THE WEEK AHEAD

July 23-27, 2018

Economics

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Breaking the Omerta

by Avery Shenfeld

Donald Trump didn't really break a written code of Omerta when he voiced his displeasure with the Federal Reserve Board. While his recent predecessors maintained their silence on monetary policy matters, both Nixon and Reagan leaned on the Fed during their time in office, while George H.W. Bush griped after his term.

Trump's helpful suggestions on monetary policy aren't likely to be given a hearing at the next FOMC meeting. The last time a central bank seemed to have succumbed to pressure for easier monetary policy, we were left with the sharp inflation climb of the Nixon era, hardly a comforting precedent.

The President has complained that Fed hikes, coupled with easy monetary policy elsewhere, is lifting the US dollar. That in turn will serve to blunt some of the positive growth impacts of tax cuts, and perhaps even negate a bit of the protectionist wall of tariffs.

But if he's looking for reasons for a US dollar rally, he should also be looking in the mirror. Markets that worry about trade war damage to Europe, Canada, or Mexico will be tempted to sell those currencies, expecting their trade balances to deteriorate, or their central banks to take a softer line on monetary policy. The tax cut bill would have on its own elevated the greenback's exchange rate, by drawing in capital seeking to invest under the stimulus of lower corporate rates. And anytime fiscal stimulus is enacted in an economy already nearing full employment, it will bring forward the timing of the monetary tightening needed to prevent an overheating.

But Trump does have a point for foreign exchange market players. These forces have pushed the USD beyond where trade fundamentals would justify. That's dangerous for those sitting long the greenback against overseas majors, or for Canadian firms that have future needs to buy euros or yen. As we get deeper into the Fed hiking cycle, and past the peak impacts of fiscal stimulus, markets will start looking ahead to the dollar giving back some of these outsized gains.

Since the Fed won't be done in 2018, and fiscal stimulus is ongoing, a larger US dollar retreat might be next year's story, as investors start to anticipate an interest rate plateau.

But the first step towards a modest reversal in dollar gains could come on the trade war front. Europe and Japan have agreed on a free trade pact. Could that allow the EU to lower its most-favoured-nation tariffs on vehicles more broadly in exchange for the US dropping its threat to European exports? Could China come to see an escalating battle with the US as enough of a worry to get down to real negotiations with the White House? Both seem plausible enough to warrant lightening up on bets for further USD gains against overseas currencies.

As for the Canadian dollar, it's not clear that the USD is yet overvalued against the loonie on trade fundamentals. Unlike Europe, Japan or China, Canada isn't running an overall trade surplus with the US, and is running a large deficit with the rest of the world. Outside the energy sector, it hasn't been competitive enough to attract much in the way of new capacity expansions. That suggests that the Canadian dollar could be range-bound even if the US dollar loses its shine against others.

Week Ahead Calendar And Forecast

	CANADA			CIBC	Consensus	Prior
Monday July 23						
Tuesday July 24	**AUCTION: 3-M BILLS $5.0B, 6-M BILLS $2B, 1-YR BILLS $2B**					
	CASH MANAGEMENT BUYBACK (Aug'18 - Nov'19) - $0.5B					
	8:30 AM					
	WHOLESALE TRADE M/M	(May)	(M)	**0.6%**		0.1%
Wednesday July 25	**AUCTION: 10-YR CANADAS $3B**					
Thursday July 26	**8:30 AM**					
	PAYROLL EMPLOYMENT, EARNINGS & HRS					
Friday July 27						

