The Bank of Canada’s Governing Council won’t lack for topics to consider as they meet ahead of their interest rate announcement in the coming week. Both at home and abroad, there have been plenty of surprises since their last rate announcement. Yet, despite all of those changes under the surface, they balance out to the same thing for rates: no reason to signal a cut, nor any reason to bring forward the timetable for a return to rate hikes.

The news from abroad has been a mixed bag. We’ve had better growth signals from parts of Europe. Job and income gains have continued in the US, although we’re concerned that cyclically-sensitive indicators (industrial production, durable goods orders, auto sales) are seeing flat or slightly downward trends.

In the UK, those hoping for a soft Brexit, should be crying mayday now that May’s days as PM are numbered. Her likely replacements tilt towards hard Brexiteers. Although Parliament voted down a no-deal Brexit, and we still hope it can be averted, the clock is ticking towards just that outcome. A failure to approve any specific deal before the October deadline would by default result in a no-deal Brexit, and a significant hit to UK growth.

Trump only delayed a potential trade war with Europe and Japan over autos, but any US-China truce now looks to be a matter of quarters rather than weeks. In the “he said, Xi said” of statements in the past week, both the White House and China’s leadership appear to be digging in and preparing their countries for a longer battle. Most of the economic impacts will come through the dent to business sentiment, the signs of which have been evident in equities, and which might also have contributed to the pullback in oil prices.

For the Bank of Canada, these negatives roughly offset indications that first half growth won’t be quite as dark as its last published forecast. The gap in Q1 isn’t material, with growth still likely to be sub-1%. But solid momentum readings for March GDP and a huge gain in April employment suggest that Q2 could handily top the central bank’s 1.3% projection. As a result, talk about a Bank of Canada rate cut this year looks premature.

Still, as we’ve noted, even two quarters of GDP growth north of 2% in Q2 and Q3 would still leave the underlying year-on-year trend only at potential. That’s not a reason to hit the brakes with higher rates given the softness we’re seeing in the rate-sensitive side of the Canadian economy, and the fresh concerns about global growth. Inflation is also right where the Bank of Canada wants it, with core measures near 2%.

So despite numerous changes in various aspects of the economic climate, one thing that shouldn’t change is Governor Poloz’s stand pat stance on interest rates for 2019. Expect little market reaction to a statement filled with “on the one hand, on the other hand” language.
### Week Ahead Calendar And Forecast

