



Economics

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THE WEEK AHEAD

October 2-6, 2017

Core Inflation: Where Are We?

by Avery Shenfeld

Steering inflation with monetary policy is akin to driving with a wheel that turns the car with a one-minute delay. That puts a huge premium on having an accurate map that tells the driver what lies down the road. It's disconcerting, then, to see how radically different inflation trends can appear depending on how you measure them.

In Canada, the central bank has long understood that since total CPI was subject to temporary noise from prices for oil and other volatile items, a "core" concept was needed to assess the true trend.

Our favourite among its current crop of core measures, the common component CPI sits at 1.5%, not so far below the 2% headline CPI target to seriously question its decision to hike rates this summer. But only a few quarters ago, the Bank of Canada would have been using its former core measure, CPI-X, which at less than 0.9%, sends a very different message (Chart). Are we really that sure which one is right?

The US Federal Reserve's inflation measure, core PCE, sits at only 1.3%, leaving room to move very slowly on rate hikes. But the New York Fed's new Underlying Inflation Gauge (ULG) at 2.7%, is saying that Yellen's crew might be moving too late.

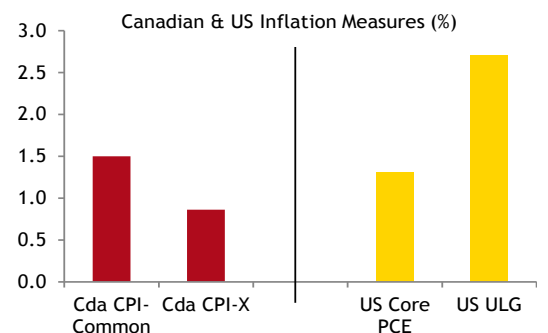
Our role requires us decide which measures are giving the right signal. In Canada, there are reasons to go with the common component, beyond the fact that it's one of the ones the BoC is using. Unlike the CPI-X, it includes all prices, but gives a lighter weight to those whose trends are more idiosyncratic and less persistent. CPI-X is fully weighting some food prices that have swung

widely to the downside, but which are likely to stabilize after completing a return from an earlier upward spike. The common component is justifiably giving less weight to those items.

Stateside, we're not fans of the NY Fed's ULG. It not only comprises price data, but also incorporates other measures of economic activity that have typically driven CPI trends. The problem is that such a methodology begs a key question: are those relationships between growth and inflation still operative? Lately, the answer has been "maybe not."

So in both countries, below-target inflation trends suggest the central banks have reason keep their hands ready on the steering wheel, but no need to jerk it dramatically just yet. The Fed could nudge rates higher in December but then stand pat for a half-year to wait for more momentum in core PCE prices. The Bank of Canada didn't err in its September rate hike if the common component is a better measure of the trend than a diving CPI-X, but neither will it be pressed by inflation to hike again until well into 2018.

