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This issue by:

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- Thomas C. MacMillan, president & chief executive officer at CIBC Mellon
- Jeffrey Alexander, director, business development
- Simon Baker, security architect, information services

Caution, for now

The U.S. economy entered 2008 in a precarious condition. For financial markets, what's at stake isn't whether some ivory tower economists eventually decide, months from now and after many data revisions, if America's first two quarters showed a bit of growth or a slight decline. Instead, the fate of equity markets largely involves how the global financial system weathers the credit storms centred in a troubled U.S. housing market, and its ability to underpin growth over the medium term.

For the next few months, there will be enough bad news from the financial system to create fears of a more protracted stall and to warrant a cautious stance for investors. Worldwide banks have, as we write, taken a US\$140 billion write-down on mortgage-related assets (with some US\$100 billion in North America) and have also absorbed billions in formerly off-balance sheet vehicles into their books.

More red ink is likely due to be unveiled when U.S. banks return to the confessional during April's earnings season, and odds are that we'll be hearing more from major European banks as well. U.S. house prices appear to be en route to a possible 20 per cent peak-to-trough decline, with a climb in sub-prime delinquencies in the 30 per cent range. Doubts about the health of bond insurers are bringing charges against hedged positions. All told, we could be looking at an aggregate hit in the range of US\$265 billion when the dust settles on sub-prime and related mortgage assets.

Canada's economy is in better shape and less at risk of an outright recession given the absence of a housing and mortgage crisis here, but the deep ties to the U.S. economy will mean a bite will



be taken from the manufacturing sector, with implications for related equities. Credit market conditions have ballooned spreads and created a tougher funding environment for banks. We've maintained an underweight recommendation for financials during the past couple of months, alongside reduced weights in U.S.-exposed manufacturing exporters. In greater favour are equities tied to Canadian consumers or global resource demand, both of which are in better shape, as well as utilities, where dividend yields will easily surpass those on bonds.

If the credit crunch were left unchecked, equities would be facing not only a correction but a protracted bear market. However, that doesn't appear to be the case. Major banks have successfully tapped into global pools of capital to the tune of US\$70 billion so far, thereby avoiding the lending contraction forced on balance sheet-challenged Japanese banks after their real estate crash in the early 1990s.

Central banks are rushing to the rescue, with the Fed likely en route to a 2.0 per cent funds rate and the Bank of Canada likely to up the pace of its own rate-cutting efforts. In addition, fiscal stimulus is close to enactment stateside and was already delivered in Ottawa's mid-year statement last October.

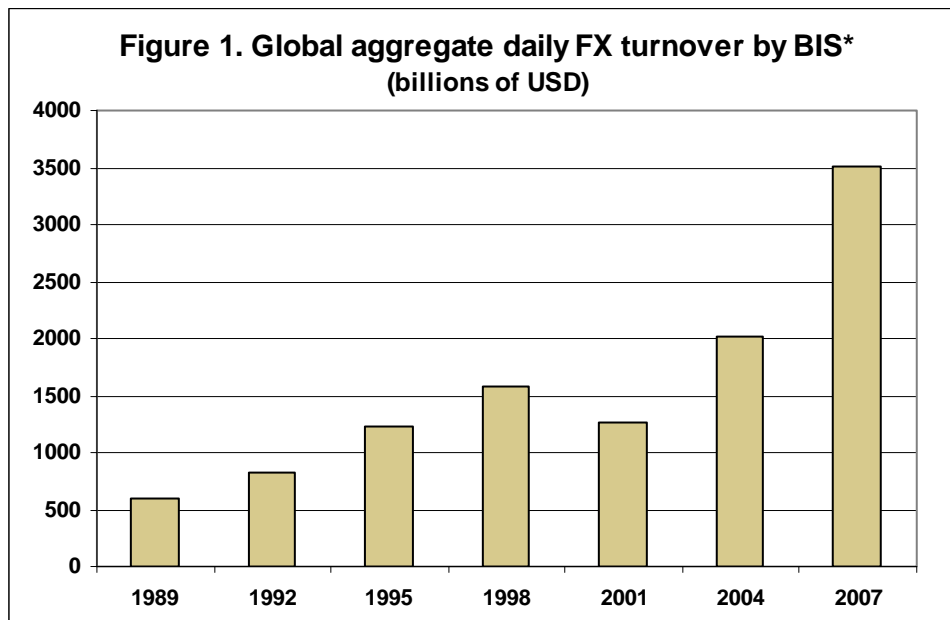
Those efforts should begin to bear fruit beyond mid-year. Even if U.S. housing starts only level off or fall more slowly, that will reduce construction's quarter-to-quarter drag on growth. In Canada, softness in manufacturing will be covered by the benefits of monetary and fiscal stimuli for domestic demand, including retailing. Low yields will ultimately encourage investors to explore generous spreads in corporate bonds, many of which have been unduly tarred with the same brush as those with U.S. real estate exposures. As earnings expectations improve for 2009, we look for a spirited rally in Toronto Stock Exchange stocks in the latter part of this year.

