RICHARDSON GMP

THE LAUNCH PAD
Daily market commentary

Thursday, January 29th, 2015

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TODAY

European shares are starting to climb back into positive territory after a sharp decline to start the day with yesterday's carnage spilling over the Atlantic. Asian shares are down with the Nikkei and Hang Seng both down a percent overnight. U.S. futures are currently even with yesterday's close.

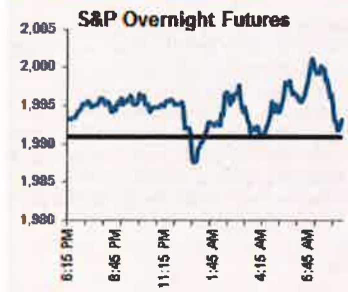
Disappointment in Europe was centered on the energy sector following Shells big profit miss. With Chevron reporting tomorrow and Exxon next week, this could add a little foresight into how U.S. markets may react once the big U.S. energy producers report.

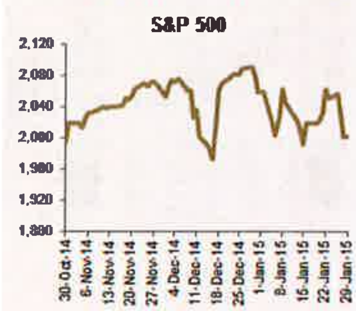
Ok, now let's look at some good news. Rogers increased their dividend, everyone likes that. Ebola new cases in the Africa have dropped to their slowest pace since June. But I think the best news may be the initial US jobless claims dropped to 265k, that is the lowest pace in 15 years. Jobs for everyone!!!

The Loonie breached the $0.80 mark against the USD following the FOMC statement yesterday. It's been held below and slowly weakening since 2pm yesterday. Currently at $0.7971, but good luck getting close to that if you're heading down to Florida for March break this year. Disney is getting whole lot more expensive. The move is more a story of USD strength then Loonie weakness as it has strengthened materially against other majors.

The market typically pays a given (although variable) multiple to earnings. For instance the GE is trading 13.5x 2015 earnings estimates. So what happens when currencies fluctuate, like that C$ of ours. For a Canadian listed company operating in Canada, not much usually. But what about a Canadian listed company operating mainly in the US and reporting in US dollars. The drop in the C$ actually makes their earnings more valuable given the Canadian listing price. The C$ has dropped 17% or so against the US dollar since the end of June. If the earnings multiple stayed the same, a Canadian listed US operating/reporting company would appreciate by 17% on the TSX simply thanks to currency. Ok, its early in Vancouver, rambling. **Conclusion – currency matters.**

The FED only made minor changes to their FOMC statement and ignored mentioning any concerns about deflation to keep the possibility of a rate hike occurring as early as June. The main change in the communique was the recognition of increasing growth in economic expansion. Specifically changing the description of growth from "moderate pace" to "solid". They did acknowledge that lower oil prices are acting as a tax cut for consumers. They expect inflation to decline in the near term before then rising to their 2% target. At the end of the day the market wants to know when they will finally hike rates. During the December press conference, Janet Yellen mentioned that they would not raise rates in the next couple





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Global Markets

	Close	1d	YTD%
S&P/TSX	14,603	-231	-0.2
S&P 500	2,002	-27	-2.8
DJIU	17,191	-196	-3.5
Nasdaq	4,638	-44	-2.1
FTSE 100	6,770	-56	3.1
Dax	10,663	-48	8.7
Hang Seng	24,596	-266	4.2
Nikkei	17,606	-190	0.9

Commodities

	Close	1d	YTD%
WTI Spot	$44.45	-1.8	-16.6
ICE Brent	$48.96	0.5	-15.9
Nat Gas	$2.86	0.0	-1.2
Gasoline	$136	1.5	-7.6
Gold	$1,272	-12.7	7.3
Silver	$17	-0.5	11.4
Copper	$5,391	-129.0	-15.4
Zinc	[illegible]	[illegible]	[illegible]

meetings. This being the first and March the second, leaves June as the first possible date. They did remove the term "a considerable time" replacing it by saying they will be "patient".

Thought we'd share this tongue in cheek post on building an Investing Frankenstein. All the attributes of the worst kind of investor. Take a read and see if any seem familiar.

Another shout out to our younger readers. Here is why young investors should hope for bear markets. Poor performance is actually a good thing when you have time on your side. For those in retirement or on the cusp, this does not apply.

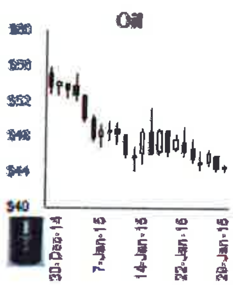
Diversion: Yesterday Milos Raonic didn't have much luck against Djokovic. Next up Djokovic v Abrams Tank

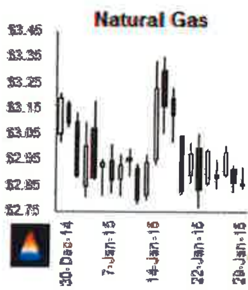
COMPANY NEWS

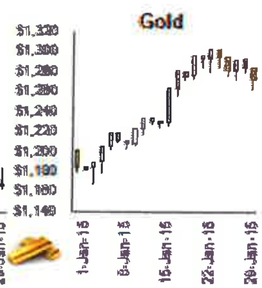
Facebook beat analyst expectations after the bell yesterday, posting an operating margin of 29% in the fourth quarter. However, margins have been shrinking, down from 44% a year ago. Net income came in at $701mm up 34%. **Qualcomm** is trading lower this morning after cutting their forecast for 2015 on weaker orders and citing increased competition from Chinese competitors. **McDonalds** has ousted CEO Don Thompson after months of weak same store sales. **Alibaba** beat on earnings and margins but the street was disappointed with their Singles Day sales and inability to reduce counterfeit goods from their website. Shares are trading lower in premarket trading. **Coach** earnings topped estimates as demand from China helped boost profits. **Hersey** missed estimates but announced they are acquiring jerky maker **Krave**.

