



Economics

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THE WEEK AHEAD

March 1-5, 2021

What Message is Bitcoin Sending?

by Avery Shenfeld

We've long viewed cryptocurrencies as a subject best left to Redditors and the Twitterati. But clients are asking us if Bitcoin's climactic advance, or of late, what might be the start of a reversal, tell us something about either the economy or financial assets. Even the august pages of the Wall Street Journal cited its climb as a signpost of inflation risks.

First, let's dismiss that thought. There are much more relevant market-based measures of inflation expectations, including inflation-linked bonds, and the market sees inflation in the next decade as running roughly in line with the Fed's 2% objective. Surveys of forecasters show similar results. Even a 4% inflation world would hardly explain a 500% jump in Bitcoin in the past year, particularly since there isn't any historical evidence that the cryptocurrency would be an effective inflation hedge.

Nor were bitcoin gains a sign of distrust in the US dollar as a currency in the foreign exchange market. If investors were broadly expecting a run against the greenback, we would see soaring levels for alternatives like the euro. Its gain in the past year was fairly modest by historical benchmarks, and leaves it well off of prior highs.

There are some who face barriers to holding or transacting in dollars, including residents of countries that restrict access to foreign currency, and underworld denizens masking their transactions for nefarious purposes. The attaché case packed with dollars in old time crime movies needs to be updated to a bitcoin wallet.

Does the bitcoin bonanza suggest that other risk assets, like equities, were riding a

massive speculative bubble? Certainly, bitcoin holders are speculators. Fiat currencies have their utility in transactions, and the backing of a central bank pledging to do what it takes to maintain their purchasing power. Bitcoins are rarely used in transactions (know anyone paid in them?) and have a zero yield. The only real reason to hold a bitcoin is the expectation that you might sell it to someone for even more. That's the very definition of a speculative asset.

The sport of speculation may indeed have had some influence on equities. This pandemic's boring, house-bound life seems to have encouraged more day trading activity in general. That can draw in the momentum players that are key to swings in cryptocurrencies, where there are no earnings, dividends or other fundamentals on which to rely, and even some US institutional players haven't resisted the allure of crypto momentum trades.

But in general, the 2020 run up in equities can be well explained by negative long term real interest rates and the fact that many of the sectors most hurt by Covid-19 were underweighted in the equity market. The one thing that cryptocurrencies share with equities is that the low interest rate era that we are still in has reduced the opportunity costs of holding a zero-interest bitcoin, or stock in a company not yet producing earnings.

That's about it. Bitcoin's advance was not for the most part a response to any particular feature of the real economy or financial markets. And that will also be true if Bitcoin prices correct.



Week Ahead Calendar And Forecast

CANADA			UNITED STATES			
			CIBC	Consensus	Prior	
Monday March 1	8:30 AM	CURRENT ACCOUNT BAL.	(Q4) (M)	-\$8.9B	-\$7.53B	
Tuesday March 2	Government Bond Purchase Program (GBPP): 5-YR AUCTION: 3-M BILLS \$6.8B, 6-M BILLS \$2.6B, 1-YR BILLS \$2.6B					
	8:30 AM	GDP M/M GDP (annualized)	(Dec) (H) (Q4) (H)	0.3% 7.7%	0.7% 40.5%	
Wednesday March 3	Government Bond Purchase Program (GBPP): 2-YR AUCTION: 2-YR CANADAS \$6B					
	8:30 AM	BUILDING PERMITS M/M (resid.)	(Jan) (M)		-4.1%	
Thursday March 4	Government Bond Purchase Program (GBPP): 10-YR AUCTION: 10-YR CANADAS \$5B					
	8:30 AM	LABOUR PRODUCTIVITY Q/Q	(Q4) (M)		-10.3%	
Friday March 5	Government Bond Purchase Program (GBPP): 30-YR					
	8:30 AM	MERCHANDISE TRADE BALANCE	(Jan) (H)	-\$1.0B	-\$1.67B	
	10:00 AM	IVEY PMI	(Feb) (L)		48.4	
			SAAR = Seasonally Adjusted Annual Rate			
			H, M, L = High, Medium or Low Significance			
			Consensus Source: Bloomberg			

