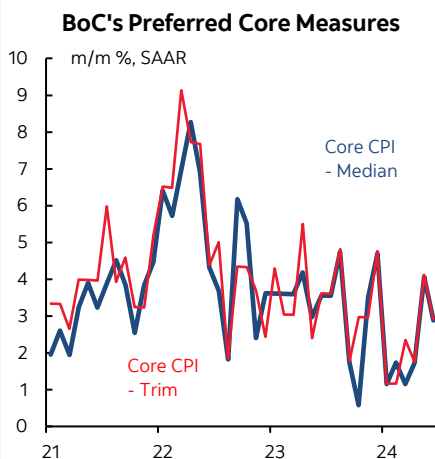


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Chart 1



On Deck for Tuesday, August 20

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	08-20	08:30	Core CPI - Median (y/y)	Jul	--	2.5	2.6
CA	08-20	08:30	Core CPI - Trim (y/y)	Jul	--	2.8	2.9
CA	08-20	08:30	CPI, All items (m/m)	Jul	0.5	0.4	-0.1
CA	08-20	08:30	CPI, All items (y/y)	Jul	2.6	2.5	2.7
CA	08-20	08:30	CPI, All items (index)	Jul	--	162.0	161.4
CA	08-20	08:30	Core CPI - Common (y/y)	Jul	--	--	2.3
CA	08-20	08:30	CPI SA, All items (m/m)	Jul	--	--	0.1
US	08-20	13:35	Fed's Bostic on Innovating for Inclusion				
US	08-20	14:45	Fed's Barr Speaks on Cybersecurity				

KEY POINTS:

- **Global markets tread water before Jackson Hole**
- **Canadian core inflation: was the Jan–April soft patch transitory...**
- **...or was it the reacceleration over May and June that was transitory?**
- **Sweden's Riksbank cuts, guides potentially less cutting than priced**
- **Hawkish bias to RBA minutes drives higher Australian yields**
- **NZ curve catches spillover effects from Australia...**
- **...as government overhaul of carbon credits drives higher carbon prices, passthrough**

Overnight developments were light and focused on Australia, NZ, and Sweden and perhaps Japan. Global markets are generally little changed with Jackson Hole the focal point. Canadian inflation may spice up the local market.

Riksbank Cuts, Signals Market Pricing is a Ceiling

Sweden's Riksbank cut its policy rate by 25bps as widely anticipated, but the statement guided that "If the inflation outlook remains the same, the policy rate can be cut two or three more times this year." Markets were pricing three more cuts this year in addition to the cut that was just delivered, and so "two or three" guidance was a bias toward possibly less than is priced. The krone appreciated a touch and the rates curve was little changed overnight.

Hawkish RBA Minutes Drive Higher Yields

RBA minutes to the August meeting drove mild cheapening across the Australian and Kiwi curves overnight. The minutes had a hawkish tone and stated a bias toward "holding the cash target steady at its current level for a longer period than currently implied by market pricing may be sufficient to return inflation to target in a reasonable timeframe." Note the emphasis on tighter than is priced. A hold for an "extended period" was guided while emphasizing a higher risk of not achieving the 2–3% inflation target within a reasonable period of time. There was a considerable amount of time spent discussing a rate hike during the meeting. Markets retained pricing for a quarter point rate cut by year-end and the A\$ was little changed while yields pushed 3–4bps higher across most of the Aussie curve.

NZ Rates Feed Off RBA, Government's Carbon Overhaul

The NZ rates curve and kiwi dollar may have also been influenced by auction announcements and by the NZ government's overhaul of carbon trading. The government announced that it would halve the number of credits next year and that drove carbon prices up by 7% overnight to the highest since March. Mild, temporary pass through effects could ensue.

August 20, 2024

There were also headlines out of Japan overnight but they didn't materially impact JGBs or the yen. A research paper by BoJ economists argued that inflation risk is still supported by shifting business pricing behaviour and wage setting exercises which may continue to lean toward further policy tightening. The views expressed by staff do not necessarily align with the leadership.

CANADIAN INFLATION

But the main focus this morning will be upon Canadian inflation figures for July (8:30amET). There may also be casual interest in the oddly delayed release of the BoC's latest Senior Loan Officer Survey ([here](#)) that showed that mortgage lending conditions slightly eased in Q2 while non-mortgage consumer lending conditions continued to tighten and so did business lending conditions. The survey is skewed toward responses into the end of Q2.

A combination of seasonal pressures, slight positive contribution from gas prices, and an expected bounce back from some of the soft components in the prior month—like the 10% weight on lower prices for the rec/reading/education category that includes multiple leisure activities—are behind my 0.5% m/m NSA headline estimate alongside persistent shelter pressures.

Key, however, will be the core trimmed mean and weighted median CPI measures. Those core CPI measures have been spiking higher over the past two months with the BoC's two main preferred readings both landing at 4.1% m/m SAAR in May and 2.9% in June (chart 1).

