

DAILY POINTS

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Chart 1

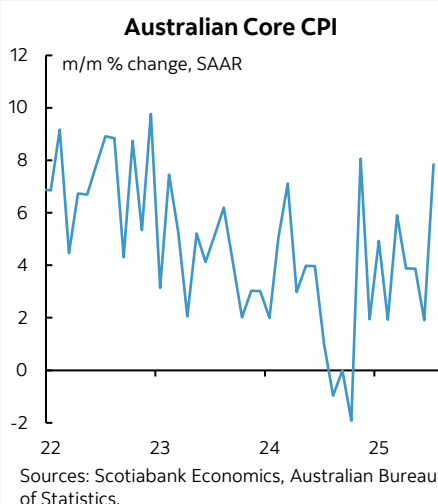
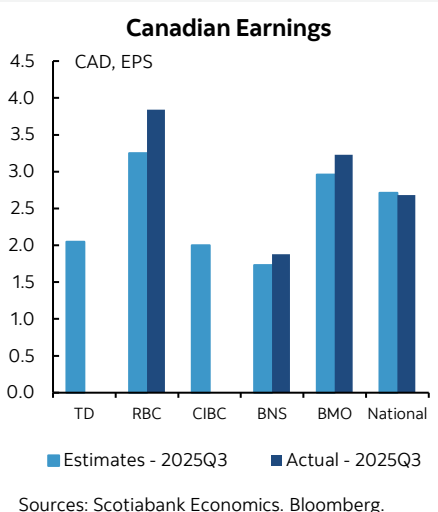


Chart 2



On Deck for Wednesday, August 27

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	08-27	07:00	MBA Mortgage Applications (w/w)	Aug 22	--	--	-0.5

KEY POINTS:

- **US markets await key earnings**
- **How the MAGAfication of the Fed could hit the district banks**
- **BoC's Macklem set low expectations for the coming mandate review**
- **Canadian GDP got a slight boost**
- **Australian CPI surprises higher**
- **Canadian bank earnings season continues**

US Ts are slightly underperforming European yields and the dollar is stronger across the board. Equities are little changed across major global benchmarks. There is very little by way of fresh developments to consider with just an Australian inflation surprise, more bank earnings in Canada, more tariffs and ongoing concern about Fed independence. Nvidia releases earnings in the after-market today.

RBA WATCHERS GOT A RUDE SHOCK

Australian CPI surprised to the high side of expectations. That drove yields a bit higher across the Australian rates curve with 2s about 3bps higher. CPI landed at 2.8% y/y (2.3% consensus, 1.9% prior) with trimmed mean CPI up six-tenths to 2.7% y/y. Traditional core CPI jumped seven-tenths to 3.2% y/y. It wasn't just about year-ago base effects as the m/m seasonally adjusted and annualized rate of core inflation took off (chart 1). Housing, clothing and footwear, and recreation components were the main culprits.

AMERICANS TO PAY MORE FOR INDIAN CLOTHING ETC

Trump carried through on threats against India by imposing a 50% tariff rate on about half of Indian exports to the US on the theory it may dissuade India from buying Russian oil. I doubt it. Americans will pay more for items like clothing.

CANADIAN BANK EARNINGS SEASON CONTINUES

Most Canadian bank earnings are crushing it this season. RBC reported Q3 adjusted EPS of C\$3.84 (consensus \$3.25) with solid beats on both revenues and provisions for credit losses. National Bank slightly disappointed with EPS of C\$2.68 (consensus \$2.70) and a small miss on revenues. Both follow beats by BNS and BMO yesterday such that three out of four banks are beating expectations ahead of two more tomorrow (chart 2).

HOW THE MAGAFICATION OF THE FED COULD HIT THE DISTRICT BANKS

Former Fed Vice Chair and Treasury official Lael Brainard brought a fear about Fed independence out of the shadows of blogs and whispered murmurs into the mainstream yesterday. She did so by flagging the risks surrounding how the Trump administration could launch an all-out assault on the regional Fed Presidents and not just the Board of Governors.

