THE WEEK AHEAD

March 19-23, 2018

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

http://economics.cibccm.com

BIS Bash Are We Taking a Bath?

by Avery Shenfeld

Canadians are attracted to negative reports from abroad about their country like bees to honey. So it's interesting that financial markets, for once, essentially yawned about a report from the Bank for International Settlements (BIS) that warned of an impending banking crisis here. Canada stood out as the sole country of the 26 reported on that had all four "early warning indicators" flashing either red or amber.

There's plenty of reason to be skeptical about the report's methodology. Financial crises are rare events, so trying to glean warning signs of them starts with major data limitations. Countries have very different regulatory environments, macro-prudential buffers, and data definitions. Even the report itself has multiple warnings to treat its results with "considerable caution."

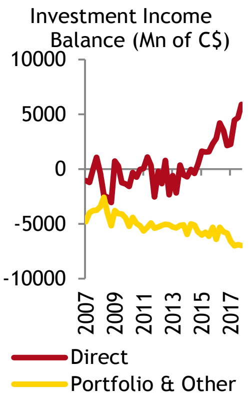
That seems prudent, based on the BIS's own track record. A similar table in its 2014 annual report had lots of red flags about the Swiss banking system, but none for Italy. As an institution, the BIS has repeatedly advised central banks, including Canada's, to tighten interest rates at times where the subsequent history has shown below-target inflation and disappointing growth.

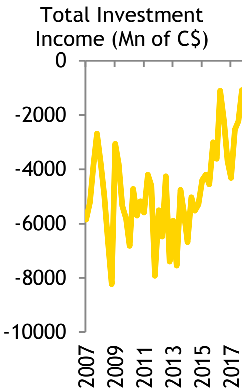
Two of the current warning signals for Canada seem particularly likely to mislead. The first is a measure tracking the degree to which a country's ratio of non-financial credit to GDP is above its longer term trend. That is certainly true for Canada, but interest rates are also miles below their longer term levels, and nobody sees us going back to historical norms.

Moreover, as we always caution, it's not just how much credit has been issued, but to whom. The US financial crisis was triggered by large debts owed by individual households that didn't have matching incomes. Mortgage arrears rates in Canada continue to dive, and macro-prudential rules are reducing the flow of credit to marginal borrowers from those institutions relevant to the financial system.

Canada also got bad marks from having seen a run-up in bank- and non-bank international borrowing. A persistent current account deficit has been funded by foreign purchases of Canadian bonds, and such issuance has been tempting for borrowers, given that in the US and Europe, central bank QE drained the supply of domestic bonds available to investors.

But Canada has been using some of the funds raised to be a net buyer in terms of foreign direct investment, and is earning strong returns on the acquired assets. That has included buying back some foreign-owned companies in Canada. The result is that Canada's deficit in investment income flows has been rapidly improving, not getting worse, in recent years (Chart). It's hard to view that as a sign of financial doom ahead.





Week Ahead Calendar And Forecast

CANADA

				CIBC	Consensus	Prior
Monday March 19						
Tuesday March 20	**CASH MANAGEMENT BUYBACK (May'18 - Sep'19) $0.5B**					
	8:30 AM					
	WHOLESALE TRADE M/M	(Jan)	(M)	**0.4%**		-0.5%
	NOVA SCOTIA BUDGET					
Wednesday March 21						
Thursday March 22	**ALBERTA BUDGET**					
	Speaker: 2:45 PM Carolyn Wilkins (Sr. Deputy Gov.)					
Friday March 23	**8:30 AM**					
	CPI M/M	(Feb)	(H)	**0.6%**	0.5%	0.7%
	CPI Y/Y	(Feb)	(H)	**2.1%**	2.0%	1.7%
	CPI Core- Common Y/Y%	(Feb)	(M)	**1.8%**	1.9%	1.8%
	CPI Core- Median Y/Y%	(Feb)	(M)			1.9%
	CPI Core- Trim Y/Y%	(Feb)	(M)			1.8%
	RETAIL TRADE TOTAL M/M	(Jan)	(H)	**1.6%**	1.3%	-0.8%
	RETAIL TRADE EX-AUTO M/M	(Jan)	(H)	**0.8%**	0.9%	-1.8%