	UNITED STATES			CIBC	Consensus	Prior
Monday July 23	**AUCTION: 3-M BILLS $51B, 6-M BILLS $45B**					
	8:30 AM					
	CHICAGO FED NAT.ACTIVITY INDEX	(Jun)	(M)			-0.2%
	10:00 AM					
	EXISTING HOME SALES SAAR	(Jun)	(M)		5.48M	5.43M
	EXISTING HOME SALES M/M	(Jun)	(M)		0.9%	-0.4%
Tuesday July 24	**AUCTION: 4-WEEK BILLS $45B (prev)**					
	AUCTION: 2-YR TREASURIES $35B					
	9:00 AM					
	HOUSE PRICE INDEX M/M	(May)	(M)			0.1%
	9:45 AM					
	MARKIT US SERVICES PMI	Jul P	(L)			56.5
	MARKIT US COMPOSITE PMI	Jul P	(L)			56.2
	10:00 AM					
	RICHMOND FED MANUF. INDEX	(Jul)	(M)		18.0	20.0
Wednesday July 25	**AUCTION: 5-YR TREASURIES $36B**					
	7:00 AM					
	MBA-APPLICATIONS	(Jul 20)	(L)			-2.5%
	10:00 AM					
	NEW HOME SALES SAAR	(Jun)	(M)		670K	689K
	NEW HOME SALES M/M	(Jun)	(M)		-2.8%	6.7%
Thursday July 26	**AUCTION: 7-YR TREASURIES $30B**					
	8:30 AM					
	INITIAL CLAIMS	(Jul 21)	(M)			207K
	CONTINUING CLAIMS	(Jul 14)	(L)			1751K
	ADVANCE GOODS TRADE BALANCE	(Jun)	(M)	**-$66.7B**	-$67.0B	-$64.8B
	DURABLE GOODS ORDERS M/M	(Jun)	(H)	**3.2%**	3.0%	-0.4%
	DURABLE GOODS ORDERS EX-TRANS M/M	(Jun)	(H)	**0.6%**	0.5%	0.0%
	WHOLESALE INVENTORIES M/M	(May)	(L)			0.6%
Friday July 27	**8:30 AM**					
	GDP (annualized)	(Q2 A)	(H)	**4.1%**	4.2%	2.0%
	GDP DEFLATOR (annualized)	(Q2 A)	(H)	**2.3%**	2.4%	2.2%
	10:00 AM					
	MICHIGAN CONSUMER SENTIMENT	(Jul)	(H)		97.2	97.1

H, M, L = High, Medium or Low Significance **SAAR = Seasonally Adjusted Annual Rate** **Consensus Source: Bloomberg**

Week Ahead's Market Call

by Royce Mendes

In the US, we'll get the first estimate of second quarter GDP. There's a lot of anticipation among investors for an above-4% print, so a downside miss versus our 4.1% call could knock sentiment lower. Further evidence of tax cut stimulus should be seen in next week's solid reading on durable goods orders, and presage a strong contribution to GDP growth from investment in the third quarter. Markets increasingly focussed on trade will also take notice of EC President Juncker's meeting with US President Trump.

In Canada, it's a light week on the data calendar. Wholesale trade is the final piece of the monthly GDP puzzle, but with the other inputs already pointing toward a healthy advance, there's unlikely to be much market reaction to a 0.6% gain in sales. Given the absence of other economic data, the wage print in the payroll survey could garner more attention than usual. But markets will also be digesting continued equity earnings releases, both north and south of the border.

There are no Key Canadian Numbers this week.

Week Ahead's Key US Number:

Real GDP—Q2 (Advance)

(Friday, 8:30 a.m.)

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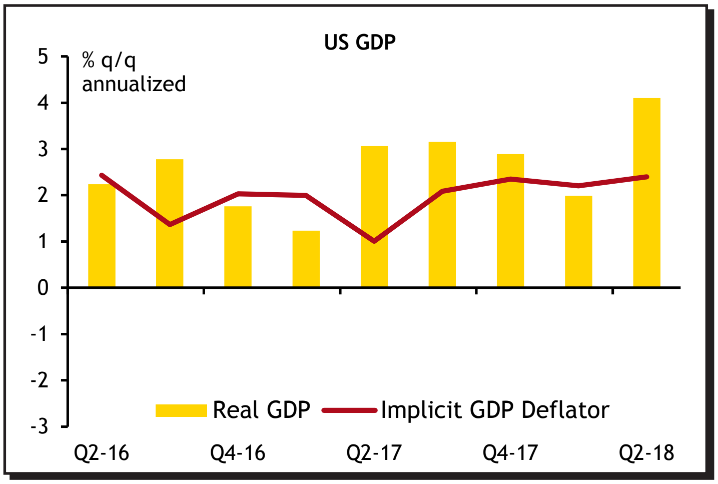
	CIBC	Mkt	Prior
GDP q/q annualized	4.1%	4.2%	2.0%
GDP Deflator	2.4%	2.4%	2.2%



Consumption rebounded in Q2 but it will be exports and investment leading the way. Economic activity likely expanded by 4.1% in Q2, the strongest pace since 2014 and over double the rate of expansion seen in the previous quarter.

