

DAILY POINTS

June 6, 2024 @ 8:00 EST

Contributors

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Chart 1

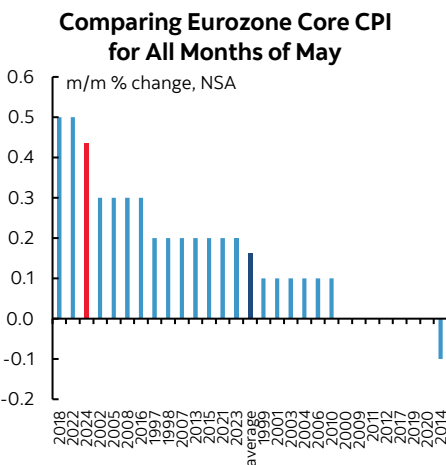


Chart 2



On Deck for Thursday, June 6

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	06-06	08:30	Merchandise Trade Balance (C\$ bn)	Apr	--	-1.0	-2.3
US	06-06	08:30	Initial Jobless Claims (000s)	Jun 01	220	220	219
US	06-06	08:30	Continuing Claims (000s)	May 25	1790	1790	1791
US	06-06	08:30	Productivity (q/q a.r.)	1Q F	--	0.0	0.3
US	06-06	08:30	Trade Balance (US\$ bn)	Apr	-76.5	-76.5	-69.4
US	06-06	08:30	Unit Labor Costs (q/q a.r.)	1Q F	--	4.9	4.7

KEY POINTS:

- Equities rallying ahead of the ECB
- The ECB is fully expected to cut today when it arguably shouldn't...
- ...which should make it reticent to provide explicit forward guidance
- Gilts rally as a BoE survey showed slightly lower inflation and wage expectations
- BoC forecast update
- Minor N.A. data on tap

NA equity futures are flat as European stocks rally ahead of the ECB. EGBs and Treasuries are slightly cheaper as gilts outperform after a BoE survey was released showing that CFOs expect cooler wage growth and very slightly cooler price increases over the next year of 3.9% compared to 4% in the prior survey.

ECB—Why Exactly Are You Cutting?

And now it's the ECB's turn. A cut to a new deposit rate of 3.75% is widely expected, fully priced, and publicly supported by key ECB officials. Key, however, will be the forecasts and Lagarde's verbiage insofar as they may inform the path forward. July is basically priced for a hold and September is mostly priced for another cut. Statement 8:15amET, press conference 8:45amET.

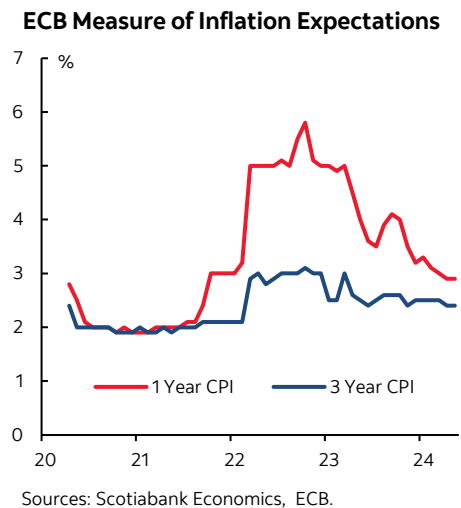
Cutting is not what the ECB should be doing today in my view. Core inflation in m/m NSA terms compared to like months in history has been putting in hotter and stickier than usual readings every month this year (chart 1 shows May, for example) and so if they are truly data dependent rather than being on a year-long preset course to ease then they wouldn't be doing so now. You might say they need to cut in anticipation of achieving their inflation target, but their inflation forecasts perform poorly, and model-based forecasts always anticipate perfect equilibrium and achievement of the target within the forecast horizon. Negotiated wage gains are very high (chart 2). GDP growth is on the mend. Inflation expectations have come down but are still above target (chart 3). Therefore, if they're forcing a cut today for impure reasons—maybe bragging rights ahead of the Fed or messy European politics—then why commit to the next move today?

Minor Other Data

German factory orders fell by -0.2% m/m (+0.6% consensus) in April with negative revisions (-0.8% m/m from -0.4%).

