



Economics

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THE WEEK AHEAD

September 25-29, 2017

Inflation: Hope or Expectation?

by Andrew Grantham

Janet Yellen and her colleagues appear undeterred by low inflation and on course to hike rates again before the end of the year. Here in Canada, interest rates have risen twice despite a very benign inflation environment. The expectation is that, due to its lagged relationship with growth and the output gap, inflation will gradually rise back to respective targets.

However, that relies in part on the hope that factors weighing inflation down currently are, as Yellen says, “transitory”. While a one-time shift down in telecomm services has had an impact in the US, some other factors depressing inflation may take longer to dissipate.

Goods price inflation in the US remains anemic, and while that’s nothing new (we saw similar average rates in the prior cycle) the cause this time around is different. As import price inflation from emerging markets has recently been no weaker than that from developed economies, it isn’t a China story. Events offshore can’t explain weak goods price inflation, but trends online can.

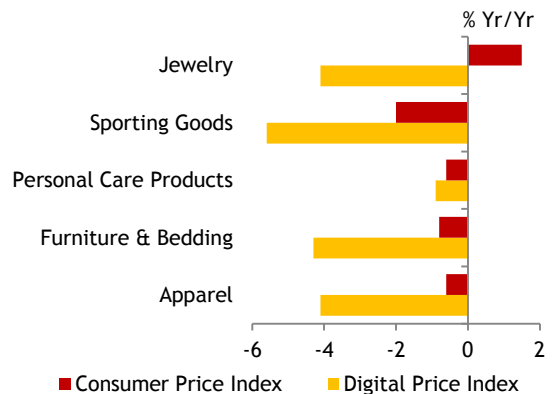
That’s no great surprise, as US retail sales figures clearly highlight strong growth in online sales in contrast to a weaker trend at bricks-and-mortar retailers. However, the impact on inflation goes beyond just that substitution effect of people shopping more online. A relatively new “Digital Price Index” compiled by Adobe suggests that, within the online space itself, prices have been falling quicker than elsewhere as big players vie for

market share (Chart). In other words, the cheap online prices have been getting even cheaper.

After being driven higher by prior weakness of the C\$ during 2015 and 2016, soft goods price inflation is now showing up in the Canadian figures as well. Excluding volatile food and gasoline prices, goods inflation was -0.1% year-over-year in August —down from a peak of 2½% last summer.

The disinflationary impact of goods prices shows little sign of abating any time soon. As such, in order to hit their inflation targets, central banks may have to let domestically driven services inflation run a little hotter than it is now. That will mean a very gentle path higher for interest rates. While markets are already pricing in a very gradual path for Fed hikes (if anything too gradual) there’s room for expectations of BoC increases to be pared back.

Prices Appear to be Falling Faster Online



Source: Adobe, CIBC



Week Ahead Calendar And Forecast

	CANADA			UNITED STATES		
	CIBC	Consensus	Prior	CIBC	Consensus	Prior
Monday September 25						
Tuesday September 26						
Wednesday September 27						
Thursday September 28						
Friday September 29						

