

Economics

THE TWO WEEKS AHEAD

December 23 - 27, 2024 and December 30, 2024 - January 3, 2025

The case for longing the long end

by Benjamin Tal benjamin.tal@cibc.com

We are more than 13 weeks since the first easing move by the Fed, and the 10-year rate is miles above its level back then. We haven't seen such a trajectory in any of the previous cycles in recent history.

The 70 basis points rise in long-term rates since September hides a lot of secrets. We doubt that the correction is a reflection of a strong US economy. A closer look at the labour market south of the border reveals weakness that is inconsistent with the magnitude of the bond market reaction of recent months. We believe that a big chunk of that correction is a Trump trade.

After all it's all in the name:

T	Tax/Tariff
R	Regulations
U	Undocumented
M	Migrants
P	Protectionism

The Trump agenda is well known. The ultimate goal is uncertainty and the tool is chaos. But without knowing the timing, length, magnitude and scope of any real or imaginary policy change, predictions are impossible. But we do not have the luxury of simply ignoring it in our forecast. We need some reasonable working assumptions. Namely, to what extent the bond market is right in its current assessment of the economic impact of the upcoming Trump policies.

Let's start with undocumented migrants. Nobody is under the illusion that Trump will deport all 11 million of them. But even the one million a year target is a pipe dream. The country simply doesn't have the law-enforcement capacity to do that. Trump will focus on the low-hanging fruit of a few hundred thousands migrants with criminal records. Note that during his first dance, Trump deported on average 20k migrants a month. That is 27% fewer than Obama did. The reality is that his focus is not really

the stock of undocumented migrants but the flow. From a macro perspective this means that his immigration policy will not be as inflationary (through wage pressure) as might be priced in by long bonds.

That focus on the flow of migrants is of course behind the plan to impose a 25 percent tariff on Canada and Mexico. But we have been there before. On May 30, 2019, Trump announced his intention to impose a 5% tariff on all goods imported from Mexico. The tariff, he said, would gradually increase until "the illegal migration crisis is alleviated through effective actions taken by Mexico." A week after, the President stated the tariffs were "indefinitely suspended" because Mexico had "agreed to take strong measures to... stem the tide of migration".

Given the additional money allocated to border security in the latest fiscal update, and the fact that in terms of volume Canada is responsible for a tiny fraction of migrants and drugs entering the US, it's reasonable to assume that Canada will be able to escape long-lasting and broadly based tariffs.

As for the impact of Trump's fiscal policy on the long end, here again the market might be too pessimistic. The widely circulated estimate of a \$7 tn. hit to the 10-year deficit outlook is grossly overdone. It includes \$3 tn. for extension of personal tax cuts that was already cooked into the curve. At the same time, Congress will not be too enthusiastic to approve the additional \$3.5 of tax cuts planned by Trump. In fact, the opposite is the case. There will be growing pressure to push for spending cuts not in Trump campaign.

Again, nobody knows what Trump will do next (probably including Trump himself), but at this point, the above are some reasonable assumptions that might not be fully discounted by the bond market and perhaps even by the Fed. After all, despite all the noise during Trump's first Administration, the 10- year bond ended 2019 at the same rate it was when he assumed power.

Week Ahead Calendar And Forecast—Canada

H, M, L = High, Medium or Low Priority

SAAR = Seasonally Adjusted Annual Rate

Consensus Source: Bloomberg

Date	Time	Economic Releases, Auctions and Speakers	Month	Priority	CIBC	Consensus	Prior
Monday, December 23	8:30 AM	GDP M/M	(Oct)	(H)	0.1%	0.2%	0.1%
Monday, December 23	8:30 AM	INDUSTRIAL PROD. PRICES M/M	(Nov)	(M)	-	0.3%	1.2%
Monday, December 23	8:30 AM	RAW MATERIALS M/M	(Nov)	(M)	-	0.5%	3.8%
Monday, December 23	1:30 PM	Publication: Summary of Deliberations	-	-	-	-	-
Tuesday, December 24	-	-	-	-	-	-	-
Wednesday, December 25	-	Markets Closed (Christmas Day)	-	-	-	-	-
Thursday, December 26	-	Markets Closed (Boxing Day)	-	-	-	-	-
Friday, December 27	-	-	-	-	-	-	-