Minor data is on tap into the N.A. session. Canadian trade during April may further inform Q2 GDP tracking (8:30amET). We already know most of the US trade figures through the

Chart 3



June 6, 2024

advance goods component that showed a wider US trade deficit (8:30amET). US weekly jobless claims offer low risk ahead of tomorrow's more important nonfarm payrolls.

What's the Real Reason Macklem Cut Against His Own Forward Guidance?

Canada may also monitor any spillover effects from yesterday's BoC cut (recap [here](#)). Markets have 15bps of a cut priced for the July BoC which is about right for now as we go into several rounds of data before the decision. There are 3+ 25bps cuts priced in for this year. Our forecast is for 100bps this year with cuts in July, September and October and we've penciled in a December pause due to US election uncertainty for now and because we think the BoC will want to deliver a meaningful amount of easing before then deciding whether to continue or pause and assess.

The frustrating thing is that Scotia Economics had a June cut call ever since last June as we led consensus, but punted to a first cut in Q3 this past February. We got the mid-year cut call right ahead of others but missed on the exact meeting. I can live with that because we listened to Macklem's guidance ahead of the meeting but certainly won't do so again.

Knowing Macklem's past behaviour, the prime motive for cutting may have been so he could say that he was first among majors and semi-majors to cut while stealing the ECB's thunder, even though it meant violating his own forward guidance. They are quite proud of the fact they were first to begin tapering QE and then shifting to QT, even though they totally messed up on the policy rate during the pandemic. That's a puerile motive if so.

And yet I'm still stunned about the attitudes Macklem portrayed in the presser.

- Saying they are 'not close' to the limit of Fed policy divergence was curious. Try going 150–250 points below the Fed and let's see what happens.
- You can't say just one month before the decision that you want several more months of data before deciding when to ease and then turn around and cut and not be held accountable for your terribly unreliable forward guidance. One media report misquoted me as saying Macklem had said this months ago when in fact what I pointed out was that he said it just one month before the meeting! Something happened in the intervening period and I don't believe that one round of data did it when he was clear in advance that we wanted more than just one round.
- Ambivalence toward the currency went too far; we know full well there is a limit to the extent to which the BoC would tolerate a currency in free fall and it's about more than just inflation pass through. Excessive currency volatility in an open economy that trades a lot can dampen business confidence and investment plans. A weaker currency is a disincentive to invest because it lowers the pressure on exporters and raises the cost of importing machinery and equipment given so much of it comes from the US. Always resorting to debasing the currency can turn a country into one that competes more on price every time a bump in the road arrives rather than on innovation, investment, R&D, adopting new technology and coming up with better products. Maybe the BoC is part of the productivity problem. CAD would be bathroom wallpaper if the BoC dove deeply beneath the Fed and yet I'm pretty sure the BoC would get rather antsy the further into the 1.40s that USDCAD pushes.
- Macklem cherry-picked the evidence on the economy's performance. He flagged Q1 GDP being weaker than the April MPR forecast while avoiding mention of the fact that final domestic demand grew strongly, GDP was weak mainly because of inventories, and the economy over H1 is significantly stronger than they had anticipated coming into the start of the year. He offered no explanation of why the BoC would cut when the evidence shows that consumption is growing by 3%+ q/q SAAR in each of the most recent two quarters as the mortgage hysteria ignores the fact that consumption is growing strongly.
- I disagree with his view that the economy is super weak in per capita terms for the same reasons I've been writing for a while. You can't include all of the surge in non-permanent residents that are the ones who have driven so much of the population growth because they can't be expected to contribute to GDP growth in proportionate fashion to those born in Canada and permanent immigrants. The temps are made up of asylum seekers, temporary foreign workers who send their paycheques home and take back with them what's left over after spending on the means of subsistence in Canada, and international students of varying types from genuine to fakers who are exploiting loopholes to get permanent residency with neither type contributing much to the economy at least not while during school. And GDP, in my opinion, was depressed since 2022Q4 by factors such as inventory shedding, wildfires, rampant strike activity and lost hours worked, and sector-specific retooling and maintenance issues at major auto and resource facilities. Hikes are working, but for the central bank to ignore the other things that have dampened GDP growth is going much too far.