How so? This theory has been floating around for months but was never really treated seriously in mainstream commentary. The issue is that all 12 regional Fed Presidents are up for renewal at the end of February in years ending with a 1 or a 6—ergo 2026 this time. Normally it's largely a rubber stamp affair that doesn't get much notice. This time could be different given the MAGA politics.

Each district bank has 9 board members. Of the 9, three are appointed by the Fed's Board of Governors, with the remaining six drawn from the community and member banks in the district and appointed by the member banks. The Chairs of the regional district boards are picked from the 3 appointed by the Fed's BoG. Therefore, the BoG can have material indirect influence upon the choice of President of the regional district bank. First stack the BoG with Trump's chosen ones, then perhaps reshape the district boards with new appointments while perhaps applying pressure on the member banks that sit on the boards of the Fed's district banks. Then presto, pick new Presidents or apply pressure on existing ones to comply with Trump's wishes.

Can they do that? It's unclear and trying to do so could unleash more legal battles, not that it would stop Trump who loves having lots of lawyers hanging around. Here's what the Brookings Institution recently wrote about the issue:

"Presidents of the 12 regional Fed banks are up for reappointment every five years. The Fed Board of Governors in Washington could replace any of them, though it hasn't ever done so. A 2019 opinion by the Justice Department's Office of Legal Counsel—never tested in court—said that the Fed Board of Governors can remove a Fed bank president "at will." The law is unclear. The Federal Reserve Act, 12 U.S.C. § 248(f), says, "To suspend or remove any officer or director of any Federal reserve bank, the cause of such removal to be forthwith communicated in writing by the Board of Governors of the Federal Reserve System to the removed officer or director and to said bank." The use of the word "cause" suggests there has to be one. A different section, 12 U.S.C. § 341 (Fifth), however, says that the board of directors of a regional Fed bank can dismiss any officer "at pleasure."

Obviously, any sensible Fed Governor would be highly reticent to do this. The question is therefore two-fold in nature. First, how sensible will these Governor appointments prove to be? Miran wouldn't hesitate imo and Trump mused yesterday that his spot to fill in for the departed Governor Kugler could be converted to a longer term position and his Senate confirmation hearing is to be held next week. Trump has a pattern of trying odd duck nominees who lack credibility (Judy Shelton, Miran) and could well continue the pattern.

Second, what 'cause' arguments would be cooked up by the administration and MAGA types to assault the regional presidents, perhaps forcing the Board's hand? I hope the regional Presidents are squeaky clean in terms of mortgage apps, anything else in their backgrounds, their favourite flavours of ice cream etc.

Obviously all of this isn't a base case at this point. Then again, none of this was. It's prudent to be mindful toward next steps over coming weeks and months. Such a scenario—stacking the Board and regional Presidents—imo risks a severe blow to confidence in US markets.

As added input, see chart 3 that is a summary table of the dates for Federal Reserve officials that doesn't include the five year reviews of the regional Presidents but only the expirations of their terms assuming they pass each review.