Week Ahead's Market Call

by Avery Shenfeld

In the **US**, we turn the calendar to the March page, but the data will be all about the first look at February, which we expect will be a decent month. That will include our expectation for a consensus-beating gain in February payrolls, even though the big acceleration in hiring will really be a story for a few months down the road. Both ISM measures should remain at healthy readings, consistent with the continued demand for goods, and a bit more optimism on services, although the real boom in services will be a story for the late spring and summer, as more and more Americans are either vaccinated or at least partially protected by having had a prior bout with Covid. What's less clear is whether that brightening story will be able to dispel the recent risk-off clouds in equities.

In **Canada**, provinces generally tried to keep economic activity going during the early stages of the second wave of Covid, which will show up in a decent growth rate for Q4 and December GDP, but we'll see a payback for that in January results when tighter public health measures became a necessity. In fact, one story FX and bond markets aren't quite paying enough attention to is how much deeper the contraction was for Canada in 2020 relative to the US, and how much that American outperformance will continue to be apparent in the first quarter or two of 2021. Canada's current account deficit will remain wide in Q4, and although firmer oil prices will help on that score in Q1, the current readings are flattered by the lack of the usual deficit in international travel.

Week Ahead's Key Canadian Number:**GDP—December & Q4**

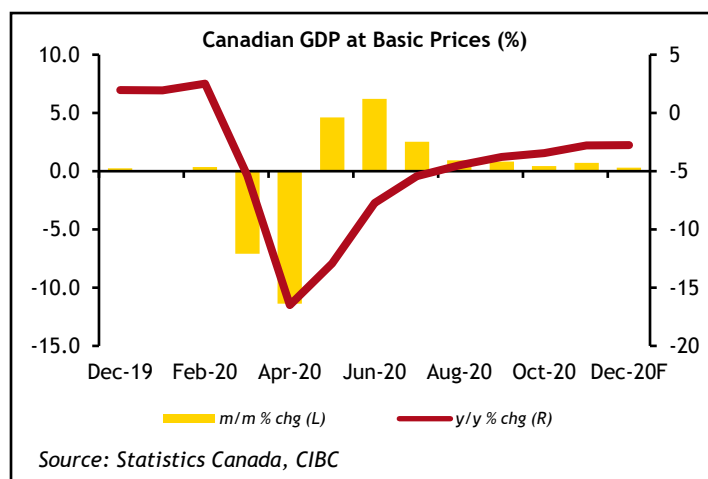
(Tuesday, 8:30 a.m.)

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	CIBC	Mkt	Prior
GDP m/m (Dec)	0.3%	N/A	0.7%
GDP Q4 q/q SAAR	7.7%	N/A	40.5%

The economy continued to regain lost ground during the fourth quarter, and even in December, leaving it in much better shape than the Bank of Canada had anticipated. But that's not really news, since Statistics Canada's flash estimate already let the cat out of the bag. The most important piece of information will, therefore, be the flash estimate for January GDP. There have been conflicting signals for how the economy fared during the first month of 2021. We're penciling in a modest decline in GDP, as restrictions were tightened in many jurisdictions towards the end of December, but wouldn't be too surprised with a miss in either direction.

The details of the GDP data for December and the fourth quarter will still add some colour to our understanding of how the economy entered the new year. Despite weakness in holiday spending in December, look for consumption to have recovered some ground in the



fourth quarter as businesses and consumers continued to adapt. Much like the prior quarter, the next most important contributor to growth will likely have been the housing market, which reached new heights in terms of both building activity and resales. While imports will again shave off more growth than exports will add, there's scope for that to look less severe in Q1, with imports in the form of vacations abroad much weaker than typical for the season.

Forecast Implications — The second wave of the virus has proven less damaging to the economy than the first. Goods sectors, in particular, didn't really miss a beat. As a result, a weaker service sector to open the new year could be at least partially offset by ongoing strength in industries like housing and oil production. But the quarter will still badly trail what we're seeing in the US of late.

Other Canadian Releases:**Current Account Balance — Q4**

(Monday, 8:30 a.m.)

