CIBC

Economics

Avery Shenfeld
(416) 594-7356
avery.shenfeld@cibc.com

Benjamin Tal
(416) 956-3698
benjamin.tal@cibc.com

Andrew Grantham
(416) 956-3219
andrew.grantham@cibc.com

Royce Mendes
(416) 594-7354
royce.mendes@cibc.com

Nick Exarhos
(416) 956-6527
nick.exarhos@cibc.com

http://economics.cibccm.com

THE WEEK AHEAD

February 19-23, 2018

What Light Through Yonder Window Breaks?

by Avery Shenfeld

Bond investors now seem in the throes of a true bear market, but looking way over yonder, beyond 2019, there could be some light shining through. That reflects a potent economic breaking force that could hit the US economy beyond this decade, in addition to the slowing that will be induced by our expectation for 150 bps of Fed rate hikes in 2018/19.

That drag could come from a significant fiscal contraction. Congress recently approved spending levels well above previous caps. CBO estimates for the resulting outlays show a lift of $161 bn in fiscal 2019, but that shrinks to only an additional $58 bn for fiscal 2020 and almost nothing beyond that.

Unless we see further generosity from Congress and approval from the White House in budget debates next year, more discipline will hit the spending side in the coming decade, with the swing factor for 2020 a potential half-percent or so drag on GDP growth.

There's a similar swing from the tax cuts passed in December. Both the business and personal tax changes were designed to have their greatest impact up front. While taxes cuts for 2020 were only a bit less generous as for 2019, the year-to-year lift from new tax cuts kicking in that will be important in 2018 and 2019 growth will essentially disappear as the system flattens out. That's easily another half-point deceleration for 2020 growth.

So we already have in place what could be a 1% slowing in US growth come 2020 arising from the fiscal track. That's before Congress returns from the mid-term elections and starts seeing the more-than-a-trillion dollars of fiscal red ink in the data for 2019.

Republicans became fiscal doves to enact their cherished tax reductions, and were willing to juice defense budgets in exchange for some other discretionary spending needed to get enough Democrats on board to prevent a government shutdown. But just this week, Paul Ryan vowed that the discretionary domestic spending was a one-time lift only, and reasserted his intention to use "entitlement reform" to get the debt under control.

Whether on the spending side, or in a reversal of tax cut momentum, it's a reasonable bet that Congress will tilt back towards a more restrained fiscal stance in the next decade. That will relieve some of the pressure on the Fed to lean against fiscal stimulus with monetary restraint. At least 50 of the 150 bps of tightening we built in for 2018/19 was in response to fiscal largesse, so there might even be room to ease policy rates by 2021 if there's a visible budgetary turn.

For the long end of the yield curve, any sign of fiscal discipline would also be welcome news. Trillion dollar deficits, at a time when the Fed is reducing its bond holdings, don't make for a happy bond market.

Week Ahead Calendar And Forecast

CANADA

Day	Release	Period	Significance	CIBC	Consensus	Prior
Monday February 19	**Markets Closed (Ontario Family Day)**					
Tuesday February 20	**8:30 AM**					
	WHOLESALE TRADE M/M	(Dec)	(M)	**0.3%**		0.7%
Wednesday February 21						
Thursday February 22	**8:30 AM**					
	RETAIL TRADE TOTAL M/M	(Dec)	(H)	**-1.0%**		0.2%
	RETAIL TRADE EX-AUTO M/M	(Dec)	(H)	**-0.3%**		1.6%
Friday February 23	**8:30 AM**					
	CPI M/M	(Jan)	(H)	**0.5%**		-0.4%
	CPI Y/Y	(Jan)	(H)	**1.5%**		1.9%
	CPI Core- Common Y/Y%	(Jan)	(M)	**1.6%**		1.6%
	CPI Core- Median Y/Y%	(Jan)	(M)			1.9%
	CPI Core- Trim Y/Y%	(Jan)	(M)			1.9%

