

RBC Dominion Securities Month-In-Review: July 2009

Portfolio Advisory Group

What Moved the Markets

Equity markets climbed higher throughout the month of July primarily due to a strong earnings season. During the week of July 13th, equity markets posted the biggest weekly gain since the lows of March as the S&P/TSX gained 6.4% and the S&P 500 gained 6.9% following the release of better than expected earnings from **Goldman Sachs (GS)**, **Intel (INTC)** and **Baxter (BAX)**. While the majority of companies that reported earnings this month either met or exceeded analyst expectations, the main driver was cost-cutting as opposed to revenue growth. Greater confidence about corporate earnings and an economic recovery pushed the US dollar to its lowest level of 2009 as investors turned to more risky investments instead of the safety of the greenback. Meanwhile, the US dollar and its role as a reserve currency prompted debate by China, India, Russia, and France earlier this month ahead of the G8 Summit in Italy.

A weak US dollar, higher equity markets, and higher commodity prices pushed the Canadian dollar to a 10-month high, which the Bank of Canada cited as a threat to the country's growth. The Bank of Canada promised to maintain its key lending rate at 0.25% until Q2/2010, made slight upward revisions to its GDP estimates and declared that the recession in Canada was over. Canada received positive economic data during the month as June unemployment figures and May retail sales were both better than expected and consumer confidence in July increased 0.8 points to reach 82.9. Unfavorable news came near the end of the month as the number of people receiving regular employment insurance benefits jumped 9.2% to 778,700 in May – the highest level since 1997.

The US was not as fortunate with regards to positive economic data. While US new home sales increased by 11.0% in June (vs. expectations of 3.0%), June unemployment figures came in worse than expected (-467K vs. expectations of -350K) and July consumer confidence declined to 46.6 (vs. expectations of 49.0). Despite these figures, Federal Reserve Chairman Bernanke expressed optimism about the US economy and made upward revisions to GDP estimates. He also stated that the Fed is planning a long-term "exit strategy" that would eventually tighten monetary policy. **Microsoft (MSFT)** and **Yahoo (YHOO)** signed a long awaited 10-year agreement aimed at targeting Google's dominance in the online ad market.

Number Crunching

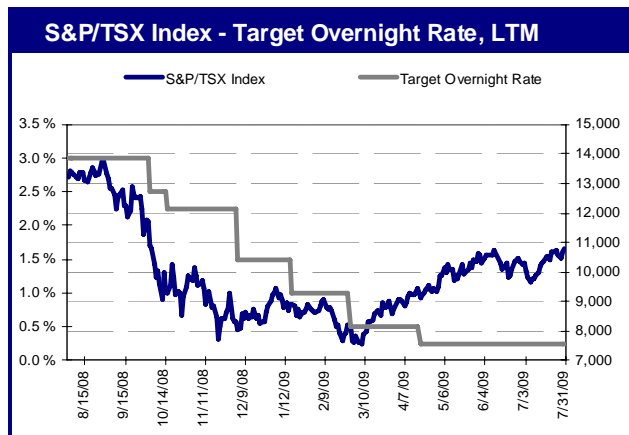
Equity Indices	Index Level	Month	YTD*
S&P/TSX Composite Index	10,787.15	4.0%	20.0%
Dow Jones Industrial Average	9,171.61	8.6%	4.5%
S&P 500 Index	987.48	7.4%	9.3%
NASDAQ Composite Index	1,978.50	7.8%	25.5%
MSCI World	1,044.75	8.4%	13.5%
MSCI EAFE	1,425.40	9.0%	15.2%
MSCI World TR	3,383.01	8.5%	15.9%

S&P/TSX Sector Performance	Index Level	Month	YTD*
S&P/TSX Financials	1,538.94	10.7%	35.7%
S&P/TSX Energy	2,512.19	-0.4%	18.8%
S&P/TSX Materials	2,618.23	3.2%	15.7%
S&P/TSX Industrials	987.23	3.9%	7.7%
S&P/TSX Consumer Discretionary	827.69	1.9%	2.3%
S&P/TSX Telecom Services	650.82	1.4%	-9.7%
S&P/TSX Information Technology	281.42	0.0%	55.9%
S&P/TSX Consumer Staples	1,415.36	-4.5%	-2.9%
S&P/TSX Utilities	1,486.02	-0.2%	-1.6%
S&P/TSX Healthcare	276.15	0.1%	9.4%

Currencies (in Canadian Dollars)	Exchange	Month	YTD*
US Dollar	1.0776	-7.3%	-11.6%
Euro	1.5363	-5.8%	-9.8%
British Pound	1.8010	-5.8%	1.1%
Japanese Yen (100)	1.1382	-5.6%	-15.3%

