RICHARDSON GMP

THE PULSE

January 17th – January 21st

Will Merge for Metal

David Andrews, CFA - Private Client Strategist

We are only a handful of days into 2011, yet we can see there was some heavy negotiating being done during the recent Holiday Season. No less than three major mergers/acquisitions were announced in the Canadian mining space this week alone. HudBay Minerals was the first to the tape with a modest but friendly $520 million deal to acquire copper producer Norsemont Mining. That deal was followed by the nearly $5 billion purchase of Consolidated Thompson Iron Mines by U.S.-based Cliffs Natural Resources. Finally, Inmet Mining and Lundin Mining trumped them all, as they agreed to a merger of equals valued at approximately $9 billion. The key conclusions to draw from the recent frenzy of deal making is that the current commodity rally looks to have lots of life left in it as it is fuelled by an insatiable Chinese appetite for the materials its economy wants and needs. We are also encouraged by the re-emergence of access to the financing required to get these deals done after two years of a virtual moratorium on bank financed mergers. We think this may be only the beginning, as we see much larger, hungrier fish lurking nearby…

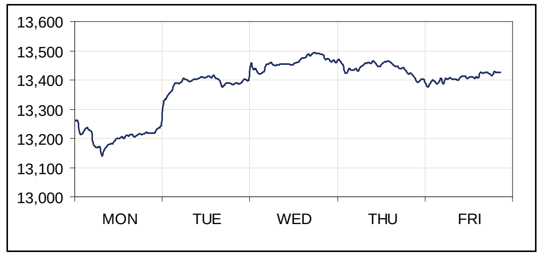
Attention shoppers! Discount retailer Target agreed to make its first foray outside of the U.S. and paid $1.85 billion to take over the 220 Zellers leases from the Hudson Bay Company. Expect them to open 150 Targets in the next two years which gives Wal-Mart about a 15 year head start in Canada. Better late than never, we suspect.

Marathon Oil, the largest refiner in the U.S. mid-west announced plans to cut itself in two. Management’s expectation is the two pure-play pieces should be easier for the market to understand and to value. Intel beat the Street on both top and bottom line to help kick off fourth quarter Earnings Season. Alcoa beat on its bottom line in Q4.

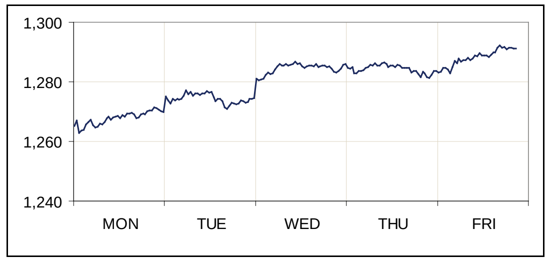
On the macro front, successful bond auctions in Portugal and Spain and some hawkish talk about inflation fighting enabled the euro to rally 3.5%; its biggest rise against the U.S. dollar since March 2009. The spread between 2-year and 30-year widened as a 30-yearr auction sold at the highest yield since April last year.

It wasn’t all good news on the economy as weekly jobless claims (+35K to 445K) increased more than expected (the highest level since October). The soft U.S. employment data weighed on the Canadian dollar and was enough to give equity investors some pause until more earnings data is released.

