THE WEEK AHEAD

June 18-22, 2012

QE or Twist: No Big Diff

by Avery Shenfeld

Economics

Avery Shenfeld
(416) 594-7356
avery.shenfeld@cibc.ca

Benjamin Tal
(416) 956-3698
benjamin.tal@cibc.ca

Peter Buchanan
(416) 594-7354
peter.buchanan@cibc.ca

Warren Lovely
(416) 594-8041
warren.lovely@cibc.ca

Emanuella Enenajor
(416) 956-6527
emanuella.enenajor@cibc.ca

Andrew Grantham
(416) 956-3219
andrew.grantham@cibc.ca

Pick up your Monday morning copy of Kathimerini rather than the Wall Street Journal, because Greek politics will be the story to start the week ahead. Judging by the market's reaction to the Spanish banking deal, the cheering after a victory by the pro-austerity right could be shorter lived than the downward pressure on sentiment should the left triumph.

Should turmoil rain down from Europe, there will be all the more pressure on the US Fed to announce something, if only in fear of adding to negative sentiment otherwise. We're not convinced that monetary policy has any real firepower left, with yields already so low, and the Fed unwilling to raise its inflation target.

But some may also be surprised to learn that there's really no meaningful difference today between the two most discussed options: quantitative easing and Twist. Both involve the Fed buying a long-dated asset such as Treasuries or MBS, removing that supply from the market. So to the extent that either offers a benefit to the economy by suppressing interest rates further out the curve, they are identical (and identically weak in our view given how low yields now are).

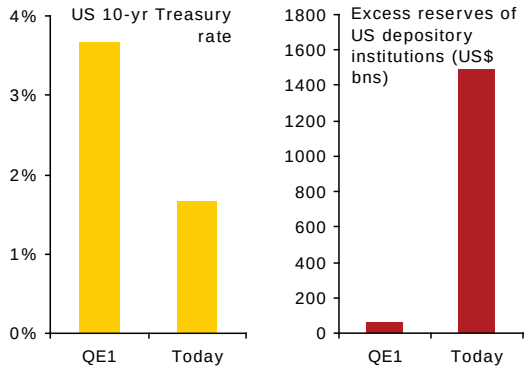
What the Fed exchanges for those bonds differs, but under current conditions, not materially. In Twist, the Fed sells either T-bills, very short-term bonds, or a short-term deposit. In QE, in exchange for bonds, the banking sector gets additional reserves on deposit at the Fed.

So the difference between QE and Twist reflects the gap in yields between very short fixed income assets and what the Fed pays on deposits, which is currently negligible. The other difference is that reserves can support additional bank lending. But banks are already stuffed with huge excess reserves, so the binding restraint on lending for the foreseeable future will be capital requirements and judgments on credit risk, not their reserves at the Fed.

True, huge reserves create the potential for more rapid lending and money supply growth down the road, while reverse repos don't. But the Fed keeps insisting it will prevent such an outbreak by increasing the rate it pays on reserves in order to hit its longer term inflation target.

That's the theory. In practice, there is the placebo effect. So many investors THINK that QE is more aggressive than Twist and that it might offer, at least initially, a greater bounce in asset prices. But as we've seen, that bounce quickly fades if the economy doesn't live up to the hype.