Chart 3

US Federal Open Market Committee (FOMC) Members 2025			
Board Members			
Name	Term Expires	Chair & Vice Chair Term Expires	Appointed By:
Jerome Powell (C)	January 2028	May 2026	Obama - Board (2012), Trump, Biden - Chair (2018, 2022)
Philip Jefferson (VC)**	January 2036	September 2027	Biden - Board (2022) & Vice Chair (2023)
Michelle Bowman (VC)	January 2034	June 2029	Trump - Board (2018, 2020) & Vice Chair (2025)
Stephen Miran*	January 2026		Trump - Board (2025)
Christopher Waller**	January 2030		Trump - Board (2020)
Michael Barr**	January 2032		Biden - Board (2022)
Lisa Cook	January 2038		Biden - Board (2022, 2024)
Presidents of Regional Bank - Members of FOMC for 2025			
Name	Bank	Must Leave By	Next Member Year
John Williams	New York	June 2028	2026
Susan Collins	Boston	June 2032	2028
Austan Goolsbee	Chicago	August 2034	2027
Alberto Musalem	St. Louis	April 2034	2028
Jeffrey Schmid	Kansas City	August 2033	2028
Presidents of Regional Bank - Non Members of FOMC			
Name	Bank	Must Leave By	Voting Member
Thomas Barkin	Richmond	January 2028	2027
Mary Daly	San Francisco	October 2028	2027
Raphael Bostic	Atlanta	May 2031	2027
Anna Paulson	Philadelphia	July 2035	2026
Beth Hammack	Cleveland	January 2037	2026
Lorie Logan	Dallas	February 2038	2026
Neel Kashkari	Minneapolis	July 2038	2026
C & VC denotes Chair and Vice Chair of the Board of Governors of Federal Reserve System.			
* Still not confirmed by Senate yet. ** Filling an unexpired term, so could be reappointed.			
Sources: Scotiabank Economics, Brookings, Bloomberg.			

WHAT WE LEARNED FROM MACKLEM'S SPEECH

BoC Governor Macklem's speech yesterday ([here](#)) contained nothing of direct relevance to nearer-term monetary policy considerations. I think the only takeaway was to basically declare that next year's mandate review is going to be a dud.

The speech was partly about setting low expectations for material changes in the next framework review in 2026. Unlike the fake 'horse race' they ran in the past review to see if something was better than 2% flexible targeting only to do what they've always done which is to say 'nope', this time he's explicitly saying they won't change anything material and won't even waste anyone's time pretending that it's an option. Quote:

"We've considered whether the target should be lower or higher. We've also weighed alternatives to inflation targeting, including price-level targeting and nominal GDP targeting. Each time, we've concluded that Targeting 2% inflation is the right framework for us. The experience since the last renewal in 2021 has only reinforced this conclusion. The 2022 spike in inflation was a painful reminder of just how much Canadians don't like high inflation. We also know that Canadians generally understand and support the 2% target. That familiarity has helped anchor inflation expectations through thick and thin, including through the pandemic crisis."

Of course, that last part is a little rich. Macklem blew it on inflation risk with all of his transitory talk and didn't listen to warnings.

There was also added reason to think that maybe the BoC is revisiting the best ways to measure core inflation. This has been understood to be a consideration for a little while and here's his general remark:

"Second, with more supply shocks and greater volatility in inflation, what is the best way to measure core inflation? At the Bank of Canada, we've used various measures of core inflation over the past few decades. And in practice we often use an even broader range of indicators to assess underlying inflation. Going forward, what's the best approach—narrow or broad—and what are the best indicators?"

Former Governor Poloz introduced trimmed mean, weighted median and common component CPI as alternatives to traditional core CPI ex-food and energy. He overcomplicated inflation. Since then, common component has become a dirty phrase in Canadian monetary policy circles. It may well be that traditional core CPI remains best.

CANADIAN GDP GOT A SLIGHT BOOST

Canadian GDP in July got a bit of a boost yesterday morning ahead of Friday's numbers for Q2, June and July GDP.

Statcan's advance indicator for manufacturing sales in July was reported to be up by 1.8% m/m SA in nominal terms. The advance indicator for nominal wholesale trade in July was reported up 1.3%.

After adjusting the nominal readings in order to get volume estimates and pushing it through a simple equation that I run I get 0.2% m/m GDP growth in July. That's mainly based on housing (starts higher, ancillary housing services to be lifted by resales) and these numbers, but I would lean more to downside than upside risk to that estimate given that hours were slightly softer, retail volumes slipped after a powerful surge in June and wildfires could have exacted a minor toll.

Still, Q3 GDP is getting a bit of baked-in momentum so far based on what probably happened to the way Q2 ended and very preliminary tracking into July.