Business investment was robust, as indicated by a pickup in capital goods imports. The brisk pace was likely helped by the accelerated depreciation of equipment provision under tax reform. Exports have also picked up steam this quarter and net trade should add strongly to growth. But that may have been the result of a pulling forward of foreign demand ahead of tariffs.

Forecast Implications—A stellar Q2 performance will be followed by a return to more normal growth rates over the rest of the year. Early indications suggest that business investment will continue to benefit from tax reform, but export growth is likely to slow.

Market Impact—We are slightly below the consensus forecast but likely not by enough to see a sustained move in markets.

Other U.S. Releases:

Durable Goods Orders—June

(Thursday, 8:30 a.m.)

June was a brisk month for aircraft orders after two months of contractions that held down the headline number, and that should support a lofty 3.2% advance in durable goods orders. Tax reform is encouraging stronger investment, and should support a 0.6% advance in the ex-transportation figure, a solid bounceback from the last month and a continuation of the healthy trend that began over a year ago.

Advance Goods Trade Balance—June

(Thursday, 8:30 a.m.)

Import prices were down on the month while export prices rose, but a surge in US oil and petroleum product imports as reported by industry sources could underpin a widening in the goods trade balance to -$66.7 bn. The trade balance has narrowed this quarter but that could have been supported by a pulling forward of exports related to tariffs.

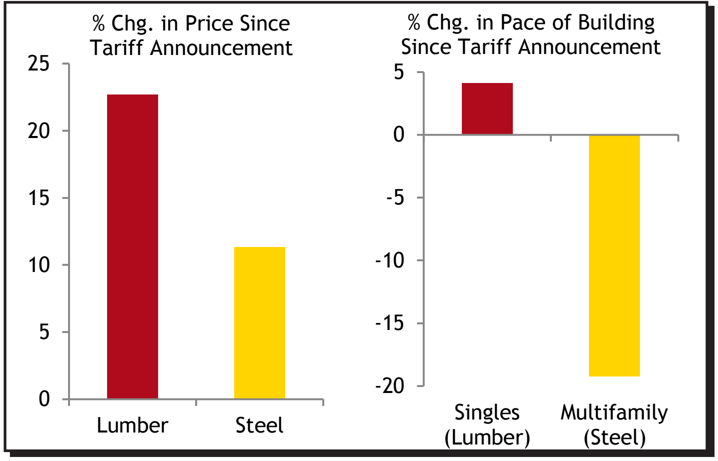
Equity Insights

Katherine Judge and Andrew Grantham

US Homebuilding Prospects Favour Single-Family Market

US single-family homebuilding has continued on a gradual upward trajectory despite a hiccup in June. Indeed, the implementation of lumber tariffs in April 2017 did little to stall demand for single-family homes, as reflected in the rise in the home ownership rate. The same cannot be said about multi-family housing starts, however, which have struggled to make progress since 2017. The newly implemented tariffs on steel won't help that trend, as multi-family building has already dropped off since their announcement in March meaning that builders may not have yet felt the effects. Multi-family permits have also plateaued, suggesting homebuilding stocks that are more exposed to single-family homes may fare better going forward.

Lumber Has Seen More Significant Price Gains (L), But Lumber-Intensive Homebuilding Has Held Up (R)