Divergent Views on Cdn and US Inflation



Source: BEA, NY Fed, StatCan, BoC, CIBC



Week Ahead Calendar And Forecast

CANADA		UNITED STATES						
		CIBC	Consensus	Prior		CIBC	Consensus	Prior
Monday October 2					AUCTION: 3-M BILLS \$42B, 6-M BILLS \$36B		53.0	53.0
					MARKIT US MANUFACTURING PMI (Sep F) (L)			53.0
Tuesday October 3					10:00 AM ISM - MANUFACTURING (Sep) (L) CONSTRUCTION SPENDING M/M (Aug) (L)	57.8 0.3%	57.9 0.4%	58.80 -0.6%
					Speaker: 2:00 PM Rob Kaplan (Dallas, President) AUCTION: 4-WEEK BILLS \$35B (prev)			
Wednesday October 4					NEW VEHICLE SALES (Sep) (L)		16.6M	16.0M
					Speaker: 8:30 AM Jerome H Powell (Governor)			
					7:00 AM MBA - APPLICATIONS (Sep 29) (L)			-0.5%
					8:15 AM ADP EMPLOYMENT CHANGE (Sep) (L)		150K	237K
					9:45 AM MARKIT US SERVICES PMI (Sep F) (L) MARKIT US COMPOSITE PMI (Sep F) (L)		55.1	55.1 54.6
					10:00 AM ISM - NON-MANUFACTURING (Sep) (L)	55.8	55.5	55.30
					Speaker: 3:15 PM Janet I. Yellen (Chair)			
Thursday October 5					8:30 AM INITIAL CLAIMS (Sep 30) (M) CONTINUING CLAIMS (Sep 23) (L)		270K	272K 1934K
					8:30 AM GOODS & SERVICES TRADE BALANCE (Aug) (L)	-\$41.5B	-\$43.0B	-\$43.7B
					10:00 AM FACTORY ORDERS M/M (Aug P) (L)	0.8%	0.9%	-3.3%
					Speaker: 4:30 PM Esther George (President, Kansas City) Speaker: 10:00 AM Patrick Harker (President, Philadelphia) Speaker: 9:15 AM John C Williams (President, San Francisco) Speaker: 9:10 AM Jerome H Powell (Governor)			
Friday October 6					8:30 AM NON-FARM PAYROLLS (Sep) (L) UNEMPLOYMENT RATE (Sep) (L) AVERAGE HOURLY EARNINGS ALL EMPLOYEES M/M (Sep) (L) AVERAGE WEEKLY HOURS ALL EMPLOYEES (Sep) (L) MANUFACTURING PAYROLLS (Sep) (L)	70K 4.5% 0.3% 34.4 5K	88K 4.4% 0.3% 34.4 5K	156K 4.4% 0.1% 36K
					10:00 AM WHOLESALE INVENTORIES M/M (Aug) (L)		1.0%	1.0%
					3:00 PM CONSUMER CREDIT (Aug) (L)		\$15.5B	\$18.5B
					Speaker: 11:45 AM Eric Rosengren (President, Boston) speaks on Oct 7th Speaker: 2:00 PM James Bullard (President, St Louis) Speaker: 12:45 PM Rob Kaplan (Dallas, President) Speaker: 12:15 PM William C. Dudley (President, New York) Speaker: 9:15 AM Raphael Bostic (President, Atlanta)			

H, M, L = High, Medium or Low Significance

SAAR = Seasonally Adjusted Annual Rate

Consensus Source: Bloomberg

Week Ahead's Market Call

by Andrew Grantham

In the US, the sentiment-driven ISM's tend to be less impacted by storms than some of the hard data, and as such we expect little change in both the manufacturing and services releases. Both should continue to point to solid underlying momentum in the economy. Friday's payrolls release will, however, see an impact from the storms and mean that a below-consensus print should be written off by markets as a weather-distortion. A bevy of Fed speakers will be giving their views, although we've already heard from Yellen this past week.

In Canada, next week's data are expected to reinforce the slower, steadier, pace of growth for the Canadian economy in H2. Our 14K call for employment gains would extend the current 9-month win streak but be a deceleration from the near 30K average so far in 2017. Trade data will likely highlight a partial rebound in manufacturing exports, particularly autos, following two months of losses.

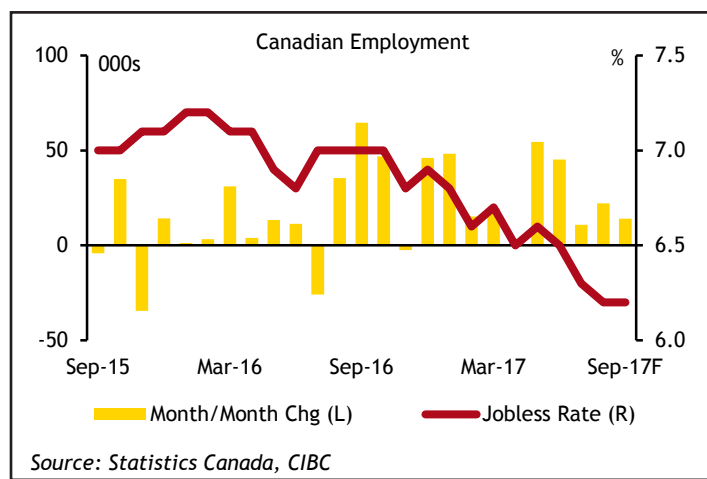
Week Ahead’s Key Canadian Number:

Labour Force Survey—September

(Friday, 8:30 a.m.)