Quantitative Easing: Then and Now



http://research.cibcwm.com/res/Eco/EcoResearch.html

Week Ahead Calendar And Forecast

	CANADA			CIBC	Consensus	Prior
Monday June 18	**8:30 AM**					
	INT'L. SEC. TRANSACTIONS	(Apr)	(M)			-$2.1B
Tuesday June 19	**CASH MANAGEMENT BUYBACK (Sep'12 - Sep'13) - $1B**					
	AUCTION: 3-M BILLS $7.4B, 6-M BILLS $2.8B, 1-YR BILLS $2.8B					
	8:30 AM					
	WHOLESALE TRADE M/M	(Apr)	(M)	**0.8%**	0.2%	0.4%
Wednesday June 20	**AUCTION: 2-YR CANADAS $3.3B**					
Thursday June 21	**8:30 AM**					
	RETAIL TRADE EX-AUTO M/M	(Apr)	(H)	**-0.1%**	0.3%	0.1%
	RETAIL TRADE TOTAL M/M	(Apr)	(H)	**-0.2%**	0.2%	0.4%
	Speaker: 11:30 AM Mark Carney (Governor)					
Friday June 22	**8:30 AM**					
	CPI M/M	(Apr)	(H)	**0.0%**	0.2%	0.4%
	CPI M/M (Bank of Canada core)	(Apr)	(H)	**0.3%**	0.2%	0.4%
	CPI Y/Y	(Apr)	(H)	**1.3%**	1.5%	2.0%
	CPI Y/Y (Bank of Canada core)	(Apr)	(H)	**1.9%**	1.9%	2.1%

	UNITED STATES			CIBC	Consensus	Prior
Monday June 18	**AUCTION: 3-M BILLS $30B, 6-M BILLS $27B**					
	10:00 AM					
	NAHB HOUSING INDEX	(Jun)	(L)		28	29
Tuesday June 19	**AUCTION: 4-WEEK BILLS $30B (prev)**					
	8:30 AM					
	HOUSING STARTS SAAR	(May)	(H)	**730K**	720K	717K
	BUILDING PERMITS SAAR	(May)	(H)	**715K**	730K	723K
Wednesday June 20	**7:00 AM**					
	MBA-APPLICATIONS	Jun-15	(L)			18.0%
	12:30 PM					
	FED RATE ANNOUNCEMENT		(H)	**0.25%**	0.25%	0.25%
	Speaker: 2:15 PM Ben Bernanke (Chairman)					
Thursday June 21	**AUCTION: 30-YR TIPS $9B (r) (prev)**					
	8:30 AM					
	CONTINUING CLAIMS	Jun-9	(L)			3278K
	INITIAL CLAIMS	Jun-16	(H)		385K	386K
	8:58 AM					
	MARKIT US PMI	(Jun-P)				53.9
	10:00 AM					
	PHILADELPHIA FED	(Jun)	(M)		0.0	-5.8
	EXISTING HOME SALES SAAR	(May)	(M)	**4.52M**	4.56M	4.62M
	EXISTING HOME SALES M/M	(May)	(M)	**-2.8%**	-1.3%	3.4%
	LEADING INDICATORS M/M	(May)	(M)		0.1%	-0.1%
	HOUSE PRICE INDEX M/M	(Apr)	(M)		0.4%	1.8%
Friday June 22						

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

Week Ahead's Market Call

by Avery Shenfeld and Andrew Grantham

In Europe, all eyes will be on the Greek election results. But these won't really settle the score on euro membership, since a win by the left could still be followed by new talks with the troika.

In Canada, April retail sales (Thu) could disappoint as the prior month's boost from warm weather wears off. Markets will also focus closely on Governor Carney's speech later that day in light of recent North American data disappointments and mounting uncertainties across the Atlantic. May's CPI print (Fri) should show decelerating inflation on relief at the pumps.

In the US, the focus will turn to the Fed (Wed), as the FOMC decides whether to stick, twist, launch a further round of QE, or delve deeper into their bag of unconventional policy tools. As discussed on the cover, we remain dubious about the economic impact of even a full-blown round of QE, with rates already so low. However, given troubles at home and abroad, the FOMC may feel forced to offer something in the way of stimulus. The data flow for the week is light with housing starts expected to hold up well, but existing home sales possibly disappointing later in the week.

