

DAILY POINTS

January 23, 2024 @ 8:35 EST

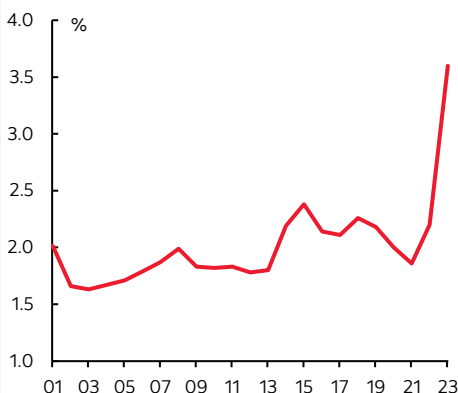
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Chart 1

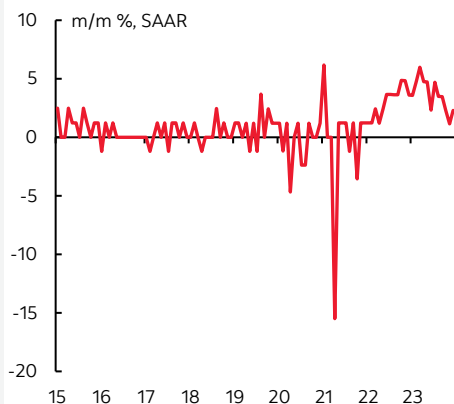
Japan's Spring Wage Negotiations



Sources: Scotiabank Economics, Ministry of Health, Labor & Welfare.

Chart 2

Japanese Core Inflation



Sources: Scotiabank Economics, Ministry of Internal Affairs and Communications.

On Deck for Tuesday, January 23

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	01-23	10:00	Richmond Fed Manufacturing Index	Jan	--	-6.0	-11.0

KEY POINTS:

- **Markets largely shook off the BoJ**
- **Bank of Japan sounds incrementally more inclined to end negative rates**
- **Plenty could go wrong with the BoJ's outlook**
- **Chinese authorities pump the rumour mill to support equities...**
- **...and never learn when it doesn't work**
- **Light N.A. developments: Richmond Fed, New Hampshire's no-contest**

Mild market effects in the aftermath of the BoJ's communications and earnings are dominating relatively light developments into the N.A. open. Nothing material to markets is expected out of N.A. today.

Sovereign curves are slightly cheaper, led by gilt underperformance. Equities are mixed but generally little changed across N.A. and European benchmarks. The dollar is little changed. Chinese equities stabilized to post mild gains overnight as the policy rumour mill whirled to life again.

The Bank of Japan left policy measures intact as widely expected, but its guidance can be interpreted as slightly more hawkish than in December and as a potentially incremental step toward ending negative rates as soon as Spring. Markets largely shook off the communications as there were very slight movements in JGBs and the yen.

Here is what they did:

- During his presser, Governor Ueda said "Prospects of higher wages are gradually affecting sales prices, which is leading to a gradual increase in service prices. If we get further evidence that a positive wage-inflation cycle will heighten, we will examine the feasibility of continuing with the various steps we are taking under our massive stimulus program." This quote is significant because they are acknowledging current evidence that higher wages to date (chart 1) are impacting inflation while signalling that should this evidence build in current wage negotiations then they would view that as constructive to the price outlook in a way that no longer requires negative rates.
- The statement emphasized how "it is important to closely monitor whether a virtuous cycle between wages and prices will intensify." That's a nod to the Spring wage negotiations and the aftermath by way of evidence on how they affect prices.
- Ueda indicated that the BoJ will have more information by the April meeting rather than the March meeting by way of potentially timing any changes. That's why you may hear many people circling April on their BoJ meeting calendars.
- In reference to their inflation forecasts, the BoJ's communications noted that "the likelihood of realizing this outlook has continued to gradually rise, although there remain high uncertainties over future developments." They noted "There are extremely high uncertainties, both upside and downside, surrounding Japan's economic activity and prices."
- They revised core CPI (ex-only food as per their convention) forecasts down to 2.4% (2.8% prior) in 2024 because of lower oil prices, and up a tick to 1.8% (1.7% prior) in 2025.