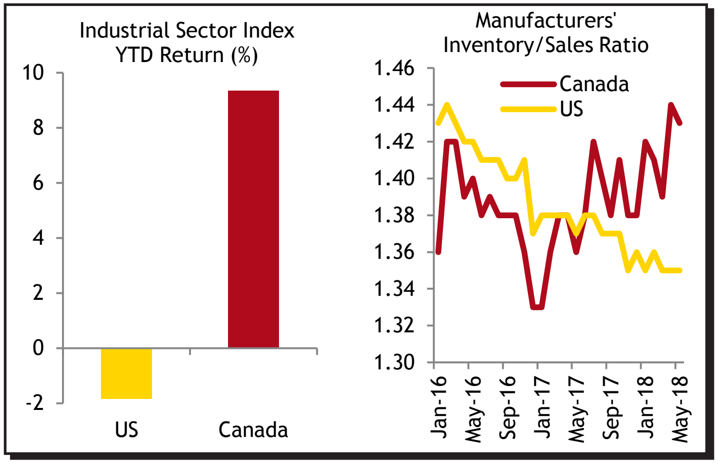


Source: Bloomberg, Statistics Canada, US Census Bureau, CIBC

US Industrials to Shake off Tariff Rhetoric

Despite strong domestic demand, US industrial stocks have suffered this year, a divergence from Canada where constructive readings on shipments recently have helped industrial shares appreciate even amidst the threat of auto tariffs. While the Trump administration continues to mull further trade barriers, fundamentals suggest that there could be a reversal of fortunes on the horizon for industrials. The inventory-to-sales ratio has been on the rise in Canada since mid-2017, in contrast to its southern counterpart. And when combined with capacity constraints facing Canadian factories, that could make US industrials more attractive going forward.

US and Canada Industrial Stocks Have Diverged (L), But Fundamentals Suggest a Reversal is in Store (R)

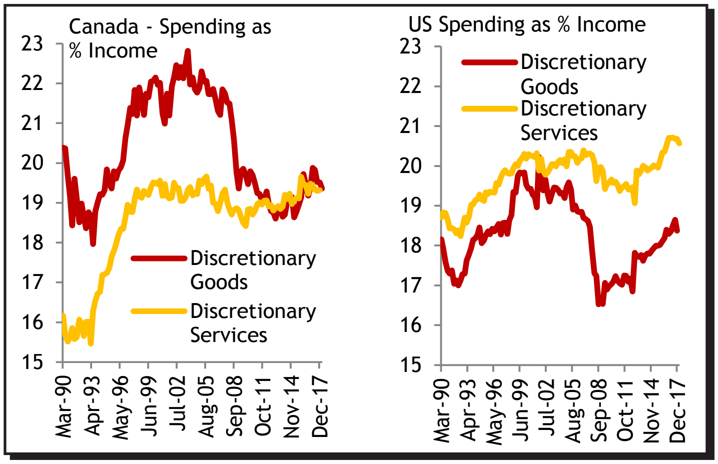


Source: Bloomberg, US Census Bureau, CIBC

Consumers: Where Could Belts be Tightened?

A creeping trade war and higher gasoline prices will put at least some pressure on consumers' spending power in the months to come. However, any cut backs won't necessarily come where prices are rising. In the US, more extra spending power recently has gone towards increased spending on discretionary services rather than goods. Even though goods prices will be rising, many will be on non-discretionary items. As such, it could be services, including restaurants, which have seen sales strengthen in the past year, that could be adversely affected. In contrast, the gap between discretionary goods and services spending in Canada isn't currently as pronounced and so doesn't point to an obvious area where consumers could tighten their belts.

Spending Gap in the US Suggests Sales of Discretionary Services Could Come Down



Source: Statistics Canada, BEA, CIBC

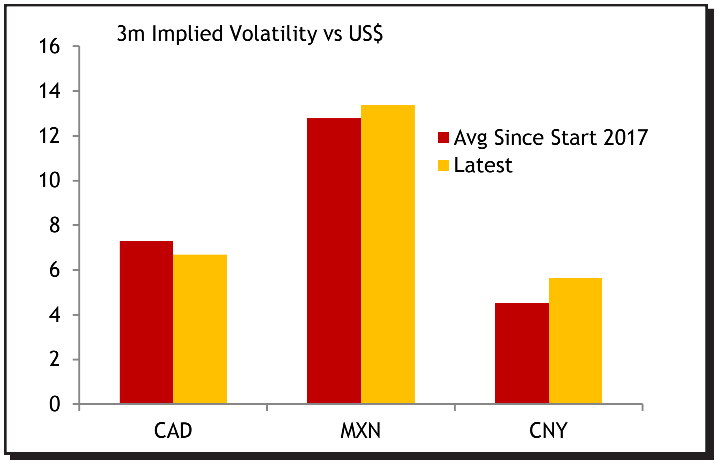
Currency Currents

Andrew Grantham

Beware a Return of Volatility

Financial markets appear to be a little too calm amid a growing trade storm. That's true in FX markets as well. While implied volatility has picked up for the CNY recently, as the currency has weakened amid tariff talk, three-month implied volatility for USDCAD is actually below its average since President Trump took over at the Oval Office. Even if it's still likely that protectionism fades, given great uncertainty still regarding tariffs and NAFTA, it could be a good time to take out some protection against future volatility.

