

DAILY POINTS

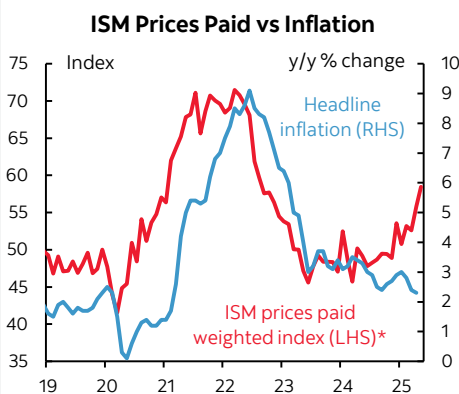
June 18, 2025 @ 8:35 EST

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Chart 1



*Weighted at 75% of ISM-services prices paid index and 10% of ISM-mfg. prices paid index.
Sources: Scotiabank Economics, BLS, ISM.

On Deck for Wednesday, June 18

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	06/18	07:00	MBA Mortgage Applications (w/w)	Jun 13	--	--	-2.6
US	06/18	08:30	Building Permits (000s a.r.)	May P	--	1422.0	1393.0
US	06/18	08:30	Housing Starts (000s a.r.)	May	1365	1350.0	1256.0
US	06/18	08:30	Housing Starts (m/m)	May	0.3	-0.8	-9.8
US	06/18	08:30	Initial jobless claims	14-Jun	245	245.0	245.0
US	06/18	14:00	FOMC Interest Rate Meeting (%)	Jun 18	4.50	4.50	4.50
US	06/18	16:00	Total Net TIC Flows (US\$ bn)	Apr	--	--	254.3
US	06/18	16:00	Net Long-term TIC Flows (US\$ bn)	Apr	--	--	161.8

KEY POINTS:

- Markets on tenterhooks, eyeing the interplay between the Fed and Iran
- Iran's Supreme Leader strikes defiant tone; watch US response
- Fed moving toward easing the SLR in one week
- BoC's Macklem to speak on tariffs and trade...
- ...and has sounded neutral-hawkish on the topic in the past
- FOMC preview: what to expect in the dots, projections and press conference
- The US job market is resilient...
- ...and why an experienced FOMC should fade recent inflation data
- Riksbank cuts with slightly dovish forward guidance
- Bank Indonesia sits tight again
- UK services CPI eases
- SARB watchers took down dovish inflation data
- US housing starts sink, jobless claims have mildly picked up

Markets are feeling uneasy with divided outcomes across asset classes on what could be a big day for developments at the Fed, in Iran, and at the BoC while digesting headlines on Fed regulatory moves and overnight developments. US Ts are outperforming with a bull flattener that is also bringing a dearer front-end that might be a dicey bet into the FOMC. Stocks are little changed across global benchmarks. The dollar is also mixed with some narratives around local central bank decisions and data driving currency moves.

IRAN'S SUPREME LEADER STRIKES DEFIANT TONE

Markets remain on tenterhooks awaiting further possible developments in Iran. The Supreme Leader Ayatollah Ali Khamenei just aired a televised address that was defiant in its tone, warning that it won't surrender and that US actions will be met with force. It may further inform the US stance and any joint actions by Israel and the US with the potential for headlines to mess up the Fed reaction if any.

FED MOVING TOWARD EASING THE SLR

A contributing factor to outperformance of US Treasury yields is last evening's headline that the Fed will hold a meeting next Wednesday to discuss cutting the Supplementary Leverage Ratio by as much as 1.5 ppts.

BOC'S MACKLEM TO HOPEFULLY CLARIFY HIS STANCE

BoC Governor Macklem speaks on 'tariffs, trade, employment and inflation' and will offer a press conference afterward. The speech will be released at 11:15amET and the press conference will be held by around 12:40pmET, give or take. Key will be whether he clarifies

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his stance during the June decision's press conference that on the one hand said they didn't have confidence in the outlook to provide forward guidance and therefore suggesting no rush to act, versus emphasizing the next two CPI reports that are due before the July 30th decision which suggested the meeting may be 'live'.

FOMC—WILL THEY REDUCE PROJECTED CUTS?

Then it's the Fed. The statement (2pmET) will be accompanied by an updated Summary of Economic Projections (SEP) including a fresh 'dot plot.' Then at 2:30pmET, Chair Powell holds his customary press conference for around 45 minutes. See my preview [here](#) and more comments below.

A policy rate hold with no changes to balance sheet policies are widely expected. Key will be the SEP's projections for growth, inflation, and the unemployment rate and the fresh dot plot.

I wouldn't be surprised if the Committee removed one cut from its dots this year, but it's uncertain they will. Their 50bps of cuts in 2025 in the March plot has five remaining meetings in which to deliver them. June and probably July seem out. It's unclear that the Committee will have the confidence to cut twice in the remaining three meetings after July. My hunch is they could trim that down to one which would be consistent with the views expressed by some members, while others have indicated they are still fine with the March projection.

