

DAILY POINTS

January 16, 2024 @ 7:35 EST

Contributors

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Chart 1

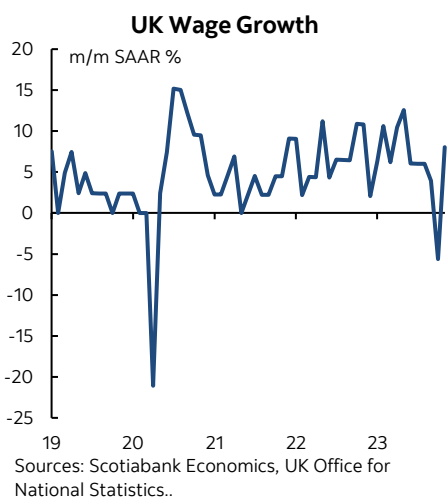
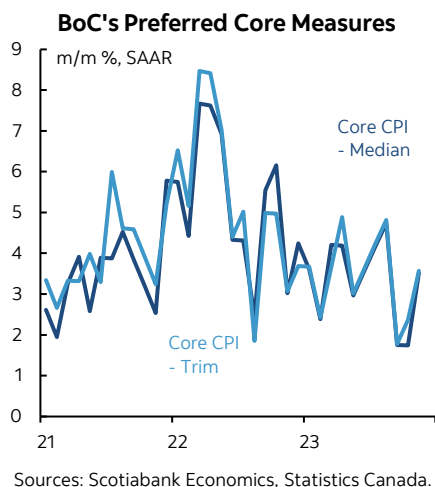


Chart 2



On Deck for Tuesday, January 16

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	01-16	08:15	Housing Starts (000s a.r.)	Dec	245	250.0	212.6
CA	01-16	08:30	Core CPI - Median (y/y)	Dec	--	3.3	3.4
CA	01-16	08:30	Core CPI - Trim (y/y)	Dec	--	3.4	3.5
CA	01-16	08:30	CPI, All items (m/m)	Dec	-0.3	-0.3	0.1
CA	01-16	08:30	CPI, All items (y/y)	Dec	3.4	3.4	3.1
CA	01-16	08:30	CPI, All items (index)	Dec	--	158.3	158.8
US	01-16	08:30	Empire State Manufacturing Index	Jan	--	-5.0	-14.5
CA	01-16	08:30	Core CPI - Common (y/y)	Dec	--	--	3.9
US	01-16	11:00	Fed's Waller Speaks on Economic Outlook and Monetary Policy				

KEY POINTS:

- Risk-off sentiment sweeps across asset classes
- Why markets are nervous toward a pending speech by the Fed's Waller
- Gilts messed up their interpretation of UK wages
- US bank earnings continue
- CDN underlying inflation may further inform the sticky trend...
- ...after the BoC's surveys showed sticky and high inflation expectations...
- ...that along with evidence of changed labour market behaviour...
- ...signal they're still behind the eight-ball
- CDN home sales are merely normalizing between spring seasons
- Data showed that Canadian shocks eased but still persisted into year-end

Risk-off sentiment is marked by equities that are down by ½% to ¾% across the main N.A. futures and European cash benchmarks after Asian equities broadly fell by as much as 2% in HK. The dollar is significantly stronger against all major crosses. US Ts are cheaper by about 6-7bps across the curve as Americans return from a day off Canada's curve is also 4-5bps cheaper. I don't agree with how outperforming UK markets interpreted their labour market readings ahead of US bank earnings, a potentially key Fed speech and Canadian CPI. ECB-speak from yesterday continues to contribute to the feel that markets are overly aggressive in pricing cuts.

UK wage growth sharply accelerated in November yet the gilts front-end rallied on the data. It's not the year-over-year rate that one should ever pay attention to even though that's what probably happened. That measure is too influenced by year-ago base effects. For evidence of pressures at the margin, it's the year-over-year rate that jumped to 8% m/m SAAR that matters. That November reading—the hottest since May—suggests that the -5.6% reading in October was the anomaly relative to the trend (chart 1). In other words, wage pressures remain very much alive and well in the UK which is a threat to the BoE's durable achievement of 2% inflation relative to what markets are pricing for cuts.

Other UK job market data was mixed. Payroll employment fell by 24k in December (-13k consensus) but the prior month was revised up by 21k to a gain of 9k which explains much of the miss in the latest reading. Jobless claims increased by 11.7k, but here too that follows a downward revision to the prior month from a previously reported 16k jump in jobless claims during November to flat.

