



Economics

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

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

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

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

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

<http://economics.cibccm.com>

THE WEEK AHEAD

June 19-23, 2017

Moving Early

by Benjamin Tal

Every economic recession in the post-war era was helped, if not caused, by a monetary policy error in which central bankers sat on low interest rates for too long, only to raise them too rapidly and too aggressively to combat sneaking inflation.

The 1990-91 recession and the housing crash in Ontario were probably helped by too rapid a hiking trajectory by then Governor John Crow.

Even the mother of all recessions was probably deepened by policy overshooting as Greenspan waited too long before he started hiking in June 2004. Note that back then, inflation was already on a clear acceleration path, with core PCE rising from 1.3% in September 2003 to 2% in June 2004. That is, the Fed waited for core inflation to reach today's target before moving. By then it was clearly too late. When you chase a lagging indicator, you overshoot.

And that's exactly why Fed Chair Yellen, who is on record for saying that the Fed would like to avoid past mistakes, is currently hiking even when inflation is fully under control.

And this week, the Bank of Canada—an inflation-targeting Bank—showed tremendous monetary policy maturity by starting to hint about a possible rate hike, even in the absence of any visible inflationary pressure. So when Senior Deputy Governor Wilkins said "... begin letting up on the gas to slow down smoothly. You do not want to have to slam on the brakes at the last second", memories of past policy errors were, no doubt, on her mind.

So we have a Bank that is finally admitting that rates in Canada are too low.

The 50-basis point cut in 2015 was sold to the market as an insurance policy to help the economy (Alberta) absorb the oil shock. Today if you are in Calgary, and you look very closely, you might find some people with a smile on their face.

Governor Poloz is telling us that those rate cuts "have done the job" and the crisis is over. The actual impact of those cuts and the extent to which they were needed in the first place is debatable. But what's not debatable is that there is no need to buy insurance for a crisis that no longer exists.

So when? The market is starting to price in a move before the end of the year, and we agree. Given the insurance argument, the first couple of moves will be only to undo past adjustments linked to a special situation—or, in fact, buy more insurance, this time aimed at preventing a hard landing in the real estate market.

Besides, if your timeline is next year, why start talking about it in June? And remember, the magic of monetary policy works with a lag—so any negative impact on economic activity will be largely offset by the wave of infrastructure spending that is expected to reach a peak in 2018.

Accordingly, our bet is that the Bank's first hiking move in seven years will occur in October 2017—and we suspect that there might be some more juice left yet in the short-end of the curve play.



Week Ahead Calendar And Forecast

CANADA		UNITED STATES	
	CIBC	Consensus	Prior
Monday June 19			
Tuesday June 20	CASH MANAGEMENT BUYBACK (Aug 17 - Nov'18) - \$0.5B		
	8:30 AM WHOLESALE TRADE M/M	(Apr) (M) 0.50%	0.9%
Wednesday June 21	AUCTION: 10-YR CANADAS \$3B		
	7:00 AM MBA - APPLICATIONS	(Jun 16) (L)	2.8%
	10:00 AM EXISTING HOME SALES SAAR EXISTING HOME SALES M/M	(May) (M) 5.50M (May) (M) -1.3%	5.57M -2.3%
Thursday June 22	8:30 AM RETAIL TRADE TOTAL M/M RETAIL TRADE EX-AUTO M/M	(Apr) (H) 0.3% (Apr) (H) 0.8%	0.7% -0.2%
	9:00 AM HOUSE PRICE INDEX M/M	(Apr) (M)	0.6%
	10:00 AM LEADING INDICATORS M/M	(May) (M)	0.3%
	Speaker: 10:00 AM Jerome H Powell (Governor)		
Friday June 23	8:30 AM CPI M/M CPI Y/Y CPI Core- Common Y/Y% CPI Core- Median Y/Y% CPI Core- Trim Y/Y%	(May) (H) 0.3% (May) (H) 1.5% (May) (M) 1.4% (May) (M) (May) (M)	0.4% 1.6% 1.3% 1.6% 1.3%
	10:00 AM NEW HOME SALES SAAR NEW HOME SALES M/M	(Jun-P) (L) (Jun-P) (L) (Jun-P) (L)	53.6 53.6 52.7
	Speaker: 2:15 PM Jerome H Powell (Governor) Speaker: 12:40 PM Loretta Mester (Cleveland) Speaker: 11:15 AM James Bullard (St. Louis)	(May) (M) 590K (May) (M) 3.7%	569K -11.4%

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

Week Ahead's Market Call

by Andrew Grantham

In the US, a light week for data means that Fed speakers are likely to provide more direction to markets. Particularly interesting will be whether the comments, including from Stanley Fischer, echo the lack of concern Janet Yellen appears to have regarding the deceleration in core inflation. The only real data of note are existing and new home sales, which we see as both coming in a little shy of the consensus.