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- CPI core ex-food and energy (as per the convention elsewhere) was left unrevised at 1.9% this year and next. That signals unchanged expectations for underlying inflation throughout the policy horizon and at a rate that is within spitting distance of the 2% headline target. The BoJ argued that drivers include the output gap turning positive, while medium- to long-term inflation expectations are wage growth are expected to rise.
- Ueda said “Based on our current economic forecast, even if we were to end negative rates, monetary conditions will likely remain very accommodative.” That’s a nod to how ending the negative rate policy wouldn’t necessarily trigger a wave of rate hikes as opposed to balancing the risks associated with negative rates.

So will the BoJ achieve lift-off? There remains a lot of hubris among forecasters as near as I can tell. The BoJ has been employing cagey language on if and when to end negative rate policy and feeding the rumour mill on the topic for quite a while now.

So what could go wrong with the BoJ’s narrative?

- First, core inflation m/m SAAR is ebbing (chart 2). Unless I missed it, then I thought it was odd there was no reference to this.
- Second, what the BoJ is banking on is continued growth that pushes the output gap into excess demand over the forecast horizon and lifts pricing power. I’ve seen enough output gap estimates and forecasts and attempts to draw tight connections to inflation in my career to have little to no trust in them. Forecasting output gaps and implications is about as rewarding as spitting into the wind. You tell me what Japanese potential growth and potential GDP levels will be and how the state of the global economy will evolve with implications for Japan’s export-oriented economy. Then tell me how today’s inflation is vastly more complicated than what is driven by output gaps. Easy peasy huh.
- They are also banking upon an aggressive wage gain this Spring coupled with evidence that higher wages translate into sustained higher inflation compatible with achieving their 2% target. There are high uncertainties around wage Phillips and inflation Phillips curves.
- The yen continues to be relatively soft and the lagged effects of depreciation from around the 110 to the USD mark in 2021 toward the 150 range now may continue to drive imported inflation. Key to the outlook, however, is whether yen weakness persists should a) the Fed begin to cut rates around mid-year, and b) should the BoJ go the other way.
- Energy prices are well off their peaks and may continue to be disinflationary in terms of lagging pass-through effects.

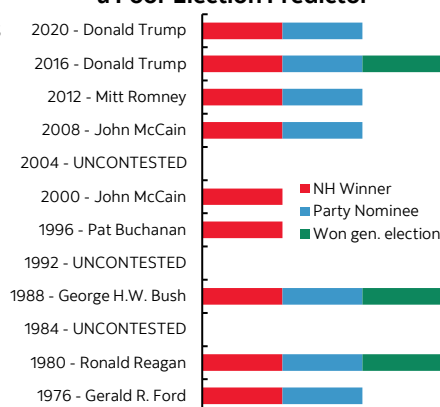
Anonymous Chinese officials indicated to the media that they are considering about US\$278B of stimulus for the stock market mainly taking the form of unleashing offshore accounts of SOEs to buy Chinese equities. The guidance is unconfirmed and could prove to be purely speculative. If not, well, let’s just say they never learn. Stock market manipulation through purchases by the state or its puppets always begets the question ‘what next?’. It’s not a sustainable solution to the concerns surrounding the outlook for the Chinese economy.

The probability of a Trump victory edged a touch higher after DeSantis ended his campaign and now stands at 94% according to PredictIt. Results start to arrive tonight after 7pmET. Remember though, that the winner of the contested Republican NH Primary has become President only one-third of the time in history (chart 3).

US earnings releases are also on the docket but it’s more of an issue of volume than big names. GE and several others are in the pre-market with Netflix in the after-market. The only release on the docket is the Richmond Fed manufacturing gauge for January at 10amET which is modestly useful as input into an ISM-manufacturing call.