US bank earnings returned this morning with a pair of key names—GS and Morgan Stanley.

Then Fed Governor Waller speaks on the outlook later this morning (11amET). Waller matters partly because back in November he was the one who contributed to March cut pricing when he said this:

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“If inflation’s coming down, once you get inflation down low enough, you don’t necessarily have to keep rates up at those levels... if we see this inflation continuing for several more months — I don’t know how long that might be, three months, four months, five months — that we feel confident that inflation is really down and on its way, that you can then start lowering the policy rate just because inflation’s lower.”

If Waller repeats or leans against this view in his updated outlook then it could be impactful to Fed cut timing particularly given his prior reputation as a hawk and how aggressively markets are pricing Fed moves.

Canada updates CPI this morning in the wake of yesterday’s sticky inflation expectations (8:30amET). See the week ahead for more. My estimate is -0.3% m/m NSA which translates into about a +0.3% m/m SA rise after taking account of seasonal adjustments for December -0.3% m/m NSA is the mode, median and mean within the consensus sample. -0.2% is the next most popular number, then -0.4% with a tail call for -0.5%. Base effects on their own should pop the year-over-year rate up to 3.7% from 3.1% previously. Factoring in expectations for the m/m change lowers that to 3.4%.

Key, however, will be the trimmed mean and weighted median gauges in m/m SAAR terms and they are largely impossible to estimate in advance given the high sensitivity to the many unknowns among the 55 CPI components that go into calculating them. They have been pretty volatile after rising at a 4-handled pace in July and August, dropping back down to the upper 1s and lower 2s during a soft patch in September and October, and then popping back up to 3½% in November (chart 2). December’s data could further inform the recent trend. Also bear in mind that the core measures can be subject to revisions.

Don’t trust the Bank of Canada’s spin on yesterday’s surveys. Their mission is to convince everyone that they have everything under control, that tightened monetary policy is working just fine and that additional evidence is unfolding in the direction of achieving their 2% inflation target. The Governor’s job is to convince Canadians on all of these counts so as to manage expectations. A street economist, by contrast, has to question everything including the central bank’s communications motives.

Enter how to read progress on inflation expectations. The BoC sounded more encouraged than justified by the data. Chart 3 shows that the 1-year ahead measure of business inflation expectations followed the timelier small business survey evidence from the CFIB. Also consider chart 4 that shows still very sticky consumers’ expectations for inflation; for a soft-data survey, the change was statistically negligible and continues to indicate sustained pressure upon inflation expectations at rates well above the BoC’s 2% target especially over the 1–2 year policy horizon that dominates concern. Also consider charts 5 and 6 for business expectations of inflation across different time horizons; here too, nobody believes that the BoC will achieve 2% inflation any time soon.

Chart 3

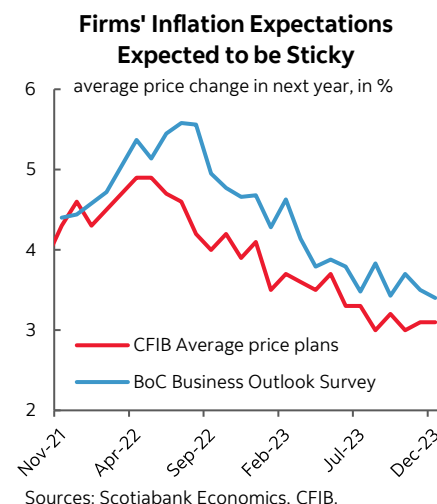
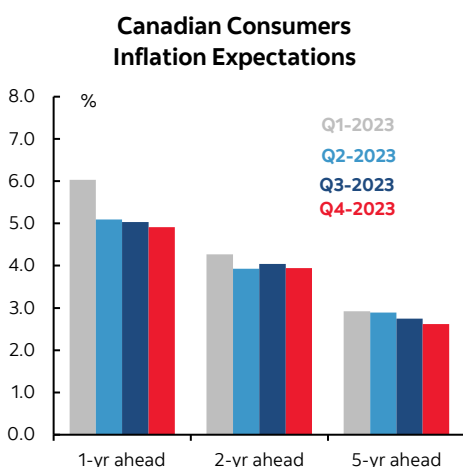
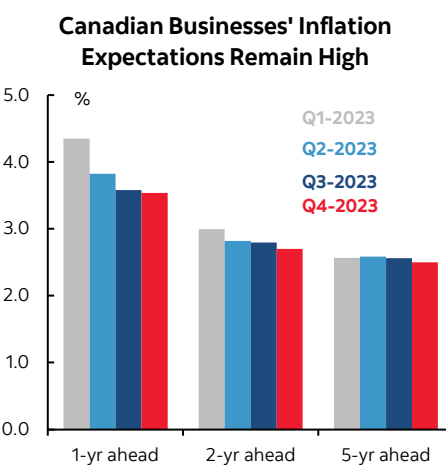


