ScotiaMcLeod **Daily Market Summary**

Market Data as of Wednesday July 28,2010 9:00 a.m.

World Indices

		Change	%	YTD
S&P / TSX Composite Index	11716.69	0.00	0.00%	-0.09%
Dow Jones Industrial Average	10537.69	0.00	0.00%	1.05%
S&P 500	1113.84	0.00	0.00%	-0.11%
Nasdaq	2288.25	0.00	0.00%	0.84%
FTSE-100 (London)	5332.58	-33.09	-0.62%	-1.48%
CAC 40 (Paris)	3667.36	0.96	0.03%	-6.83%
DAX (Frankfurt)	6169.86	-37.45	-0.60%	3.57%
Nikkei (Tokyo)	9753.27	256.42	2.70%	-7.52%
Hang Seng (H.K.)	21091.18	117.79	0.56%	-3.57%

Commodities Highest Volume Futures

	Bid	Change	%
Aluminum (lb)	0.94	0.00	0.39%
Copper (lb)	3.24	0.03	1.01%
Nickel (lb)	9.32	-0.04	-0.39%
Zinc (lb)	0.89	0.02	1.83%
Gold (oz)	1158.00	0.00	0.00%
Silver (oz)	17.49	-0.13	-0.74%
Crude (bbl)	76.62	-0.88	-1.14%
Nat. Gas (mmBtu)	4.72	0.04	0.92%
Lumber (Mbf)	202.80	2.50	1.25%

Canadian Bonds

	Bid	Change
3 Month	0.66	0.01
6 Month	0.91	0.00
2 Year	1.61	-0.03
5 Year	2.47	-0.02
10 Year	3.27	-0.01
30 Year	3.80	0.00
BoC Overnight Rate	0.75	0.00
Prime Rate	2.75	0.00

U.S. Bonds

	Bid	Change
3 Month	0.15	-0.00
6 Month	0.20	-0.00
2 Year	0.64	0.00
5 Year	1.77	-0.02
10 Year	3.04	-0.01
30 Year	4.08	0.00
Fed Funds Rate	0.25	0.00
Prime Rate	3.25	0.00

Currencies

	Bid	Change
$CDN/$U.S.	1.0318	0.0007
$U.S./$CDN	0.9692	-0.0007
$U.S./£Sterling	1.5598	-0.0003
$U.S./$Euro	1.2982	-0.0024
¥Yen/$U.S.	87.67	-0.13

Index Futures

Dow Jones	10466.00	-28.00
Nasdaq	1881.00	-5.50
S&P 500	1108.00	-2.90

Market Data is indicative. Source Reuters.

Economic Releases

Canada

Jul 28 — Teranet/National Bank HPI for May - EST: --

Jul 29 — Gross Domestic Product MoM for May - EST: 0.2%

Jul 29 — Raw Materials Price Index MoM for Jun - EST: 1.0%

Jul 29 — Industrial Product Price MoM for Jun - EST: 0.2%

United States

Jul 28 — MBA Mortgage Applications - EST: --

Jul 28 — Durable Goods Orders for Jun - EST: 1.0%

Jul 28 — Durables Ex Transportation for Jun - EST: 0.4%

Jul 28 — Fed's Beige Book

Jul 29 — Continuing Claims - EST: 4500K

Jul 29 — Initial Jobless Claims - EST: 460K

Jul 30 — Employment Cost Index for Q2 - EST: 0.5%

Jul 30 — GDP Price Index for Q2 - EST: 1.1%

Jul 30 — NAPM-Milwaukee for Jul - EST: 57

Jul 30 — U. of Michigan Confidence for Jul - EST: 67

Jul 30 — Chicago Purchasing Manager for Jul - EST: 56

Jul 30 — GDP QoQ for Q2 - EST: 2.5%

Jul 30 — Personal Consumption for Q2 - EST: 2.4%

Jul 30 — Core PCE QoQ for Q2 - EST: 1.0%

Rating Changes

Company	New	Old
None to report		

Target Price Changes

Company	New	Old
Galleon Energy Inc.	$6.00	$7.00
H&R REIT	$19.00	$18.25
Power Corporation of Canada	$31.00	$33.00
Power Financial Corporation	$33.00	$34.00

