

DAILY POINTS

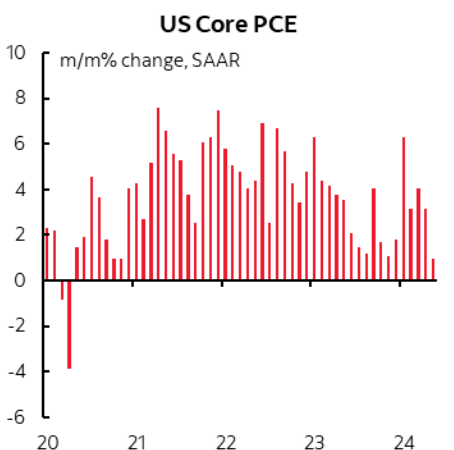
July 9, 2024 @ 8:15 EST

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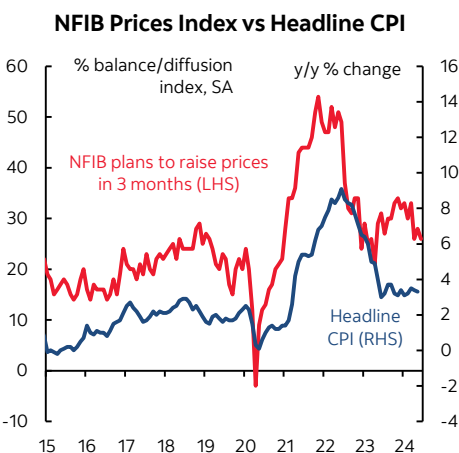
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Chart 1



Sources: Scotiabank Economics, Bureau of Economic Analysis.

Chart 2



Sources: Scotiabank Economics, Bloomberg, NFIB.

On Deck for Tuesday, July 9

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	07-09	09:15	Fed's Barr Speaks on Financial Inclusion				
US	07-09	10:00	Fed's Powell Testifies to Senate Banking				
US	07-09	13:30	Fed's Bowman Speaks on Promoting Inclusive Financial System				

KEY POINTS:

- **Bond yields up, dollar firms ahead of Powell**
- **Powell's testimony is unlikely to offer much that is new...**
- **...as he cites progress, but fears another inflation soft patch rebound**
- **Powell will probably be attacked on potential GSIBs capital changes...**
- **...that could carry knock-on effects elsewhere**
- **US small businesses are signalling milder inflation risk**

Fed Chair Powell's testimony will be the main event (10amET). Except that it probably won't be.

Huh?

Ordinarily there could be high stakes attached to what Powell may say as he delivers round one of his two days of Congressional testimony starting with the Senate Banking Committee. There will be written testimony made available at the beginning before Senate leaders deliver opening comments that are likely to be even more politicized than normal, and then banter ensues. If the testimony matters at all, then it could be via comments on potential regulatory changes and because there is little else for markets to focus upon as they wait for US CPI on Thursday.

Powell Unlikely to Deviate from Comments to Date...

The difference this time is that Powell—and the rest of the Committee—have spoken too much already. They've made it clear that they welcome recent reports but that they are waiting for further evidence that inflation is ebbing. The way they are talking makes it sound like they want to see soft inflation over several more reports—and hence not just this week's CPI—especially since they won't get their preferred PCE measure before their July decision.

...as Past Soft Patches have Burned Fed Cut Prospects...

As it should be. Remember last summer? A trio of 0.2% m/m core CPI prints over June through August then gave way to slightly firmer readings on average over the rest of 2023 until it accelerated with a trio of 0.4% readings through 2024Q1. Core PCE was soft throughout the whole back half of 2023 which prompted some—like Governor Waller—to reference how a cut could come in a few months (ie: March). Markets got carried away and pricing 150–175bps of cuts this year. Then core PCE took off again from January through April of this year and crushed those bets (chart 1).

Powell wants proof. Not models that failed him in a vastly more complex world than the decades of connections to drivers they relied upon with high forecast risk even then. And he wants broader proof than just the inflation readings themselves. Hard data and anything that informs inflation risk carries more weight with Powell than trying to forecast where inflation will be 6, 12, 18, or 24 months in the future and beyond. He refers to slowing signs in the economy and labour market but wants to have greater confidence.

The fact that Powell's testimony is just two days away from a CPI update makes his remarks pretty much stale on arrival until we see the actual numbers.