Canada's current account balance likely clocked in at -\$8.9bn in the fourth quarter. At first glance that would seem to represent an additional shortfall of roughly \$1bn compared to Q3. However, revisions likely mean the deficit for the third quarter will be increased to roughly -\$9.0bn. The goods trade deficit with the rest of the world will have again been the major driver of weakness in Q4, while the services balance will likely look de minimis for the third straight quarter. The balance on services has been benefiting from the lack of outbound travel, which typically represents a notable source of imports. There's scope for that to play an even greater role in the first quarter of 2021, given that it's usually a period of strong

demand for travel. However, as conditions normalize, services trade should return to deficit, pushing the overall current account balance further under water.

Merchandise Trade Balance—January

(Friday, 8:30 a.m.)

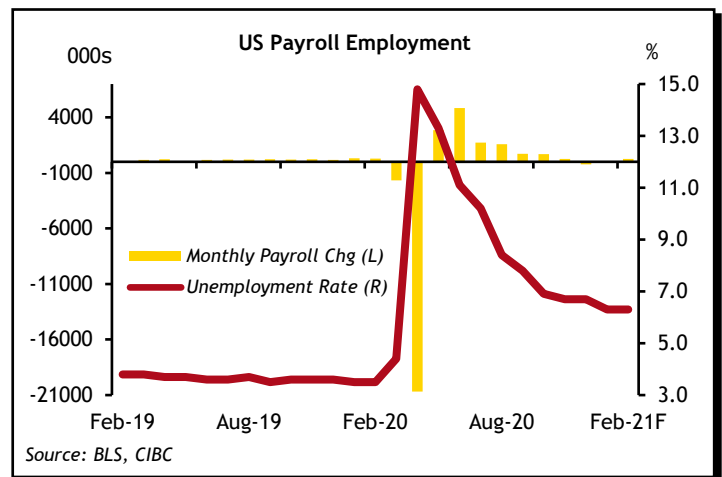
The energy sector continued to provide a tailwind to Canada's economic recovery in the opening month of 2021. Global energy prices kept climbing and Canada appears to have shipped more barrels of oil to the US than it has since before the pandemic began. The appreciation in the Canadian dollar will also have worked to narrow the trade deficit. While auto production appears to have taken a breather, which will restrain two-way trade, it could add more pressure on exports than imports. However, the trade deficit should still narrow to \$1.0bn, the least amount of red ink of any month since 2019.

Week Ahead's Key US Number: Employment Situation—February

(Friday, 8:30 a.m.)

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	CIBC	Mkt	Prior
Employment (m/m)	240K	145K	49K
Unemployment rate	6.3%	6.4%	6.3%
Avg Hourly Earnings (m/m)	0.2%	0.2%	0.2%



All signs point to a rebound in hiring in February as public health restrictions were relaxed in many states, jobless claims fell, and demand received a lift from fiscal stimulus. While adverse weather weighed on mobility during the survey's reference week, the winter storm arrived in Texas in the latter part of that week, suggesting that it would have had little impact on hiring for the month, but will show up in aggregate hours worked. We therefore expect an above consensus employment gain of 240K in February. The unemployment rate likely remained steady at 6.3% as the participation rate could have risen.

Forecast Implications — While things are looking better for the US economy in the first quarter as additional fiscal stimulus is on the way and services are re-opening, new Covid cases have stopped falling in recent days. That could risk placing a pause on re-opening plans in the short term as new variants are spreading quickly. By the spring, however, the economy should see another burst of consumer spending, as vaccinations will allow for an acceleration in re-openings.

Market Impact — We're above the consensus which could give bond yields a further liftoff.

Other U.S. Releases:

ISM Manufacturing—February

(Monday, 10:00 a.m.)

Movements in regional manufacturing PMIs suggest a slight rise in the ISM's index in February. In line with the continued strength in durable goods orders, production likely continued to recover while new orders could have grown. However, the frigid weather in Texas would have disrupted manufacturing of petrochemicals and microchips, but that would have had a positive impact on the supplier deliveries sub-index. All told, the ISM's index likely edged higher to 58.9.

