

DAILY POINTS

March 7, 2024 @ 7:50 EST

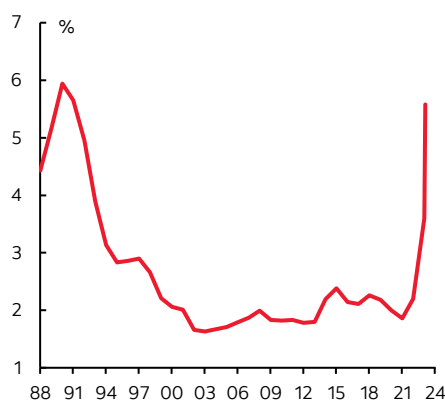
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Chart 1

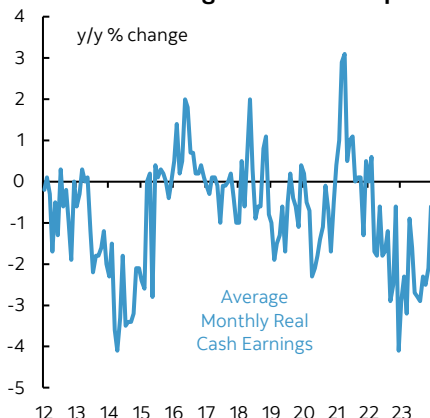
Japan's Spring Wage Negotiations



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

Chart 2

Still No Real Wage Inflation In Japan



Source: Scotiabank Economics, Ministry of Health, Labour and Welfare, Japan.

On Deck for Thursday, March 7

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	03-07	08:30	Building Permits (m/m)	Jan	--	4.5	-14.0
CA	03-07	08:30	Merchandise Trade Balance (C\$ bn)	Jan	--	0.0	-0.3
US	03-07	08:30	Initial Jobless Claims (000s)	Mar 02	215	217.0	215.0
US	03-07	08:30	Continuing Claims (000s)	Feb 24	1890	1880.0	1905.0
US	03-07	08:30	Productivity (q/q a.r.)	4Q F	--	3.1	3.2
US	03-07	08:30	Trade Balance (US\$ bn)	Jan	-63.4	-63.5	-62.2
US	03-07	08:30	Unit Labor Costs (q/q a.r.)	4Q F	--	0.7	0.5
US	03-07	10:00	Fed Chair Powell Testifies Before Congress				
US	03-07	11:30	Fed's Mester Gives Speech on Economic Outlook				
US	03-07	15:00	Consumer Credit (US\$ bn m/m)	Jan	--	10.0	1.6

KEY POINTS:

- Yen surge dominates overnight markets
- Wages, Board member comments add to the BoJ's imperfect case for hiking
- The ECB should be in no rush to ease given core inflation persistence...
- ...and pending key Q1 wage figures
- US job cuts remain compatible with net job growth, may be more seasonal than usual
- Is Canadian trade momentum carrying into Q1?
- Mexican CPI lands on the screws thanks to a running head start
- German factory orders tanked
- Bank Negara held
- Saint Powell winds up again

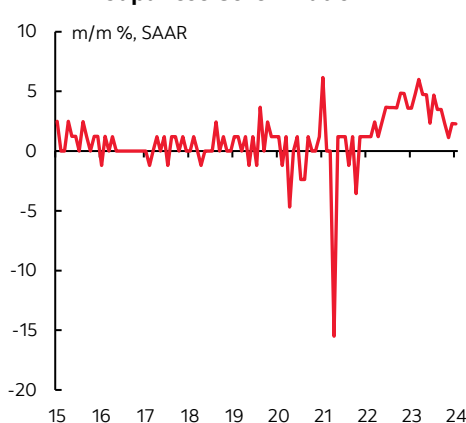
Markets await the ECB's messaging after further developments in Japan added to speculation that the BoJ may hike this month. Any reactions will no doubt quickly give way to focusing upon tomorrow's US and Canadian jobs and wages. There is little spillover from the BoC's communications but it's continuing yesterday's reaction by putting a small bid to CAD that is nevertheless underperforming after yesterday's rally and given broad USD softness this morning. Canada's rates curve is basically unchanged after yesterday's cheapening in 2s but that's being retained.

BoJ Fever

BoJ fever got a little hotter overnight. Wages were the reason. Rengo said that the average wage gain being sought by its member unions this year is 5.85%. That's much higher than last year and higher than initially sought. It's the strongest back-to-back gains being sought since the early 1990s (chart 1). Some member unions are seeking about a percentage point more than that figure. We'll get tentative results next week. There is also more evidence of broadening wage gains beyond just the biggest companies subject to the Spring Shunto negotiations. Nominal labour earnings were up 2% y/y in January (consensus 1.2%). In real terms that works out to -0.6% (-1.5% consensus). At least that's progress, but let's not get carried away here (chart 2).

