y NOV 4.2 12.6 DEC 3.0 16.9 JAN S&P/CASE-SHILLER HOUSE PRICE INDEX 9:00 AM CONSUMER CONFIDENCE 10:00 AM BOT (9:00) REDBOOK (8:55)	GDP 8:30 AM (AR) REAL IMPLICIT GDP DEFlator 11:Q3(F) 1.8 2.6 11:Q4(A) 2.8 0.4 11:Q4(P) CHICAGO PMI 9:45 AM Chairman Bernanke delivers semi-annual Humphrey Hawkins testimony to House Financial Services Committee @ 10:00 AM ET 2,5,7-Yr NOTE SETTLEMENT	PERS. INC & OUTLAYS 8:30 AM SAVING RATE INCOME CONS M AR NOV 0.1 0.1 3.5 DEC 0.5 0.0 4.0 JAN ISM MFG SURVEY 10:00 AM COMP. PRICES INDEX DEC 53.1 47.5 JAN 54.1 55.5 FEB LIGHT VEHICLES SALES MIL (AR) Y DEC 13.495 8.3 JAN 14.132 11.8 FEB INITIAL JOBLESS CLAIMS (8:30)	
5	6	7	8	9
FACTORY ORDERS 10:00 AM M(SA) Y(NSA) NOV 2.2 12.0 DEC 1.1 11.9 JAN ISM NON-MFG SURVEY 10:00 AM	BOT (9:00) REDBOOK (8:55)	ADP SURVEY 8:15 AM NON-FARM PRODUCTIVITY 8:30 AM Q/Q (AR) Y/Y 11:Q3 (R) 1.9 0.8 11:Q4 (P) 0.7 0.5 11:Q4 (R) CONSUMER CREDIT 3:00PM	3,10-Yr NOTE ANNOUNCEMENT 30-Yr BOND ANNOUNCEMENT INITIAL JOBLESS CLAIMS (8:30)	EMPLOY. SITUATION 8:30 AM NON-FARM UNEMP HRLY PAYROLL RATE EARN (000s) M % Y DEC 203 8.5 1.9 JAN 243 8.3 1.5 FEB GOODS & SERV. BALANCE (BOP) \$B 8:30 AM GDS SERV TOT NOV -62.5 15.5 -47.1 DEC -64.3 15.5 -48.8 JAN
12	13	14	15	16
RETAIL SALES 8:30 AM M Y DEC 0.0 6.2 JAN 0.4 5.8 FEB BUSINESS INVENTORIES 10:00 AM TREASURY BUDGET 2:00 PM 3-Yr NOTE AUCTION	FOMC Rate Decision 10-Yr NOTE AUCTION BOT (9:00) REDBOOK (8:55)	CURRENT ACCOUNT BAL. 8:30 AM 30-Yr BOND AUCTION	PRODUCER PRICE INDEX 8:30 AM M (SA) Y (NSA) DEC -0.1 4.8 JAN 0.1 4.1 FEB NET CAPITAL INFLOWS TICS 9:00 AM PHILADELPHIA FED INDEX 10:00 AM MONEY SUPPLY M-2 4:30 PM M Y DEC 0.5 9.6 JAN 1.3 10.2 FEB 3,10-Yr NOTE SETTLEMENT 30-Yr BOND SETTLEMENT INITIAL JOBLESS CLAIMS (8:30)	CPI 8:30 AM M(SA) Y (NSA) DEC 0.0 3.0 JAN 0.2 2.9 FEB CAPACITY UTIL/IND. PROD. 9:15 AM LEV M Y DEC 78.6 0.1 3.6 JAN 78.5 0.0 3.3 FEB MICHIGAN SENTIMENT (P) 9:55 AM

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