



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

Katherine Judge
(416) 956-6527
katherine.judge@cibc.com

<http://economics.cibccm.com>

THE WEEK AHEAD

April 30-May 4, 2018

Heads I Win, Tails You Lose

by Avery Shenfeld

Investors' reactions to rising long term yields makes the process seem like a game of "heads I win, tails you lose." When the Fed's short term rate hikes were failing to send 10-year yields much higher, the pessimists worried that the flattening yield curve was a dangerous signpost of an upcoming recession. Now that 10-year rates have "soared" to 3%, the worry warts are pointing to the drag on growth from these higher yields as a risk to the economy and equity markets.

Some perspective here please. The yield curve was flat in no small measure because the Fed, the ECB and the Bank of Japan had used QE programs to drain the market of supply, with the very intention of depressing longer term rates.

And now the climb to 3% on 10-year Treasury yields doesn't put the economy, or the stock market in peril by historical standards. If inflation is expected to average 2% over that horizon, then we are talking about a real rate of merely 1%. Hardly a crisis for those of us with memories going back more than a handful of years.

Indeed, for 10s, and more so for 30s, there's still room for yields to press higher. After the sell-off we've already had, the path will be less rapid and will no doubt include a few reversals in course along the way. We're nudging our 2019 10-year Treasury target up to 3.3%, but see 30s climbing to 3.6% at some point next year. Canadian rates will also move higher by roughly a quarter point in 10s and a half point in 30s.

Contained inflation expectations and a low neutral rate at the front end of the curve should prevent a more aggressive bond market sell off. But some further pressure will come as markets have digestion problems with the feast of Treasuries to be served up as the QE unwind bumps up against soaring deficits. The ECB sounds less sure of its plans given a slow Q1 in Europe. Still, above-potential growth in 2018 will make the case for ending ECB QE on schedule, and either hiking short rates or paring bond holdings in 2019.

In the US, the greater risks to growth aren't from the Fed or bond yields, but are on the fiscal side. Congress chose to juice up growth this year and next with a burst of spending and tax cuts. Post-November elections, Washington might turn its attention to paring deficits in 2020. The hazard of running fiscal stimulus when you don't really need it is that it creates political pressures to turn off the taps more abruptly than the central bank or markets are anticipating.

In Canada, long rates aren't as important due to the concentration of mortgage debt at terms of 5 years and under. But given the household debt burden, as those mortgages are reset, rates do represent more of a growth risk than in the US. What gives us comfort for now is the evident Bank of Canada bias to err on the side of too few, rather than too many hikes. But keep a close eye on inflation. If it heats up in 2018/19, the central bank will have to take a few more risks to growth come 2020.