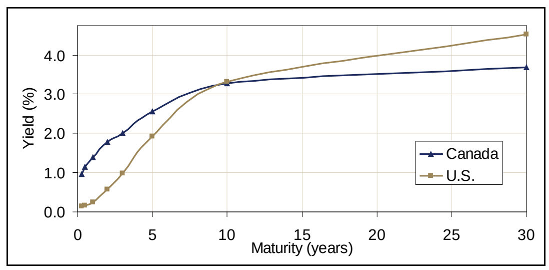
S&P/TSX COMPOSITE



S&P 500

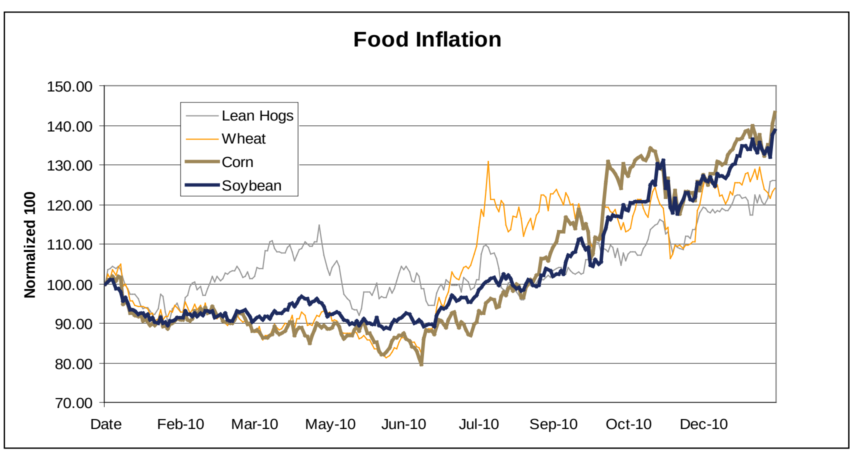


YIELD CURVE



Charts as of Jan 14, 2011 at 3 pm
Source: Bloomberg, Richardson GMP Limited

CHART OF THE WEEK



Source: Bloomberg, Richardson GMP Limited

Verge of a Food Crisis

Food riots have occurred in both Algeria and Mozambique sparking a recent United Nations’ warning about a possible 2011 food price shock if output continues to dwindle. The global food supply demand balance is being skewed by pinched crop yields due to hot weather in Latin America and the floods in Australia.

How can investors benefit? PowerShares Agricultural ETF (DBA) has a direct interest in agricultural futures. (Be mindful of the wide contangos on rolling contracts and the U.S. dollar exposure.) Another approach is the Claymore Global Agricultural ETF. This one has big equity positions in companies like Monsanto, Potash Corp., and Agrium.

The Trading Week Ahead

Fifty-two S&P500 companies are due to report their fourth quarter results this week. Alcoa, Intel, and J.P. Morgan all reported positive earnings surprises to kick off Earnings Season and investors look forward to results from a series of Technology and Financial bellwethers. Apple is due to report Tuesday and we expect the company to beat earnings expectations with blow away iPad sales numbers ahead of the Holiday Season. That being said, in four of the past five years, Apple shares have run up ahead of its earnings release date, the company surprised the Street to the upside, then the shares sold off, only to bounce back a few weeks later.

Chinese economic data could potentially have the biggest impact on global markets during the week ahead. GDP data is released Wednesday with economists looking for 9.4% growth in the final quarter of the year and 10.2% for the entire year. December inflation data is also expected to show signs of easing as monetary policy initiatives (tightening) begin to have the desired effect.

North American data will include the Bank of Canada overnight rate announcement. We anticipate no change to the 1.00% policy rate given the current strength of the Canadian dollar and the recent employment data for the U.S. which was mixed. We see the Bank of Canada rate policy on hold, likely until the midpoint of 2011.

ECONOMICS THIS WEEK

Event	Estimate	Prior
Mon Jan 17		
Int'l Securities Transactions	$9.500B	$9.507B
Tues Jan 18		
Bank of Canada o/n rate	unchanged	1.0%
Manufacturing Sales MoM	0.4%	1.7%
Empire Manufacturing (Jan)	12	10.6
ABC Consumer Confidence	--	-40
Wed Jan 19		
New Housing Price Index	0.1%	0.1%
Housing Starts	550K	555K
Thurs Jan 20		
Leading Indicators MoM (Dec)	0.2%	0.3%
Initial Jobless Claims	425K	445K
Continuing Claims	3980K	3875K
Existing Home Sales (Dec)	4.85M	4.68M
Leading Indicators	0.6%	1.1%
Philadelphia Fed	22	24.3
Fri Jan 21		
Retail Sales ex Autos MoM	0.4%	0.9%

EARNINGS THIS WEEK

Company	Date	Estimate
IBM	Jan 18	$4.08
Citigroup	Jan 18	$0.08
Apple Inc.	Jan 18	$5.38
Wells Fargo	Jan 19	$0.63
Goldman Sachs	Jan19	$3.79
Viterra	Jan 19	$0.08
Freeport-McMoRan	Jan 20	$2.80
Google	Jan 20	$8.06
General Electric	Jan 21	$0.31
Bank of America	Jan 21	$0.21

Source: Bloomberg

QUESTION OF THE WEEK

Is Another Oil Shock on the Horizon?

U.S. oil inventories have declined for three straight weeks as cold winter weather takes its toll on stored oil. The recovering global economy has further strained global stockpiles pushing crude oil futures prices some 30% higher since the end of the summer. The reacceleration towards $100/bbl has some concerned that oil prices may be about to undermine the current economic recovery. We note the current price appreciation appears to be in line with the upward sloping decade long trend of higher WTI crude prices. The sudden rise in oil during 2007 was a clear deviation of trend which created substantial demand destruction coincidentally at a time the U.S. economy was struggling under the weight of a real estate and ultimately a financial crisis. We tend to think that the issue is not whether the price will rise but rather the rate at which oil prices rise. Strange as it sounds, the biggest risk to the price of oil is likely monetary policy. If current Quantitative Easing policy were to seriously undermine the U.S. dollar from here, a spike in all commodities, including oil, could be crippling. Consumers and households, who after a year and a half of tepid recovery, are now just beginning to see the light, so energy prices are yet another thing to keep an eye on. Rising prices will have future consequences and the trend of the past decade may simply be something we need to learn to live with. Rather than watching the trend, watch for upward spikes from that trend and the subsequent fallout for the still struggling U.S. economy.