

THE WEEK AHEAD

May 12 - 16, 2025

Time to hedge one's bets?

by Avery Shenfeld avery.shenfeld@cibc.com

Investors have ample reason to seek out international diversification. As we all learned in Finance 101, adding less systematically correlated assets to a portfolio is a risk mitigation strategy. But floating currencies represent a complication in that formula, particularly for a Canadian pension fund where the objective is to cover future obligations in Canadian dollars, or even for an individual who is saving for a retirement in Canada.

As our FICC Strategy team noted this week, on their US assets, Canadian real money managers typically have less than half the currency hedge ratios of their global non-US peers. In part, that reflects the much reduced volatility in dollar-Canada compared to the swings we see in, for example, dollar-yen. But being underhedged has also been a winning play for the last four years, a period in which the loonie has been quite steadily weakening, and from an even longer term perspective, the USD has been generally outpacing other major currencies for many years. Moreover, the US dollar has usually been a winner in risk-off periods, so when US stocks weakened, a strengthening USD provided a nice offset for a Canadian investor.

While diamonds are forever, financial trends and correlations aren't. Canadian oil exporters used to count on the exchange rate's natural hedge properties. For many years, if the loonie strengthened, it was often tied to rising US\$ oil prices, so having oil revenues in US dollars but some costs in Canadian dollars wasn't seen as a big risk. Until, of course, the correlation disappeared as the US became a net oil exporter, and as Canadian oil-sector capital spending became a less important driver of macro conditions and interest rates after the mid-1990s.

So for investors, the question is, are we in a new world for both the direction of the USD, and its negative correlation with US equities? The honest answer is that we suspect that one or both of these trends are behind us, but neither the factors behind that change, nor the statistical evidence, as yet constitute solid proof.

Take the recent weakening trend for the US dollar. There is a well established literature (Jorian and Sweeny 1996; or Sweeny 2006) that G10 currencies exhibit mean reversion in real and nominal exchange rates. Long runs in favour of the USD tend

to be followed by long periods in which the greenback gives back those gains. Where the evidence offers less guidance is on when those turns are more likely. The data shows lots of periods as long as the recent weakening in the USD that didn't prove to be the start of a sustained trend.

But there are reasons to believe that it might be. In real trade-weighted terms against advanced economies, the USD had recently surpassed the extremes that started its multi-year slide in 2002, and was nearing an early mid-1980s peak. America's trade deficit has ballooned, and we're seeing lots of jitters among central banks and other funds that have been heavily weighted in the greenback in recent years. While the Canadian dollar might not be the new leader of the pack, during past periods of broad US dollar weakness, the loonie has tended to join others in climbing against the greenback.

As for the natural hedge property of the USD for those holding US stocks, that trend is well established in the data. Looking at 30-business day periods since 2010, the change in the US dollar's valuation in Canadian dollars and S&P500 stocks went in opposite directions in 65% of the observations, against only 35% in which the currency move would have amplified gains or losses from stocks held by a Canadian investor. But despite that solid evidence that there is indeed a natural hedge, there are lots of observations in which it didn't work that ran as long as what we've seen at points this year. And in about 7% of the sample periods, we had the adverse case in which US stocks weakened, and the USD also weakened against the loonie.

Therefore, like the US dollar's strengthening trend, this latest episode has been too short to conclude that the risk off property of the US dollar is definitively gone for good. But CIBC's strategy team has argued that if this is all about a broader loss of "US exceptionalism" that impacts both stocks and currencies, we could be in at least for a period of time in which the natural hedge could fail (see CIBC FICC Strategy, Thoughts on USD/CAD hedging for Canadian equity managers, March 30) And as with any turning point, waiting for definitive evidence could mean waiting too long. That makes it worth giving consideration to some lower cost ways of hedging against larger US dollar declines for Canadian investors that are heavily weighted in US assets.

