

DAILY POINTS

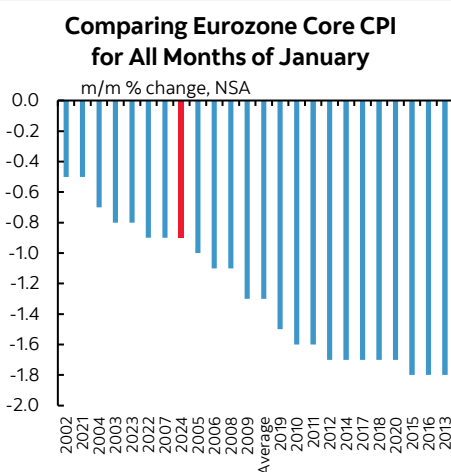
February 1, 2024 @ 7:45 EST

Contributors

Derek Holt

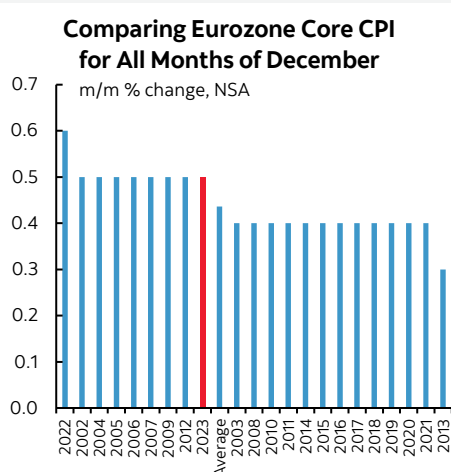
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Chart 1



Sources: Scotiabank Economics, Eurostat.

Chart 2



Sources: Scotiabank Economics, Eurostat.

On Deck for Thursday, February 1

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	02-01	08:30	Initial Jobless Claims (000s)	Jan 27	210	212	214
US	02-01	08:30	Continuing Claims (000s)	Jan 20	1840	1839	1833
US	02-01	08:30	Productivity (q/q a.r.)	4Q P	2.3	2.5	5.2
US	02-01	08:30	Unit Labor Costs (q/q a.r.)	4Q P	1.4	1.2	-1.2
US	02-01	09:00	Total Vehicle Sales (mn a.r.)	Jan	15.3	15.7	15.8
US	02-01	10:00	Construction Spending (m/m)	Dec	0.5	0.5	0.4
US	02-01	10:00	ISM Manufacturing Index	Jan	47.0	47.2	47.4

KEY POINTS:

- Markets continue to reduce Fed, ECB, BoE and BoC cut pricing
- The Fed's aftermath continues to reverberate through markets
- Eurozone core inflation was warm again, leans against premature easing
- Markets didn't like what the Bank of England had to say
- BoC testimony: what's changed since the last decision?
- US layoffs picked up in January
- US data dump: productivity, ULCs, claims, ISM, vehicle sales
- Key US tech names release in the after-market
- Sweden's Riksbank doesn't know what to do
- Peru to update inflation ahead of next week's BCRP decision

Month-end transitions in markets are being swamped by the ongoing aftermath of the Fed's communications (recap [here](#)) coupled with another warm Eurozone inflation report. The BoE disappointed market positioning into this morning's communications as sterling appreciated and yields on gilts climbed in the aftermath so far. Also ahead are US data releases, big names in US earnings, and Bank of Canada testimony.

US Treasuries are cheaper by another 3bps or so across maturities with Canadian government bond yields performing similarly. EGBs are underperforming and gilts are reversing their rally into the BoE communications with yields now pushing higher. The dollar is slightly firmer against most crosses as an extension of reduced cut expectations. Stocks are in a mildly positive mood in N.A. but will be sensitive to data and key earnings, and stocks are mixed in Europe.