Week Ahead Calendar And Forecast

	CANADA			UNITED STATES		
	CIBC	Consensus	Prior	CIBC	Consensus	Prior
Monday April 30 INDUSTRIAL PROD. PRICES M/M RAW MATERIALS M/M	(Mar) (M) (Mar) (M)		0.1% -0.3%			
Tuesday May 1 AUCTION: 3-M BILLS \$7.1B, 6-M BILLS \$2.7B, 1-YR BILLS \$2.7B CASH MANAGEMENT BUYBACK (Aug '18 - Sep '19) - \$0.5B 8:30 AM GDP M/M	(Feb) (H)	0.3%	-0.1%			
Wednesday May 2 Speaker: 2:30 PM Stephen S. Poloz (Governor)						
Thursday May 3 8:30 AM MERCHANDISE TRADE BALANCE	(Mar) (H)	-\$2.4B	-\$2.7B			
Friday May 4 10:00 AM JIVEY PMI	(Apr) (L)		59.8			
AUCTION: 3-M BILLS \$48B, 6-M BILLS \$42B 8:30 AM PCE DEFLATOR Y/Y (H) (Mar) PCE DEFLATOR Y/Y (core) (H) (Mar) PERSONAL INCOME M/M (H) (Mar) PERSONAL SPENDING M/M (H) (Mar) 9:45 AM CHICAGO PMI (M) (Apr) 10:00 AM PENDING HOME SALES M/M (M) (Mar)						
AUCTION: 4-WEEK BILLS \$45B (prev) 9:45 AM MARKET US MANUFACTURING PMI (L) Apr F 10:00 AM ISM - MANUFACTURING (H) (Apr) CONSTRUCTION SPENDING M/M (M) (Mar) NEW VEHICLE SALES (M) (Apr)						
7:00 AM MBA-APPLICATIONS (L) (Apr 27) 8:15 AM ADP EMPLOYMENT CHANGE (M) (Apr) 2:00 PM FOMC RATE DECISION (UPPER BOUND) (H) (May) FOMC RATE DECISION (LOWER BOUND) (H) (May)						
8:30 AM INITIAL CLAIMS (M) (Apr 28) CONTINUING CLAIMS (L) (Apr 21) NON-FARM PRODUCTIVITY (M) (Q1 F) GOODS & SERVICES TRADE BALANCE (H) (Mar) 9:45 AM MARKET US SERVICES PMI (L) Apr F MARKET US COMPOSITE PMI (L) Apr F 10:00 AM ISM - NON-MANUFACTURING (M) (Apr) FACTORY ORDERS M/M (M) (Mar)						
8:30 AM NON-FARM PAYROLLS (H) (Apr) UNEMPLOYMENT RATE (H) (Apr) AVERAGE HOURLY EARNINGS ALL EMPLOYEES M/M (H) (Apr) AVERAGE WEEKLY HOURS ALL EMPLOYEES (H) (Apr) MANUFACTURING PAYROLLS (H) (Apr)						
Speaker: 8:00 PM Rob Kaplan (Dallas, President) Speaker: 5:30 PM Randal K. Quarles (Governor) Speaker: 12:00 PM William C. Dudley (President, New York)						
Consensus Source: Bloomberg SAAR = Seasonally Adjusted Annual Rate H, M, L = High, Medium or Low Significance						

Week Ahead's Market Call

by Avery Shenfeld

In the US, there's every reason to believe that March's weak payrolls gain was just one of those things that happens in real life data, but not the start of a trend. April's rebound should confirm that, as would a downtick in the jobless rate. We're looking for a big jump in the year-on-year core PCE price index, but fortunately, the consensus is already a tick higher. As for the Fed, their gradualist path makes this meeting a likely non-event.

In Canada, our models barely round up to a 0.3% monthly GDP climb in February, so if there's a miss, it's likely to be on the low side. Even at our target, it's not particularly impressive after a January decline. The trade data will be eyed as the first signpost for March.

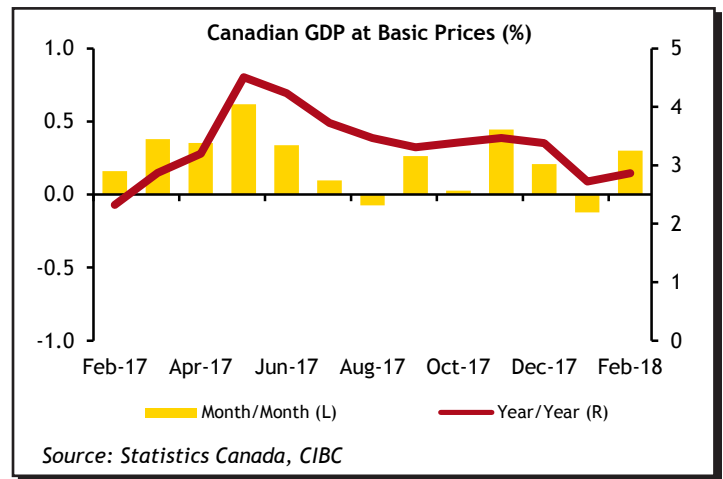
Week Ahead’s Key Canadian Number:

Real GDP (at Basic Prices)—February

(Tuesday, 8:30 a.m.)