Nick Exarhos (416) 956-6527

	CIBC	Mkt	Prior
Employment	14K	na	22K
Unemployment Rate	6.2%	na	6.2%



GDP growth looks to be slowing in the second half, and so should employment. September should see a decent 14K print in next week’s release, leaving the unemployment rate steady at 6.2%. But that could be flattered by a large rebound in teacher positions after an earlier drop, with BC adding staff to reduce average classroom sizes. The key to the report will be what happens to wages, with a further recovery in the average hourly measure expected. After last month’s collapse in full-time work,

look for that metric to at least partially recover, helping the income picture for Canadian workers.

Forecast Implications—Employment has cooled a bit, and will slow a bit more into 2018, even if the underlying trend will remain positive. With fewer unemployed people to choose from, slower employment growth will be a reality over the next year, although the bidding up of wages should support household incomes.

Other Canadian Releases:

Merchandise Trade Balance—August

(Thursday, 8:30 a.m.)

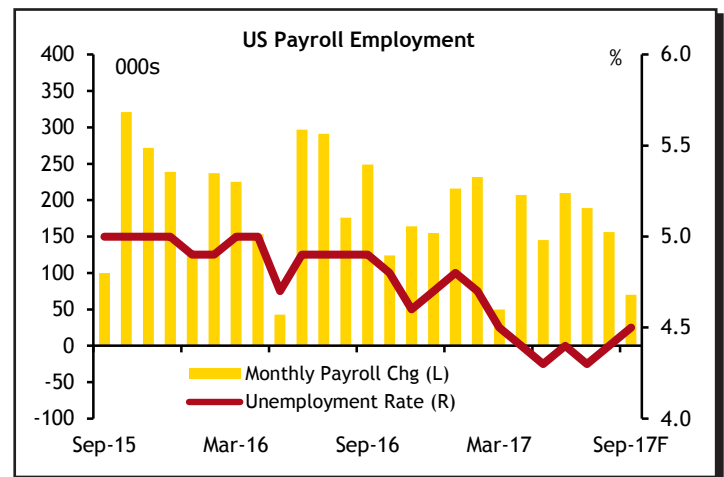
The trade balance has moved sharply into the red, but we could be set for a rebound in the August figures. Crude shipment volumes and prices were firmer on the month, which should be good for more than \$150 mn to the monthly trade balance. Furthermore, after suffering a horrendous two months, manufacturing shipments look poised for a bounce back. The trade deficit, as a result, should come in at \$2.6 bn.

Week Ahead's Key US Number: Employment Situation—September

(Friday, 8:30 a.m.)

Royce Mendes (416) 594-7354

	CIBC	Mkt	Prior
Employment (chg.)	70K	88K	156k
Unemployment rate	4.5%	4.4%	4.4%
Avg. Hourly Earnings	0.3%	0.3%	0.1%



Last month's below-trend payroll reading wasn't necessarily the result of weather, as the survey date occurred before the worst of the hurricanes hit the US. However, weather disruptions could look more severe when data for September is released, with the combined effects of Harvey and Irma culminating in a weak headline payroll reading. For reference, the month following hurricane Katrina saw a deceleration in job creation of more than 180k from the trend prevailing over the prior six months. Our below-consensus call for a 70k gain in the job market will result in a slight increase in the unemployment rate to 4.5%.

Apart from that temporary headwind, however, the labour market remains tight. While that has yet to translate into a sustained pickup in wages, we do expect that average hourly earnings will rebound from the soft reading posted last month.

