

DAILY POINTS

May 31, 2024 @ 7:05 EST

Contributors

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Chart 1

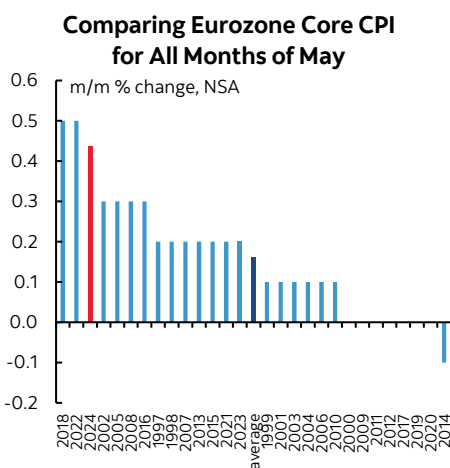
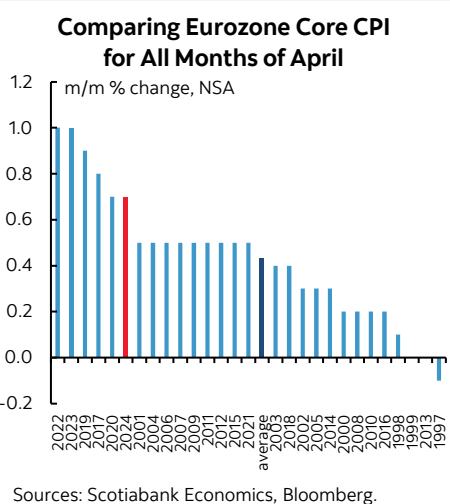


Chart 2



On Deck for Friday, May 31

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	05-31	08:30	Real GDP (m/m)	Mar	-0.1	0.0	0.2
CA	05-31	08:30	Real GDP (q/q a.r.)	1Q	2.2	2.2	1.0
US	05-31	08:30	PCE Deflator (m/m)	Apr	0.3	0.3	0.3
US	05-31	08:30	PCE Deflator (y/y)	Apr	2.7	2.7	2.7
US	05-31	08:30	PCE ex. Food & Energy (m/m)	Apr	0.2	0.3	0.3
US	05-31	08:30	PCE ex. Food & Energy (y/y)	Apr	2.7	2.8	2.8
US	05-31	08:30	Personal Spending (m/m)	Apr	0.4	0.3	0.8
US	05-31	08:30	Personal Income (m/m)	Apr	0.3	0.3	0.5
US	05-31	09:45	Chicago PMI	May	--	41.1	37.9
US	05-31	18:15	Fed's Bostic Gives Commencement Speech				

KEY POINTS:

- **Markets are playing defence into the N.A. market open**
- **Eurozone core CPI was the third hottest May on record...**
- **...extending the year-long pattern of out-sized gains...**
- **...questioning the rush to cut , but at least informing a cautious path thereafter**
- **Chinese state PMIs disappointed**
- **US core PCE: a small difference could yield big effects on September Fed pricing**
- **Canadian GDP probably won't conform to Macklem's earlier peak pain thesis**
- **Yen weakens on mixed data dump including soft rebound in Tokyo core CPI**
- **Markets are ignoring Trump's 34 convictions**

How Friday is starting may or may not be how it ends. So far, it's not so pretty, but a lot of data and uncertain month-end effects are still ahead.

Bonds and stocks are cheaper. The main drivers are an upside surprise to Eurozone core CPI and apprehension ahead of US core PCE while Canadian markets will also face a slew of GDP figures. Markets don't care that Trump is a felon this morning, perhaps because there remains a long road ahead to November 5th.

Eurozone Core CPI Extends Its Hot Streak

Eurozone core CPI was hotter than expected and that is driving sovereign bond yields higher with EGBs underperforming other global benchmarks so far this morning. Some of that cheapening—including in US Ts—began to unfold after French figures surprised higher a few hours before the Eurozone tally.

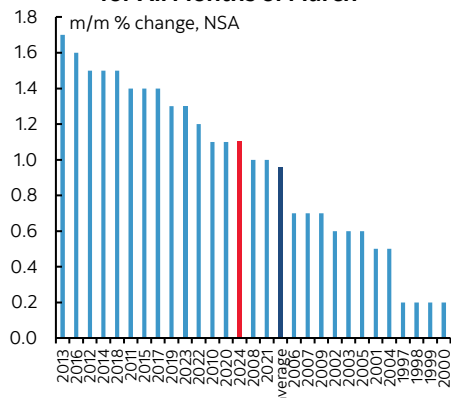
The key, however, is that Eurozone core CPI was up by 0.44% m/m NSA which drove the year-over-year rate higher to 2.9% (2.7% prior and consensus). Since the m/m figure is seasonally unadjusted (NSA) we want to compare like months of May in history. This May was the third hottest on record and only marginally behind a pair of 0.5% prints in 2018 and 2022 (chart 1). That extends the pattern that has been in place very single month this year during which each month compared to like months in history has been hotter than seasonally normal (charts 2–5).

