



Economics

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THE WEEK AHEAD

January 25-29, 2021

Call the Fed's Bluff

by Avery Shenfeld

Federal Reserve Chair Jay Powell has the makings of a pretty good poker player. He seems to be almost showing you his hole cards, claiming to have a strong hand in the battle against inflation, and therefore no need to raise interest rates until another three years have passed, and no need to start even talking about paring back the pace for Fed bond purchases. But should investors call his bluff?

The FOMC meets next week, and given recent speeches by Powell, Clarida and others, we don't expect a change in the Fed's messaging. For one, this isn't a meeting at which a new forecast is unveiled. The last one was tame enough to be consistent with a long pause in policy ahead.

But is the Fed's last forecast still credible? Perhaps for the next couple of years, but looking further out, into 2023, there's an odd turn of fortune. Remember, that's a year in which, in the FOMC projection, interest rates are still near zero. Unemployment will be much lower, businesses will have had two good years under their belt, and with rates so low, both the household and business sector will have plenty of confidence to borrow and spend. While emergency stimulus payments will have faded away, if Washington gets serious about infrastructure spending, 2023 could well be the year in which major projects start to get shovels in the ground.

Yet despite all that, the Fed's forecast is that growth will, on its own, decelerate to less than 2½%, thereby slowing progress on unemployment. Even then, the 3.7% unemployment rate, below the Fed's guess on where full employment lies, still has PCE inflation at 2% and not a decimal place higher.

That's very convenient for a central bank that has every incentive right now to have the bond market pricing in no hikes until 2024. But in central banking, as in poker, there are times when you don't really want to lay all your cards out on the table.

The Bank of Canada also kept one card slightly hidden in the past week. It said that now was not the time to announce anything on tapering its bond purchases. That's the right move for a central bank that was already raising its growth forecast, and didn't want to add further reasons for bond yields to press higher, or the Canadian dollar to appreciate.

But its tapering thoughts were only slightly hidden, as it did say it would pay heed to "net" purchases, implying that the current \$4 bn/week pace of gross buying takes into account the heavy maturities the MPR cited for the coming three months. That suggests that come April, after which such maturities will lighten, we'll see the next tapering announcement.



Week Ahead Calendar And Forecast

		CANADA				UNITED STATES			
		CIBC	Consensus	Prior	CIBC	Consensus	Prior		
Monday January 25	Government Bond Purchase Program (GBPP): 2-YR								
Tuesday January 26	Government Bond Purchase Program (GBPP): 5-YR BoC TERM REPO OPERATION (182 Days): \$3B BoC TERM REPO OPERATION (546 Days): \$6B								
Wednesday January 27	Government Bond Purchase Program (GBPP): 30-YR								
Thursday January 28	Government Bond Purchase Program (GBPP): 10-YR AUCTION: 10-YR CANADAS \$5B								
	8:30 AM PAYROLL EMPLOYMENT, EARNINGS & HRS BUILDING PERMITS M/M (resid.)						12.9%		
Friday January 29	8:30 AM GDP M/M INDUSTRIAL PROD. PRICES M/M RAW MATERIALS M/M		0.4%	(Nov) (Dec) (Dec)					
							0.4% -0.6% 0.6%		