Feb. 6, 2008

By Avery Shenfeld, managing director and senior economist, CIBC World Markets

Unprecedented FX market growth

From 2004 to 2007, the foreign exchange (FX) market grew at an unprecedented rate. The triennial FX volume survey, released by the Bank for International Settlements (BIS), reflects a significant increase in global trade and investment (Figure 1).

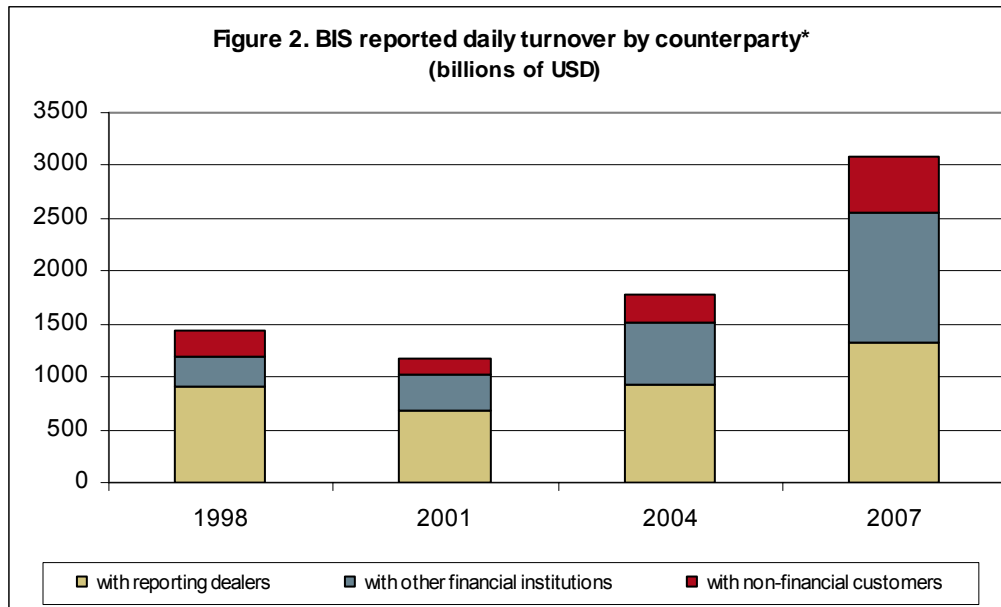


*Data for 1989 and 1992 include only spot, forward and FX swaps, not options or cross-currency interest rate swaps.

The BIS survey compiles FX volume data gathered by a multitude of central banks from their local country banks – termed **reporting dealers**. These reporting dealers break out their volume in a number of ways, including the products they transact (e.g., spot, forwards and swaps), the currency pairs they transact and those with whom they transact.

