THE WEEK AHEAD

October 21 - 25, 2024

I call your 50, or raise you to 75?

by **Avery Shenfeld** avery.shenfeld@cibc.com

Markets have thrown down their 50 basis point chip on the poker table, betting that the Bank of Canada will deliver an interest rate cut of that magnitude next week. But will the central bankers call that bet, or raise to 75? While a mega-move isn't our base-case forecast, there are reasons to think that Governor Macklem's team will give such a move more consideration than the 25 basis point cut that some economists are still projecting.

While 50 basis point interest rate changes have historically been less common than 25 bp bumps, they're hardly unprecedented. When we've seen modest total easings or tightening cycles, like the 75 basis point lift in 2010, they've been delivered a quarter point at time. But looking at cycles in either direction that moved rates by 200 bps or more, with only one exception, the average individual change exceeded 25 bps (Chart), implying that there were some steps of 50 or more.

What would be the logic of a 75 bp cut next week? Actually, it's a bit tougher to argue against it. We sit on the CD Howe Institute's shadow central bank committee, and all but two of the financial and academic economists on the panel recommended a total easing of 75 bps or more by December, and views at the BoC are likely similar. If a 3.5% or lower overnight rate is appropriate for three months from now, it's hard to see why it wouldn't be even better to get there sooner, in order to shorten the wait for its impacts to kick in.

That sort of front loading was what the BoC did when it hiked rates by 100 basis points in a single step during the most recent tightening cycle. The Bank was sure that it would need at least that much tightening to address inflation risks, and getting those conditions in place sooner was appropriate. With inflation now running below the 2% target, particularly in measures that exclude mortgage interest costs, and economic growth still subdued, the same argument could be made in reverse.

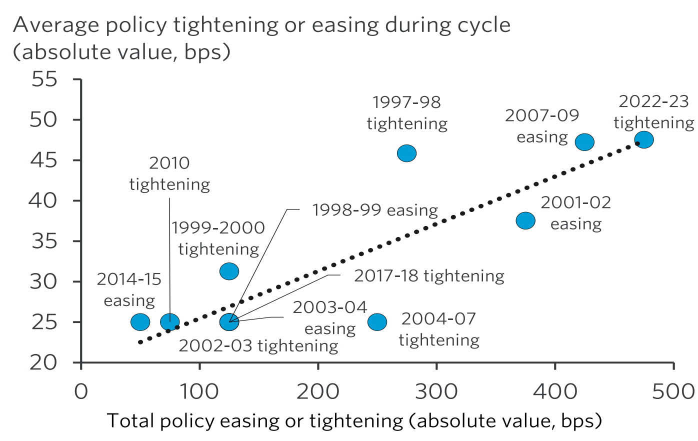
What might hold the Bank back from that step isn't anything happening in Canada, but developments south of the border. Stronger-than-expected readings on US employment, core inflation and retail sales, and a major upward revision to the path of household incomes, have the market dialing back forecasts for Fed rate cuts.

Stateside, easings will be restricted to quarter point steps, with some risks of pauses along the way if we don't see better core inflation readings ahead, because the central bankers will now feel less assured about the total magnitude of this easing cycle. We were already forecasting that the Fed's easing cycle would end with rates near 3½%, well above the 2.25% target we have for Canada. But to even get the Fed to that destination would likely require some deceleration in growth from what we've been seeing in Q3 data, which looks a bit too brisk to get inflation all the way to the 2% target.

But markets are now unsure if the US is headed for our "soft landing" outcome or a "no landing" outcome with no growth deceleration. That poses some risks that a faster pace of easing in Canada will set off more material weakness in the loonie, since a 50 bp cut is priced-into the exchange rate, but a larger move is not. Sure, there's a benefit to a softer exchange rate as a spur to export growth, and as a cushion against a greater-than-desired drop in inflation. But a more volatile FX market makes it tougher for the Bank to calibrate how much of an easing in monetary conditions it needs to deliver through its interest rate tool. The Bank might also fear that a 75 basis point would convey a degree of panic about the economy's prospects, but it could counter that by explaining that it simply wants to get ahead of downside risks and presenting an optimistic growth outlook for 2025.

So odds are that the Bank will simply call the market's 50 basis point bet. Waiting until December to throw another 50 bp easing onto the table might be a reasonable price to pay for less exchange rate volatility.

