

# THE RUNDOWN

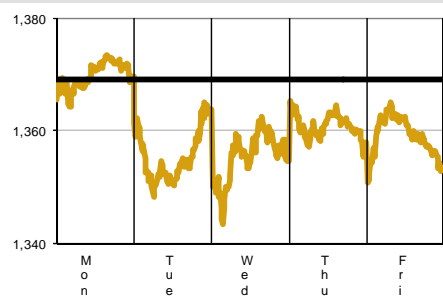
WEEKLY MARKET RECAP — 11 May, 2012

## S&P/TSX Composite



Source: Bloomberg, Macquarie Private Wealth

## S&P 500



Source: Bloomberg, Macquarie Private Wealth

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## Q1 GDP DAY IN EUROPE

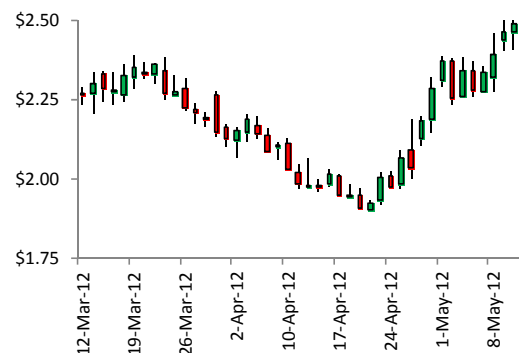
*Page 2: On Tuesday of next week, many European nations will be reporting Q1 GDP; an update on the recent market weakness; thoughts on natural gas and asset allocation.*

This was another one of those weeks when intraday volatility was much higher than the day-to-day changes. The Dow Jones Industrial Average didn't have a 100-point change from one day to the next, but the difference between the high and low was more than 100 points on each day except one. That means the volatility during the day was much higher than the final result. In the end, the S&P 500 finished the week down by 1.1% and the S&P/TSX Composite dropped by 1.5%. A few additional points of interest: European equities were actually higher on the week, but just barely at +0.3%. And Emerging Markets (MSCI Emerging Markets) dropped 3.2% and have declined now for eight consecutive weeks.

At the sector level it was the Materials (-5.0%) that really hurt the TSX this week. And within Materials it was the Golds (-5.7%) and Diversified Metals & Mining (-5.9%) that did the most damage. Once again, the broader theme was riskier assets were sold and investors favoured more defensives. Energy (-1.4%), Industrials (-2.2%) and Information Technology (-1.9%) declined while the more defensive Utilities (+0.9%), Telecommunication Services (+1.0%) and Health Care (+3.4%), were up.

This trend was apparent in the U.S. as well. Energy (-1.6%), Materials (-2.0%), Industrials (-1.8%), Information Technology (-1.7%) and Consumer Discretionary (-1.5%) were the bigger decliners. Meanwhile Health Care (+0.0%), Telcos (+1.8%) and Utilities (+0.9%) rose. The other notable was Financials (-1.8%), which were hurt after JPMorgan announced it was going to take a multi-billion dollar loss on trading mistakes.

## Natural Gas Bounces Off Decade Low



Source: Bloomberg, Macquarie Private Wealth

**Q1 GDP DAY FOR EUROPE**

On Tuesday of next week, many European nations will be releasing their Q1 GDP numbers. France, Germany, Austria, Netherlands, Portugal and Greece are all going to report in early European trading. The aggregate Euro-zone number will also be released. While one quarter's GDP doesn't derail any plans, if they disappoint on aggregate, we could see many of the restructuring plans and projections called into question. And the market doesn't like questions. One good aspect is the world is not expecting much out of Europe. France and Germany are the only two of those reporting that don't have negative consensus forecasts. And the aggregate number for the Euro-zone is for a 0.2% drop, which would put the region in an official recession (this isn't a surprise).

