

### DAILY POINTS

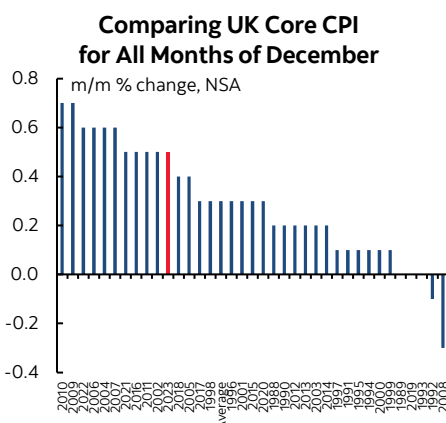
January 17, 2024 @ 7:50 EST

### Contributors

#### Derek Holt

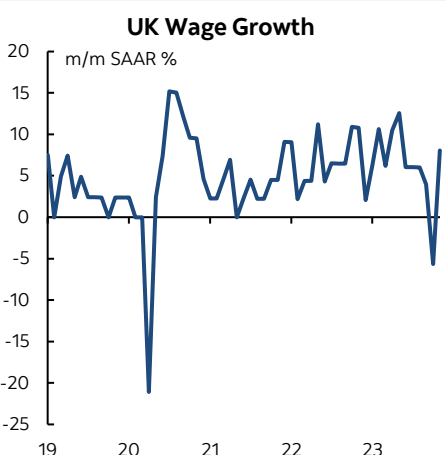
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Chart 1



Sources: Scotiabank Economics, UK Office for National Statistics.

Chart 2



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### On Deck for Wednesday, January 17

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	01-17	07:00	MBA Mortgage Applications (w/w)	Jan 12	--	--	9.9
CA	01-17	08:30	International Securities Transactions (C\$ bn)	Nov	--	--	-15.8
CA	01-17	08:30	IPPI (m/m)	Dec	--	-0.5	-0.4
CA	01-17	08:30	Raw Materials Price Index (m/m)	Dec	--	-1.6	-4.2
US	01-17	08:30	Export Prices (m/m)	Dec	--	-0.7	-0.9
US	01-17	08:30	Import Prices (m/m)	Dec	--	-0.5	-0.4
US	01-17	08:30	Retail Sales (m/m)	Dec	0.5	0.4	0.3
US	01-17	08:30	Retail Sales ex. Autos (m/m)	Dec	0.3	0.2	0.2
US	01-17	09:00	Fed's Barr Speaks at Conference on Cyber Risk				
US	01-17	09:00	Fed's Bowman Speaks About Future of Bank Capital Reform				
US	01-17	09:15	Capacity Utilization (%)	Dec	78.7	78.7	78.8
US	01-17	09:15	Industrial Production (m/m)	Dec	-0.1	-0.1	0.2
US	01-17	10:00	Business Inventories (m/m)	Nov	--	-0.1	-0.1
US	01-17	10:00	NAHB Housing Market Index	Jan	--	39.0	37.0
US	01-17	14:00	Federal Reserve Releases Beige Book				
US	01-17	15:00	Fed's Williams Speaks at NY Fed Event				

### KEY POINTS:

- **Data and comments scale back rate cut pricing for four central banks**
- **Bank of Canada: core CPI won't have the BoC cutting any time soon**
- **Fed: Governor Waller did a total 180° turn yesterday**
- **ECB: Lagarde doused talk of early cuts**
- **BoE: core inflation lit up with high breadth after wage growth super accelerated**
- **China's economy put in a decent performance with unusual upward revisions**
- **US retail sales on tap, watch the control group**

This is not proving to be a good year so far for markets that have been peddling globally coordinated central bank easing on a Spring timeline and without applying any differentiation to the circumstances governing individual central banks. Canadian CPI (recap [here](#)) continues to drive higher bond yields this morning. Volatile Fed Governor Waller's about-face on nearer term cuts continues to roil bonds (see recap below). This morning, it's a combination of data and central bank comments out of Europe that is adding to pressures to push out market pricing for cuts.

Solid overnight China macro data, a sharp rise in UK core inflation that was marked by high breadth, a wave of ECB-speak including a relatively hawkish appearance by Lagarde, and US retail sales offer plenty of market volatility. Bonds are selling off again, led by the gilts front-end. Stocks are lower by between ½% in US futures to 1%+ across European cash markets and bigger declines in HK and mainland China. Oil prices are down by just under 2%. The dollar is flat on a DXY basis with sterling an upside outlier post-CPI and the euro holding its own post-Lagarde.