	CIBC	Consensus	Prior
Monday September 25			
UNITED STATES			
AUCTION: 3-M BILLS \$42B, 6-M BILLS \$36B (prev)			
8:30 AM CHICAGO FED NAT. ACTIVITY INDEX		(Aug) (L)	0.0%
Speaker: 6:30 PM Neel Kashkari (Minneapolis) Speaker: 12:40 PM Charles L. Evans (Chicago) Speaker: 8:30 AM William C. Dudley (New York)			
AUCTION: 4-WEEK BILLS \$20B (prev)			
AUCTION: 2-YR TREASURIES \$26B (prev)			
9:00 AM S&P CASE SHILLER INDEX S&P CASE SHILLER Y/Y		(Jul) (H) (Jul) (H)	200.54 5.7%
10:00 AM NEW HOME SALES SAAR NEW HOME SALES M/M CONF. BOARD CONSUMER CONFIDENCE RICHMOND FED MANUF. INDEX	570K -0.2% 120.6	(L) (L) (L) (L) (L)	571K -9.4% 122.9 14.0
Speaker: 12:45 PM Janet I. Yellen (Chair) Speaker: 12:30 PM Raphael Bostic (President, Atlanta) Speaker: 10:30 AM Lael Brainard (Governor) Speaker: 9:30 AM Loretta Mesiter (President, Cleveland)			
AUCTION: 5-YR TREASURIES \$34B (prev)			
7:00 AM MBA-APPLICATIONS		(Sep 22) (L)	-9.7%
8:30 AM DURABLE GOODS ORDERS M/M DURABLE GOODS ORDERS EX-TRANS M/M	0.7% 0.3%	(L) (L)	-6.8% 0.6%
10:00 AM PENDING HOME SALES M/M		(L)	-0.5%
Speaker: 7:00 PM Eric Rosengren (President, Boston) Speaker: 2:00 PM Lael Brainard (Governor) Speaker: 1:30 PM James Bullard (President, St. Louis)			
AUCTION: 7-YR TREASURIES \$28B (prev)			
8:30 AM INITIAL CLAIMS CONTINUING CLAIMS GDP (annualized) GDP DEFLATOR (annualized) ADVANCE GOODS TRADE BALANCE WHOLESALE INVENTORIES M/M	265K 1980K 1995K 3.0% 1.0% -\$65.1B	(M) (L) (L) (L) (L) (L)	259K 1980K 3.0% 3.1% 1.0% -663.9B 0.6%
Speaker: 1:30 PM Raphael Bostic (President, Atlanta) Speaker: 10:00 AM Stanley Fischer (Vice Chairman) Speaker: 9:45 AM Esther George (President, Kansas City)			
8:30 AM PCE DEFLATOR Y/Y PCE DEFLATOR Y/Y (core) PERSONAL INCOME M/M PERSONAL SPENDING M/M	0.1%	(H) (M) (M)	0.3% -1.5% -0.6%
9:45 AM CHICAGO PMI		(L)	58.9
10:00 AM MICHIGAN CONSUMER SENTIMENT		(L)	95.3
Speaker: 11:00 AM Patrick Harker (President, Philadelphia)			

Week Ahead's Market Call

by Andrew Grantham

In the US, a host of Fed speakers earn precedence over largely second-tier economic data. Janet Yellen and Stanley Fischer are both speaking and likely to confirm the view after last week's FOMC meeting that a rate hike is on the table for December. Look for incoming data to continue to be distorted by weather impacts, and that's the main reason we are expecting a below consensus print for new home sales on Tuesday.

In Canada, we've had a decidedly mixed bag of data leading into the July GDP release, with a very strong wholesale sector offset by weakness in manufacturing, and retailing landing somewhere in the middle. Adding it all up, the modest 0.1% gain we forecast for monthly GDP would be a deceleration from the prior quarter's trend but no worse than the consensus is expecting. Look for Governor Poloz, speaking on Wednesday, to echo Deputy Governor Lane's remarks in hinting that future rate hikes will be more gradual than markets now expect.

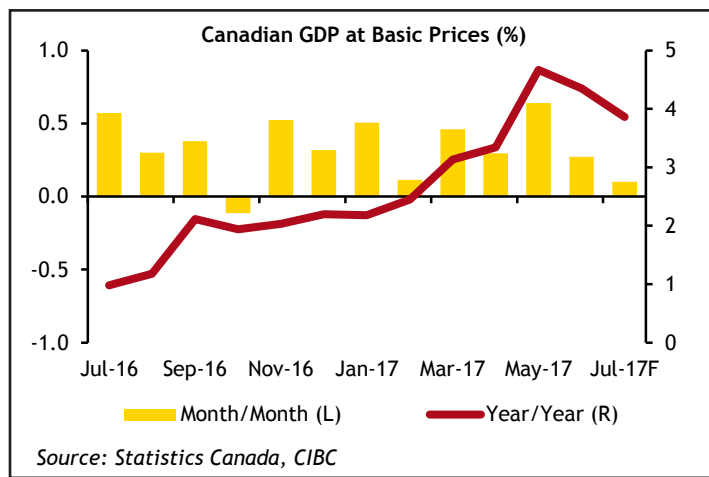
Week Ahead’s Key Canadian Number:

Real GDP (at Basic Prices)—July

(Friday, 8:30 a.m.)

Nick Exarhos (416) 956-6527

	CIBC	Mkt	Prior
GDP m/m	0.1%	na	0.3%



July GDP will have to thank a strong result from wholesale trade for keeping it in the black, with a decline in manufacturing volumes and lacklustre results from retail trade painting a ho-hum monthly growth picture. Indeed, evidence from a softening in crude oil shipments to the US suggests that production in the oil sands also hasn't been providing much momentum to GDP recently.