UNITED STATES

				CIBC	Consensus	Prior
Monday March 19	**AUCTION: 3-M BILLS $51B, 6-M BILLS $45B**					
	Speaker: 9:40 AM Raphael Bostic (President, Atlanta)					
Tuesday March 20	**AUCTION: 4-WEEK BILLS $65B (prev)**					
Wednesday March 21	**7:00 AM**					
	MBA-APPLICATIONS	(Mar 16)	(L)			0.9%
	8:30 AM					
	CURRENT ACCOUNT	(Q4)	(L)		-$125.0B	-$100.6B
	10:00 AM					
	EXISTING HOME SALES SAAR	(Feb)	(M)		5.40M	5.38M
	EXISTING HOME SALES M/M	(Feb)	(M)		0.4%	-3.2%
	2:00 PM					
	FOMC RATE DECISION (UPPER BOUND)		(H)	**1.75%**	1.75%	1.50%
	FOMC RATE DECISION (LOWER BOUND)		(H)	**1.50%**	1.50%	1.25%
	Speaker: 2:30 PM Jerome H Powell (Chairman)					
Thursday March 22	**8:30 AM**					
	INITIAL CLAIMS	(Mar 17)	(M)			226K
	CONTINUING CLAIMS	(Mar 10)	(L)			1879K
	9:00 AM					
	HOUSE PRICE INDEX M/M	(Jan)	(M)		0.3%	0.3%
	9:45 AM					
	MARKIT US MANUFACTURING PMI	Mar P	(L)		55.5	55.3
	10:00 AM					
	LEADING INDICATORS M/M	(Feb)	(M)		0.4%	1.0%
	10:45 AM					
	MARKIT US SERVICES PMI	Mar P	(L)		56.0	55.9
	MARKIT US COMPOSITE PMI	Mar P	(L)			55.8
Friday March 23	**8:30 AM**					
	DURABLE GOODS ORDERS M/M	(Feb)	(H)	**2.3%**	1.6%	-3.6%
	DURABLE GOODS ORDERS EX-TRANS M/M	(Feb)	(H)	**0.8%**	0.5%	-0.3%
	10:00 AM					
	NEW HOME SALES SAAR	(Feb)	(M)	**626K**	620K	593K
	NEW HOME SALES M/M	(Feb)	(M)		4.6%	-7.8%
	Speaker: 7:00 PM Eric Rosengren (President,Boston)					
	Speaker: 10:30 AM Neel Kashkari (President, Minneapolis)					
	Speaker: 8:10 AM Raphael Bostic (President, Atlanta)					

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

Week Ahead's Market Call

by Royce Mendes

In the US, investors will be focused on the mid-week Fed meeting. Markets are braced for a quarter-point rate hike, so it will be up to the statements and projections released alongside to drive pricing. Expect Jerome Powell's first press conference as Chair of the committee to stay the course regarding the Fed's gradual rate hike trajectory. While there are some upside risks to the 2019 and long-term median dot projections, it would take a number of members upgrading their forecasts to see a change for this year.

In Canada, Friday's data on CPI and retail sales will be the main event. Inflation could heat up a bit more than the consensus expects, but will still be just a touch above 2%. With the core-common component measure likely remaining at 1.8%, the inflation release shouldn't do much to move market pricing on the Bank of Canada. Expect BoC Senior Deputy Governor Wilkins' Thursday comments to echo the Governor's cautious tone. While retail sales data for January will likely rebound from a soft December, other indicators of activity are still pointing towards a soft opening month for real GDP.

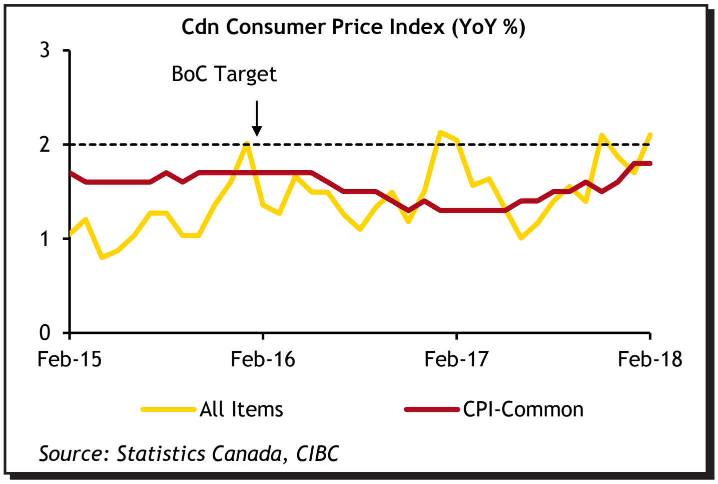
Week Ahead's Key Canadian Number:

Consumer Price Index—February

(Friday, 8:30 a.m.)

