

DAILY POINTS

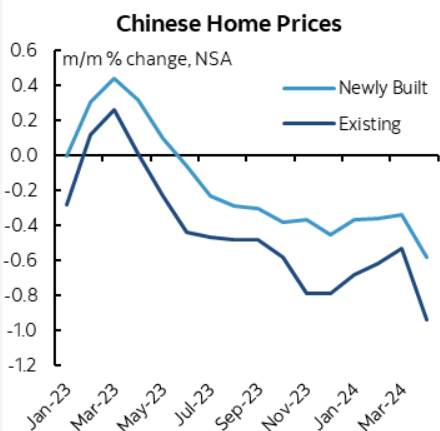
May 17, 2024 @ 7:05 EST

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Chart 1



Sources: Scotiabank Economics, Bloomberg Intelligence.

Chart 2



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

On Deck for Friday, May 17

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	05-17	08:30	International Securities Transactions (C\$ bn)	Mar	--	--	-8.8
US	05-17	10:00	Leading Indicators (m/m)	Apr	--	-0.3	-0.3
US	05-17	10:15	Fed's Waller Speaks on Payments Innovation				
US	05-17	10:15	Fed's Kashkari Gives Brief Introduction of Waller				
US	05-17	12:15	Fed's Daly Gives Commencement Speech				

KEY POINTS:

- **Curves mildly cheapen on Fed- and ECB-speak**
- **Chinese equities rally in response to a package of property market measures**
- **Reasons to be skeptical toward what China announced**
- **Chinese macro readings were mixed**
- **More Fed-speak on tap today**
- **Canadian bond markets shut early today ahead of Victoria Day**

The sound of crickets chirping away will take Canadian bond markets into an early close at 1pmET today ahead of the Victoria Day long weekend. There is no early close in equities (or Economics!). China is a focal point as a property market package was introduced on the heels of mixed data. The yuan initially reacted to the package by appreciating a touch, but then reversed all of that perhaps on a combination of second thoughts and broad USD strength. Chinese stock indices rallied by about 1% across the Shanghai, Shenzhen and Hang Seng composites. I'm not optimistic that China's package will achieve material success.

Fed- and ECB-speak are motivating slight curve cheapening and small reductions in rate cut pricing. Yesterday's remarks by Fed-speakers were not terribly new, but reinforced the notion that they are in no rush to cut. ECB Executive Board Member Schnabel said "a rate cut in July does not seem warranted" as she leaned against going back-to-back in June and July.

China's property market measures included the following steps:

- minimum down payments were cut by five percentage points to 15% for first-time home buyers and 25% for second homes.
- the minimum mortgage rate floor has been eliminated. Progressive steps to lower the floor have contributed to lowering the rate from about 5½% in early 2022 to 3.7% in 2024Q1 and it may go lower yet.
- Local governments are advised to buy unsold new homes and convert them to affordable housing. The PBOC will provide 300 billion yuan (about US\$42B) of funding to 21 state lenders at 1.75% in order to lend to regional state-owned enterprises across local governments.

Will it work? Does it pose inflation risk to the world economy as some headlines are screaming? We'll see, but I'm skeptical. When combined with earlier efforts to pressure banks to lower their loan spreads, a risk is that the willingness to lend will erode as the reward goes down and the risk goes up.

A second risk is whether potential buyers will take the bait which depends upon their outlook for Chinese property prices and their broader financial health. Chinese new home prices have fallen for 11 consecutive months in m/m terms and resale home prices have fallen for twelve straight months, presenting the catch-a-falling-knife dilemma for homebuyer sentiment (chart 1).

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The impact on loan quality is another matter.

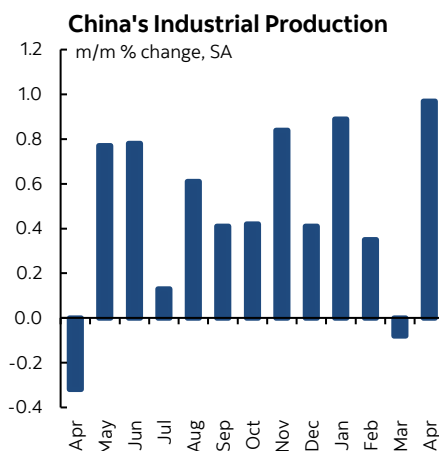
Further, if local governments do indeed start buying a material number of unsold homes, then it could further pressure their struggles with heavy debt loads with assets of uncertain value and spark more concern toward that space. That said, the size of the PBOC program to encourage state lenders to provide funding to local governments to buy homes is pretty modest in a bigger picture sense.

