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Allow Me to Explain

by Avery Shenfeld

When a central bank says it's not going to provide "forward guidance," it means just what it says. Since that's the case with the Bank of Canada, investors who try to read too much about 2019 into the coming week's statement risk being led astray. Instead, with the Bank highly likely to announce another quarter point rate hike, read the accompanying statement as largely an explanation for why the October hike was necessary.

With that in mind, the Bank of Canada's tone has to sound sufficiently hawkish to justify the pain that rate hikes impose on debtors. The Bank has a solid case to make for moving in October. Core inflation is on target, but labour markets are tight. While August looks soft, Q3 growth is still tracking above the central bank's estimate for the economy's non-inflationary potential, albeit by less than a half percent.

Central bankers will acknowledge that consumer credit has slowed to a crawl. But it will argue that some of that will be offset by better results for exports and related capital spending. Manufacturing has indeed seen a bit of an uptrend, and the Bank will cite the optimism shown on machinery and equipment spending in its recent outlook survey.

Having imposed a roughly 0.2% deduction from GDP growth over a three year period due to trade uncertainties, the Bank of Canada will now claim that at least some of that weight has been lifted off the economy's shoulders with the USMCA deal. Tariffs still remain in several key sectors, but the Bank might add a decimal place to its 2019 growth outlook to capture the reduction in tensions. It will also be raising its prior 2018 Q3 forecast which looks too lean against data tracking a roughly 2.2% pace.

So overall, the one-pager accompanying the statement will read hawkishly. But for those of us who lean on the dovish side of consensus, there will still be a few tidbits of evidence in that direction.

First, the BoC will retain the message that rate hikes are coming gradually. That's why they didn't raise rates back-to-back and skipped September, and USMCA aside, not much has changed since then. Growth in Q3, as well as year-on-year growth, is only modestly above potential, and core inflation has not escalated.

We'll also look to see if the Monetary Policy Report cites several recent papers from its own research arm, which zeroed in on "broad-based competitive losses" that have produced trend declines in the country's share of US non-energy imports. These were attributed to both demand issues, as well as made-in-Canada bottlenecks, regulatory changes, and weakness in the capital stock that reflected competitiveness losses.

The Bank will likely avoid directly repeating the conclusion reached in those research papers, which was that a "monetary policy reaction is required" with softer interest rates than would otherwise be the case through 2020. That's too much forward guidance for Stephen Poloz's taste. But any talk about competitive challenges leans towards a more cautious approach on rates ahead.

Week Ahead Calendar And Forecast

CANADA

Day	Event	Period	Sig.	CIBC	Consensus	Prior
Monday October 22	**8:30 AM**					
	WHOLESALE TRADE M/M	(Aug)	(M)	**-0.1%**		1.5%
Tuesday October 23	**CASH MANAGEMENT BUYBACK (Nov'18 - Mar'20) - $0.5B**					
Wednesday October 24	**10:00 AM**					
	BANK OF CANADA RATE ANNOUNCE.		(H)	**1.75%**	1.75%	1.50%
	BOC MONETARY POLICY REPORT					
	Speaker: 11:15 AM Stephen S. Poloz (Governor) & Carolyn Wilkins (Sr. Deputy Gov.)					
Thursday October 25	**8:30 AM**					
	PAYROLL EMPLOYMENT, EARNINGS & HRS					
Friday October 26						