That observation leans against the consensus narrative that focuses only upon falling y/y headline inflation without respecting the evidence on core price behaviour at the margin. The BoC targets headline CPI over the medium-term but uses the core gauges to operationalize achievement of this mandate which is why core inflation matters. Ergo, hot readings for core measures at the margin would give them reason to be more careful if they persistently move away from the four-month soft patch that we had earlier this year.

And so the debate that remains intact is whether that four-month inflation soft patch was temporarily driven by weather (El Nino effects on categories like clothing and travel) plus quasi-regulated prices under political pressure into the Federal Budget (like telecommunications, groceries), or whether it was the past two months of accelerating m/m core gauges that were driven by temporary factors. Only more data will settle the debate, but I still find that there remain ample reasons to be concerned about upside risk to inflation.

Those factors include ongoing fiscal policy stimulus to growth that may intensify into an election year, excessive immigration into severe housing shortages, nominal wage growth and accelerating real wage gains that continue to run at absurdly strong rates compared to tumbling productivity, and my skepticism toward the BoC's fudged arguments for potential growth in a still resilient economy.

Will today's inflation figures matter apart from perhaps driving short-term August market volatility? The BoC is on a straight-line path toward delivering a material amount of easing with a high bar set for being knocked off course. Where that straight line may eventually pause is uncertain, but -50bps to date is no circuit breaker relative to the communicated reaction function. So, a cool reading makes another cut on September 4th a slam dunk. If another hot set of m/m SAAR core readings makes it three in a row, then it should still leave a rate cut possible but the decision may be accompanied by a more circumspect and cautious policy bias thereafter.

Please see the Global Week Ahead for more.

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				
	4.05	4.07	3.93	3.75	3.76	3.67	3.87	3.87	3.84	4.13	4.12	4.16	Canada - BoC	4.50		
	3.32	3.33	3.23	2.99	2.99	2.92	3.07	3.06	3.03	3.14	3.13	3.13	US - Fed	5.50		
	2.43	2.43	2.34	2.16	2.18	2.09	2.24	2.25	2.19	2.46	2.46	2.43	England - BoE	5.00		
	0.36	0.37	0.31	0.50	0.51	0.44	0.89	0.89	0.85	2.11	2.08	2.07				
	3.71	3.69	3.61	3.75	3.74	3.68	3.93	3.92	3.89	4.47	4.46	4.47				
	Spreads vs. U.S. (bps):															
	-73	-74	-70	-76	-77	-75	-80	-81	-81	-99	-99	-103	Euro zone - ECB	4.25		
	-162	-163	-159	-158	-158	-158	-163	-163	-166	-167	-166	-173	Japan - BoJ	-0.10		
-369	-370	-363	-324	-325	-323	-298	-298	-300	-202	-205	-209					
-34	-38	-33	-0	-2	1	6	5	4	34	34	31					
Equities	Level						% change:						Mexico - Banxico		10.75	
	Last	Change			1 Day	1-wk	1-mo	1-yr								
S&P/TSX	23116	61.8			0.3	3.2	1.9	16.6							Australia - RBA	4.35
Dow 30	40897	236.8			0.6	3.9	1.5	18.5							New Zealand - RBNZ	5.25
S&P 500	5608	54.0			1.0	4.9	1.9	28.3								
Nasdaq	17877	245.0			1.4	6.5	0.8	34.5								
DAX	18409	-12.8			-0.1	3.4	1.3	18.2								
FTSE	8295	-61.8			-0.7	0.7	1.7	14.2								
Nikkei	38063	674.3			1.8	5.1	-5.0	20.6							Canada - BoC	Sep 04, 2024
Hang Seng	17511	-58.5			-0.3	2.0	0.5	-0.6							US - Fed	Sep 18, 2024
CAC	7505	3.4			0.0	3.2	-0.4	4.8							England - BoE	Sep 19, 2024
Commodities	Level						% change:						Euro zone - ECB		Sep 12, 2024	
	Last	Change			1 Day	1-wk	1-mo	1-yr							Japan - BoJ	June 14, 2024
WTI Crude	74.42	0.05			0.1	-5.0	-7.1	-8.4							Mexico - Banxico	Sep 26, 2024
Natural Gas	2.26	0.02			1.0	5.1	6.1	-11.5							Australia - RBA	Sep 24, 2024
Gold	2525.34	21.06			0.8	2.4	13.3	33.7							New Zealand - RBNZ	Oct 08, 2024
Silver	28.83	0.70			2.5	3.1	-0.9	26.5								
CRB Index	276.39	0.95			0.3	-1.1	-1.4	0.3								
Currencies	Level						% change:									
	Last	Change			1 Day	1-wk	1-mo	1-yr								
USDCAD	1.3618	-0.0016			-0.1	-0.6	-1.0	0.5								
EURUSD	1.1078	-0.0007			-0.1	0.8	1.7	1.7								
USDJPY	146.46	-0.1300			-0.1	-0.3	-6.7	0.2								
AUDUSD	0.6731	0.0000			0.0	1.5	1.3	4.9								
GBPUSD	1.2997	0.0006			0.0	1.0	0.5	1.9								
USDCHF	0.8597	-0.0031			-0.4	-0.6	-3.4	-2.1								

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