

THE WEEK AHEAD

October 26 - 30, 2026

We beg to differ

by Avery Shenfeld avery.shenfeld@cibc.com

Consider two neighbouring countries, one in which markets are convinced that the central bank will hold off on a rate hike next week, while the other has investors well-primed for a rate hike. What's odd is that the signals from both economic growth and inflation point in precisely the opposite direction, so these expectations are entirely driven by what those making the decisions have said. In the US, the data had markets expecting an October fed funds hike until several committee members signalled their intention to pause. That wasn't our prior forecast, and although it's no sure thing, we concede that the Fed might defer this next, and likely final hike if oil prices subsequently cool, until December.

In Canada, markets were pricing in negligible odds of an October tightening, until the Governor's last minute warning that he saw growing risks of broader and more persistent inflation ahead. We can't see why Macklem would have hastened to make these comments at the IMF meeting, just before the Bank's media blackout, other than to signal an October hike. If they were about what might come later, he could have saved them for next week's press conference. There's some chance that Macklem changed his own view after the subsequent release of tame core CPI data, so we don't see the October hike as quite as certain as the market, but we concede that the odds of a move do top 50% at this point.

If the Fed pauses, and the BoC hikes, we would respectively beg to differ with both decisions. In the US case, growth is still solid, labour markets are tight, and investment spending that's centred on AI seems less sensitive to higher rates. Core inflation is firmly stuck in the 3% range, so it's not just a matter of waiting for energy prices to cool off. It's not by any means a fatal decision to hike in December instead of October, but it will leave the undesirable impression that the committee was bending to White House tastes by avoiding a move ahead of the midterm elections.

We'll also have concerns with the Bank of Canada raising rates in October. True, in our base case forecast, we had 50 bps of rate hikes in the first two quarters of 2027, and so one might ask, what's a few months' difference between friends? Our worry that this could be a policy error is tied to the fact that we aren't yet sure that ANY rate hikes will be warranted in the coming year, so moving early could be a step that the Bank

comes to regret. The risks of waiting, in contrast, appear to be more limited.

Consider a scenario in which the US reaches a post-election deal with Iran that gets oil flowing more consistently. With virtually all of the upside in Canadian inflation versus the 2% target currently tied to fuel costs, slowing growth to contain inflation will have been unnecessary. If, contrary to our base case forecast, US-Canada trade frictions get worse as opposed to better, we could need more support from interest rates for economic growth, not less.

Some clients point out that Canada's current overnight rate, at 2.25%, is well below the US rate, and so what's the harm in normalizing it with a couple of hikes? The answer is that there's no sign that current rates in Canada are particularly stimulative. The most interest sensitive sector, homebuilding, is in recession, and higher bond yields are taking mortgage rates up to the detriment of home sales activity. Business capital spending, while not dead in the water, isn't enjoying the AI-related boom seen stateside, and many of the big capital projects on the table won't see shovels in the ground until 2028 or later.

The advantage of putting this decision off until December or January is that the weeks after the US midterms could narrow the uncertainties over both energy inflation and Canada-US trade relations. If serious talks are coming on either of those fronts, we might know that by the end of this year or in January. Remember that Trump has threatened a 50% tariff on Canadian autos and parts after January 1st, so at least we'll know if that was an empty threat or a true risk. If Republicans do poorly in the midterms, there will be intra-party pressure on the White House to resolve the Persian Gulf situation and get gasoline prices down again.

Can we afford to wait until December or January? The tame core inflation readings suggest that we can. This is not akin to what happened when oil/grain prices spiked after Russia's invasion of Ukraine. Back then, Canada's labour market was at its tightest in decades with the jobless rate a full percentage point below current levels, and core inflation was already well above target. Waiting too long to hike may have been a policy error then, just as hiking before we're sure we need to at all could prove to be an error if energy and trade developments soften inflation and weaken growth materially.

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, October 26	-	-	-	-	-	-	-
Tuesday, October 27	-	-	-	-	-	-	-
Wednesday, October 28	9:45 AM	BANK OF CANADA RATE ANNOUNCEMENT	(Oct 28)	(H)	2.50%	2.50%	2.25%
Thursday, October 29	-	AUCTION: 10-YR CANADAS \$5B	-	-	-	-	-
Thursday, October 29	8:30 AM	PAYROLL EMPLOYMENT, EARNINGS & HRS	(Aug)	-	-	-	26.1K
Friday, October 30	8:30 AM	GDP M/M	(Aug)	(H)	0.2%	0.2%	0.0%