8:30 AM CHICAGO FED NAT. ACTIVITY INDEX	(Dec)	(M)					0.27
AUCTION: 1-YR \$34B AUCTION: 5-YR \$61B CASH MGMT. 119-DAY \$30B CASH MGMT. 42-DAY \$30B							
9:00 AM HOUSE PRICE INDEX M/M S&P CORELOGIC CS Y/Y	(Nov) (Nov)	(M) (H)			0.6% 8.1%		1.50% 7.95%
10:00 AM CONF. BOARD CONSUMER CONFIDENCE RICHMOND FED MANUF. INDEX	(Jan) (Jan)	(H) (M)	88.1		89.1		88.6 19.0
AUCTION: 2-YR FRN \$28B							
7:00 AM MBA- APPLICATIONS	(Jan 22)	(L)					-1.9%
8:30 AM DURABLE GOODS ORDERS M/M DURABLE GOODS ORDERS EX-TTRANS M/M	(Dec P) (Dec P)	(H) (H)	0.8% 0.3%		1.0% 0.5%		1.0% 0.4%
2:00 PM FOMC RATE DECISION (UPPER BOUND) FOMC RATE DECISION (LOWER BOUND)	(Jan 27) (Jan 27)	(H) (H)	0.25% 0.00%		0.25% 0.00%		0.25% 0.00%
Speaker: 2:30 PM Jerome H Powell (Chairman) (Neutral, Voter*) AUCTION: 7-YR \$62B							
8:30 AM INITIAL CLAIMS CONTINUING CLAIMS ADVANCE GOODS TRADE BALANCE RETAIL INVENTORIES M/M WHOLESALE INVENTORIES M/M GDP (annualized) GDP DEFLATOR (annualized)	(Jan 23) (Jan 16) (Dec) (Dec) (Dec P) (4Q A) (4Q A)	(M) (L) (M) (H) (L) (H) (H)	875K - \$83.5B -\$84.0B 6.8% 3.0%				900K 5054K -\$84.8B 0.7% 0.0% 33.4% 3.5%
10:00 AM LEADING INDICATORS M/M NEW HOME SALES SAAR NEW HOME SALES M/M	(Dec) (Dec) (Dec)	(M) (M) (M)	830K		852K 1.3%		0.6% 841K -11.0%
8:30 AM PCE DEFLATOR Y/Y PCE DEFLATOR Y/Y (Core) PERSONAL INCOME M/M PERSONAL SPENDING M/M EMPLOYMENT COST INDEX	(Dec) (Dec) (Dec) (Dec) (4Q)	(H) (H) (H) (H) (M)	1.2% 1.2% 0.2% -0.6%		1.2% 1.3% 0.2% -0.5% 0.5%		1.1% 1.4% -1.1% -0.4% 0.5%
9:45 AM CHICAGO PMI	(Jan)	(M)	58.0		59.5		
10:00 AM PENDING HOME SALES M/M MICHIGAN CONSUMER SENTIMENT	(Dec) (Jan F)	(M) (H)	-0.5% 79.2		-0.5% 79.2		-2.6% 79.2
Speaker: 1:00 PM Robert Steven Kaplan (Dallas, President) (Neutral, Non-Voter*) Note (*): Bloomberg							
				Consensus Source: Bloomberg			
				SAAR = Seasonally Adjusted Annual Rate			
H, M, L = High, Medium or Low Significance							

Week Ahead's Market Call

by Avery Shenfeld

In the **US**, the Fed will stick to its dovish message, and is caught in a bit of a waiting game as it looks for clarity on how much additional fiscal stimulus Congress is willing to approve. On the data front, we expect a significant beat versus the consensus forecast for Q4 GDP, but less robust news on December consumer spending that foretells a weaker Q1. Durable orders should still be climbing in the latest monthly reading.

In **Canada**, we'll get the last good news for a while embedded in November's monthly GDP figures, where we're looking for a respectable 0.4% advance ahead of what was likely a string of disappointments for December and January. Other than that, it's a light week for economic data, leaving markets eyeing US economic and fiscal policy news.

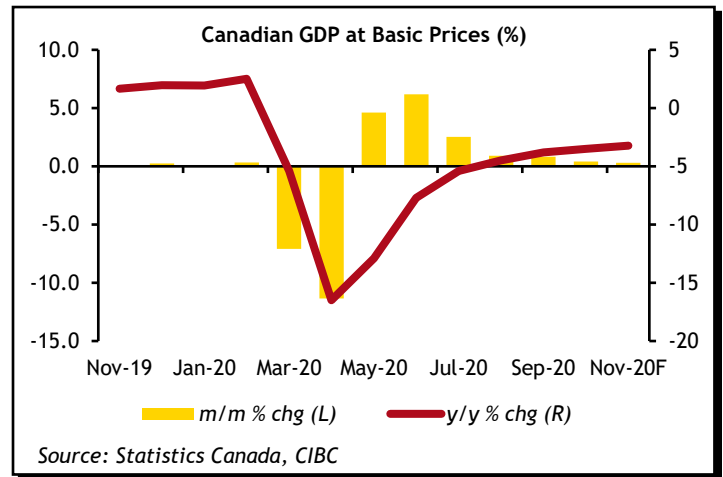
Week Ahead’s Key Canadian Number:

GDP—November

(Friday, 8:30 a.m.)