CANADIAN RELEASE AND EVENT DATES February/March 2021



MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
22	23	24	25	26
	Bank of Canada Governor Macklem speaks by videoconference at 12:30 PM ET		PAYROLL EMPLOYMENT, EARNINGS & HOURS 8:30 AM	INDUSTRIAL PRICES 8:30 AM M (NSA) Y NOV -0.5 0.5 DEC 1.7 2.0 JAN 2.0 4.0
1	2	3	4	5
BALANCE OF INT'L PAYMENTS 8:30 AM CURR. ACCT. BAL. \$BN(QR) \$BN(AR) 20:Q2 -7.0 -28.0 20:Q3 -7.5 -30.1 20:Q4	NATIONAL ACCTS 8:30 AM REAL PRICE GDP DEFLATOR %ch AR %ch AR 20:Q2 -38.1 -3.9 20:Q3 40.5 10.7 20:Q4 GDP BY INDUSTRY (2002\$) 8:30 AM GDP IND.PROD. M M OCT 0.4 -0.2 NOV 0.7 1.9 DEC	BUILDING PERMITS (\$) M M 8:30 AM (RES) (NON-RES) NOV 9.6 19.3 DEC -0.9 -10.8 JAN	LABOUR PRODUCTIVITY 8:30 AM	MERCHANDISE TRADE 8:30 AM \$MN 12 MO. BALANCE NOV -3,560 -34,866 DEC -1,665 -36,158 JAN IVEY PURCHASING MANAGERS' INDEX 10:00 AM
8	9	10	11	12
		Bank of Canada Interest Rate Announcement	CANADA'S INTERNATIONAL INVESTMENT POSITION 8:30 AM Bank of Canada Dep. Governor Schembri speaks by videoconference @ 1:30 PM ET	LABOUR FORCE SURVEY 8:30 AM AVG EMPLOY UNEMP HRLY (HSHOLD) RATE EARN M Y % Y DEC -0.3 -3.1 8.8 5.4 JAN -1.2 -4.4 9.4 5.9 FEB CAPACITY UTILIZATION 8:30 AM LEVEL (%) TOTAL MANUF. 20:Q2 70.7 63.5 20:Q3 76.5 75.3 20:Q4 WHOLESALE TRADE 8:30 AM
15	16	17	18	19
HOUSING STARTS 8:15 AM 000's (AR) TOTAL SINGLES DEC 229 53 JAN 282 74 FEB SURVEY OF MANUFACTURING 8:30 AM SHIPMENTS M Y NOV -0.4 -4.7 DEC 0.9 -3.9 JAN	INT'L TRANSACTIONS IN SECURITIES C\$BN, NET 8:30 AM BONDS MONEY STOCKS TOT MARKET NOV 6.2 1.1 4.5 11.8 DEC -8.7 6.9 6.9 5.1 JAN	CPI M Y 8:30 AM DEC -0.2 0.7 JAN 0.6 1.0 FEB	ADP EMPLOYMENT SURVEY 8:30 AM	RETAIL TRADE 8:30 AM (Current\$) M Y NOV 1.8 7.6 DEC -3.4 3.3 JAN
22	23	24	25	26
	Bank of Canada Dep. Governor Gravelle speaks by videoconference @ 1:15 PM ET			