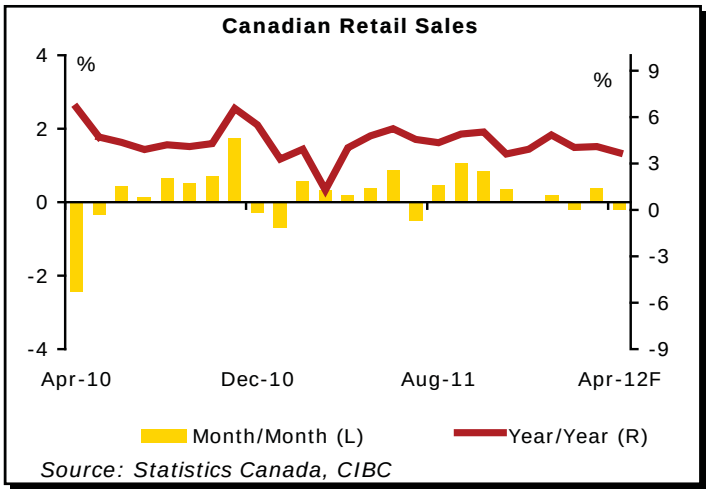
Week Ahead's Key Canadian Number:

Retail Trade—April

(Thursday, 8:30 a.m.)

Emanuella Enenajor (416) 956-6527

	CIBC	Mkt	Prior
Retail Trade ex-autos m/m	-0.1%	0.3%	0.1%
Retail Trade m/m	-0.2%	0.2%	0.4%



After the sunshine comes the rain, so the say. April retail sales should prove to be no exception, posting a disheartening 0.2% decline after a weather-induced boost in March. Sunshine that month stole away sales from April, in categories such as gardening/building materials, clothing and sports/hobby stores. Excluding autos, retail sales could have fallen by 0.1%.

Vehicle purchases could have also been weak, following an increase in the prior month. Industry-side indicators point to softening dealership purchases, while consumer credit in April posted an outright contraction from March, possibly reflecting declines in auto credit.

Forecast Implications—The retail sector may not make any measurable contribution to the value-added measure of GDP in April. That would only add to disappointing news from the factory sector that month. But we're still expecting a boost to growth on increased utilities production after depressing effects of a warm winter, as well as restarts to stalled resource-sector activity.

Market Impact—We're below the consensus estimate, which should support fixed income and dent the C$ if we're right.

Other Canadian Releases:

Consumer Price Index—May

(Friday, 8:30 a.m.)

After bearing the brunt of rising pump prices, the May CPI print should confirm that consumers are finally beginning to feel some relief. Headline prices likely fell by 0.3% (flat NSA), taking the inflation rate down to 1.3%, the weakest pace seen in nearly two years. Energy price inflation could actually print negative given relief at the pumps, while dampened food price pressures should see inflation there trend down towards 2% or so. Excluding volatile items, prices should have risen by roughly 0.1% (0.3% NSA), taking the annual rate to a contained 1.9% pace. The month's inflation reading should be ample confirmation that the Bank has the wiggle room needed to focus on global risks in formulating its policy stance.

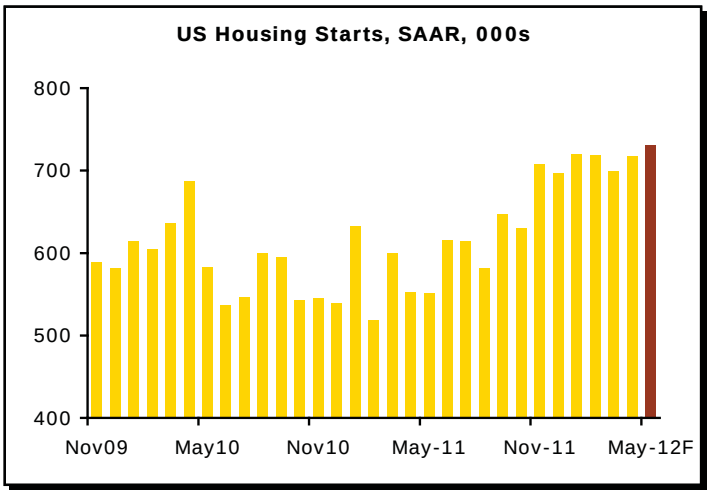
Week Ahead's Key US Number:

Housing Starts—May

(Tuesday, 8:30 a.m.)

Andrew Grantham (416) 956-3219

	CIBC	Mkt	Prior
Housing Starts	730K	720K	717K
Building Permits	715K	730K	723K



US housing starts have managed to hold on to their winter gains, suggesting strength over that period was not simply a reflection of unseasonably mild weather. A rebound in builder confidence, to more than offset a decline in April, combined with past strength in building permits and a lower supply of unsold property suggests that starts could accelerate further in May to a 730K annual rate.

