

### DAILY POINTS

July 31, 2024 @ 7:00 EST

#### Contributors

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Chart 1

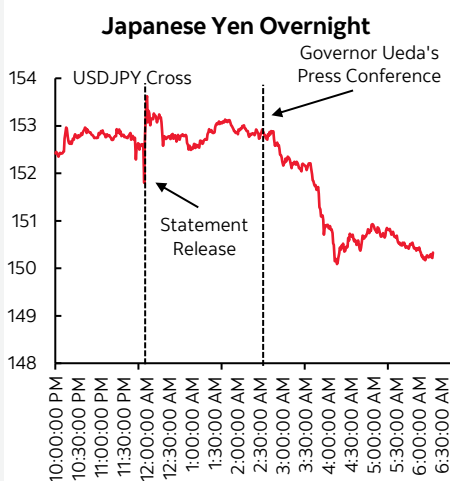
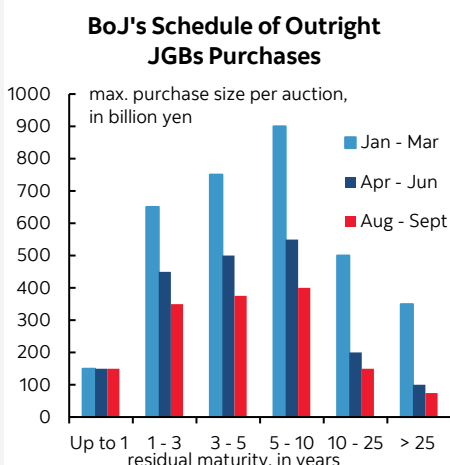


Chart 2



#### On Deck for Wednesday, July 31

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	07-31	07:00	MBA Mortgage Applications (w/w)	Jul 26	--	--	-2.2
US	07-31	08:15	ADP Employment Report (000s m/m)	Jul	165	150.0	150.0
CA	07-31	08:30	Real GDP (m/m)	May	0.1	0.1	0.3
US	07-31	08:30	Employment Cost Index (q/q)	2Q	1.0	1.0	1.2
US	07-31	09:45	Chicago PMI	Jul	--	45.0	47.4
US	07-31	10:00	Pending Home Sales (m/m)	Jun	--	1.4	-2.1
US	07-31	14:00	FOMC Interest Rate Meeting (%)	Jul 31	5.50	5.50	5.50
US	07-31	14:30	Fed Chair Powell Press Conference				

#### KEY POINTS:

- Oil and shipping costs tag-team to provide caution on inflation risk
- Oil prices surge after Israel kills Hamas leader on foreign soil in Iran
- Yen appreciates to strongest since March, JGBs bear flatten...
- ...after BoJ surprises with 15bps hike and slashing bond purchases
- Eurozone core inflation was relatively warm again, lending caution to ECB easing
- Softer—not soft—Aussie core inflation wipes out RBA hike pricing
- Chinese PMIs weakened again
- US ADP payrolls on tap as a meaningless nonfarm market teaser
- US employment costs expected to keep rapidly rising
- Canada's economy may have ended Q2 on a softer note
- FOMC to signal greater confidence, but remain cautious
- BanRep expected to cut when the FOMC statement lands
- BCB expected to stay on hold

A brewing oil shock on Middle East tensions risks combined with rising shipping costs and stubborn data risks thwarting easing plans by several global central banks. The BoJ may be an exception after it tightened monetary policy overnight as such catalysts could drive further imported inflation. Especially vulnerable are the easing plans of central banks in oil- and trade-dependent economies that could face more intense inflation pass-through. You and I can probably think of a few; gimme a 'C', 'A', 'N'.... Canada 5s are dear imo.