Royce Mendes (416) 594-7354

	CIBC	Mkt	Prior
GDP m/m	0.3%	na	-0.1%



The economy likely rebounded from what was an ugly start to the year, but the oil sector will still be a wild card for just how much progress we made in February. Crude production dipped in January as a result of some unexpected shutdowns. While we’re not betting on a huge February rebound, it should be enough to barely eke out a 0.3% gain on the month.

Another problem area in January was real estate, where B20 rules were taking a bite out of housing activity. Unit home sales data indicate a further drag on that industry

in February, but not as much as seen in the prior month. Other areas of the economy will be decidedly mixed, with wholesaling weaker, but manufacturing and retailing supporting growth.

Forecast Implications—A weak 0.3% reading will leave us tracking 1.7% for Q1, matching the rate seen in the fourth quarter of last year. That leaves some elbow room for the Bank of Canada to leave rates unchanged at its May meeting, using that time to monitor the myriad of headwinds facing the economy.

Other Canadian Releases:

Merchandise Trade Balance—March

(Thursday, 8:30 a.m.)

An improvement in the trade deficit should show up with agricultural commodities shipped by rail facing fewer bottlenecks in March than February. That said, the Canadian dollar was weaker, lifting some import prices in C\$ terms, and average energy prices didn’t really budge, suggesting some of the positive factors from smoother export transportation will be offset. Overall, look for the deficit to narrow to roughly \$2.4bn when March figures are released.

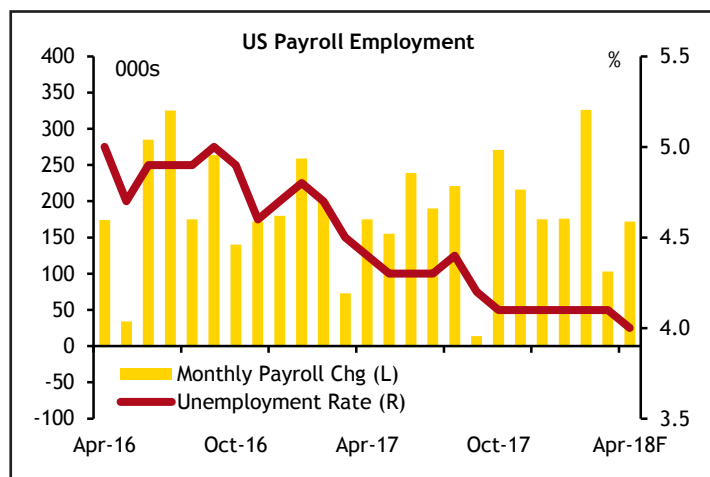
Week Ahead’s Key US Number:

Employment Situation—April

(Friday, 8:30 a.m.)

Andrew Grantham (4160 956-3219)

	CIBC	Mkt	Prior
Employment (change)	177K	185K	103K
Unemployment rate	4.0%	4.0%	4.1%
Average Hourly Earnings (%)	0.2%	0.2%	0.3%



Even though first quarter growth this year wasn’t as weak as in prior years, it was still a little soft relative to the pace of employment gains. And while convergence could come from a re-acceleration in GDP, some slowing in the average pace of payrolls has also been seen in prior years. The average monthly job gain in Q1 was just over 200K, and we would expect something moderately below that to start the second quarter. Look for job growth in construction and manufacturing in particular to remain weaker than earlier in the year.

With labour force participation already having picked up slightly and job growth set to remain above the pace of increase in the population, the unemployment rate could

tick down to 4.0% in April. A 0.2% rise in wage growth for the month would leave the annual rate at 2.7%.

Forecast Implications—A slightly cooler gain in jobs than the average seen in Q1 shouldn’t change what’s a largely positive outlook for household incomes and consumer spending. Should business investment start to pick up again later in the year following the tax cut and other incentives given to companies to make such investments, that should re-strengthen the trend in construction and manufacturing employment growth.