Despite the 0.1% gain being substantially slower than what we saw in the second quarter results, it will still leave output tracking a year-on-year advance of close to 4%. We see a softer third quarter as a first look at a

generally slower track to GDP from here, as the Canadian economy is limited by potential growth of around 1.5-2%, and a tightening in monetary policy.

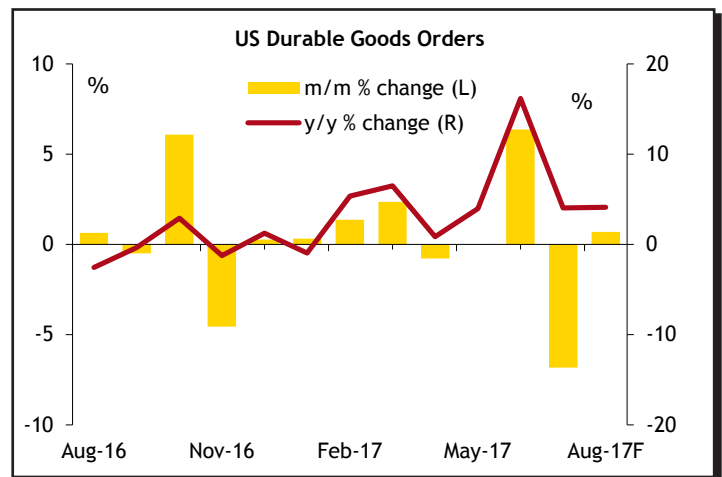
Forecast implications—July will be a taste of things to come, with growth in the third quarter likely to cool to a 2% or so pace—less than half of what we saw in Q2. With less slack in the economy, and tightening from the BoC capping how hot growth can run, 2018 is going to clip a pace that's roughly 1% lower than what we're likely to see this year.

Week Ahead's Key US Number:**Durable Goods Orders—August**

(Wednesday, 8:30 a.m.)

Royce Mendes (416) 594-7354

	CIBC	Mkt	Prior
Durable Goods Orders	0.7%	0.8%	-6.8%
Ex-Transportation	0.3%	0.3%	0.6%



The recent choppiness in durable goods orders likely calmed down in August as aircraft orders made a more trend-like gain during the month. A modest boost from the aircraft sector will see overall orders advance 0.7% when figures are released.

The ex-transportation reading will also post a slight increase, leaving the annual rate still tracking more than 4%. While the annual rate will come off from its recent highs, it's still a vast improvement over the declines observed in the past couple of years.

Forecast Implications—A healthy, if not spectacular, durable goods reading will be enough to suggest that business fixed investment in the US still has some wind behind its sails after a strong start to the year.

Market Impact—We're too close to consensus to see much market reaction.

Other U.S. Releases:**Advance Goods Trade—August**

(Thursday, 8:30 a.m.)

Hurricane Harvey-related port disruptions will likely see the trade deficit widen in August. Add to that the previously released price data, which also suggested a widening, and we are looking for the deficit to come in at \$65.7bn. The deficit has been a point of contention among politicians, and even after looking through the weather effects August's data doesn't look like it will do anything to assuage those concerns.

Personal Income & Spending—August

(Friday 8:30, a.m.)

Given the numbers seen in the payroll report, incomes are likely to come in on the soft side of consensus. Hours worked appear to have declined during August, while average hourly earnings only showed a modest increase, leaving overall incomes tracking a 0.1% advance. That said, spending shouldn't look too different than its recent trend, posting a 0.2% gain. Headline PCE inflation is likely to follow CPI higher and heat up to 1.6%, with hurricane Harvey pushing gas prices up during the month. While core PCE inflation, the Fed's preferred price gauge, will only be able to hold ground at 1.4%, we expect to see that measure heat up in the months to come.