UK core inflation sprang back to life in December. Core CPI was up 0.5% m/m NSA which was above the 0.3% average for all months of December as a reference point since the data does not come seasonally adjusted (chart 1). The rise was marked by high breadth, not just narrow one-offs. Across core categories, household goods saw a 1.4% m/m jump in prices followed by 0.6% for transport, 0.5% jumps across restaurants and hotels plus health, and a 0.4% rise in clothing and footwear prices.

The UK inflation data lands on the heels of the hot wage gains marked by the 8% m/m SAAR increase in wages ex-bonuses in November which was the hottest number since May, indicating that wage pressures remain very much alive (chart 2). The combination of the wage data and core CPI jolted markets out of their complacency toward inflation risk that had been driving pricing for early rate cuts.

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The new information on ECB-speak has not only been to push back on cuts before Summer but to also inject more uncertainty into whether any cuts may be offered this year (Holzmann). President Lagarde added her voice to others that have been recently pushing back against early rate cut pricing and a large volume of cuts this year. So far this year, pricing for the March meeting has been scaled back from about 18bps to about 5bps of cuts while pricing for the April meeting has gone from about 43bps of cuts to half that.

What did Lagarde say about rate cut pricing? "It is not helping our fight against inflation if the anticipation is such that they are way too high compared with what's likely to happen." Emphasis upon 'way too high.' When asked directly about a summertime cut relative to earlier pricing she said "I would say it's likely" while going on to stress that they are still data dependent. Lagarde will speak again at 10:15amET.

China data was better than portrayed in some of the coverage in my opinion. China's economy grew by 1% q/q SAAR in Q4 (1.1% consensus) but in a very rare gesture Q3 was revised up by two-tenths to 1.5% making the overall result a touch stronger than expected (chart 3). The quarter and year ended on fairly solid foundations. Retail sales were up 7.4% y/y which missed consensus expectations for a rise of 8%, but the m/m sales gain of 0.4% SA was the strongest since August (chart 4). Industrial output climbed 6.8% y/y (6.6% consensus) but 0.5% m/m SA which maintains a string of decent gains (chart 5). The unemployment rate ticked up to 5.1%. Fixed asset investment grew by only 3% for the year as a whole.

US retail sales for December (8:30amET) are expected to get a lift from auto sales, but key will be core sales during December in terms of how the holiday shopping season concluded. Watch the retail control group (ex-autos, gas, building materials, food) in particular for a sign of what to expect in next week's total consumption figures for December and the overall Q4. That will help to further inform Q4 US GDP tracking.

The US will also update industrial production for December (9:15amET). Watch the split between manufacturing, mining and utilities given observations such as milder and drier conditions during December in many parts of the country.

### VOLATILE FED-SPEAK HASN'T HELPED

Fed Governor Waller did a total 180° turn on early rate cuts yesterday. His comments starkly contrasted to what he said in November that was partly responsible for markets pivoting toward pricing Fed cuts by March. Let's compare his comments then to now.

Back in November, Waller said this:

"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."

And so 3, 4 or 5 months from November gets markets thinking that someone who was previously among the most hawkish voices at the Fed believed they could be cutting by March. Yesterday's remarks by Waller pushed out this talk in no small part by merely referencing cutting sometime in 2024 and doing so in a way that carefully differs from past easing cycles. Here are his direct quotes:

"The data we have received the last few months is allowing the Committee to consider cutting the policy rate in 2024. However, concerns about the sustainability of these data trends requires changes in the path of policy to be carefully calibrated and not rushed. In the end, I am feeling more confident that the economy can continue along its current trajectory."

Chart 3



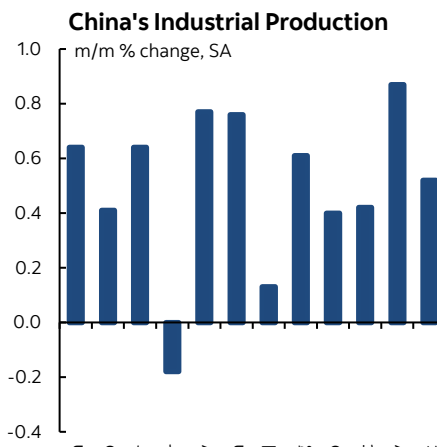
Sources: Scotiabank Economics, National Bureau of Statistics of China.

