

DAILY POINTS

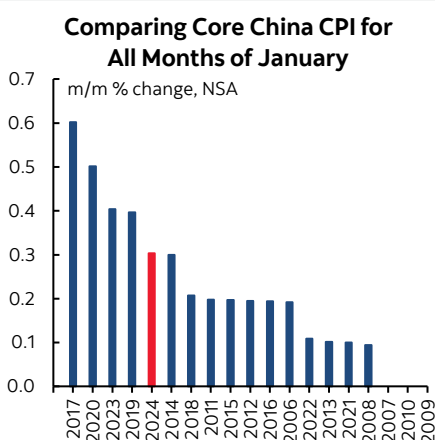
February 8, 2024 @ 8:40 EST

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Chart 1



Sources: Scotiabank Economics, China National Bureau of Statistics.

On Deck for Thursday, February 8

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	02-08	08:30	Initial Jobless Claims (000s)	Feb 03	210	220	218
US	02-08	08:30	Continuing Claims (000s)	Jan 27	1840	1875	1871
US	02-08	08:30	Fed's Barkin Speaks on Bloomberg TV				
US	02-08	10:00	Wholesale Inventories (m/m)	Dec F	--	0.4	0.4
US	02-08	12:05	Fed's Barkin Speaks at Economic Club of New York				

KEY POINTS:

- **Sovereign yields remain under upward pressure**
- **China's core CPI inflation accelerated; forget alarmist headlines**
- **Banxico to hold, faces weakened case to pivot than in prior minutes**
- **Peru's central bank expected to continue easing**
- **Mexican, Colombian CPI matched expectations**
- **Chilean CPI a little firmer than expected**
- **US jobless claims held steady**
- **RBI held, retained hawkish bias**
- **Canada only holds a 2 year-auction today, no data**
- **Canada's terms of trade remain very favourable to the economy**
- **Canadian net trade will contribute to Q4 GDP growth**
- **Canadian wage settlements soared by the most since 1982...**
- **...and collective bargaining pressures are only just beginning**
- **Why shelter can't be excluded from Canadian CPI**
- **SCOTUS addresses Trump's eligibility today**

A sprinkling of CPI reports and a trio of central bank decisions should translate into mostly regional market implications as opposed to being influences upon global markets. There is a slight cheapening bias across sovereign bonds as the USD gains. US and Canadian equity futures are slightly in the red along with mixed European equities. Because of light developments I've worked some additional content on Canada into the early morning draft of this note.

Chinese Core Inflation Accelerated

China's core CPI inflation registered the warmest reading since July. It clocked in at 2.0% m/m SAAR in January and is the second monthly acceleration (chart 1). Year-over-year rates of inflation ebbed because of year-ago base effects that tilted higher, but that's not the way to look at it. For instance, headline CPI slipped from -0.3% y/y in December 2023 to -0.8% in January because it was based off of a blip higher a year ago relative to the prior month of a year ago. Ergo, fade the alarmist headlines about the fastest fall in prices since coming out of the GFC as that misses the point on core inflation at the margin.

The RBI Still Sounds Hawkish

The RBI kept its repo rate unchanged at 6.5% as widely expected, but dashed some expectations it may have adopted a more neutral stance. The statement repeated reference to how the RBI "decided to remain focused on withdrawal of accommodation to ensure that inflation progressively aligns to the target, while supporting growth" which was unchanged from the prior statement in December. The RBI Governor followed that up

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in the press conference by saying “The job is not yet finished, and we need to be vigilant about new supply shocks that may undo the progress made so far.” The rupee outperformed other crosses to the dollar and the 2-year climbed by about 3bps post-statement.

A Trio of LatAm Inflation Reports

A trio of LatAm inflation reports started arriving overnight with another on tap shortly. Chile’s readings were a little firmer than expected with headline CPI at 3.8% y/y (3.9% prior, 3.5% consensus) and 0.7% m/m NSA which is a little warmer than seasonally normal for a month of January. Colombia’s CPI matched expectations at 8.4% y/y (9.3% prior) and 0.9% m/m NSA in January with core at 9.7% y/y (10.3% prior) and 1.0% m/m NSA that also matched expectations.

Mexican CPI landed on the screws. It was 4.9% y/y (4.7% prior) and 0.9% m/m with core at 0.4% m/m and 4.8% y/y (5.1% prior). There were no big surprises in part because they release bi-weekly which gives a big advantage to estimating the monthly figures.

Banxico's Weakened Case to Pivot

Banxico delivers its latest decision later this afternoon (2pmET) with a hold at 11.25% widely expected. Minutes to the prior meeting indicated that the central bank may be open to a cut toward the end of Q1 or Q2. That may be stale now after Fed Chair Powell explicitly ruled out a cut in March and sounded in no rush to ease. Our Mexican economics team notes that ongoing upside risks to inflation, procyclical fiscal policy, economic activity that has gained momentum and persistent core inflation pressures combine to add reasons to remain on hold.