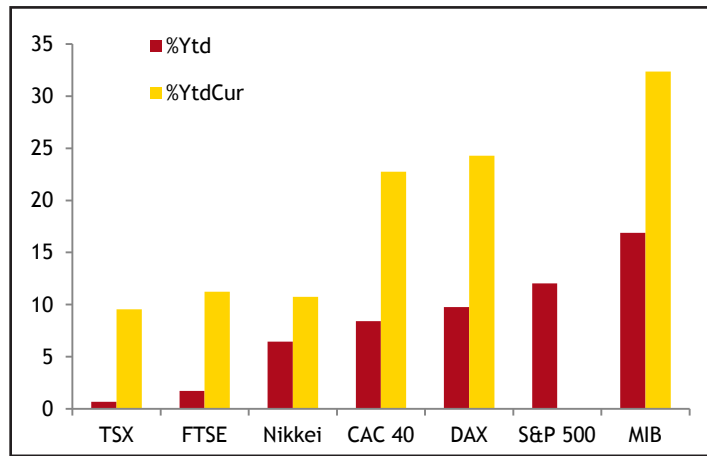
Equity Insights

Nick Exarhos

Canada: Both G7 Leader, and Laggard

Yes, Canada is going to lead the way in terms of GDP growth for the G7. But that hasn't meant that the TSX is also top of its class. In fact, despite what's been a synchronized global upturn in growth in 2017, the typically more globally correlated Composite trails the pack in terms of year-to-date performance. Although some of the reason for that lacklustre performance lies with energy stocks succumbing to the shallow recovery in crude prices—along with too lofty valuations at the beginning of the year—there's room for sentiment to improve on Canadian equities.

G7 Equity Indices: YTD Performance

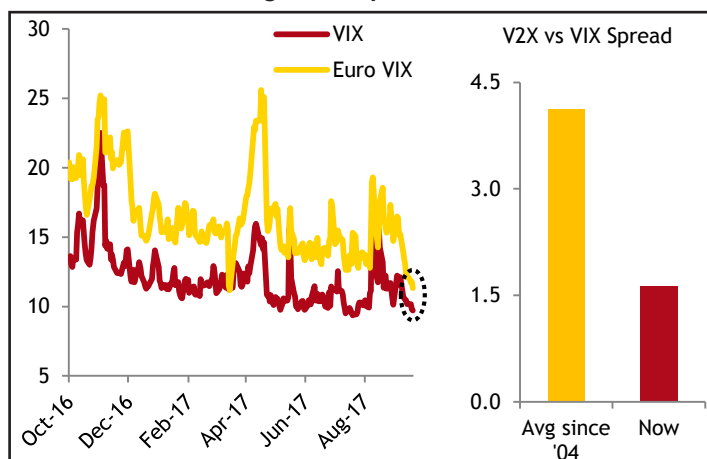


Source: Bloomberg, CIBC

Euro Stocks Outperform, Complacency Reigns Supreme

We liked European equities at the beginning of the year, but the strong performance of stocks domiciled on the old continent has baked in a certain degree of complacency. That sanguine attitude may be presenting investors an opportunity to pick up downside protection at bargain bin prices. True, the German elections over the weekend aren't likely to provide that many surprises. But with valuations stretching higher, and monetary policy still biased toward tightening in the developed world, it may be time to pick up some European vol vs the VIX.

Euro vs S&P Risk Pricing: The Gap Narrows

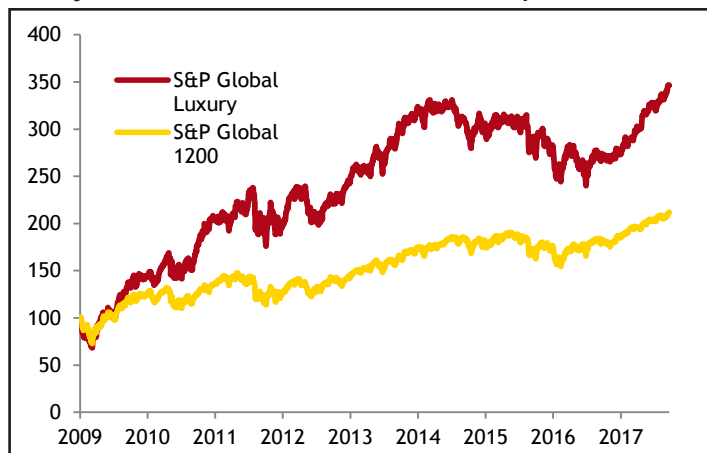


Source: Bloomberg, CIBC

It Was The Best of Times ... For The Best of Brands

We wrote this week (link) about changing Chinese appetites, from commodities to more consumer-oriented goods, and global stock markets have also borne out this reality. Indeed, the S&P Global Luxury index has more than doubled the performance of the overall equity composite. Look for the continued emergence of the Chinese middle class to power strong topline performance of companies with strong brands, along with firms with a high-end focus.