Implied Volatility in USDCAD Below Recent Average Despite Risks

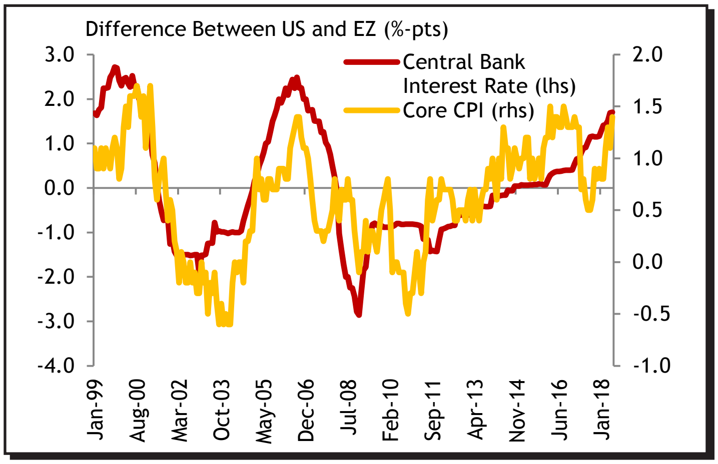


Source: Bloomberg, CIBC

Policy Convergence Trade Not Making a Quick Return

The policy convergence trade of 2017, taking EURUSD higher, has gone into reverse and it could be a while before it resumes. Latest readings for core inflation in the US (seeing it move higher) and Eurozone (lower) have seen the differential between those inflation gauges return to near extreme levels. As the Fed continues hiking, the differential between its main rate and the ECB's will also get close to historical extremes towards the end of this year. It may not be until 2019, when we get closer to ECB hikes, that we see a meaningful re-appreciation of the single currency.

Difference Between US-EZ Interest Rates and Core CPI Both Nearing Historical Extremes

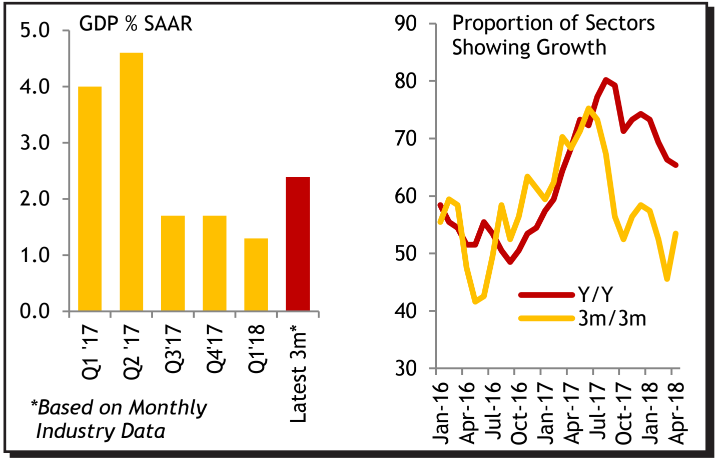


Source: Bloomberg, BLS, Eurostat, CIBC

Canadian GDP: On Unstable Footing?

The BoC has just hiked interest rates and GDP growth looks set to have accelerated to around 2½% in Q2. Yet we don't think rates will be going up again in a hurry. Why? Well there's obviously the uncertainty surrounding trade with the possibility of auto tariffs hanging overhead. However, there's also the fact that the recent acceleration in growth looks a little fragile. The proportion of industries seeing growth on a quarterly basis remains pretty low, with much of the recent growth driven by oil & gas. And while manufacturing is strong at the moment, a high inventory-shipment ratio could suggest a deceleration ahead. So we expect growth to slow again in Q3, leaving the BoC able to continue a very gradual approach to rate hikes and seeing the C$ weaken slightly further to September.