Companies Reporting Today

Company	Quarter	Scotia Estimates	Last Year	Previous Quarter
Bell Aliant Regional Communications Income Fund	2	$0.52	$0.55	$0.48
Chemtrade Logistics Income Fund	2	n.a.	n.a.	n.a.
Enbridge Inc.	2	$1.13	$1.59	$1.72
Fort Chicago Energy Partners L.P.	2	$0.15	$0.15	$0.10
Hecla Mining Company	2	US$0.09	US$0.11	US$0.13
Lundin Mining Corporation	2	US$0.24	US$0.10	US$0.06
Methanex Corporation	2	US$0.17	US$-0.06	US$0.32
Newmont Mining Corporation	2	US$1.42	US$1.13	US$1.80
Sherritt International Corporation	2	$0.52	$0.38	$0.36
TMX Group Inc.*1*	2	$0.65	$0.63	$0.66
Torstar Corporation*2*	2	$0.29	$0.01	$0.39

1 Audio webcast at www.tmx.com

2 A live broadcast of the conference call will also be available over the internet on the Investor Relations (Conference Calls) page at www.torstar.com.

Canadian Equities

Diversified Financials

- Power Group - Trimming Earnings Estimates

We are trimming our Q2/10E, 2010E, and 2011E EPS for PWF and POW due to lower consensus estimates for Great-West Lifeco (GWO) and our revised estimates for IGM. PWF and POW are expected to release Q2/10 earnings on August 6, 2010. GWO consensus estimates for Q2/10 EPS were lowered to $0.45 from $0.54, with 2010E EPS lowered to $2.02 from $2.12, and 2011E EPS lowered to $2.34 from $2.42. We lowered our IGM Q2/10E EPS to $0.68 from $0.71, 2010E EPS to $2.73 from $2.90, and 2011E EPS to $3.04 from $3.30. We lowered our Q2/10E EPS for PWF and POW to $0.58 and $0.55, from $0.67 and $0.64, respectively, due to lower estimates for GWO and IGM. We have reduced our 2010E and 2011E EPS for PWF to $2.37 and $2.78, from $2.50 and $2.90, respectively, and our 2010E and 2011E EPS for POW to $2.22 and $2.66, from $2.35 and $2.80, respectively. We are also lowered our 12-month share price targets for PWF and POW to $33 and $31, from $34 and $33, respectively. Maintain 2-Sector Perform rating on shares of PWF and POW. — **Choquette Kevin**

Banks

- Euro Crisis/Partial Reality Check for Basel - Tone Improves - Positive for Canadian Banks

The Basel Committee on Banking Supervision reached broad agreement July 26, 2010 on the overall design of the capital and liquidity reform package including definition of capital, the treatment of counterparty credit risk, the leverage ratio, and the global liquidity standard. It seems the increase in systemic risk (Euro crisis) and broad consultation may have caused Basel to moderate its very aggressive stance on bank regulation. The tone is improving, however calibration risk and uncertainty still persists until the detailed rules are released later this year. The agreement, we estimate, improves Canadian banks' Tier 1 common ratio by 100 bp versus the Dec/09 proposal. Continuing with conservative assumptions on market at risk and off balance sheet consolidation, our pro forma 2012 Tier 1 common for the banks is 8.0% (high end of estimated range); perhaps providing some flexibility for banks to increase dividends. We remain overweight the bank group based on strong fundamentals and attractive valuation. We expect weak third quarter earnings, followed by a strong calendar fourth quarter rally driven by lower regulatory risk and dividend increase prospects. — **Choquette Kevin**

Enbridge Income Fund (ENF.UN - $14.55) Rating: 1-Sector Outperform Target: $15.00