Peru's Central Bank to Stay on Track

Peru’s central bank is expected to continue cutting at a 25bps clip this evening (6pmET).

US Jobless Claims

US initial claims held steady at 218k (227k prior) as continuing claims pulled back a little to 1.871 million from 1.898. No states were estimated so it’s hard data. The figures are between nonfarm reference periods and of little significance.

SCOTUS hears Trump’s Jan 6th case today with no clarity on when it may rule on his eligibility to be on the ballot; obviously there will be no direct market implications for now, but there are pretty clear implications for the US election and economic policy thereafter.

Canada only faces a 2-year auction today and no data.

CANADIAN WAGE SETTLEMENTS HIGHEST SINCE 1982

Canada finally updated wage settlements yesterday. The average contract period of 57 months was marked by a first-year wage increase of 9.1% (chart 2) which is the hottest since 1982. Yes, 1982. The average annual wage gain over the contract period is 3.9%, or double the BoC’s inflation target. It’s not just the public sector where these gains are being booked, although their settlements were up by 10.6% in the first year and 3.5% on average over the contract period. C-suites are pretty happy to give away shareholder money too. Private sector deals saw a first-year wage settlement of 7.5% and an average annual wage increase of 4.3% over the contract period.

Chart 2

Soaring Canadian Wage Settlements

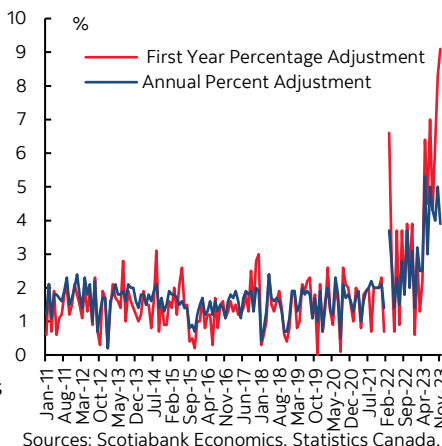


Chart 3

Canadians' Wages Are Beating Inflation

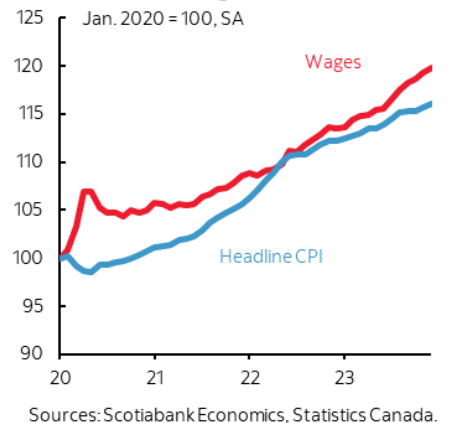


Chart 4

Canadian Labour Productivity Growth

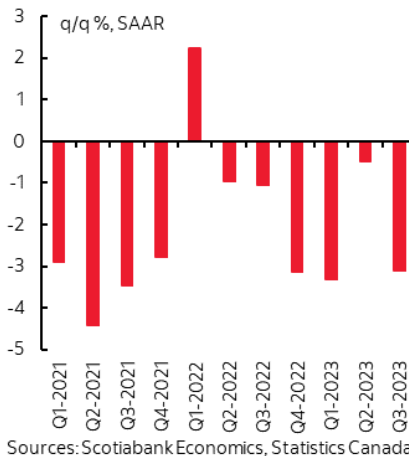
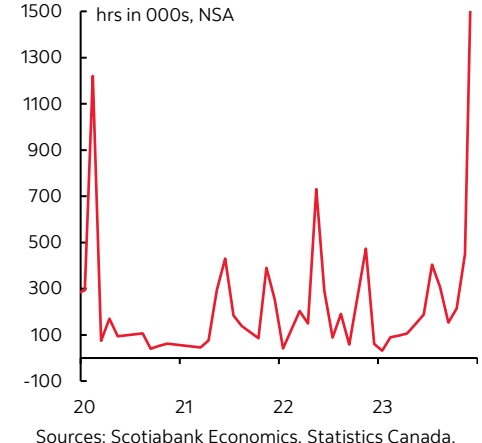


Chart 5

Total Hours Lost Due to Strike or Lockout



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Individual numbers of employees affected by these agreements are modest in any given month but Canada is going through a multi-year repricing of labour. This is a good opportunity to reinforce points that were made in the Global Week Ahead about the state of Canadian job markets and ahead of tomorrow's figures:

- these are not just make-up wage gains. Canadian average hourly earnings have been outpacing inflation throughout the entire pandemic era (chart 3).
- These real wage gains are being granted despite tumbling labour productivity (chart 4). Most economists would argue that real wages should ride in sync with labour productivity over time. When that's not the case, it's a warning sign to inflation watchers and to the international competitiveness of Canadian labour over time.
- Canada is losing more hours worked due to strikes than even during the very depths of the pandemic lock downs at the start of it all (chart 5).
- this matters more to Canada than the US where they fuss over the UAW and Hollywood. 10% of US workers are unionized versus triple that in Canada. Collective bargaining is much more important to Canada than the US.

