CIBC

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

Where Tightening Really Matters: China

by Andrew Grantham

Next Wednesday, at 2:00 PM ET, economists across the globe will be huddled in front of their screens searching through the Fed's latest communication for answers to a wide variety of questions. Did the Fed hike interest rates by 25 basis points as expected? Did the dot-plot still suggest one more hike later this year? How close is the Fed in starting to reduce the size of its balance sheet?

It's all very exciting. But for global growth sentiment, and by extension commodity prices and potentially even equity movements, it won't make much difference if the Fed hikes one or two more times this year, or starts its balance sheet reduction in September or December. From those perspectives policy tightening elsewhere in the world, particularly China, could be much more important.

It was only about a year and a half ago, towards the end of 2015 and into the start of 2016, that investor concern regarding Chinese growth resulted in a slump in global equities and added extra pressure to commodity prices. As authorities there stepped in to support the economy, growth improved, as did global market sentiment.

However, over the past few months China has started tightening policy slightly, with repo rates moving higher and lending growth slowing. Government bond yields have moved up and credit spreads have widened. So should we be concerned about another destabilizing slowdown in the economy there because of this?

Whether you're going to be disappointed regarding growth in China largely comes down to how high your expectations have been raised. As we've shown previously, our composite indicator of the Chinese economy suggested that growth was likely undershooting the official numbers by around 2%-pts in late 2015/early 2016. In contrast, the pick-up since means that, if anything, growth is now overshooting the official numbers. As such, an actual deceleration back to target could impact global growth expectations and commodity prices.

However, a deceleration beyond that is unlikely at this stage. So far, the tightening of policy has been fairly gradual, and although the manufacturing PMI for China has shown a deceleration, the services sector appears to have picked up the slack in the latest month. Meanwhile, a benign inflation outlook, highlighted again by last night's data, suggests no need to up the pace of tightening from that perspective.

From a global growth standpoint, policy tightening in China could have further reaching implications than what the Fed does or doesn't do next week. High expectations due to the growth seen in recent quarters means that even a modest slowdown to target could impact commodity markets, particularly metals such as copper, even if the pace of tightening is well managed.

Week Ahead Calendar And Forecast

CANADA

Day	Event	Period	Sig.	CIBC	Consensus	Prior
Monday June 12	Speaker: 1:20 PM Carolyn Wilkins (Sr. Deputy Gov.)					
Tuesday June 13	**AUCTION: 3-M BILLS $6.8B, 6-M BILLS $2.6B, 1-YR BILLS $2.6B**					
	CASH MANAGEMENT BUYBACK (Aug'17 - Nov'18) - $0.5B					
Wednesday June 14						
Thursday June 15	**AUCTION: 3-YR CANADAS $3.3B**					
	8:30 AM					
	MANUFACTURING SHIPMENTS M/M	(Apr)	(M)	**1.3%**		1.0%
	9:00 AM					
	EXISTING HOME SALES	"(May)	(L)			-1.7%
Friday June 16	**8:30 AM**					
	INT'L. SEC. TRANSACTIONS	(Apr)	(M)			$15.1B