Chart 3

The New Hampshire Primary Is a Poor Election Predictor



Sources: Scotiabank Economics, NH Primary 100.

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	Canada - BoC	5.00	
	4.40	4.39	4.22	4.04	4.03	3.93	4.12	4.11	4.06	4.35	4.32	4.30			
	4.08	4.08	3.90	3.54	3.53	3.39	3.48	3.46	3.36	3.42	3.40	3.31	US - Fed	5.50	
	2.68	2.69	2.60	2.23	2.23	2.15	2.31	2.29	2.26	2.49	2.46	2.47	England - BoE	5.25	
	0.04	0.03	0.01	0.27	0.25	0.18	0.67	0.66	0.60	1.76	1.78	1.59	Euro zone - ECB	4.50	
	4.34	4.31	4.16	3.90	3.85	3.67	3.95	3.90	3.80	4.56	4.53	4.49			
	Spreads vs. U.S. (bps):														
	-32	-32	-33	-50	-50	-54	-64	-65	-70	-92	-92	-99			
	-172	-170	-162	-182	-180	-178	-181	-182	-180	-186	-186	-183	Japan - BoJ	-0.10	
-436	-437	-421	-377	-378	-376	-345	-345	-346	-259	-254	-270	U.K.			
-6	-9	-6	-14	-18	-26	-17	-20	-26	21	21	19	Mexico - Banxico	11.25		
Equities	Level					% change:							Next Meeting Date		
	Last	Change			1 Day	1-wk	1-mo	1-yr							
S&P/TSX	20924	17.8			0.1	-0.7	0.2	1.4	Australia - RBA		4.35				
Dow 30	38002	138.0			0.4	1.1	1.6	13.0	New Zealand - RBNZ		5.50				
S&P 500	4850	10.6			0.2	1.4	2.0	20.7							
Nasdaq	15360	49.3			0.3	2.6	2.4	35.2							
DAX	16686	2.3			0.0	0.7	-0.1	10.5							
FTSE	7491	2.9			0.0	-0.9	-2.7	-3.8							
Nikkei	36518	-29.4			-0.1	2.5	10.1	33.8	Canada - BoC		Jan 24, 2024				
Hang Seng	15354	392.8			2.6	-3.2	-6.0	-30.4	US - Fed		Jan 31, 2024				
CAC	7393	-20.6			-0.3	-0.1	-2.3	5.1	England - BoE		Feb 01, 2024				
Commodities	Level					% change:							Euro zone - ECB		
	74.08	-0.68			-0.9	2.3	0.7	-9.2	Jan 25, 2024						
WTI Crude	2.37	-0.05			-2.0	-18.2	-9.2	-31.2	Jan 22, 2024						
Natural Gas	2027.13	5.44			0.3	-0.1	-1.3	5.0	Jan 22, 2024						
Gold	22.20	-0.60			-2.6	-4.4	-9.2	-7.0	Jan 22, 2024						
Silver	266.95	1.58			0.6	1.0	0.1	-4.7	Jan 22, 2024						
CRB Index	Currencies	Level					% change:								Next Meeting Date
	1.3469	-0.0010			-0.1	-0.2	1.6	0.8	Mexico - Banxico		Feb 08, 2024				
USDCAD	1.0870	-0.0013			-0.1	-0.0	-1.3	-0.0	Australia - RBA		Feb 05, 2024				
EURUSD	147.93	-0.1700			-0.1	0.5	3.9	13.2	New Zealand - RBNZ		Feb 27, 2024				
USDJPY	0.6597	0.0027			0.4	0.2	-2.9	-6.1							
AUDUSD	1.2712	0.0003			0.0	0.6	0.2	2.7							
GBPUSD	0.8688	-0.0003			-0.0	0.8	1.6	-5.7							
USDCHF															

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