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 February/March 2021



MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
22	23	24	25	26
LEADING INDICATOR 10:00 AM	S&P/CASE-SHILLER HOUSE PRICE INDEX 9:00 AM CONSUMER CONFIDENCE 10:00 AM <i>BOT (9:00) REDBOOK (8:55)</i>	NEW HOME SALES 10:00 AM	DURABLE GOODS ORDERS 8:30 AM M Y NOV 1.3 4.3 DEC 1.2 2.6 JAN 3.4 6.3 GDP 8:30 AM (AR) REAL IMPLICIT GDP DEFLATOR 20:Q2 -31.4 -1.8 20:Q3 33.4 3.5 20:Q4(2nd) 4.1 2.1 <i>INITIAL JOBLESS CLAIMS (8:30)</i>	ADV. TRADE IN INTERNATIONAL GOODS 8:30 AM PERS. INC & OUT. 8:30 AM SAVING INCOME CONS RATE M M AR NOV -1.2 -0.6 12.5 DEC 0.6 -0.4 13.4 JAN 10.0 2.4 20.5 CHICAGO PMI 9:45 AM MICHIGAN SENTIMENT (F) 10:00 AM
1	2	3	4	5
ISM MFG SURVEY 10:00 AM COMP. PRICES INDEX INDEX DEC 60.5 77.6 JAN 58.7 82.1 FEB	LIGHT VEHICLES SALES MIL (AR) Y DEC 16.229 -3.5 JAN 16.628 -1.5 FEB	ADP SURVEY 8:15 AM ISM NON-MFG SURVEY 10:00 AM Beige Book	NON-FARM PRODUCTIVITY 8:30 AM Q/Q (AR) Y/Y 20:Q2 10.6 2.9 20:Q3 5.1 4.2 20:Q4(F) FACTORY ORDERS 10:00 AM M(SA) Y(NSA) NOV 1.3 -0.2 DEC 1.1 -0.8 JAN Fed Chair Powell speaks @ 12:05 PM <i>INITIAL JOBLESS CLAIMS (8:30)</i>	EMPLOY. SITUATION 8:30 AM NON- CIV AVG FARM UNEMP HRLY PAYROLL RATE EARN DEC -227 6.7 5.5 JAN 49 6.3 5.4 FEB GOODS & SERV. BALANCE (BOP) \$B 8:30 AM GDS SERV TOT NOV -87.0 18.0 -69.0 DEC -84.2 17.5 -66.6 JAN CONSUMER CREDIT 3:00PM
8	9	10	11	12
WHOLESALE TRADE 10:00 AM	<i>BOT (9:00) REDBOOK (8:55)</i>	CPI 8:30 AM M(SA) Y (NSA) DEC 0.2 1.4 JAN 0.3 1.4 FEB TREASURY BUDGET 2:00 PM	<i>INITIAL JOBLESS CLAIMS (8:30)</i>	PPI 8:30 AM M (SA) Y (SA) DEC 0.3 0.8 JAN 1.3 1.8 FEB MICHIGAN SENTIMENT (P) 10:00 AM
15	16	17	18	19
NET CAPITAL INFLOWS TICS 4:00 PM	RETAIL SALES 8:30 AM M Y DEC -1.0 2.5 JAN 5.3 7.4 FEB CAPACITY UTIL/IND. PROD. 9:15 AM LEV M Y DEC 74.9 1.3 -3.2 JAN 75.6 0.9 -1.8 FEB BUSINESS INVENTORIES 10:00 AM <i>BOT (9:00) REDBOOK (8:55)</i>	HOUSING STARTS 8:30 AM Mn. M/M DEC 1.680 8.2 JAN 1.580 -6.0 FEB FOMC Rate Decision Fed Chair Powell speaks @ 2:30 PM ET	PHILADELPHIA FED INDEX 8:30 PM LEADING INDICATOR 10:00 AM <i>INITIAL JOBLESS CLAIMS (8:30)</i>	
22	23	24	25	26
EXISTING HOME SALES 10:00 AM	CURRENT ACCOUNT BALANCE 8:30 AM NEW HOME SALES 10:00 AM <i>BOT (9:00) REDBOOK (8:55)</i>	DURABLE GOODS ORDERS 8:30 AM M Y DEC 1.2 2.6 JAN 3.4 6.3 FEB	GDP 8:30 AM (AR) REAL IMPLICIT GDP DEFLATOR 20:Q2 -31.4 -1.8 20:Q3 33.4 3.5 20:Q4(3rd) CORPORATE PROFITS 8:30 AM <i>INITIAL JOBLESS CLAIMS (8:30)</i>	ADV. TRADE IN INTERNATIONAL GOODS 8:30 AM PERS. INC & OUT. 8:30 AM SAVING INCOME CONS RATE M M AR DEC 0.6 -0.4 13.4 JAN 10.0 2.4 20.5 FEB MICHIGAN SENTIMENT (F) 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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