UNITED STATES

Day	Event	Period	Sig.	CIBC	Consensus	Prior
Monday June 12	**AUCTION: 3-M BILLS $39B, 6-M BILLS $33B**					
	AUCTION: 3-YR TREASURIES $24B					
	AUCTION: 10-YR TREASURIES $20B					
	2:00 PM					
	TREASURY BUDGET	(May)	(M)		-$87.0B	$182.4B
Tuesday June 13	**AUCTION: 4-WEEK BILLS $40B (prev)**					
	AUCTION: 30-YR TREASURIES $12B					
Wednesday June 14	**7:00 AM**					
	MBA-APPLICATIONS	(Jun 9)	(L)			7.1%
	8:30 AM					
	CPI M/M	(May)	(H)	**-0.1%**	0.0%	0.2%
	CPI M/M (core)	(May)	(H)	**0.2%**	0.2%	0.1%
	CPI Y/Y	(May)	(H)	**2.0%**	2.0%	2.2%
	CPI Y/Y (core)	(May)	(H)	**1.9%**	1.9%	1.9%
	RETAIL SALES M/M	(May)	(H)	**-0.1%**	0.1%	0.4%
	RETAIL SALES (X-AUTOS) M/M	(May)	(H)	**0.0%**	0.2%	0.3%
	RETAIL SALES CONTROL GROUP M/M	(May)	(H)	**0.4%**	0.4%	0.2%
	10:00 AM					
	BUSINESS INVENTORIES M/M	(Apr)	(L)		-0.1%	0.2%
	2:00 PM					
	FOMC RATE DECISION (UPPER BOUND)	(Jun)	(H)	**1.25%**	1.25%	1.00%
	FOMC RATE DECISION (LOWER BOUND)	(Jun)	(H)	**1.00%**	1.00%	0.75%
Thursday June 15	**8:30 AM**					
	INITIAL CLAIMS	(Jun 10)	(M)		243K	245K
	CONTINUING CLAIMS	(Jun 3)	(L)			1917K
	IMPORT PRICE INDEX M/M	(May)	(L)		0.0%	0.5%
	NEW YORK FED (EMPIRE)	(Jun)	(M)		4.00	-1.00
	PHILADELPHIA FED	(Jun)	(M)		24.5	38.8
	9:15 AM					
	INDUSTRIAL PRODUCTION M/M	(May)	(H)	**-0.1%**	0.2%	1.0%
	CAPACITY UTILIZATION	(May)	(M)	**76.6%**	76.8%	76.7%
	10:00 AM					
	NAHB HOUSING INDEX	(Jun)	(L)		70	70
	4:00 PM					
	NET CAPITAL INFLOWS (TICS)	(Apr)	(L)			$59.8B
Friday June 16	**8:30 AM**					
	HOUSING STARTS SAAR	(May)	(M)	**1205K**	1218K	1172K
	BUILDING PERMITS SAAR	(May)	(H)	**1260K**	1250K	1228K
	10:00 AM					
	MICHIGAN CONSUMER SENTIMENT	Jun P)	(H)		97.1	97.1
	Speaker: 12:45 PM Rob Kaplan (Dallas, President)					

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, we're with the consensus expecting that the Fed will hike 25 bps and that the median dot-plot projection will still signal one more move this year. The last minutes already detailed how the Fed expects to reduce the size of its balance sheet, so there shouldn't be too much scope for surprise in that respect. Any further mention of softer inflation and wage growth could lend a slightly dovish tilt to the statement, particularly as core CPI released the same morning is unlikely to accelerate from its current 1.9% pace. We see scope for slight disappointments in retail sales, industrial production and housing starts versus the consensus.

In Canada a quieter week for data is highlighted by manufacturing shipments, which judging from the export figures should be poised for another solid gain in the month of April.

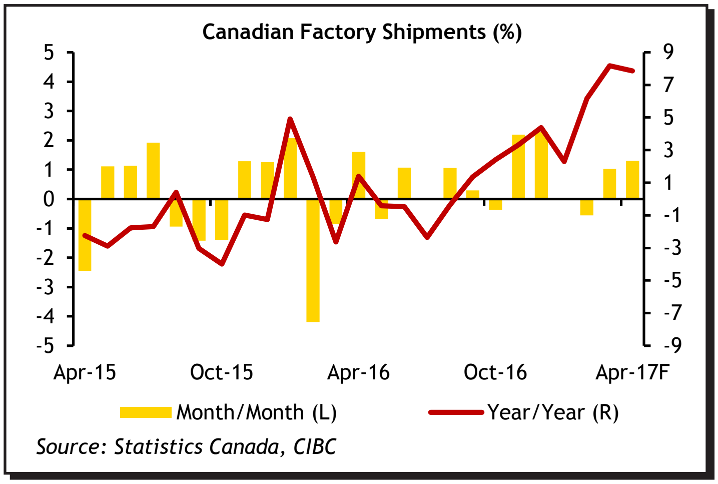
Week Ahead's Key Canadian Number:

Manufacturing Survey—April

(Thursday, 8:30 a.m.)