#### Rising Risk of Middle East War Drives Higher Oil Prices

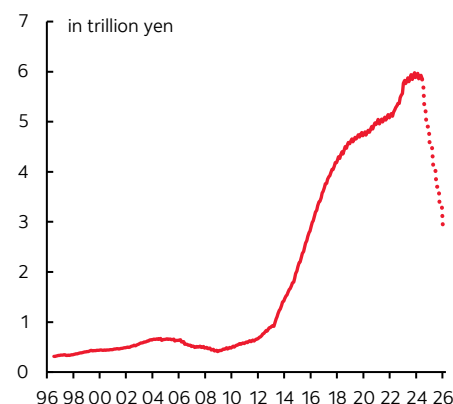
Oil prices are up by about \$2 because of escalating tensions in the Middle East. Israel killed the Hamas political leader in an air strike in Iran overnight. This follows hours after Israel's strike on Beirut that killed a senior Hamas leader. Iran has pledged vengeance. The original instigation to the latest escalation was the cruel rocket attack by Hamas on a soccer field in Israel that killed a dozen children.

#### BoJ Hikes, Slashes Bond Purchases

The Bank of Japan hiked its policy rate by 15bps to 0.25% and announced a plan to gradually taper its monthly bond purchases of ¥5.7 trillion by about ¥400 billion per quarter eventually

Chart 3

#### Plan for the Purchase Amount of JGBs



Sources: Scotiabank Economics, Bank of Japan

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going down to about ¥3 trillion by the Spring of 2026. Forward guidance was hawkish by stating: "...if the outlook for economic activity and prices presented in the July Outlook Report will be realized, the Bank will accordingly continue it raise the policy interest rate and adjust the degree of monetary accommodation."

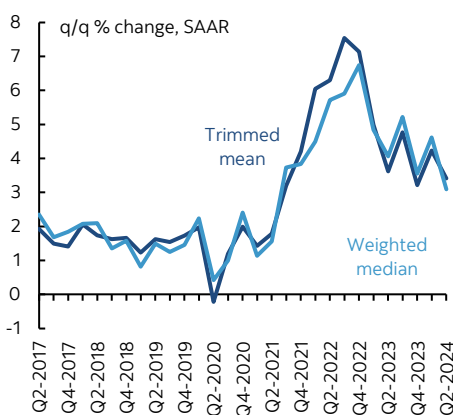
Markets responded by pushing the yen to 150 to the dollar (chart 1), making it the class leader this morning. Charts 2 and 3 show the BoJ's projected plans for QE tapering. The JGBs curve sold off in bear flattener fashion led by about an 8bps rise in the two-year yield to 0.44%. That yield is up by almost half a percentage point this year while the US two-year yield is only about 16bps higher on net so far since January following the rally that build momentum since June. This narrowing differential is helping yen and lessening carry influences out of yen into benchmarks elsewhere if it were not for geopolitical turmoil.

### Australian Core CPI Wipes Out RBA Hike Pricing

Australian CPI wiped out the slim market pricing for an RBA hike on August 6<sup>th</sup>. Both core measures landed softer than expected. Trimmed mean CPI and weighted median CPI were both up by 0.8% q/q nonannualized (1% consensus). Chart 4. Those are still above the upper limit of the RBA's 2-3% headline inflation target but demonstrate progress that provides time for further assessment by the central bank. Chart 5 shows that non-tradeables inflation—more driven by domestic factors—ebbed a touch while tradeables inflation surged.

Chart 4

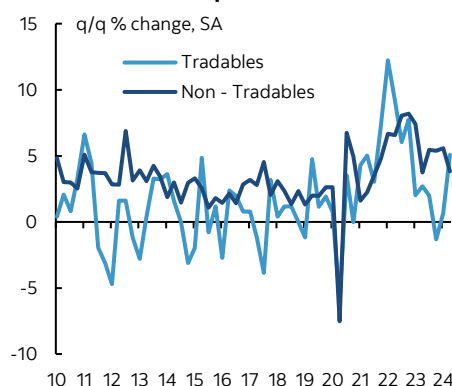
### Australian Core Inflation



Sources: Scotiabank Economics, Australian Bureau of Statistics.