UNITED STATES

Day	Event	Period	Sig.	CIBC	Consensus	Prior
Monday October 22	**AUCTION: 3-M BILLS $45B, 6-M BILLS $39B**					
	8:30 AM					
	CHICAGO FED NAT.ACTIVITY INDEX	(Sep)	(M)		0.25	0.18
Tuesday October 23	**AUCTION: 4-WEEK BILLS $40B (prev)**					
	AUCTION: 2-YR $38B					
	10:00 AM					
	RICHMOND FED MANUF. INDEX	(Oct)	(M)		24.0	29.0
	Speaker: 8:00 PM Esther George (President, Kansas City)					
	Speaker: 2:15 PM Rob Kaplan (Dallas, President)					
	Speaker: 1:30 PM Raphael Bostic (President, Atlanta)					
	Speaker: 9:30 AM Neel Kashkari (President, Minneapolis)					
Wednesday October 24	**AUCTION: 5-YR $39B**					
	7:00 AM					
	MBA-APPLICATIONS	(Oct 19)	(L)			-7.1%
	9:00 AM					
	HOUSE PRICE INDEX M/M	(Aug)	(M)		0.3%	0.2%
	9:45 AM					
	MARKIT US SERVICES PMI	Sep F	(L)		54.0	53.5
	MARKIT US COMPOSITE PMI	Sep F	(L)			53.9
	MARKIT US MANUFACTURING PMI	Sep F	(L)		55.4	55.6
	10:00 AM					
	NEW HOME SALES SAAR	(Sep)	(M)	**621K**	625K	629K
	NEW HOME SALES M/M	(Sep)	(M)	**-1.3%**	-0.6%	3.5%
	2:00 PM					
	FED'S BEIGE BOOK					
	Speaker: 7:00 PM Lael Brainard (Governor)					
	Speaker: 1:10 PM Loretta Mester (President, Cleveland)					
	Speaker: 1:00 PM Raphael Bostic (President, Atlanta)					
Thursday October 25	**AUCTION: 7-YR $31B**					
	8:30 AM					
	INITIAL CLAIMS	(Oct 20)	(M)		215K	210K
	CONTINUING CLAIMS	(Oct 13)	(L)			1640K
	ADVANCE GOODS TRADE BALANCE	(Sep)	(M)	**-$74.9B**	-$75.0B	-$75.5B
	DURABLE GOODS ORDERS M/M	(Sep)	(H)	**-2.6%**	-1.3%	4.4%
	DURABLE GOODS ORDERS EX-TRANS M/M	(Sep)	(H)	**0.1%**	0.4%	0.0%
	WHOLESALE INVENTORIES M/M	(Sep)	(L)			1.0%
	10:00 AM					
	PENDING HOME SALES M/M	(Sep)	(M)		-0.2%	-1.8%
	Speaker: 9:00 PM Loretta Mester (President, Cleveland)					
	Speaker: 12:15 PM Richard Clarida (Vice Chairman)					
Friday October 26	**8:30 AM**					
	GDP (annualized)	(Q3A)	(H)	**3.3%**	3.4%	4.2%
	GDP DEFLATOR (annualized)	(Q3A)	(H)	**2.3%**	2.3%	3.0%
	10:00 AM					
	MICHIGAN CONSUMER SENTIMENT	(Oct)	(H)		99.0	99.0

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

Week Ahead's Market Call

by Avery Shenfeld

In the **US**, we're expecting a softening trend in the new housing market over the medium term, so last month's uptick in new home sales could see a give back in a September dip. Durable orders could look a bit softer than consensus on both the headline and ex-transport measures. We've only edged up our forecast for Q3 growth slightly on incoming data during the quarter, and consensus has settled in close to our 3.3% call. That's still above the economy's non-inflationary potential, and thereby good enough for the Fed to press ahead with a Christmas present hike for Donald Trump in the form of a rate hike in December.

In **Canada**, a quarter point hike on Wednesday will be no surprise, accompanied by enough optimistic language on economic conditions to explain its necessity. Wholesale trade is coming off a big July gain, so a retreat in August won't be that newsworthy.

There are no key Canadian numbers this week.

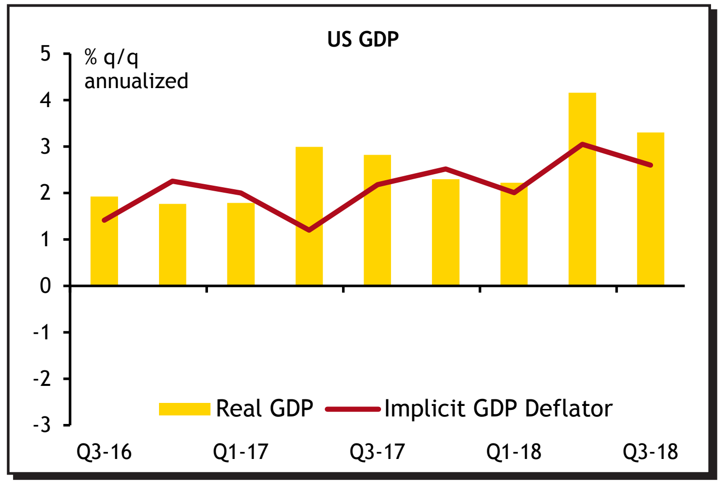
Week Ahead's Key US Number:

Real GDP—Q3 (Advance)

(Friday, 8:30 a.m.)

Katherine Judge (416) 956-6527

	CIBC	Mkt	Prior
GDP q/q annualized	3.3%	3.4%	4.2%
GDP Deflator	2.3%	2.3%	3.0%



A scorching growth print in the prior quarter was driven by robust gains in consumption, business investment and exports. However, there is reason to believe that the latter two sources of growth lost significant momentum in Q3, leaving consumption and inventories as the main sources of growth.

A deceleration in capital goods imports (ex. autos) suggests that business investment will have come back down to earth in Q3, with investment in structures also being a soft spot. Even the rise in the price of oil wasn't enough to see rig counts move meaningfully higher on the quarter. And the bump in exports that owed partly to nations front-running tariffs appears to have dissipated, which will leave net trade as a negative growth contributor.

On the positive side, consumers continued to spend higher earnings from both a tighter labor market and tax cuts. Along with a lift from inventories, that should have seen the economy expand by 3.3% in Q3, well above potential growth.

Forecast Implications—A deceleration in growth in Q3 indicates that the economy is converging towards a more sustainable rate of growth as the Fed gradually increases interest rates. And with the economy approaching full employment, the slowdown in growth should continue ahead, with higher rates feeding through more meaningfully to activity.

Market Impact—We are roughly in line with consensus which should limit market reaction.

Other U.S. Releases:

Durable Goods Orders—September

(Thursday, 8:30 a.m.)

Headline durable goods orders, while tracking lower this quarter, are still healthy and have been propelled by brisk transportation orders. However, those orders appear to have eased in September which should see the headline figure fall by 2.6%. Additionally, mining activity rose only marginally on the month and soft machinery orders could hold back the ex-transportation figure to a 0.1% reading.

Advance Goods Trade Balance—September

(Thursday, 8:30 a.m.)

Last month's surprise widening in the advanced goods trade balance was driven by relatively broad-based weakness in exports, something that could have reversed somewhat in September. At the same time, a surge in import prices should magnify import growth resulting partly from manufacturers replenishing inventories that were drawn down in the prior month. That should see the trade deficit narrow only slightly to $74.9B in September.

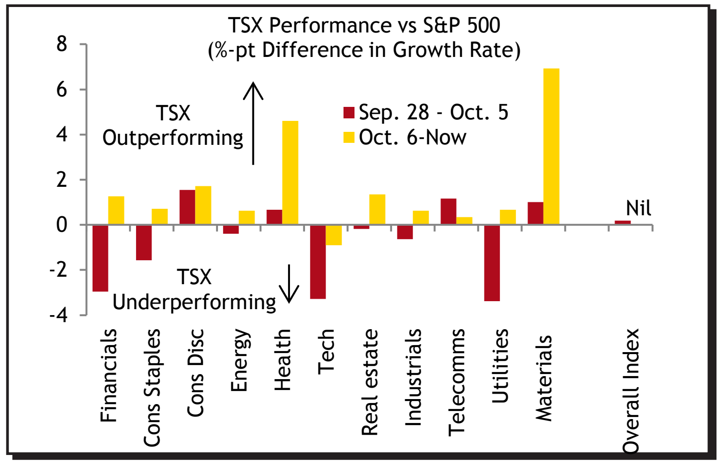
Equity Insights

Katherine Judge and Andrew Grantham

USMCA: Not a Big Boost For TSX Yet

The TSX's outperformance versus the S&P 500 after the USMCA announcement was both modest and short-lived. In the week after the deal, the TSX aggregate performed only 0.2% better, although that would have been more were it not for the underperformance of the large financials sector during that time. While the materials sector did, and continues to, outperform, that may reflect the weighting and performance of gold companies recently, rather than the easing of trade tensions. We would have expected industrials to have benefitted more than others from the trade deal, but they have only broadly tracked the performance of those companies stateside.