Growth Appears to be Picking Up (L), But the Acceleration is Narrowly Based (R)



Source: Statistics Canada, CIBC

CANADIAN RELEASE AND EVENT DATES
July/August 2018

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
16 **INT'L TRANSACTIONS IN SECURITIES C$BN, NET** 8:30 AM BONDS MONEY MARKET STOCKS TOT MAR 0.0 6.3 0.1 6.4 APR 8.8 -1.9 2.3 9.1 MAY 7.3 -2.3 -2.8 2.2	17 **SURVEY OF MANUFACTURING** 8:30 AM SHIPMENTS M Y MAR 1.5 6.0 APR -1.1 3.8 MAY 1.4 3.7	18	19	20 **CPI** 8:30 AM M Y APR 0.3 2.2 MAY 0.1 2.2 JUN 0.1 2.5 **RETAIL TRADE** 8:30 AM (Current$) M Y MAR 0.8 4.0 APR -0.9 2.1 MAY 2.0 3.6
23 **WHOLESALE TRADE** 8:30 AM	24	25	26 **PAYROLL EMPLOYMENT, EARNINGS & HOURS** 8:30 AM	27
30	31 **GDP BY INDUSTRY** 8:30 AM (2002$) GDP IND.PROD. M M MAR 0.3 0.9 APR 0.1 0.4 MAY **INDUSTRIAL PRICES** 8:30 AM M (NSA) Y APR 0.4 2.3 MAY 1.0 3.1 JUN	1	2	3 **INTERNATIONAL RESERVES** 8:15 AM $BN CHANGE $BN LEVEL MAY -1,444 80.8 JUN 0.988 81.8 JUL **MERCHANDISE TRADE** 8:30 AM $MN 12 MO. BALANCE APR -1,864 -30,554 MAY -2,771 -32,310 JUN
6 **CIVIC HOLIDAY (Markets Closed)**	7 **IVEY PURCHASING MANAGERS' INDEX** 10:00 AM	8 **BUILDING PERMITS ($)** 8:30 AM M M (RES) (NON-RES) APR -4.4 -5.3 MAY 7.7 -0.7 JUN	9 **HOUSING STARTS** 8:15 AM 000's (AR) TOTAL SINGLES MAY 194 58 JUN 248 56 JUL **NEW HOUSING PRICE INDEX** 8:30 AM	10 **LABOUR FORCE SURVEY** 8:30 AM EMPLOY (HSHOLD) UNEMP RATE AVG HRLY EARN M Y % Y MAY 0.0 1.3 5.8 3.9 JUN 0.2 1.2 6.0 3.5 JUL
13	14	15	16 **SURVEY OF MANUFACTURING** 8:30 AM SHIPMENTS M Y APR -1.1 3.8 MAY 1.4 3.7 JUN	17 **CPI** 8:30 AM M Y MAY 0.1 2.2 JUN 0.1 2.5 JUL **INT'L TRANSACTIONS IN SECURITIES C$BN, NET** 8:30 AM BONDS MONEY MARKET STOCKS TOT APR 8.8 -1.9 2.3 9.1 MAY 7.3 -2.3 -2.8 2.2 JUN

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U.S. RELEASE AND EVENT DATES
July/August 2018