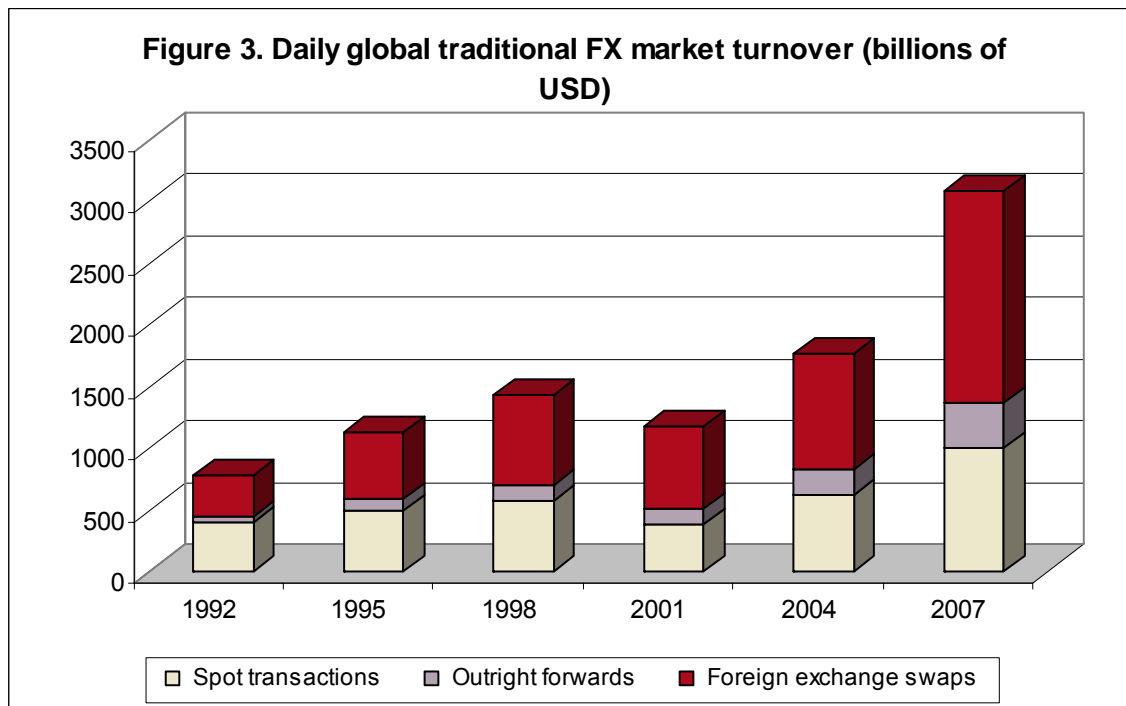
The 2007 numbers tell an interesting story. While volumes grew across all counterparty segments – banks, institutional investors and corporate customers – half of the volume increase was from one particular group, the "with other financial institutions" counterparty segment (Table 1, Figure 2). This segment includes pension funds, mutual funds, insurance companies, sovereign wealth funds and hedge funds.

Table 1. Daily volume in billions of USD (% share)	With reporting dealers	With other financial institutions	With non-financial customers
Global market	2004 2007 \$936 (53%) → \$1,319 (43%)	2004 2007 \$585 (33%) → \$1,235 (40%)	2004 2007 \$252 (14%) → \$527 (17%)



*Data only include traditional instruments, including spot, forward and FX swaps.
Source: Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity

In addition to straight outright purchases of foreign currencies for global investments, this segment has increased its use of currency overlay strategies to hedge the currency risk associated with these foreign investments. The volume growth of FX swaps, the primary vehicle for implementing currency overlay, was also unprecedented (Figure 3).



If you need to protect your foreign investments from currency risk, you can contact CIBC's foreign exchange risk consulting group for assistance. This group works with institutional and corporate clients to identify, quantify and construct appropriate strategies for managing currency exposures.

Please view our [legal disclaimer and other disclosure information](http://research.cibcwm.com/res/FEX/fx_disclaimer.html) [http://research.cibcwm.com/res/FEX/fx_disclaimer.html].