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	Canada - BoC US - Fed England - BoE Euro zone - ECB Japan - BoJ Mexico - Banxico Australia - RBA New Zealand - RBNZ Canada - BoC US - Fed England - BoE Euro zone - ECB Japan - BoJ Mexico - Banxico Australia - RBA New Zealand - RBNZ	2.75 4.50 4.00 2.15 0.50 7.75 3.60 3.00 Sep 17, 2025 Sep 17, 2025 Sep 18, 2025 Sep 11, 2025 Sep 19, 2025 Sep 25, 2025 Sep 30, 2025 Oct 07, 2025
	3.66	3.68	3.75	3.75	3.74	3.81	4.27	4.26	4.29	4.93	4.92	4.90		
	2.71	2.70	2.70	2.97	2.96	2.96	3.48	3.46	3.44	3.90	3.88	3.85		
	1.93	1.94	1.93	2.26	2.27	2.27	2.71	2.72	2.72	3.30	3.32	3.29		
	0.87	0.88	0.85	1.16	1.17	1.15	1.63	1.63	1.61	3.24	3.22	3.18		
	3.96	3.97	3.92	4.12	4.14	4.08	4.72	4.74	4.67	5.58	5.61	5.53		
	Spreads vs. U.S. (bps):													
	-95	-98	-105	-78	-79	-85	-80	-80	-85	-103	-104	-104		
	-173	-174	-182	-149	-148	-154	-156	-154	-157	-163	-160	-160		
-279	-280	-289	-259	-258	-266	-265	-263	-268	-170	-171	-172			
30	29	17	37	40	26	45	48	38	65	69	64			
Equities	Level					% change:							Next Meeting Date	
	Last	Change				1 Day	1-wk	1-mo	1-yr					
S&P/TSX	28340	169.9				0.6	1.9	3.1	21.8	Australia - RBA				
Dow 30	45418	135.6				0.3	1.1	1.1	10.1	New Zealand - RBNZ				
S&P 500	6466	26.6				0.4	0.9	1.2	14.9					
Nasdaq	21544	95.0				0.4	1.1	2.1	21.3					
DAX	24129	-23.4				-0.1	-0.6	-0.4	29.2					
FTSE	9271	5.0				0.1	0.9	1.6	11.1					
Nikkei	42520	125.9				0.3	-0.9	2.6	11.1	Canada - BoC				
Hang Seng	25202	-323.2				-1.3	0.1	-0.7	41.0	Sep 17, 2025				
CAC	7743	33.5				0.4	-2.9	-1.2	2.3	US - Fed				
Commodities	Level					% change:								
WTI Crude	63.14	-0.11				-0.2	-0.1	-3.1	-16.4	England - BoE				
Natural Gas	2.70	-0.02				-0.7	-2.0	-13.3	41.6	Sep 18, 2025				
Gold	3374.99	-18.58				-0.5	0.8	1.1	33.7	Euro zone - ECB				
Silver	38.42	0.42				1.1	0.9	-0.8	30.5	Sep 11, 2025				
CRB Index	298.46	0.00				0.0	0.8	-1.3	6.4	Japan - BoJ				
Currencies	Level					% change:								
USDCAD	1.3849	0.0010				0.1	-0.2	0.8	3.0	Mexico - Banxico				
EURUSD	1.1584	-0.0058				-0.5	-0.6	-0.0	3.6	Sep 25, 2025				
USDJPY	148.10	0.7000				0.5	0.5	-0.3	2.9	Australia - RBA				
AUDUSD	0.6466	-0.0029				-0.4	0.5	-0.8	-4.8	Sep 30, 2025				
GBPUSD	1.3433	-0.0047				-0.3	-0.2	0.6	1.3	New Zealand - RBNZ				
USDCHF	0.8069	0.0035				0.4	0.3	0.4	-4.1	Oct 07, 2025				

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