Nick Exarhos (416) 956-6527

	CIBC	Mkt	Prior
Mfg Shipments m/m SA	1.3%	na	1.0%



Two strong months for manufactured exports should see two commensurately healthy readings from the factory sector. Building on last month, shipments should see a 1.3% gain in next week's report.

The advance in exports was tied to forestry products and autos, two areas where there are significant headwinds to further meaningful progress. Countervailing duties imposed in May were aimed at shrinking Canadian import penetration in the US. Furthermore, a slowdown in auto sales stateside, and longer than normal summer shutdowns at production facilities will crimp related domestic exports and output. As a result, further progress could be slower than what we've seen recently, with the current year-on-year rate of growth poised to ease ahead.

Forecast Implications—We're still undershooting prior historical experiences of C$ depreciation for exports. But recent months have shown decent momentum for Canadian factories, with value added and real shipments breaking out of the range they've been stuck in for a few years. That's a positive omen for the modest turn in non-energy cap-ex we're expecting in 2018.

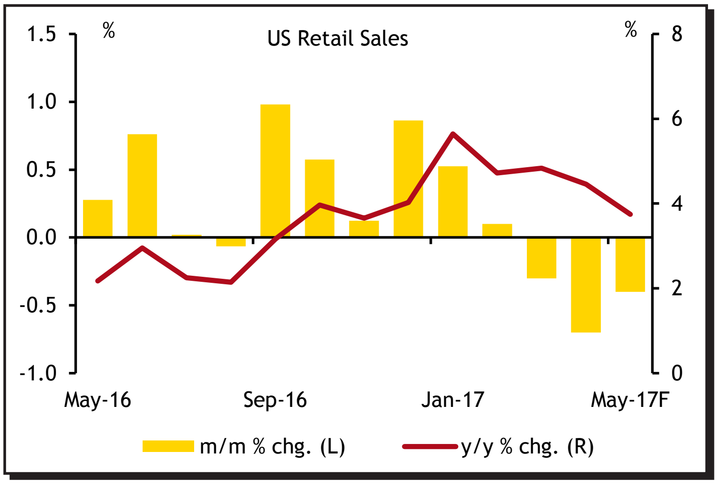
Week Ahead's Key US Number:

Retail Sales—May

(Wednesday, 8:30 a.m.)

Royce Mendes (416) 594-7354

	CIBC	Mkt	Prior
Retail Sales	-0.1%	0.1%	0.4%
Retail Sales – ex auto	0.0%	0.2%	0.3%
Retail Sales – control group	0.4%	0.4%	0.2%



Both auto and gasoline sales will shave a few points off from May's headline retailing number. But, after stripping out those volatile sectors, underlying sales should look healthy once again. With household incomes continuing to grow at a solid pace, the first quarter slowdown in consumption looks more like an aberration than the beginning of a new trend.

Our 0.4% forecasted monthly increase in core retail sales suggests that the three-month annualized rate will be running at more than 4% when the numbers are released. That's indicative of a healthy rebound in household spending in the second quarter.

Forecast Implications—Healthy household spending is a key component of our second quarter GDP growth forecast of roughly 3½%.

Market Impact—While we're forecasting a strong core figure, we're slightly below consensus on the headline retail sales and CPI number that will be released at the same time. As a result, we're don't expect much market reaction.

Other U.S. Releases:

Consumer Price Index—May

(Wednesday, 8:30 a.m.)

