

DAILY POINTS

August 30, 2024 @ 7:25 EST

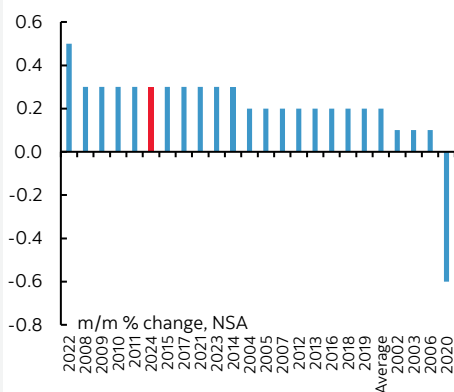
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Chart 1

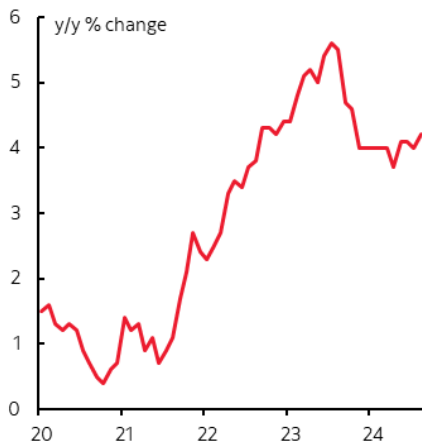
Comparing Eurozone Core CPI for All Months of August



Sources: Scotiabank Economics, Eurostat.

Chart 2

Hot Eurozone Services Inflation



Sources: Scotiabank Economics, Eurostat.

On Deck for Friday, August 30

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	08-30	08:30	Real GDP (m/m)	Jun	0.0	0.1	0.2
CA	08-30	08:30	Real GDP (q/q a.r.)	2Q	1.8	1.8	1.7
US	08-30	08:30	PCE Deflator (m/m)	Jul	0.2	0.2	0.1
US	08-30	08:30	PCE Deflator (y/y)	Jul	2.6	2.5	2.5
US	08-30	08:30	PCE ex. Food & Energy (m/m)	Jul	0.2	0.2	0.2
US	08-30	08:30	PCE ex. Food & Energy (y/y)	Jul	2.7	2.7	2.6
US	08-30	08:30	Personal Spending (m/m)	Jul	0.7	0.5	0.3
US	08-30	08:30	Personal Income (m/m)	Jul	0.2	0.2	0.2
US	08-30	09:45	Chicago PMI	Aug	–	44.8	45.3
US	08-30	10:00	U. of Michigan Consumer Sentiment	Aug F	–	68.1	67.8

KEY POINTS:

- **Constructive market tone awaits key US, Canadian releases**
- **Hot Tokyo core CPI adds to carry trade risks**
- **Eurozone core inflation offers warning signs to ECB easing**
- **South Korean won hit by collapse in factory output**
- **US to post strong consumption, soft core inflation**
- **GDP figures will test Canadian resilience**
- **Early Canadian bond close**

Risk-on sentiment is pushing equities gently higher, Brent just over US\$80, and little change across global bond yields. That might change into the N.A. session pending significant macro risk.

A wave of developments will make US and Canadian market participants work for their money ahead of the long weekend and Canada's early bond close. Key data out of the US and Canada should reveal muted core inflation in the US and strong consumption, plus mixed Canadian GDP figures for June, July, and Q2 overall that should paint a resilience picture.

All of this follows overnight developments that saw Japanese core inflation surge as markets shook off Eurozone inflation that hid ongoing warning signs in keeping with ECB Executive Board Member Schnabel's relatively hawkish warnings. If that's not enough, then market participants may also have to contend with potential month-end rebalancing effects.

EUROZONE CORE INFLATION REMAINS WARMER THAN USUAL

Eurozone inflation readings were not terribly impactful to markets in part because the figures were generally in line with consensus expectations and because yesterday's German and Spanish readings had already primed the market and driven a mild bull steepener in Eurozone yield curves.

Count me an ongoing skeptic toward Eurozone inflation getting on track toward the ECB's targets in light of the latest numbers. Eurozone core inflation registered a slightly above-average seasonally unadjusted gain in August over July compared to like months of August in history (chart 1). It was up 0.3% m/m NSA compared to 0.2% as the average for the month over time. This extends what has been the general pattern throughout this year and serves as a caution to the ECB.

