

### DAILY POINTS

January 3, 2024 @ 7:00 EST

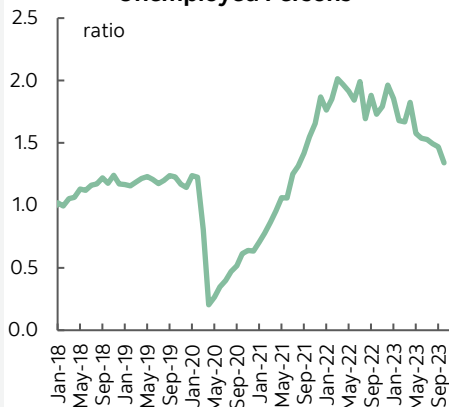
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Chart 1

#### JOLTS Job Openings as a Ratio of Unemployed Persons



Sources: Scotiabank Economics, BLS.

Chart 2

#### US ISM Points to Accelerating Recovery in Manufacturing Output



Sources: Scotiabank Economics, Institute for Supply Management, Federal Reserve.

### On Deck for Wednesday, January 3

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	01-03	09:00	Total Vehicle Sales (mn a.r.)	Dec	15.4	15.5	15.3
US	01-03	10:00	ISM Manufacturing Index	Dec	47.0	47.1	46.7
US	01-03	10:00	JOLTS Job Openings (000s)	Nov	--	8821.0	8733.0
US	01-03	14:00	FOMC Meeting Minutes				

#### KEY POINTS:

- **Why are bonds off to a poor start to 2024?**
- **One way that the FOMC minutes could be key**
- **US JOLTS to tease ahead of nonfarm as job markets continue to rebalance**
- **US ISM-mfrg might get a helping hand from the UAW**
- **US vehicle sales probably held steady**

After yesterday's fixed income sell-off and sharp gain in the USD we now enter a period of elevated calendar-based risk over the rest of the week. So far this morning the USD continues to march higher, although at a slower pace, while sovereign bonds are putting in a more mixed performance. US Ts, gilts and Italian yields are moving a little higher while bunds and French yields are stable.

Among the initial catalyst for yesterday's market moves might have been higher oil prices on tensions in the Persian Gulf and effects on inflation break-evens, but oil ended lower and is largely treading water this morning. Heavy corporate issuance rippled through markets as an added influence. Calendar effects might be contributing as the rally in US Ts over December that extended November's moves might have driven a swing in positioning around month-end into a new calendar year. Markets might also be rethinking how aggressively they have priced rate cuts. There wasn't any significant data, but some of the sell-off could be positioning ahead of the rest of the week's developments. The sell-off caught fund managers off guard as they return from holidays and reassess positioning.

Overnight developments should be light, barring off-calendar surprises. The US will then update a couple of significant releases tomorrow ahead of the publication of minutes to the December 12<sup>th</sup> – 13<sup>th</sup> FOMC meeting.

#### US JOLTS Job Openings

JOLTS job openings have been declining for the past two months but November's data could face greater than usual positive seasonal hiring effects (10amET). It's lagging data and what movements in vacancies say about hiring is somewhat ambiguous, but the release can impact markets as we wait for Friday's payrolls. One measure that is widely followed including by the Fed is the ratio of job openings scaled to unemployed folks. That measure has been steadily declining and is only modestly above pre-pandemic levels (chart 1). This is one of the measures signalling the rebalancing of the labour market.

#### US ISM-manufacturing

ISM-manufacturing for December (10amET) is forecast to rise a touch, but if consensus is correct, then it could be mostly fed by the transportation sector as the end of the UAW strike continues to restore order. Offsetting this in terms of breadth is the fact that most regional manufacturing surveys deteriorated during December. ISM lands at the same time as JOLTS and so this could make it difficult to separate the effects. The ISM gauge's volatility exaggerates the changes in actual manufacturing output over time (chart 2).

#### FOMC Minutes

FOMC minutes (2pmET) will offer further colour around the dialogue on rate cuts that occurred during this meeting (recap [here](#)). Why? Because during his December press

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conference, Chair Powell responded to a question about when it may become appropriate to begin easing by saying “That was a discussion point in our meeting today.” Since the minutes are a recap of the discussion there should logically be some further colour on offer. If not, and Powell just misled all of us such that there will be no discussion on cuts, then that could indicate that the Committee’s head isn’t anywhere close to courting a deeper dialogue on when to ease than what they loosely conveyed in the dots.