Inflation hasn't been cooperating with Fed policymakers, and next week's data release is unlikely to change that narrative. The headline index will be dragged 0.1% lower by a drop in gasoline prices. That will see the annual rate only tread water at 2.0%. Core CPI should look stronger, increasing 0.2% in May. But, even that gain won't be able to push core inflation above the 1.9% seen in April. While soft, the inflation numbers are in line with our view that consumer price increases are likely to still come at a gradual pace, despite the low unemployment rate.

Housing Starts—May

(Friday, 8:30 a.m.)

The pace of housing starts slowed in both March and April, but likely made up at least part of that ground in the most recent month. Some activity that would have taken place in those weak months was likely pulled forward to earlier months in the year, when the weather was milder than usual. That should see a return to more trend-like numbers in May. However, building permits are suggesting that growth in residential investment will be materially slower than the double-digit gain observed in the first quarter.

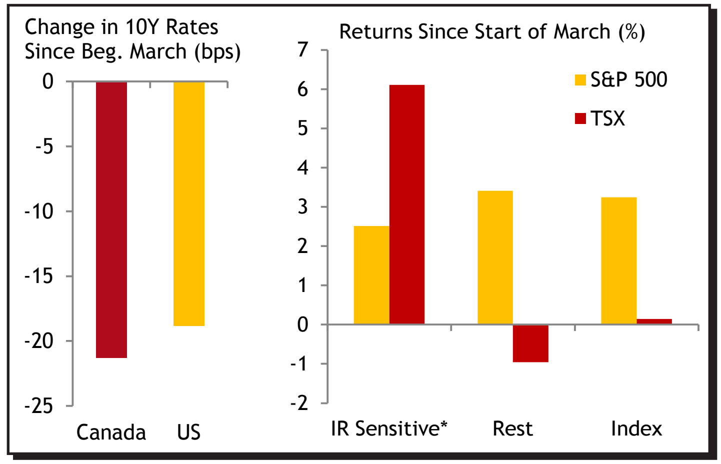
Equity Insights

Nick Exarhos

Canadian Interest Rate Sensitive Stocks Outperform US Comps

Rates are low, low, low. That's not just a Canadian reality, but one that's present across the developed world. But Canadian interest rate sensitive stocks—utilities, consumer staples, telecoms, and real estate—have been outperforming their American comparables by a wide margin over the last three or so months, despite what's been a similar move lower in government bond rates. Gains in the US market have been more widespread than on the TSX, suggesting that yield hungry investors may do better looking south of the border when allocating resources to dividend focused names.

Despite Similar Draw Down in Yields (L), Canadian Yield Plays Trounce Similar US Equities (R)

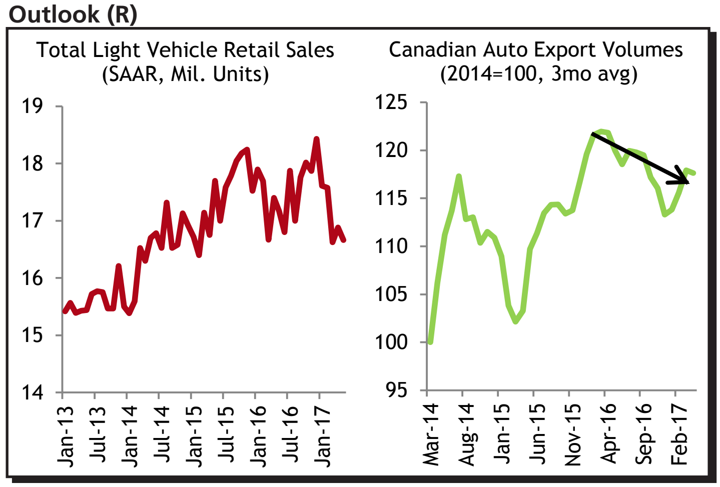


Source: Bloomberg, CIBC
**Utilities, Consumer Staples, Telecoms, Real Estate*

US Auto Sales: No Rebound in Sight

We've written that although the US consumer is likely to be in decent shape going forward, we're poised to see a rotation away from early-cycle spending areas, the biggest of those categories being autos. Indeed, US auto sales appear to be stuck in neutral—if not reverse—a negative not only for related equities on the US exchange, but for Canadian exporters whose main market is America. Related Canadian export volumes have already slipped, and the outlook isn't encouraging. If we're cautiously optimistic on Canadian exports, it's based on other categories picking up the slack. Investors should keep modest expectations for growth in this area.