Royce Mendes (416) 594-7354

	CIBC	Mkt	Prior
GDP m/m (Nov)	0.4%	N/A	0.4%



Infections hadn’t spread through the Canadian economy enough to keep it from growing in November. The Labour Force Survey showed another gain in employment and a relatively broad-based reacceleration in hours worked. Of course businesses tied to the hospitality sector were feeling a chill as outdoor activities were further curtailed, but other industries had yet to experience anything close to the full effects of the second wave of the virus. Moreover, we know that much of the reduction in spending at restaurants and bars showed up elsewhere in the economy during the month according to the retail sales report. As a result, we’re comfortable forecasting a GDP growth rate of 0.4% for November, in line with Statistics Canada’s flash estimate. But look for a flash estimate to show a roughly 1% decline in December.

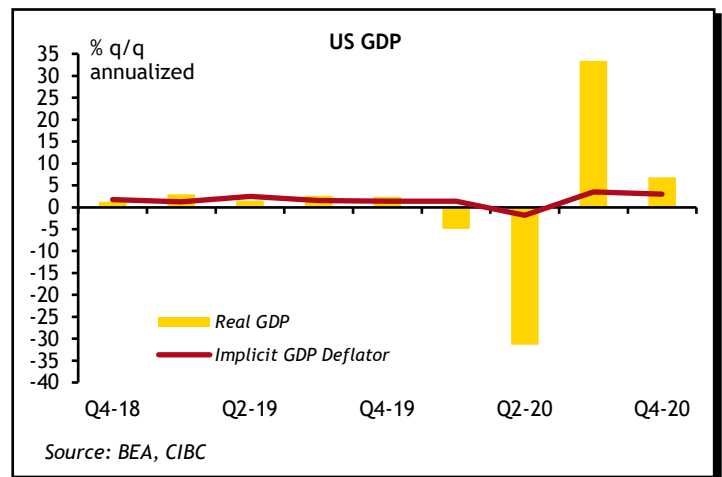
Forecast Implications — We recently upgraded our estimate for growth in the fourth quarter of last year, as restrictions to contain the virus ended up being lighter than we had initially anticipated. That said, given that infections continued to climb early into the new year, our latest set of forecasts also shows a more material contraction in the first quarter of 2021 as a result of both the virus and necessary further restrictions. We expect that the economy in most provinces could begin reopening sometime in February and for growth to show up again as early as March. We also continue to forecast that mass immunization largely follows the federal government’s plans, leading to a much more material and sustainable pickup in demand later this year.

Week Ahead's Key US Number:**Real GDP—Q4 (Advance)**

(Thursday, 8:30 a.m.)

Katherine Judge (416) 956-6527

	CIBC	Mkt	Prior
GDP q/q annualized	6.8%	4.5%	33.4%
GDP Deflator	3.0%	N/A	3.5%



Despite fading momentum in activity as Covid cases skyrocketed over the final quarter of 2020, the US economy likely still posted a respectable 6.8% annualized pace of growth, owing to strong activity earlier on in the quarter. That would reflect contributions from business investment, particularly in equipment and machinery, as well as inventories that were scaled up. Gains in residential investment should have also contributed to growth, as well as consumption, despite its downfall towards the quarter's end. That would leave GDP still 2% below its pre-recession level.

Forecast Implications — Although additional fiscal stimulus is set to be injected into the US economy in the near term, a weak starting point for the year combined with reduced mobility to contain the virus are likely to result in a drop in Q1 GDP, at a roughly 1% annualized rate. The marginal propensity to spend stimulus payments this time around could be somewhat smaller, leaving ample pent-up demand for services that are set to open once mass vaccination is closer to becoming a reality.

Market Impact — We're more optimistic than the consensus, but with most forecasters expecting a rough first quarter of 2021, it likely won't matter much.

Other U.S. Releases:**Durable Goods Orders—December**

(Wednesday 8:30 am)

Durable goods orders excluding the transportation component are already sitting well above where they were entering into the pandemic, with orders of electronics and machinery having been particularly strong. The ISM's new orders sub-index rose in December, suggesting further growth in durable goods orders, however, with spending on retail goods plummeting during the month, it's likely that growth in orders excluding transportation decelerated to 0.3%. A rise in transportation orders could have boosted total durable goods orders growth to 0.8%.