Market Impact—We are only a little below the consensus on the headline number, which shouldn’t see much market reaction.

Other U.S. Releases:

ISM Manufacturing Survey

(Tuesday, 10:00 a.m.)

Regional surveys of the US manufacturing sector have generally been turning lower, although the Markit PMI has surprisingly improved. With respect to the ISM, we place more weight on the regional surveys. Even though the ISM has already moved down from its earlier lofty levels, the decline in some regional surveys, plus the recent partial recovery in the US\$ that could sap confidence for exports, could see a further moderation to 58.0 in April.

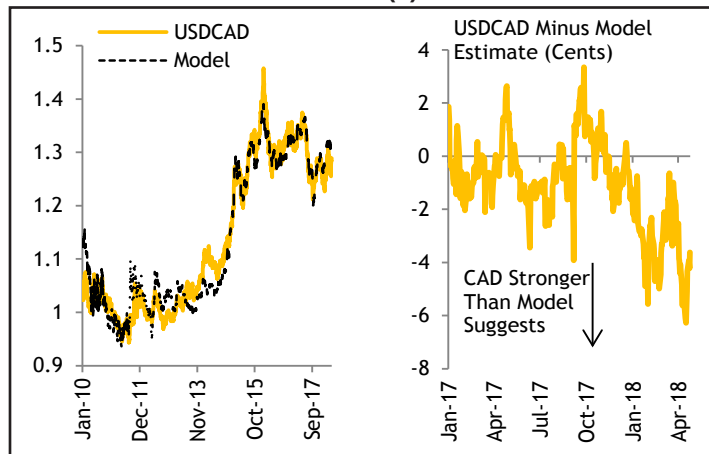
Currency Currents

Andrew Grantham

CAD a Model Candidate For Further Weakness

A simple model of the Canadian dollar based on oil prices and two-year rate differentials with the US suggests further weakness could be in store for the loonie. While it's true that interest rates spreads have been less of a factor supporting the US\$ on a number of crosses recently, the current gap for USDCAD based on the simple model and actual outcome is still on the high side of the recent range. We continue to see further depreciation of the Canadian dollar, with USDCAD rising to 1.32 by September.

Tracking Model of USDCAD (L), Suggests C\$ Could Depreciate Further and USDCAD Rise to 1.32 (R)

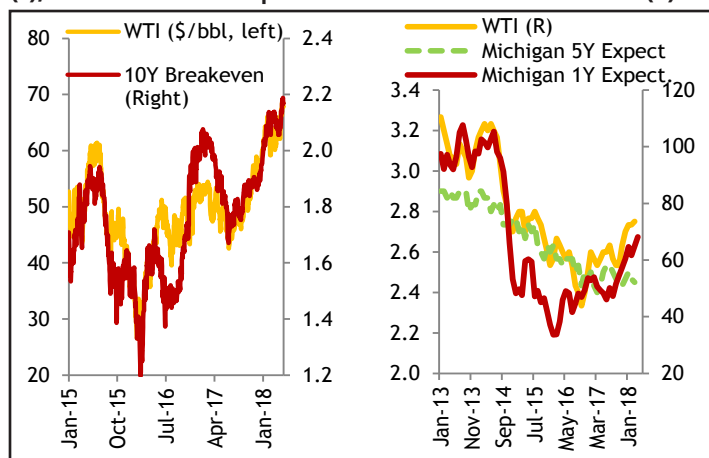


Source: Bloomberg, CIBC

What to Expect From US Inflation Expectations

The surprising correlation between spot oil prices and market-based long-term inflation expectations has returned recently. However, as yet there hasn't been a dramatic pick-up in consumers' expectations for price increases, particularly longer-term ones, as measured by the University of Michigan's survey. That should give the Fed comfort that the recent acceleration in inflation won't become self-fulfilling, and therefore won't justify faster rate increases than the FOMC currently predicts. With some investors now starting to expect more, that could see the US\$ depreciate slightly against most majors other than the loonie.