However, with new home sales showing only glacial improvement, and property taking longer to sell again since the start of the year, homebuilders may be more wary of breaking ground on new projects in coming months. As a result, we expect the number of building permits to ease to a 715K rate.

Forecast Implications—Residential construction should once again make a positive contribution to US GDP growth in Q2 2012, albeit to a lesser extent than Q1 when unseasonably mild weather bolstered activity.

Market Impact—Our forecast for housing starts is not far enough from the current consensus to prompt a significant market reaction. During the light data week attention will be focused mainly on Wednesday's FOMC meeting.

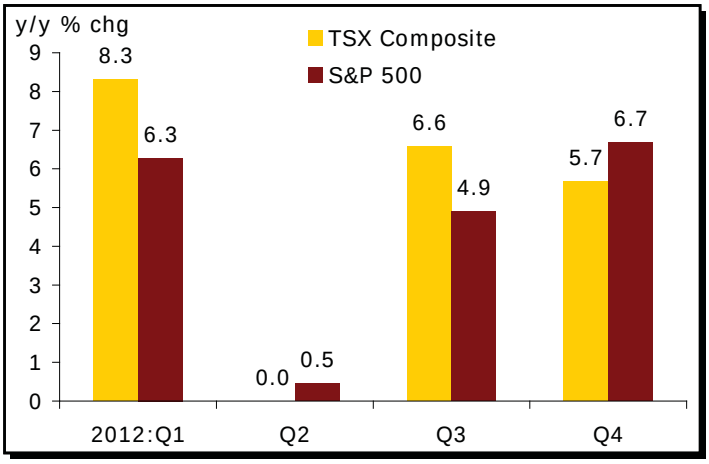
Equity Insights

Peter Buchanan

Expectations Bar Low for Q2 Earnings

Expectations aren't elevated for Q2 S&P 500 earnings growth. Nor is the bar unsurprisingly high for the TSX, with commodity markets well off their peaks and some key export markets looking less healthy. The "bottom-up" is looking for an unchanged reading on the year for TSX earnings in the quarter, compared to the preceding quarter's 8% rise. For the third and fourth quarter, analysts are expecting smarter-looking 5-7% increases year-to-year in earnings in both markets. That could prove a bit more ambitious if Europe hasn't settled down by then and China is still slowing.

TSX Composite vs S&P 500 Earnings Growth Expectations

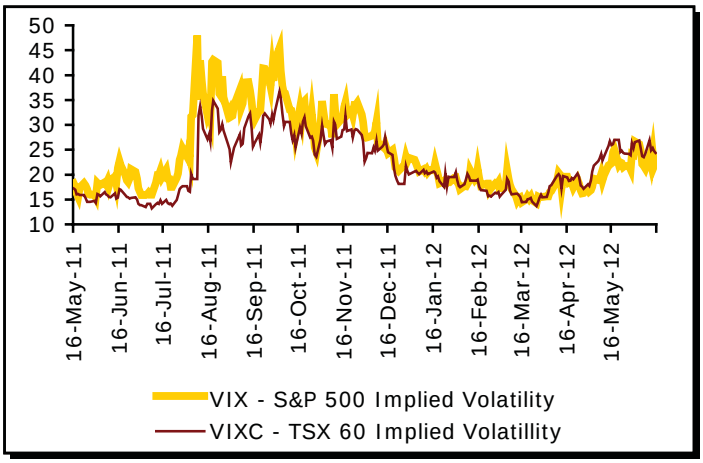


Source: Bloomberg

Has the Canadian Equity Market's Risk Profile Really Eroded vs S&P 500?