- Q2 Result Beat - Predictable and Reliable

ENF reported Q2/10 DCPU of $0.33 ($0.33 prior year), exceeding our estimates by $0.02 on lower-than-expected Saskatchewan System capex. Investment thesis unchanged: ENF continues to perform as expected. Its high quality and predictable assets generate ongoing reliable cash flows supporting its current distribution. Continued development of the Bakken formation should provide high return organic growth opportunities, allowing the Fund to sustain a higher distribution to the new Holdco without reliance on depleting tax shields. Dividend to be maintained post-conversion: ENF intends to convert into a co rporation before Jan. 2011. Post-conversion, ENF guided to maintaining its current $1.15/unit distribution as a dividend based on a strong organic growth outlook from ENF's Saskatchewan System. Prudent management of Alliance system: ENF's 50% owned subsidiary Alliance Pipeline continues to add incremental value through the development of ancillary services such as additional receipt and delivery points. We expect these efforts to minimize re-contracting risk. — **Courtright Tony**

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Galleon Energy Inc. (GO - $4.14) **Rating: 1-Sector Outperform** **Target: $6.00**

- Sales Process Ends Without Buyer

Galleon announced an end to the strategic review process and provided an operational and financial plan for going forward. Sales process ends without buyer; operational plan announced. The company announced a four part operational and financial plan for moving forward: (1) Improve and strengthen balance sheet through noncore asset sales, (2) Convert reserves into the proven and PDP categories, (3) Farm out lands, and (4) Reorganize teams into units. Strong balance sheet. Galleon expects net debt to be ~$125M at yearend leaving plenty of room on its facility of $250M. We estimate a year-end D/CF (2010E) multiple of 1.1x versus the peer group of 1.9x. Still trading at a deep discount, target price lowered. Galleon trades at an EV/DACF (2010E) of 3.9x versus the peer group at 8.5x, and a P/NAV (2P) of 0.5x versus the group at 1.3x. In addition, Galleon trades at only 0.7x our 1P NAVPS estimate of $6.01. We have lowered our one-year target price to $6/share or ~1.0x our 1P NAVPS estimate. We have maintained our 1-SO rating and lowered our one-year target price to $6.00 (from $7.00 per share). — **Bouvier Jason**

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Progress Energy Resources Corp. (PRQ - $12.45) **Rating: 1-Sector Outperform** **Target: $16.50**

- Solid Production Highlights Quiet Quarter

Progress announced Q2 results. Production ahead of our estimates. Q2 volumes of 43,520 boe/d were 4% ahead of our estimate of 41,934 boe/d. CFPS of $0.24 matched our estimate as well as consensus. Robust 2H/10 drilling program to commence. Only 2.7 net wells were drilled in Q2 at a 100% success rate. In 2H/10, 12 Hz Montney wells and 19 Deep Basin wells will be drilled. In addition, PRQ is expanding its successful Town (Montney) facility to 50 mmcf/d (from 25 mmcf/d) and will commercialize Kobes. Estimates relatively unchanged. 2010E CFPS of $1.14 remains unchanged while our 2011 CFPS estimate moves to $1.36 (from $1.33). Available capital remains strong. Despite 2010E D/CF of 2.3x, which is above its peers at 1.9x, with the recent $43M asset sale, we estimate PRQ has ~$380 M available at year end on a $650M line. We maintain our 1-Sector Outperform rating and one-year $16.50 price target. PRQ continues to be a favourite name given its unparalleled Montney exposure. We believe ~450 net sections have been delineated. — **William S. Lee**

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Inmet Mining Corporation (IMN - $48.88) **Rating: 2-Sector Perform** **Target: $77.00**

- Q2/10 Adj. EPS Slightly Below Expectations

Inmet has reported Q2/10 operating EPS of $0.95, slightly below our estimate of $0.98, and consensus of $1.04. Reported EPS of $0.85 included a foreign exchange loss of $21 million, a tax gain of $7 million, and a one-time gain of $4 million relating to the Las Cruces operation, all of which we exclude from operating EPS. Copper sales in the quarter of 17.2 kt were below our estimate of 18.5 kt, while zinc sales of 21.6 kt were slightly above our estimate of 20 kt. Gold sales of 40 koz were below our estimate of 44 koz. Operating costs in the quarter were relatively in line with expectations. There were no changes to the recently updated production guidance for the year, and there were no significant changes to cost guidance for 2010. We have updated our estimates for the expected closing date of the Temasek private placement, which we had previously expected to close in early Q3/10, and now expect to close near the end of Q3/10. As a result, our 2010 EPS estimate increases to $5.68 (prev. $5.50). Our NAVPS increases slightly to $60.26 (prev. $59.15). We maintain our $77 one-year target price and 2-SP rating. — **Smith Lawrence**