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<thead>
<tr>
<th><strong>CANADA</strong></th>
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<th><strong>UNITED STATES</strong></th>
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<tbody>
<tr>
<td><strong>Monday</strong></td>
<td>May 27</td>
<td><strong>Markets Closed (Memorial Day)</strong></td>
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<tr>
<td><strong>Tuesday</strong></td>
<td>May 28</td>
<td><strong>AUCTION: 3-M BILLS $88B, 6-M BILLS $3B, 1-YR BILLS $3B</strong> <strong>CASH MANAGEMENT BUYBACK (Aug'19 - Nov'20) $0.5B</strong></td>
<td><strong>AUCTION: 3-M BILLS $36B, 6-M BILLS $36B</strong> <strong>AUCTION: 2-YR TREASURIES $40B</strong> <strong>AUCTION: 5-YR TREASURIES $41B</strong></td>
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<td><strong>HOUSE PRICE INDEX M/M</strong> <strong>S&amp;P CORELOGIC CS INDEX</strong> <strong>S&amp;P CORELOGIC CS Y/Y</strong></td>
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<td><strong>10:00 AM</strong></td>
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<td><strong>CONF. BOARD CONSUMER CONFIDENCE</strong></td>
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<td><strong>Wednesday</strong></td>
<td>May 29</td>
<td><strong>10:00 AM</strong> <strong>BANK OF CANADA RATE ANNOUNCE.</strong></td>
<td><strong>AUCTION: 7-YR TREASURIES $32B</strong> <strong>AUCTION: 2-YR FRN $18B</strong></td>
</tr>
<tr>
<td><strong>Thursday</strong></td>
<td>May 30</td>
<td><strong>8:30 AM</strong> <strong>PAYROLL EMPLOYMENT, EARNINGS &amp; HRS</strong> <strong>CURRENT ACCOUNT BAL.</strong> <strong>(Q1) (M)</strong> <strong>-18.6B</strong> <strong>-17.9B</strong> <strong>-15.5B</strong></td>
<td><strong>8:30 AM</strong> <strong>INITIAL CLAIMS</strong> <strong>CONTINUING CLAIMS</strong> <strong>(May 25) (M)</strong> <strong>(May 18) (L)</strong> <strong>215K</strong> <strong>1676K</strong> <strong>3.1%</strong> <strong>3.1%</strong> <strong>3.2%</strong> <strong>GDP (annualized)</strong> <strong>GDP DEFLATOR (annualized)</strong> <strong>(Q1 S) (H) 0.9%</strong> <strong>0.9%</strong> <strong>0.9%</strong> <strong>ADVANCE GOODS TRADE BALANCE</strong> <strong>WAREHOUSING INVENTORIES M/M</strong> <strong>RETAIL INVENTORIES M/M</strong> <strong>(Apr) (M)</strong> <strong>0.1%</strong> <strong>-0.1%</strong> <strong>-0.3%</strong></td>
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<td><strong>Friday</strong></td>
<td>May 31</td>
<td><strong>8:30 AM</strong> <strong>GDP M/M</strong> <strong>GDP (annualized)</strong> <strong>INDUSTRIAL PROD. PRICES M/M</strong> <strong>RAW MATERIALS M/M</strong></td>
<td><strong>8:30 AM</strong> <strong>PERSONAL INCOME M/M</strong> <strong>PERSONAL SPENDING M/M</strong> <strong>PCE DEFLATOR Y/Y</strong> <strong>PCE DEFLATOR Y/Y (core)</strong></td>
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</table>

**H, M, L = High, Medium or Low Significance**

**SAAR = Seasonally Adjusted Annual Rate**

**Consensus Source: Bloomberg**
Week Ahead’s Market Call
by Avery Shenfeld

In the US, the key fundamentals for consumer confidence, jobs and incomes, still look solid. That should sustain the confidence indicator, and will also be reflected in a decent gain in personal income. April spending, however, will be challenged to show much if any growth, since its coming off a strong March gain and the weather was a bit unseasonal in some parts of the country. Keep an eye on the Fed’s Clarida’s remarks, since we view him as a thought leader on the FOMC.

In Canada, the Bank of Canada’s rate announcement should be a non-event, as this isn’t a meeting that comes with a new forecast, and the Bank is unlikely to change its stand-pat stance, as a huge job gain has been offset by fresh concerns over global trade. The first quarter current account will slide deeper into the red on an adverse trade performance. While real export weakness will hold also back Q1 GDP, a better finish to the quarter in March GDP was enough to keep growth on the plus side.
Week Ahead’s Key Canadian Number:
GDP—March, Q1
(Friday, 8:30 a.m.)

Royce Mendes (416) 594-7354

A very strong March monthly GDP print would have usually had the quarterly growth rate tracking above 1%, but those monthly readings are based on production, and can differ from the quarterly expenditure GDP numbers at times. In fact, the weak export data seen in Q1 would actually have the expenditure measure tracking quarterly GDP closer to flat, but that relies heavily on that one export series. As a result, we’ve decided to split the difference between the production and expenditure numbers we have in hand, and call for a 0.7% advance for Q1 GDP.

Forecast Implications — The final quarter of 2018 and the first quarter of 2019 will look quite weak, but a strong handoff should leave Q2 growth running back above 2%. While the third quarter could see some residual strength, coming off of a low base, growth will likely return back to the 1½% range thereafter, the likely trend pace for the ensuing year.

Other Canadian Releases:

Current Account Balance—Q1
(Thursday, 8:30 a.m.)