Commodities (US\$)	Spot Price	Month	YTD*
Crude Oil (WTI per barrel)	\$69.45	-0.6%	55.7%
Natural Gas (per million btu)	\$3.65	-4.7%	-35.0%
Gold (per ounce)	\$954.00	3.0%	8.2%
Silver (per ounce)	\$13.92	2.3%	22.2%
Copper (per pound)	\$2.59	15.6%	88.0%
Nickel (per pound)	\$8.12	17.0%	54.2%
Aluminum (per pound)	\$0.85	16.9%	23.8%
Zinc (per pound)	\$0.79	13.0%	44.9%

* YTD return data is simple price return. All indices are in local currency unless otherwise noted.
Source: Bloomberg



* Source: Bloomberg

A Closer Look – The Rise of the Canadian Dollar

On July 27th the Canadian dollar reached a 10-month high of \$1.0779/USD. We discuss below the main drivers behind this increase.

Optimism About An Economic Recovery:

July's strong earnings season and positive economic indicators signaled to investors that the recession was easing and that a global economic recovery appeared to be underway. Comments by the Bank of Canada further supported this sentiment as it declared that Canada was no longer in a recession and had entered into a long recovery stage. The Canadian dollar strengthened over optimism that Canada will be one of the first developed economies to emerge from this recession.

Weak US Dollar and High Commodity Prices:

On July 28th, the US Dollar Index, which tracks the US dollar against a basket of currencies including the EUR, JPY, GBP, CAD, CHF and SEK, fell to its lowest level in 2009. This has impacted the Canadian currency in two ways:

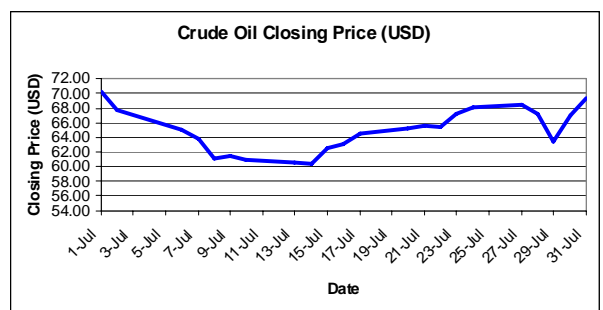
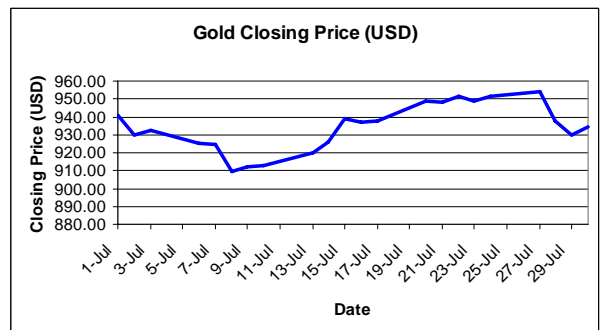
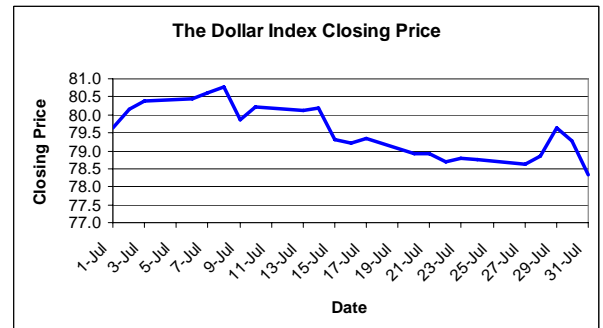
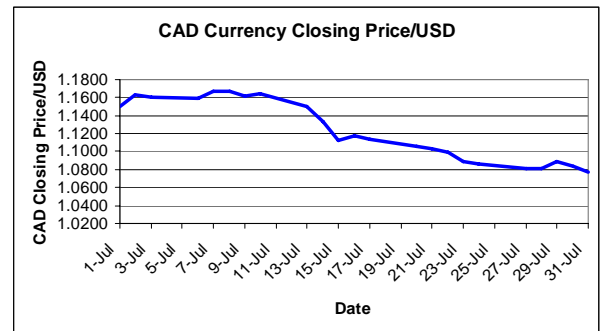
1) Optimism about an economic recovery, as explained above, has led investors to abandon the safety of the greenback in exchange for more risky, high yielding assets such as commodities. This has strengthened the Canadian dollar as it is a commodity based currency.

2) Commodity prices were also pushed higher this month due to the declining performance of the US dollar against the major global currencies. Since gold and oil are priced in US dollars, it becomes cheaper for foreign investors to purchase these commodities when the US dollar weakens.