Feb. 5, 2008

By Sharon Grewal, executive director, foreign exchange risk consultancy group, CIBC World Markets

Corporate action news scrubbed clean

Delivering on our commitment of moving forward and consistently providing excellent client service, CIBC Mellon's corporate actions department is pleased to announce that our notification scrubbing module was launched on Dec. 3, 2007.

This module reduces the risks associated with incomplete or inaccurate information by automatically uploading and verifying information from multiple sources, including vendors like Canadian Depository for Securities Limited (CDS), Telekurs Group, Investment Data Corporation and Depository Trust Company (DTC).

The information is scrubbed (or compared) against a second information source, possibly another vendor. For example, using information from CDS, the notification scrubbing module will



automatically compare and verify information from the DTC. The process also identifies vendor notification errors such as incomplete or duplicate notices and incorrect information on rates, dates or terms. Any discrepancies are automatically flagged so that we can take corrective action in a timely manner.

Certain mandatory notices are also now processed straight through to clients without any need for manual review and verification. By automatically scrubbing or verifying information against other sources, the accuracy of the notice is enhanced. The module has built-in rules that check whether the relevant fields within the notice are filled out, and notification statuses are automatically assigned, letting clients know whether the notice is final (complete) or incomplete (preliminary).

With the successful implementation of the notification scrubbing module, the corporate actions department is now focusing its efforts on developing the succeeding modules, including election management and full end-to-end corporate action processing.

By Vivian Petiza, senior manager, corporate actions

Message from the CEO

At CIBC Mellon we know that when the markets are challenging, even more emphasis needs to be placed on achieving operational efficiencies, mitigating risk and enhancing portfolio returns. As your valued business partner, we strive to provide you with the up-to-date, accurate and customized information that you need to facilitate your decision-making process.

As part of BNY Mellon Asset Servicing, CIBC Mellon is one of the top-ranked information technology innovators in the financial services industry. Over the next three years, The Bank of New York Mellon plans to invest US \$2.1 billion in technology and related services specifically committed to support our asset servicing clients.

For you, this means:

- Continued enhancements to Workbench, our industry-leading online information delivery system
- Comprehensive access to real-time inquiry for trade information, cash positions and corporate actions with a single online point of entry
- Extensive report-building capabilities to enhance your internal and client reporting requirements
- The ability to process all types of securities and cash movements in real time
- A fully integrated multicurrency technology platform

We are confident that these investments and continued product development will give you the information and tools you need to navigate whatever challenges the markets present.

By Thomas C. MacMillan, president & chief executive officer at CIBC Mellon



Cash collateral gaining momentum in securities lending

Under current market conditions, institutional investors are seeking to use all sources of alpha generation at their disposal. Due to this desire for alpha, more securities lenders are accepting cash as collateral now than ever before. Plan sponsors and fund managers alike are enjoying higher overall returns than their peers in non-cash collateral programs. To meet this demand, all major global securities lending agents now offer clients securities lending programs using cash as collateral.