Chart 5

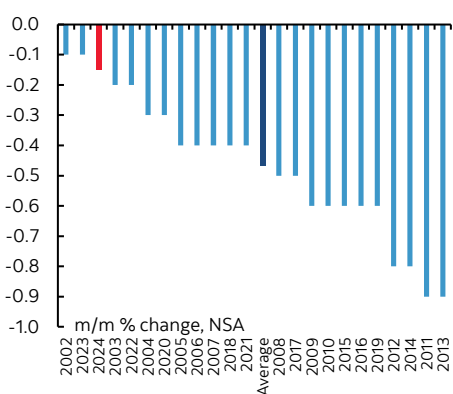
### Australian Tradable Inflation Jumps Back !



Sources: Scotiabank Economics, Australian Bureau of Statistics.

Chart 6

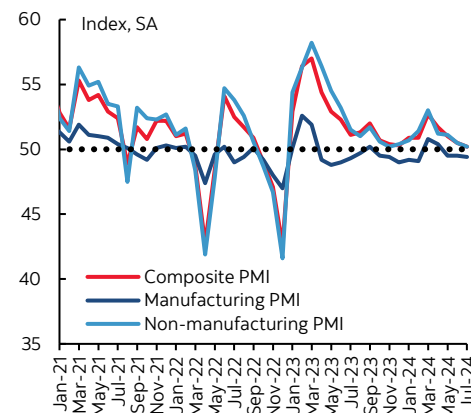
### Comparing Eurozone Core CPI for All Months of July



Sources: Scotiabank Economics, Eurostat.

Chart 7

### Chinese State PMI



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

### Eurozone Core Inflation Was Another Hot One

Eurozone core CPI was down -0.15% m/m seasonally unadjusted. Prices normally fall in July over June and so what matters is that compared to like months of July in history this one was the third strongest on record (chart 6). Core inflation continues to be too warm. The result held the y/y core CPI rate at 2.9% against consensus expectations for a small drift lower. The y/y rate is influenced by base effects whereas the persistent pattern of stronger than usual m/m readings is an ongoing warning sign to the ECB.

### China's Troubled Economy

Chinese PMIs weakened a touch further on the heels of more concerns being expressed about the economy by the Chinese leadership (chart 7). The state's composite PMI slipped three tenths to 50.2 mostly due to a three-tenths decline in the non-manufacturing PMI.

### North American Market Events

Here is what's on tap into the N.A. session:

US ADP payrolls are almost always useless for forecasting nonfarm payrolls, but markets often think differently at least for a little while in the aftermath (8:15amET).

US employment costs are expected to continue to grow at a rapid pace (8:30amET).

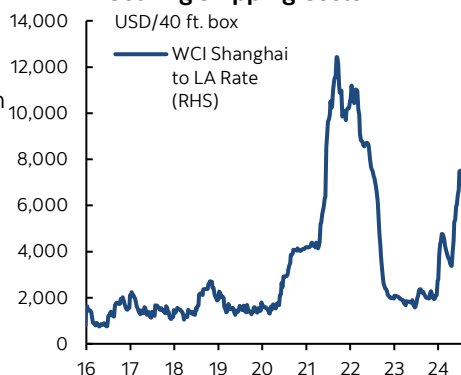
Canada's economy will be the focus in May and June estimates (8:30amET). May was previously guided to be up 0.1% m/m SA but watch for revisions and details. June will be the initial estimate that rounds out Q2 tracking and sets the hand-off effect in the math for Q3 GDP momentum.

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Then it's over to the FOMC that won't change any policy but watch whether more confidence is offered toward a cut in September. Statement at 2pmET, press conference at 2:30pmET, no forecasts this time. Tread carefully, Mr. Powell, as inflation risk is brewing through oil prices and shipping costs due to tensions in the Red Sea shipping lanes (chart 8, 9). I still think that inflation is principally driven by domestic factors in the US and that the imbalances are turning toward being more favourable to the inflation outlook which will dominate the presser. And yet the need for further data and global developments may keep Powell sounding noncommittal to September. September is fully priced, so the market risk is that Powell says they don't have enough confidence and will need to see more of it before deciding.