US Sales Slip (L), Leaving Grim Canadian Auto Export Outlook (R)

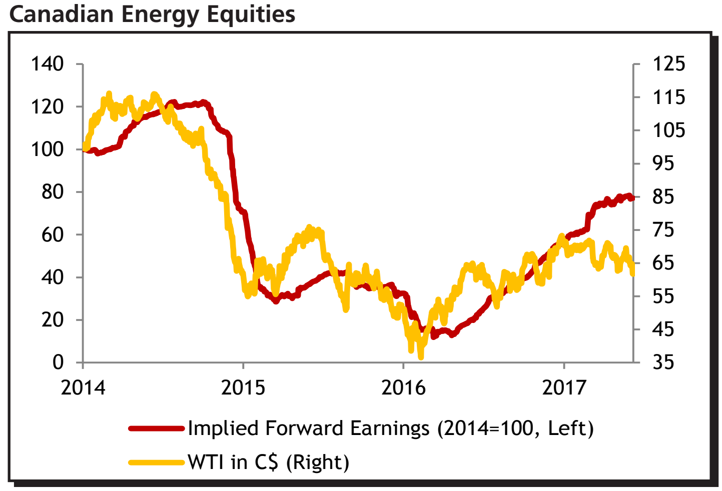


Source: Autodata, Statistics Canada, CIBC

Canadian Energy Stocks: Caution Still Needed

Although we have oil prices edging higher over the balance of the year, we're not bulled up on Canadian energy equities. True, $45 may be at the bottom of the recent range, and stocks may see a bit of a lift as crude bounces. But it appears that valuations may be baking in too much optimism for prices over the next twelve months. As the market realizes that the medium-term crude plateau we're headed for is closer to $55/bbl than $65/bbl, stocks are likely to underperform physical crude prices from here. Caution is still required when looking at this sector.

Implied Forward Earnings Look Poised for Correction for Canadian Energy Equities



Source: Bloomberg, CIBC

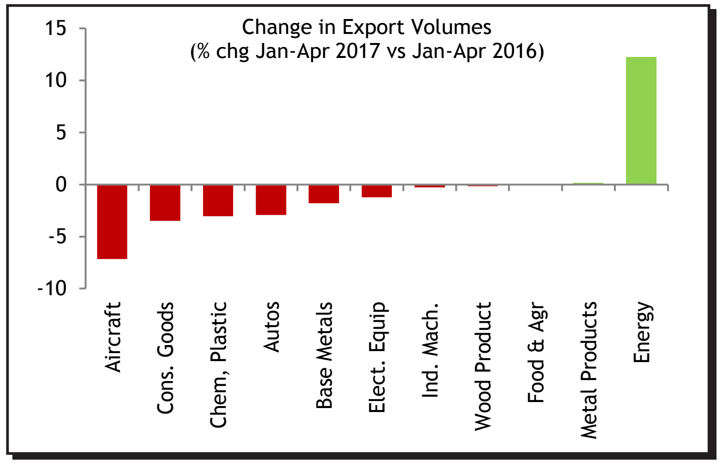
Currency Currents

Andrew Grantham and Royce Mendes

Cdn Export Volumes De-energized Outside Energy

We noted previously that the Canadian trade deficit wouldn't have improved that much if the rebound in energy was excluded. However, it goes further than that, as the story isn't all about prices. Even after a solid April report for export volumes, most categories are down or flat from the level a year ago. The only place where export volumes are up meaningfully is energy. With ex-energy trade still not making inroads even as the economy appears to be growing strongly, Governor Poloz will be patient when hiking interest rates, looking to maintain a competitive C$ in the mid-1.30's.