Canada is a producer of many key commodities, including oil and gold, which account for over 50% of its export revenue. As a result, the Canadian dollar tends to rise and fall with commodity prices. Commodity prices, particularly for oil and gold, also increased this month as investors anticipated stronger global demand for commodities due to an imminent economic recovery. Rising prices strengthened the Canadian dollar and further increased demand for both Canadian commodities and equities.

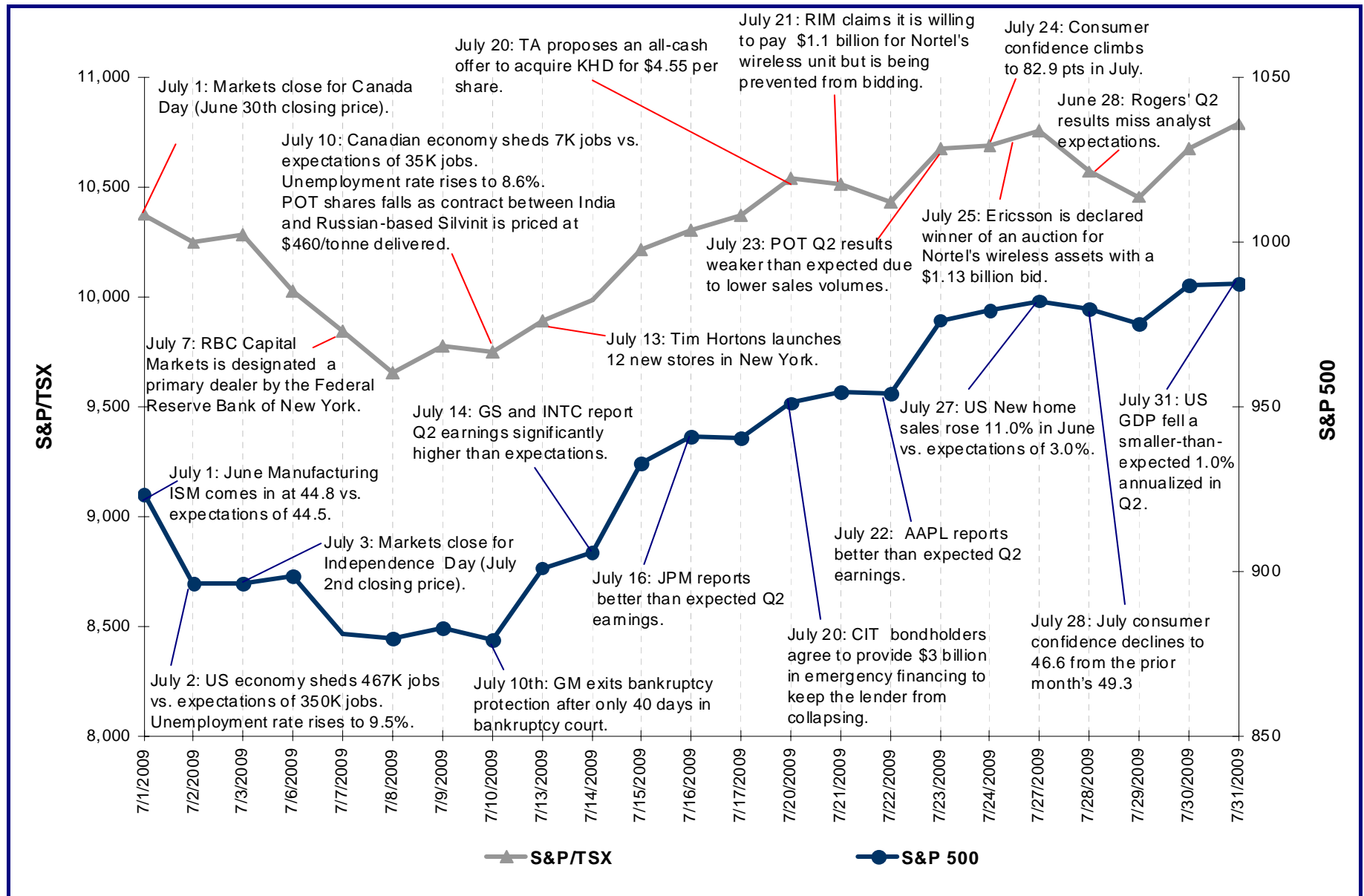
Consequences of a Strong CAD Dollar:

While a strong Canadian currency increases the purchasing power of Canadian consumers, it has potentially negative consequences for Canadian businesses. The Bank of Canada has warned that a strong Canadian dollar will have a negative impact on growth in Canada. More specifically, a strong Canadian dollar makes it difficult for Canadian exporters since their goods become more expensive for global buyers to purchase. This is particularly an important issue for US and Canada trade relations since Canada exports approximately 70% of its goods to the US.