COMMODITIES

Oil fell yesterday after crude inventories came in at the highest level since the early 80's. Inventories in the largest consuming nation expanded by 9 million barrels last week. Oil is up slightly this morning but still hovering near a six year low. **Gold** is trading down $12 this morning as the FED statement boasted about U.S. growth, increasing the likelihood of a rate cut in the first half of this year. Tighter policy is also weighing on **copper** which is down in pre-market. Corn is extending its 11 week fall as supplies continue to outpace demand.







FIXED INCOME AND ECONOMICS

The FOMC came and went yesterday with little fanfare in what was expected to be a continuation of hawkish policy guidance. There was no press conference or attached summary of economic projections this time around so markets were left dissecting the accompanying statement to the letter. "Considerable time" pertaining to keeping overnight rates low was removed from the language but retaining a "patient" guidance left most observers leaning toward a slightly more aggressive stance from the Committee. An economy that is expanding at a "solid pace" (versus "moderate pace" prior) also indicated more traction for the rate hike camp. Declining energy prices received a shout-out as having "boosted household purchasing power" but in contrast to the statement from our friends at the BofC last week, was relegated to just a single sentence yesterday. Downside weakness to inflation was specifically cited to likely fall further in the short-term before rising back to target levels eventually. Lastly, the voting results from the Committee were decidedly unanimous this around with all members agreeing to keep the current policy intact. This compares with the December meeting that saw three dissenters (whom ironically are no longer voting members in 2015). Market reaction was essentially flat with mild selling in the U.S. dollar seen as the primary mover.

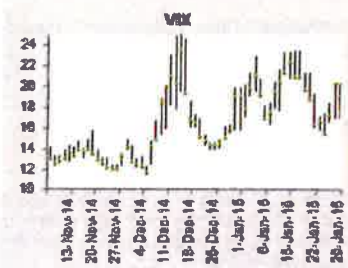
Several Canadian corporate bond issuers are in the headlines this morning with a mixed bag of developments. Canadian Pacific Railway decided to take advantage of record low benchmark

Zinc	$2,079	-30.5	-4.1
Aluminum	$1,822	-17.5	-0.2
Nickel	$14,700	-293.0	-2.5

Fixed Income & Currencies

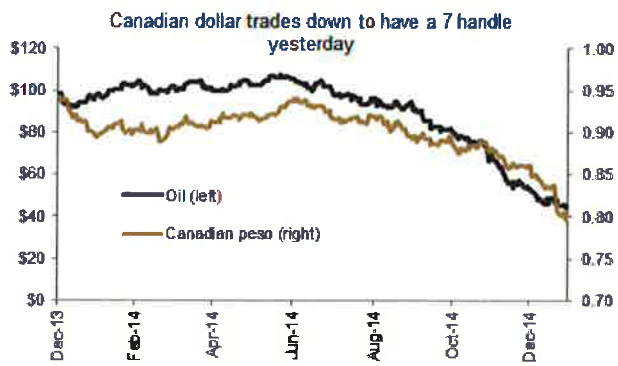
Canada	Last	bps
2Y	0.45	0.01
5Y	0.72	0.03
10Y	1.39	0.04
30Y	1.96	0.03
U.S		
2Y	0.52	0.05
5Y	1.28	0.04
10Y	1.75	0.03
30Y	2.32	0.03

FX	Last	bps
C$/USD	0.80	0.00
US$/EUR	0.88	0.00
USD/¥	118.09	0.55
USD/C$	1.25	0.00



yields by raising $700MM in 10 year senior notes yesterday at just +112.50 basis points over the curve. The deal is noteworthy for a few reasons --- it marks a record size for the rail company (almost 50% more than the previous high), is their first financing in four years, and is denominated in USD despite the fact that 10 year Treasuries yield 40 basis points more than Canada's and the loonie is 25% weaker than the greenback. Bankers clearly realize that a bond raise from a Calgary-based issuer would have more demand when issued in the currency of an economy that is projected to grow faster than their home soil. The Province of Ontario also sought to lock in cheap funding by way of a $750MM 12/2/2046 bullet issue that saw the deal price at +92.50 basis points over long Canada's. That equates to a coupon of just 2.90% which easily marks the lowest cost of borrowing ever for them in the long part of the curve. In ratings action, grocery operator Safeway Inc. saw S&P lower their credit-worthiness by five notches from BBB- to CCC+ to match that of Albertson's Holdings LLC who recently acquired the chain. Fortunately this won't have an impact on the operations in Canada as Sobeys purchased all 200+ domestic stores from the American parent back in mid-2013. High yield bond issuer MEG Energy Corporation also saw their debt ratings cut to BB from BB- by S&P but their outlook raised to stable. Their widely traded 7% 3/31/24 senior unsecured bonds were little changed at time of writing.

CHART OF THE DAY



QUOTE OF THE DAY

Restaurants are minefields for the socially inept.

— Graeme Simsion, TheRosie Project

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