Market-Based Inflation Expectations Have Moved up With Oil (L), But Consumers' Expectations Haven't Risen as Much (R)

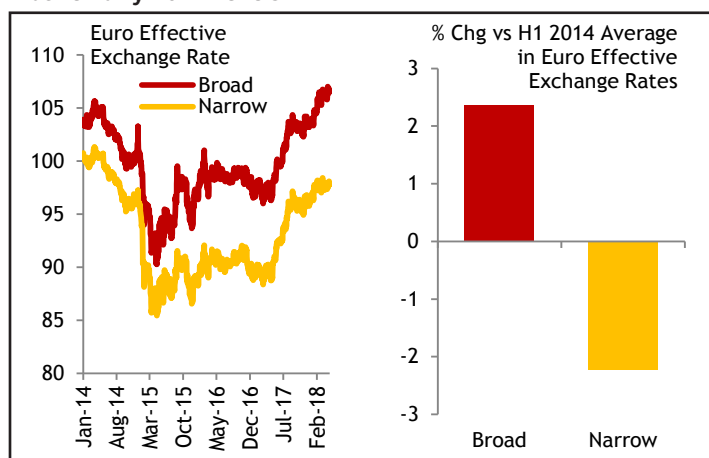


Source: Bloomberg, UoM, CIBC

An Even More Effective Brake on EZ Growth?

We've made the point before that the strength of the euro on a trade weighted basis could have big implications for growth and how quickly the ECB eventually starts hiking interest rates. If the BIS's broad measure of euro effective exchange rate is a reliable guide, concern over the euro's trade-weighted strength should be even greater. On that measure the currency is already stronger than its pre-QE average, while its still below on a narrow trade weighted basis. A slower Eurozone economy and ECB retreat are already starting to get priced into EURUSD, opening up some upside for the euro particularly in 2019 when we get closer to a rate hike.

Broadest Measure of Euro Effective Exchange Rate Already Above Early 2014 Levels



Source: Bloomberg, BIS, CIBC

CANADIAN RELEASE AND EVENT DATES

April/May 2018



MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
23 WHOLESALE TRADE 8:30 AM	24	25	26	27
30 INDUSTRIAL PRICES 8:30 AM M (NSA) Y JAN 0.4 2.1 FEB 0.1 1.9 MAR	1 GDP BY INDUSTRY 8:30 AM (2002\$) GDP IND.PROD. M M DEC 0.2 0.4 JAN -0.1 -0.7 FEB Bank of Canada Governor Poloz speaks in Yellowknife @ 2:30 PM ET	2	3 INTERNATIONAL RESERVES 8:15 AM \$BN \$BN CHANGE LEVEL FEB -0.262 86.5 MAR -3.180 83.3 APR MERCHANDISE TRADE 8:30 AM \$MN 12 MO. BALANCE JAN -1,938 -24,946 FEB -2,686 -25,924 MAR	4 IVEY PURCHASING MANAGERS' INDEX 10:00 AM
7 Bank of Canada Dep. Governor Lane speaks at World Economic Outlook in Portugal @ 3:00 PM ET	8 HOUSING STARTS 8:15 AM 000's (AR) TOTAL SINGLES FEB 231 58 MAR 225 64 APR	9 BUILDING PERMITS (\$) 8:30 AM M M (RES) (NON-RES) JAN 5.6 4.5 FEB -0.3 -6.6 MAR	10 NEW HOUSING PRICE INDEX 8:30 AM	11 LABOUR FORCE SURVEY 8:30 AM AVG EMPLOY UNEMP HRLY (HSHOLD) RATE EARN M Y % Y FEB 0.1 1.5 5.8 3.1 MAR 0.2 1.6 5.8 3.1 APR Bank of Canada Sr. Dep. Governor Wilkins speaks in Toronto @ 9:00 AM ET
14	15	16 SURVEY OF MANUFACTURING 8:30 AM SHIPMENTS M Y JAN -1.3 2.5 FEB 1.9 4.6 MAR Bank of Canada Dep. Governor Schembri speaks @ 12:00 PM ET in Ottawa	17 INT'L TRANSACTIONS IN SECURITIES C\$BN, NET 8:30 AM BONDS MONEY STOCKS TOT MARKET JAN -3.3 6.1 2.9 5.6 FEB -0.9 2.0 2.9 4.0 MAR	18 CPI 8:30 AM M Y FEB 0.6 2.2 MAR 2.3 2.3 APR RETAIL TRADE 8:30 AM (Current\$) M Y JAN 0.1 2.5 FEB 0.4 3.5 MAR
21	22	23	24 QUARTERLY FINANCIAL STATISTICS 8:30 AM	25