Why reduce the pace of easing? Nonfarm payrolls remains resilient especially in weather-adjusted terms. 139k official payrolls in May was 220k according to the San Fran Fed's weather-adjusted payroll gain. The FOMC will also expect a cooler breakeven rate of payroll expansion as the labour force cools through tighter immigration policy. Overall, I don't expect Powell to sound concerned about the full employment side of the mandate at this meeting.

As for the price stability side of the dual mandate, the FOMC has seen many false head fakes on soft core inflation, only to be surprised again even absent any tariff effects. They're experienced enough to fade the data and require a lot more. On said tariff effects on inflation, it's ridiculous to dismiss them based on inflation data to date since we can't tell whether prices have been held at bay because of no pass-through effect now or ever, or if that's just temporarily stalled by front-running orders into inventory at old prices and by absorbing some of the effects in profit margins. Retailers may try to smooth out the effects on prices over time and, in an expectations sense, adjust prices carefully in light of the possibility that tariff de-escalation lies ahead over coming months. Prudence would require an open mind to pass through especially given the number of major firms indicating they are indeed raising prices plus the soft data such as ISM price signals that lead inflation (chart 1). The Fed may also be on the verge of another oil price shock pending volatile developments in the Middle East as higher oil and tariffs risk reinforcing one another's inflation effects. Last, there is also the question of confidence in data; I don't have any confidence in US inflation data given the 30% share of the basket that is now guesswork due to budget cuts (chart 2) and the fudged seasonal adjustment factors that assume today's seasonality is the same as it was emerging from the pandemic in light of the recency bias to how they are calculated (chart 3).

Additional issues in the press conference could include two other things. Someone will probably ask about a proposal by a few US Senators for the Fed to stop paying interest on reserves. Anyone who knows anything about US monetary policy and the Fed would expect Powell to bat that away and quickly move on. Secondly, Powell may be asked about last evening's SLR headlines, so watch any guidance on timing of implementation, magnitude of change, and composition of change as it may affect other asset classes. In fact, the SLR comments might well carry the day in terms of market effects coming out of this meeting.

DOVISH RIKSBANK

Sweden's Riksbank cut its policy rate by 25bps as widely expected. Guidance was more dovish than expected as the statement noted that "The forecast for the policy rate entails some

Chart 2

BLS Use of Alternate Estimation Methodology in US CPI

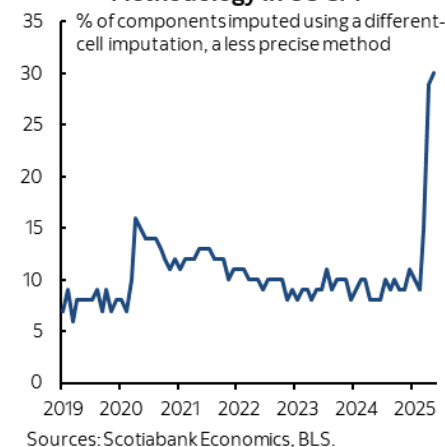


Chart 3

Comparing US Core CPI SA Factors for All Months of May

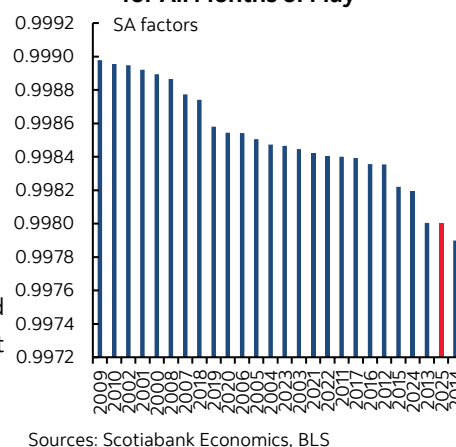
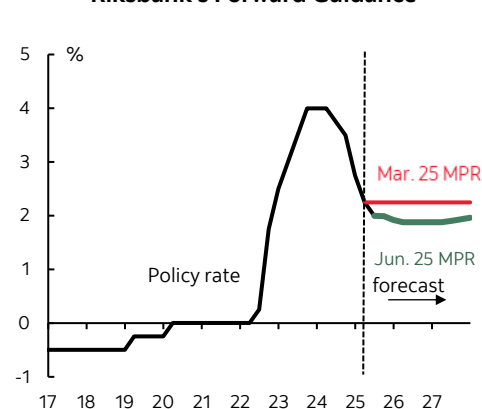


Chart 4

Riksbank's Forward Guidance



Sources: Scotiabank Economics, Riksbank.

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probability of another cut this year.” Their explicit forward guidance is on the fence with only a few basis points of a cut reflected by year-end while the two alternative scenarios are split between materially more cuts and hikes should inflation surprise higher (chart 4).

