

DAILY POINTS

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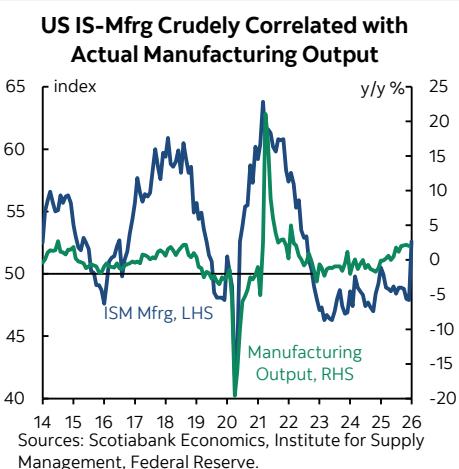
On Deck for Tuesday, February 3rd

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	02-03	08:00	Fed's Barkin Speaks on US Economy				
US	02-03	09:40	Fed's Bowman in Moderated Conversation				
US	02-03	10:00	JOLTS Job Openings (000s) - Delayed	Dec	7250	7100.0	7146.0
US	02-03		Total Vehicle Sales (mn a.r.)	Jan	14.8	15.4	16.0

KEY POINTS:

- **Gold up, Australian markets react to hike**
- **RBA hikes with a hawkish bias**
- **Markets paid too much attention to ISM-manufacturing...**
- **...that may be signalling a new phase of the inflation cycle**
- **Other light overnight developments**
- **US, Canadian vehicle sales on tap**
- **US government shutdown-induced data casualties start today**

Chart 1



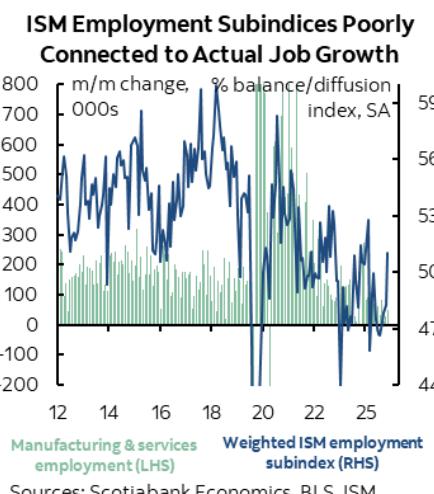
Most of the action across global markets occurred Down Under after the RBA hiked with a fairly hawkish bias (see below). Australian bonds are underperforming other global benchmarks with milder cheapening occurring in Japan and South Korea. Gold is up by nearly 6% as scavengers pick at it. Crypto currencies are playing some defence this morning. Fiat currencies are mixed with the Antipodeans leading the gainers while CAD, the euro and sterling are flat to the dollar and the yen is slightly softer. Equities are little changed on balance, with slight gains across N.A. futures are a mixture of small gains and losses in Europe.

MARKETS PAID EXCESS ATTENTION TO ISM-MANUFACTURING

Yesterday's spike in US Treasury yields was partly driven by excessive faith in the usefulness of ISM-manufacturing as a predictor of the actual economy after it surprised higher than expected. First off, manufacturing is a small part of the US economy. Secondly, charts 1 and 2 make the point about poor connections with hard data on manufacturing jobs and manufacturing output. ISM has the advantage of being timelier than actual data, but it's soft data that reflects the opinions of purchasing managers who are closer to some decisions than others.

Further, the ISM folks noted that "A number of comments, however, mentioned post-holiday replenishment and customers' desire to get ahead of additional tariff-driven price increases as possible reasons for the increase." That suggests that gains in new orders may not be long lived. Pair this with the comment that manufacturers broadly indicated that inventories are "too low." This means that we may be shaking off the ability to smooth out tariff-induced price hikes through selling down inventories at old prices and transitioning to a new environment in which new orders and inventory replenishing are occurring in a context of higher prices. Let's see ISM-services on Wednesday and then we can update the weighted price measures as a leading gauge of higher future inflation.