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Research In Motion Limited (RIM - $55.15) **Rating: 1-Sector Outperform** **Target: $117.00**

- New Device Around the Corner

We believe RIM's new touchscreen BlackBerry 9800 will be released in the very near future. New device set to deliver compelling browsing experience: The main knock against BlackBerries has been their poor browsing experience. With the new BlackBerry browser we believe RIM will not only close the gap with competitors but perhaps even leap ahead. Should act as catalyst for adoption and share price: We expect the new device to have a noticeably positive impact on BlackBerry adoption not only amongst consumers but also potentially with the Enterprise market. Maintain 1-Sector Outperform . Multiple catalysts from August onward: RIM's valuation remains compelling and we believe the launch of new devices, carrier campaigns, and a few more surprises are likely to change the overly negative investor sentiment. — **Papageorgiou Gus**

Disclosures*: *The Fundamental Research Analyst/Associate has visited material operations of this issuer.*

The Head of Equity Research/Supervisory Analyst, in his/her own account or in a related account, owns securities of this issuer.

Rogers Communications Inc. (RCI.B - $36.83) **Rating: 2-Sector Perform** **Target: $40.00**

- 2H/10 Uncertainties Overshadow Q2 Results

Rogers reported Q2/F10 results ahead of expectations, but management left 2010 full-year guidance unchanged despite a strong first half. Rogers reported another solid quarter with 11% EBITDA growth, ahead of our expectations. Total capex was below our forecast and FCF came in ahead. Subscriber results were also better than expected. Unchanged full-year guidance implies a significant slowdown and more uncertainty in the second half. We believe this is related to: (1) smartphone subsidies and retention costs, (2) slower data revenue growth, (3) unknown competitive reactions to Chat.r and higher spending on marketing and promotions if necessary, and (4) Videotron launch and its pricing strategy and the additional revenue pressure related to Videotron wholesale revenue. Our estimates are largely unchanged. We expect consolidated EBITDA and EPS growth to slow significantly in the second half, to 4% from 13% and to 3% from 70%, respectively. We maintain our 2-SP rating and maintain our one-year target price at $40. — **Fan Jeff**

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Sierra Wireless Inc. (SW - $7.25) **Rating: 2-Sector Perform** **Target: $11.80**

- Q2/10 Preview

Sierra Wireless is scheduled to report Q2/10 results Thursday, July 29 after markets close. Nook to provide upside. Barnes and Noble's nook has proven to be quite successful for the retail chain and is now a key part of its in-store and electronic strategy. As long as Sierra holds onto this socket, riding the nook wave could be highly beneficial. Expected growth in M2M and enterprise spending. The machine-tomachine segment is expected to continue growing. Moreover, enterprise spending seems to be picking up, which may improve AirCard and AirPrime numbers. New Smartphones to potentially hurt Overdrive. The new Blackberry 6 and Android 2.2 will offer hotspot functionality, which may render the Overdrive obsolete. 2-Sector Perform. Winning the nook contract has provided significant gains for the AirPrime segment; however, we believe there are many risks to maintaining this revenue stream in the long term. — **Papageorgiou Gus**

Disclosures*: Jane Rowe, Executive Vice-President of The Bank of Nova Scotia is a director of Sierra Wireless Inc.*

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Talisman Energy Inc. (TLM - $17.49) **Rating: 1-Sector Outperform** **Target: $22.00**