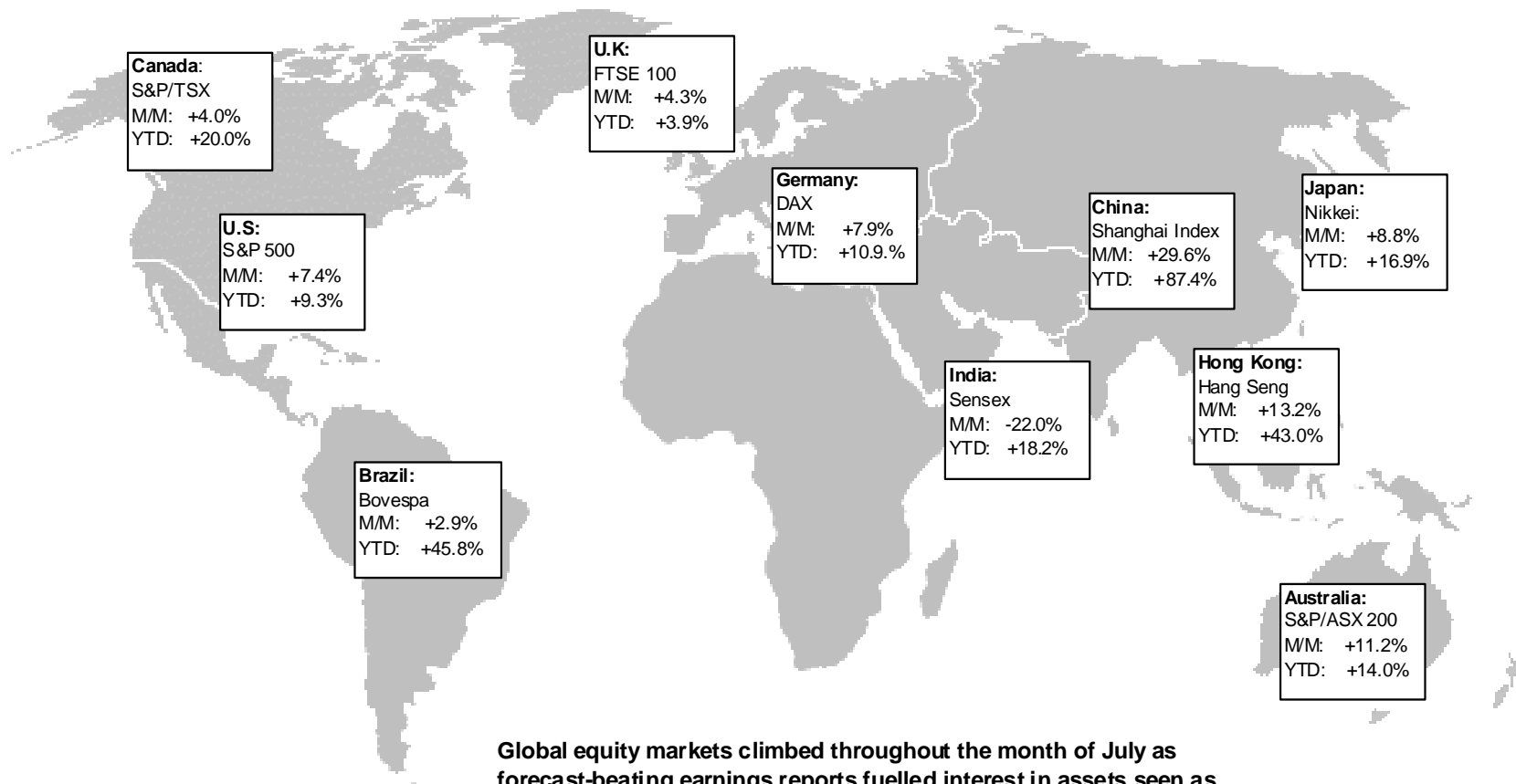


*Source: Bloomberg

North American Equity Performance – July 2009