June 6, 2024

We'll see how this all turns out. Where the clash of narratives is most acute, however, lies in the fact that the BoC is convinced that Canada has much bigger troubles than the US and lower inflation risk as justification for easing and being open to potentially much bigger undershooting of the Fed. I'm much more uncertain. Wage growth is getting no support from labour productivity that continues to tumble. Fiscal policy is still adding to growth this year and next and the risk is that it adds even more into an election year given how badly the Federal government's left-wing alliance is polling. If monetary policy continues to ease and vote-grabbing fiscal stimulus ramps up then inflation risk will be resurrected. Mortgage resets remain an over-hyped risk.

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.	4.74	4.72	4.93	4.32	4.30	4.57	4.31	4.28	4.55	4.46	4.43	4.68	Canada - BoC	4.75
CANADA	3.95	3.93	4.27	3.45	3.42	3.76	3.41	3.38	3.70	3.32	3.29	3.55	US - Fed	5.50
GERMANY	2.99	2.98	3.08	2.58	2.56	2.69	2.53	2.51	2.65	2.67	2.65	2.79	England - BoE	5.25
JAPAN	0.34	0.36	0.38	0.54	0.57	0.64	0.96	1.02	1.06	2.09	2.19	2.21		
U.K.	4.33	4.37	4.47	4.07	4.10	4.23	4.18	4.18	4.35	4.62	4.61	4.81		
	Spreads vs. U.S. (bps):													
CANADA	-80	-79	-66	-87	-88	-81	-90	-89	-85	-113	-114	-113	Euro zone - ECB	4.50
GERMANY	-175	-174	-185	-174	-174	-188	-177	-176	-190	-179	-178	-189	Japan - BoJ	-0.10
JAPAN	-440	-436	-454	-377	-372	-393	-334	-326	-348	-237	-224	-247		
U.K.	-41	-35	-46	-25	-20	-33	-13	-9	-20	16	18	13		
Equities	Level						% change:							
	Last			Change			1 Day	1-wk	1-mo	1-yr				
S&P/TSX	22145			166.8			0.8	1.1	-0.5	10.4			Australia - RBA	4.35
Dow 30	38807			96.0			0.2	1.0	-0.1	15.6				
S&P 500	5354			62.7			1.2	1.7	3.3	25.0			New Zealand - RBNZ	5.50
Nasdaq	17188			330.9			2.0	1.6	5.1	29.5				
DAX	18701			124.7			0.7	1.1	2.9	16.9				
FTSE	8281			33.9			0.4	0.6	0.8	8.6				
Nikkei	38704			213.3			0.6	1.7	-0.3	21.3			Canada - BoC	Jul 24, 2024
Hang Seng	18477			51.8			0.3	1.4	-0.0	-4.0			US - Fed	Jun 12, 2024
CAC	8049			42.4			0.5	0.9	0.7	11.7				
Commodities	Level						% change:							
WTI Crude	74.59			0.52			0.7	-4.3	-5.0	4.0			England - BoE	Jun 20, 2024
Natural Gas	2.80			0.05			1.7	9.0	27.7	23.9			Euro zone - ECB	Jun 06, 2024
Gold	2358.71			3.39			0.1	0.7	5.8	20.1			Japan - BoJ	June 14, 2024
Silver	29.61			-0.10			-0.3	-7.5	11.7	26.1				
CRB Index	287.71			1.44			0.5	-3.3	0.0	10.4				
Currencies	Level						% change:							
USDCAD	1.3693			-0.0001			-0.0	0.1	0.2	2.2			Mexico - Banxico	Jun 27, 2024
EURUSD	1.0865			-0.0004			-0.0	0.3	0.9	1.6				
USDJPY	156.17			0.0600			0.0	-0.4	1.5	11.8			Australia - RBA	Jun 18, 2024
AUDUSD	0.6637			-0.0011			-0.2	0.1	0.2	-0.5				
GBPUSD	1.2770			-0.0017			-0.1	0.3	1.7	2.8			New Zealand - RBNZ	Jul 09, 2024
USDCHF	0.8915			-0.0020			-0.2	-1.3	-1.6	-1.8				

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