- Q2 in Line with Expectations

Talisman reported Q2 CFPS of $0.80, in line with our estimate of $0.79 and consensus of $0.78. Production of 411 Mboe/d was consistent with expectations, though slightly bolstered by a one-time working interest adjustment of 7 Mboe/d for the quarter. Marcellus production continued its climb, averaging 143 MMcf/d for the quarter and has exceeded 190 MMcf/d in July. Target exit rate continues to be 250-300 MMcf/d. $1.5 billion of the $1.9 billion in planned asset sales for the year have now been closed. We maintain our 1-Sector Outperform rating with a one-year target of $22 per share. — **Polak Mark**

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Scotia Waterous is acting as financial advisor to Talisman Energy Inc. on their sale of certain assets in Western Canada.

U.S. Equities

E.I. du Pont de Nemours and Company (DD - U$40.38) **Rating: Neutral** **Target: U$46.00**

- 2Q10 Beat, Outlook Solid, 2012 Goals Very Attainable - Raising Estimates and Target Price to $46 (from $44)

DD reported 2Q EPS of $1.17 (adjusted for one-time items), well above our $0.89 estimate and the street at $0.93. The beat was broad-based with both sales and margins coming in better than expected in most segments, as DD continued to see recovery across their end markets and were boosted by a lower cost structure and the resulting operating leverage. Details on the quarter: Sales rose 25.6%, better than our 23.1% estimate, with volumes up 21% and prices up 5%. Relative to our estimate, the biggest positive surprises were in Perf. Chemicals (+26.2% vs. our 19.4% estimate owing to strong demand for titanium dioxide) and Safety & Protection (+27.3% vs. our 21.7% estimate owing to greater demand in the industrial end markets). Geographically, sales were up double-digits in all regions but strongest in Asia Pacific (+47%) and Canada (+30%). Margins at the segment level grew 330bp Y/Y to 19.0%, better than our 17.5% estimate as DD benefited from higher volumes, pricing, capacity utilization, as well as their cost cutting actions and the resulting operating leverage off of top-line growth, more than offsetting raws and other costs up 3%. Perf. Chemicals & Perf. Materials posted the strongest margins relative to our estimates, while Ag & Nutrition was also notably better. We are raising our estimates for 2010 to the top end of DD's increased earnings guidance range of $2.90-3.05 (significantly higher than the prior range of $2.50-2.70 and the street currently at $2.64), which we believe may be further revised upwards. We are also raising 2011/2012 estimates to $3.22 and $3.53, respectively, to reflect the better than expected cost structure/operating leverage that DD is seeing across their segments. To reflect our new estimates, we are raising our price target to $46. — **J. McNulty**

Occidental Petroleum (OXY - U$79.94) **Rating: Outperform** **Target: U$94.00**

- Reports Q2, Additional CA Tests in H2, Lowering Estimates and Raising Target Price to $94 (from $92); Stock is a Core E&P Holding

Raising Target Price to $94. Following Q2'10 results and updated guidance, we are lowering our 2010/2011/2012 EPS estimates by 0.4%/2.6%/3.4% to $5.57/$6.30/$6.88 from $5.59/$6.47/$7.12. Our target price rises to $94 from $92, which is in-line with our 'PD-Plus' NAV. Our NAV rises on additional proved reserves that OXY should book following the extension of concession agreements in the Santa Cruz province in Argentina. OXY is trading at a 15% discount to our 'PD Plus' NAV vs. a 22% discount for the group and a 15% discount for large-cap peers. Core Holding with Strong Free Cash. We continue to believe OXY represents a core E&P holding with a unique combination of oil price participation, low financial leverage, significant free cash flow and long-term production growth of 5%+ per annum. Specifically, we are forecasting OXY to generate ~$4.4B of free cash in 2010 at $79.23 oil and $4.74 gas ($4.5B capex) and ~$4.3B of free cash in 2011 ($5.5B capex) at $80 oil and $6.00 gas. Free cash is likely to be used for dividend growth, opportunistic acquisitions and potential acceleration of California growth (should additional discoveries be made). We are forecasting production to grow 5.3% in 2010 and 7.1% in 2011 (excluding Iraq) with the majority of the growth coming from Bahrain, the Permian region and California. Kern County, CA volumes in OXY's discovery area should see additional growth given the startup of the skid mounted gas processing plant at the end of Q2'10 (90 MMcf/d), upgrades at existing facilities expected to be completed by the end of Q3'10 and the startup of a new cryogenic processing facility in early 2012 (200 MMcf/d). — **J. Wolff**