Country	Q1 GDP Forecast	Prior
France	0.0%	0.2%
Germany	0.1%	-0.2%
Austria	Na	-0.1%
Netherlands	-0.3%	-0.6%
Portugal	-1.1%	-1.3%
Greece	Na	
Euro-zone	-0.2%	-0.3%

Source: Bloomberg

It really does come down to expectations and recently the market has not been seeing economic data on the positive side of the surprise ledger. We have commented a few times over the past month that the U.S. data momentum has been slowing and is now in negative territory, according to the Citigroup economic surprise index. This measures the economic data relative to the consensus. This week we have also plotted the Eurozone version of this data series and while expectation for economic data out of Europe is low, they have been missing this mark as well. (top chart)

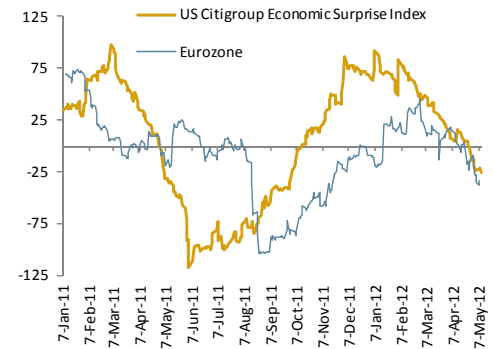
**Is this the 2012 buying opportunity?**

In our Global Market Outlook published a month ago we made the tactical decision to reduce our bond exposure and hold cash, and nothing is changing this week. The premise was that we expected some weakness following a strong Q1 and thought there could be a

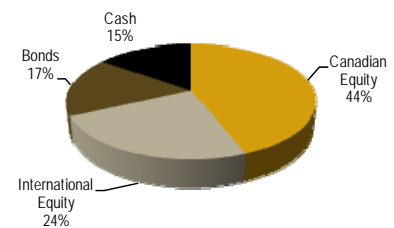
buying opportunity. This could be driven by Europe (that didn't take much high-level thinking), slowing growth in China and/or another economic growth scare in the U.S. So far, Europe is bubbling up, emerging markets are seeing slower growth and the data in the U.S. has softened. While the markets have been very volatile over the past month, equity markets may not be as beaten up to the degree that many believe. The TSX has been hit a bit harder and is down 9% from the February high. This is owing to the higher exposure to global cyclicals. But the S&P 500 has only dropped 4.5%. So we are holding our current allocation (middle chart) which has us +4% overweight Canadian equities, +4% overweight international equities, +15% cash and -23% underweight bonds.

We believe as earnings season comes to an end, the economic data may have an increased impact on the market. Given Q1 received a boost from the weather, we could see continued soft data in the coming weeks/month and this may cause some additional market weakness that could be a buying opportunity. Our reasoning is that the U.S. economy is becoming more resilient and we are pretty confident it should be able to weather any negative impacts from Europe or slightly slower global growth. While this may change, some of the more predictive data points we monitor continue to show encouraging signs. Implied Energy demand, which is essentially how much energy the U.S is using on a given week, remains higher than year ago levels. As this is weekly data, it can provide a more timely indicator as to the amount of economic activity. (bottom chart)

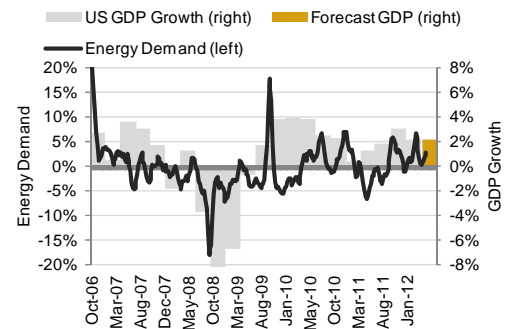
**Economic Data Momentum Continuing to Slip**



**Tactical Asset Allocation Holding Steady**



**Energy Demand Continues to point to Rising Economic Activity**



Source: Bloomberg, Macquarie Private Wealth

## Fast thoughts on Natural Gas

Natural gas prices have rallied about 33% from their low of \$1.90 on April 19<sup>th</sup>. Now trading \$2.48/MMBtu, will gas begin the long road to recovery? Note that a year ago natural gas was trading between \$4-5. One encouraging sign is drilling rigs looking for natural gas in North America are down 31% from year ago levels. Electric utilities are consuming 20% more than year ago levels as many have switched as much as possible from coal to natural gas as the two are roughly neck-and-neck on a cost basis per megawatt. And during earnings season, the list of energy companies announcing lower capex spending on natural gas development was pretty long. This is the good news. The bad news we are about a month into the injection season and inventories are almost one TCF above the five-year average. If that doesn't mean anything to you, don't worry. TCF is a trillion cubic feet of natural gas, current inventories sit at about 2.6 TCF and the five-year average for this time of year is 1.77 TCF. There is clearly a supply response and a demand response working to resolve this 'inventory' issue, but it could be too early to get overly excited. Weather will be key this summer and any supply disruptions from hurricanes could help (GOM water temperatures remain historically high, and that makes for bigger storms). Storm season doesn't start till well into the summer.