TSX vs S&P 500 Performance Since USMCA Trade Deal

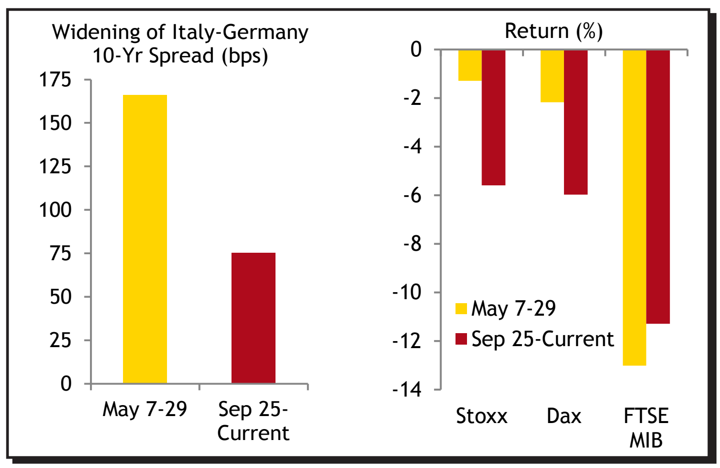


Source: Bloomberg, CIBC

European Equity Declines Not All an Italy Story

European stocks have been on a downward trajectory since May, coinciding with the surge in the Italy-Germany 10-year bond yield spread. And while spreads have continued to widen since that initial spike, equities have underperformed disproportionately. Both the DAX and Stoxx indices have more than tripled their losses since the end of May, while spreads have only widened by a fraction of their initial spike. Some of that owes to contagion from the fall in Italian stocks, but it also reflects other factors. Trade frictions and an imminent tightening of monetary policy could also be partly to blame, on top of IMF global growth downgrades. Investors with high risk tolerance may find some value as Italy fears dissipate, but it will remain a rocky ride.

Italy Woes Have Seen Spreads Widen (L) But European Stocks Have Underperformed Disproportionately (R)

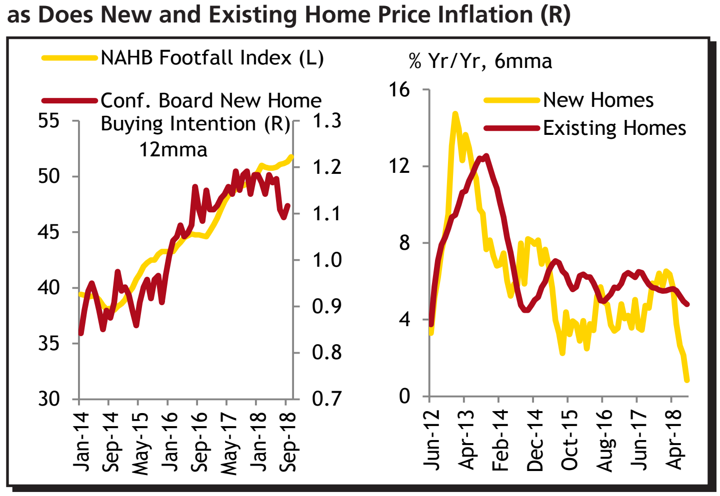


Source: Bloomberg, CIBC

Browsing or Buying?

The NAHB's index of US homebuilder sentiment ticked back up unexpectedly in September, thanks in part to higher footfall of potential buyers. But are they really potential buyers? The Conference Board's consumer confidence gauge has a measure of buying intentions, and that series has fallen for new homes. Added to that, the (admittedly volatile) price data in the new and existing homes sales releases has apparently highlighted less pricing power for homebuilders recently. So don't get carried away by the better headline confidence figure, as other indicators seem to still suggest a slowing backdrop for US homebuilders.