Global Equity Strategy

- Remain Overweight on equities; A difficult time

This is a difficult stage of the cycle for equities: When the ISM index rolls over and earnings revisions turn negative, equities typically trade sideways (and on the last two occasions, fell), and excess liquidity is no longer supportive. Despite this, we stay overweight equities as: No double dip: We do not think that US growth will slow below 2% next year or that global growth will slow below 3%. Global PMIs are consistent with 3.5% GDP growth; corporates look under-invested, corporate FCF is at an all time high (leverage is neutral); our models suggest 100k monthly jobs growth in the US; China should have a soft landing with core inflation of just 1%; and none of the normal pre-conditions for a recession are in place (inventories, real rates, yield curve and the degree of roll-over in lead indicators). Fiscal tightening in 2011E is about 1% of GDP (and takes about 0.5% off GDP). The threat of bank regulation and the risk of an EU break-up are much exaggerated in our view. The risk comes when there is a pick-up in loan growth-this could force significant fiscal tightening/a sharp rise in bond yields and, consequently, a bear market-but we think this is unlikely until late 2011. Valuations: The gap between the FCF yield and corporate bond yield is the highest on our database (since 1960). Our target equity risk premium remains 4.5% (and we assume ISM falls to 52) against 6.3% ERP currently. Thus equities are discounting about a 10% decline in earnings in 2011E. Earnings: For an earnings decline, GDP would need to slow to below 1.5-2% in the US. 2011 consensus margins are close to historical peak levels, but projected RoE is only at average levels (given that leverage and asset turns are very low). Margins are likely to stay high until labour has pricing power (US employment of <7%). Corporate cost cutting is unprecedented. Fund flows and tactical indicators: 10-year VIX is close to an all-time high, as is stock and sector correlation. Equity sentiment and global risk appetite are at depressed levels (risk appetite almost hit panic on July 1st). We are a small underweight of government bonds, especially in Germany. — **A. Garthwaite**

Fixed Income Morning Comments

Portfolio Advisory Group Fixed Income – Current Recommendations

1. Term Call – You should no longer sit in cash but instead start to extend term

2. Sector Call – Underweight Canada's, overweight provincials, municipals and corporates

3. Currency Call – We see opportunities for Canadian dollar based investors in short term Australian dollar denominated debt.

4. Alternative Strategies – Overweight high yield, overweight Emerging Markets Debt, underweight inflation protected.

See our overall recommendations below.

Government Debt Yields are Rising Ahead of Month End

The selling bias of U.S. Treasuries that began yesterday morning continued throughout the day supported by positive economic data. The S&P/Case-Shiller Home Price Index was reported better-than-expected at a rise of 4.61% year-over-year. Also, the Richmond Fed Manufacturing Index was better than anticipated while the Consumer Confidence survey was essentially in-line with expectations as it fell compared to the June data. In the end, we saw a net selling of Treasuries in-spite of the $38 billion in new supply of 2-year notes. The auction drew an average yield of 0.639% with a 3.33 bid-to-cover ratio. Yields on the front end of the curve rose by +0.05% to +0.06% and long Treasury yields rose by +0.06%.

Government of Canada bonds followed the direction of the U.S. while yields rose to a lesser extent. There were no Canadian fundamental releases for the day. In line with the moves seen south of the border, domestic government benchmark yields rose by +0.03% to +0.04% on the front end of the term structure and long Canadas finished the day higher by +0.02%.