UNITED STATES

Day	Release	Period	Significance	CIBC	Consensus	Prior
Monday February 19	**Markets Closed (Presidents' Day)**					
Tuesday February 20	**AUCTION: 4-WEEK BILLS $55B**					
	AUCTION: 3-M BILLS $51B , 6-M BILLS $45B					
	AUCTION: 2-YR TREASURIES $28B					
Wednesday February 21	**AUCTION: 5-YR TREASURIES $35B**					
	7:00 AM					
	MBA-APPLICATIONS	(Feb 16)	(L)			-4.1%
	9:45 AM					
	MARKIT US SERVICES PMI	(Sep)	(L)		54.0	53.3
	MARKIT US COMPOSITE PMI	(Sep)	(L)			53.8
	MARKIT US MANUFACTURING PMI	(Sep)	(L)		55.5	55.5
	10:00 AM					
	EXISTING HOME SALES SAAR	(Jan)	(M)		5.60M	5.57M
	EXISTING HOME SALES M/M	(Jan)	(M)		0.5%	-3.6%
	2:00 PM					
	Minutes of Jan. 31st FOMC Meeting					
	Speaker: 9:00 AM Patrick Harker (President, Philadelphia)					
Thursday February 22	**AUCTION: 7-YR TREASURIES $29B**					
	8:30 AM					
	INITIAL CLAIMS	(Feb 17)	(M)		230K	230K
	CONTINUING CLAIMS	(Feb 10)	(L)		1933K	1942K
	10:00 AM					
	LEADING INDICATORS M/M	(Jan)	(M)		0.7%	0.6%
	Speaker: 12:10 PM Raphael Bostic (President, Atlanta)					
	Speaker: 10:00 AM William C. Dudley (President, New York)					
	Speaker: 12:15 AM Randal K. Quarles (Governor)					
Friday February 23	Speaker: 3:40 PM John C Williams (President, San Francisco)					
	Speaker: 1:30 PM Loretta Mester (President, Cleveland)					
	Speaker: 11:00 AM Jerome H Powell (Chairman) testifies before House Financial Services Comm.					
	Speaker: 10:15 AM William C. Dudley (President, New York) & Eric Rosengren (President, Boston)					

H, M, L = High, Medium or Low Significance **SAAR = Seasonally Adjusted Annual Rate** **Consensus Source: Bloomberg**

Week Ahead's Market Call

by Royce Mendes

With no major US data releases, **Canadian** investors can focus on the domestic economy next week. A slip in retail sales is in line with our expectation that Q4 growth undershoots the BoC's 2.5% forecast. Inflation should also look tame on a year-over-year basis, but a bit less so in the monthly seasonally adjusted ex-food/energy change. Nevertheless, both the growth and price data suggest that investors are still expecting too much from Governor Poloz this year.

In the US, central bank communication will be the only game in town for markets. Look for policymakers, in both speeches and the minutes of the January meeting, to suggest that added fiscal stimulus will make it easier to raise rates a handful of times this year, setting the stage for a March rate hike.

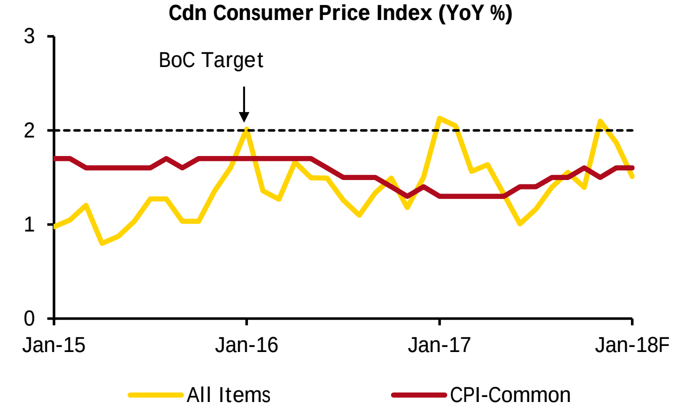
Week Ahead's Key Canadian Number:

Consumer Price Index—January

(Friday, 8:30 a.m.)

Nick Exarhos (416) 956-6527

	CIBC	Mkt	Prior
CPI m/m NSA	0.5%	na	-0.4%
CPI yr/yr	1.5%	na	1.9%
CPI-common	1.6%	na	1.6%



Source: Statistics Canada, CIBC

The annual rate on headline prices will slip by a few ticks to 1.5% given echo effects from last year, but underlying inflation trends should still look decent in the week ahead's CPI report. Indeed, we're likely to see a trend-like 0.2% SA gain in ex-food and energy, a fourth consecutive reading of that magnitude. If this move is sustained, this stripped down measure will have converged to the 2% headline CPI target by late Spring.

Gasoline prices should also be a catalyst for the healthy 0.5% NSA monthly gain in inflation. Crude prices firmed in the late stages of last year, and started the year at elevated levels. That's a reason we see pump prices tracking gains a bit over 10% year-on-year in Q1.