Forecast Implications—A weak headline payroll number won't materially affect our outlook for the economy since it's likely to be only a temporary headwind. But a healthy wage reading will increase market pricing for a Fed rate hike December

Market Impact—Despite the consensus also calling for a 0.3% on average hourly earnings, markets are probably tilted to the soft side given recent disappointments in the reading. As a result, the wage number could be positive for the currency and negative for fixed income.

Other U.S. Releases:

ISM Manufacturing Survey—September

(Monday, 10:00 a.m.)

The ISM Manufacturing index will only see a marginal dose of downward pressure from its current lofty levels. Regional indicators have reported broadbased strength across jurisdictions so far in September. The strength in this index has translated into solid readings for both actual hiring and orders recently. With the index remaining well above the threshold between expansionary and contractionary territory, look for further manufacturing gains to be reported in hard data.

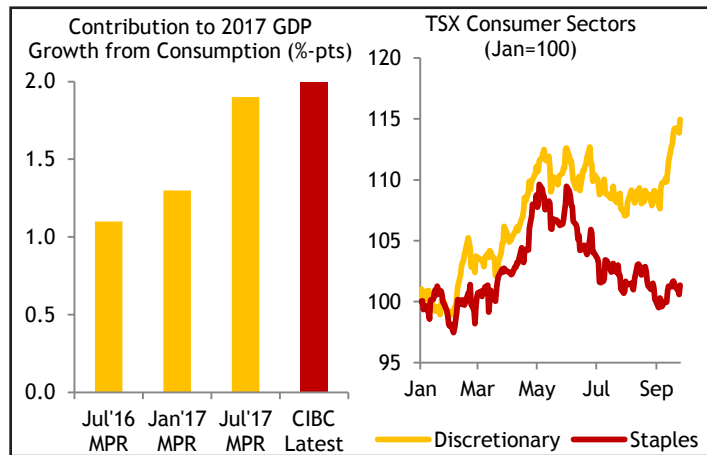
Equity Insights

Nick Exarhos

Cdn Shoppers Power GDP, and Some TSX Sectors

Canadian retail sales are tracking nearly 8% annual growth, with volumes up only a percentage point or so slower than that. That's been key to this year's strong GDP performance, with consumption adding nearly twice as much as the Bank of Canada had been expecting a year ago. But not all related TSX sectors have been benefiting. It's been all about discretionary stocks so far this year, with staples making little headway. We would bet on a convergence in the year ahead, however, with attempts to slow consumption, namely through higher rates, one factor that may dampen the lift to discretionary names.

Canadian Consumer Outlook Brightens (L), But Only One Related TSX Sectors Sees Lift (R)

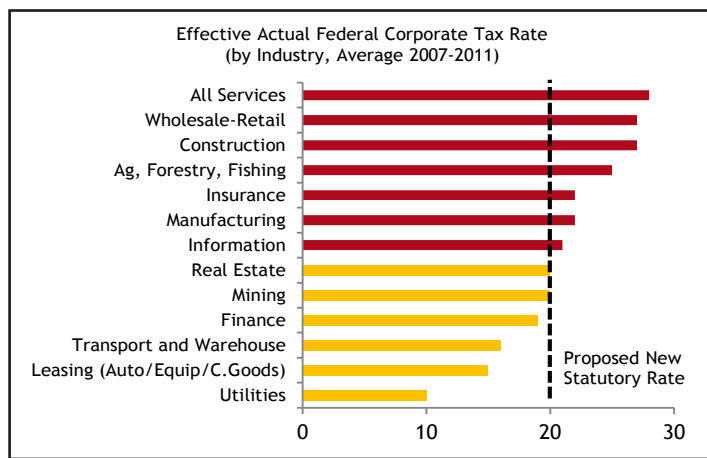


Source: BoC, Bloomberg, CIBC

Finding Potential Tax Winners in S&P Sectors

Trump's tax plan is out, and a key piece is centred on lowering the Federal statutory tax rate to 20%. That broad benefit to the US corporate sector could be overstated when compared to the current statutory rate of 35%, since figures from the US Treasury suggest that the effective corporate rate is closer to 22%. There is, however, a reasonably wide distribution between US sectors for that more representative metric. Service industries, wholesale/retail trade, and construction appear set to benefit the most, with their current effective rates almost 10%-pts higher than Trump's proposed statutory mark. Utilities stand at the opposite end of the spectrum.