Chart 4



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Chart 5



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"When the time is right to begin lowering rates, I believe it can and should be lowered methodically and carefully. In many previous cycles, which began after shocks to the economy either threatened or caused a recession, the FOMC cut rates reactively and did so quickly and often by large amounts. This cycle, however, with economic activity and labor markets in good shape and inflation coming down gradually to 2 percent, I see no reason to move as quickly or cut as rapidly as in the past. The healthy state of the economy provides the flexibility to lower the (nominal) policy rate to keep the real policy rate at an appropriate level of tightness. But I will end by repeating that the timing and number of rate cuts will be driven by the incoming data. "

Waller tried to argue that the data is going in the direction of supporting easing, but he didn't convince me. He significantly relied on pointing to forecasts for slower Q4 GDP growth that arrives next week. Of course the US economy would slow after 4.9% q/q SAAR growth in Q3! I sure hope so. But with the Atlanta Fed's nowcast at 2¼% q/q SAAR and several shops at 2%+, the US economy may not have slowed to below its potential growth rate and that's key because the US is not on a path toward opening up a meaningful amount of disinflationary slack.

Fixed Income	Government Yield Curves (%):												Central Banks	
U.S. CANADA GERMANY JAPAN U.K.  CANADA GERMANY JAPAN U.K.	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		
	4.28	4.22	4.36	3.97	3.93	3.97	4.07	4.06	4.03	4.29	4.30	4.21	Canada - BoC	5.00
	3.95	3.90	3.89	3.43	3.39	3.36	3.38	3.36	3.27	3.32	3.31	3.18	US - Fed	5.50
	2.64	2.60	2.65	2.19	2.15	2.17	2.28	2.26	2.21	2.46	2.47	2.42		
	0.03	0.01	0.02	0.21	0.18	0.19	0.62	0.60	0.59	1.62	1.59	1.59	England - BoE	5.25
	4.30	4.16	4.24	3.81	3.67	3.76	3.91	3.80	3.82	4.58	4.49	4.42		
	Spreads vs. U.S. (bps):													
	-34	-33	-47	-54	-54	-62	-69	-70	-76	-97	-99	-102	Euro zone - ECB	4.50
	-164	-162	-171	-178	-178	-180	-179	-180	-182	-183	-183	-179	Japan - BoJ	-0.10
-426	-421	-434	-376	-376	-378	-345	-346	-344	-267	-270	-261			
2	-6	-13	-16	-26	-22	-16	-26	-21	28	19	21	Mexico - Banxico	11.25	
Equities	Level						% change:							
	Last			Change			1 Day	1-wk	1-mo	1-yr				
S&P/TSX	20948			-113.8			-0.5	-0.1	2.0	2.4			Australia - RBA	4.35
Dow 30	37361			-231.9			-0.6	-0.9	0.2	10.2			New Zealand - RBNZ	5.50
S&P 500	4766			-17.9			-0.4	0.1	1.0	19.4				
Nasdaq	14944			-28.4			-0.2	0.7	0.9	34.7				
DAX	16420			-151.5			-0.9	-1.6	-2.0	8.1				
FTSE	7435			-123.7			-1.6	-2.8	-1.9	-5.3				
Nikkei	35478			-141.4			-0.4	3.0	8.3	32.4			Canada - BoC	Jan 24, 2024
Hang Seng	15277			-589.0			-3.7	-5.1	-8.1	-29.5			US - Fed	Jan 31, 2024
CAC	7320			-77.6			-1.0	-1.4	-3.6	3.4				
Commodities	Level						% change:							
WTI Crude	71.01			-1.39			-1.9	-1.7	-0.6	-11.4			England - BoE	Feb 01, 2024
Natural Gas	2.79			-0.11			-3.9	-12.7	11.8	-22.3			Euro zone - ECB	Jan 25, 2024
Gold	2027.22			-1.21			-0.1	0.1	0.4	6.2			Japan - BoJ	Jan 23, 2024
Silver	23.05			-0.16			-0.7	-0.3	-4.7	-4.6				
CRB Index	264.30			-0.08			-0.0	1.0	-0.3	-4.7				
Currencies	Level						% change:							
USDCAD	1.3522			0.0027			0.2	1.1	0.9	1.0			Mexico - Banxico	Feb 08, 2024
EURUSD	1.0871			-0.0004			-0.0	-0.9	-0.5	0.8			Australia - RBA	Feb 05, 2024
USDJPY	147.70			0.5100			0.3	1.3	3.4	15.3			New Zealand - RBNZ	Feb 27, 2024
AUDUSD	0.6556			-0.0028			-0.4	-2.1	-2.3	-6.2				
GBPUSD	1.2678			0.0041			0.3	-0.5	0.2	3.2				
USDCHF	0.8645			0.0029			0.3	1.6	-0.3	-6.2				

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