Luxury Focused Stock Dominate in Current Expansion



Source: Bloomberg, CIBC

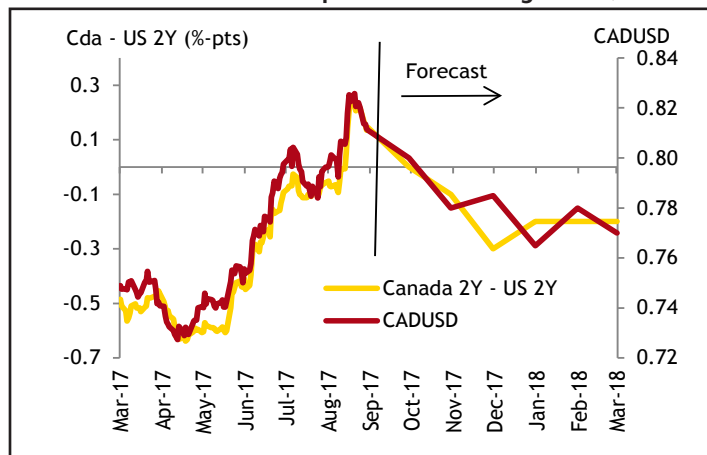
Currency Currents

Andrew Grantham and Royce Mendes

BoC Move Into Slow Lane To Hit C\$

The Deputy Governor tried to get markets back into the slow 'Lane' in terms of rate hike expectations and their impact on the C\$. Governor Poloz could take an even clearer stance on that this week. By downplaying those expectations for further BoC hikes this year, at the same time that the Fed has left a December hike firmly on the table, two-year yield spreads will move back in favour of the US and pull the loonie down from recent lofty levels. We see the C\$ falling to 77 cents (USDCAD 1.30) in six months' time.

Retreat in Canadian Rate Expectations to Weigh on C\$

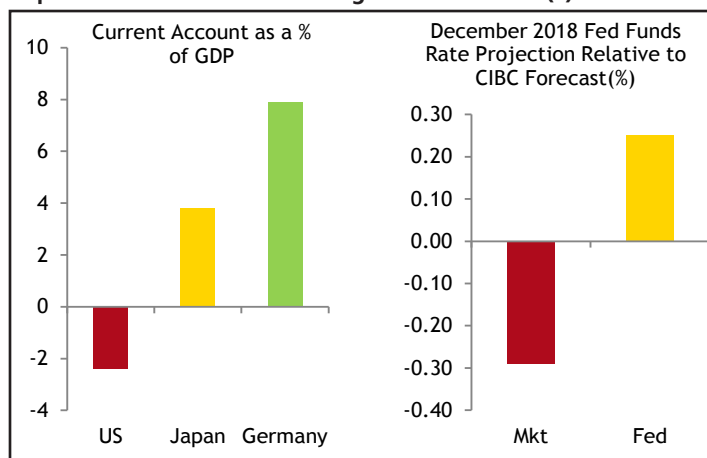


Source: Bloomberg, CIBC

USD: Opposing Forces

US current account data released earlier this week showed that the Q2 deficit was roughly \$8bn wider than analysts had been expecting, and a full \$10bn wider than the first quarter. We have been saying for some time that the wide current account deficit is placing a drag on the US dollar. But that was only true in the absence of any strong impetus from interest rates. Given the backup in market expectations, we and FOMC members expect interest rates to rise faster than where the market is priced, placing yields back in the driver's seat for currencies. A significant part of the repricing is expected occur over the remainder of 2017, and should result in a near-term boost to the US dollar against a number of majors.

Current Account Still Wide (L), But Interest Rates Expected to Drive Dollar Strength in Near-Term (L)

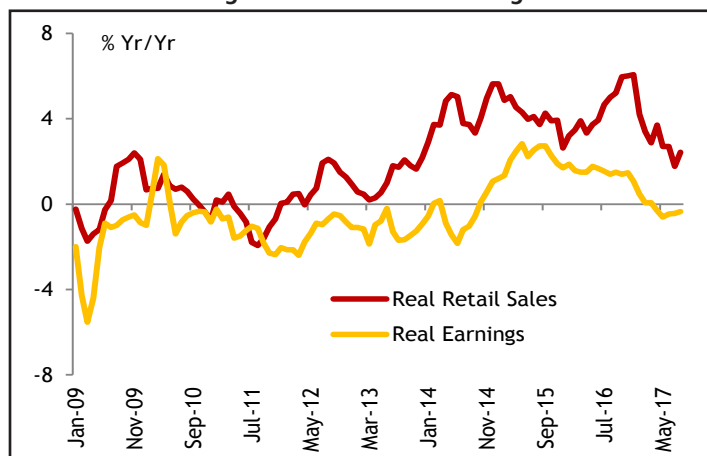


Source: Bloomberg, Markit, ONS, CIBC

Sterling Stirring Too Much?