World Markets – July 2009

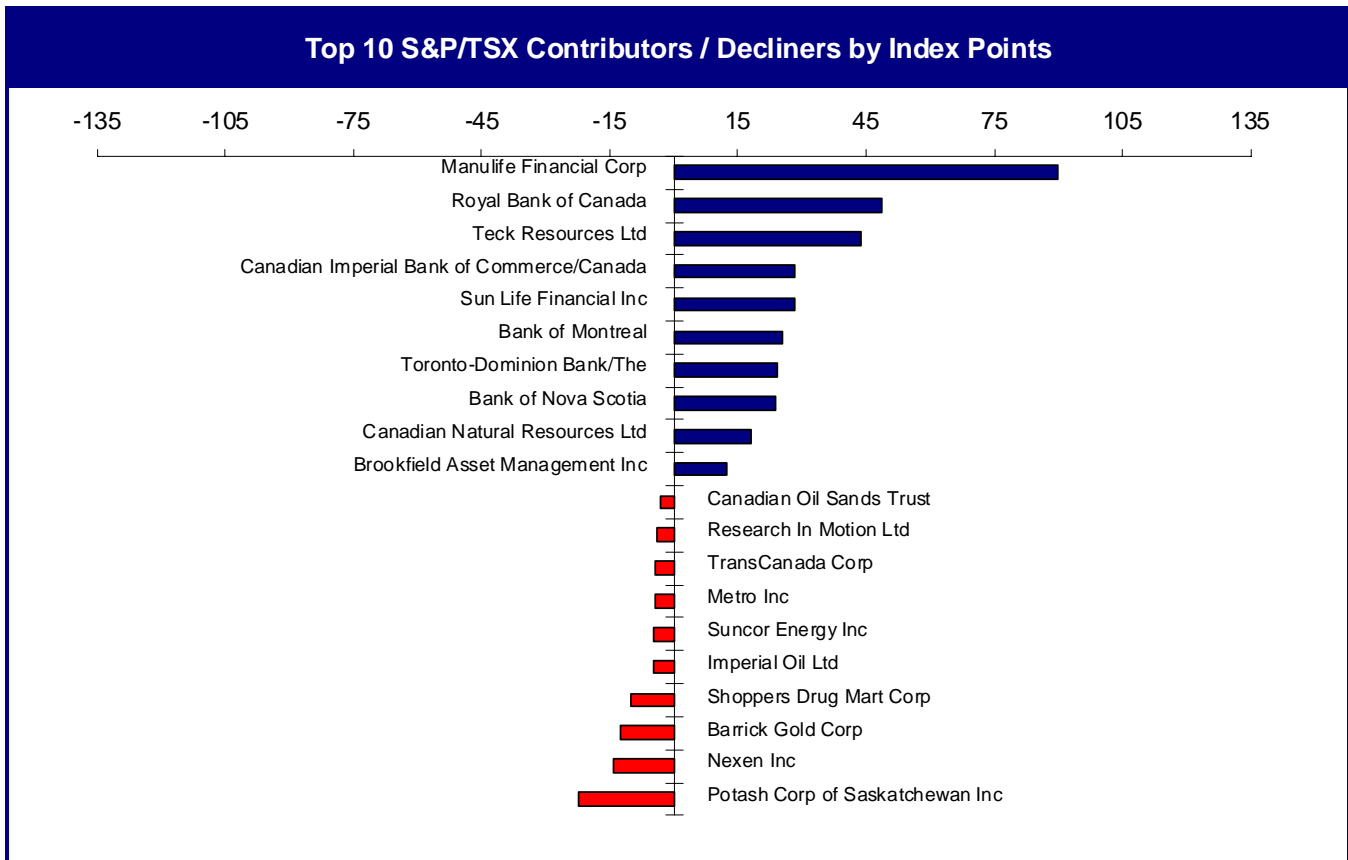
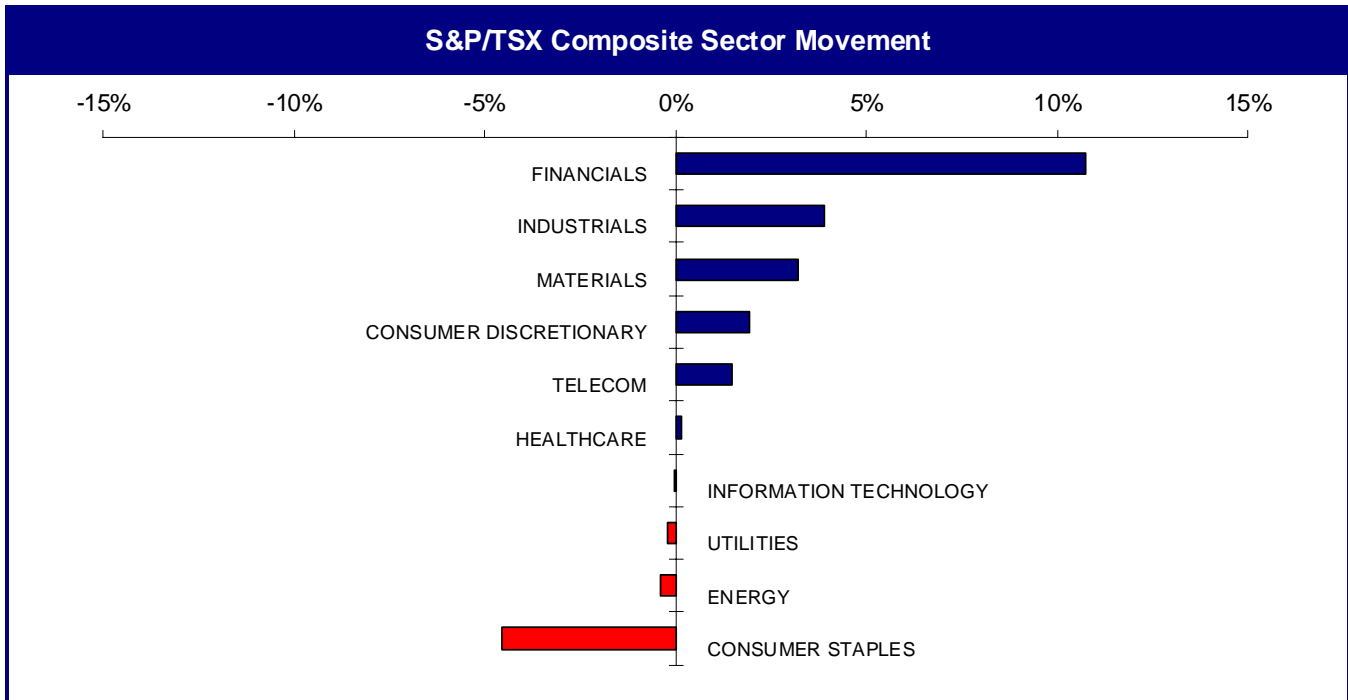