That's a big part of the hawkish BoC narrative and a key distinction by way of relative central bank narratives compared to the Fed. Soooo.....the glass half full perspective is that it's good for the consumer especially when spillover effects into non-unionized roles unfold. That's true as long as competitiveness problems don't become so acute as to lose jobs. If that happens, it will become a matter of balancing the gains received by most against the potential job losses and where that balance resides.

The glass half empty perspective is that inflation persists, then rates stay high, don't even begin to entertain easing.

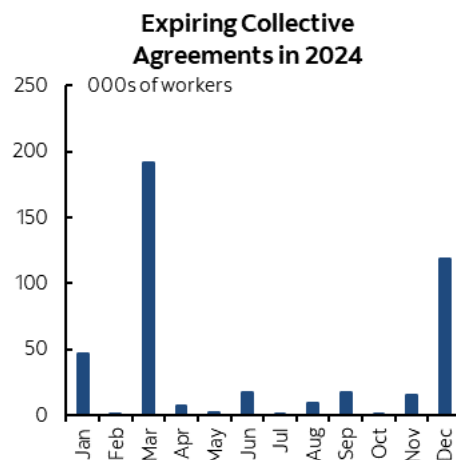
Such pressures are by no means over. In fact, we're only getting started. Expiring collective bargaining agreements in 2024 will cover about 427k workers. Chart 6 shows the monthly distribution. Here is a list of a few of the bigger examples that are particularly focused upon the public sector with implications for property taxes, services fees, tuition and interruptions to the normal course of business:

- Alberta Health Services 70k
- Alberta government 46k
- Government of Ontario 52k
- Canada Post 42k
- Ontario Colleges 26k
- City of Toronto 11.2k
- TTC 11k
- City of Ottawa 10.8k
- Sask health workers 10k

CANADIAN TRADE TO ADD TO Q4 GDP

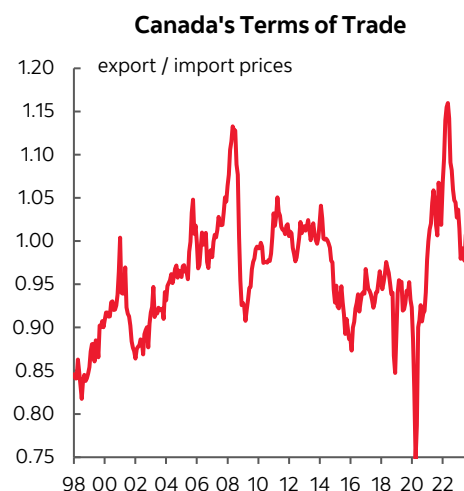
Yesterday's Canadian trade figures should buoy Q4 GDP growth. Export volumes were up by +2.8% q/q SAAR in Q4 while import volumes were down -0.5% q/q SAAR. Both effects will have net trade adding to GDP growth in Q4 through higher exports but also less of an import leakage effect that, in a GDP accounting sense, adds to GDP. I'm getting about a 1% weighted contribution to Q4 GDP growth from net trade.

Chart 6



Sources: Scotiabank Economics, Government of Canada.

Chart 7



Sources: Scotiabank Economics, Statistics Canada.

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I'm also still loving Canada's terms of trade (chart 7). This matters to an open economy that trades a lot, like Canada, where trade is a much bigger share of the economy than, say, the US. An elevated terms of trade (export to import prices) is like a positive income shock to Canada's economy that trickles down throughout the sectors. It supports broad corporate finance measures as well as government fiscal balances and trickles down into the household sector. In plain language, it shows favourable prices being fetched for exports relative to what the country is paying for imports.

WHY SHELTER COSTS CANNOT BE EXCLUDED FROM CANADIAN CPI IN THE CONDUCT OF MONETARY POLICY

Governor Macklem didn't say this, but should monetary policy look through shelter cost inflation in Canadian CPI? Macklem's message got misinterpreted by some a couple of days ago; what I heard him say is that they target total inflation over the medium-term, but can't ignore shelter given it is a big component, but also can't fix affordability issues even though I disagree with his downplaying of that point as written yesterday. Here are some reasons why shelter cannot be omitted from CPI when doing so could lead to misleading interpretations about how the BoC is about to ease because the rest of the basket ex-shelter is looking like it's better behaved.