Chart: BoC cycles by total magnitude and average step



Source: Bank of Canada, CIBC

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 21	-	-	-	-	-	-	-
Tuesday, October 22	-	AUCTION: 3-M BILLS $12.8B, 6-M BILLS $4.6B, 1-YR BILLS $4.6B	-	-	-	-	-
Tuesday, October 22	8:30 AM	INDUSTRIAL PROD. PRICES M/M	(Sep)	(M)	-	-	-0.8%
Tuesday, October 22	8:30 AM	RAW MATERIALS M/M	(Sep)	(M)	-	-	-3.1%
Wednesday, October 23	8:30 AM	BANK OF CANADA RATE ANNOUNCE.	(Oct 23)	(H)	3.75%	3.75%	4.25%
Thursday, October 24	-	AUCTION: 30-YR CANADAS $2B	-	-	-	-	-
Friday, October 25	8:30 AM	RETAIL TRADE TOTAL M/M	(Aug)	(H)	0.5%	0.5%	0.9%
Friday, October 25	8:30 AM	RETAIL TRADE EX-AUTO M/M	(Aug)	(H)	0.6%	0.3%	0.4%

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 21	8:30 AM	LEADING INDICATORS M/M	(Sep)	(M)	-	-0.3%	-0.2%
Monday, October 21	8:55 AM	Speaker: Lorie K. Logan (Dallas) (Non-Voter)	-	-	-	-	-
Monday, October 21	1:00 PM	Speaker: Neel Kashkari (Minneapolis) (Non-Voter)	-	-	-	-	-
Monday, October 21	5:05 PM	Speaker: Jeffrey Schmid (Kansas City)	-	-	-	-	-
Tuesday, October 22	8:30 AM	PHILADELPHIA FED: NON-MANUFACTURING	(Oct)	(M)	-	-	-6.1
Tuesday, October 22	10:00 AM	RICHMOND FED MANUF. INDEX	(Oct)	(M)	-	-	-21.0
Tuesday, October 22	10:00 AM	Speaker: Patrick Harker (Philadelphia) (Non-Voter)	-	-	-	-	-
Wednesday, October 23	-	AUCTION: 20-YR TREASURIES $13B	-	-	-	-	-
Wednesday, October 23	7:00 AM	MBA-APPLICATIONS	(Oct 18)	(L)	-	-	-17.0%
Wednesday, October 23	10:00 AM	EXISTING HOME SALES SAAR	(Sep)	(M)	-	3.9M	3.9M
Wednesday, October 23	10:00 AM	EXISTING HOME SALES M/M	(Sep)	(M)	-	1.0%	-2.5%
Wednesday, October 23	2:00 PM	FED'S BEIGE BOOK	-	-	-	-	-
Wednesday, October 23	9:00 AM	Speaker: Michelle W Bowman (Governor) (Voter)	-	-	-	-	-
Wednesday, October 23	12:00 PM	Speaker: Thomas I. Barkin (Richmond) (Voter)	-	-	-	-	-
Thursday, October 24	-	AUCTION: 5-YR TIPS $24B	-	-	-	-	-
Thursday, October 24	8:30 AM	INITIAL CLAIMS	(Oct 19)	(M)	-	-	241K
Thursday, October 24	8:30 AM	CONTINUING CLAIMS	(Oct 12)	(L)	-	-	1867K
Thursday, October 24	8:30 AM	CHICAGO FED NAT.ACTIVITY INDEX	(Sep)	(M)	-	-	0.1
Thursday, October 24	9:45 AM	S&P GLOBAL US SERVICES PMI	(Oct P)	(L)	-	-	55.2
Thursday, October 24	9:45 AM	S&P GLOBAL US COMPOSITE PMI	(Oct P)	(L)	-	-	54.0
Thursday, October 24	9:45 AM	S&P GLOBAL US MANUFACTURING PMI	(Oct P)	(L)	-	-	47.3
Thursday, October 24	10:00 AM	NEW HOME SALES SAAR	(Sep)	(M)	735K	713K	716K
Thursday, October 24	10:00 AM	NEW HOME SALES M/M	(Sep)	(M)	2.6%	-0.4%	-4.7%
Friday, October 25	8:30 AM	DURABLE GOODS ORDERS M/M	(Sep P)	(H)	-1.5%	-1.0%	0.0%
Friday, October 25	8:30 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Sep P)	(H)	-0.2%	-0.1%	0.5%
Friday, October 25	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Oct)	(H)	-	69.5	68.9

Week Ahead's market call

by Avery Shenfeld

In the **US**, a light week for economic data will put a spotlight on durable goods, where orders are likely to see a sharp retreat after an outsized rebound in the aircraft component. Still, Q3 capital spending looks headed for a respectable growth rate. Without much in the way of economic data, equity markets will have their eyes on earnings reports, while fixed income investors will be watching the continued parade of Fed speakers. Expect the central bankers to sound less assured about just how far this easing cycle will extend given the upgraded picture for Q3 growth, and the recent stall in downward progress in core inflation.