Global equity markets climbed throughout the month of July as forecast-beating earnings reports fuelled interest in assets seen as higher risk such as equities, commodities, and certain high-yielding currencies.

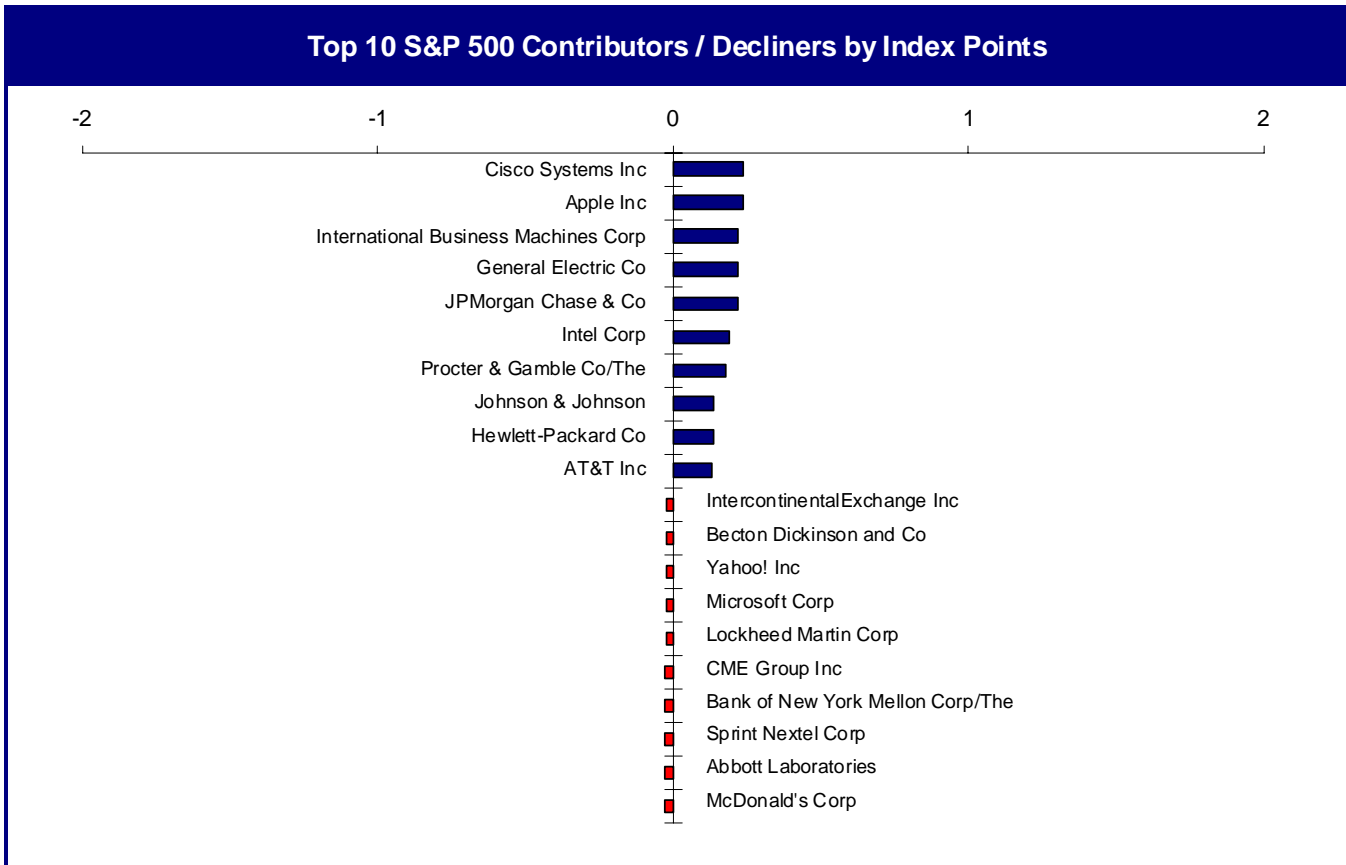
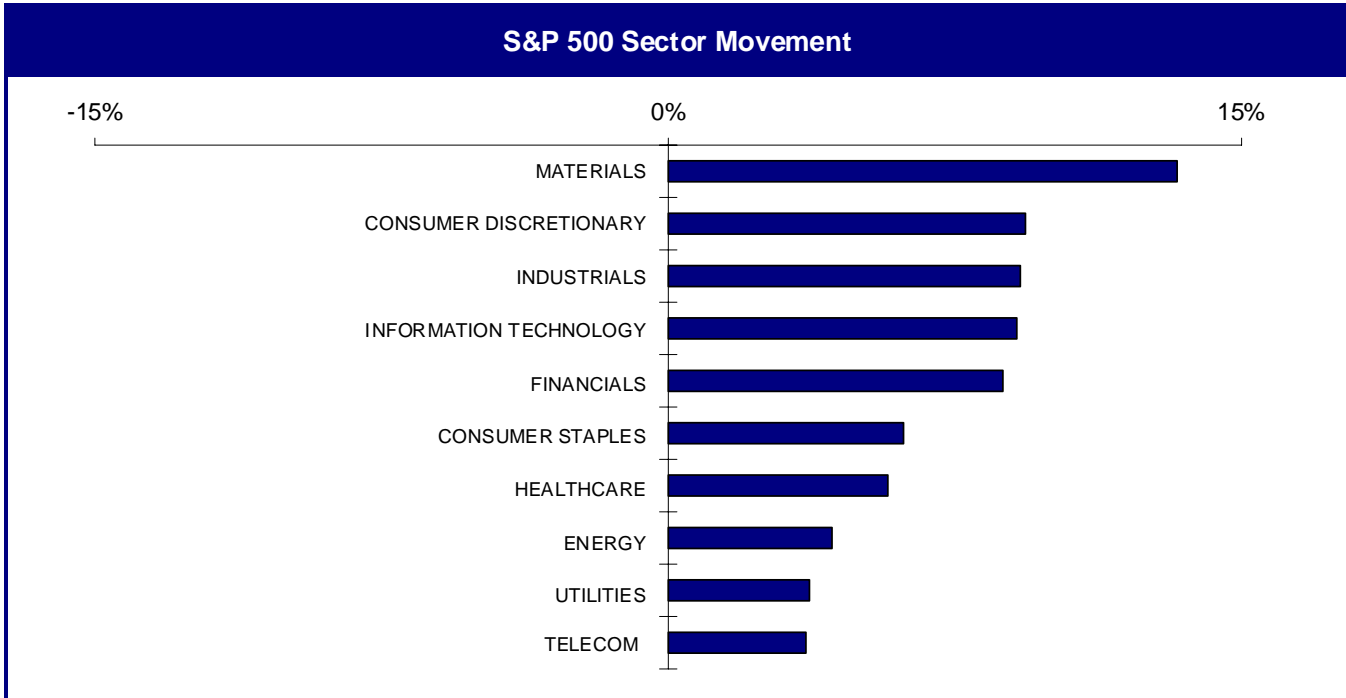
*** All returns calculated in local currency.

