Economics
THE WEEK AHEAD

February 7-11, 2022

Some crude remarks

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

When your forecasts go awry, as they do for even the best and luckiest among us, it's important to step back, consider what went wrong, and decide whether there is still a case that they can turn around in your favour.

That's where we stand on oil prices, which have surged well into territory we hadn't anticipated a month ago, when we posited a return to the low $70/bbl range over the course of this year. Its path isn't just of interest to energy sector players, but in these inflation-fearing times, for monetary policy and the economy overall.

The old tale that high oil prices are the best cure for high oil prices won't work quite so well in the near term. On the demand side, the short term elasticity of gasoline demand is always low, because people have chosen their vehicles, their locations for living and working, and therefore their daily commute. That's why oil and gasoline prices are so prone to huge spikes on shifts in the supply curve; drivers don't have much room to pare back right away.

And remember that at this point, the overall demand for motive fuels is still held back to the extent that the Omicron wave is suppressing transportation activity. Around the world, many are still working from home, and being a bit reticent about leisure travel using cars, planes and cruise ships. Although those with thin wallets will be forced to ease off the gas pedal, it's hard to see total demand coming down much as Omicron fades out, assuming it's not followed quickly by a troubling new variant.

Supply will have to be the story, and there too, the "high prices cure high prices" story isn't working quite as well as in the last cycle. US shale activity is coming back, but its clear that non-OPEC+ supply is on a more cautious path as lessons learned from excessively exuberant capital spending in the prior decade, as well as ESG issues, have flattened the supply curve somewhat.

Still, we see several rays of hope for a moderation in oil prices driven by improved supply. Two could come very soon. Russia-Ukraine tensions and the uncertainties they have raised on future Russian energy exports could ease if Putin opts to step back from the brink. Keeping such a large force of military personnel away from home in a ready-to-roll stance without using it seems less likely than a decision one way or another.

The US has also made it clear that we are only a few weeks away from the point of no return on a nuclear deal with Tehran, given Iran's relentless progress on uranium enrichment. Should a deal be reached, it would presage an expansion of Iran's oil exports over time, engendering a quick reaction in the futures market.

Although we've just passed its latest meeting, OPEC has some cards to play as well. The OPEC+ countries could at some point reassign quotas away from countries that don't seem to have the ability to deliver their assigned volumes, to others that have more elbow room. Barrels in the ground might have more value delivered now than down the road if the world makes progress on carbon emissions, including the widespread adoption of electric vehicles.

As is always the case with oil, there are a lot of "ifs" in our expectations for a soft landing for crude prices, particularly those tied to geopolitics. Those political calls could go the other way, sending oil through $100/bbl in short order. For now, we'll stick to our longer term targets, but will have to bump up some of our very near term inflation forecasts.

That won't necessarily be a huge influence on central bankers, but will keep up the market chatter about a more aggressive rate hike path in both the US and Europe than what was priced in only a couple of weeks ago.

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, February 7	-	-	-	-	-	-	-
Tuesday, February 8	-	Government Bond Purchase Program (GBPP): 30-YR	-	-	-	-	-
Tuesday, February 8	8:30 AM	MERCHANDISE TRADE BALANCE	(Dec)	(H)	$2.2B	-	$3.13B
Wednesday, February 9	12:00 PM	Speaker: Tiff Macklem (Governor)	-	-	-	-	-
Thursday, February 10	-	Government Bond Purchase Program (GBPP): 5-YR	-	-	-	-	-
Thursday, February 10	-	AUCTION: 5-YR CANADAS $4B	-	-	-	-	-
Friday, February 11	10:30 AM	BoC 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, February 7	3:00 PM	CONSUMER CREDIT	(Dec)	(L)	-	$25.0B	$39.99B
Tuesday, February 8	-	AUCTION: 3-YR TREASURIES $50B	-	-	-	-	-
Tuesday, February 8	8:30 AM	GOODS & SERVICES TRADE BALANCE	(Dec)	(H)	-$83.4	-$79.4B	-$80.2B
Wednesday, February 9	-	10-YR AUCTION: $37B	-	-	-	-	-
Wednesday, February 9	7:00 AM	MBA-APPLICATIONS	(Feb 4)	(L)	-	-	12.0%
Wednesday, February 9	10:00 AM	WHOLESALE INVENTORIES M/M	(Dec F)	(L)	-	2.0%	2.1%
Wednesday, February 9	10:30 AM	Speaker: Michelle W Bowman (Governor) (Voter)	-	-	-	-	-
Wednesday, February 9	12:00 PM	Speaker: Loretta Mester (President, Cleveland) (Non-Voter)	-	-	-	-	-
Thursday, February 10	-	30-YR AUCTION: $23B	-	-	-	-	-
Thursday, February 10	8:30 AM	INITIAL CLAIMS	(Feb 5)	(M)	-	235K	238K
Thursday, February 10	8:30 AM	CONTINUING CLAIMS	(Jan 29)	(L)	-	1625K	1628K
Thursday, February 10	8:30 AM	CPI M/M	(Jan)	(H)	0.4%	0.5%	0.5%
Thursday, February 10	8:30 AM	CPI M/M (core)	(Jan)	(H)	0.4%	0.5%	0.6%
Thursday, February 10	8:30 AM	CPI Y/Y	(Jan)	(H)	7.2%	7.3%	7.0%
Thursday, February 10	8:30 AM	CPI Y/Y (core)	(Jan)	(H)	5.9%	5.9%	5.5%
Thursday, February 10	2:00 PM	TREASURY BUDGET	(Jan)	(L)	-	-	-$21.3B
Friday, February 11	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Feb P)	(H)	-	67.5	67.2

Week Ahead's market call

by Avery Shenfeld

In the **US**, we're a touch under consensus for the latest reading on the CPI, but even so, the data wouldn't really spell any relief for those worried about inflation risks, particularly given the firmness we just saw in wages. Fed speakers are worth listening to, but its still a bit early for even the central bankers to have firm views on whether they could start with a 50 bp hike, the only real point of contention at this point for the March FOMC. The trade data are an important signpost on how we're faring on supply bottlenecks, with the prior month showing strong volumes indicative of some improvement there.