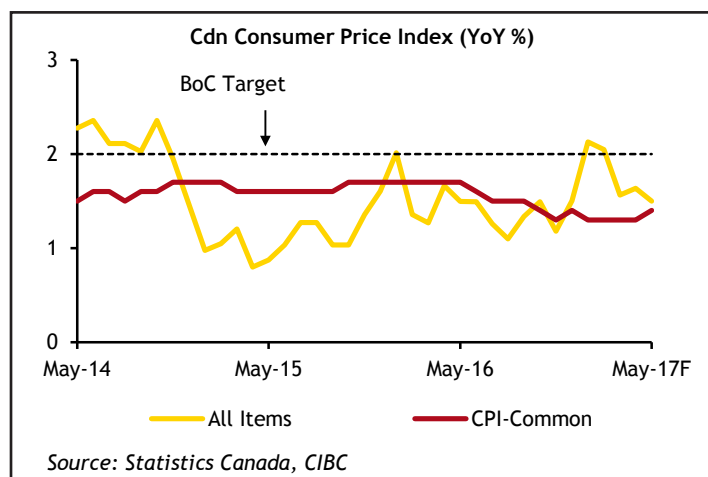
In Canada, retail and wholesale trade are expected to continue the stream of solid, but unspectacular, indicators for April GDP. While headline inflation could decelerate a tick, some improvement in core measures will help solidify the new market expectation for a BoC hike before the end of the year.

Week Ahead's Key Canadian Number:**Consumer Price Index—May**

(Friday, 8:30 a.m.)

Nick Exarhos (416) 956-6527

	CIBC	Mkt	Prior
CPI m/m NSA	0.3%	na	0.4%
CPI yr/yr	1.5%	na	1.6%
CPI-common	1.4%	na	1.3%



A slightly cooler inflationary backdrop isn't just a US story, but one that's showing up in Canadian figures as well. With gasoline's firm contributions fading as we lap less flattering year-ago readings, headline has slipped by ½%-pt since the start of the year, and is likely to slip another tick to 1.5% in next week's release.

Notwithstanding the headline retreat, underlying dynamics might look a bit firmer. We've had three months of very weak readings on the ex-food and energy component as clothing prices have registered sharp year-on-year rates of decline. We expect some reversion back toward the norm in next week's release, with ex-food

and energy likely tracking a 0.2% SA increase. The Bank of Canada's common component metric should also end up a tick higher, with the prior month already a strong 1.3% when taken to the second decimal place by our estimation.

Forecast Implications—Inflation is looking sluggish now, but will firm in the back half of the year. Food prices are likely to become positive contributors to headline CPI in the months ahead, while underlying inflation pressures should heat up as signaled by services inflation and the general performance of the economy in narrowing economic slack.

Other Canadian Releases:**Retail Trade—April**

(Thursday, 8:30 a.m.)

Autos will be a drag, but Canadian consumers likely recorded a decent April. Retail sales will track a 0.3% clip, with the ex-autos reading coming in at 0.8%. Part of that latter strength will be tied to filling station spending, with gasoline prices up on the month. But even excluding gas,

"core" sales should clock in a reasonable pace, leaving that more selective measure tracking near its current 4% annual growth rate. Wholesale trade released on Tuesday should gain 0.5%. Count another two positives for the April GDP outlook due out the week after.

There is no US Key Number this week.

Equity Insights will return next week.