Forecast Implications—Inflation—and its underlying drivers—appear to be on a more sustainable footing in the early stages of 2018. The Bank's new core metrics have on average moved higher, and wages have shown some signs of perking up. Still, we're far from an overshoot, and there isn't a reason for the BoC err on the side of aggressive tightening.

Other Canadian Releases:

Retail Trade—December

(Thursday, 8:30 a.m.)

November sales have been chewing into holiday shopping that used to take place in December, something seasonal adjustment hasn't yet fully accounted for yet. As a result, look for a soft retail print in the coming week. Core sales (ex-autos and gas) should slip by close to half a percent, with only some of that weakness being offset by firmer gasoline prices. As a result look for the ex-autos figure to come in at -0.3%. The unit data we have on autos don't readily translate into dollar sales values, but sales there appear to have softened as well. Headline retail should slip by 1%. Wholesale trade released on Tuesday should see a 0.3% increase.

There are no major US data releases next week.

Equity Insights will return next week.

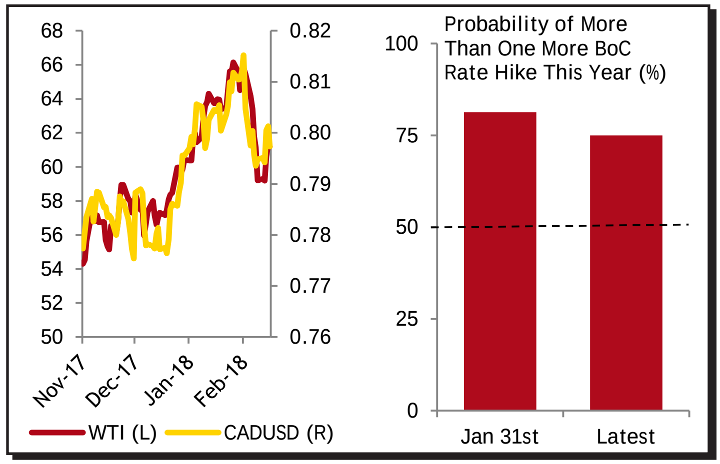
Currency Currents

Andrew Grantham and Royce Mendes

CAD: One Down, More to Go

One of the reasons underpinning our bearish CAD forecast, a retreat in oil prices, has been trending in line with our expectations. But there are still reasons we think the loonie has further to fall. The recent depreciation in CAD has merely mirrored the move in oil prices. Despite a weak employment reading to open the new year and fourth quarter GDP setting up to miss the BoC's projection by half a percentage-point, there's been little change in market expectations for the central bank. With a 75% chance of more than one more hike priced in for 2018, we still see room for a reduction in expectations to push the loonie weaker. Add to that the fact that oil is likely to lose more ground as US production ramps up, and CAD could be trading around 76 cents in the second half.

CAD Followed Oil Lower (L), But BoC Expectations Little Changed and Too Hawkish (R)

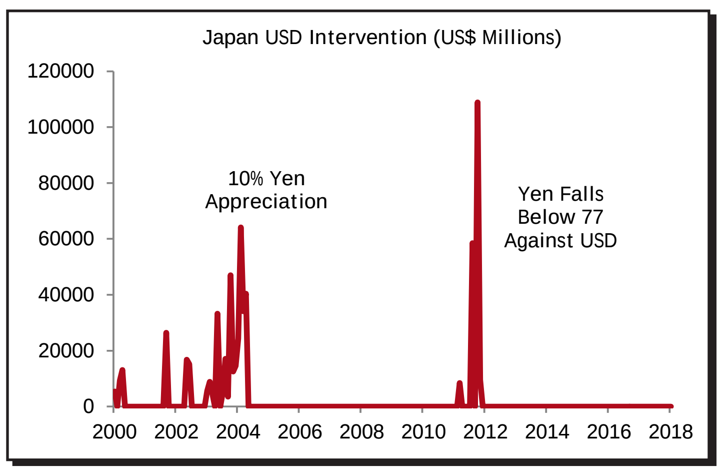


Source: Bloomberg, CIBC

JPY: Which One is it Finance Minister?

Japanese Finance Minister Asõ added to the yen bid earlier this week by stating that the government had no interest in intervening in currency markets. But, just a day later, he walked that back, saying he would deal with yen strength with a sense of urgency. Which one is it? Historically, policymakers have only intervened when one of two factors pushed their hands: the speed of the move or the level of the yen. Now the move has been sharp, seeing a 6% appreciation in just over a month, but it's still short of the one seen in the early 2000s. The level also remains well weaker than what has been typical with previous interventions. Most likely, policymakers will continue to jawbone, causing the yen to weaken slightly in the months ahead.