A soft quarter for exports coupled with a strong one for imports suggests that the current account deficit widened to $18.6bn in Q1 from $15.5bn in the final quarter of 2018. Such a move would leave it at the wider end of the post-crisis range. Even if there is somewhat of a rebound in store in the coming quarters, the shortfall looks set to come in around 3% of GDP this year. Canada’s persistently large current account deficit likely indicates that the currency is set to weaken further over the medium term to boost the economy’s international competitiveness.
Week Ahead’s Key US Number:
Advance Goods Trade—April
(Thursday, 8:30 a.m.)

Katherine Judge (416) 956-6527

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<td>Adv. Goods Trade Bal.</td>
<td>-$71.9B</td>
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Weaker imports were a feature in the strong Q1 real GDP advance in the US, but that appears to have been related to a normalization following the front running of tariffs in prior months, making that an only temporary source of support to the trade balance. Moreover, the surge in auto exports for Q1 is likely to reverse, resulting in a wider goods trade deficit for April. A -$71.9 billion balance is still above the lows seen in 2018 at the height of tariff concerns.

Forecast Implications — Q2 net trade should prove to be less of a boost to growth than it was in Q1, which alongside a pullback in inventories, will hold GDP growth to no better than 1%, offsetting the upside surprise we saw in Q1.

Market Impact — We are a little less negative than the consensus, but not by enough to justify a sustained market reaction.

Other U.S. Releases:

Personal Income & Outlays—April
(Friday, 8:30 am)

Increases in both hours worked and wages should have boosted incomes by 0.3% in April, but a weak showing for retail sales suggests that consumers saved most of those gains. Consumption likely rose by only 0.1%, as spending on interest-rate sensitive durable goods likely declined, echoing the softness seen in retail sales. That would leave real consumption lower on the month, assuming that core PCE prices advanced a touch stronger than their CPI counterparts given differences in component weights. Core PCE inflation likely remained steady at 1.6%.
Record Setters

Economic expansions and equity market bull runs don’t always go hand in hand, but both have seen record-setting streaks in the US. The expansion will take the number one spot by mid-year, while the bull-run surpassed the last longest back in August 2018. The length of both have benefitted from starting from such a deep hole and the more measured pace of advance seen in each series this time around. The forward momentum of each has also likely aided the other, as a positive economic backdrop benefits stocks, while rising stock markets supports both firms and households. But, how much longer can it last? An all-out trade war between the world’s largest economies and the likelihood of US fiscal stimulus turning to fiscal drags present the next key risks for both of these series.

How Much of a Rebound for Canadian Steel?

Steel tariffs took a bite out of Canadian metal exports in 2018, as we saw signs in both dropping volumes crossing the border from Canada, and rising capacity use in the US, in line with what you would expect if protected American producers gained market share at home. But while there’s been a further decline in year-to-date volumes from Canada, we’ve also seen a pullback in US capacity use, suggesting that weakening American demand, rather than just tariffs, is now a factor. If so, that could limit the degree to which Canadian volumes will rebound now that the tariff barrier has been dropped.

Are Canadian Consumers Better or Worse?

Canadian retailers have been contending with a slowdown in household spending, but things may be looking up this year. The 5-year Government of Canada bond yield, which many mortgages are priced off, is now lower than it was five years ago. Relative to the end of last year, that means the pinch from higher interest rates has eased in 2019. It’s not all good news for consumers though, with gas prices rising more than 20% so far this year. But total household spending power has increased even more than that as a result of the robust job gains seen in 2019. While job growth is likely to slowdown and interest rates rise again, retailers could see an at least temporary boost to sales growth.
Digging Into Details For C$ Support

First quarter figures released next week won’t show much in terms of an acceleration in Canadian GDP. However, last quarter the devil was in both the headline and the detail. This time around those details should look better. Domestic demand, while not strong, should have returned to growth following two quarterly declines, helped by housing (outside of Vancouver) and business investment (outside of oil). The GDP deflator, which fell more than had been expected in Q4, could make up for that lost ground and then some as oil prices roared higher. Finally, a strong monthly number for March should set us up for a good Q2. Stronger growth signals over the summer could lead to a near-term rally in the C$, before it weakens again next year.