So, the takeaway is that core inflation in the Eurozone has not gone away. In my opinion, they shouldn't be cutting yet, but seem determined to do so. This could be added to the ECB's history of bad moves. My principle all along has been that you should be patient so that when you get to delivering cuts you can do it in a consistent, determined and sustainable way. What these prints do is to lessen the prospect for a subsequent cut any time soon. July is priced for a hold after next week and September's pricing was shaved a few points to about a two-thirds probability of another cut at that meeting.

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Chart 3

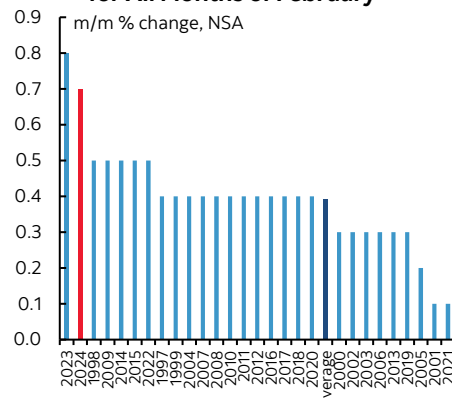
Comparing Eurozone Core CPI for All Months of March



Sources: Scotiabank Economics, Bloomberg.

Chart 4

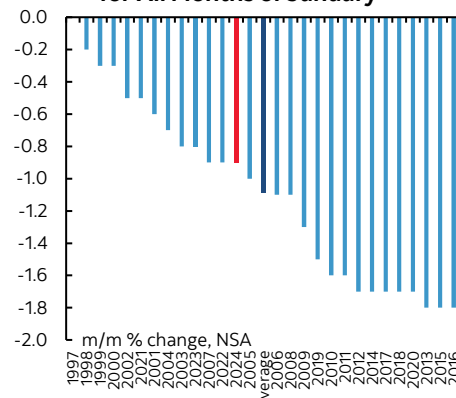
Comparing Eurozone Core CPI for All Months of February



Sources: Scotiabank Economics, Bloomberg.

Chart 5

Comparing Eurozone Core CPI for All Months of January



Sources: Scotiabank Economics, Bloomberg.

Eurozone markets ignored German retail sales as volumes fell by -1.2% m/m in April (-0.3% consensus). It was ignored partly because CPI dominated, but also because the miss was mostly due to an upward revision to the prior month (now +2.6% from 1.8%).

China's Economy Softened in May

China's state purchasing managers' indices surprised lower for the month of May (chart 6). That's not a great signal in terms of the health of China's economy especially since we're distant from the time of year when excuses can be made for surprises in either direction due to the Lunar New Year's multi-month effects. The composite PMI slipped seven-tenths to 51, and so being barely above 50 that signals slow growth. The non-manufacturing PMI held steady (51.1 from 51.2) but the manufacturing PMI slipped into contraction (49.5, 50.4 prior). China is vulnerable to slowing economies abroad—namely the US and Eurozone—and a lack of friends in high places when it comes to trade policy.

Yen Slips on Mixed Data Dump

The yen softened a little further overnight but largely ignored a wave of Japanese data. Key was Tokyo core CPI that arrives well before the national reading. It rebounded a little to 0.1% m/m SA from the prior month's -0.6% m/m SA drop that had been driven by the Tokyo government's decision to eliminate high school fees (chart 7). Other releases were mixed as industrial output disappointed (-0.1% m/m, +1.5% consensus) but retail sales soared (+1.2% m/m, 0.6% consensus).

US Core PCE Could Impact September Fed Funds Pricing

Into the North American session will be two dueling Canadian and US releases at the same time that could cloud the market's interpretation of the Canadian data.

On core PCE (8:30amET), about half of consensus stands at 0.3% and the other half is at 0.2%. I went with 0.3%. 0.3% would reduce pricing for a September cut, 0.2% would at least reinforce it.

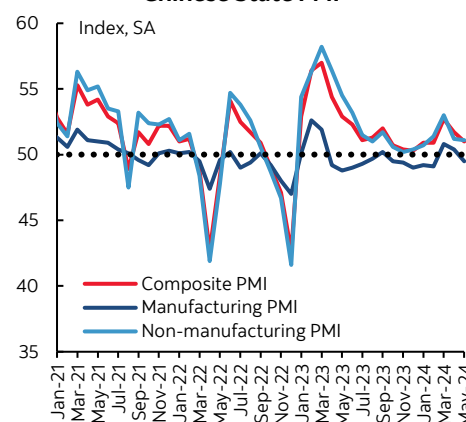
The US also releases spending and income figures for April that are expected to post a pair of 0.3% m/m SA prints.

Canadian GDP May be Doing Much Better than the BoC Feared

As for Canadian GDP (8:30amET), market reaction may be mixed up with the simultaneous release of US PCE. I expect constructive figures. Most have low two-handled Q1 GDP growth with a couple of outliers in the high-1s. Decent scenarios range anywhere from the high 1s to 3 imo.