Has the TSX widely remarked upon underperformance against the S&P 500 been due, in part, to a relative change in risk premiums? A glance at the spread between the VIX volatility index for the S&P 500 and its Canadian cousin, the VIXC, suggests the Canadian market has gone from being viewed as the safer to the riskier of the two in the last year or so. Does that tally with the reality on the ground? The TSX's near-50% resource weight does augment risk to a not-so-healthy global economy. Nevertheless, the Canadian market appears a bit less exposed to valuation risk on two other fronts. Firms stateside are potentially more vulnerable to the looming "fiscal cliff", including the effective dividend rate increase. Profit-wise, US firms also have an appreciably larger presence "on the ground" in troubled Europe.

Have Investors Been Underpricing US Equity Risks, Overstating Canadian Ones Recently?

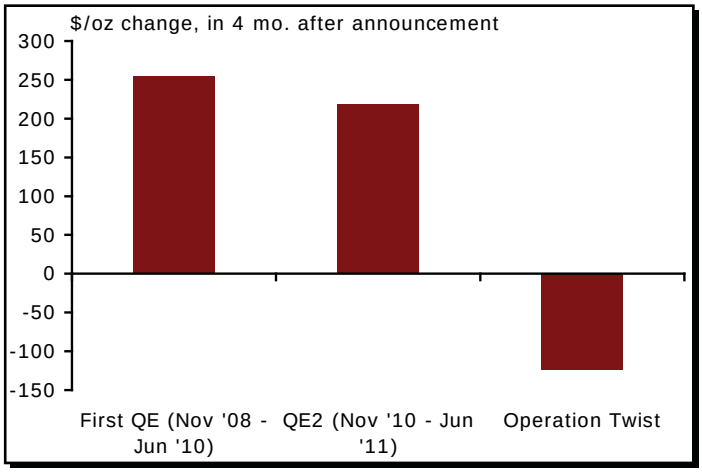


Source: Bloomberg

Don't Bet on a Big Lift to Gold From the Fed

Talk of more non-conventional Fed accommodation has intensified since the soft retail report. For gold, the details matter. QE1 and 2 helped the king of metals appreciably, largely because they were unsterilized—adding to base money, in other words, with negative effects on the dollar, positive on inflation expectations. Operation Twist, which had no measurable money supply impact, didn't help gold. The US economy is weak but not deathly ill and Bernanke does not want to inject the Fed directly into the election campaign. Unless forced to by events in Europe, the Fed is likely to announce a modest, precautionary sterilized step at most next Wednesday. that should add little if anything to gold's lustre.

The Fed: Gold's Sometime Friend



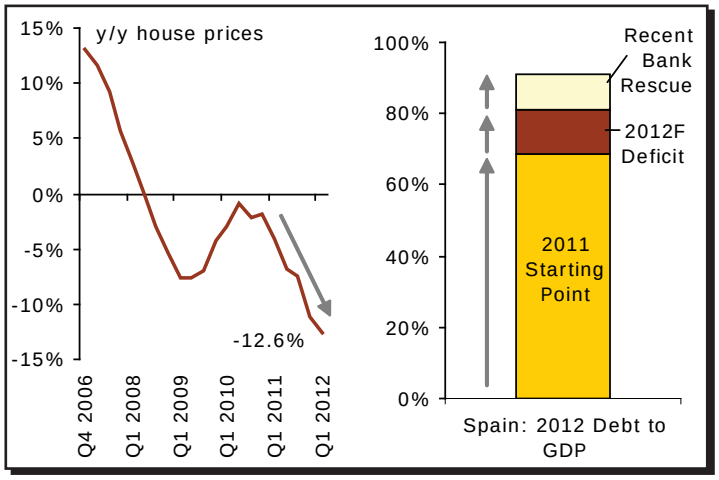
Currency Currents

Andrew Grantham and Emanuella Enenajor

External Uncertainty to Dent C$

Regardless of the outcome of the Greek elections, brewing challenges in Spain are conspiring to keep investors parked in greenbacks, denting risk-correlated currencies such as the C$ in the near-term. Spain's housing market rout is showing no signs of letting up, with prices plunging at the fastest pace seen on record in the latest reading. Along with a rising bank rescue bill, a slowing economy and spendthrift regional governments should see another year of elevated deficits. Spain's rising bond yields are impeding the sovereign's access to funding, and the elephant in the room—a Spanish sovereign bailout—could continue to weigh on risk sentiment.