- Upside risk to shelter costs may well intensify into the Spring housing market.
- Multiplier effects of shelter on other categories could become material. Therefore it's not clear that shelter crowds out pricing power in the rest of the economy as opposed to buoying more widespread pressures.
- In today's environment, households don't differentiate between sources of inflation in forming expectations and changing behaviour. They just think the cost of living is going up and so they demand bigger wage gains which feeds further inflation. Therefore it's a mistake to dismiss shelter cost as a relative price effect on CPI in the context of today's realities.
- There are multiple other sources of inflation risk, like very strong wage growth, previously flagged evidence from the S&P PMI for Canada that service sectors plan on passing on higher wages and other costs through prices, moribund labour productivity, excessive immigration, a very slow movement toward excess supply that may be interrupted into 2024H1, excessively stimulative fiscal policy that may become more so (witness the NDP's repeated warning yesterday) etc etc.

So why the misinterpretations of what the Governor said? He himself put it best in Le Devoir when he said:

"The financial markets think that if we are not raising rates, we must lower them. But it is also possible to maintain them."

In that same interview, Macklem repeated that neutral was likely higher: "When we use the models with historical data, it suggests something between 2% and 3%. When we look at the future, it's more likely that it will be higher than lower."

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.	4.44	4.43	4.20	4.10	4.07	3.81	4.14	4.12	3.88	4.36	4.33	4.12	Canada - BoC	5.00
CANADA	4.15	4.13	3.94	3.61	3.58	3.35	3.52	3.48	3.27	3.42	3.38	3.20	US - Fed	5.50
GERMANY	2.66	2.63	2.46	2.27	2.24	2.05	2.34	2.32	2.15	2.56	2.54	2.37	England - BoE	5.25
JAPAN	0.10	0.11	0.09	0.31	0.32	0.29	0.71	0.72	0.71	1.78	1.78	1.80		
U.K.	4.52	4.48	4.23	4.01	3.97	3.70	4.02	3.99	3.75	4.59	4.57	4.41		
Spreads vs. U.S. (bps):														
CANADA	-29	-30	-27	-48	-49	-46	-62	-64	-61	-94	-95	-92	Euro zone - ECB	4.50
GERMANY	-178	-180	-175	-182	-183	-176	-180	-181	-173	-180	-179	-175	Japan - BoJ	-0.10
JAPAN	-434	-432	-412	-379	-375	-352	-344	-340	-318	-258	-254	-232		
U.K.	8	5	3	-8	-10	-12	-12	-13	-14	23	24	30	Mexico - Banxico	11.25
Equities	Level						% change:							
	Last			Change			1 Day	1-wk	1-mo	1-yr				
S&P/TSX	20969			11.4			0.1	-0.3	-0.5	1.4			Australia - RBA	4.35
Dow 30	38677			156.0			0.4	1.4	2.6	13.9			New Zealand - RBNZ	5.50
S&P 500	4995			40.8			0.8	3.1	4.9	21.3			Next Meeting Date	
Nasdaq	15757			147.6			0.9	3.9	6.1	32.3			Canada - BoC	Mar 06, 2024
DAX	16984			62.4			0.4	0.7	1.6	10.2			US - Fed	Mar 20, 2024
FTSE	7626			-2.3			-0.0	0.1	-0.9	-3.3			England - BoE	Mar 21, 2024
Nikkei	36863			743.4			2.1	2.4	9.2	33.6			Euro zone - ECB	Mar 07, 2024
Hang Seng	15878			-203.8			-1.3	2.0	-1.9	-26.6			Japan - BoJ	Mar 19, 2024
CAC	7663			51.3			0.7	1.0	2.9	7.6			Mexico - Banxico	Feb 08, 2024
Commodities	Level						% change:							
WTI Crude	74.81			0.95			1.3	1.3	5.7	-4.7			Australia - RBA	Mar 18, 2024
Natural Gas	1.96			-0.01			-0.3	-4.3	-34.2	-18.2			New Zealand - RBNZ	Feb 27, 2024
Gold	2024.15			-11.21			-0.6	-1.5	-0.2	7.9				
Silver	22.29			-0.02			-0.1	-3.5	-3.0	0.4				
CRB Index	270.35			1.30			0.5	0.2	3.3	-0.2				
Currencies	Level						% change:							
USDCAD	1.3484			0.0021			0.2	0.7	1.0	0.3				
EURUSD	1.0753			-0.0019			-0.2	-1.1	-1.8	0.4				
USDJPY	149.41			1.2300			0.8	2.0	3.6	13.7				
AUDUSD	0.6489			-0.0031			-0.5	-1.3	-3.4	-6.3				
GBPUSD	1.2591			-0.0035			-0.3	-1.2	-1.2	4.3				
USDCHF	0.8751			0.0007			0.1	2.0	3.2	-5.0				

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