Chart 6

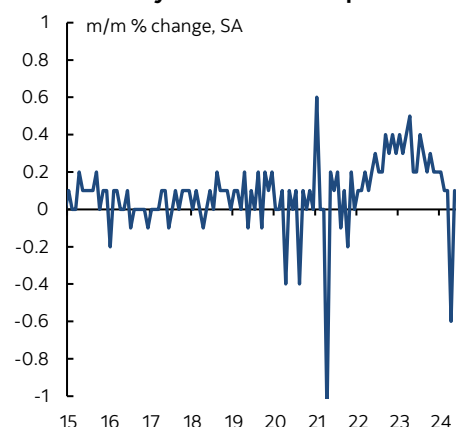
Chinese State PMI



Sources: Scotiabank Economics, China Federation of Logistics & Purchasing.

Chart 7

Tokyo Core Picked Up!



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

March GDP is likely to be soft based on advance guidance that it was 'essentially unchanged' and monthly readings since then.

It would be a surprise, however, if April GDP did not turn up a strong print given considerations such as the strong 0.8% m/m jump in hours worked. If all that goes tickety boo, then the economy is in a lot better shape than the BoC was assuming coming into the start of the year only to get upside surprises for three quarters in a row from 2023Q4 through 24Q2. In that case, what's the dang rush to cut? Four months of soft core inflation after blowing inflation management for four years isn't enough in my books.

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		
	4.94	4.93	4.95	4.58	4.57	4.53	4.55	4.55	4.47	4.68	4.68	4.57	Canada - BoC	5.00
	4.28	4.27	4.23	3.78	3.76	3.68	3.71	3.70	3.60	3.55	3.55	3.44		
	3.11	3.08	3.09	2.73	2.69	2.65	2.69	2.65	2.58	2.82	2.79	2.70	US - Fed	5.50
	0.41	0.38	0.34	0.65	0.64	0.59	1.07	1.06	1.01	2.23	2.21	2.17		
	4.49	4.47	4.50	4.26	4.23	4.18	4.37	4.35	4.26	4.83	4.81	4.71	England - BoE	5.25
	Spreads vs. U.S. (bps):													
	-66	-66	-72	-80	-81	-85	-84	-85	-87	-113	-113	-113	Euro zone - ECB	4.50
	-183	-185	-186	-185	-188	-188	-186	-190	-188	-187	-189	-187		
-453	-454	-461	-393	-393	-394	-348	-348	-346	-246	-247	-240	Japan - BoJ	-0.10	
-45	-46	-45	-32	-33	-35	-18	-20	-20	14	13	14			
Equities	Level						% change:						Mexico - Banxico	
	Last			Change			1 Day	1-wk		1-mo	1-yr			
S&P/TSX	22072			173.7			0.8	-0.6		1.6	12.8	Australia - RBA	4.35	
Dow 30	38111			-330.1			-0.9	-3.9		0.8	15.8			
S&P 500	5235			-31.5			-0.6	-1.3		4.0	25.3	New Zealand - RBNZ	5.50	
Nasdaq	16737			-183.5			-1.1	-0.4		6.9	29.4			
DAX	18474			-22.5			-0.1	-1.2		3.0	17.9			
FTSE	8261			30.4			0.4	-0.9		1.4	10.9			
Nikkei	38488			433.8			1.1	-0.4		0.2	24.6	Canada - BoC	Jun 05, 2024	
Hang Seng	18080			-150.6			-0.8	-2.8		1.8	-0.8			
CAC	7974			-4.2			-0.1	-1.5		-0.1	12.3	US - Fed	Jun 12, 2024	
Commodities	Level						% change:							
WTI Crude	77.92			0.01			0.0	1.4		-4.9	14.4	England - BoE	Jun 20, 2024	
Natural Gas	2.56			-0.02			-0.7	-3.8		28.3	12.8			
Gold	2343.31			0.24			0.0	0.4		5.1	19.4	Euro zone - ECB	Jun 06, 2024	
Silver	31.52			-0.50			-1.5	3.2		18.2	35.5			
CRB Index	293.00			0.00			0.0	-0.3		0.5	15.4	Japan - BoJ	June 14, 2024	
Currencies	Level						% change:							
USDCAD	1.3631			-0.0050			-0.4	-0.2		-1.1	0.4	Mexico - Banxico	Jun 27, 2024	
EURUSD	1.0851			0.0019			0.2	0.0		1.7	1.5			
USDJPY	157.19			0.3700			0.2	0.1		-0.4	12.8	Australia - RBA	Jun 18, 2024	
AUDUSD	0.6654			0.0021			0.3	0.4		2.8	2.3			
GBPUSD	1.2721			-0.0011			-0.1	-0.1		1.8	2.3	New Zealand - RBNZ	Jul 09, 2024	
USDCHF	0.9060			0.0027			0.3	-1.0		-1.5	-0.5			

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