Export Volume Growth Also Just an Energy Story

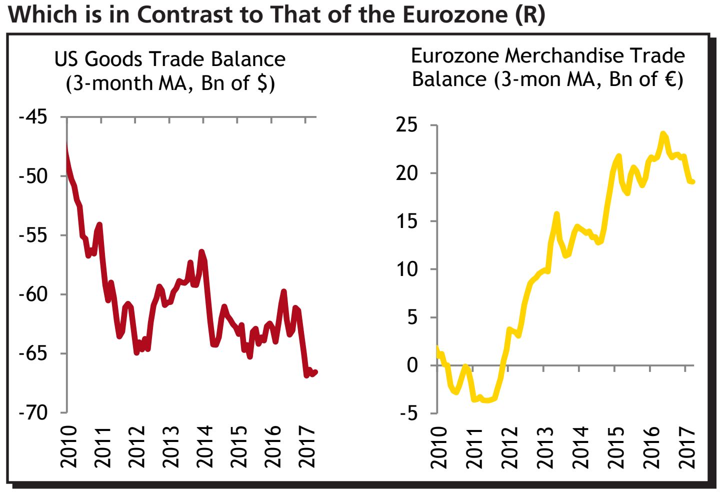


Source: Statistics Canada, CIBC

Trading Places

Markets have already fully priced a Fed rate hike next week, leaving other forces to decide the near-term trajectory for the US dollar. International capital flows are likely to fill at least part of that void. While US two-way trade has made headway over the past year, the goods deficit with the rest of the world has increased over that same period. The three-month average deficit is now hovering around its widest point since 2012. Conversely, the euro area merchandise trade surplus currently stands around its highest level since the currency union was created. That divergence in capital flows only underscores our view that the greenback is going to cede further ground to the euro in the months ahead.

US Trade Balance Has Deteriorated Recently (L), Which is in Contrast to That of the Eurozone (R)

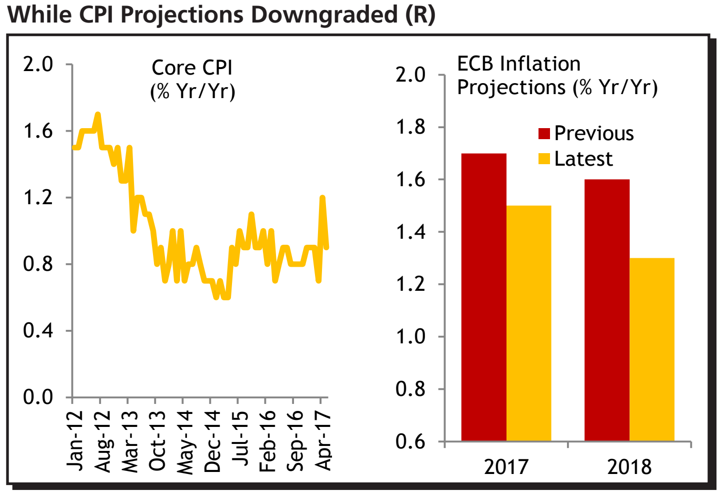


Source: Haver Analytics, Bloomberg, CIBC

Draghi Not Fanning Flames of EUR Yet

The euro has rallied this year, although it didn't get any help on that path from the ECB this week. While policymakers are no longer suggesting rates could be cut again, there weren't any signals towards tapering QE later in the year or rate increases in 2018. Indeed, Draghi's press conference comments, which pointed out how low core CPI still is and the notable downgrades to inflation forecasts, lent an overall dovish tone. However, we still see the Eurozone economy as progressing well, which will enable a reduction of stimulus later this year or early in 2018. As such the recent pullback in EURUSD should reflect better values for long positions to be reestablished, as we see it rising to 1.18 by end 2018.