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 April/May 2018



MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
23	24	25	26	27
<p>EXISTING HOME SALES 10:00 AM</p> <p>2-Yr NOTE AUCTION</p>	<p>S&P CORE LOGIC/CASE-SHILLER HOUSEPRICE INDEX 9:00 AM</p> <p>NEW HOME SALES 10:00 AM</p> <p>CONSUMER CONFIDENCE 10:00 AM</p> <p>5-Yr NOTE AUCTION</p> <p>BOT (9:00) REDBOOK (8:55)</p>	<p>7-Yr NOTE AUCTION</p>	<p>ADV. TRADE IN INTERNATIONAL GOODS 8:30 AM</p> <p>DURABLE GOODS ORDERS 8:30 AM M Y JAN -3.6 7.0 FEB 3.5 9.3 MAR 2.6 9.5</p> <p>INITIAL JOBLESS CLAIMS (8:30)</p>	<p>GDP 27 8:30 AM (AR) REAL IMPLICIT GDP DEFLATOR 17:Q3(F) 3.2 2.1 17:Q4(F) 2.9 2.3 18:Q1(A) 2.3 2.0</p> <p>ECI 8:30 AM WAGES & TOTAL SALARY BEN. 17:Q3 0.7 0.7 0.8 17:Q4 0.6 0.5 0.5 18:Q1 0.8 0.9 0.7</p> <p>CHICAGO PMI 9:45 AM</p> <p>MICHIGAN SENTIMENT (F) 10:00 AM</p>
30	1	2	3	4
<p>PERS. INC & OUT. 8:30 AM INCOME CONS SAVING RATE M M AR JAN 0.4 0.2 3.2 FEB 0.4 0.2 3.4 MAR</p> <p>CHICAGO PMI 9:45 AM</p> <p>2, 5-, 7-Yr NOTE SETTLEMENT</p>	<p>ISM MFG SURVEY 10:00 AM COMP. PRICES INDEX INDEX FEB 60.8 74.2 MAR 59.3 78.1 APR</p> <p>LIGHT VEHICLES SALES MIL (AR) Y FEB 16,980 -2.0 MAR 17,398 4.0 APR</p> <p>BOT (9:00) REDBOOK (8:55)</p>	<p>ADP SURVEY 8:15 AM</p> <p>FOMC Rate Decision Fed Chair Powell speaks</p> <p>30-Yr BOND ANNOUNCEMENT 3, 10-Yr NOTE ANNOUNCEMENT</p>	<p>GOODS & SERV. BALANCE (BOP) \$B 8:30 AM GDS SERV TOT JAN -76.7 20.0 -56.7 FEB -77.0 19.4 -57.6 MAR</p> <p>NON-FARM PRODUCTIVITY 8:30 AM Q/Q (AR) Y/Y 17:Q3 (F) 2.6 1.4 17:Q4 (F) 0.0 1.1 18:Q1 (P)</p> <p>FACTORY ORDERS 10:00 AM M(SA) Y(NSA) JAN -1.3 6.6 FEB 1.2 7.1 MAR</p> <p>ISM NON-MFG SURVEY 10:00 AM</p> <p>INITIAL JOBLESS CLAIMS (8:30)</p>	<p>EMPLOY. SITUATION 8:30 AM NON-CIV AVG FARM UNEMP HRLY PAYROLL RATE EARN FEB 326 4.1 2.4 MAR 103 4.1 2.4 APR</p>
7	8	9	10	11
<p>CONSUMER CREDIT 3:00 PM</p>	<p>3-Yr NOTE AUCTION</p> <p>BOT (9:00) REDBOOK (8:55)</p>	<p>PPI 8:30 AM M (SA) Y (NSA) FEB 0.2 2.9 MAR 0.3 3.0 APR</p> <p>10-Yr NOTE AUCTION</p>	<p>CPI 8:30 AM M(SA) Y (NSA) FEB 0.2 2.2 MAR -0.1 2.4 APR</p> <p>TREASURY BUDGET 2:00 PM</p> <p>30-Yr BOND AUCTION</p> <p>INITIAL JOBLESS CLAIMS (8:30)</p>	<p>MICHIGAN SENTIMENT (P) 10:00 AM</p>
14	15	16	17	18
	<p>RETAIL SALES 8:30 AM M Y FEB -0.1 4.1 MAR 0.6 4.5 APR</p> <p>BUSINESS INVENTORIES 10:00 AM</p> <p>NET CAPITAL INFLOWS TICS 4:00 PM</p> <p>30-Yr BOND SETTLEMENT 3, 10-Yr NOTE SETTLEMENT</p> <p>BOT (9:00) REDBOOK (8:55)</p>	<p>HOUSING STARTS 8:30 AM Mn. M/M FEB 1,295 -3.3 MAR 1,319 1.9 APR</p> <p>CAPACITY UTIL/IND. PROD. 9:15 AM LEV M Y FEB 77.7 1.0 4.3 MAR 78.0 0.5 4.4 APR</p>	<p>PHILADELPHIA FED INDEX 8:30 PM</p> <p>LEADING INDICATOR 10:00 AM</p> <p>2, 5-, 7-Yr NOTE ANNOUNCE.</p> <p>INITIAL JOBLESS CLAIMS (8:30)</p>	