Expectations for rate increases in the UK have supported sterling recently, and the fact that even normally fairly dovish members are talking of them suggests this time they could become reality. But the BoE will have to be very careful. Unlike other areas of Europe, growth hasn't been accelerating this year. And the one upside surprise we got this week, in the form of retail sales, could be due for a correction given that real earnings growth is now back in negative territory. So the upside in sterling linked to an initial BoE rate increase, if one is forthcoming, could be short-lived.

Retail Sales Running Well Above Real Earnings Growth



Source: Bloomberg, CIBC

CANADIAN RELEASE AND EVENT DATES September/October 2017



MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
18 INT'L TRANSACTIONS IN SECURITIES C\$BN, NET 8:30 AM BONDS MONEY STOCKS TOT MARKET MAY 20.8 1.4 7.2 29.5 JUN -2.6 -0.1 1.8 -0.9 JUL 23.8 -1.5 1.6 24.0	19 SURVEY OF MANUFACTURING 8:30 AM SHIPMENTS M Y MAY 1.4 10.5 JUN -1.9 6.4 JUL -2.6 3.4	20	21 WHOLESALE TRADE 8:30 AM	22 CPI 8:30 AM M Y JUN -0.1 1.0 JUL 0.0 1.2 AUG 0.1 1.4 RETAIL TRADE 8:30 AM (Current\$) M Y MAY 0.6 7.4 JUN 0.0 7.2 JUL 0.1 7.8
25	26 Nova Scotia Provincial Budget	27 Bank of Canada Governor Poloz speaks in Newfoundland & Labrador @ 11:45 AM ET Press Conference @ 12:55 PM ET	28 PAYROLL EMPLOYMENT, EARNINGS & HOURS 8:30 AM	29 GDP BY INDUSTRY 8:30 AM (2002\$) GDP IND.PROD. M M MAY 0.6 2.4 JUN 0.3 0.0 INDUSTRIAL PRICES 8:30 AM M (NSA) Y JUN -1.1 3.1 JUL -1.5 1.3 AUG
2	3	4 INTERNATIONAL RESERVES 8:15 AM \$BN \$BN CHANGE LEVEL JUL 0.322 84.9 AUG 0.155 85.1 SEP	5 MERCHANDISE TRADE 8:30 AM \$MN 12 MO. BALANCE JUN -3,764 -16,083 JUL -3,040 -16,948 AUG	6 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
9 THANKSGIVING DAY (HOLIDAY) (MarketS Closed)	10 HOUSING STARTS 8:15 AM 000's (AR) TOTAL SINGLES JUL 222 64 AUG 223 62 SEP BUILDING PERMITS (\$) 8:30 AM M M (RES) (NON-RES) JUN 0.5 11.6 JUL -2.2 -5.7 AUG	11	12 NEW HOUSING PRICE INDEX 8:30 AM	13
16 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	17	18 SURVEY OF MANUFACTURING 8:30 AM SHIPMENTS M Y JUN -1.9 6.4 JUL -2.6 3.4 AUG	19	20 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