Footfall and Buying Intentions Diverge (L), as Does New and Existing Home Price Inflation (R)



Source: NAHB, Conference Board, NAR, CIBC

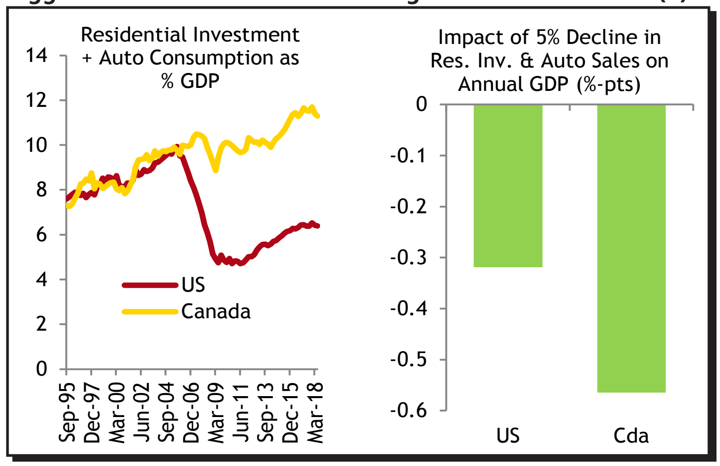
Currency Currents

Andrew Grantham

Canada Rate Sensitivity to Cap CAD

The BoC will hike rates again next week and could follow that up with another 25bp move in January. However, that shouldn't be taken as a sign that policymakers are willing to match the current once-a-quarter pace of the Fed. In fact, we could see a prolonged pause thereafter. The issue is the sensitivity of Canadian growth to higher interest rates. As in the US, highly rate-sensitive areas such as residential investment and auto sales have started to slow. However, unlike in the US, the share of these areas in GDP continued to trend higher after the financial crisis in Canada, meaning that a 5% drop from recent peaks (in line with recent data) will have a much bigger hit to growth. A prolonged pause in BoC rate hikes after January would see CAD weaken again.

Rate Sensitive Sectors a Bigger Proportion of Cdn GDP (L), Bigger GDP Hit From Recent Housing and Auto Pull-Backs (R)

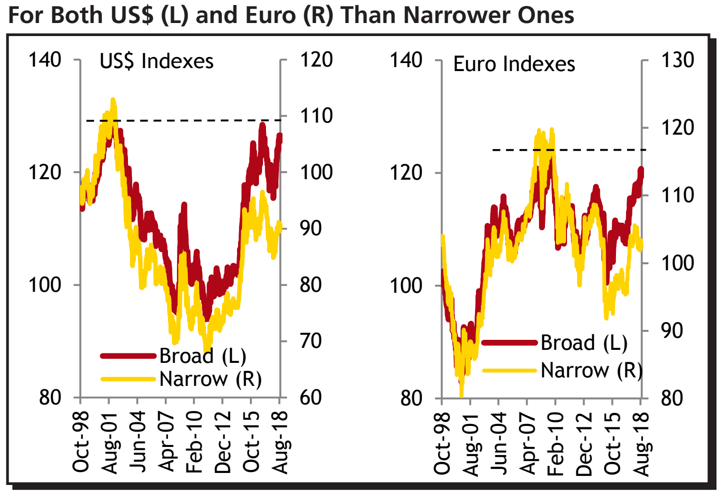


Source: Statistics Canada, BEA, CIBC

Euro and US$: Stronger Than You Think

Major currencies are often viewed narrowly against a basket of other majors, and such commonly used price indexes suggest the euro and US$ trade-weighted currencies remain well below prior peaks. However, due to weakness in some emerging market currencies in both South America and Europe, broader FX indexes for the US$ and euro are close to 20-year peaks. While that could be an issue for growth in Europe, given its reliance on exports, from a trade balance and FX viewpoint it could be more of an issue for the US, given its starting from a current account deficit. As such the US$ is unlikely to hold onto these lofty levels and see a pullback on a trade-weighted basis and against most majors.