Eurozone core inflation was hotter than seasonally normal for a second month in a row (charts 1, 2). Core prices normally drop in January, but the -0.9% m/m NSA decline this January was a materially smaller drop compared to like months in history. The same was true in December when what is normally a seasonal up-month for prices was stronger than usual. EGBs were already cheapening before the data as they were playing catch-up to yesterday afternoon's Fed communications, but the data pushed yields higher across all maturities and countries. The net effect of the Fed and Eurozone CPI also shaved pricing for an ECB cut in April by a few basis points and March has been pretty much wiped out.

Sweden's Riksbank kept its policy rate unchanged at 4% as universally expected. Guidance was kind of muddled and sounded like a central bank that doesn't know what the heck to do and when. Join the club. The statement said "There is less risk of inflation becoming entrenched at levels that are too high," and that "The policy rate can therefore probably be cut soon than was indicated in the November forecast" which pointed to easing over 2025H2. It also said "If the prospects for inflation remain favourable, the possibility of the policy rate being cut during the first half of the year cannot be ruled out." Alrighty then, so they might cut over 2024H1, or at least sooner than 2025H2 which seems like a pretty

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wide open window! They did not publish updated forecasts that would fill in this window and the next forecasts with explicit forward rate guidance will be published on March 27th.

Enter the BoE that delivered a statement at 7amET along with a full forecast update. While reference to further potential tightening was removed, two MPC members continued to vote for another hike with one voting to cut. Key, however, is that they retained reference to remaining restrictive for sufficiently long and for an extended period while they 'keep under review' how long to keep Bank Rate unchanged at 5.25%. This part of the statement ([here](#)) is key:

"As a result, monetary policy will need to remain restrictive for sufficiently long to return inflation to the 2% target sustainably in the medium term in line with the MPC's remit. The Committee has judged since last autumn that monetary policy needs to be restrictive for an extended period of time until the risk of inflation becoming embedded above the 2% target dissipates.

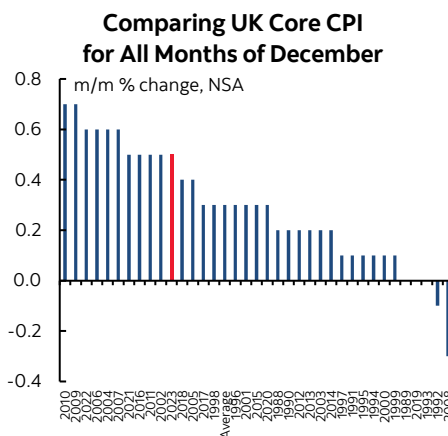
The MPC remains prepared to adjust monetary policy as warranted by economic data to return inflation to the 2% target sustainably. It will therefore continue to monitor closely indications of persistent inflationary pressures and resilience in the economy as a whole, including a range of measures of the underlying tightness of labour market conditions, wage growth and services price inflation. On that basis, the Committee will keep under review for how long Bank Rate should be maintained at its current level."

Versus previously when they said this in December:

"The MPC will continue to monitor closely indications of persistent inflationary pressures and resilience in the economy as a whole, including a range of measures of the underlying tightness of labour market conditions, wage growth and services price inflation. Monetary policy will need to be sufficiently restrictive for sufficiently long to return inflation to the 2% target sustainably in the medium term, in line with the Committee's remit. As illustrated by the November Monetary Policy Report projections, the Committee continues to judge that monetary policy is likely to need to be restrictive for an extended period of time. Further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures."

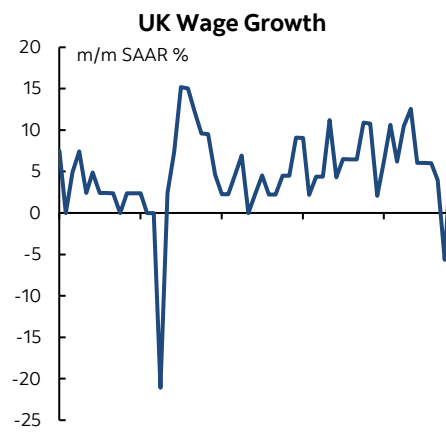
I don't know why there was such a grand expectation that the MPC would suddenly provide easing signals in any event. Had they done so, it would have bucked the trend across central banks and arguably been a mistake. The Fed, ECB, and Bank of Canada are among the significant central banks that have pushed back against easing any time soon, but somehow the country that had the worst inflation experience of all is going to feel comfortable to embrace cut guidance? Pfft. They don't have the recent data in their favour if they decide to do so. UK core CPI in m/m NSA terms in December was among the hotter months of December in history (chart 3). Ditto for wage growth that sharply rebounded in December in m/m SAAR terms (chart 4).