The year-over-year rate of core inflation slipped a tick to 2.8%. Much of the deceleration in this reading from a peak of 5.7% y/y in 2023 has been due to year-ago base effects.

As for headline inflation, it fell four-tenths to 2.2% y/y in August. That is just barely the lowest y/y inflation rate since mid-2021. Year-ago base effects and energy effects dominate as drivers of this cooling rate.

August 30, 2024

Services inflation picked up by two-tenths to 4.2% y/y and remains uncomfortably high (chart 2). Service prices were up by 0.4% m/m NSA which is double the long run average across like months of August. Services inflation remains hot in keeping with prior momentum, with a likely incremental boost from the Paris Olympics last month.

TOKYO CORE INFLATION SURGED, POSING RISK TO THE CARRY TRADE

Japan saw inflation accelerate in the freshest Tokyo measures for August. Key is the core gauge ex-food and energy as it was up by 0.4% m/m SA for the hottest reading since July of last year (chart 3). At an annualized rate this works out to 4.9%. Such pressure at the margin helped to boost the y/y headline rate from 2.2% to 2.6%. This hot core reading coincides with the earlier release that showed real wage growth has suddenly turned positive in y/y terms (chart 4).

And yet the yen depreciated a touch overnight. That may have been partly due to the fact that other macro indicators disappointed. Retail sales were up by 0.2% m/m in July, or half the consensus estimate. Industrial output rebounded from the prior -4.2% m/m drop by less than expected (+2.8% m/m, consensus 3.5%). The jobless rate ticked up two-tenths to 2.7% versus consensus that was unchanged.

Still, the stronger core inflation and real wage measures will likely further embolden the BoJ to tighten monetary policy subject to timing uncertainty and in sensitive fashion to market developments around the carry trade as officials have noted.

SOUTH KOREA'S WON FELT NO LOVE OVERNIGHT

South Korea's currency won no prizes from traders overnight. The won is the worst performing cross to the USD partly due to the large drop in industrial output (-3.6% m/m, -0.6% consensus) during July.

On tap into the N.A. session are important readings out of both the US and Canada.

CANADA'S RESILIENT ECONOMY

Canada updates a wave of GDP reports at 8:30amET. I've estimated flat June GDP with downside risk in light of data we've received since Statcan issued its preliminary 'flash' reading of 0.1% at the end of July. I wouldn't be surprised to see a strong gain in July, however, given tracking of various readings including a 1% m/m surge in hours worked. Q2 GDP overall is expected to grow by 1.8% q/q SAAR. A solid July number combined with a soft end to Q2 could bake in solid momentum into Q3 and perhaps support the BoC's July MPR forecast for a strong 2.8% Q3 GDP growth rate. See the Global Week Ahead [here](#) for more colour but otherwise let's just see the numbers shortly.

Canada's bond market shuts early at 1pmET today ahead of the Labour Day weekend on both sides of the border.

US TO POST STRONG CONSUMPTION, SOFT CORE INFLATION

The US simultaneously releases July figures for consumption, incomes, and inflation using the Fed's preferred readings (8:30amET). A modest gain in incomes of around 0.2% m/m SA is expected to be exceeded by a strong gain in nominal consumer spending (0.5% m/m SA consensus, 0.7% Scotia) in part based on what we already know about retail sales that month plus an expected decent gain in services spending.

Key, however, will be the core PCE inflation reading. I went with 0.2% m/m SA based on the earlier core CPI figures and how they translate into PCE's different methodology. It's unclear how yesterday's mild downward revision to Q2 core PCE inflation to 2.8% q/q SAAR instead of the earlier 2.9% figure may impact expectations for July since we don't know how the downward revision in Q2 impacted the monthly figures.