Spanish Housing Sinks (L), Spain's Perilous Fiscal Path (R)

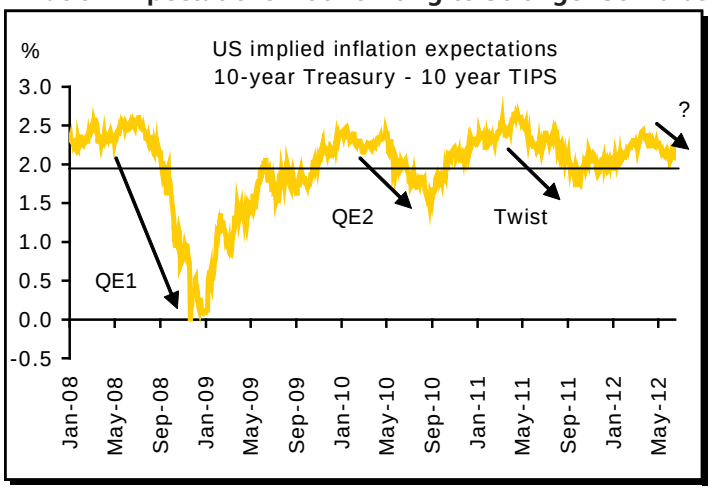


Source: INE, Bloomberg, CIBC

A Missing Ingredient for Further Fed Action?

Headline consumer price inflation may have crashed down to 1.7% in May, from 2.3%, but the threat of growing disinflation could still be a missing ingredient for strong Fed action. Long-term inflation expectations, as measured by 10-year breakevens, have fallen back in recent weeks, however not yet to the same extent as prior to previous Fed stimulus. Therefore, while the FOMC may feel obliged to announce some form of stimulus next week to appease market expectations, there is less pressure domestically to bring out the big guns of dollar depreciating QE. European uncertainty, particularly surrounding the Greek elections, should keep the US$ well supported in the near-term.

Inflation Expectations Not Pointing to Stronger Stimulus

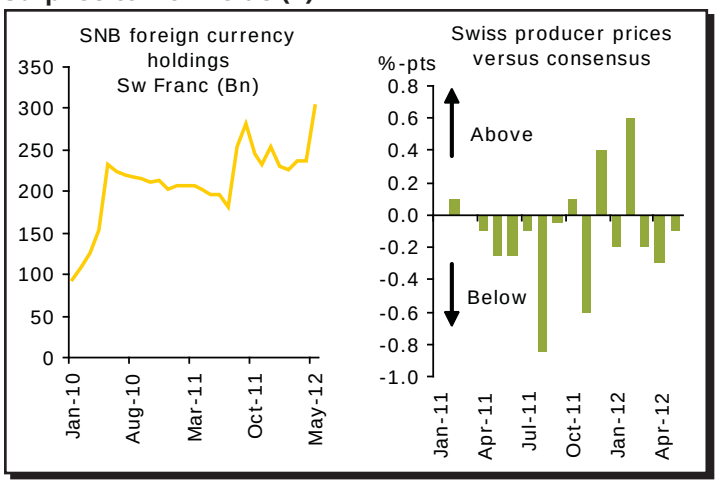


Source: Bloomberg, CIBC

SNB in Staunch Defense of Floor

As the Eurozone crisis deepened in May, what was a relatively cost-free currency floor became much more expensive for the SNB. A sizeable increase in foreign currency holdings highlighted the extent of currency buying which has been needed to maintain EURCHF at 1.20 as investors flocked to safe havens. However, anyone expecting a break in resolve may be disappointed, with the SNB maintaining it will buy foreign currency in "unlimited quantities" and threatening new measures if necessary. As hinted by chair Thomas Jordan in a recent speech, these could include capital controls. The SNB are clearly willing to take bold steps to tackle deflation which continues to plague the economy. Therefore, don't expect the floor to be broken any time soon.