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 September/October 2017



MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
18 NET CAPITAL INFLOWS TICS 4:00 PM	19 HOUSING STARTS 8:30 AM Mn. M/M JUN 1.217 7.8 JUL 1.190 -2.2 AUG 1.180 -0.8 CURRENT ACCOUNT BAL. 8:30 AM <i>BOT (9:00) REDBOOK (8:55)</i>	20 EXISTING HOME SALES 10:00 AM FOMC Rate Decision Fed Chair Yellen speaks @ 2:30 PM ET	21 PHILADELPHIA FED INDEX 8:30 AM LEADING INDICATOR 10:00 AM <i>2-, 5-, 7-Yr NOTE ANNOUNCE.</i> <i>INITIAL JOBLESS CLAIMS (8:30)</i>	22
25	26 S&P/CASE-SHILLER HOUSE PRICE INDEX 9:00 AM CONSUMER CONFIDENCE 10:00 AM NEW HOME SALES 10:00 AM Fed Chair Yellen speaks @ 11:50 AM ET <i>2-Yr NOTE AUCTION</i> <i>BOT (9:00) REDBOOK (8:55)</i>	27 DURABLE GOODS ORDERS 8:30 AM M Y JUN 6.4 16.2 JUL -6.8 4.6 AUG	28 GDP 8:30 AM (AR) REAL IMPLICIT GDP DEFLATOR 17:Q2(A) 2.6 1.0 17:Q2(P) 3.0 1.0 17:Q2(F) ADV. TRADE IN INTERNATIONAL GOODS 8:30 AM CORPORATE PROFITS 8:30 AM <i>7-Yr NOTE AUCTION</i> <i>INITIAL JOBLESS CLAIMS (8:30)</i>	29 PERS. INC & OUT. 8:30 AM SAVING INCOME CONS RATE M M AR JUN 0.0 0.2 3.6 JUL 0.4 0.3 3.5 AUG CHICAGO PMI 9:45 AM MICHIGAN SENTIMENT (F) 10:00 AM
2 ISM MFG SURVEY 10:00 AM COMP. PRICES INDEX INDEX JUL 56.3 62.0 AUG 58.8 62.0 SEP <i>2, 5-, 7-Yr NOTE SETTLEMENT</i>	3 LIGHT VEHICLES SALES MIL (AR) Y JUL 16,699 -5.9 AUG 16,034 -6.4 SEP <i>BOT (9:00) REDBOOK (8:55)</i>	4 ADP SURVEY 8:15 AM ISM NON-MFG SURVEY 10:00 AM Fed Chair Yellen speaks @ 2:15 PM ET	5 GOODS & SERV. BALANCE (BOP) \$B 8:30 AM GDS SERV TOT JUN -65.4 21.8 -43.5 JUL -65.3 21.6 -43.7 AUG FACTORY ORDERS 10:00 AM M(SA) Y(NSA) JUN 3.2 10.0 JUL -3.3 4.9 AUG <i>3, 10-Yr NOTE ANNOUNCEMENT</i> <i>30-Yr BOND ANNOUNCEMENT</i> <i>INITIAL JOBLESS CLAIMS (8:30)</i>	6 EMPLOY. SITUATION 8:30 AM NON- CIV AVG FARM UNEMP HRLY PAYROLL RATE EARN JUL 189 4.3 2.3 AUG 156 4.4 2.3 SEP WHOLESALE TRADE 10:00 AM CONSUMER CREDIT 3:00 PM
9 COLUMBUS DAY (HOLIDAY) (Treasury Markets Closed)	10 <i>BOT (9:00) REDBOOK (8:55)</i>	11 FOMC Minutes <i>3, 10-Yr NOTE AUCTION</i>	12 PPI 8:30 AM M(SA) Y(NSA) JUL -0.1 2.0 AUG 0.2 2.4 SEP TREASURY BUDGET 2:00 PM <i>30-Yr BOND AUCTION</i> <i>INITIAL JOBLESS CLAIMS (8:30)</i>	13 CPI 8:30 AM M(SA) Y(NSA) JUL 1.7 4.2 AUG 1.9 5.1 SEP RETAIL SALES 8:30 AM M Y JUL 0.3 3.5 AUG -0.2 3.2 SEP BUSINESS INVENTORIES 10:00 AM MICHIGAN SENTIMENT (P) 10:00 AM
16 <i>3, 10-Yr NOTE SETTLEMENT</i> <i>30-Yr BOND SETTLEMENT</i>	17 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 NET CAPITAL INFLOWS TICS 4:00 PM <i>BOT (9:00) REDBOOK (8:55)</i>	18 HOUSING STARTS 8:30 AM Mn. M/M JUL 1.190 -2.2 AUG 1.180 -0.8 SEP Beige Book	19 PHILADELPHIA FED INDEX 8:30 AM LEADING INDICATOR 10:00 AM <i>2-, 5-, 7-Yr NOTE ANNOUNCE.</i> <i>INITIAL JOBLESS CLAIMS (8:30)</i>	20 EXISTING HOME SALES 10:00 AM

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