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, May 12	-	-	-	-	-	-	-
Tuesday, May 13	-	-	-	-	-	-	-
Wednesday, May 14	-	AUCTION: 2-YR CANADAS \$6B	-	-	-	-	-
Wednesday, May 14	8:30 AM	BUILDING PERMITS M/M	(Mar)	(M)	-	-	2.9%
Thursday, May 15	-	Ontario Budget	-	-	-	-	-
Thursday, May 15	8:15 AM	HOUSING STARTS SAAR	(Apr)	(M)	230.0K	235.0K	214.2K
Thursday, May 15	8:30 AM	MANUFACTURING SHIPMENTS M/M	(Mar)	(M)	-1.7%	-1.9%	0.2%
Thursday, May 15	8:30 AM	WHOLESALE SALES EX-PETROLEUM M/M	(Mar)	(M)	-0.5%	-	0.3%
Thursday, May 15	9:00 AM	EXISTING HOME SALES M/M	(Apr)	(M)	-	-	-4.8%
Friday, May 16	8:30 AM	INT'L. SEC. TRANSACTIONS	(Mar)	(M)	-	-	-\$6.5B
Friday, May 16	10:30 AM	Release: Senior Loan Officer Survey	-	-	-	-	-

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, May 12	10:25 AM	Speaker: Adriana D. Kugler (Governor) (Voter)	-	-	-	-	-
Tuesday, May 13	-	AUCTION: 1-YR TREASURIES \$48B	-	-	-	-	-
Tuesday, May 13	8:30 AM	CPI M/M	(Apr)	(H)	0.3%	0.3%	-0.1%
Tuesday, May 13	8:30 AM	CPI M/M (core)	(Apr)	(H)	0.3%	0.3%	0.1%
Tuesday, May 13	8:30 AM	CPI Y/Y	(Apr)	(H)	2.4%	2.4%	2.4%
Tuesday, May 13	8:30 AM	CPI Y/Y (core)	(Apr)	(H)	2.8%	2.8%	2.8%
Wednesday, May 14	7:00 AM	MBA-APPLICATIONS	(May 9)	(L)	-	-	11.0%
Wednesday, May 14	5:15 AM	Speaker: Christopher J. Waller (Governor) (Voter)	-	-	-	-	-
Wednesday, May 14	9:10 AM	Speaker: Philip N Jefferson (Governor) (Voter)	-	-	-	-	-
Wednesday, May 14	5:40 PM	Speaker: Mary C. Daly (San Francisco) (Voter)	-	-	-	-	-
Thursday, May 15	8:30 AM	INITIAL CLAIMS	(May 10)	(M)	-	-	228K
Thursday, May 15	8:30 AM	CONTINUING CLAIMS	(May 3)	(L)	-	-	1879K
Thursday, May 15	8:30 AM	RETAIL SALES M/M	(Apr)	(H)	0.2%	0.0%	1.5%
Thursday, May 15	8:30 AM	RETAIL SALES (X-AUTOS) M/M	(Apr)	(H)	0.6%	-	0.9%
Thursday, May 15	8:30 AM	RETAIL SALES CONTROL GROUP M/M	(Apr)	(H)	0.5%	0.3%	0.4%
Thursday, May 15	8:30 AM	PPI M/M	(Apr)	(M)	0.3%	0.3%	-0.4%
Thursday, May 15	8:30 AM	PPI M/M (core)	(Apr)	(M)	0.3%	0.3%	-0.1%
Thursday, May 15	8:30 AM	PPI Y/Y	(Apr)	(M)	-	-	2.7%
Thursday, May 15	8:30 AM	PPI Y/Y (core)	(Apr)	(M)	-	-	3.3%
Thursday, May 15	8:30 AM	NEW YORK FED (EMPIRE)	(May)	(M)	-	-8.0	-8.1
Thursday, May 15	8:30 AM	PHILADELPHIA FED BUSINESS OUTLOOK	(May)	(M)	-	-9.6	-26.4
Thursday, May 15	9:15 AM	INDUSTRIAL PRODUCTION M/M	(Apr)	(H)	0.4%	0.3%	-0.3%
Thursday, May 15	9:15 AM	CAPACITY UTILIZATION	(Apr)	(M)	77.8%	77.9%	77.8%
Thursday, May 15	10:00 AM	BUSINESS INVENTORIES M/M	(Mar)	(L)	-	0.2%	0.2%
Thursday, May 15	10:00 AM	NAHB HOUSING INDEX	(May)	(L)	-	-	40.0
Thursday, May 15	8:40 AM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Thursday, May 15	2:05 PM	Speaker: Michael S Barr (Governor) (Voter)	-	-	-	-	-
Friday, May 16	8:30 AM	HOUSING STARTS SAAR	(Apr)	(M)	1390K	1368K	1324K
Friday, May 16	8:30 AM	BUILDING PERMITS SAAR	(Apr P)	(H)	1450K	1450K	1467K
Friday, May 16	8:30 AM	IMPORT PRICE INDEX M/M	(Apr)	(L)	-	-0.4%	-0.1%
Friday, May 16	8:30 AM	EXPORT PRICE INDEX M/M	(Apr)	(L)	-	-0.4%	0.0%
Friday, May 16	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(May P)	(H)	-	53.0	52.2
Friday, May 16	4:00 PM	NET CAPITAL INFLOWS (TICS)	(Mar)	(L)	-	-	\$112.0B
Friday, May 16	9:40 PM	Speaker: Mary C. Daly (San Francisco) (Voter)	-	-	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, CPI and retail sales will top the data calendar, but neither will really give us a peek into the post tariff world. It's too soon for April inflation to register the hit from tariffs that started that month, with most goods on the shelves having been brought in earlier. Even if our core CPI print would translate into a cooler 0.2% on core PCE, the Fed will remain worried about what's to come in the months ahead. Retail sales will actually gain from the tariff threat, to the extent that they pick up a rush to buy before tariff-driven price hikes.