Conditions Not Yet Met For Yen Intervention

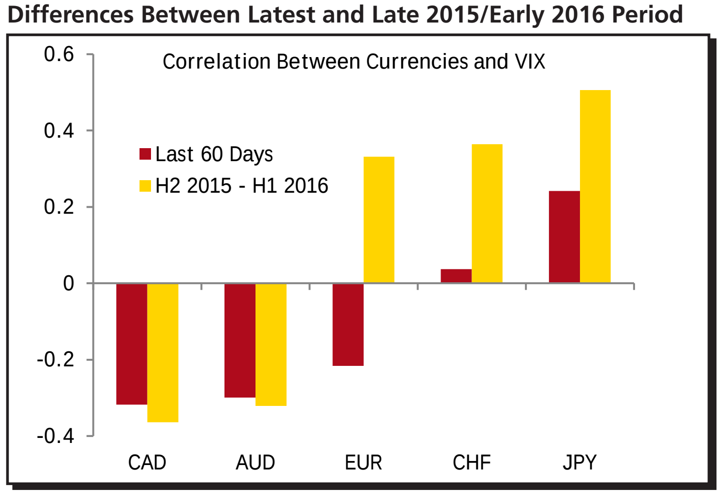


Source: MoF, JMA, CIBC

Tricks For the VIX and FX

Increased volatility in equity markets sends ripples through currencies as well, although recent moves highlight areas of opportunity for those thinking that volatility could remain elevated. While the CAD, AUD and JPY have experienced the same correlation with volatility as would be expected historically, CHF hasn't benefited as much from higher volatility this time around. Most importantly, even though the recent retreat in the euro from its 2018 highs coincided with higher equity market volatility, the last period of high volatility in late 2015/early 2016 showed that needn't be a deterrent to euro appreciation. We remain modestly bullish on the euro, even in a higher volatility environment.

Correlation Between VIX and FX Moves Shows a Few Differences Between Latest and Late 2015/Early 2016 Period



Source: Bloomberg, CIBC

CANADIAN RELEASE AND EVENT DATES
February/March 2018

MONDAY 12

TUESDAY 13

WEDNESDAY 14

THURSDAY 15

ADP EMPLOYMENT SURVEY
8:30 AM

Bank of Canada
Dep. Gov. Schembri speaks
@ 1:30 PM ET

FRIDAY 16

INT'L TRANSACTIONS IN SECURITIES C$BN, NET
8:30 AM

	BONDS	MONEY MARKET	STOCKS	TOT
OCT	27.9	-8.8	1.6	20.7
NOV	17.3	2.3	-0.4	19.2
DEC	-4.0	0.4	1.7	-2.0

SURVEY OF MANUFACTURING
8:30 AM

	SHIPMENTS M	SHIPMENTS Y
OCT	-0.8	4.6
NOV	3.8	6.4
DEC	-0.3	3.7

MONDAY 19

ONTARIO FAMILY DAY
(HOLIDAY)
(Markets Closed)

TUESDAY 20

WHOLESALE TRADE
8:30 AM

WEDNESDAY 21

THURSDAY 22

RETAIL TRADE
8:30 AM (Current$)

	M	Y
SEP	0.2	6.5
OCT	1.5	6.7
NOV		

QUARTERLY FINANCIAL STATISTICS
8:30 AM

FRIDAY 23

CPI
8:30 AM

	M	Y
NOV	0.3	2.1
DEC	-0.4	1.9
JAN		

PAYROLL EMPLOYMENT, EARNINGS & HOURS
8:30 AM

MONDAY 26

TUESDAY 27

WEDNESDAY 28

INDUSTRIAL PRICES
8:30 AM

	M (NSA)	Y
NOV	1.4	2.7
DEC	-0.1	2.2
JAN		

THURSDAY 1

BALANCE OF INT'L PAYMENTS
8:30 AM

	CURR. ACCT. BAL. $BN(QR)	$BN(AR)
17:Q2	-15.6	-62.3
17:Q3	-19.3	-77.4
17:Q4		

FRIDAY 2

GDP BY INDUSTRY
8:30 AM (2002$)