## MARKET MOVERS FOR NEXT WEEK

Data pundits will be pleased to see more activity on the economic front next week. The majority of the action will be concentrated in the U.S. Over the course of the week, CPI, Housing Starts and Industrial Production as well as the usual Initial Jobless Claims are sure to generate some headlines. The economic news flow from Europe is likely to be dense as well, with Industrial Production, CPI, Trade Balance and GDP numbers all on tap. It will be relatively quiet in Asia with no key market moving release scheduled for China.

Turning to the corporate world, 1Q12 earnings season is winding down both in Canada and the U.S. Most companies releasing in the U.S. are in the Consumer Discretionary sector. See full calendars below.

1. **European GDP (Tue 5 a.m.)** – European countries will report 1Q12 GDP numbers on Tuesday (read comment above).
2. **U.S. CPI (Tue 8:30 a.m.)** – Analysts pooled by Bloomberg forecast U.S. CPI to have increased 0.4% to 2.7% in April. CPI ex Food and Energy is forecast to remain at 2.3%.
3. **U.S. Housing Starts (Wed 8:30 a.m.)** – U.S. Housing Starts are expected to have decreased 34k in April from 764k to 730k (annualized).
4. **U.S. Industrial Production (Wed 9:15 a.m.)** – U.S. Industrial Production is thought of as a measure of the *pulse of the economy*. The indicator measures the real output of various organizations (factories, utilities and mines). Analysts anticipate a slight pickup with the index increasing 0.5% in April.
5. **FOMC Minutes (Wed 2 p.m.)** – The Federal Open Market Committee will release the minutes of the previous meeting, which took place on April 25<sup>th</sup>. This was the meeting, which was followed by a press conference with Chairman, Ben Bernanke, and where he hinted that QE3 was not off the table just yet.
6. **Initial Jobless Claims (Thu 8:30 a.m.)** – Initial Jobless Claims, measured weekly, look at how many people filed for unemployment insurance for the first time. Analysts pooled by Bloomberg anticipate a very slight improvement with the index dropping 2k from 367k to 365k next week. The weekly indicator is quite volatile and as a result, market participants prefer to monitor the four-week moving average to discern any trends.

## ECONOMIC CALENDAR - CANADA

<u>Date</u>	<u>Day</u>	<u>Time</u>	<u>Release</u>	<u>Survey</u>	<u>Prior</u>
16-May	Wed	8:30 AM	Manufacturing Sales	0.3%	-0.3%
17-May	Thu	8:30 AM	Int'l Securities Transactions	8B	12.5B
17-May	Thu	8:30 AM	Wholesale Sales MoM	0.3%	1.6%
18-May	Fri	8:30 AM	Consumer Price Index (MoM)	0.3%	0.4%
18-May	Fri	8:30 AM	Consumer Price Index (YoY)	1.9%	1.9%

**ECONOMIC CALENDAR - US**

<u>Date</u>	<u>Day</u>	<u>Time</u>	<u>Release</u>	<u>Survey</u>	<u>Prior</u>
15-May	Tue	8:30 AM	CPI (MoM)	0.1%	0.3%
15-May	Tue	8:30 AM	CPI ex Food & Energy	0.2%	0.2%
15-May	Tue	8:30 AM	Empire Manufacturing	9	6.6
15-May	Tue	8:30 AM	Advance Retail Sales	0.2%	0.8%
15-May	Tue	8:30 AM	Retail Sales ex Autos	0.2%	0.8%
15-May	Tue	10:00 AM	Business Inventories	0.5%	0.6%
16-May	Wed	8:30 AM	Housing Starts	680k	654k
16-May	Wed	9:15 AM	Industrial Production	0.5%	0%
16-May	Wed	9:15 AM	Capacity Utilization	79%	78.6%
17-May	Thu	8:30 AM	Initial Jobless Claims	365k	367k
17-May	Thu	10:00 AM	Leading Indicators	0.1%	0.3%

**Options Commentary – From Tony Cancellara, Senior Trader**

Looking to next week, we can expect more of the same range-bound action in market volatility. This news-driven market caused the VIX to react and test technical levels on the upside (21.59) as well as the downside (18.41) and closed near the low 19.8 mark. We believe this to be the same next week with slight spikes occurring around the Greek/ EU news as it gets released. Next week is also a "roll" week, which will result in higher volumes as we get closer to the May expiry (on Friday). Expect this roll to provide only "slightly" higher volatility (this is not a quarterly roll which would add much more in terms of vol) as the front month moves from May to June.