Source: Bloomberg

Canadian Equities – July 2009



U.S. Equities – July 2009



Canadian and U.S. Economic Data – July 2009

Better Than Expected	Event	Period	Consensus	Actual	Prior
	1-Jul US ADP Employment Change	JUN	-394K	-473K	-532K
	2-Jul US Change in Nonfarm Payrolls	JUN	-365K	-467K	-345K
	2-Jul US Factory Orders	MAY	0.90%	1.20%	0.70%
	6-Jul US ISM Non-Manf. Composite	JUN	46	47	44
	7-Jul CA Building Permits MoM	MAY	0.80%	14.80%	-5.40%
	9-Jul CA Housing Starts	JUN	130.0K	140.7K	128.4K
	10-Jul CA Net Change in Employment	JUN	-35.0K	-7.4K	-41.8K
	10-Jul CA New Housing Price Index MoM	MAY	-0.50%	-0.10%	-0.60%
	14-Jul US Producer Price Index (MoM)	JUN	0.90%	1.80%	0.20%
	14-Jul US Advance Retail Sales	JUN	0.40%	0.60%	0.50%
	15-Jul US Consumer Price Index (MoM)	JUN	0.60%	0.70%	0.10%
	15-Jul US CPI Ex Food & Energy (MoM)	JUN	0.10%	0.20%	0.10%
	15-Jul US Industrial Production	JUN	-0.60%	-0.40%	-1.10%
	15-Jul US Capacity Utilization	JUN	67.90%	68.00%	68.30%
	17-Jul US Housing Starts	JUN	530K	582K	532K
	17-Jul US Building Permits	JUN	524K	563K	518K
	20-Jul CA Wholesale Sales MoM	MAY	-2.00%	-0.30%	-0.60%
	20-Jul US Leading Indicators	JUN	0.50%	0.70%	1.20%
	22-Jul CA Retail Sales MoM	MAY	0.50%	1.20%	-0.80%
	22-Jul CA Retail Sales Less Autos MoM	MAY	0.50%	0.70%	-0.50%
	22-Jul US House Price Index MoM	MAY	-0.20%	0.90%	-0.10%
	23-Jul US Existing Home Sales	JUN	4.84M	4.89M	4.77M
	23-Jul US Existing Home Sales MoM	JUN	1.50%	3.60%	2.40%
	27-Jul US New Home Sales MoM	JUN	3.00%	11.00%	-0.60%
	30-Jul US Initial Jobless Claims	25-Jul	575K	584K	554K
	31-Jul US GDP QoQ (Annualized)	2Q A	-1.50%	-1.00%	-5.50%
	31-Jul US Chicago Purchasing Manager	JUL	43	43.4	39.9
As Expected					
	14-Jul CA New Motor Vehicle Sales MoM	MAY	1.00%	1.00%	0.00%
	17-Jul CA Consumer Price Index MoM	JUN	0.30%	0.30%	0.70%
	17-Jul CA Bank Canada CPI Core MoM	JUN	0.00%	0.00%	0.40%
	21-Jul CA Bank of Canada Rate	21-Jul	0.25%	0.25%	0.25%
Weaker Than Expected					
	1-Jul US Total Vehicle Sales	JUN	9.8M	9.7M	9.9M
	1-Jul US ISM Manufacturing	JUN	44.9	44.8	42.8
	1-Jul US Construction Spending MoM	MAY	-0.60%	-0.90%	0.80%
	2-Jul US Unemployment Rate	JUN	9.60%	9.50%	9.40%
	2-Jul US Change in Manufact. Payrolls	JUN	-150K	-136K	-156K
	8-Jul US Consumer Credit	MAY	-\$8.8B	-\$3.2B	-\$15.7B
	10-Jul CA Unemployment Rate	JUN	8.70%	8.60%	8.40%
	10-Jul US Trade Balance	MAY	-\$30.0B	-\$26.0B	-\$29.2B
	10-Jul US U. of Michigan Confidence	JUL P	70	64.6	70.8
	14-Jul US Retail Sales Less Autos	JUN	0.50%	0.30%	0.50%
	14-Jul US Business Inventories	MAY	-0.80%	-1.00%	-1.10%
	15-Jul CA Manufacturing Shipments MoM	MAY	-2.50%	-6.00%	-0.10%
	17-Jul CA Leading Indicators MoM	JUN	0.10%	-0.10%	-0.10%
	28-Jul US Consumer Confidence	JUL	49	46.6	49.3
	29-Jul US MBA Mortgage Applications	24-Jul	-	-6.30%	2.80%
	29-Jul US Durable Goods Orders	JUN	-0.60%	-2.50%	1.80%
	30-Jul US Continuing Claims	18-Jul	6300K	6197K	6225K
	31-Jul CA Gross Domestic Product MoM	MAY	-0.30%	-0.50%	-0.10%
	31-Jul US GDP Price Index	2Q	1.00%	0.20%	2.80%
	31-Jul US Core PCE QoQ	2Q	2.30%	2.00%	1.60%

Key Takeaways:

For the month of July, economic data was more favorable for Canada than it was for the US. In Canada, Employment Figures, Retail Sales, and Housing Starts all exceeded analyst expectations. While New Home Sales exceeded analyst expectations in the US, Consumer Confidence and Unemployment Figures were weaker than expected. These figures illustrate that the recession may be easing more quickly in Canada than in the US.

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