Royce Mendes (416) 591-7354

	CIBC	Mkt	Prior
CPI m/m NSA	0.6%	0.5%	0.7%
CPI yr/yr	2.1%	2.0%	1.7%
CPI-common	1.8%	1.9%	1.8%



Source: Statistics Canada, CIBC

Headline inflation likely popped its head back above the Bank of Canada's 2% target, but don't expect that to move the needle on the monetary policy outlook. The less volatile core common component measure of inflation should remain at 1.8%, suggesting that price pressures remain well contained.

The monthly change in prices will register an unadjusted 0.6% advance, but that's mostly due to seasonal factors, leaving the SA reading showing a more modest gain of 0.1%. Even with a trend-like increase in the ex-food and energy index of 0.2%SA, the month-over-month change will be dragged lower by a decline in energy prices and a soft food reading after adjusting for seasonality factors.

Forecast Implications—Despite exceeding 2% in February, headline inflation won't meaningfully accelerate until later in the year, giving Governor Poloz plenty of time to remain patient on rate hikes in the face of other headwinds.

Other Canadian Releases:

Retail Trade—January

(Friday, 8:30 a.m.)

Statistics Canada reported that consumers took a breather in December, but it looks like they're back to begin the new year. We'd also ascribe some of that apparent prior weakness to a faulty seasonal adjustment which hasn't caught up with buying patterns that are seeing households start their holiday shopping in November. A spike in auto sales will be a major driver of the 1.6% gain in headline retail sales, but higher gasoline prices in January will add a further layer of support. As a result, the gain won't need much of a contribution from other areas to reach our heady forecast.

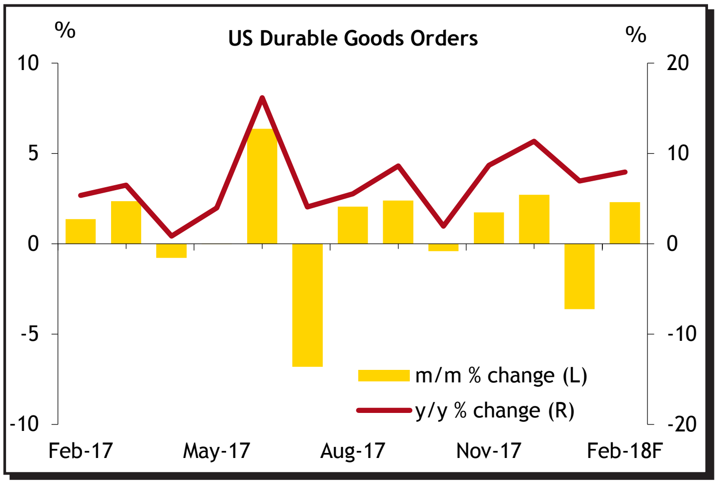
Week Ahead's Key US Number:

Durable Goods Orders—February

(Friday, 8:30 a.m.)

Andrew Grantham (416) 956-3219

	CIBC	Mkt	Prior
Durable goods, m/m	2.3%	1.6%	-3.6%
ex transportation, m/m	0.8%	0.5%	-0.3%



Durable goods are coming off a poor month in January, not just for the volatile aircraft sector but for core capital orders as well. However, the latter doesn't appear to tally with strong PMI readings, and also recent import figures which suggest purchases of machinery and other durables have continued to rise.

As such, we expect that orders will look healthier in February, more in keeping with the trend seen in the second half of 2017. A 0.8% rise in ex-transport orders would be close to the average advance since last July. Add in a partial rebound in aircraft orders, and the headline could be flying 2.3% higher.

Forecast Implications—Signs that January's weakness was just a blip will be positive for the near-term outlook regarding business investment. That's particularly good news as a large proportion of the acceleration in GDP growth we expect this year is linked to stronger business investment.

Market Impact—An above-consensus core print should be positive for the US$ and negative for fixed income.