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, October 26	-	AUCTION: 2-YR TREASURIES \$69B	-	-	-	-	-
Monday, October 26	8:30 AM	CHICAGO FED NAT.ACTIVITY INDEX	(Sep)	(M)	-	-0.1	-0.04
Tuesday, October 27	-	AUCTION: 5-YR TREASURIES \$70B	-	-	-	-	-
Tuesday, October 27	8:30 AM	DURABLE GOODS ORDERS M/M	(Sep P)	(H)	2.0%	1.4%	-0.1%
Tuesday, October 27	8:30 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Sep P)	(H)	1.0%	0.6%	0.2%
Tuesday, October 27	9:00 AM	HOUSE PRICE INDEX M/M	(Aug)	(M)	-	-	0.3%
Tuesday, October 27	9:00 AM	S&P CORELOGIC CS Y/Y	(Aug)	(H)	-	2.6%	2.5%
Tuesday, October 27	10:00 AM	CONF.BOARD CONSUMER CONFIDENCE	(Oct)	(H)	80.3	80.4	81.9
Tuesday, October 27	10:00 AM	RICHMOND FED MANUF. INDEX	(Oct)	(M)	-	-	-2
Tuesday, October 27	10:00 AM	NEW HOME SALES SAAR	(Sep)	(M)	-	650K	684K
Tuesday, October 27	10:00 AM	NEW HOME SALES M/M	(Sep)	(M)	-	-6.4%	6.4%
Wednesday, October 28	-	AUCTION: 2-YR FRN \$30B	-	-	-	-	-
Wednesday, October 28	7:00 AM	MBA-APPLICATIONS	(Oct 23)	(L)	-	-	-5.3%
Wednesday, October 28	8:30 AM	ADVANCE GOODS TRADE BALANCE	(Sep)	(M)	-\$128.0B	-\$129.0B	-\$132.1B
Wednesday, October 28	8:30 AM	RETAIL INVENTORIES M/M	(Sep)	(H)	-	-	0.2%
Wednesday, October 28	8:30 AM	WHOLESALE INVENTORIES M/M	(Sep P)	(L)	-	-	0.5%
Wednesday, October 28	2:00 PM	FOMC RATE DECISION (UPPER BOUND)	(Oct 28)	(H)	4.00%	4.00%	4.00%
Wednesday, October 28	2:00 PM	FOMC RATE DECISION (LOWER BOUND)	(Oct 28)	(H)	3.75%	3.75%	3.75%
Thursday, October 29	-	AUCTION: 7-YR TREASURIES \$44B	-	-	-	-	-
Thursday, October 29	8:30 AM	INITIAL CLAIMS	(Oct 24)	(M)	-	-	194K
Thursday, October 29	8:30 AM	CONTINUING CLAIMS	(Oct 17)	(L)	-	-	1728K
Thursday, October 29	8:30 AM	PCE DEFLATOR Y/Y	(Sep)	(H)	3.7%	3.6%	3.4%
Thursday, October 29	8:30 AM	PCE DEFLATOR Y/Y (core)	(Sep)	(H)	3.2%	3.1%	3.0%
Thursday, October 29	8:30 AM	PERSONAL INCOME M/M	(Sep)	(H)	0.3%	0.3%	0.2%
Thursday, October 29	8:30 AM	PERSONAL SPENDING M/M	(Sep)	(H)	0.6%	0.6%	0.9%
Thursday, October 29	8:30 AM	GDP (annualized)	(3Q A)	(H)	2.8%	3.0%	2.2%
Thursday, October 29	8:30 AM	GDP DEFLATOR (annualized)	(3Q A)	(H)	3.5%	3.5%	6.1%
Friday, October 30	8:30 AM	EMPLOYMENT COST INDEX	(3Q)	(M)	-	0.8%	0.9%
Friday, October 30	9:45 AM	CHICAGO PMI	(Oct)	(M)	-	56.1	58.8
Friday, October 30	12:00 PM	Speaker: Mary C. Daly (San Francisco) (Non-Voter)	-	-	-	-	-
Friday, October 30	12:30 PM	Speaker: Alberto G. Musalem (St Louis) (Non-Voter)	-	-	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, the Fed has every reason to hike rates again with core inflation stubbornly high, but remarks from a number of FOMC members suggest they are looking for an excuse to stay out of the way of the midterm elections by putting that off until December. We think the odds of a hike aren't quite as negligible as current market pricing would imply, and if they pause, we expect to see a few dissents in favour of a hike that will keep markets pricing in one for December. Warsh will avoid saying much in the press conference, but remarks by FOMC members in the coming weeks will likely emphasize the likelihood of at least one more hike in short order. On the data front, we're a tick above consensus on the core PCE price index, which would more than offset any slight downward surprise in Q3 GDP, which should still look reasonably solid if it matches our 2.8% projection.

In **Canada**, we've flipped our forecast to move the first BoC quarter point hike up to October, but we don't see that as nearly as certain as market pricing. Our revised call is solely based on Governor Macklem's remarks, rather than the data, which have showed no signs that energy inflation is materially spilling over into the core CPI. If the BoC does indeed hike, remember that the statement and MPR have to align with that decision and justify the need for a tightening; there's really no such thing as a "dovish" hike when it's the first of the cycle.