SNB Willing to Take Bold Steps (L), as Prices Continue to Surprise to Downside (R)



Source: SNB, Bloomberg, CIBC

CANADIAN RELEASE AND EVENT DATES
June/July 2012

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
11	12	13	14 **CAPACITY UTILIZATION** 8:30 AM LEVEL (%) TOTAL MANUF. 11:Q3 79.9 78.7 11:Q4 80.5 80.6 12:Q1 80.7 81.3 **NEW HOUSING PRICE INDEX** 8:30 AM	15 **SURVEY OF MANUFACTURING** 8:30 AM SHIPMENTS M Y FEB -0.4 5.2 MAR 1.9 5.6 APR -0.8 5.8 **WAGE SETTLEMENTS** 10:00 AM (%) PVT. PUB. TOT. FEB 2.6 1.7 1.8 MAR 3.1 1.3 1.6 APR
18 **INT'L TRANSACTIONS IN SECURITIES C$BN, NET** 8:30 AM BONDS MONEY MARKET STOCKS TOT FEB 13.7 -1.6 0.4 12.5 MAR -0.9 -1.5 0.3 -2.1 APR	19 **WHOLESALE TRADE** 8:30 AM	20	21 **RETAIL TRADE** 8:30 AM (Current$) M Y FEB -0.2 4.0 MAR 0.4 4.1 APR **LEADING INDICATOR** 8:30 AM **BoC Gov. Carney speaks at Halifax Conference at 11:30 AM & 12:55 PM ET**	22 **CONSUMER PRICE INDEX** 8:30 AM M (NSA) Y MAR 0.4 1.9 APR 0.4 2.0 MAY
25	26	27	28 **PAYROLL EMPLOYMENT, EARNINGS & HOURS** 8:30 AM	29 **GDP BY INDUSTRY** 8:30 AM (2002$) GDP IND.PROD. M M FEB -0.2 -1.4 MAR 0.1 -0.4 APR **INDUSTRIAL PRICES** 8:30 AM M (NSA) Y MAR 0.2 1.0 APR 0.0 0.4 MAY
2 CANADA DAY (HOLIDAY) (Markets Closed)	3	4	5 **INTERNATIONAL RESERVES** 8:15 AM $BN $BN CHANGE LEVEL APR 0.194 69.5 MAY -0.845 68.7 JUN	6 **LABOUR FORCE SURVEY** 8:30 AM AVG EMPLOY UNEMP HRLY (HSHOLD) RATE EARN M Y % Y APR 0.3 1.2 7.3 2.4 MAY 0.0 1.2 7.3 2.9 JUN **BUILDING PERMITS ($)** 8:30 AM M M (RES) (NON-RES) MAR -1.1 14.0 APR -2.8 -8.4 MAY **IVEY PURCHASING MANAGERS' INDEX** 10:00 AM
9 **Bank of Canada Business Outlook Survey**	10 **HOUSING STARTS** 8:15 AM 000's (AR) TOTAL SINGLES APR 244 67 MAY 211 64 JUN	11 **MERCHANDISE TRADE** 8:30 AM $MN 12 MO. BALANCE MAR 152 3,100 APR -367 3,563 MAY	12 **NEW HOUSING PRICE INDEX** 8:30 AM	13