King Dollar’s Crown Shining Even Brighter

The DXY index has yet to reach 100 again, but on a broader measure of strength the US$ is actually above its early 2017 peak. While the euro (which has a larger weight in the DXY index) remains slightly stronger than it was during that period, on a broader trade weighted basis weakness in LatAm and other currencies more than offset that. As such, dollar strength could start to become a negative for trade and manufacturing sooner rather than later, preventing DXY from breaching 100 and bringing broad US$ weakness later this year and into 2020.

The Under/Over of FX Valuations

We’ve heard people say that the C$ is undervalued, and while that may be the case in terms of measures of purchasing power parity, that’s not what the country’s large current account deficit and inability to grow exports is telling us. And Canada is far from the only country to see this difference between what purchasing power and the current account are telling us regarding whether the currency is over or undervalued. GBP is in the same position, while NOK and CHF are on the other side of the coin (i.e. running large current account surpluses even with apparently overvalued currencies). At present we put more weight on what the current account is telling us, and believe that after a short-term rally the C$ will weaken further in 2020 and beyond.
## CANADIAN RELEASE AND EVENT DATES
### May/June 2019

<table>
<thead>
<tr>
<th>MONDAY</th>
<th>TUESDAY</th>
<th>WEDNESDAY</th>
<th>THURSDAY</th>
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**MONDAY**

- **20**

- **Monday**

  - **Victoria Day (Holiday)**
    - (Markets Closed)

**TUESDAY**

- **21**

  - **RETAIL TRADE**
    - 8:30 AM (Current$)
    - Jan -0.3 1.0
    - Feb 1.0 2.1
    - Mar 1.1 2.6

**WEDNESDAY**

- **22**

  - **WHOLESALE TRADE**
    - 8:30 AM

**THURSDAY**

- **23**

  - **PAYROLL EMPLOYMENT, EARNINGS & HOURS**
    - 8:30 AM

**FRIDAY**

- **24**

  - **GDP BY INDUSTRY (2002$)**
    - 8:30 AM
    - Jan M 0.3 0.5
    - Feb -0.1 -0.4
    - Mar

**MONDAY**

- **27**

  - **NEW HOUSING PRICE INDEX**
    - 8:30 AM

**TUESDAY**

- **28**

  - **CANADA'S INTERNATIONAL INVESTMENT POSITION**
    - 8:30 AM

**WEDNESDAY**

- **29**

  - **PAYROLL EMPLOYMENT, EARNINGS & HOURS**
    - 8:30 AM

**THURSDAY**

- **30**

  - **BALANCE OF INT'L PAYMENTS**
    - 8:30 AM
    - $BN (AR) $BN (QR)
    - 18:Q3 -10.1 -40.4
    - 18:Q4 -15.4 -61.9
    - 19:Q1

**FRIDAY**

- **31**

  - **INDUSTRIAL PRICES**
    - 8:30 AM
    - Feb 0.3 1.2
    - Mar 1.3 1.5
    - Apr

**MONDAY**

- **3**

  - **LABOUR PRODUCTIVITY**
    - 8:30 AM

**TUESDAY**

- **4**

  - **MERCHANDISE TRADE**
    - 8:30 AM
    - $MN 12 MO.
    - Feb -3418 -41,017
    - Mar -3211 -38,534

**WEDNESDAY**

- **5**

  - **IVEY PURCHASING MANAGERS’ INDEX**
    - 10:00 AM

**THURSDAY**

- **6**

  - **ADP EMPLOYMENT SURVEY**
    - 8:30 AM

**FRIDAY**

- **7**

  - **LABOUR FORCE SURVEY**
    - 8:30 AM
    - Avg Hrly
    - Mar 0.3 2.0 5.8 2.2
    - Apr 0.6 2.3 5.7 2.6

- **CAPACITY UTILIZATION**
  - 8:30 AM
    - Total Manuf.
    - 18:Q3 82.8 80.1
    - 18:Q4 81.7 78.5

### 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

#### May/June 2019

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<td>FOMC Rate Decision</td>
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