Week Ahead Calendar And Forecast—United States

H, M, L = High, Medium or Low Priority

SAAR = Seasonally Adjusted Annual Rate

Consensus Source: Bloomberg

Date	Time	Economic Releases, Auctions and Speakers	Month	Priority	CIBC	Consensus	Prior
Monday, December 23	-	AUCTION: 1-YR TREASURIES \$48B	-	-	-	-	-
Monday, December 23	-	AUCTION: 2-YR TREASURIES \$69B	-	-	-	-	-
Monday, December 23	8:30 AM	CHICAGO FED NAT.ACTIVITY INDEX	(Nov)	(M)	-	-	-0.4
Monday, December 23	10:00 AM	CONF.BOARD CONSUMER CONFIDENCE	(Dec)	(H)	115.0	113.0	111.7
Tuesday, December 24	-	AUCTION: 5-YR TREASURIES \$70B	-	-	-	-	-
Tuesday, December 24	-	AUCTION: 2-YR FRN \$28B	-	-	-	-	-
Tuesday, December 24	8:00 AM	BUILDING PERMITS SAAR	(Nov)	(H)	-	-	1505K
Tuesday, December 24	8:30 AM	PHILADELPHIA FED - NON-MANUFACTURING	(Dec)	(M)	-	-	-5.9
Tuesday, December 24	8:30 AM	DURABLE GOODS ORDERS M/M	(Nov P)	(H)	-0.1%	-0.3%	0.3%
Tuesday, December 24	8:30 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Nov P)	(H)	0.3%	0.3%	0.2%
Tuesday, December 24	10:00 AM	NEW HOME SALES SAAR	(Nov)	(M)	670K	665K	610K
Tuesday, December 24	10:00 AM	NEW HOME SALES M/M	(Nov)	(M)	9.8%	9.0%	-17.3%
Tuesday, December 24	10:00 AM	RICHMOND FED MANUF. INDEX	(Dec)	(M)	-	-10	-14
Wednesday, December 25	-	Markets Closed (Christmas Day)	-	-	-	-	-
Thursday, December 26	-	AUCTION: 7-YR TREASURIES \$44B	-	-	-	-	-
Thursday, December 26	8:30 AM	INITIAL CLAIMS	(Dec 21)	(M)	-	-	220K
Thursday, December 26	8:30 AM	CONTINUING CLAIMS	(Dec 14)	(L)	-	-	1874K
Friday, December 27	8:30 AM	ADVANCE GOODS TRADE BALANCE	(Nov)	(M)	-\$100.0B	-\$101.1B	-\$98.3B
Friday, December 27	8:30 AM	WHOLESALE INVENTORIES M/M	(Nov P)	(L)	-	-	0.2%
Friday, December 27	8:30 AM	RETAIL INVENTORIES M/M	(Nov)	(H)	-	-	0.1%

Week Ahead Calendar And Forecast—Canada

H, M, L = High, Medium or Low Priority

SAAR = Seasonally Adjusted Annual Rate

Consensus Source: Bloomberg

Date	Time	Economic Releases, Auctions and Speakers	Month	Priority	CIBC	Consensus	Prior
Monday, December 30	-	-	-	-	-	-	-
Tuesday, December 31	-	-	-	-	-	-	-
Wednesday, January 1	-	Markets Closed (New Years Day)	-	-	-	-	-
Thursday, January 2	-	-	-	-	-	-	-
Friday, January 3	-	-	-	-	-	-	-

Week Ahead Calendar And Forecast—United States

H, M, L = High, Medium or Low Priority

SAAR = Seasonally Adjusted Annual Rate

Consensus Source: Bloomberg

Date	Time	Economic Releases, Auctions and Speakers	Month	Priority	CIBC	Consensus	Prior
Monday, December 30	9:45 AM	CHICAGO PMI	(Dec)	(M)	-	42.5	40.2
Monday, December 30	10:00 AM	PENDING HOME SALES M/M	(Nov)	(M)	-	0.8%	2.0%
Tuesday, December 31	9:00 AM	HOUSE PRICE INDEX M/M	(Oct)	(M)	-	-	0.7%
Tuesday, December 31	9:00 AM	S&P CORELOGIC CS Y/Y	(Oct)	(H)	-	-	4.6%
Wednesday, January 1	-	Markets Closed (New Years Day) observed	-	-	-	-	-
Thursday, January 2	-	MBA-APPLICATIONS	(Dec 20)	(L)	-	-	-0.7%
Thursday, January 2	-	MBA-APPLICATIONS	(Dec 27)	(L)	-	-	-
Thursday, January 2	8:30 AM	INITIAL CLAIMS	(Dec 28)	(M)	-	-	-
Thursday, January 2	8:30 AM	CONTINUING CLAIMS	(Dec 21)	(L)	-	-	-
Thursday, January 2	9:45 AM	S&P GLOBAL US MANUFACTURING PMI	(Dec)	(L)	-	-	48.3
Thursday, January 2	10:00 AM	CONSTRUCTION SPENDING M/M	(Nov)	(M)	-	0.3%	0.4%
Friday, January 3	8:30 AM	ISM - MANUFACTURING	(Dec)	(H)	47.5	48.5	48.4
Friday, January 3	11:00 AM	Speaker: Thomas I. Barkin (Richmond) (Voter)	-	-	-	-	-

Week Ahead's market call

by Ali Jaffery and Andrew Grantham

In the **US**, not much over the holidays. Durable goods orders will look sustain the positive momentum seen over the past several months although forward-looking manufacturing sentiment in the ISM index will look a bit more gloomy due to worries over trade policy. The Fed will be off for the holidays too, so all the attention will be on President-elect's social media pages.