Assuming there will be a meaningful dialogue, I expect the outcome to reflect the same diversity of opinions that we saw in the dot plot from December’s meeting (chart 3). Recall that the median FOMC participants’ ‘forecast’ was for 75bps of easing this year. That was also the mode. That said, the fat tail risk was toward less, rather than more. Of the 19 participants, only 5 anticipated more than 75bps of easing versus 8 that expected less. There were two holds, one -25bps call, 5 at -50bps, 6 at -75bps, 4 calling for -100bps and 1 at -150bps. So what did markets do? They went with the one outlier call and are pricing over 150bps of easing this year. As argued at the time and once again in the holiday edition of the Global Week Ahead ([here](#)), I thought markets got carried away.

Using the Fed’s frequency of citations language, I would expect the minutes to indicate that a majority think that a modest amount of easing may be required this year. We may see language like how a majority, or most, expect modest cuts. They might say that while all recognize progress, many/most are aware of history’s cautions against prematurely declaring victory.

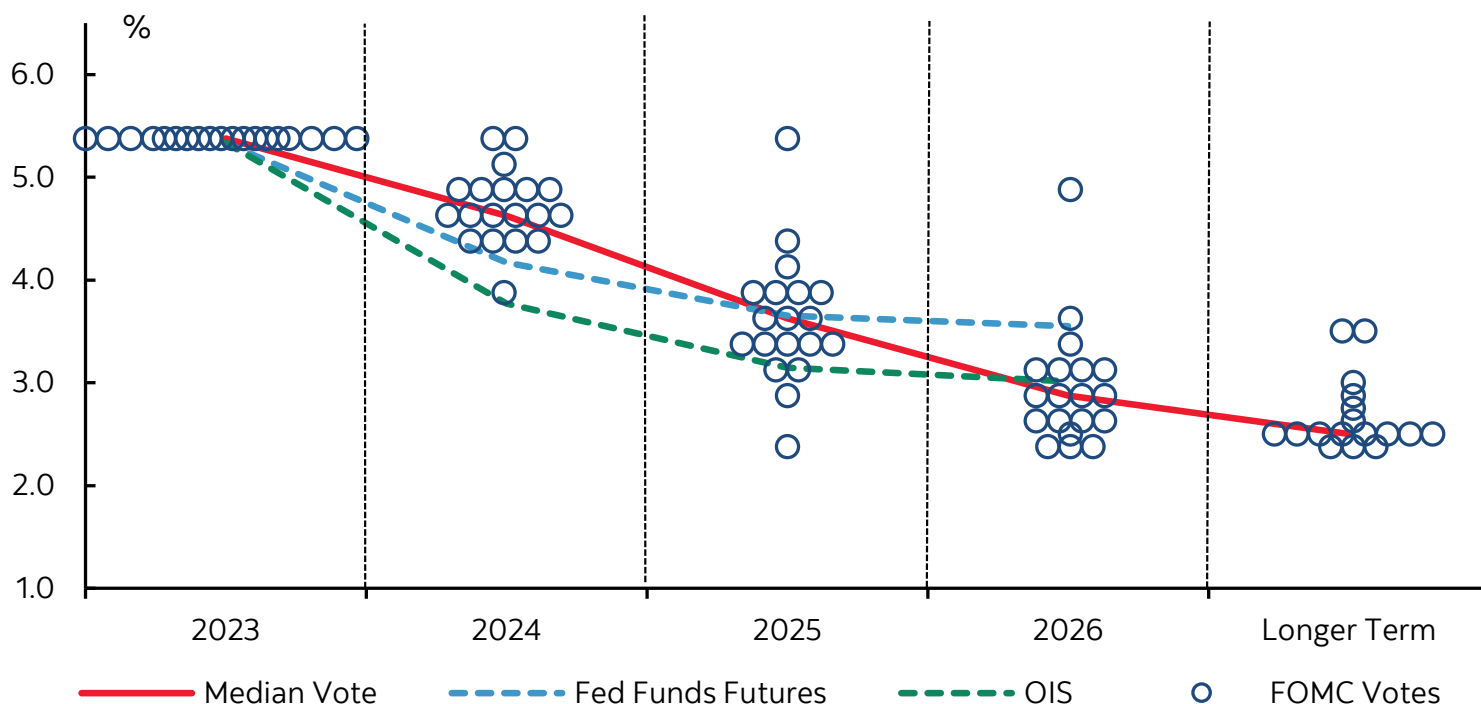
So will the minutes matter to markets? They might, but it’s hard to have much conviction given that a) markets are already pricing more than double the median FOMC participants’ forecast amount of easing this year, and b) markets are not really listening to the Fed in any event!

If there were to be a direct remark about how several/many/most participants don’t expect to begin easing until later in the year or something like that, then that could be impactful to current pricing for about -25bps in March and -50bps by the May Day decision. It’s unclear that the Fed wants to get into a bun fight over meeting-by-meeting pricing at this point, but if they feel as strongly about teeing up easing moves as they did about teeing up hikes, then at some point they’ll have to either embrace pricing for March/May or lean more strongly against it.