Options volumes have been heavy recently with Arena Pharma (ARNA +\$3.50 on the week) due to an FDA endorsement and of course JP Morgan (JPM -8% on the week) after they "surprised" the markets with \$2b in trading losses. Keep these on your radar next week as their respective

stories unfold and options traders jockey for position amid constant price-changing events. There have also been large positions built up over the past few sessions in Canada with respect to XIU. It's always a safe bet to keep this one on your screen; next week is no different, especially with the impending May roll and the large open interest in the May 17.50 straddle, as well as the May 17 puts and May 18 calls.

**Currency Commentary - from John Curran at CanadianForex, our MGP/IMT currency partner**

The same theme that has been playing out all week has continued overnight as weaker Chinese data and omnipresent European concerns have the U.S. dollar strengthening in an orderly fashion on general risk aversion. The European elections last weekend saw incumbent governments ousted, causing uncertainty in markets and resulting in a stronger U.S. dollar. A new Socialist leader in France puts an end to the "Merkozy" era where Germany and France put forward a united front, leading the EU in times of crisis. In Greece, a coalition government must be formed in a situation where no clear winner emerged and many anti-austerity candidates won seats. Ambiguity will not help the Euro and a June 10th deadline for a coalition to be formed in Greece leaves plenty of time for things to unravel. With the global landscape still looking extremely negative for growth, the market has chosen to focus on real economics again after receiving no joy from central banks that are disinclined to announce further QE measures. The euro is actually holding up rather well considering the tumult that has bubbled up once again, but the market has either been deadened to the situation or there is not enough weight being given to its gravity. Better data out of Australia, China and Europe on Thursday temporarily stemmed the tide of U.S. dollar strength but markets are still jittery with a fragile Europe weighing on the minds of dealers. AUD is nearing parity with the USD and Sterling remains relatively buoyant as a safe haven play against the euro and USD. While oil is trading comfortably below \$100 per barrel, elections in Europe and a hangover effect from underwhelming U.S. data weigh on the CAD. The market got well ahead of itself after the BoC statement a few weeks ago and cracks are definitely showing in those trades. While following broader global themes for most of the week, we traded to a high 1.0063 on Wednesday but this move was quickly reversed after this morning's extremely positive employment release. While two months of strong jobs data should bode well for CAD, a severe downturn in the European situation will negate this and definitely see CAD counted among the casualties of the risk aversion that would ensue. We remain within our nearly four month range of .9850-1.0050 with a few brief blips on either end so play the range until a convincing break is seen.