Effective US Corporate Tax Rates by Sector

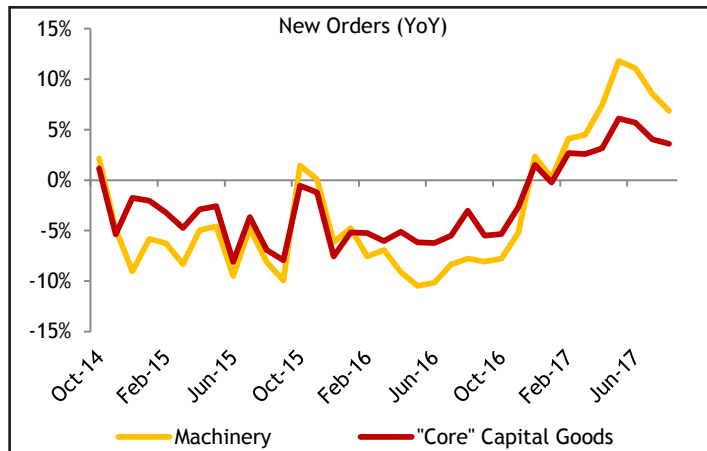


Source: US Treasury, CIBC

Capital Spending: Turning a Corner?

Another part of the tax plan announced by the Trump administration this week is the allowance for immediate expensing of new capital investment. That's another positive for what is already a healthier backdrop for business capital spending. Indeed, "core" capital goods orders are now tracking solidly in the black, after spending the better part of three years retreating. Machinery spending has been leading the recent move higher. Some of the recent strength is certainly tied to the energy sector, but tax changes could spur a broadening base that will serve as a catalyst for industrial names on the S&P.

New Capital Goods Orders Stay in the Black



Source: US Census, CIBC

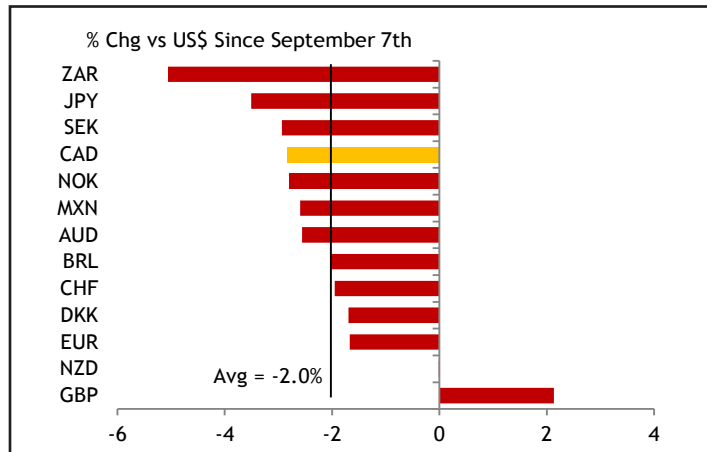
Currency Currents

Andrew Grantham

CAD Only a Slight Underperformer

After the reaction to September’s rate hike, the BoC’s Deputy Governor Lane and Governor Poloz have both tried to temper expectations for future rate hikes and the currency. While it seems to be working at first glance, with the loonie down just shy of 3% against the greenback since September 7th (the day after the Bank’s second hike), most of the move in USDCAD has come from a stronger US\$. The loonie is only a slight underperformer vs other majors. As Canadian rate expectations come down further, the C\$ should become a bigger underperformer. Look for USDCAD to hit 1.30 again in early 2018.