Canadian bank issuance in the US continued to be supportive of Canadian bank credit spreads yesterday. Trading activity picked up on Tuesday as both the breadth of investors trading and trade sizes appeared to increase. Spreads continued to grind tighter but unlike Monday, the move was supported by generally better buying. The day started out extremely well bid for Maple Financials on the back of the much better than expected earnings from Deutsche Bank and UBS but finished the day about 5bps off their tights following Moody's outlook change to negative on Citibank, Wells Fargo and Bank of America (as well as putting 10 regional banks on review for downgrade). The IG14 index ran into the psychological 100 level and then faded throughout the day to close at 103. On the new issue front, CIBC came to the US market reopening their 3-year covered bond for US$400mm and 5-year covered bond for US$600mm at +27bps and +56bps respectively. This took supply away from our domestic market, which continues to be supportive for our domestic bank spreads. Overnight markets were mixed and we are experiencing a rather quiet open in North America with the IG14 relatively unchanged.

On Schedule for today, the U.S. Treasury Department will auction $37 billion in 5-year notes at 1pm. Earlier this morning the MBA Mortgage Application Index was released and it fell by 4.4% last week. Also, June Durable Goods Orders were reported worse than-expected on both the core and the headline figure at -1.0% and -0.6% respectively. The Fed's Beige Book will be coming out later this afternoon. In Canada, the only release for the day will be the Teranet Home Price Index at 9:00am and Scotia Economics is expecting for an increase of 12.5% year-over-year. In Government of Canada bond yields are now lower by -0.01% to -0.02% across the curve and government yields in the U.S. have fallen by -0.02% to -0.03% at the start of the day.

Corporate Notes: Stephen Dafoe, Scotia Capital

Moody's changed it outlooks on Bank of America, Citigroup, and Wells Fargo to negative from stable, due to the passage of financial reform legislation in Washington. Legislation will, among other things, remove taxpayer support from these financial institutions. Moody's said however, that unsupported financial strength could increase at these banks, offsetting at least some of the reduction in system support. This doesn't help spreads, though we sense that three to five notch downgrade (the number of notches of support currently factored into senior debt ratings) are highly unlikely.

Enbridge Income Fund finally reported its Q2 yesterday, after market's close. Earnings fell to $1.5 million, from $3.6 million last quarter and 3.4 million last year. Funds from operations declined more modestly, to $24.6 million, from $25.6 million last quarter and $25.2 million last year. A "release" of crude oil from a pipeline on the Virden system (part of the Saskatchewan System), as well as legal and other charges related to the conversion from an income trust to a corporation drove the differential. Alliance Pipeline earnings were about flat, Saskatchewan System earnings up a bit, and Green Power earnings down a bit. The Saskatchewan System has received all necessary approvals for an expansion to receive more oil from the Bakken shale, which augurs well for solid organic earnings growth. Conversion is expected by year end, and is neutral for spreads.

Capital Power Income L,P. reported a net loss of $9 million, from earnings of $43 million a year ago. Funds from operations declined to $30 million, from $38 million last year. While availability was good, operating margin declined, largely due to low water levels at the Curtis Palmer and low waste heat availability in the Ontario plants. The outlook for the year remains unchanged, however, with the repowering of the Oxnard facility in Southern California, in time for summer peak prices. Still, we thin the headline results will not help spreads any time soon.

Industrial Alliance reported strong Q2 net income of $58 million vs $32 million y/y, driven by an improved economic environment and the y/y rebound in the stock market which both allowed for expected profit on in-force business to increase 15% to $91 million y/y. Business growth was strong with premiums and deposits at a record high, totaling $1.6 billion up 33% from last year, while the value of new business grew 28% to $36 million. The Solvency ratio at the end of Q2 was at 224%, and pro forma for the US$145 million acquisition of American-Amicable Holding, which closed on July 20th, the ratio declined to 215% but remains well above the company's target range. The investment portfolio remained solid with net impaired investments at $9.8 million (0.06% of investments) vs $14.2 million (0.09% of investments) y/y. Management noted that no new securities defaulted and no new provisions were recorded during the quarter. On a segment basis, sales were particularly strong at Individual Wealth Management at $895 million vs $474 million q/q, with strong segregated funds and mutual fund sales. Earnings at IWM rose to 16 million vs $8 million y/y, while the contribution from Individual Life and Healthy Insurance was $31 million vs $22 million y/. We view the directionally positive results as supportive of spreads and placing pressure on S&P to revaluate its negative outlook. (FS)