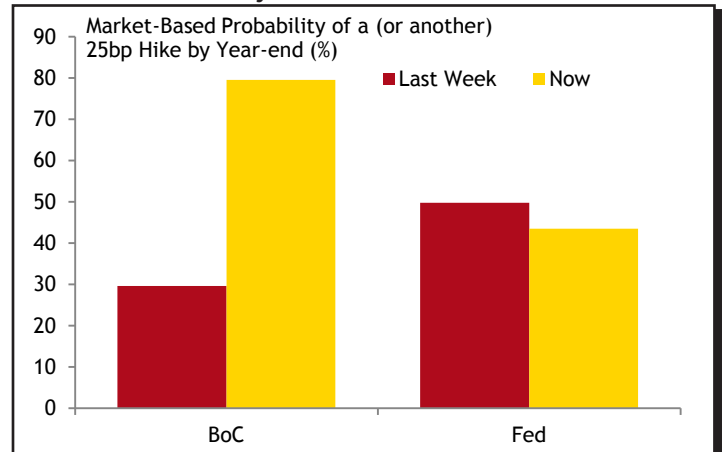
Currency Currents

Andrew Grantham

BoC versus Fed: Expectations Reversed

The C\$ was lent support from a sudden change in tune by the Bank of Canada this week, as Senior Deputy Governor Wilkins and then Governor Poloz hinted that interest rates would be rising soon. As a result, we've brought forward our forecast for the BoC's first hike to Q4 of this year. However, the biggest impact on the C\$ may have already been seen, as a hike in rates in Canada is now more fully priced into markets than a further move by the Fed. To appreciate a little further, and meet our revised USDCAD forecast of 1.31 by year end, a rebound in oil prices will be needed alongside the expected interest rate hike.

Move by BoC Now More Fully Priced Than a Further Hike by the Fed

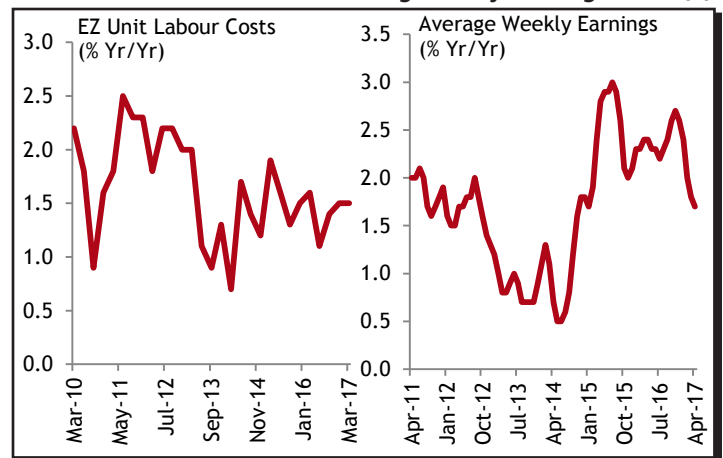


Source: Bloomberg, CIBC

Still Wagering on Euro versus Sterling

In his last press conference, ECB President Draghi dampened expectations for a policy shift slightly by noting that wage growth and core inflation remained weak. While that's true, recent data suggest a much more stable trend in labour costs than elsewhere. In the UK, for example, we've seen a decelerating trend since the start of the year, which is particularly concerning given that CPI inflation has accelerated. So even with more hawkish dissents from BoE voters this week, we still see the ECB withdrawing stimulus earlier and the euro to appreciate versus sterling.

EZ Labour Costs Show Little Acceleration (L), But That's Better Than Decelerating Weekly Earnings in UK (R)

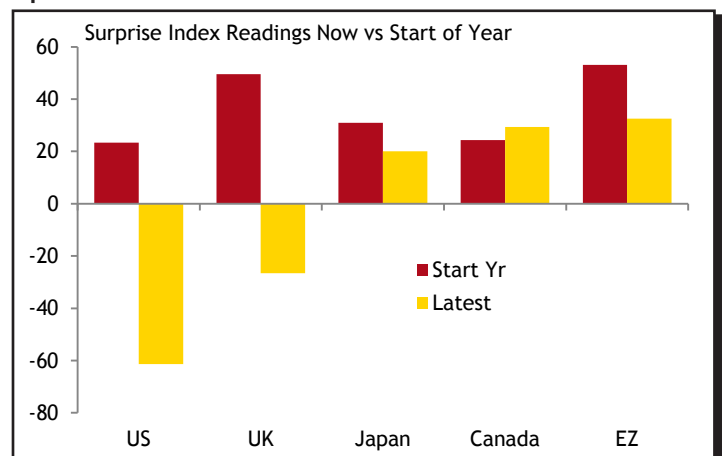


Source: Eurostat, ONS, CIBC

US\$ Weakness No Surprise

The US\$ has weakened this year to levels not seen since November's election, and even though much of the blame is placed on President Trump's inability to come up with a stimulus package yet, the weakening of economic data has also been a major player. Most developed economies were seeing positive surprises in economic data, on average, at the start of the year. However, while that trend has continued in most, it has sharply moved in the other way in the US. While that doesn't appear to have impacted the Fed's thinking at this stage, the divergence between economic data in the US and other countries could still bring some weakness for the greenback—particularly against the euro.