	GDP M	IND.PROD. M
OCT	0.0	-0.6
NOV	0.4	1.1
DEC		

NATIONAL ACCTS
8:30 AM

	REAL GDP %ch AR	PRICE DEFLATOR %ch AR
17:Q2	4.3	-0.3
17:Q3	1.7	0.0
17:Q4		

MONDAY 5

INTERNATIONAL RESERVES
8:15 AM

	$BN CHANGE	$BN LEVEL
DEC	-0.180	86.6
JAN	0.123	86.7
FEB		

TUESDAY 6

IVEY PURCHASING MANAGERS' INDEX
10:00 AM

WEDNESDAY 7

MERCHANDISE TRADE
8:30 AM

	$MN	12 MO. BALANCE
NOV	-2,710	-20,555
DEC	-3,186	-23,991
JAN		

LABOUR PRODUCTIVITY
8:30 AM

Bank of Canada
Interest Rate Announcement

THURSDAY 8

HOUSING STARTS
8:15 AM 000's (AR)

	TOTAL	SINGLES
DEC	216	63
JAN	216	64
FEB		

NEW HOUSING PRICE INDEX
8:30 AM

BUILDING PERMITS ($)
8:30 AM

	M (RES)	M (NON-RES)
NOV	-4.1	-12.0
DEC	8.0	-0.6
JAN		

FRIDAY 9

LABOUR FORCE SURVEY
8:30 AM

	EMPLOY (HSHOLD) M	EMPLOY (HSHOLD) Y	UNEMP RATE %	AVG HRLY EARN Y
DEC	0.3	2.3	5.8	2.9
JAN	-0.5	1.6	5.9	3.3
FEB				

CAPACITY UTILIZATION
8:30 AM LEVEL (%)

	TOTAL	MANUF.
17:Q1	82.7	83.9
17:Q2	84.3	85.1
17:Q3	85.0	85.2

MONDAY 12

TUESDAY 13

WEDNESDAY 14

CANADA'S INTERNATIONAL INVESTMENT POSITION
8:30 AM

THURSDAY 15

ADP EMPLOYMENT SURVEY
8:30 AM

FRIDAY 16

INT'L TRANSACTIONS IN SECURITIES C$BN, NET
8:30 AM

	BONDS	MONEY MARKET	STOCKS	TOT
NOV	17.3	2.3	-0.4	19.2
DEC	-4.0	0.4	1.7	-2.0
JAN				

SURVEY OF MANUFACTURING
8:30 AM

	SHIPMENTS M	SHIPMENTS Y
NOV	3.8	6.4
DEC	-0.3	3.7
JAN		

All data seasonally adjusted except where noted "NSA". M: per cent change from previous month. Q: per cent change from previous quarter at annual rates. Y: per cent change from year earlier. AR: Annual Rate. YTD: Year to date. Release dates are provided by sources outside CIBC World Markets Inc. Dates are subject to change. Sources for historical data: Statistics Canada, CMHC, Human Resources Development Canada and the Bank of Canada.