Draghi Notes Low Core Inflation (L), While CPI Projections Downgraded (R)



Source: ECB, Eurostat, CIBC

CANADIAN RELEASE AND EVENT DATES
June/July 2017

MONDAY | TUESDAY | WEDNESDAY | THURSDAY | FRIDAY

5 (Monday)

INTERNATIONAL RESERVES

8:15 AM	$BN CHANGE	$BN LEVEL
MAR	0.463	82.6
APR	2.156	84.7
MAY	0.879	85.6

6 (Tuesday)

7 (Wednesday)

BUILDING PERMITS ($)

8:30 AM	M (RES)	M (NON-RES)
FEB	-1.8	-4.7
MAR	-8.3	2.1
APR	-2.5	4.1

8 (Thursday)

HOUSING STARTS

8:15 AM	000's (AR) TOTAL	SINGLES
MAR	252	73
APR	213	66
MAY	195	60

NEW HOUSING PRICE INDEX
8:30 AM

9 (Friday)

LABOUR FORCE SURVEY

8:30 AM	EMPLOY (HSHOLD) M	EMPLOY (HSHOLD) Y	UNEMP RATE %	AVG HRLY EARN Y
MAR	0.1	1.5	6.7	0.9
APR	0.0	1.5	6.5	0.5
MAY	0.3	1.8	6.6	1.0

CAPACITY UTILIZATION

8:30 AM	LEVEL (%) TOTAL	MANUF.
16:Q3	81.2	81.6
16:Q4	81.8	81.9
17:Q1	83.3	83.4

12 (Monday)

Bank of Canada Sr. Dep. Governor Wilkins speaks in Winnipeg @ 1:20 PM ET

13 (Tuesday)

CANADA'S INTERNATIONAL INVESTMENT POSITION
8:30 AM

14 (Wednesday)

15 (Thursday)

SURVEY OF MANUFACTURING

8:30 AM	SHIPMENTS M	Y
FEB	-0.6	6.2
MAR	1.0	8.2
APR		

16 (Friday)

INT'L TRANSACTIONS IN SECURITIES C$BN, NET

8:30 AM	BONDS	MONEY MARKET	STOCKS	TOT
FEB	7.4	-4.1	35.9	39.2
MAR	8.9	2.9	3.3	15.1
APR				

19 (Monday)

20 (Tuesday)

WHOLESALE TRADE
8:30 AM

21 (Wednesday)

22 (Thursday)

RETAIL TRADE

8:30 AM	(Current$) M	Y
FEB	-0.4	5.1
MAR	0.7	6.9
APR		

23 (Friday)

CPI

8:30 AM	M	Y
MAR	0.2	1.6
APR	0.4	1.6
MAY		

26 (Monday)

27 (Tuesday)

28 (Wednesday)

29 (Thursday)

PAYROLL EMPLOYMENT, EARNINGS & HOURS
8:30 AM

30 (Friday)

GDP BY INDUSTRY

8:30 AM	(2002$) GDP M	IND.PROD. 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		

3 (Monday)

CANADA DAY Observed
(HOLIDAY)
(Markets Closed)

4 (Tuesday)

5 (Wednesday)

6 (Thursday)

INTERNATIONAL RESERVES

8:15 AM	$BN CHANGE	$BN LEVEL
APR	2.156	84.7
MAY	0.879	85.6
jun		

BUILDING PERMITS ($)

8:30 AM	M (RES)	M (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	-18793
MAY		

7 (Friday)

LABOUR FORCE SURVEY

8:30 AM	EMPLOY (HSHOLD) M	EMPLOY (HSHOLD) Y	UNEMP RATE %	AVG HRLY EARN 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

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

<table>
<tr><th>MONDAY</th><th>TUESDAY</th><th>WEDNESDAY</th><th>THURSDAY</th><th>FRIDAY</th></tr>
<tr>
<td>5
NON-FARM PRODUCTIVITY
8:30 AM Q/Q (AR) Y/Y
16:Q4 (R) 1.8 1.1
17:Q1 (R) 0.0 1.2