In **Canada**, a 50 basis point rate cut from the Bank of Canada is a reasonable bet, and rightly so in the face of softer inflation and sluggish Q3 growth. The Bank will downgrade its call for that quarter, but don't expect it to get too pessimistic about growth next year, since it should view the inflation trend as giving it carte blanche to do what it takes to get the economy moving at a faster clip. As for the rate outlook ahead, those used to Fed dot plots, or musings from the Fed chair, need to remember that Canada's central bankers aren't fans of explicit forward guidance. So we wouldn't expect anything more than a reiteration of the statement that further reductions in interest rates would be a likely outcome if economic developments unfold as they expect. On the data front, a healthy ex-autos retail sales report won't do much to alter the medium trend of lacklustre per capita consumption growth.

Week Ahead's key Canadian number: Retail sales—August

(Friday, 8:30 am)

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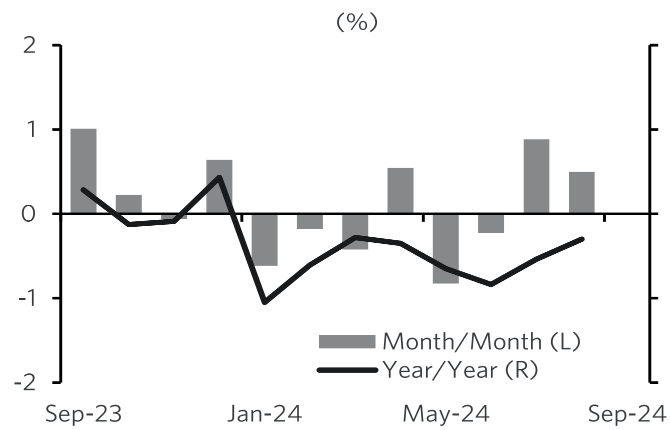
Variable (%)	CIBC	Mkt	Prior
Retail sales (m/m)	0.5	0.5	0.9
Ex-autos (m/m)	0.6	0.3	0.4

Chart: Canadian retail sales



Source: Statistics Canada, Haver Analytics, CIBC

Retail sales likely rose by a respectable 0.5% in August, in line with the advance estimate. New auto sales were down sharply in August, following a boost in the prior month as software issues at dealerships were resolved, which will likely leave ex. auto sales even higher at 0.6% m/m. These figures will also look healthy in volume terms, as goods prices were up by only a tick in August.

Forecast implications — Retail sales volumes are on track to post an impressive 4 ½% annualized pace in the third quarter, but that owes largely to the temporary jump in auto sales in July. That also follows a string of lackluster readings, and our forecast implies a decline in per-capita sales volumes of 0.5% y/y in August. With the unemployment rate high and mortgage renewals still squeezing consumers, consumption isn't likely to get a sustained lift until well into 2025. That leaves the BoC on track to cut rates by 50bps at next week's meeting.

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

(Friday, 8:30 am)

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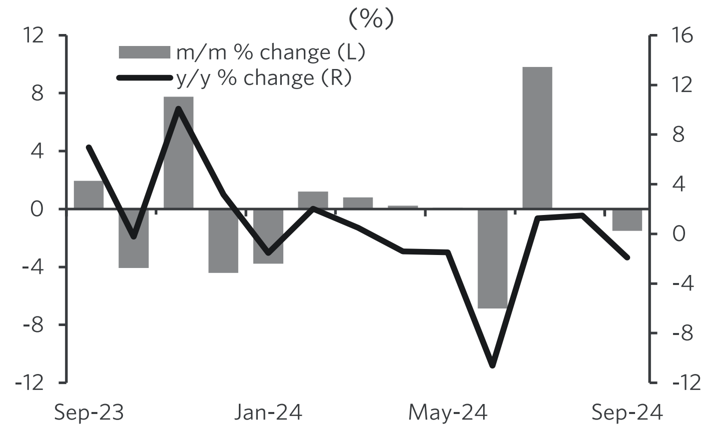
Variable (m/m, %)	CIBC	Mkt	Prior
Durable goods orders	-1.5	-1.0	0.0
Ex. transportation	-0.2	-0.1	0.5

Chart: US durable goods orders



Source: Census Bureau, Haver Analytics, CIBC

Predicting the headline durable goods orders line is essentially rolling the dice. Volatile swings in commercial aircraft orders have driven the headline figure for the better part of the past year and half, and after two very strong months in that category, our best guess is sharp slowdown to -1.5% m/m for the headline reading. The latest round of volatility in aircraft deliveries comes after Congress threatened greater regulatory scrutiny on a major aircraft builder in the early summer, resulting in a massive drop in orders. But of course, there was no follow through on those threats, leading to a strong rebound the past two months. It appears that episode is mostly behind us now. Excluding transportation, we expect durable goods orders to weaken after a very strong August, coming in at 0.2% decline in September. But this segment has shown a gradual improvement over the past year, likely reflecting a steady decline in long-rates and strong domestic demand.

Forecast implications — Overall, we expect business investment in 24Q3 to be solid at 4.5% annualized pace, essentially where it has been the prior two quarters.

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