Chart 8

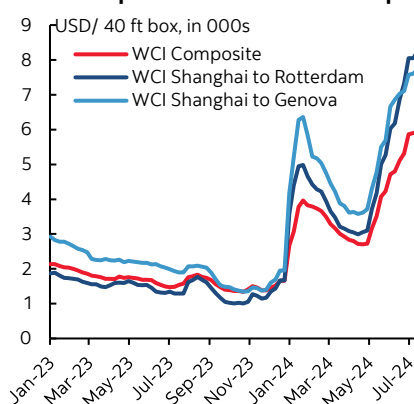
### The US Is Not Immune To Soaring Shipping Costs!



Sources: Scotiabank Economics, Drewry World Container Index.

Chart 9

### More Pipeline Pressure For Europe



Sources: Scotiabank Economics, Drewry World Container Index.

BanRep is expected to cut by another 50bps at the same time as the FOMC statement lands which might be a tad nervy (2pmET).

Brazil's central bank is widely expected to hold in tomorrow's after-market (5:30pmET).

Tech earnings could play a major role once again as Meta Platforms releases Q2 EPS (estimate US\$4.75) in today's after-market.

For more on expectations for the FOMC and Canadian GDP please see my Global Week Ahead [here](#).

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.	4.36	4.36	4.43	4.03	4.03	4.17	4.13	4.14	4.28	4.39	4.40	4.54	Canada - BoC	4.50
CANADA	3.50	3.50	3.63	3.15	3.15	3.31	3.23	3.23	3.40	3.28	3.28	3.42	US - Fed	5.50
GERMANY	2.53	2.55	2.66	2.24	2.26	2.37	2.32	2.34	2.44	2.54	2.57	2.66	England - BoE	5.25
JAPAN	0.46	0.38	0.37	0.67	0.59	0.63	1.06	1.00	1.08	2.18	2.12	2.20		
U.K.	3.85	3.88	3.99	3.80	3.85	3.94	4.01	4.04	4.16	4.58	4.60	4.67		
Equities	Spreads vs. U.S. (bps):												Next Meeting Date	
	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk		
	-86	-86	-80	-88	-88	-87	-90	-91	-89	-111	-111	-112	Canada - BoC	Sep 04, 2024
	-183	-181	-178	-179	-177	-180	-181	-180	-184	-185	-183	-188	US - Fed	Jul 31, 2024
	-390	-398	-406	-336	-344	-355	-308	-314	-320	-221	-227	-234	England - BoE	Aug 01, 2024
Commodities	% change:												Euro zone - ECB	
	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk	Japan - BoJ	
WTI Crude	76.79			2.06			2.8	-1.0	-5.8	-6.1			Mexico - Banxico	11.00
Natural Gas	2.12			-0.01			-0.3	0.1	-18.5	-19.5			Australia - RBA	4.35
Gold	2418.44			7.66			0.3	0.9	8.5	23.1			New Zealand - RBNZ	5.50
Silver	27.88			-0.26			-0.9	-4.0	-5.1	15.1			Next Meeting Date	
CRB Index	274.74			-0.20			-0.1	-2.0	-5.4	-2.6			Canada - BoC	Sep 04, 2024
Currencies	% change:												US - Fed	Jul 31, 2024
	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk	England - BoE	Aug 01, 2024
USDCAD	1.3839			-0.0010			-0.1	0.2	0.7	4.9			Euro zone - ECB	Sep 12, 2024
EURUSD	1.0833			0.0018			0.2	-0.1	0.9	-1.5			Japan - BoJ	June 14, 2024
USDJPY	150.47			-2.3000			-1.5	-2.2	-6.8	5.7			Mexico - Banxico	Aug 08, 2024
AUDUSD	0.6500			-0.0038			-0.6	-1.2	-2.4	-3.2			Australia - RBA	Aug 06, 2024
GBPUSD	1.2841			0.0005			0.0	-0.5	1.5	0.0			New Zealand - RBNZ	Aug 13, 2024
USDCHF	0.8807			-0.0020			-0.2	-0.5	-2.4	1.0				

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