Chart 4



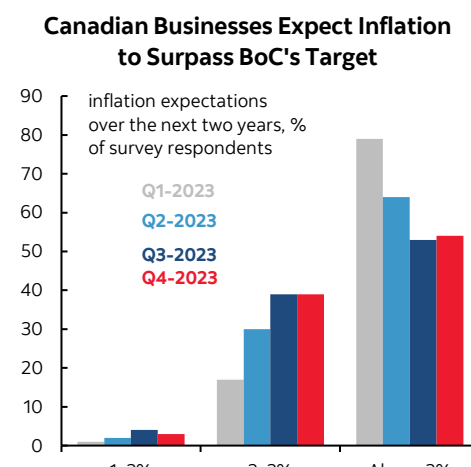
Sources: Scotiabank Economics, Bank of Canada.

Chart 5



Sources: Scotiabank Economics, Bank of Canada.

Chart 6



Sources: Scotiabank Economics, Bank of Canada.

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Why does it matter? Because I continue to think that the BoC is behind the eight ball and hung up its cleats too soon. Job done. Not. When inflation expectations become unmoored as they are and when there is evidence on the back of this that behaviour has changed, then it is going to be very difficult to durably achieve the inflation target. Behaviour has changed by way of the aggressive lagging gains in wage demands plus the multi-year gains baked into collective bargaining decisions at rates far above 2%. Collective bargaining matters much more to Canada where one-third of the workforce is unionized than in the US where 10% belong to a union.

Further, Canadian macro data improved into year-end as indicated by yesterday's releases and this morning's housing starts are expected to add to this (8:15amET). I'll share comments below that were offered to clients instantly on the back of the releases:

- Existing home sales were up by 8.7% m/m SA for the biggest gain since April's rise of over 11%. Sales didn't collapse last year by any stretch of the imagination; they surged in the Spring when sales were brought forward from later in the year and the longer trend is merely normalizing toward pre-pandemic levels (chart 7). The market pivoted back into net sellers' territory as the sales-to-new-listings ratio increased to 57.8% while sales to total inventory was just 3.8 months and remains well below the historical average of about 5 months. For the year as a whole, prices were little changed (+0.7% y/y) using CREA's measure adjusted for compositional shifts, and average unadjusted prices were up by 5.1% y/y.
- Manufacturing sales volumes were also up by 1.6% m/m with wholesale trade up by 0.8% m/m SA (both November). Both of these releases would have been even stronger if not for considerations such as a temporarily shut auto assembly plant in Ontario that is retooling and if not for ongoing reverberations of the UAW strike in the US. Statcan also continues to flag the distortions across several petrochemical plants that were previously shut down and which are still weighing on the q/q numbers.

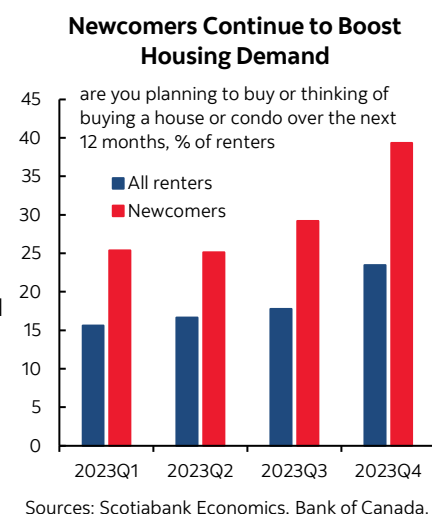
Also recall that Canada released auto sales for December way back on January 3rd when both Desrosiers Automotive Consultants reported on them ([here](#)) and then Ward's offered their estimate on January 8th ([here](#)). As written at the time, it was a strong month in a year that built momentum despite supply headaches.