In a very unusual move, AT&T announced that S&P was placing it on CreditWatch Negative, even though S&P has yet to issue a press release. Against a background of intense wireless competition and wireline erosion, it has been hard for AT&T to improve its leverage, which is a bit high (2.0x) for the A rating. It will be interesting to see what S&P's choice of word for the move turn out to be, and if it implies any potential for similar ratings pressure on the Canadian telcos.

Later today, we have Enbridge Inc., Bell Aliant, Sherritt, and Canadian Pacific reporting.

Portfolio Advisory Group Fixed Income – Current Recommendations

1. Term Call – You should no longer sit in cash but instead start to extend term

2. Sector Call – Underweight Canada's, overweight provincials, municipals and corporates

3. Currency Call – We see opportunities for Canadian dollar based investors in short term Australian dollar denominated debt.

4. Alternative Strategies – Overweight high yield, overweight Emerging Markets Debt, underweight inflation protected.

1. Term Call – Scotia Economics is now forecasting a much flatter yield curve over the next 12 months, with the forecast now indicating much lower longer term yields than previously expected. This creates a more neutral outlook for bond returns, which in turn means you should no longer sit in cash but instead start to extend term.

2. Sector Call – We recommend investors look to the provincial, municipal, and corporate sectors for yield enhancement. Credit spreads (the yield pick up over Canada bonds) still remain attractive.

3. Currency Call – We see opportunities for Canadian dollar based investors in short term Australian dollar denominated debt. Although at current levels the Australian dollar is expected to fall slightly versus the Canadian dollar, this is more than offset by 4%+ in incremental yields. Hence, we continue to recommend Canadian investors add exposure to the Australian dollar.

4. Alternative Strategies: Within a broadly diversified portfolio our recommendations are as follows:

a) High Yield – In conjunction with our continued positive equity market outlook for the next 12 months (based on the outlook for economic recovery), we continue to recommend investors maintain an overweight position in high yield debt. Although the yield pick up on this asset class has narrowed, we see still see some room for further narrowing, and absolute yields of over 8.5% remain attractive.

b) Emerging Markets – Similar to our outlook for high yield and equities, we continue to see value in this sector versus both investment grade and high yield, based both on absolute yields in excess of 5.5%, and based on positive underlying fundamentals. Hence, we continue to recommend maintaining an overweight exposure.

c) Inflation Protected Bonds – with current real yields in the area of 1.53%, and the market pricing in an effective long term inflation rate of 2.54%, we see limited value in Canadian Real Return Bonds, and hence recommend an underweight exposure to the sector.

Anthony Mentor – Associate, Portfolio Advisory Group – Fixed Income

Important Disclosures

GMEXICO_B

Company	Ticker	Disclosures*

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Ratings

1-Sector Outperform
The stock is expected to outperform the average total return of the analyst's coverage universe by sector over the next 12 months.

2-Sector Perform
The stock is expected to perform approximately in line with the average total return of the analyst's coverage universe by sector over the next 12 months.

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Risk Rankings

Low
Low financial and operational risk, high predictability of financial results, low stock volatility.

Medium
Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

High
High financial and/or operational risk, low predictability of financial results, high stock volatility.

Caution Warranted
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

Venture
Risk and return consistent with Venture Capital. For risk-tolerant investors only.

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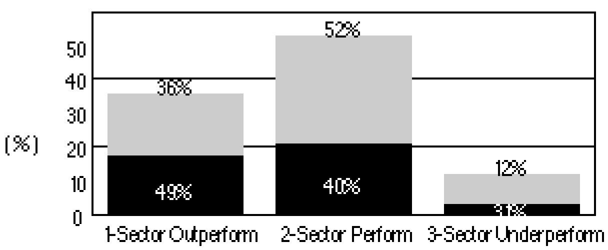

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