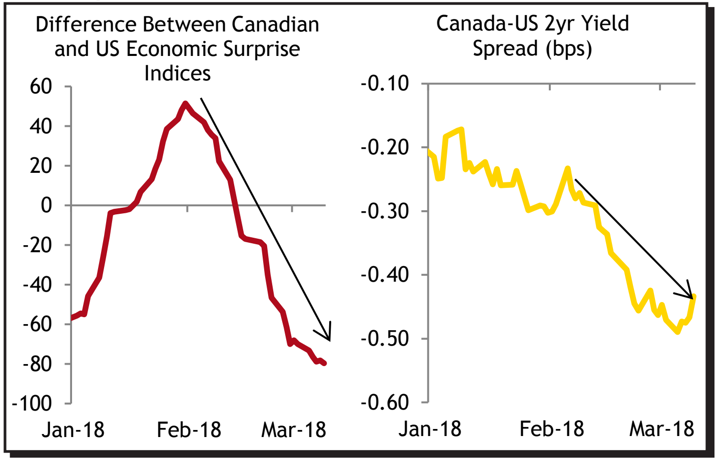
Currency Currents

Royce Mendes and Andrew Grantham

CAD: It's All Relative

Trade frictions with the US have been the focus of headlines, and that's partly to blame for the loonie's recent slide. But economic data over the past month have been underwhelming compared to both the lofty expectations set by last year's heady readings and relative to what's been rolling in south of the border. That underperformance has led to a more cautious tone out of the Bank of Canada, causing 2-year spreads to almost double over the past month. Signaling from the BoC reinforces our belief that Canadian monetary policymakers will lag their US counterparts in terms of further tightening this year, creating a ripe environment for further loonie depreciation.

Canadian Data Has Underperformed That of the US (L), 2-Year Spreads Have Almost Doubled (R)

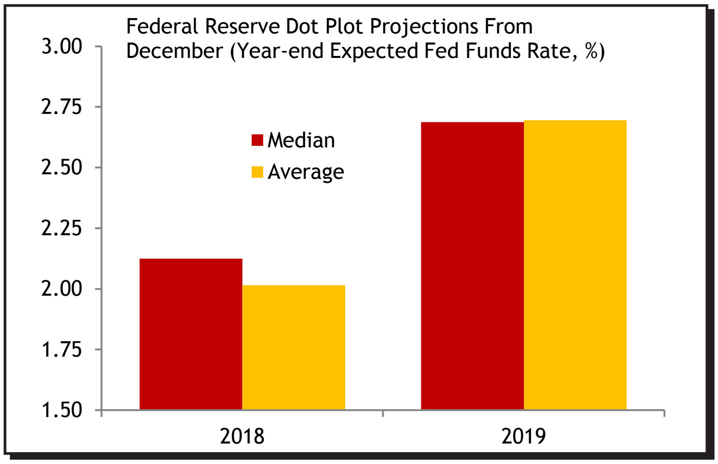


Source: Bloomberg, CIBC

US Dot Plots: Can 3 Become 4?

Latest inflation data suggest there's no need for the Fed to be more hawkish than it was previously, and looking at the composition of dot-plot projections in December it seems unlikely that the US$ will get a boost from upgraded rate expectations next week. For 2018, the median of 2.125% was above the straight average, meaning quite a few respondents would need to raise their projections to see the median increase. An increase in the median dot projection for 2019 is possible, but given so much can happen between now and then we'd expect market reaction to such a change would be muted. As a result, investors more hawkish on the Fed and/or bullish on the US$ could be disappointed.

Average of 2018 Dot Plot Projection Suggests It Will Be Hard for Median to Rise

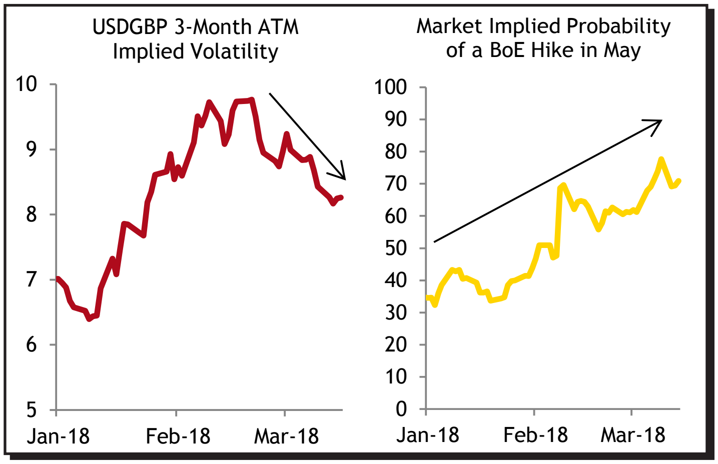


Source: Federal Reserve, CIBC

Are GBP Traders Underpricing Downside Risks?