Finally, in a more forward looking sense for Canadian housing, I'm still of the belief that if the BoC were to cut along the market's priced timeline then they will have learned absolutely nothing. They may as well bring back Poloz who sparked housing bubbles but still denies it. I've been saying for ages now that immigration is far too excessive. Take the aggressive rise of newcomers as they migrate from the rental stock upon arrival toward the owned accommodation segment (chart 8) and combine it with other drivers and why on earth would you throw kerosene onto the Spring housing market with rate cuts? Housing inventories are tight, jobs were up 430k last year, wages are ripping, bonds have rallied as a driver of 5-year fixed rate mortgages, and first-time buyers have spent more time building up bigger downpayments to capitalize upon cheaper housing. Yeah. Sure. Cut. Also time those cuts by signalling to governments through the Winter budget season they don't have as much to worry about in terms of interest expense as they thought last Fall, leading them to spend even more. Then stand back and watch as the same imbalances return while inflation risk is already at a renewed inflection point higher.

Chart 7



Chart 8



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		
U.S.	4.21	4.15	4.37	3.91	3.83	3.97	4.01	3.94	4.01	4.24	4.18	4.19	Canada - BoC	5.00
CANADA	3.83	3.78	3.86	3.31	3.27	3.33	3.27	3.22	3.22	3.23	3.18	3.14	US - Fed	5.50
GERMANY	2.59	2.60	2.61	2.14	2.14	2.14	2.24	2.23	2.19	2.44	2.44	2.42	England - BoE	5.25
JAPAN	0.01	0.00	0.03	0.18	0.17	0.19	0.60	0.57	0.59	1.59	1.59	1.61		
U.K.	4.14	4.16	4.21	3.66	3.67	3.73	3.79	3.80	3.78	4.46	4.45	4.39		
Spreads vs. U.S. (bps):														
CANADA	-39	-36	-51	-59	-56	-64	-75	-72	-79	-101	-100	-105	Euro zone - ECB	4.50
GERMANY	-162	-155	-176	-177	-169	-183	-177	-171	-183	-180	-174	-177	Japan - BoJ	-0.10
JAPAN	-420	-414	-433	-373	-366	-378	-341	-337	-342	-265	-258	-258		
U.K.	-7	2	-15	-25	-16	-24	-22	-14	-23	22	27	20	Mexico - Banxico	11.25
Equities	Level						% change:							
	Last			Change			1 Day	1-wk	1-mo	1-yr				
S&P/TSX	21062			71.7			0.3	-0.1	2.6	3.3			Australia - RBA	4.35
Dow 30	37593			-118.0			-0.3	0.3	0.8	9.6			New Zealand - RBNZ	5.50
S&P 500	4784			3.6			0.1	1.8	1.4	19.6				
Nasdaq	14973			2.6			0.0	3.1	1.1	35.1				
DAX	16555			-67.4			-0.4	-0.8	-1.2	9.4				
FTSE	7569			-25.9			-0.3	-1.5	-0.1	-3.7				
Nikkei	35619			-282.6			-0.8	5.5	8.0	36.3				
Hang Seng	15866			-350.4			-2.2	-2.0	-5.5	-26.5				
CAC	7387			-25.1			-0.3	-0.5	-2.8	4.9				
Commodities	Level						% change:							
WTI Crude	72.92			0.24			0.3	3.0	2.1	-8.7				
Natural Gas	3.03			-0.28			-8.4	1.8	21.8	-11.3				
Gold	2039.57			-16.98			-0.8	0.5	1.0	6.4				
Silver	23.21			0.16			0.7	1.6	-4.1	-2.0				
CRB Index	264.38			0.28			0.1	-0.6	-0.3	-4.2				
Currencies	Level						% change:							
USDCAD	1.3483			0.0055			0.4	0.7	0.6	0.6				
EURUSD	1.0891			-0.0059			-0.5	-0.4	-0.3	0.6				
USDJPY	146.73			1.0000			0.7	1.6	2.8	14.1				
AUDUSD	0.6603			-0.0057			-0.9	-1.3	-1.6	-5.1				
GBPUSD	1.2646			-0.0081			-0.6	-0.5	-0.0	3.7				
USDCHE	0.8602			0.0044			0.5	0.9	-0.8	-7.2				
Next Meeting Date														
													Canada - BoC	Jan 24, 2024
													US - Fed	Jan 31, 2024
													England - BoE	Feb 01, 2024
													Euro zone - ECB	Jan 25, 2024
													Japan - BoJ	Jan 23, 2024
													Mexico - Banxico	Feb 08, 2024
													Australia - RBA	Feb 05, 2024
													New Zealand - RBNZ	Feb 27, 2024

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