**EARNINGS CALENDAR - CANADA**

<u>Company</u>	<u>Symbol</u>	<u>Sector</u>	<u>Price</u>	<u>Report Date</u>	<u>Time</u>	<u>Estimate</u>	
BANKERS PETROLEU	BNK	Energy	\$3.35	14-May-12		\$0.06	USD
CHINA GOLD INTER	CGG	Materials	\$3.94	14-May-12		\$0.26	USD
GREAT BASIN GOLD	GBG	Materials	\$0.66	14-May-12	Aft-mkt	-\$0.01	CAD
IVANHOE MINES	IVN	Materials	\$9.60	14-May-12		-\$0.05	USD
LEGACY OIL + GAS	LEG	Energy	\$7.78	14-May-12		\$0.07	CAD
PETROBANK ENERGY	PBG	Energy	\$11.99	14-May-12		\$0.34	CAD
POWER CORP CDA	POW	Financials	\$25.00	14-May-12		\$0.54	CAD
SILVER WHEATON	SLW	Materials	\$26.58	14-May-12	Bef-mkt	\$0.43	USD
ALACER GOLD CORP	ASR	Materials	\$6.52	15-May-12	Bef-mkt	\$0.14	USD
ALLIED PROP REIT	AP-U	Financials	\$27.95	15-May-12	Aft-mkt	\$0.37	CAD
ARGONAUT GOLD IN	AR	Materials	\$7.39	15-May-12		\$0.07	USD
AVION GOLD CORP	AVR	Materials	\$0.60	15-May-12	Aft-mkt	\$0.02	USD
BOARDWALK REAL E	BEI-U	Financials	\$60.03	15-May-12	Aft-mkt	\$0.58	CAD
CENTERRA GOLD IN	CG	Materials	\$10.17	15-May-12	Aft-mkt	\$0.04	USD
CHORUS AVIATIO-B	CHR/B	Industrials	\$2.97	15-May-12		\$0.10	CAD
COLOSSUS MINERAL	CSI	Materials	\$4.13	15-May-12		-\$0.05	USD
COMINAR REA-TR U	CUF-U	Financials	\$24.30	15-May-12		\$0.44	CAD
PAN AMER SILVER	PAA	Materials	\$16.82	15-May-12	Aft-mkt	\$0.51	USD
SEMAFO INC	SMF	Materials	\$4.68	15-May-12	Aft-mkt	\$0.10	USD
NORTHERN DYN MNL	NDM	Materials	\$4.30	16-May-12		-\$0.02	CAD
JAGUAR MINING IN	JAG	Materials	\$1.59	17-May-12		-\$0.05	USD
JUST ENERGY GROU	JE	Utilities	\$12.87	17-May-12		\$0.22	CAD
SILVERCORP METAL	SVM	Materials	\$5.86	17-May-12	Aft-mkt	\$0.08	USD
BIRCHCLIFF ENERG	BIR	Energy	\$6.64	18-May-12		\$0.03	CAD

**EARNINGS CALENDAR – US**

<u>Company</u>	<u>Symbol</u>	<u>Sector</u>	<u>Price</u>	<u>Report Date</u>	<u>Time</u>	<u>Estimate</u>	
AGILENT TECH INC	A	Health Care	\$39.70	14-May-12	Aft-mkt	\$0.73	USD
HOME DEPOT INC	HD	Consumer Discretionary	\$50.39	15-May-12		\$0.65	USD
J.C. PENNEY CO	JCP	Consumer Discretionary	\$33.95	15-May-12	Aft-mkt	-\$0.07	USD
TJX COS INC	TJX	Consumer Discretionary	\$41.32	15-May-12	Bef-mkt	\$0.54	USD
ABERCROMBIE & FI	ANF	Consumer Discretionary	\$47.21	16-May-12	Bef-mkt	\$0.02	USD
LIMITED BRANDS	LTD	Consumer Discretionary	\$48.50	16-May-12	Aft-mkt	\$0.41	USD
STAPLES INC	SPLS	Consumer Discretionary	\$15.02	16-May-12	Bef-mkt	\$0.30	USD
TARGET CORP	TGT	Consumer Discretionary	\$55.71	16-May-12	Bef-mkt	\$1.10	USD
AUTODESK INC	ADSK	Information Technology	\$36.59	17-May-12		\$0.47	USD
APPLIED MATERIAL	AMAT	Information Technology	\$11.06	17-May-12		\$0.24	USD
SALESFORCE.COM	CRM	Information Technology	\$137.33	17-May-12	Aft-mkt	\$0.34	USD
COMPUTER SCIENCE	CSC	Information Technology	\$26.99	17-May-12	Bef-mkt	\$0.20	USD
DOLLAR TREE INC	DLTR	Consumer Discretionary	\$103.47	17-May-12		\$0.97	USD
GAMESTOP CORP-A	GME	Consumer Discretionary	\$21.07	17-May-12		\$0.53	USD
GAP INC/THE	GPS	Consumer Discretionary	\$28.11	17-May-12	Aft-mkt	\$0.44	USD

INTUIT INC	INTU	Information Technology	\$56.05	17-May-12	Aft-mkt	\$2.48	USD
PRECISION CASTPT	PCP	Industrials	\$170.01	17-May-12		\$2.26	USD
ROSS STORES INC	ROST	Consumer Discretionary	\$62.12	17-May-12	Bef-mkt	\$0.93	USD
SEARS HOLDINGS	SHLD	Consumer Discretionary	\$55.32	17-May-12		-\$0.67	USD
WAL-MART STORES	WMT	Consumer Staples	\$59.01	17-May-12	Bef-mkt	\$1.04	USD
DEERE & CO	DE	Industrials	\$78.72	18-May-12		\$2.54	USD

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