Chart 3



Sources: Scotiabank Economics, UK Office for National Statistics.

Chart 4



Sources: Scotiabank Economics, UK Office for National Statistics..

US macro readings will be a source of further market volatility this morning.

- Job layoffs increased to 82k in January from 34k in December which takes us back toward layoffs that were being record in early 2023. Maybe that's a point in itself by way of indicating that companies enter the year with fresh evaluations and pink slips and so I wouldn't overreact to the rise as a trend-setter yet.
- US Q4 productivity growth (output per hour worked) is expected to slow to around half the prior quarter's pace while still remaining respectable (8:30amET). Chart 5.
- Productivity-adjusted labour costs are expected to flip the prior quarter's negative sign and rebound but in a relatively mild manner (8:30amET). Chart 6.

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- US ISM-manufacturing for January is expected to be little changed in contraction territory along with new orders and employment. Prices paid largely follow commodities (10amET).
- Weekly US initial jobless claims (8:30amET) are outside of the nonfarm reference period and won't influence expectations for tomorrow's payrolls report.
- US vehicle sales during January will arrive toward the end of the day. Advance industry guidance points to an upward revision to December and a dip down to 15.3 million SAAR (e.o.d.).

Chart 5

US Labour Productivity Growth

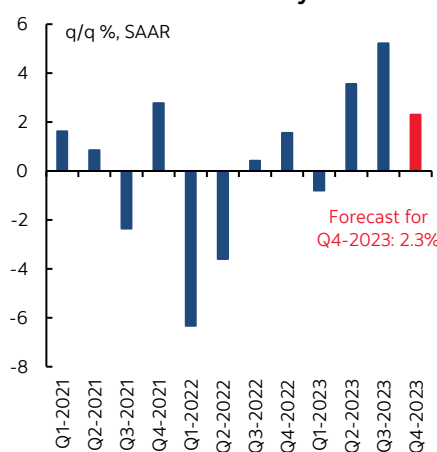
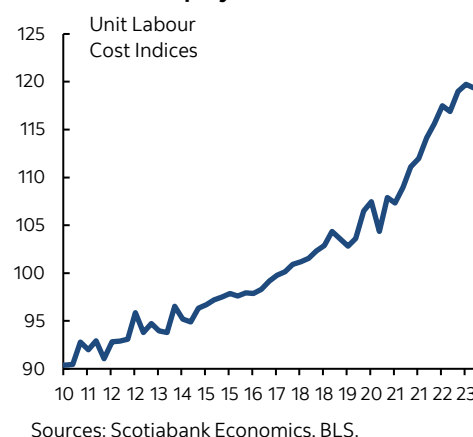


Chart 6

US Productivity-Adjusted Employment Costs



BoC Governor Macklem and Senior Deputy Governor Rogers will deliver parliamentary testimony later this morning (11:30amET). It starts with opening remarks and then goes to Q&A. This might be worth a peak. Since the BoC's communications a week ago yesterday, we've heard Powell and Lagarde push back against nearer term easing and Canadian GDP accelerated into year-end.

Macklem is unlikely to be overly reactionary to these developments, but they continue to challenge any sense that the BoC is on track to cut any time soon.

Big names in US tech release earnings in the after-market and may heavily influence how the market tone ends the week along with tomorrow's US nonfarm payrolls. Apple, Meta Platforms and Amazon are among the key names.