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
16 **RETAIL SALES** 8:30 AM M Y APR 0.3 4.8 MAY 1.3 6.5 JUN 0.5 6.6 **BUSINESS INVENTORIES** 10:00 AM	17 **CAPACITY UTIL/IND. PROD.** 9:15 AM LEV M Y APR 78.2 1.1 3.8 MAY 77.7 -0.5 3.3 JUN 78.0 0.6 3.8 **NET CAPITAL INFLOWS TICS** 4:00 PM *BOT (9:00) REDBOOK (8:55)*	18 **HOUSING STARTS** 8:30 AM Mn. M/M APR 1.276 -3.8 MAY 1.337 4.8 JUN 1.173 -12.3 **Beige Book**	19 **PHILADELPHIA FED INDEX** 8:30 PM **LEADING INDICATOR** 10:00 AM *2, 5, 7-Yr NOTE ANNOUNCEMENT* *INITIAL JOBLESS CLAIMS (8:30)*	20
23 **EXISTING HOME SALES** 10:00 AM	24 *2-Yr NOTE AUCTION* *BOT (9:00) REDBOOK (8:55)*	25 **NEW HOME SALES** 10:00 AM *5-Yr NOTE AUCTION*	26 **ADV. TRADE IN INTERNATIONAL GOODS** 8:30 AM **DURABLE GOODS ORDERS** 8:30 AM M Y APR -1.0 8.5 MAY -0.6 9.2 JUN *7-Yr NOTE AUCTION* *INITIAL JOBLESS CLAIMS (8:30)*	27 **GDP** 8:30 AM (AR) REAL GDP IMPLICIT DEFLATOR 17:Q4(F) 2.9 2.3 18:Q1(F) 2.0 2.2 18:Q2(A) **MICHIGAN SENTIMENT (F)** 10:00 AM
30	31 **ECI** 8:30 AM TOTAL WAGES & SALARY BEN. 17:Q4 0.6 0.5 0.5 18:Q1 0.8 0.9 0.7 18:Q2 **PERS. INC & OUT.** 8:30 AM INCOME M CONS M SAVING RATE AR APR 0.2 0.5 3.0 MAY 0.4 0.2 3.2 JUN **S&P CORE LOGIC/CASE-SHILLER HOUSE PRICE INDEX** 9:00 AM **CHICAGO PMI** 9:45 AM **CONSUMER CONFIDENCE** 10:00 AM *2, 5-, 7-Yr NOTE SETTLEMENT* *BOT (9:00) REDBOOK (8:55)*	1 **ADP SURVEY** 8:15 AM **ISM MFG SURVEY** 10:00 AM COMP. INDEX PRICES INDEX MAY 58.7 79.5 JUN 60.2 76.8 JUL *30-Yr BOND ANNOUNCEMENT* *3, 10-Yr NOTE ANNOUNCEMENT* **FOMC Rate Decision** **LIGHT VEHICLES** SALES MIL (AR) Y MAY 16,848 0.9 JUN 17,381 4.7 JUL	2 **FACTORY ORDERS** 10:00 AM M(SA) Y(NSA) APR -0.4 7.9 MAY 0.4 9.2 JUN *INITIAL JOBLESS CLAIMS (8:30)*	3 **EMPLOY. SITUATION** 8:30 AM NON-FARM PAYROLL CIV UNEMP RATE AVG HRLY EARN MAY 244 3.8 2.8 JUN 213 4.0 2.7 JUL **GOODS & SERV. BALANCE (BOP) $B** 8:30 AM GDS SERV TOT APR -68.4 22.3 -46.1 MAY -65.8 22.7 -43.1 JUN **ISM NON-MFG SURVEY** 10:00 AM
6	7 **CONSUMER CREDIT** 3:00 PM *3-Yr NOTE AUCTION* *BOT (9:00) REDBOOK (8:55)*	8 *10-Yr NOTE AUCTION*	9 **PPI** 8:30 AM M (SA) Y (NSA) MAY 0.5 3.1 JUN 0.2 3.3 JUL *30-Yr BOND AUCTION* *INITIAL JOBLESS CLAIMS (8:30)*	10 **CPI** 8:30 AM M(SA) Y (NSA) MAY 0.2 2.8 JUN 0.1 2.9 JUL **TREASURY BUDGET** 2:00 PM
13	14 *BOT (9:00) REDBOOK (8:55)*	15 **RETAIL SALES** 8:30 AM M Y MAY 1.3 6.5 JUN 0.5 6.6 JUL **NON-FARM PRODUCTIVITY** 8:30 AM Q/Q (AR) Y/Y 17:Q4 (F) 0.3 1.2 18:Q1 (F) 0.4 1.3 18:Q2 (P) **CAPACITY UTIL/IND. PROD.** 9:15 AM LEV M Y MAY 77.7 -0.5 3.3 JUN 78.0 0.6 3.8 JUL **BUSINESS INVENTORIES** 10:00 AM **NET CAPITAL INFLOWS TICS** 4:00 PM *30-Yr BOND SETTLEMENT* *3, 10-Yr NOTE SETTLEMENT*	16 **PHILADELPHIA FED INDEX** 8:30 PM **HOUSING STARTS** 8:30 AM Mn. M/M MAY 1.337 4.8 JUN 1.173 -12.3 JUL *INITIAL JOBLESS CLAIMS (8:30)*	17 **LEADING INDICATOR** 10:00 AM **MICHIGAN SENTIMENT (P)** 10:00 AM

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