Call it Brexit-fatigue, or call it simple complacency, but it's beginning to look like currency markets are underestimating downside risks to sterling. Implied volatility has been falling and investors have almost fully priced in another hike from the Bank of England by May. However, there remains the possibility that next week's EU Leaders Summit does not end in an agreement on Brexit transition/implementation. Furthermore, wage growth, while having accelerated, is still negative in real terms, with consumer discretionary spending also looking weak of late. All this suggests more caution regarding sterling than is currently priced into markets, with the potential for Brexit and BoE disappointment very possible.

Falling GBP Implied Volatility (L) and Rising BoE Rate Expectations (R) Suggest There is Room for Disappointment



Source: Bloomberg, CIBC

CANADIAN RELEASE AND EVENT DATES
March/April 2018

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
12 **MANITOBA BUDGET**	13	14 **CANADA’S INTERNATIONAL INVESTMENT POSITION** 8:30 AM	15 **ADP EMPLOYMENT SURVEY** 8:30 AM	16 **INT’L TRANSACTIONS IN SECURITIES C$BN, NET** 8:30 AM BONDS MONEY MARKET STOCKS TOT NOV 17.3 2.3 -0.4 19.2 DEC -4.3 0.4 2.4 -1.5 JAN -3.3 6.1 2.9 5.7 **SURVEY OF MANUFACTURING** 8:30 AM SHIPMENTS M Y NOV 3.5 6.2 DEC -0.1 3.7 JAN -1.0 2.9
19	20 **WHOLESALE TRADE** 8:30 AM **NOVA SCOTIA BUDGET**	21	22 **Bank of Canada Sr. Dep. Governor Wilkins speaks at Rotman School @ 2:45 PM ET** **ALBERTA BUDGET**	23 **CPI** 8:30 AM M Y DEC -0.4 1.9 JAN 0.7 1.7 FEB **RETAIL TRADE** 8:30 AM (Current$) M Y NOV 0.3 6.5 DEC -0.8 5.8 JAN
26	27	28 **PAYROLL EMPLOYMENT, EARNINGS & HOURS** 8:30 AM **ONTARIO BUDGET**	29 **GDP BY INDUSTRY** 8:30 AM (2002$) GDP IND.PROD. M M NOV 0.4 1.2 DEC 0.1 0.0 JAN **INDUSTRIAL PRICES** 8:30 AM M (NSA) Y DEC -0.1 2.3 JAN 0.3 2.0 FEB	30 **GOOD FRIDAY (HOLIDAY) (Markets Closed)**
2	3	4 **INTERNATIONAL RESERVES** 8:15 AM $BN CHANGE $BN LEVEL JAN 0.123 86.7 FEB -0.262 86.5 MAR	5 **MERCHANDISE TRADE** 8:30 AM $MN 12 MO. BALANCE DEC -3,050 -23,746 JAN -1,907 -25,396 FEB	6 **LABOUR FORCE SURVEY** 8:30 AM EMPLOY (HSHOLD) UNEMP RATE AVG HRLY EARN M Y % Y JAN -0.5 1.6 5.9 3.3 FEB 0.1 1.5 5.8 3.1 MAR **IVEY PURCHASING MANAGERS’ INDEX** 10:00 AM
9 **HOUSING STARTS** 8:15 AM 000’s (AR) TOTAL SINGLES JAN 215 63 FEB 230 57 MAR **Bank of Canada Business Outlook Survey**	10 **BUILDING PERMITS ($)** 8:30 AM M M (RES) (NON-RES) DEC 3.8 0.3 JAN 5.9 5.0 FEB	11	12 **NEW HOUSING PRICE INDEX** 8:30 AM	13