I'm also not sure that I understand what they are trying to do in engineering a paper swap to buy unsold new homes and convert them into, umm, other unsold 'affordable' homes?

China also updated monthly macro readings that got lost behind the policy announcements. Retail sales were flat at 0% m/m SA and have not posted material growth in any month since last October (chart 2). Industrial output was up by 1% m/m SA for the strongest gain since September 2020 (chart 3). The jobless rate edged two-tenths lower to 5%.

We'll hear from a few Fed speakers this morning but there are no planned releases. Governor Waller (10:15amET), Minneapolis Fed President Kashkari (10:15amET) and San Fran Fed President Daly (12:15pmET).

Chart 3



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

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				
	4.79	4.80	4.87	4.41	4.40	4.51	4.39	4.38	4.50	4.54	4.51	4.64	Canada - BoC	5.00		
	4.20	4.19	4.29	3.66	3.63	3.76	3.59	3.56	3.69	3.45	3.42	3.55				
	2.95	2.93	2.97	2.53	2.50	2.55	2.49	2.46	2.52	2.64	2.61	2.65	US - Fed	5.50		
	0.34	0.33	0.32	0.55	0.54	0.52	0.95	0.93	0.91	2.06	2.03	2.00				
	4.30	4.27	4.32	4.00	3.97	4.04	4.11	4.08	4.17	4.59	4.56	4.65	England - BoE	5.25		
	Spreads vs. U.S. (bps):															
	-59	-61	-58	-75	-77	-75	-80	-82	-80	-109	-110	-109	Euro zone - ECB	4.50		
	-184	-187	-190	-188	-190	-196	-190	-192	-198	-190	-191	-199				
-445	-447	-455	-386	-387	-399	-344	-345	-359	-248	-248	-264	Japan - BoJ	-0.10			
-49	-52	-55	-41	-43	-48	-28	-30	-33	5	5	1					
Equities	Level					% change:							Mexico - Banxico		11.00	
	Last	Change				1 Day	1-wk	1-mo	1-yr							
S&P/TSX	22300	15.1				0.1	-0.3	3.0	9.9						Australia - RBA	4.35
Dow 30	39869	-38.6				-0.1	1.2	5.6	19.3							
S&P 500	5297	-11.0				-0.2	1.6	5.5	27.4						New Zealand - RBNZ	5.50
Nasdaq	16698	-44.1				-0.3	2.2	6.5	33.6							
DAX	18654	-85.1				-0.5	-0.6	5.0	16.9						Next Meeting Date	
FTSE	8402	-36.3				-0.4	-0.4	7.1	8.8							
Nikkei	38787	-132.9				-0.3	1.5	2.2	28.9						Canada - BoC	Jun 05, 2024
Hang Seng	19554	177.1				0.9	5.5	20.3	-0.0							
CAC	8152	-36.5				-0.4	-0.8	2.1	10.2						US - Fed	Jun 12, 2024
Commodities	Level					% change:										
	WTI Crude	0.11				0.1	1.4	-4.1	8.9 <td colspan="5"></td> <td>England - BoE</td> <td>Jun 20, 2024</td>						England - BoE	Jun 20, 2024
Natural Gas	2.50	0.01				0.4	11.2	46.3	5.9							
Gold	2386.63	9.77				0.4	1.1	7.0	20.4						Euro zone - ECB	Jun 06, 2024
Silver	29.67	0.86				3.0	7.4	5.0	24.7							
CRB Index	289.99	0.02				0.0	0.0	-1.5	10.6						Japan - BoJ	June 14, 2024
Currencies	Level					% change:										
	USDCAD	0.0023				0.2	-0.2	-1.0	1.4 <td colspan="5"></td> <td>Mexico - Banxico</td> <td>Jun 27, 2024</td>						Mexico - Banxico	Jun 27, 2024
EURUSD	1.0837	-0.0030				-0.3	0.6	1.5	-0.0							
USDJPY	155.88	0.4900				0.3	0.1	1.0	13.2						Australia - RBA	Jun 18, 2024
AUDUSD	0.6652	-0.0027				-0.4	0.7	3.4	-0.1							
GBPUSD	1.2649	-0.0021				-0.2	1.0	1.6	1.3						New Zealand - RBNZ	May 21, 2024
USDCHF	0.9097	0.0035				0.4	0.4	-0.1	1.3							

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