Chart 3

Tokyo Core CPI

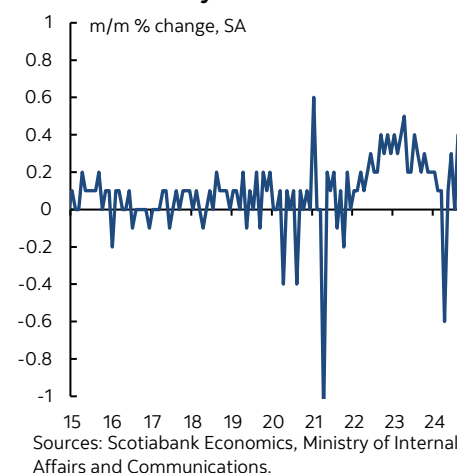
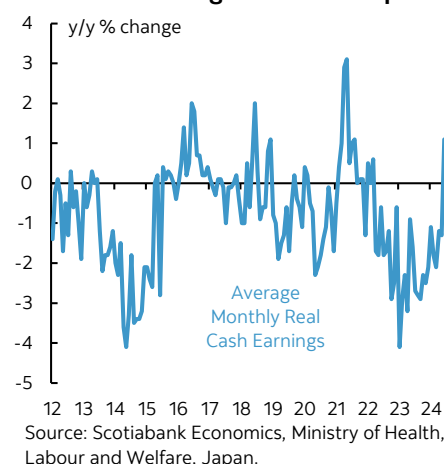


Chart 4

Some Real Wage Growth In Japan



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				
	3.90	3.90	3.92	3.67	3.67	3.65	3.85	3.86	3.80	4.13	4.15	4.09	Canada - BoC	4.50		
	3.32	3.31	3.23	3.01	3.01	2.93	3.12	3.13	3.03	3.21	3.23	3.12				
	2.36	2.36	2.37	2.15	2.16	2.13	2.26	2.27	2.23	2.50	2.52	2.47	US - Fed	5.50		
	0.37	0.37	0.38	0.51	0.51	0.51	0.90	0.90	0.90	2.10	2.08	2.08				
	4.08	4.11	3.68	3.89	3.92	3.73	3.98	4.02	3.91	4.50	4.54	4.45	England - BoE	5.00		
	Spreads vs. U.S. (bps):															
	-58	-58	-68	-66	-65	-72	-73	-73	-77	-92	-92	-97	Euro zone - ECB	4.25		
	-154	-154	-154	-151	-151	-152	-159	-159	-157	-164	-162	-162				
-353	-353	-354	-316	-316	-314	-295	-296	-290	-204	-207	-202	Japan - BoJ	-0.10			
18	22	-24	22	25	8	13	16	11	37	40	36					
Equities	Level					% change:							Mexico - Banxico		10.75	
	Last				Change	1 Day	1-wk	1-mo	1-yr							
S&P/TSX	23227				100.5	0.4	0.8	1.8	14.3					Australia - RBA	4.35	
Dow 30	41335				243.6	0.6	1.5	1.5	18.5							
S&P 500	5592				-0.2	-0.0	0.4	2.9	23.9					New Zealand - RBNZ	5.25	
Nasdaq	17516				-39.6	-0.2	-0.6	2.2	24.9							
DAX	18953				40.6	0.2	1.7	2.9	19.3							
FTSE	8404				23.9	0.3	1.4	1.6	12.4							
Nikkei	38648				285.2	0.7	0.7	7.6	18.2					Canada - BoC	Sep 04, 2024	
Hang Seng	17989				202.8	1.1	2.1	6.2	-2.1					US - Fed	Sep 18, 2024	
CAC	7674				33.5	0.4	1.3	2.7	4.2							
Commodities	Level					% change:										
WTI Crude	76.08				0.17	0.2	1.7	1.8	-6.8					England - BoE	Sep 19, 2024	
Natural Gas	2.13				-0.00	-0.2	5.4	0.3	-23.7							
Gold	2521.34				-0.06	-0.0	0.3	13.1	29.8					Euro zone - ECB	Sep 12, 2024	
Silver	29.49				0.06	0.2	-0.3	4.8	21.8							
CRB Index	279.88				0.00	0.0	0.4	1.9	-0.5					Japan - BoJ	June 14, 2024	
Currencies	Level					% change:										
USDCAD	1.3478				-0.0007	-0.1	-0.2	-2.7	-0.4					Mexico - Banxico	Sep 26, 2024	
EURUSD	1.1081				0.0004	0.0	-1.0	2.5	1.4							
USDJPY	145.26				0.2700	0.2	0.6	-4.9	-0.7					Australia - RBA	Sep 24, 2024	
AUDUSD	0.6797				-0.0001	-0.0	0.0	4.0	5.0							
GBPUSD	1.3178				0.0010	0.1	-0.3	2.7	3.6					New Zealand - RBNZ	Oct 08, 2024	
USDCHF	0.8488				0.0015	0.2	0.1	-3.8	-3.4							

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