In **Canada**, we'll have only the trade data to contend with, where we are expecting a narrowing in the goods surplus. Governor Macklem has another chance to underscore the hawkish rhetoric of his last press conference, given that he is giving prepared remarks and a press conference. Although the January employment data suggest that the economy will undershoot the Bank's Q1 GDP forecast, we expect the Governor to emphasize the temporary nature of the Omicron hit in those figures, keeping expectations on track for a March rate hike.

Week Ahead's key Canadian number: Merchandise trade balance—December

(Tuesday, 8:30 am)

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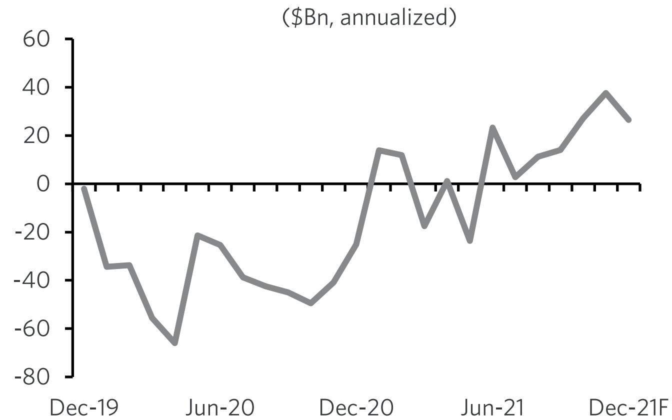
Merchandise trade balance ($bn)	CIBC	Mkt	Prior
Mech. trade balance (Dec)	2.2	-	3.1

Chart: Canadian merchandise trade balance (C$bn, annualized)



Source: Statistics Canada, Haver Analytics, CIBC

Energy prices took a temporary backstep in December, likely resulting in a slimmer trade surplus compared with the prior month. Outside of energy, however, the trade figures should be fairly positive. Advance data from the US suggests that two-way trade in autos continued to recovery. Meanwhile, the prior months' figures suggested little overall impact on exports from the flooding in BC, with trade to the US surging as companies redirected Vancouver-bound shipments to ports south of the border.

Two-way trade volumes could appear soft at first glance, as the prior months' data were flattered by Covid-19 related medication which was imported, labelled and then exported again during November.

Forecast implications — The slimmer surplus we expect in December is largely the result of a dip in energy prices, which we now know proved to be temporary. The data should confirm that the recovery in trade and easing in supply chain disruptions, particularly in autos, was a key source of economic growth towards the end of 2021.

Week Ahead's key US number: Consumer price index—January

(Thursday, 8:30 am)

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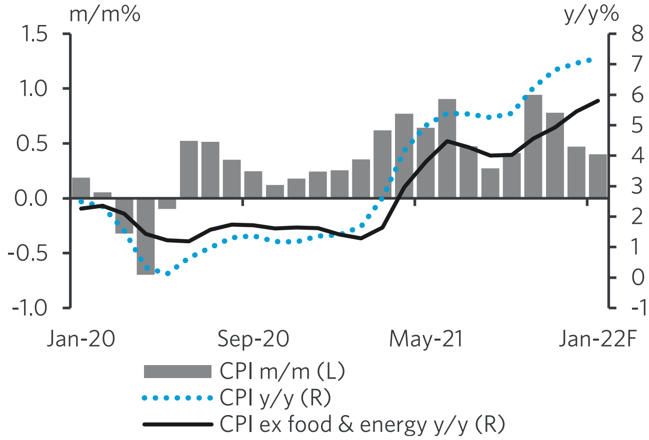
Consumer price index (%)	CIBC	Mkt	Prior
Headline CPI m/m	0.4	0.5	0.5
Headline CPI (y/y)	7.2	7.3	7.0
Core CPI m/m	0.4	0.5	0.6
Core CPI y/y	5.9	5.9	5.5

Chart: US Consumer price index



Source: BLS, Haver Analytics, CIBC

Inflation looks to have heated up in the US in January as firmer energy prices and higher labor costs were passed onto consumers. Amplifying those gains will be the continued rise in shelter prices as activity returns to cities and rents rise, while base effects will also provide a lift as weaker year-ago readings are lapped. Used car prices will also be a contributor, although the pace of price gains appears to have slowed in line with industry readings, as the supply of vehicles on the market increased in January. All told, total inflation is set to accelerate to 7.2%, while core inflation will reach 5.9%.

Forecast implications — Energy prices have continued to strengthen, and along with continued pressure in core categories, could leave inflation above the 7.0% mark for another month. While goods prices will see some relief ahead as supply disruptions fade, cyclical wage pressures and higher shelter costs could see core inflation accelerate, magnified by base effects.

Market impact — We are a touch weaker than the consensus, which could be negative for bond yields and the greenback.

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