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
March/April 2018

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
12 **TREASURY BUDGET** 2:00 PM *3, 10-Yr NOTE AUCTION*	13 **CPI** 8:30 AM M(SA) Y (NSA) DEC 0.2 2.1 JAN 0.5 2.1 FEB 0.2 2.2 *30-Yr BOND AUCTION* *BOT (9:00) REDBOOK (8:55)*	14 **RETAIL SALES** 8:30 AM M Y DEC -0.1 5.1 JAN -0.1 3.9 FEB -0.1 4.0 **PPI** 8:30 AM M (SA) Y (NSA) DEC 0.0 2.7 JAN 0.4 2.6 FEB 0.2 2.9 **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 1.207 -7.1 JAN 1.329 10.1 FEB 1.236 -7.0 **CAPACITY UTIL/IND. PROD.** 9:15 AM LEV M Y DEC 77.8 0.5 3.5 JAN 77.4 -0.3 3.5 FEB 78.1 1.1 4.3 **MICHIGAN SENTIMENT (P)** 10:00 AM
19	20 *BOT (9:00) REDBOOK (8:55)*	21 **CURRENT ACCOUNT BAL.** 8:30 AM **EXISTING HOME SALES** 10:00 AM **FOMC Rate Decision** **Fed Chairman Powell holds press conf. @ 2:30 PM ET**	22 **LEADING INDICATOR** 10:00 AM *2, 5-, 7-Yr NOTE ANNOUNCE.* *INITIAL JOBLESS CLAIMS (8:30)*	23 **DURABLE GOODS ORDERS** 8:30 AM M Y DEC 2.7 11.3 JAN -3.6 7.0 FEB **NEW HOME SALES** 10:00 AM
26 *2-Yr NOTE AUCTION*	27 **S&P CORE LOGIC/CASE-SHILLER HOUSE PRICE INDEX** 9:00 AM **CONSUMER CONFIDENCE** 10:00 AM *5-Yr NOTE AUCTION* *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(P) 2.5 2.3 17:Q4(F) **ADV. TRADE IN INTERNATIONAL GOODS** 8:30 AM **CORPORATE PROFITS** 8:30 AM *7-Yr NOTE AUCTION*	29 **PERS. INC & OUT.** 8:30 AM INCOME M CONS M SAVING RATE AR DEC 0.4 0.4 2.5 JAN 0.4 0.2 3.2 FEB **CHICAGO PMI** 9:45 AM **MICHIGAN SENTIMENT (F)** 10:00 AM *INITIAL JOBLESS CLAIMS (8:30)*	30 **GOOD FRIDAY (HOLIDAY) (Markets Closed)**
2 **ISM MFG SURVEY** 10:00 AM COMP. INDEX PRICES INDEX JAN 59.1 72.7 FEB 60.8 74.2 MAR *2, 5-, 7-Yr NOTE SETTLEMENT*	3 **LIGHT VEHICLES** SALES MIL (AR) Y JAN 17,067 -1.6 FEB 16,961 -2.1 MAR *BOT (9:00) REDBOOK (8:55)*	4 **ADP SURVEY** 8:15 AM **FACTORY ORDERS** 10:00 AM M(SA) Y(NSA) DEC 1.8 8.5 JAN -1.4 6.6 FEB **ISM NON-MFG SURVEY** 10:00 AM	5 **GOODS & SERV. BALANCE (BOP) $B** 8:30 AM GDS SERV TOT DEC -73.7 19.8 -53.9 JAN -76.5 19.9 56.6 FEB *3, 10-Yr NOTE ANNOUNCEMENT* *30-Yr BOND ANNOUNCEMENT* *INITIAL JOBLESS CLAIMS (8:30)*	6 **EMPLOY. SITUATION** 8:30 AM NON-FARM PAYROLL CIV UNEMP RATE AVG HRLY EARN JAN 239 4.1 2.4 FEB 313 4.1 2.5 MAR **CONSUMER CREDIT** 3:00 PM
9	10 **PPI** 8:30 AM M (SA) Y (NSA) JAN 0.4 2.6 FEB 0.2 2.9 MAR *3, 10-Yr NOTE AUCTION* *BOT (9:00) REDBOOK (8:55)*	11 **CPI** 8:30 AM M(SA) Y (NSA) JAN 0.5 2.1 FEB 0.2 2.2 MAR **FOMC Minutes** **TREASURY BUDGET** 2:00 PM *30-Yr BOND AUCTION*	12 *INITIAL JOBLESS CLAIMS (8:30)*	13 **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.

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 ("MII") (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. MIIs 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.