Chart 3

Japanese Core Inflation



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

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The data prompted more sentiment that the BoJ could hike and end negative rates this month. A BoJ Board member fanned this perspective with his remarks.

When I was in Japan last week there was dominant sentiment that now is the best opportunity that the BoJ will get to end the pernicious effects of negative rates and seize upon confidence building arguments that deflation is gone. I hope they're right because the consequences to being yet another false start by the BoJ could be devastating. The fear was this opportunity would slip away if and when the Fed begins to ease. Clearly that fear is being tamped down each time a Fed official speaks and favours later and less cutting.

Still, there are doubts about whether the BoJ should be hiking. What if wage growth is only temporary? There has to be more trickle through to smaller businesses. There has to be greater evidence that would pass through to core inflation when core inflation m/m has been decelerating from the peak (chart 3). Then there is weak productivity since at some point one would think shareholders may ask c-suites to give their heads a shake if large wage gains are granted absent any productivity rationale for doing so. And of course there is the yen-Fed connection as well.

ECB Waiting Until at Least June

For the third time this week, we'll hear from another central bank that says it is in no rush to do much of anything. The ECB will stand pat and likely continue to guide that they will prefer waiting for Q1 wage figures that arrive around the June meeting. The statement lands at 8:15amET and President Lagarde hosts her press conference at 8:45amET. The staff forecasts get releases at 9:45amET. The Q1 figures are particularly important to the ECB given the seasonality of collective bargaining exercises. On top of that is the fact that m/m core inflation is sending warning signs that it's premature to ease up as each of the past three months of m/m core CPI figures indicate that inflationary pressures remain very much alive in the Eurozone (charts 4–6). The ECB's updated forecasts may inform current policy attitudes and rate cut timing, but they could change by June when we get more evidence on these factors. And in any event, always, always take what central banks forecast for inflation with a mountain of salt.

Chart 4

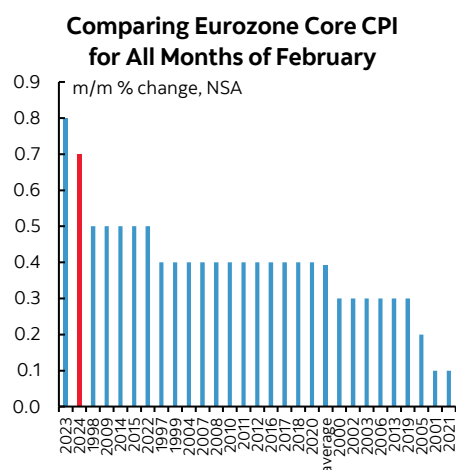


Chart 5

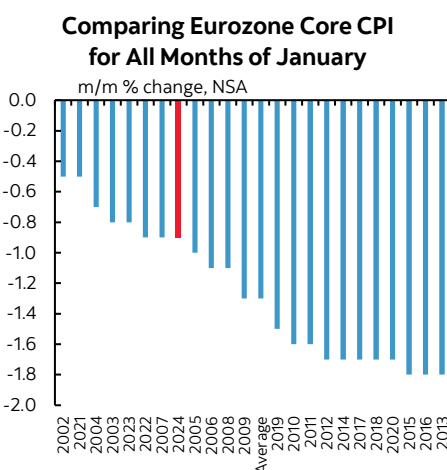
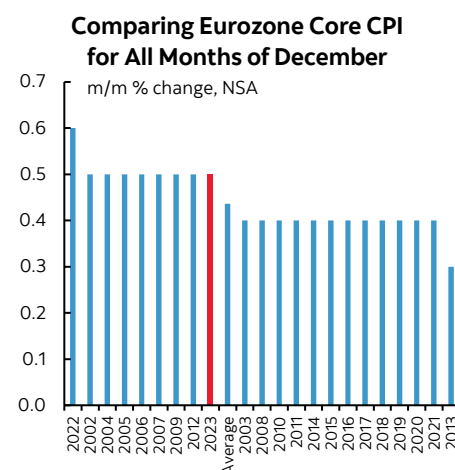


Chart 6



German factory orders reversed the prior month's optimism amid an extremely volatile data. Orders fell by -11.3% m/m in January, nearly doubling the consensus estimate for the drop. Part of the reason was that the prior month was revised up to a gain of 12% from 8.9%.

US Challenger job cut announcements landed at 84.6k last month. That's very close to the 82.3k the prior month and signals a pick up in the pace (chart 7). Still, the numbers remain compatible with net job growth. Cuts are higher than prior months but around where they were at this time last year. I still think some of that is not fully controlled by SA factors as new fiscal years kick off with trimming announcements following the prior massive wave of hiring announcements.

Bank Negara Malaysia held at 3% on currency concerns as expected.