U.S. RELEASE AND EVENT DATES
February/March 2018

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
12 **TREASURY BUDGET** 2:00 PM	13 *BOT (9:00) REDBOOK (8:55)*	14 **RETAIL SALES** 8:30 AM M Y NOV 0.8 5.9 DEC 0.0 5.2 JAN -0.3 3.6 **CPI** 8:30 AM M(SA) Y (NSA) NOV 2.2 4.3 DEC 2.1 3.7 JAN 2.1 3.9 **BUSINESS INVENTORIES** 10:00 AM	15 **PPI** 8:30 AM M (SA) Y (NSA) NOV 0.4 3.1 DEC 0.0 2.7 JAN 0.4 2.6 **PHILADELPHIA FED INDEX** 8:30 PM **CAPACITY UTIL/IND. PROD.** 9:15 AM LEV M Y NOV 77.5 0.3 3.9 DEC 77.7 0.4 3.4 JAN 77.5 -0.1 3.6 *2-, 5-, 7-Yr NOTE ANNOUNCE.* *3, 10-Yr NOTE SETTLEMENT* *30-Yr BOND SETTLEMENT* **NET CAPITAL INFLOWS TICS** 4:00 PM *INITIAL JOBLESS CLAIMS (8:30)*	16 **HOUSING STARTS** 8:30 AM Mn. M/M NOV 1.299 3.0 DEC 1.209 -6.9 JAN 1.326 9.7 **MICHIGAN SENTIMENT (P)** 10:00 AM
19 **PRESIDENT'S DAY (HOLIDAY) (Markets Closed)**	20 *2-Yr NOTE AUCTION*	21 **EXISTING HOME SALES** 10:00 AM **FOMC Minutes** *5-Yr NOTE AUCTION* *BOT (9:00) REDBOOK (8:55)*	22 **LEADING INDICATOR** 10:00 AM *7-Yr NOTE AUCTION* *INITIAL JOBLESS CLAIMS (8:30)*	23 **Fed Chairman Powell testifies before House Financial Services Comm. at 11:00 AM ET**
26 **NEW HOME SALES** 10:00 AM	27 **ADV. TRADE IN INTERNATIONAL GOODS** 8:30 AM **DURABLE GOODS ORDERS** 8:30 AM M Y NOV 1.7 8.7 DEC 2.9 11.5 JAN **S&P CORE LOGIC/CASE-SHILLER HOUSE PRICE INDEX** 9:00 AM **CONSUMER CONFIDENCE** 10:00 AM *BOT (9:00) REDBOOK (8:55)*	28 **GDP** 8:30 AM (AR) REAL GDP IMPLICIT DEFLATOR 17:Q3(F) 3.2 2.1 17:Q4(A) 2.6 2.4 17:Q4(P) **CHICAGO PMI** 9:45 AM *2-, 5-, 7-Yr NOTE SETTLEMENT*	1 **PERS. INC & OUT.** 8:30 AM INCOME M CONS M SAVING RATE AR NOV 0.3 0.8 2.5 DEC 0.4 0.4 2.4 JAN **ISM MFG SURVEY** 10:00 AM COMP. INDEX PRICES INDEX DEC 59.3 68.3 JAN 59.1 72.7 FEB **LIGHT VEHICLES** SALES MIL (AR) Y DEC 17,754 -1.6 JAN 17,071 -1.5 FEB *INITIAL JOBLESS CLAIMS (8:30)*	2 **MICHIGAN SENTIMENT (F)** 10:00 AM
5 **ISM NON-MFG SURVEY** 10:00 AM	6 **FACTORY ORDERS** 10:00 AM M(SA) Y(NSA) NOV 1.7 8.4 DEC 1.7 8.4 JAN *BOT (9:00) REDBOOK (8:55)*	7 **ADP SURVEY** 8:15 AM **GOODS & SERV. BALANCE (BOP) $B** 8:30 AM GDS SERV TOT NOV -70.8 20.3 -50.4 DEC -73.3 20.2 -53.1 JAN **NON-FARM PRODUCTIVITY** 8:30 AM Q/Q (AR) Y/Y 17:Q3 (F) 2.7 1.4 17:Q4 (P) -0.1 1.1 17:Q4 (F) **Beige Book** **CONSUMER CREDIT** 3:00 PM	8 *INITIAL JOBLESS CLAIMS (8:30)*	9 **EMPLOY. SITUATION** 8:30 AM NON-FARM PAYROLL CIV UNEMP RATE AVG HRLY EARN DEC 160 4.1 2.4 JAN 200 4.1 2.4 FEB
12 **TREASURY BUDGET** 2:00 PM *3, 10-Yr NOTE ANNOUNCEMENT*	13 **CPI** 8:30 AM M(SA) Y (NSA) NEC 2.1 3.7 JAN 2.1 3.9 FEB *30-Yr BOND ANNOUNCEMENT* *BOT (9:00) REDBOOK (8:55)*	14 **RETAIL SALES** 8:30 AM M Y DEC 0.0 5.2 JAN -0.3 3.6 FEB **PPI** 8:30 AM M (SA) Y (NSA) DEC 0.0 2.7 JAN 0.4 2.6 FEB **BUSINESS INVENTORIES** 10:00 AM	15 **PHILADELPHIA FED INDEX** 8:30 PM *3, 10-Yr NOTE SETTLEMENT* *30-Yr BOND SETTLEMENT* **NET CAPITAL INFLOWS TICS** 4:00 PM *INITIAL JOBLESS CLAIMS (8:30)*	16 **HOUSING STARTS** 8:30 AM Mn. M/M DEC 1.209 -6.9 JAN 1.326 9.7 FEB **CAPACITY UTIL/IND. PROD.** 9:15 AM LEV M Y DEC 77.7 0.4 3.4 JAN 77.5 -0.1 3.6 FEB **MICHIGAN SENTIMENT (P)** 10:00 AM

All data seasonally adjusted except where noted "NSA". M: per cent change from previous month. Q: per cent change from previous quarter at annual rates. Y: per cent change from year earlier. AR: Annual Rate. YTD: Year to date. Release dates are provided by sources outside CIBC World Markets inc. Dates are subject to change. Sources for historical data: U.S. Department of Commerce, U.S. Department of Labor and U.S. Federal Reserve Board.