Also note that Richmond Fed President Tom Barkin (voting 2024) delivers his economic outlook this morning (8:30amET).

Chart 3

## December FOMC Projections for the Federal Funds Target Rate



Note: OIS & Fed Fund Futures as of Dec 13, 2023.

Sources: Scotiabank Economics, US Federal Reserve.

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## US Vehicle Sales

US vehicle sales were probably little changed in December but we'll find out toward the end of the day. Industry guidance points to about 15.4 million units sold (SAAR) compared to 15.3 million the prior month. That would mean that autos would offer little to no contribution to December retail sales except for about a 1.9% m/m SA rise in new vehicle prices.

Fixed Income				Government Yield Curves (%):												Central Banks	
	2-YEAR			5-YEAR			10-YEAR			30-YEAR			Current Rate				
	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk	Central Banks	Current Rate			
	U.S.	4.35	4.32	4.24	3.95	3.91	3.80	3.97	3.93	3.80	4.12	4.07			3.95		
	CANADA	3.95	3.89	3.98	3.24	3.17	3.29	3.18	3.11	3.19	3.10	3.03			3.06		
	GERMANY	2.45	2.45	2.40	1.99	1.99	1.86	2.07	2.07	1.90	2.32	2.31			2.12		
JAPAN	0.05	0.05	0.07	0.21	0.21	0.22	0.61	0.61	0.61	1.63	1.63	1.57					
U.K.	4.10	4.05	3.98	3.58	3.54	3.40	3.65	3.64	3.44	4.28	4.27	4.03	England - BoE	5.25			
Spreads vs. U.S. (bps):																	
CANADA	-40	-44	-27	-71	-74	-50	-79	-82	-61	-102	-104	-89	Euro zone - ECB	4.50			
GERMANY	-190	-187	-184	-197	-192	-194	-191	-186	-190	-180	-176	-183					
JAPAN	-429	-427	-418	-374	-371	-358	-336	-332	-318	-248	-244	-239	Japan - BoJ	-0.10			
U.K.	-25	-27	-26	-37	-37	-39	-33	-29	-36	16	20	7					
Equities	Level						% change:						Mexico - Banxico	11.25			
	Last	Change		1 Day	1-wk	1-mo	1-yr	Australia - RBA	4.35								
S&P/TSX	20872	-86.3		-0.4	0.5	2.0	7.3										
Dow 30	37715	25.5		0.1	0.9	4.1	13.8	New Zealand - RBNZ	5.50								
S&P 500	4743	-27.0		-0.6	-0.2	3.2	24.0										
Nasdaq	14766	-245.4		-1.6	-1.5	3.2	42.2										
DAX	16612	-157.2		-0.9	-0.6	1.3	17.1										
FTSE	7653	-68.2		-0.9	-0.6	1.6	1.3										
Nikkei	33464	-75.5		-0.2	0.9	0.1	28.2	Canada - BoC	Jan 24, 2024								
Hang Seng	16646	-142.1		-0.8	1.9	-1.1	-17.4										
CAC	7429	-102.0		-1.4	-1.8	1.1	12.2	US - Fed	Jan 31, 2024								
Commodities	Level						% change:						England - BoE	Feb 01, 2024			
WTI Crude	70.24	-0.14		-0.2	-7.1	-5.2	-8.7										
Natural Gas	2.58	0.01		0.3	1.0	-8.5	-35.4	Euro zone - ECB	Jan 25, 2024								
Gold	2046.94	-12.02		-0.6	-1.5	-1.2	11.3	Japan - BoJ	Jan 23, 2024								
Silver	23.95	0.16		0.7	-2.1	-4.8	0.0										
CRB Index	262.63	-1.19		-0.5	-1.5	-3.0	-2.8										
Currencies	Level						% change:						Mexico - Banxico	Feb 08, 2024			
USDCAD	1.3344	0.0023		0.2	1.0	-1.4	-2.4										
EURUSD	1.0920	-0.0022		-0.2	-1.7	0.8	3.5	Australia - RBA	Feb 05, 2024								
USDJPY	142.96	0.9700		0.7	0.8	-2.9	9.1										
AUDUSD	0.6729	-0.0032		-0.5	-1.7	1.6	0.0	New Zealand - RBNZ	Feb 27, 2024								
GBPUSD	1.2627	0.0010		0.1	-1.3	-0.0	5.5										
USDCHF	0.8547	0.0043		0.5	1.4	-2.1	-8.7										

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