In **Canada**, a week of minor releases won't do anything to repaint the picture of economic softness that has emerged after two successive weak jobs reports. We look for declines in both manufacturing shipments and ex-oil wholesaling in March. Ontario's post-election budget is also on tap, and will reflect a less robust outlook for revenues as well as what the government intends to offer in the way of fiscal support.

There are no major Canadian data releases next week.

Week Ahead's key US number: CPI—April

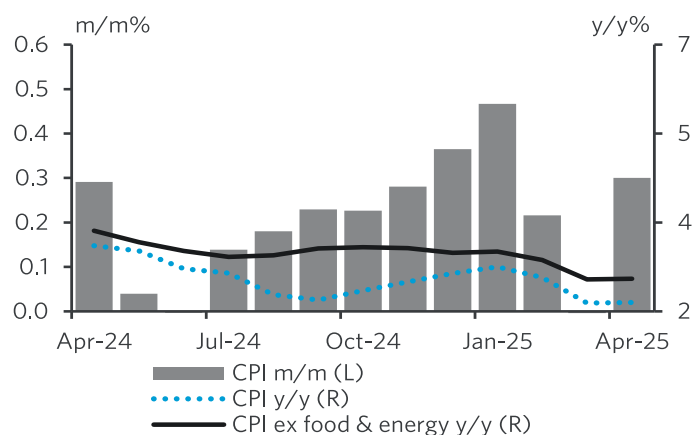
(Tuesday, 8:30 am)

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Variable (%)	CIBC	Mkt	Prior
Headline CPI (m/m)	0.3	0.3	-0.1
Headline CPI (y/y)	2.4	2.4	2.4
Core CPI (m/m)	0.3	0.3	0.1
Core CPI (y/y)	2.8	2.8	2.8

The April CPI report will be the highlight of the data week. Core inflation should come in at 0.3% m/m (0.25%) and we expect headline inflation at the same pace. Tariffs won't have a significant imprint in April, as it was the first month of the administration's big tariff unveil and few knew what to expect. Also, retailers still have healthy inventories after a huge import surge at the start of the year. However, used car prices will likely tick up in the month. Offsetting somewhat higher goods prices will be steady services inflation, with housing inflation back to about its pre-pandemic pace.

Chart: US consumer price index



Source: BLS, Haver Analytics, CIBC

Forecast implications — This borderline 0.3% Core CPI could translate into an 0.2% in core PCE terms, given that we expect modest services ex. shelter inflation.

Market implications — Our views are aligned with consensus, but markets are focused on headlines talking about supply chain disruptions and higher future price pressures as firms are buying time.

Other US Releases: Retail sales—April

(Thursday, 8:30 am)

Retail sales should look strong as the US consumer tries to get ahead of higher tariff rates on consumer goods. High-frequency credit card data point to a pick-up in discretionary spending in April and the labor market remained solid in the month. We're calling for retail sales growth of 0.2% m/m and control group spending to rise by 0.5%, both above consensus.

Industrial production—April

(Thursday, 9:15 am)

Manufacturing sentiment has weakened but not substantially and there have been few reports of firms idling factories or workers through April. The import surge may accelerate some production, with demand pulled forward. We expect industrial production growth of 0.4% in April.

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