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
June/July 2012

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
11	12 **TREASURY BUDGET** 2:00 PM *3-Yr NOTE AUCTION* *BOT (9:00) REDBOOK (8:55)*	13 **RETAIL SALES** 8:30 AM M Y MAR 0.4 6.3 APR -0.2 5.6 MAY -0.2 5.3 **PPI** 8:30 AM M (SA) Y (NSA) MAR 0.0 2.8 APR -0.2 1.9 MAY -1.0 0.7 **BUSINESS INVENTORIES** 10:00 AM *10-Yr NOTE AUCTION*	14 **CPI** 8:30 AM M(SA) Y (NSA) MAR 0.3 2.7 APR 0.0 2.3 MAY -0.3 1.7 **CURR ACCT BAL.** 8:30 AM **MONEY SUPPLY M-2** 4:30 PM M Y MAR 0.3 9.8 APR 0.4 9.8 MAY 0.3 9.5 *30-Yr BOND AUCTION* *INITIAL JOBLESS CLAIMS (8:30)*	15 **NET CAPITAL INFLOWS TICS** 9:00 AM **CAPACITY UTIL/IND. PROD.** 9:15 AM LEV M Y MAR 78.5 -0.5 3.5 APR 79.2 1.0 5.2 MAY 79.0 -0.1 0.0 **MICHIGAN SENTIMENT (P)** 9:55 AM *3,10-Yr NOTE SETTLEMENT* *30-Yr BOND SETTLEMENT*
18	19 **HOUSING STARTS** 8:30 AM MIL (AR) M MAR 0.699 -2.6 APR 0.717 2.6 MAY **FOMC Meeting Begins** *BOT (9:00) REDBOOK (8:55)*	20 **FOMC Rate Decision**	21 **EXISTING HOME SALES** 10:00 AM **PHILADELPHIA FED INDEX** 10:00 AM **LEADING INDICATOR** 10:00 AM *2,5,7-Yr NOTE ANNOUNCEMENT* *INITIAL JOBLESS CLAIMS (8:30)*	22
25 **NEW HOME SALES** 10:00 AM	26 **S&P/CASE-SHILLER HOUSE PRICE INDEX** 9:00 AM **CONSUMER CONFIDENCE** 10:00 AM *2-Yr NOTE AUCTION* *BOT (9:00) REDBOOK (8:55)*	27 **DURABLE GOODS ORDERS** 8:30 AM M Y MAR -3.7 1.8 APR 0.2 6.9 MAY *5-Yr NOTE AUCTION*	28 **GDP** 8:30 AM (AR) REAL GDP IMPLICIT DEFLATOR 11:Q4(F) 3.0 0.8 12:Q1(P) 1.9 1.7 12:Q1(F) **CORPORATE PROFITS** 8:30 AM *7-Yr NOTE AUCTION* *INITIAL JOBLESS CLAIMS (8:30)*	29 **PERS. INC & OUTLAYS** 8:30 AM INCOME M CONS M SAVING RATE AR MAR 0.4 0.2 3.5 APR 0.2 0.3 3.4 MAY **CHICAGO PMI** 9:45 AM **MICHIGAN SENTIMENT (F)** 9:55 AM
2 **ISM MFG SURVEY** 10:00 AM COMP. INDEX PRICES INDEX APR 54.8 61.0 MAY 53.5 47.5 JUN *2,5,7-Yr NOTE SETTLEMENT*	3 **FACTORY ORDERS** 10:00 AM M(SA) Y(NSA) MAR -2.1 2.6 APR -0.6 3.5 MAY **LIGHT VEHICLES** SALES MIL (AR) Y APR 14.371 9.4 MAY 13.726 17.4 JUN *BOT (9:00) REDBOOK (8:55)*	4 INDEPENDENCE DAY (HOLIDAY) (Markets Closed)	5 **ADP SURVEY** 8:15 AM **ISM NON-MFG SURVEY** 10:00 AM *3,10-Yr NOTE ANNOUNCEMENT* *30-Yr BOND ANNOUNCEMENT* *INITIAL JOBLESS CLAIMS (8:30)*	6 **EMPLOY.SITUATION** 8:30 AM NON-FARM PAYROLL (000s) M CIV UNEMP RATE % AVG HRLY EARN Y APR 77 8.1 1.7 MAY 69 8.2 1.4 JUN
9 **CONSUMER CREDIT** 3:00PM	10 *3-Yr NOTE AUCTION* *BOT (9:00) REDBOOK (8:55)*	11 **GOODS & SERV. BALANCE (BOP) $B** 8:30 AM GDS SERV TOT MAR -67.5 14.9 -52.6 APR -64.8 14.8 -50.1 MAY *10-Yr NOTE AUCTION* **FOMC Minutes**	12 *30-Yr BOND AUCTION* **TREASURY BUDGET** 2:00 PM *INITIAL JOBLESS CLAIMS (8:30)*	13 **PPI** 8:30 AM M (SA) Y (NSA) APR -0.2 1.9 MAY -1.0 0.7 JUN **MICHIGAN SENTIMENT (P)** 9:55 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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