Broader Trade Weighted Indexes show Greater Strength For Both US$ (L) and Euro (R) Than Narrower Ones

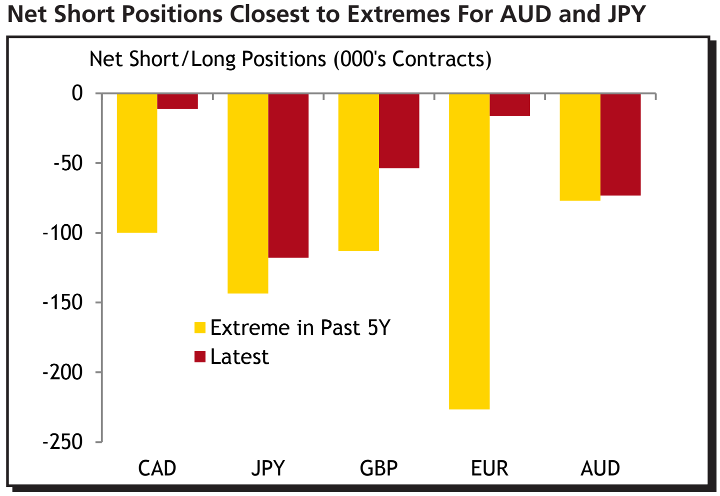


Source: ECB, Federal Reserve, CIBC

Where a Change of Position Could See Biggest Impact

Generally positive US$ sentiment recently means that speculative positioning is net short many major currencies against the greenback. However, if sentiment sours against the US$, which currencies could see a short-covering rally? Looking at where such short positions are most extreme versus the recent past suggests that JPY and AUD could be the biggest near-term beneficiaries of such as shift, with CAD and EUR further down the list.

Net Short Positions Closest to Extremes For AUD and JPY



Source: CFTC, Bloomberg, CIBC

CANADIAN RELEASE AND EVENT DATES
October/November 2018

MONDAY | TUESDAY | WEDNESDAY | THURSDAY | FRIDAY

Monday 15
Bank of Canada Business Outlook Survey

Tuesday 16
INT'L TRANSACTIONS IN SECURITIES C$BN, NET
8:30 AM

	BONDS	MONEY MARKET	STOCKS	TOT
JUN	12.7	-1.7	1.4	12.5
JUL	12.7	-0.4	3.0	15.3
AUG	-7.4	4.9	5.3	2.8

Wednesday 17
SURVEY OF MANUFACTURING
8:30 AM

SHIPMENTS	M	Y
JUN	1.3	7.0
JUL	1.2	10.9
AUG	-0.4	9.0

Thursday 18
ADP EMPLOYMENT SURVEY
8:30 AM

Friday 19
CPI
8:30 AM

	M	Y
JUL	0.5	3.0
AUG	-0.1	2.8
SEP	-0.4	2.2

RETAIL TRADE
8:30 AM (Current$)

	M	Y
JUN	-0.1	3.9
JUL	0.2	3.5
AUG	-0.1	3.6

Monday 22
WHOLESALE TRADE
8:30 AM

Tuesday 23

Wednesday 24
Bank of Canada Interest Rate Announcement

Bank of Canada Monetary Policy Report

Bank of Canada Governor Poloz & Sr. Dep. Gov. Wilkins speak at 11:15 AM ET

Thursday 25
PAYROLL EMPLOYMENT, EARNINGS & HOURS
8:30 AM

Friday 26

Monday 29

Tuesday 30

Wednesday 31
GDP BY INDUSTRY
8:30 AM (2002$)

