

DAILY POINTS

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Chart 1

Comparing UK Core CPI for All Months of December

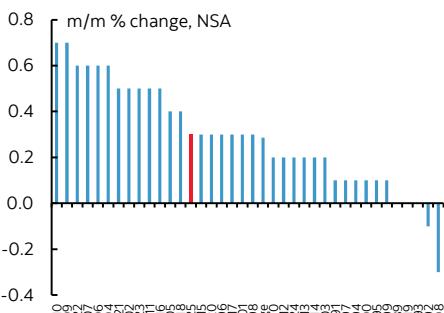
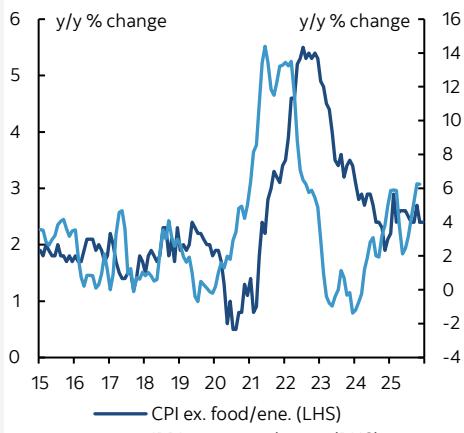


Chart 2

Canadian Core CPI & Core IPPI



On Deck for Wednesday, January 21st

| Country | Date | Time | Indicator | Period | BNS | Consensus | Latest |
|---------|-------|-------|---------------------------------|--------|-----|-----------|--------|
| US | 01/21 | 07:00 | MBA Mortgage Applications (w/w) | Jan 16 | -- | -- | 28.5 |
| CA | 01/21 | 08:30 | IPPI (m/m) | Dec | -- | 0.3 | 0.9 |
| CA | 01/21 | 08:30 | Raw Materials Price Index (m/m) | Dec | -- | -0.6 | 0.3 |
| US | 01/21 | 09:30 | Trump's Address At Davos | | | | |
| US | 01/21 | 10:00 | Construction Spending (m/m) | Sep | 0.2 | -- | 0.2 |
| US | 01/21 | 10:00 | Construction Spending (m/m) | Oct | 0.1 | 0.1 | -- |
| US | 01/21 | 10:00 | Leading Indicators (m/m) | Dec | -- | -0.2 | -0.3 |
| US | 01/21 | 10:00 | Pending Home Sales (m/m) | Dec | -- | -0.3 | 3.3 |

KEY POINTS:

- Gold keeps soaring ahead of two key events
- How markets may react to the SCOTUS hearing on Fed's Cook
- Trump unplugged at Davos
- Linking Canadian producer prices and CPI
- UK markets shake off CPI
- Bank Indonesia held as the rupiah tumbles

Global markets are a bit calmer this morning than they were throughout yesterday. That could change as two events collide at similar times. One is Trump's coming rant at Davos (around 9:30amET) and the mixture of threats, demands, insults and possible policy announcements ranging from housing to the remote chance that he slips in a choice for Fed Chair nominee. He is rather unlikely to get the standing ovation that Canadian PM Carney got yesterday when he delivered an excellent speech that captivated many of us who listened in real time ([here](#)).

Then starting 30 minutes later will be the SCOTUS hearing on Fed Governor Lisa Cook with markets keeping an eye on the tone of the court's banter (see below).

At the time of writing, however, market risk appetite is low. US equity futures are little changed, TSX futures are up a bit, and European cash equities are down by up to 1%. Gold is up another US\$100/oz and is approaching US\$4,900 as hard assets are preferred in an environment of weakened trust in the USD and as a safe haven amid troubled times. Sovereign bond yields are little changed outside of JGBs that bull flattened overnight with the long-end reversing much of the prior day's sell off. Perhaps Japan's finance minister's call for calm across markets should be directed to her boss.

MARKETS AND THE SCOTUS HEARING ON FED'S COOK

The main focus will be upon the SCOTUS hearing (Trump v. Cook 25A312)—with Powell in attendance waving pom poms and doing leg kicks—to determine whether the Trump administration can eventually remove her from her role as the rest of the court proceedings evolve (10amET). That could open to door to nominating another individual. Most Fed watchers would have infinitely greater faith in the Fed running monetary policy independently—errors and all—than the administration and especially this administration given its persistent efforts to undermine institutions.