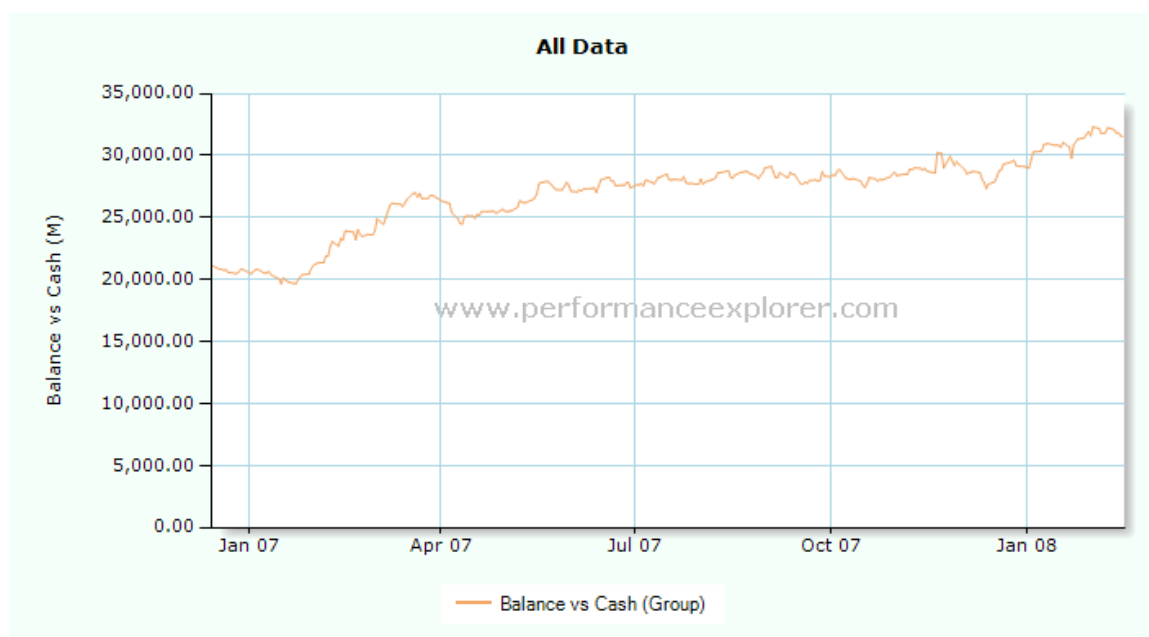
What is cash collateral?

Securities lending transactions are always collateralized against securities or cash to protect against the unlikely event of borrower default. Securities borrowers typically demand that their lenders offer flexibility in the range of permitted collateral so that they can maximize the value of their balance sheet resources. Institutional investors, who permit their assets to be lent against cash collateral, enjoy several benefits including a more attractive inventory to borrowers and the ability to generate incremental returns through the prudent management of cash.

Broad market acceptance globally

Outside Canada, cash is the predominant form of collateral in securities lending transactions, making up more than 95 per cent of all collateral provided in the United States and over 50 per cent globally. Canada lags behind significantly, with non-cash collateral comprising 75 per cent of all loans. In Canada, cash collateral balances continue to grow as plan sponsors and fund managers realize the significant benefits that a well-managed reinvestment program can provide to their funds. Figure 1 demonstrates growth in Canadian loans collateralized by cash over the past year and a half, which have risen from \$20 billion to nearly \$30 billion in early 2008 (source: Performance Explorer).