In **Canada**, monthly GDP data will show continued muted growth within the economy, with tracking for the quarter likely to once again be below the latest BoC MPR projection. The summary of deliberations could give us a bit more information regarding how policymakers expect the rate cutting cycle to progress in the New Year.

Week Ahead's key Canadian number: Gross domestic product—October

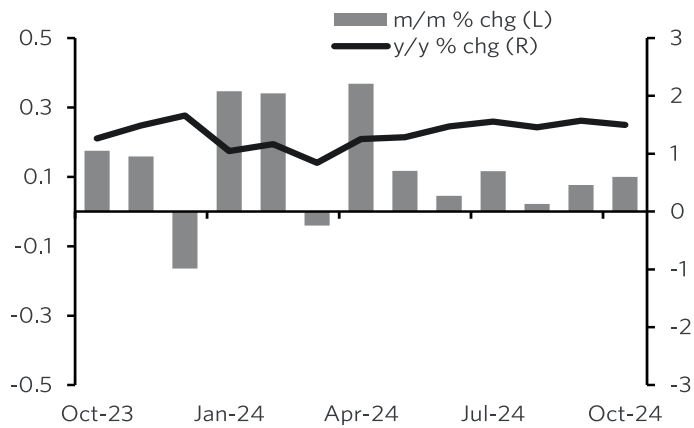
(December 23, Monday, 8:30 am)

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Variable (%)	CIBC	Mkt	Prior
GDP (m/m)	0.1	0.2	0.1

Canadian growth likely remained sluggish in October, registering a 0.1% advance for the second consecutive month. While interest rate cuts are staring to bring growth in areas such as retailing and real estate, the early estimate by Statistics Canada referenced offsetting declines in mining, oil & gas and construction. Early indicators suggest little pick up in November GDP, despite the potentially positive impact of Taylor Swift's Toronto shows.

Chart: Canadian GDP at basic prices



Source: Statistics Canada, Haver Analytics, CIBC

Forecast implications — Our forecasts for October and November would leave Q4 tracking between a 1-1.5% pace. While that would once again fall below the Bank of Canada's MPR projection, recent quarterly demographic data suggests that population growth is now slowing quite quickly and as a result the Q4 GDP may still show a slight advance in per capita terms.

Week Ahead's key US number:
Durable goods orders—November

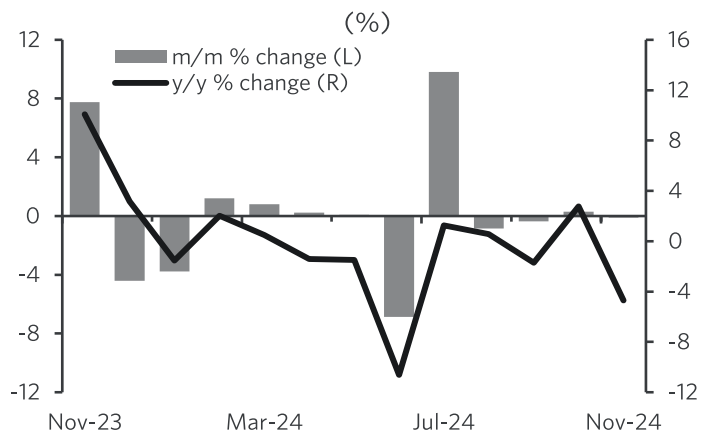
(December 24, Tuesday, 8:30 am)

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Variable (%)	CIBC	Mkt	Prior
Durable goods orders (m/m)	-0.1	-0.3	0.3
Ex. transportation (m/m)	0.3	0.3	0.2

Despite trade policy uncertainty, durable goods ex. transportation have picked up momentum over the past three months, powered by computers and electrical equipment. The volatility in aircraft orders has also diminished over the last several months. We expect another solid ex. transportation reading (+0.3% m/m) and a slight contraction when including transportation (-0.1% m/m). The strength in equipment investment could reflect the easing in broad financial conditions since the summer as well as robust consumer demand for electronic goods.

Chart: US durable goods



Source: Census Bureau, Haver Analytics, CIBC

Forecast implications — We expect equipment investment to remain solid in Q4, supported by information processing equipment, but overall business investment in the quarter will slow as investment in software/R&D and continues to soften. These latter two components have seen robust growth over much of the past two years, aided by fiscal policy and increased digitalization, and growth has been fading in 2024 and we expect that two continue in Q4.

Other US Releases:
ISM Manufacturing—December

(January 3, Friday, 8:30 am)

ISM Manufacturing should move further into contractionary territory to 47.5, given the weakness seen in other regional manufacturing surveys. Worries over trade policy and still restrictive rates are weighing on the future prospects for the sector.

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