Personal Income & Outlays—December

(Friday 8:30 am)

Personal spending on services likely floundered in December, pulling total spending down by 0.6%. While fiscal stimulus was enacted late in the month, that won't show up in the December data. The fading of previous Covid relief measures likely held personal incomes to only a 0.2% gain. Annual inflation as measured by the Fed's preferred benchmark, core PCE prices, likely decelerated to 1.2%, matching the projected rate for total PCE inflation in December.

CANADIAN RELEASE AND EVENT DATES January/February 2021



MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY																																																									
<p>HOUSING STARTS 18</p> <p>8:15 AM 000's (AR)</p> <table> <tr> <td>TOTAL</td> <td>SINGLES</td> </tr> <tr> <td>OCT 229</td> <td>59</td> </tr> <tr> <td>NOV 261</td> <td>57</td> </tr> <tr> <td>DEC 228</td> <td>53</td> </tr> </table> <p>INT'L TRANSACTIONS IN SECURITIES C\$BN, NET</p> <p>8:30 AM</p> <table> <tr> <td>BONDS</td> <td>MONEY</td> <td>STOCKS</td> <td>TOT MARKET</td> </tr> <tr> <td>SEP 0.8</td> <td>-0.4</td> <td>4.2</td> <td>4.6</td> </tr> <tr> <td>OCT 6.7</td> <td>-0.4</td> <td>0.6</td> <td>6.9</td> </tr> <tr> <td>NOV 6.2</td> <td>1.1</td> <td>4.5</td> <td>11.8</td> </tr> </table>	TOTAL	SINGLES	OCT 229	59	NOV 261	57	DEC 228	53	BONDS	MONEY	STOCKS	TOT MARKET	SEP 0.8	-0.4	4.2	4.6	OCT 6.7	-0.4	0.6	6.9	NOV 6.2	1.1	4.5	11.8	<p>19</p> <p>SURVEY OF MANUFACTURING</p> <p>8:30 AM SHIPMENTS</p> <table> <tr> <td></td> <td>M</td> <td>Y</td> </tr> <tr> <td>SEP</td> <td>2.2</td> <td>-6.1</td> </tr> <tr> <td>OCT</td> <td>0.2</td> <td>-5.4</td> </tr> <tr> <td>NOV</td> <td>-0.6</td> <td>-4.8</td> </tr> </table> <p>WHOLESALE TRADE</p> <p>8:30 AM</p>		M	Y	SEP	2.2	-6.1	OCT	0.2	-5.4	NOV	-0.6	-4.8	<p>20</p> <p>CPI</p> <p>8:30 AM M Y</p> <table> <tr> <td>OCT</td> <td>0.4</td> <td>0.7</td> </tr> <tr> <td>NOV</td> <td>0.1</td> <td>1.0</td> </tr> <tr> <td>DEC</td> <td>-0.2</td> <td>0.7</td> </tr> </table> <p>Bank of Canada Interest Rate Announcement & Monetary Policy Report</p> <p>Bank of Canada Governor Macklem speak at 11:15 AM ET</p>	OCT	0.4	0.7	NOV	0.1	1.0	DEC	-0.2	0.7	<p>21</p> <p>ADP EMPLOYMENT SURVEY</p> <p>8:30 AM</p>	<p>22</p> <p>RETAIL TRADE</p> <p>8:30 AM (Current\$)</p> <table> <tr> <td></td> <td>M</td> <td>Y</td> </tr> <tr> <td>SEP</td> <td>1.8</td> <td>5.7</td> </tr> <tr> <td>OCT</td> <td>0.1</td> <td>7.3</td> </tr> <tr> <td>NOV</td> <td>1.3</td> <td>7.5</td> </tr> </table>		M	Y	SEP	1.8	5.7	OCT	0.1	7.3	NOV	1.3	7.5
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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 January/February 2021



MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
18 MARTIN LUTHER KING JR. DAY (HOLIDAY) (Markets Closed)	19 NET CAPITAL INFLOWS TICS 4:00 PM <i>BOT (9:00) REDBOOK (8:55)</i>	20	21 HOUSING STARTS 8:30 AM Mn. M/M OCT 1.530 6.5 NOV 1.578 3.1 DEC 1.669 5.8 PHILADELPHIA FED INDEX 8:30 PM <i>INITIAL JOBLESS CLAIMS (8:30)</i>	22 EXISTING HOME SALES 10:00 AM
25	26 S&P/CASE-SHILLER HOUSE PRICE INDEX 9:00 AM CONSUMER CONFIDENCE 10:00 AM <i>BOT (9:00) REDBOOK (8:55)</i>	27 DURABLE GOODS ORDERS 8:30 AM M Y OCT 1.8 0.2 NOV 0.9 3.8 DEC FOMC Rate Decision Fed Chair Powell speaks @ 2:30 PM ET	28 ADV. TRADE IN INTERNATIONAL GOODS 8:30 AM GDP 8:30 AM (AR) REAL IMPLICIT GDP DEFLATOR 20:Q2 -31.4 -1.8 20:Q3 33.4 3.5 20:Q4(adv.) NEW HOME SALES 10:00 AM LEADING INDICATOR 10:00 AM <i>INITIAL JOBLESS CLAIMS (8:30)</i>	29 ECI 8:30 AM WAGES & TOTAL SALARY BEN. 20:Q2 0.5 0.4 0.8 20:Q3 0.5 0.4 0.6 20:Q4 PERS. INC & OUT. 8:30 AM SAVING INCOME CONS RATE M M AR OCT -0.6 0.3 13.6 NOV -1.1 -0.4 12.9 DEC CHICAGO PMI 9:45 AM MICHIGAN SENTIMENT (F) 10:00 AM
1 ISM MFG SURVEY 10:00 AM COMP. PRICES INDEX INDEX NOV 57.5 65.4 DEC 60.7 77.6 JAN	2 LIGHT VEHICLES SALES MIL (AR) Y NOV 15.636 -7.9 DEC 16.271 -3.2 NOV <i>BOT (9:00) REDBOOK (8:55)</i>	3 ADP SURVEY 8:15 AM ISM NON-MFG SURVEY 10:00 AM	4 NON-FARM PRODUCTIVITY 8:30 AM Q/Q (AR) Y/Y 20:Q2 10.6 2.9 20:Q3 4.6 4.0 20:Q4(P) FACTORY ORDERS 10:00 AM M(SA) Y(NSA) OCT 1.3 -2.5 NOV 1.0 -0.4 DEC <i>INITIAL JOBLESS CLAIMS (8:30)</i>	5 EMPLOY. SITUATION 8:30 AM NON- CIV AVG FARM UNEMP HRLY PAYROLL RATE EARN NOV 336 6.7 4.5 DEC -140 6.7 5.2 JAN GOODS & SERV. BALANCE (BOP) \$B 8:30 AM GDS SERV TOT OCT -81.4 18.2 -63.1 NOV -86.4 18.2 -68.1 DEC CONSUMER CREDIT 3:00PM
8	9 <i>BOT (9:00) REDBOOK (8:55)</i>	10 CPI 8:30 AM M(SA) Y (NSA) NOV 0.2 1.2 DEC 0.4 1.4 JAN WHOLESALE TRADE 10:00 PM TREASURY BUDGET 2:00 PM <i>BOT (9:00) REDBOOK (8:55)</i>	11 <i>INITIAL JOBLESS CLAIMS (8:30)</i>	12 MICHIGAN SENTIMENT (P) 10:00 AM
15 PRESIDENT'S DAY (HOLIDAY, observed) (Markets Closed)	16 NET CAPITAL INFLOWS TICS 4:00 PM	17 RETAIL SALES 8:30 AM M Y NOV -1.4 3.7 DEC -0.7 2.9 JAN PPI 8:30 AM M (SA) Y (SA) NOV 0.1 0.7 DEC 0.3 0.8 JAN CAPACITY UTIL/IND. PROD. 9:15 AM LEV M Y NOV 73.4 0.5 -5.4 DEC 74.5 1.6 -3.6 JAN BUSINESS INVENTORIES 10:00 AM FOMC Minutes <i>BOT (9:00) REDBOOK (8:55)</i>	18 HOUSING STARTS 8:30 AM Mn. M/M NOV 1.578 3.1 DEC 1.669 5.8 JAN PHILADELPHIA FED INDEX 8:30 PM <i>INITIAL JOBLESS CLAIMS (8:30)</i>	19 EXISTING HOME SALES 10:00 AM

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.

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