Peru's inflation figures for January (10amET) are expected to soften ahead of next Thursday's central bank decision that arrives in the wake of what has already been 125bps of cutting since September.

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.	4.24	4.21	4.30	3.86	3.84	4.00	3.94	3.91	4.12	4.18	4.17	4.37	Canada - BoC	5.00
CANADA	4.00	3.97	4.01	3.44	3.40	3.52	3.35	3.32	3.48	3.28	3.25	3.45	US - Fed	5.50
GERMANY	2.48	2.43	2.62	2.09	2.05	2.19	2.20	2.17	2.29	2.43	2.41	2.50		
JAPAN	0.09	0.08	0.07	0.29	0.31	0.33	0.71	0.73	0.75	1.80	1.83	1.83		
U.K.	4.29	4.26	4.39	3.77	3.75	3.92	3.81	3.79	3.98	4.47	4.46	4.59	England - BoE	5.25
Spreads vs. U.S. (bps):														
CANADA	-24	-24	-29	-43	-43	-48	-59	-59	-64	-90	-92	-92	Euro zone - ECB	4.50
GERMANY	-176	-178	-168	-177	-179	-181	-174	-175	-183	-175	-176	-187	Japan - BoJ	-0.10
JAPAN	-415	-413	-423	-357	-353	-367	-323	-318	-337	-239	-233	-254		
U.K.	6	5	9	-10	-9	-8	-13	-12	-14	29	29	22		
Equities	Level						% change:						Mexico - Banxico	11.25
	Last	Change		1 Day	1-wk	1-mo	1-yr	Australia - RBA	4.35					
S&P/TSX	21022	-206.0		-1.0	-0.0	0.3	1.3							
Dow 30	38150	-317.0		-0.8	0.9	1.2	11.9	New Zealand - RBNZ	5.50					
S&P 500	4846	-79.3		-1.6	-0.5	1.6	17.6							
Nasdaq	15164	-345.9		-2.2	-2.1	1.0	28.3	Next Meeting Date						
DAX	16898	-6.1		-0.0	-0.1	0.9	11.3	Canada - BoC	Mar 06, 2024					
FTSE	7651	20.8		0.3	1.6	-1.1	-1.4	US - Fed	Mar 20, 2024					
Nikkei	36011	-275.3		-0.8	-0.6	7.6	31.4	England - BoE	Feb 01, 2024					
Hang Seng	15566	81.1		0.5	-4.0	-7.3	-29.1	Euro zone - ECB	Mar 07, 2024					
CAC	7601	-55.6		-0.7	1.8	0.8	7.4	Japan - BoJ	Mar 19, 2024					
Commodities	Level						% change:						Mexico - Banxico	Feb 08, 2024
WTI Crude	76.26	0.41		0.5	-1.4	6.4	-0.2	Australia - RBA	Feb 05, 2024					
Natural Gas	2.14	0.04		1.8	-16.9	-15.0	-13.4	New Zealand - RBNZ	Feb 27, 2024					
Gold	2033.36	-6.16		-0.3	0.6	-1.4	4.2							
Silver	23.09	0.02		0.1	1.4	-2.9	0.4							
CRB Index	272.41	-1.59		-0.6	0.5	3.3	0.2							
Currencies	Level						% change:							
USDCAD	1.3446	0.0011		0.1	-0.2	1.6	1.2	Mexico - Banxico	Feb 08, 2024					
EURUSD	1.0815	-0.0003		-0.0	-0.3	-2.1	-1.6	Australia - RBA	Feb 05, 2024					
USDJPY	147.07	0.1500		0.1	-0.4	4.4	14.0	New Zealand - RBNZ	Feb 27, 2024					
AUDUSD	0.6520	-0.0048		-0.7	-1.0	-4.3	-8.6							
GBPUSD	1.2676	-0.0012		-0.1	-0.3	-0.4	2.4							
USDCHF	0.8633	0.0019		0.2	-0.4	2.7	-5.0							

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