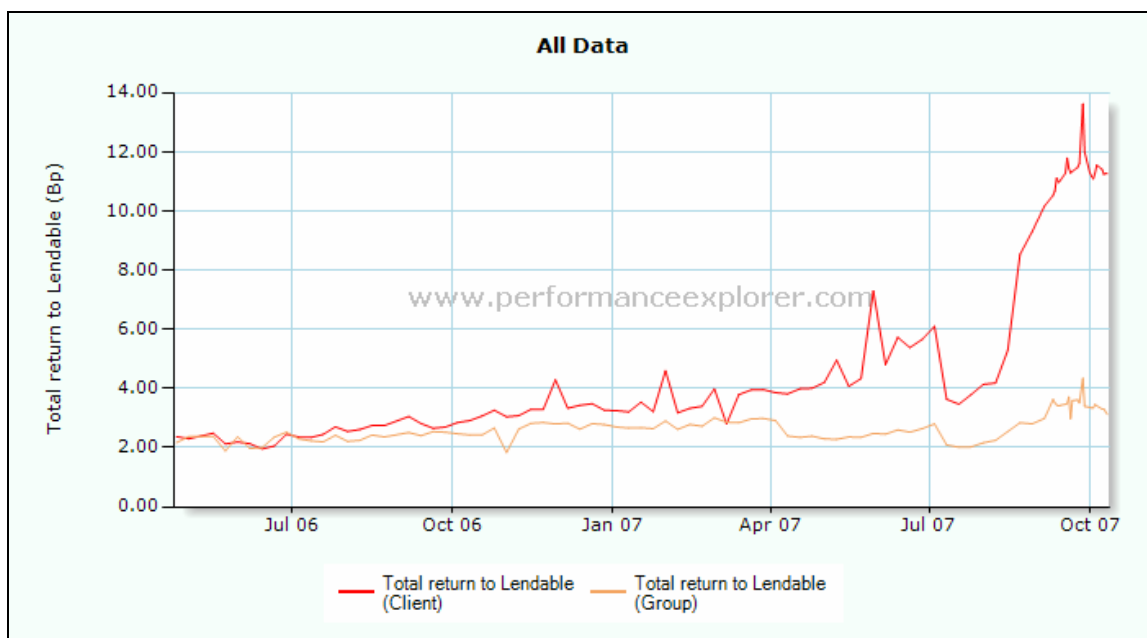
Figure 1





Significant financial benefits can be enjoyed by lenders who accept cash collateral (as seen in Figure 2). With the enhanced spreads attributable to the reinvestment of cash, flexible collateral solutions provide lending clients with a powerful way to maximize overall revenues. Figure 2 illustrates a comparison of portfolio revenues of two clients - one that accepts cash (dark red) and another that is confined to non-cash collateral (orange). The rapid increase beginning in August relates to widening credit spreads and subsequent cash reinvestment returns (source: Performance Explorer).

Figure 2



Managing risks

In all securities lending transactions, there is a potential for borrower default – although this has never occurred in the Canadian agent lending market. The risk of default is mitigated by daily marking to market of collateral and rigorous screening of borrowers. In cash collateral transactions, clients assume the principal risk on all underlying investments made in the reinvestment pool. This risk is mitigated by a prudent approach to managing cash collateral, the first and foremost objective being capital preservation.

CIBC Mellon's conservative reinvestment strategy has consistently generated high returns even under the troublesome circumstances facing short-term markets in recent years. Since July 2007, our results have weathered the liquidity/credit crisis, Bank of Canada overnight rate increase and now three successive rate reductions. Furthermore, CIBC Mellon's reinvestment portfolio has never had any exposure to third-party conduit (non-bank sponsored) asset backed commercial paper (ABCP) conduits.

Positive outlook

Securities lending against cash collateral has gained significant momentum over the past year, with strong growth anticipated well into 2009. Excellent returns resulting from the general widening of credit spreads, and the strong potential for continued Bank of Canada rate reductions



will help to sustain these high revenues and contribute material income to most funds throughout 2008.

If you would like more information, please contact your relationship manager.

By Jeffrey Alexander, director, business development

CIBC Mellon introduces new website for secure e-mail delivery

In April 2008, CIBC Mellon will introduce an enhanced level of security for e-mails sent to clients, pensioners and other external parties. This service, known as secure mail delivery (SMD), recognizes that some communications need an increased level of security, and gives us the option of securing electronic documents. If your company uses the transport layer security (TLS) cryptographic e-mail encryption protocol, you will continue to securely receive e-mails in your own in-box, and the SMD service will not apply to you.

Here's how SMD works:

When sending an e-mail message (which could also include attachments), the sender will specify that an e-mail must be delivered securely. As a recipient, you will receive a notification in your regular e-mail (e.g., Lotus Notes, Outlook) that a secure e-mail message is available.

Secure e-mails will be located on a specially designated CIBC Mellon website. The first time you receive a secure e-mail, you will be asked to create a user ID and password. Once you have access to the site, you can view the original secure e-mail, respond to it and perform other basic e-mail functions. Your ID and password will be used for any subsequent secure e-mails from CIBC Mellon. Passwords do not expire, and they can be reset.

For pensioners:

We will also use the SMD service to communicate with pensioners when sending their information electronically. To assist pensioners, our call centre representatives are being trained to help anyone who encounters difficulties retrieving information sent securely.

CIBC Mellon takes safeguarding our clients' confidential information very seriously. The introduction of e-mail encryption using SMD is a further demonstration of this ongoing commitment.

If you would like more information about this new feature, please contact your relationship manager.

By Simon Baker, security architect, information services