C\$ Only a Modest Underperformer vs US\$ Since Recent Peak

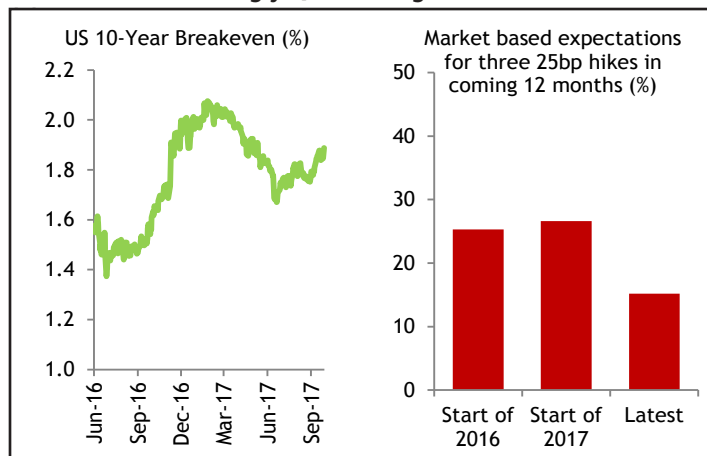


Source: Bloomberg, CIBC

FOMC Credibility and US\$ to Get Near-Term Boost

Fed officials are concerned that markets aren’t taking them seriously. While expectations for future inflation are well off last year’s lows, investors are increasingly questioning whether officials will deliver the hikes they promise. At the start of 2016 and 2017, markets placed a roughly 25% chance of the Fed hiking three times during the coming twelve months. While they did in fact fail in 2016, they appear on course to deliver this year. Yet, despite living up to plan, markets are currently pricing an even slimmer chance of three hikes in the 12 months ahead (i.e. December and two more thereafter). Those odds should receive a significant boost when the Fed does actually move in December, supporting a brief rally in the US\$.

Inflation Expectations Off Lows (L), But Markets Increasingly Questioning Fed’s Rate Hike Ambitions

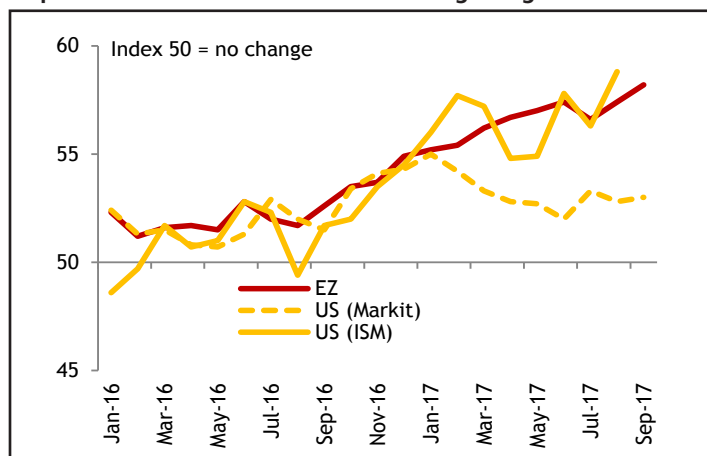


Source: Bloomberg, CIBC

EZ Manufacturing Outperforms, But by How Much?

The euro area economy is on the up, but just how strong it is relative to the US depends on which survey of America’s manufacturing sector you look at. The Eurozone flash PMI reached its highest level since 2011 in September. And according to Markit (who collate the Eurozone PMI figures), US manufacturing continued to grow only modestly. Yet the more widely watched measure stateside is the ISM, which has been running hotter recently and will have new data released next week. If that reading weakens slightly as expected, both US surveys will show a slower trend relative to the Eurozone which will be positive for EURUSD.