	GDP M	IND.PROD. M
JUN	0.0	0.0
JUL	0.2	0.6
AUG		

INDUSTRIAL PRICES
8:30 AM

	M (NSA)	Y
JUL	-0.2	6.7
AUG	-0.5	5.8
SEP		

Thursday 1

Friday 2
LABOUR FORCE SURVEY
8:30 AM

	EMPLOY (HSHOLD) M	EMPLOY (HSHOLD) Y	UNEMP RATE %	AVG HRLY EARN Y
AUG	-0.3	0.9	6.0	2.6
SEP	0.3	1.2	5.9	2.2
OCT				

MERCHANDISE TRADE
8:30 AM

	$MN	12 MO. BALANCE
JUL	-189	-27,305
AUG	526	-23,907
SEP		

Monday 5
INTERNATIONAL RESERVES
8:15 AM

	$BN CHANGE	$BN LEVEL
AUG	-0.579	81.2
SEP	-0.555	80.7
OCT		

Tuesday 6
BUILDING PERMITS ($)
8:30 AM

	M (RES)	M (NON-RES)
JUL	-2.0	-0.5
AUG	-4.4	8.8
SEP		

Wednesday 7

Thursday 8
HOUSING STARTS
8:15 AM 000's (AR)

	TOTAL	SINGLES
AUG	199	52
SEP	189	53
OCT		

NEW HOUSING PRICE INDEX
8:30 AM

Friday 9

Monday 12

Tuesday 13

Wednesday 14

Thursday 15
ADP EMPLOYMENT SURVEY
8:30 AM

Friday 16
INT'L TRANSACTIONS IN SECURITIES C$BN, NET
8:30 AM

	BONDS	MONEY MARKET	STOCKS	TOT
JUL	12.7	-0.4	3.0	15.3
AUG	-7.4	4.9	5.3	2.8
SEP				

SURVEY OF MANUFACTURING
8:30 AM

SHIPMENTS	M	Y
JUL	1.2	10.9
AUG	-0.4	9.0
SEP		

All data seasonally adjusted except where noted "NSA". M: per cent change from previous month. Q: per cent change from previous quarter at annual rates. Y: per cent change from year earlier. AR: Annual Rate. YTD: Year to date. Release dates are provided by sources outside CIBC World Markets Inc. Dates are subject to change. Sources for historical data: Statistics Canada, CMHC, Human Resources Development Canada and the Bank of Canada.

U.S. RELEASE AND EVENT DATES
October/November 2018

MONDAY 15

RETAIL SALES

8:30 AM	M	Y
JUL	0.6	6.6
AUG	0.1	6.5
SEP	0.1	4.7

BUSINESS INVENTORIES
10:00 AM

30-Yr NOTE SETTLEMENT
3, 10-Yr NOTE SETTLEMENT

TUESDAY 16

CAPACITY UTIL/IND. PROD.

9:15 AM	LEV	M	Y
JUL	77.9	0.3	4.1
AUG	78.1	0.4	4.8
SEP	78.1	0.3	5.1

NET CAPITAL INFLOWS TICS
4:00 PM

BOT (9:00) REDBOOK (8:55)

WEDNESDAY 17

HOUSING STARTS

8:30 AM	Mn.	M/M
JUL	1.184	0.6
AUG	1.268	7.1
SEP	1.201	-5.3

FOMC Minutes

THURSDAY 18

PHILADELPHIA FED INDEX
8:30 PM

LEADING INDICATOR
10:00 AM

2, 5-, 7-Yr NOTE ANNOUNCE.
INITIAL JOBLESS CLAIMS (8:30)

FRIDAY 19

EXISTING HOME SALES
10:00 AM

MONDAY 22

TUESDAY 23

2-Yr NOTE AUCTION
BOT (9:00) REDBOOK (8:55)

WEDNESDAY 24

NEW HOME SALES
10:00 AM

Beige Book

5-Yr NOTE AUCTION

THURSDAY 25

ADV. TRADE IN INTERNATIONAL GOODS
8:30 AM

DURABLE GOODS ORDERS

8:30 AM	M	Y
JUL	-1.2	10.0
AUG	4.4	11.8
SEP		

7-Yr NOTE AUCTION
INITIAL JOBLESS CLAIMS (8:30)

FRIDAY 26

GDP

8:30 AM (AR)	REAL GDP	IMPLICIT DEFLATOR
18:Q1(F)	2.2	2.2
18:Q2(P)	4.2	3.5
18:Q2(F)		

MICHIGAN SENTIMENT (F)
10:00 AM

MONDAY 29

PERS. INC & OUT.