...But Expect Attacks on Potential Bank Capital Changes

One matter that Powell is likely to be rudely attacked over—lookin’ at you Senator Warren—is a report from Reuters this morning ([here](#)) that says the Fed is considering rule changes that would lower capital charges for global systemically important banks (GSIBs). This could amount to billions in redeployed capital at JPMorgan, Citigroup, Bank of America, Goldman Sachs, Morgan Stanley, BNY Mellon, State Street and Wells Fargo. It’s unclear whether there may be implications for Canadian GSIBs—RBC and TD—which depends upon how OSFI may react in a relative competitiveness sense. That could carry implications for non-GSIBs competitiveness as well. Ditto for other countries’ GSIBs ([here](#)).

US Small Businesses Signal Less Inflation Risk

US small businesses were a little more confident in this morning’s NFIB gauge. Given the day’s inflation and Fed theme, what may matter the most is the modest decline in plans to raise prices over the next quarter that has been in place since this measure hit a recent high in March (chart 2).

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.	4.64	4.63	4.74	4.25	4.24	4.40	4.30	4.28	4.43	4.48	4.47	4.61	Canada - BoC	4.75
CANADA	3.95	3.94	4.05	3.48	3.47	3.60	3.49	3.47	3.61	3.41	3.40	3.50	US - Fed	5.50
GERMANY	2.92	2.91	2.91	2.55	2.53	2.58	2.57	2.54	2.60	2.72	2.70	2.80	England - BoE	5.25
JAPAN	0.36	0.36	0.37	0.59	0.60	0.61	1.09	1.10	1.09	2.22	2.22	2.27		
U.K.	4.14	4.13	4.19	3.99	3.97	4.08	4.15	4.11	4.25	4.65	4.62	4.75		
	Spreads vs. U.S. (bps):													
CANADA	-69	-69	-69	-77	-77	-80	-81	-81	-82	-107	-106	-111	Euro zone - ECB	4.25
GERMANY	-172	-172	-184	-170	-171	-182	-173	-174	-183	-175	-177	-181	Japan - BoJ	-0.10
JAPAN	-428	-427	-438	-367	-364	-378	-320	-319	-335	-226	-225	-234		
U.K.	-50	-50	-55	-26	-28	-31	-15	-17	-18	17	15	14	Mexico - Banxico	11.00
Equities	Level						% change:							
	Last			Change	1 Day	1-wk	1-mo	1-yr						
S&P/TSX	22126			67.1	0.3	1.1	0.5	11.6					Australia - RBA	4.35
Dow 30	39345			-31.1	-0.1	0.6	1.4	16.6					New Zealand - RBNZ	5.50
S&P 500	5573			5.7	0.1	2.1	4.2	26.7					Next Meeting Date	
Nasdaq	18404			51.0	0.3	3.8	7.4	34.7					Canada - BoC	Jul 24, 2024
DAX	18388			-84.0	-0.5	1.2	-0.9	17.8					US - Fed	Jul 31, 2024
FTSE	8179			-14.8	-0.2	0.7	-0.8	12.7					England - BoE	Aug 01, 2024
Nikkei	41580			799.5	2.0	3.8	6.5	29.2					Euro zone - ECB	Jul 18, 2024
Hang Seng	17523			-0.8	-0.0	-1.4	-4.6	-5.2					Japan - BoJ	June 14, 2024
CAC	7567			-60.6	-0.8	0.4	-5.4	6.4					Mexico - Banxico	Aug 08, 2024
Commodities	Level						% change:							
WTI Crude	81.92			-0.41	-0.5	-1.8	8.5	10.9					Australia - RBA	Aug 06, 2024
Natural Gas	2.39			0.02	0.8	-3.8	-18.3	-7.6					New Zealand - RBNZ	Jul 09, 2024
Gold	2360.84			1.71	0.1	1.3	5.9	22.6						
Silver	30.99			0.41	1.3	6.0	2.4	36.4						
CRB Index	290.91			-2.52	-0.9	0.2	0.4	10.0						
Currencies	Level						% change:							
USDCAD	1.3642			0.0007	0.1	-0.3	-0.9	2.7						
EURUSD	1.0815			-0.0009	-0.1	0.7	0.5	-1.7						
USDJPY	161.09			0.2600	0.2	-0.2	2.6	14.0						
AUDUSD	0.6733			-0.0004	-0.1	1.0	1.9	0.9						
GBPUSD	1.2800			-0.0007	-0.1	0.9	0.5	-0.5						
USDCHF	0.8980			0.0003	0.0	-0.7	0.2	1.4						

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