FACTORY ORDERS
10:00 AM M(SA) Y(NSA)
FEB 0.8 7.6
MAR 1.0 6.7
APR -0.2 3.8
ISM NON-MFG SURVEY
10:00 AM</td>
<td>6

BOT (9:00) REDBOOK (8:55)</td>
<td>7
CONSUMER CREDIT
3:00PM</td>
<td>8
3, 10-Yr NOTE ANNOUNCEMENT
30-Yr BOND ANNOUNCEMENT

INITIAL JOBLESS CLAIMS (8:30)</td>
<td>9
WHOLESALE TRADE
10:00AM</td>
</tr>
<tr>
<td>12

3, 10-Yr NOTE AUCTION</td>
<td>13
PPI
8:30 AM M (SA) Y (NSA)
MAR -0.1 2.3
APR 0.5 2.5
MAY

30-Yr BOND AUCTION

BOT (9:00) REDBOOK (8:55)</td>
<td>14
CPI
8:30 AM M(SA) Y (NSA)
MAR 2.4 2.5
APR 2.2 2.7
MAY
RETAIL SALES
8:30 AM M Y
MAR 0.1 4.8
APR 0.4 4.5
MAY
BUSINESS INVENTORIES
10:00 AM

FOMC Rate Decision

Fed Chair Yellen speaks</td>
<td>15
PHILADELPHIA FED INDEX
8:30 AM
CAPACITY UTIL/IND. PROD.
9:15 AM LEV M Y
MAR 76.1 0.4 1.6
APR 76.7 1.0 2.1
MAY
NET CAPITAL INFLOWS TICS
4:00 PM

3, 10-Yr NOTE SETTLEMENT
30-Yr BOND SETTLEMENT

INITIAL JOBLESS CLAIMS (8:30)</td>
<td>16
HOUSING STARTS
8:30 AM Mn. M/M
MAR 1.203 -6.6
APR 1.172 -2.6
MAY

MICHIGAN SENTIMENT (P)
10:00 AM</td>
</tr>
<tr>
<td>19</td>
<td>20
CURRENT ACCT BALANCE
8:30 AM

BOT (9:00) REDBOOK (8:55)</td>
<td>21
EXISTING HOME SALES
10:00 AM</td>
<td>22
LEADING INDICATOR
10:00 AM

2,5,7-Yr NOTE ANNOUNCEMENT

INITIAL JOBLESS CLAIMS (8:30)</td>
<td>23
NEW HOME SALES
10:00 AM</td>
</tr>
<tr>
<td>26
DURABLE GOODS ORDERS
8:30 AM M Y
MAR 2.3 6.5
APR -0.7 0.9
MAY

2-Yr NOTE AUCTION</td>
<td>27
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)</td>
<td>28
ADV. TRADE IN INTERNATIONAL GOODS
8:30 AM

7-Yr NOTE AUCTION</td>
<td>29
GDP
8:30 AM (AR) REAL GDP IMPLICIT DEFLATOR
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)</td>
<td>30
PERS. INC & OUT.
8:30 AM INCOME M CONS M SAVING RATE 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</td>
</tr>
<tr>
<td>3
ISM MFG SURVEY
10:00 AM COMP. INDEX PRICES INDEX
APR 54.8 68.5
MAY 54.9 60.5
JUN</td>
<td>4
INDEPENDENCE DAY
(HOLIDAY)
(Markets Closed)</td>
<td>5
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)</td>
<td>6
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)</td>
<td>7
EMPLOY. SITUATION
8:30 AM NON-FARM PAYROLL CIV UNEMP RATE AVG HRLY EARN
APR 174 4.4 2.4
MAY 138 4.3 2.4
JUN</td>
</tr>
</table>

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.