Eurozone Manufacturing Sectors Relative Performance Depends on Which US Measure it is Judged Against



Source: Markit, ISM, CIBC

CANADIAN RELEASE AND EVENT DATES September/October 2017



MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
25	26	27	28	29
	Nova Scotia Provincial Budget		PAYROLL EMPLOYMENT, EARNINGS & HOURS 8:30 AM	GDP BY INDUSTRY 8:30 AM (2002\$) GDP IND.PROD. M M MAY 0.6 2.3 JUN 0.3 0.0 JUL 0.0 0.3 INDUSTRIAL PRICES 8:30 AM M (NSA) Y JUN -1.0 3.2 JUL -1.6 1.3 AUG 0.3 1.9
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	MERCHANDISE TRADE 8:30 AM \$MN 12 MO. BALANCE JUN -3,764 -16,083 JUL -3,040 -16,948 AUG	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 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 SEP 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

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
25	26	27	28	29
	S&P/CASE-SHILLER HOUSE PRICE INDEX 9:00 AM CONSUMER CONFIDENCE 10:00 AM NEW HOME SALES 10:00 AM 2-Yr NOTE AUCTION BOT (9:00) REDBOOK (8:55)	DURABLE GOODS ORDERS 8:30 AM M Y JUN 6.4 16.2 JUL -6.8 4.6 AUG 1.7 5.1 5-Yr NOTE AUCTION	GDP 8:30 AM (AR) REAL IMPLICIT GDP DEFLATOR 17:Q1(F) 2.0 1.2 17:Q2(F) 1.0 3.1 ADV. TRADE IN INTERNATIONAL GOODS 8:30 AM CORPORATE PROFITS 8:30 AM 7-Yr NOTE AUCTION INITIAL JOBLESS CLAIMS (8:30)	PERS. INC & OUT. 8:30 AM SAVING INCOME CONS RATE M M AR JUN 0.0 0.1 3.7 JUL 0.3 0.3 3.6 AUG 0.2 0.1 3.6 CHICAGO PMI 9:45 AM MICHIGAN SENTIMENT (F) 10:00 AM
2	3	4	5	6
ISM MFG SURVEY 10:00 AM COMP. PRICES INDEX INDEX JUL 56.3 62.0 AUG 58.8 62.0 SEP 2, 5-, 7-Yr NOTE SETTLEMENT	LIGHT VEHICLES SALES MIL (AR) Y JUL 16,699 -5.9 AUG 16,034 -6.4 SEP BOT (9:00) REDBOOK (8:55)	ADP SURVEY 8:15 AM ISM NON-MFG SURVEY 10:00 AM Fed Chair Yellen gives opening remarks at Community Banking conf. at St Louis Fed @ 3:15 PM ET	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 3, 10-Yr NOTE ANNOUNCEMENT 30-Yr BOND ANNOUNCEMENT INITIAL JOBLESS CLAIMS (8:30)	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	10	11	12	13
COLUMBUS DAY (HOLIDAY) (Treasury Markets Closed)	NET CAPITAL INFLOWS TICS 4:00 PM BOT (9:00) REDBOOK (8:55)	FOMC Minutes 3, 10-Yr NOTE AUCTION	PPI 8:30 AM M (SA) Y (NSA) JUL -0.1 2.0 AUG 0.2 2.4 SEP TREASURY BUDGET 2:00 PM 30-Yr BOND AUCTION INITIAL JOBLESS CLAIMS (8:30)	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	17	18	19	20
3, 10-Yr NOTE SETTLEMENT 30-Yr BOND SETTLEMENT	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 BOT (9:00) REDBOOK (8:55)	HOUSING STARTS 8:30 AM Mn. M/M JUL 1.190 -2.2 AUG 1.180 -0.8 SEP Beige Book	PHILADELPHIA FED INDEX 8:30 AM LEADING INDICATOR 10:00 AM 2-, 5-, 7-Yr NOTE ANNOUNCE. INITIAL JOBLESS CLAIMS (8:30)	EXISTING HOME SALES 10:00 AM
23	24	25	26	27
	NET CAPITAL INFLOWS TICS 4:00 PM 2-Yr NOTE AUCTION BOT (9:00) REDBOOK (8:55)	DURABLE GOODS ORDERS 8:30 AM M Y JUL -6.8 4.6 AUG 1.7 5.1 SEP 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) MICHIGAN SENTIMENT (F) 10:00 AM

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