21	22	23	24	25
	<p>2-Yr NOTE AUCTION</p> <p>BOT (9:00) REDBOOK (8:55)</p>	<p>NEW HOME SALES 10:00 AM</p> <p>5-Yr NOTE AUCTION</p> <p>FOMC Minutes</p>	<p>EXISTING HOME SALES 10:00 AM</p> <p>7-Yr NOTE AUCTION</p> <p>INITIAL JOBLESS CLAIMS (8:30)</p>	<p>DURABLE GOODS ORDERS 8:30 AM M Y FEB 3.5 9.3 MAR 2.6 9.5 APR</p> <p>MICHIGAN SENTIMENT (F) 10:00 AM</p>

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.

CIBC World Markets Inc., CIBC World Markets Corp., CIBC World Markets Plc., CIBC Australia Limited and certain other corporate banking and capital markets activities of Canadian Imperial Bank of Commerce operate under the brand name CIBC Capital Markets.

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada, the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority, and (c) in Australia, CIBC Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC") and (d) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MI") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority. U.S. MIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets Inc. in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Limited.

This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC. Before making an investment decision on the basis of any information contained in this report, the recipient should consider whether such information is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC suggests that, prior to acting on any information contained herein, you contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice; as with any transaction having potential tax implications, clients should consult with their own tax advisors. Past performance is not a guarantee of future results.

The information and any statistical data contained herein were obtained from sources that we believe to be reliable, but we do not represent that they are accurate or complete, and they should not be relied upon as such. All estimates and opinions expressed herein constitute judgments as of the date of this report and are subject to change without notice.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

© 2018 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets Inc. is prohibited by law and may result in prosecution.