8:30 AM	INCOME M	CONS M	SAVING RATE AR
JUL	0.3	0.5	6.6
AUG	0.3	0.3	6.6
SEP			

TUESDAY 30

S&P CORE LOGIC/CASE-SHILLER HOUSE PRICE INDEX
9:00 AM

CONSUMER CONFIDENCE
10:00 AM

BOT (9:00) REDBOOK (8:55)

WEDNESDAY 31

ADP SURVEY
8:15 AM

ECI

8:30 AM	TOTAL	WAGES & SALARY	BEN.
18:Q1	0.8	0.9	0.7
18:Q2	0.6	0.5	0.9
18:Q3			

CHICAGO PMI
9:45 AM

30-Yr BOND ANNOUNCEMENT
3, 10-Yr NOTE ANNOUNCEMENT
2, 5-, 7-Yr NOTE SETTLEMENT

THURSDAY 1

NON-FARM PRODUCTIVITY

8:30 AM	Q/Q (AR)	Y/Y
18:Q1 (F)	0.3	1.0
18:Q2 (F)	2.9	1.3
18:Q3 (A)		

ISM MFG SURVEY

10:00 AM	COMP. INDEX	PRICES INDEX
AUG	61.3	72.1
SEP	59.8	66.9
OCT		

LIGHT VEHICLES

	SALES MIL (AR)	Y
AUG	16,620	1.0
SEP	17,364	-4.0
OCT		

INITIAL JOBLESS CLAIMS (8:30)

FRIDAY 2

EMPLOY. SITUATION

8:30 AM	NON-FARM PAYROLL	CIV UNEMP RATE	AVG HRLY EARN
AUG	270	3.9	2.9
SEP	134	3.7	2.7
OCT			

GOODS & SERV. BALANCE (BOP) $B

8:30 AM	GDS	SERV	TOT
JUL	-73.2	23.1	-50.0
AUG	-76.7	23.5	-53.2
SEP			

FACTORY ORDERS

10:00 AM	M(SA)	Y(NSA)
JUL	-0.5	9.2
AUG	2.3	10.0
SEP		

MONDAY 5

ISM NON-MFG SURVEY
10:00 AM

TUESDAY 6

3-Yr NOTE AUCTION
BOT (9:00) REDBOOK (8:55)

WEDNESDAY 7

CONSUMER CREDIT
3:00PM

10-Yr NOTE AUCTION

THURSDAY 8

FOMC Rate Decision

30-Yr BOND AUCTION
INITIAL JOBLESS CLAIMS (8:30)

FRIDAY 9

PPI

8:30 AM	M (SA)	Y (NSA)
AUG	-0.1	2.8
SEP	0.2	2.7
OCT		

MICHIGAN SENTIMENT (P)
10:00 AM

MONDAY 12

TUESDAY 13

TREASURY BUDGET
2:00 PM

BOT (9:00) REDBOOK (8:55)

WEDNESDAY 14

CPI

8:30 AM	M(SA)	Y (NSA)
AUG	0.2	2.7
SEP	0.1	2.3
OCT		

THURSDAY 15

PHILADELPHIA FED INDEX
8:30 PM

RETAIL SALES

8:30 AM	M	Y
AUG	0.1	6.5
SEP	0.1	4.7
OCT		

BUSINESS INVENTORIES
10:00 AM

3, 10-Yr NOTE ANNOUNCEMENT
30-Yr BOND SETTLEMENT
INITIAL JOBLESS CLAIMS (8:30)

FRIDAY 16

CAPACITY UTIL/IND. PROD.

9:15 AM	LEV	M	Y
AUG	78.1	0.4	4.8
SEP	78.1	0.3	5.1
OCT			

NET CAPITAL INFLOWS TICS
4:00 PM

All data seasonally adjusted except where noted "NSA". M: per cent change from previous month. Q: per cent change from previous quarter at annual rates. Y: per cent change from year earlier. AR: Annual Rate. YTD: Year to date. Release dates are provided by sources outside CIBC World Markets inc. Dates are subject to change. Sources for historical data: U.S. Department of Commerce, U.S. Department of Labor and U.S. Federal Reserve Board.