Surprise Indexes Have Held Up Fairly Well, Apart From US and UK



Source: Bloomberg, Citi, CIBC

CANADIAN RELEASE AND EVENT DATES

June/July 2017



MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
12	13 CANADA'S INTERNATIONAL INVESTMENT POSITION 8:30 AM	14	15 SURVEY OF MANUFACTURING 8:30 AM SHIPMENTS M Y FEB -0.2 6.4 MAR 0.8 8.1 APR 1.1 7.6	16 INT'L TRANSACTIONS IN SECURITIES C\$BN, NET 8:30 AM BONDS MONEY STOCKS TOT MARKET FEB 7.4 -4.1 35.8 39.1 MAR 8.9 2.9 3.2 15.1 APR 13.0 -1.1 -1.3 10.6
19	20 WHOLESALE TRADE 8:30 AM	21	22 RETAIL TRADE 8:30 AM (Current\$) M Y FEB -0.4 5.1 MAR 0.7 6.9 APR	23 CPI 8:30 AM M Y MAR 0.2 1.6 APR 0.4 1.6 MAY
26	27	28 Bank of Canada Governor Poloz speaks at ECB, in Portugal at 9:30 AM ET Bank of Canada Dep Gov. Lynn Patterson speaks at CFA Society in Calgary at 2:00 PM ET	29 PAYROLL EMPLOYMENT, EARNINGS & HOURS 8:30 AM	30 GDP BY INDUSTRY (2002\$) 8:30 AM GDP IND.PROD. M M FEB 0.0 -0.6 MAR 0.5 1.1 APR INDUSTRIAL PRICES 8:30 AM M (NSA) Y MAR 0.8 5.1 APR 0.6 6.3 MAY Bank of Canada Business Outlook Survey
3 CANADA DAY Observed (HOLIDAY) (Markets Closed)	4	5	6 INTERNATIONAL RESERVES 8:15 AM \$BN \$BN CHANGE LEVEL APR 2.156 84.7 MAY 0.879 85.6 jun BUILDING PERMITS (\$) 8:30 AM M M (RES) (NON-RES) MAR -8.3 2.1 APR -2.5 4.1 MAY MERCHANDISE TRADE 8:30 AM \$MN 12 MO. BALANCE MAR -936 -21,574 APR -370 -18,793 MAY	7 LABOUR FORCE SURVEY 8:30 AM EMPLOY UNEMP AVG HRLY (HSHOLD) RATE EARN M Y % Y APR 0.0 1.5 6.5 0.5 MAY 0.3 1.8 6.6 1.0 JUN IVEY PURCHASING MANAGERS' INDEX 10:00 AM
10	11 HOUSING STARTS 8:15 AM 000's (AR) TOTAL SINGLES APR 213 66 MAY 195 60 JUN	12 Bank of Canada Interest Rate Announcement Bank of Canada Monetary Policy Report Bank of Canada Gov. Poloz & Sr. Dep Gov. Wilkins speak at press conference on MPR, 11:15 AM ET	13 NEW HOUSING PRICE INDEX 8:30 AM	14