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

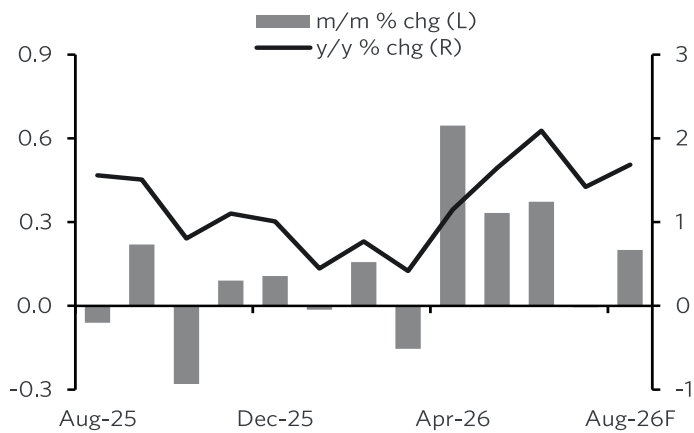
(Friday, 8:30 am)

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Variable (%)	CIBC	Mkt	Prior
GDP (m/m)	0.2	0.2	0.0

After stalling in the prior month, Canadian GDP likely grew by 0.2% in August, supported by rebounds in retail sales and manufacturing shipments. However, with trade and industry data suggesting that the gain in manufacturing during August may have been partly linked to front-running new US tariffs, that sector could retreat again in September. If that causes a stall in September GDP, Q3 as a whole would still be tracking a respectable 1.9% annualized pace in this advance reading.

Chart: Canadian GDP at basic prices



Source: Statistics Canada, Haver Analytics, CIBC

Forecast implications — While third quarter growth will look solid, much of that was due to the handoff from a strong Q2 with the economy edging forward only slightly over the quarter itself. If September shows a stall again as we expect and thereby a soft handoff to Q4, it's likely that fourth quarter growth will fall below 1% as the full effects of recent tariffs and related uncertainty are felt.

Week Ahead’s key US number:
Gross domestic product—Q3 (Advanced)

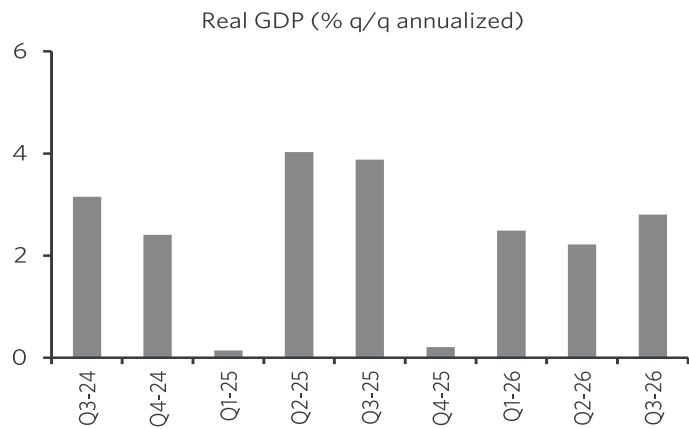
(Thursday, 8:30 am)

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Variable (%)	CIBC	Mkt	Prior
GDP q/q annualized	2.8	3.0	2.2
GDP deflator	3.5	3.5	6.1

US real economic growth is expected to accelerate modestly in the Q3 GDP report, from 2.2% in Q2 to just two ticks below 3% annualized. Domestic demand is likely to remain strong, with resilient consumption and strong AI investment as the continued dominant drivers. Inventories are likely to see their first increase since the pre-tariff surge in 25Q1 as indicated by recent increases in monthly business and wholesale inventories. The biggest drag on growth in the quarter will likely come from net exports, as recent monthly trade data shows a widening of the trade deficit as imports jumped to a record high. We also expect housing to decline in the quarter following the recent sluggish monthly starts and existing home sales reports.

Chart: US GDP



Source: BEA, Haver Analytics, CIBC

Forecast implications — Released one day after the FOMC meeting, this data will not influence this week’s interest rate decision. However, it is expected to demonstrate robust economic growth, which will reinforce the FOMC’s assessment that economic activity remains solid. While markets have largely priced in a pause at this meeting, we believe the inflation challenge persists in the US. Given the economy’s continued resilience and a labour market operating near full employment, we see limited justification for the FOMC to pause rate increases at this time.

Other US Releases:
Personal income & outlays—September

(Thursday, 8:30 am)

The monthly pace of core PCE inflation will likely accelerate in September. September core CPI exceeded consensus at 0.3% m/m and elevated PPI signals suggest a 0.4% (0.37% unrounded) advance in core PCE prices. That will be the hottest monthly pace since January for core PCE inflation and pushes up the year-over-year pace from 3% to 3.2% in September. Total PCE inflation is also expected to strengthen, driven by higher gasoline prices. The monthly pace should rise from 0.3% to 0.6%, bringing the year-over-year rate to just three ticks below 4.0%. Retail sales rose strongly by 0.8% in September on the backs of higher gasoline prices, suggesting personal spending will be up by 0.6% in September. Personal income likely rose at a more modest pace than spending at 0.3%, indicating continued pressure on the saving rate.

Durable goods orders—September

(Tuesday, 8:30 am)

After a decline last month, durable goods orders likely bounced back in September, advancing by 2% m/m. A large aircraft manufacturer posted its strongest month of gross new orders in the year, which likely pushed up aircraft orders in the month. Excluding transport, durable goods is expected to post a solid 1% increase as strong AI demand should lift orders for related sectors such as computer and electronics as well as capital goods.

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