[This](#) is a good background piece that serves as both a refresher on the path taken so far and how the Court could look at the issues at hand.

A decision is not expected today. This is a hearing with oral arguments, like the hearing for IEEPA tariffs. You will be able to listen—at the Supreme Court's website—to the tone of questioning put forth to the plaintiff and the defendant which may give you an idea of the bench's bias.

The tone of questioning could influence financial markets even absent a decision that won't come for a while. An actual decision—or opinion—isn't likely for months to come. That could mean Cook will still attend the January, March, possibly April, and maybe even June FOMC meetings. This means she could outlast Powell at least in his capacity as Chair except in the darkest and least probable circumstances.

Frankly anyone with half a brain knows this is about Trump's effort to shape the Fed's BoG as he sees fit with the help of FHFA head and homebuilder, Bill Pulte. It would be the height of naiveté to assume that the administration is earnestly interested in weeding out avariciousness. At issue is interpreting 'for cause' in the Federal Reserve Act that defines the ability of the US President to sack a Board member. To date, the US courts have not supported the administration's interpretation.

UK CORE CPI SHAKEN OFF BY MARKETS

Sterling and gilts largely ignored UK CPI with no effect on BoE pricing for a hold on February 5th and only a 1-2bp further movement toward an April cut. Key is that after one of the weakest Novembers on record for core CPI in m/m NSA terms, December put in a bland reading pretty much smack dab in the middle of historical norms of like months of December (chart 1).

In year-ago terms, core CPI of 3.2% was unchanged and a tick beneath consensus versus headline CPI that accelerated to 3.4% y/y and a tick above consensus. Services inflation remains hot at 4.5% y/y, up a smidge but a touch lower than consensus.

BANK INDONESIA HOLDS ON RUPIAH WEAKNESS

Bank Indonesia held its policy rate unchanged at 4.75% as widely expected. The scope for policy surprises is often high for this central bank, but not at this point given the weakening rupiah that reflects rising geopolitical and trade policy risk overhanging markets. The rupiah is about 5% softer to the USD over about the past five months with the sell off accelerating this month.

A LEADING INDICATOR OF CANADIAN CPI

And while Canadian producer prices represent a pretty dry release that often sails under the market's radar, they will be worth keeping an eye on given that they lead core CPI pressures. December's reading is due at 8:30amET. Accelerating industrial product price indices ex-energy are pointing to pass through risk that carries upside influences on core CPI in the months ahead (chart 2). This is one part of the cost drivers behind inflation risk.

The US calendar is otherwise light with just construction spending for September and October (8:30amET) and pending home sales during December (10amET) due out.