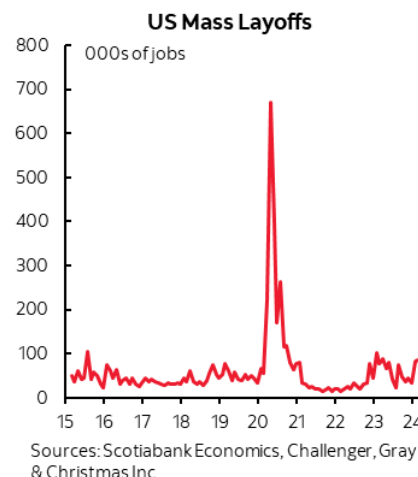
Mexican inflation landed on the screws in February with headline at 4.4% y/y and core at 4.6%. It usually does, given that bi-weekly inflation gives a running head start for forecasters.

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Modest data risk also lies in store. Watch Canadian trade figures to see if Q4 net trade momentum as a GDP driver is carrying into Q1 (8:30amET). The US trade deficit is unlikely to offer a material surprise to expectations for about a –US\$63.4B tally given that we already know the merchandise component onto which a usually stable services balance will be tacked. The US also updates weekly claims (8:30amET).

And of course, Chair Powell must have a Saint's patience as he winds up for another run at Congressional testimony today, this time before the Senate Banking Committee (10amET). It can sometimes add fresh surprises but is usually a replay with different actors.

Chart 7



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		
	4.56	4.55	4.62	4.11	4.12	4.25	4.10	4.10	4.25	4.22	4.24	4.38	Canada - BoC	5.00
	4.07	4.07	4.18	3.42	3.43	3.57	3.34	3.35	3.49	3.22	3.24	3.36	US - Fed	5.50
	2.86	2.86	2.90	2.35	2.36	2.43	2.30	2.32	2.41	2.43	2.46	2.54		
	0.20	0.19	0.18	0.38	0.38	0.36	0.73	0.72	0.71	1.77	1.76	1.75		
	4.30	4.25	4.30	3.97	3.94	4.04	4.00	3.99	4.12	4.40	4.43	4.57	England - BoE	5.25
	Spreads vs. U.S. (bps):													
	-49	-49	-44	-69	-68	-68	-76	-76	-76	-100	-100	-102	Euro zone - ECB	4.50
	-170	-170	-172	-176	-175	-181	-180	-178	-184	-180	-178	-184		
-436	-436	-444	-373	-374	-388	-337	-339	-354	-246	-248	-263	Japan - BoJ	-0.10	
-26	-30	-32	-14	-18	-20	-10	-11	-13	18	19	19			
Equities	Level					% change:							Mexico - Banxico	11.25
	Last	Change				1 Day	1-wk	1-mo		1-yr				
S&P/TSX	21594	68.0				0.3	1.6	3.0		6.5		Australia - RBA	4.35	
Dow 30	38661	75.9				0.2	-0.7	-0.0		17.7				
S&P 500	5105	26.1				0.5	0.7	2.2		28.1		New Zealand - RBNZ	5.50	
Nasdaq	16032	92.0				0.6	0.5	1.7		39.0				
DAX	17733	16.5				0.1	0.3	4.8		14.0				
FTSE	7681	2.1				0.0	0.7	0.7		-3.0				
Nikkei	39599	-492.1				-1.2	1.1	7.4		39.2		Canada - BoC	Apr 10, 2024	
Hang Seng	16230	-208.3				-1.3	-1.7	2.2		-19.1		US - Fed	Mar 20, 2024	
CAC	7970	14.9				0.2	0.5	4.7		8.6				
Commodities	Level					% change:								
		Change												
WTI Crude	78.83	-0.30				-0.4	0.7	6.7		1.6		England - BoE	Mar 21, 2024	
Natural Gas	1.94	0.01				0.4	4.1	-1.6		-27.9				
Gold	2156.79	8.61				0.4	5.5	6.0		18.9		Euro zone - ECB	Mar 07, 2024	
Silver	23.80	-0.14				-0.6	6.5	6.7		12.9				
CRB Index	278.12	2.30				0.8	1.0	2.9		3.2		Japan - BoJ	Mar 19, 2024	
Currencies	Level					% change:								
		Change												
USDCAD	1.3494	-0.0020				-0.1	-0.6	0.2		-1.9		Mexico - Banxico	Mar 21, 2024	
EURUSD	1.0897	-0.0002				-0.0	0.9	1.2		3.3				
USDJPY	147.80	-1.5800				-1.1	-1.5	-0.3		7.8		Australia - RBA	Mar 18, 2024	
AUDUSD	0.6605	0.0041				0.6	1.7	1.3		0.3				
GBPUSD	1.2750	0.0019				0.1	1.0	1.0		7.8		New Zealand - RBNZ	Apr 09, 2024	
USDCHF	0.8796	-0.0025				-0.3	-0.6	0.6		-6.6				

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