GUARDED BANK INDONESIA

Bank Indonesia held its policy rate at 5.5% as many expected, although there was a significant minority expecting a cut. Guidance continued to point to the usual concerns about the rupiah and financial stability, tariff concerns, while the growth outlook was revised a touch lower.

UK SERVICES CPI EASES

UK CPI came and went without much fanfare. Headline CPI was on the screws at 0.2% m/m and slipped to 3.4% y/y (3.5% prior, 3.3% consensus). Core CPI was on consensus at 3.5% y/y (3.8% prior). One slightly more dovish hint came through CPI services that fell to 4.7% (5.4% prior, 4.8% consensus).

RAND SOFTENS ON WEAKER CORE CPI

South African Reserve Bank watchers got a bit more of a dovish CPI reading than expected. Core CPI was flat against expectations for a mild up-tick and that kept the y/y rate at 3% (3.1% consensus). There is another CPI report due before the July 31st SARB decision.

MINOR US DATA INTO THE OPEN

US housing starts in May fell by 9.8% m/m SA in May (consensus -0.8%) only partly due to upward revisions to the prior month (+2.7% m/m instead of 1.6%). Initial jobless claims landed at 245k last week which is slightly significant in that it makes three weeks in a row of readings around that range as a slight pick-up from the 220s range previously.

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.	3.93	3.95	3.95	3.96	3.99	4.02	4.37	4.39	4.42	4.87	4.89	4.92	Canada - BoC	2.75
CANADA	2.69	2.70	2.68	2.95	2.96	2.94	3.35	3.37	3.35	3.65	3.67	3.64	US - Fed	4.50
GERMANY	1.87	1.87	1.85	2.13	2.14	2.13	2.52	2.54	2.54	2.97	2.99	3.01		
JAPAN	0.75	0.76	0.76	1.01	1.02	1.03	1.46	1.47	1.47	2.94	2.93	2.93	England - BoE	4.25
U.K.	3.90	3.92	3.91	4.02	4.05	4.04	4.52	4.55	4.55	5.26	5.28	5.28	Euro zone - ECB	2.15
Spreads vs. U.S. (bps):														
CANADA	-124	-125	-127	-102	-103	-108	-102	-102	-107	-122	-123	-128		
GERMANY	-207	-209	-211	-184	-185	-190	-185	-186	-189	-190	-191	-191		
JAPAN	-318	-319	-319	-296	-297	-299	-291	-293	-296	-193	-196	-199	Japan - BoJ	0.50
U.K.	-3	-3	-4	6	6	2	15	16	13	39	39	36		
Equities	Level						% change:						Mexico - Banxico	8.50
	Last	Change					1 Day	1-wk	1-mo	1-yr				
S&P/TSX	26541	-27.2					-0.1	0.4	2.2	22.8	Australia - RBA	3.85		
Dow 30	42216	-299.3					-0.7	-1.5	-1.0	8.7	New Zealand - RBNZ	3.25		
S&P 500	5983	-50.4					-0.8	-0.9	0.4	9.0				
Nasdaq	19521	-180.1					-0.9	-1.0	1.6	9.3	Next Meeting Date			
DAX	23379	-55.9					-0.2	-2.4	-1.6	28.9	Canada - BoC	Jul 30, 2025		
FTSE	8846	11.6					0.1	-0.2	1.9	8.0				
Nikkei	38885	348.4					0.9	1.2	3.7	0.8	US - Fed	Jun 18, 2025		
Hang Seng	23711	-269.6					-1.1	-2.7	1.6	28.6	England - BoE	Jun 19, 2025		
CAC	7676	-7.7					-0.1	-1.3	-2.7	0.6				
Commodities	Level						% change:						Euro zone - ECB	Jul 24, 2025
WTI Crude	75.14	0.30					0.4	10.3	20.2	-7.9	Japan - BoJ	Jul 31, 2025		
Natural Gas	3.93	0.08					2.0	12.0	17.8	35.0	Mexico - Banxico	Jun 26, 2025		
Gold	3389.44	1.33					0.0	-0.9	52.0	45.5				
Silver	37.07	0.69					1.9	0.8	15.3	26.8				
CRB Index	314.01	3.84					1.2	4.9	6.1	6.2				
Currencies	Level						% change:						Australia - RBA	Jul 08, 2025
USDCAD	1.3636	-0.0043					-0.3	-0.3	-2.3	-0.6	New Zealand - RBNZ	Jul 08, 2025		
EURUSD	1.1514	0.0034					0.3	0.2	2.4	7.2				
USDJPY	144.76	-0.5300					-0.4	0.1	-0.1	-8.3				
AUDUSD	0.6505	0.0030					0.5	0.1	0.7	-2.3				
GBPUSD	1.3462	0.0033					0.2	-0.6	0.8	5.9				
USDCHF	0.8167	0.0004					0.0	-0.4	-2.1	-7.6				

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