| Government Yield Curves (%): | | | | | | | | | | | | Central Banks | | | | |
|------------------------------|---------|---------|------|------|-------|------|-----------|-------|--------|-------|-------|---------------|------|-------|--------------|------|
| Fixed Income | 2-YEAR | | | | | | | | 5-YEAR | | | 10-YEAR | | | Current Rate | |
| | Last | 1-day | 1-wk | Last | 1-day | 1-wk | Last | 1-day | 1-wk | Last | 1-day | 1-wk | Last | 1-day | 1-wk | |
| U.S. | 3.57 | 3.60 | 3.51 | 3.83 | 3.86 | 3.71 | 4.28 | 4.29 | 4.13 | 4.91 | 4.92 | 4.78 | 4.91 | 4.92 | 4.78 | 2.25 |
| CANADA | 2.54 | 2.55 | 2.53 | 2.94 | 2.94 | 2.89 | 3.42 | 3.42 | 3.36 | 3.87 | 3.87 | 3.81 | 3.87 | 3.87 | 3.81 | 3.75 |
| GERMANY | 2.06 | 2.07 | 2.08 | 2.44 | 2.44 | 2.37 | 2.87 | 2.86 | 2.81 | 3.50 | 3.48 | 3.42 | 3.50 | 3.48 | 3.42 | 3.75 |
| JAPAN | 1.23 | 1.22 | 1.18 | 1.68 | 1.71 | 1.62 | 2.29 | 2.36 | 2.19 | 3.74 | 3.88 | 3.52 | 3.74 | 3.88 | 3.52 | 3.52 |
| U.K. | 3.66 | 3.68 | 3.63 | 3.89 | 3.91 | 3.80 | 4.44 | 4.46 | 4.34 | 5.20 | 5.22 | 5.09 | 5.20 | 5.22 | 5.09 | 3.75 |
| Spreads vs. U.S. (bps): | | | | | | | | | | | | | | | | |
| CANADA | -103 | -105 | -98 | -90 | -92 | -82 | -86 | -87 | -78 | -105 | -105 | -98 | -105 | -105 | -98 | 2.15 |
| GERMANY | -151 | -153 | -144 | -139 | -142 | -134 | -141 | -143 | -132 | -141 | -144 | -136 | -141 | -144 | -136 | 0.75 |
| JAPAN | -234 | -238 | -233 | -215 | -215 | -209 | -199 | -193 | -195 | -118 | -104 | -126 | -118 | -104 | -126 | 0.75 |
| U.K. | 8 | 8 | 11 | 5 | 5 | 9 | 16 | 16 | 21 | 29 | 30 | 31 | 29 | 30 | 31 | 7.00 |
| Equities | Level | | | | | | % change: | | | | | | | | | |
| | Last | Change | | | | | 1 Day | 1-wk | 1-mo | 1-yr | | | | | | |
| S&P/TSX | 32750 | -340.7 | | | | | -1.0 | -0.4 | 3.1 | 29.5 | | | | | | |
| Dow 30 | 48489 | -870.7 | | | | | -1.8 | -2.2 | 0.7 | 10.1 | | | | | | |
| S&P 500 | 6797 | -143.2 | | | | | -2.1 | -2.6 | -0.6 | 12.4 | | | | | | |
| Nasdaq | 22954 | -561.1 | | | | | -2.4 | -3.3 | -1.5 | 16.2 | | | | | | |
| DAX | 24439 | -264.5 | | | | | -1.1 | -3.4 | 0.6 | 16.1 | | | | | | |
| FTSE | 10099 | -27.9 | | | | | -0.3 | -0.8 | 2.0 | 18.1 | | | | | | |
| Nikkei | 52775 | -216.5 | | | | | -0.4 | -2.9 | 6.6 | 35.2 | | | | | | |
| Hang Seng | 26585 | 97.6 | | | | | 0.4 | -1.5 | 3.5 | 32.2 | | | | | | |
| CAC | 8031 | -31.6 | | | | | -0.4 | -3.6 | -1.5 | 3.3 | | | | | | |
| Commodities | Level | | | | | | % change: | | | | | | | | | |
| WTI Crude | 60.44 | 0.08 | | | | | 0.1 | -1.2 | 6.7 | -20.4 | | | | | | |
| Natural Gas | 4.61 | 0.70 | | | | | 18.0 | 34.8 | 15.7 | 22.7 | | | | | | |
| Gold | 4859.71 | 96.28 | | | | | 2.0 | 5.0 | 12.0 | 77.1 | | | | | | |
| Silver | 95.70 | 2.70 | | | | | 2.9 | 11.5 | 45.5 | 216.3 | | | | | | |
| CRB Index | 306.35 | 4.30 | | | | | 1.4 | 0.8 | 3.8 | -0.8 | | | | | | |
| Currencies | Level | | | | | | % change: | | | | | | | | | |
| USDCAD | 1.3817 | -0.0020 | | | | | -0.1 | -0.5 | 0.5 | -3.5 | | | | | | |
| EURUSD | 1.1721 | -0.0004 | | | | | -0.0 | 0.7 | -0.3 | 12.4 | | | | | | |
| USDJPY | 157.86 | -0.2900 | | | | | -0.2 | -0.4 | 0.5 | 1.5 | | | | | | |
| AUDUSD | 0.6759 | 0.0022 | | | | | 0.3 | 1.2 | 1.5 | 7.7 | | | | | | |
| GBPUSD | 1.3418 | -0.0021 | | | | | -0.2 | -0.2 | -0.3 | 8.6 | | | | | | |
| USDCHF | 0.7902 | 0.0004 | | | | | 0.1 | -1.2 | -0.2 | -12.8 | | | | | | |

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