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 June/July 2017



MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
12	13	14	15	16
	PPI 8:30 AM M (SA) Y (NSA) MAR -0.1 2.3 APR 0.5 2.5 MAY 0.0 2.4	CPI 8:30 AM M(SA) Y (NSA) MAR 2.4 2.5 APR 2.2 2.7 MAY 1.9 3.1 RETAIL SALES 8:30 AM M Y MAR 0.1 4.8 APR 0.4 4.6 MAY -0.3 3.8 BUSINESS INVENTORIES 10:00 AM FOMC Rate Decision Fed Chair Yellen speaks	PHILADELPHIA FED INDEX 8:30 AM CAPACITY UTIL/IND. PROD. 9:15 AM LEV M Y MAR 75.9 0.1 1.4 APR 76.7 1.1 2.0 MAY 76.6 0.0 2.1 NET CAPITAL INFLOWS TICS 4:00 PM 3, 10-Yr NOTE SETTLEMENT 30-Yr BOND SETTLEMENT INITIAL JOBLESS CLAIMS (8:30)	HOUSING STARTS 8:30 AM Mn. M/M MAR 1.189 -7.7 APR 1.156 -2.8 MAY 1.092 -5.5 MICHIGAN SENTIMENT (P) 10:00 AM
3, 10-Yr NOTE AUCTION	30-Yr BOND AUCTION BOT (9:00) REDBOOK (8:55)			
19	20	21	22	23
	CURRENT ACCT BALANCE 8:30 AM BOT (9:00) REDBOOK (8:55)	EXISTING HOME SALES 10:00 AM	LEADING INDICATOR 10:00 AM 2,5,7-Yr NOTE ANNOUNCEMENT INITIAL JOBLESS CLAIMS (8:30)	NEW HOME SALES 10:00 AM
26	27	28	29	30
DURABLE GOODS ORDERS 8:30 AM M Y MAR 2.3 6.5 APR -0.7 0.9 MAY	S&P/CASE-SHILLER HOUSE PRICE INDEX 9:00 AM CONSUMER CONFIDENCE 10:00 AM 5-Yr NOTE AUCTION BOT (9:00) REDBOOK (8:55)	ADV. TRADE IN INTERNATIONAL GOODS 8:30 AM 7-Yr NOTE AUCTION	GDP 8:30 AM (AR) REAL IMPLICIT GDP DEF LATOR 16:Q4(F) 2.1 2.1 17:Q1(P) 1.2 2.2 17:Q1(R) CORPORATE PROFITS 8:30 AM INITIAL JOBLESS CLAIMS (8:30)	PERS. INC & OUT. SAVING 8:30 AM INCOME CONS RATE M M AR MAR 0.2 0.3 5.3 APR 0.4 0.4 5.3 MAY CHICAGO PMI 9:45 AM MICHIGAN SENTIMENT (F) 10:00 AM
2-Yr NOTE AUCTION				
3	4	5	6	7
ISM MFG SURVEY 10:00 AM COMP. PRICES INDEX INDEX APR 54.8 68.5 MAY 54.9 60.5 JUN	INDEPENDENCE DAY (HOLIDAY) (Markets Closed)	FACTORY ORDERS 10:00 AM M(SA) Y(NSA) MAR 1.0 6.7 APR -0.2 3.8 MAY FOMC Minutes LIGHT VEHICLES SALES MIL (AR) Y APR 16.816 -3.0 MAY 16.582 -3.1 JUN BOT (9:00) REDBOOK (8:55)	ADP SURVEY 8:15 AM GOODS & SERV. BALANCE (BOP) \$B 8:30 AM GDS SERV TOT MAR -66.1 20.8 -45.3 APR -68.4 20.8 -47.6 MAY ISM NON-MFG SURVEY 10:00 AM 3, 10-Yr NOTE ANNOUNCEMENT 30-Yr BOND ANNOUNCEMENT INITIAL JOBLESS CLAIMS (8:30)	EMPLOY. SITUATION 8:30 AM NON-CIV AVG FARM UNEMP HRLY PAYROLL RATE EARN APR 174 4.4 2.4 MAY 138 4.3 2.4 JUN
10	11	12	13	14
CONSUMER CREDIT 3:00PM	3-Yr NOTE AUCTION BOT (9:00) REDBOOK (8:55)	Beige Book 10-Yr NOTE AUCTION	PPI 8:30 AM M (SA) Y (NSA) APR 0.5 2.5 MAY 0.0 2.4 JUN	RETAIL SALES 8:30 AM M Y APR 0.4 4.6 MAY -0.3 3.8 JUN CPI 8:30 AM M(SA) Y (NSA) APR 2.2 2.7 MAY 1.9 3.1 JUN CAPACITY UTIL/IND. PROD. 9:15 AM LEV M Y APR 76.7 1.1 2.0 MAY 76.6 0.0 2.1 JUN BUSINESS INVENTORIES 10:00 AM MICHIGAN SENTIMENT (P) 10:00 AM

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