Chart 2



RBA HIKES WITH A HAWKISH BIAS

The RBA hiked 25bps to a new cash rate target of 3.85% last evening. The move was mostly but not entirely expected and the bias sounded rather hawkish. As a result, the Australian dollar is the strongest performer among major crosses this morning and the Australia government bond yield curve is bear flattening with 2s up 7bps and 10s up 2bps. At one point the 2s yield was up 10bps but settled down during the press conference when Governor Bullock sounded a little more cautious on the bias.

The decision to hike was unanimous. Bullock noted there was no discussion of a larger hike at this meeting. The economy was judged to be in excess demand and more so than at prior meetings with ongoing tightness in the job market. Key was the remark that “Uncertainty in the global economy remains significant but so far there has been little or no depressing effect on the Australian economy; indeed, recent growth and trade in Australia’s major trading partners has surprised on the upside.”

Forecast changes reflected a combination of encouragement in the near term and more binding effects of tighter monetary policy over the medium-term which likely embodies an assumed further tightening path. Compare the current forecast [here](#) to the previous one in November [here](#) and in charts 3–5. The way the RBA captures this is to incorporate market expectations of policy rate with some methodological changes that were made to how that’s done this time; the result is that the forecasts assumed the cash rate will rise to about 4 1/4% by the end of the year and then flat line, versus 3.3% previously. The growth forecast was raised to 2.1% y/y to mid-year (1.9% previously) and lowered thereafter toward 1.6% through 2027–28 (2.0% previously) presumably as the effects of a tightening bias work through. The core inflation forecast was raised by half a point throughout 2026 to end at 3.2% y/y and raised a tick to 2.7% by the end of 2027. Wage growth is forecast to remain around 3.1% y/y through most of the forecast horizon, up a tick from previously. The unemployment rate forecast was raised slightly to end 2027 at 4.5%, up from 4.4% previously.

Chart 3

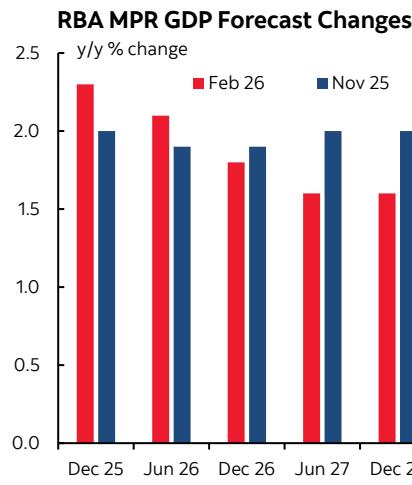


Chart 4

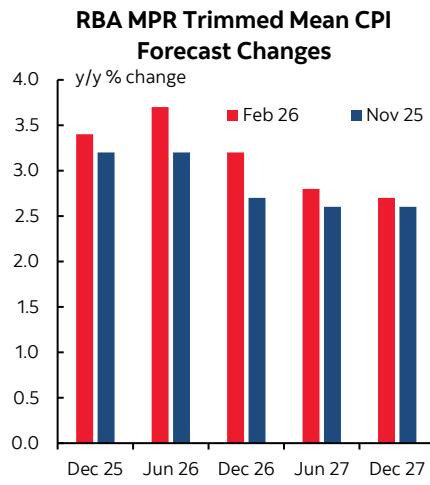


Chart 5



The press conference emphasized that inflation is too warm and persistent and if this continues, then further tightening may be required. Still, Bullock said she didn’t know if this was a tightening cycle per se and that she didn’t wish to commit to future moves. With markets pricing up to two more hikes this year it’s likely that the RBA delivers on further tightening as opposed to easing financial conditions that would be counter to its overall revised forecasts. One hike alone does nothing to the economy.

What happened in Australia generally stayed in Australia with little spillover effect into other markets. Even neighbouring New Zealand’s bond market went the other way with mildly lower yields overnight. There is no spillover effect into Canada and be careful with casual linkages as markets price further RBA hikes (chart 6). Chart 7 shows that the policy rate spread can be very wide at times as the central banks pursue different paths, but there are notable instances when the direction of moves coincided. Eventually we expect the BoC’s next move to be up, but not for quite some time.

Chart 6

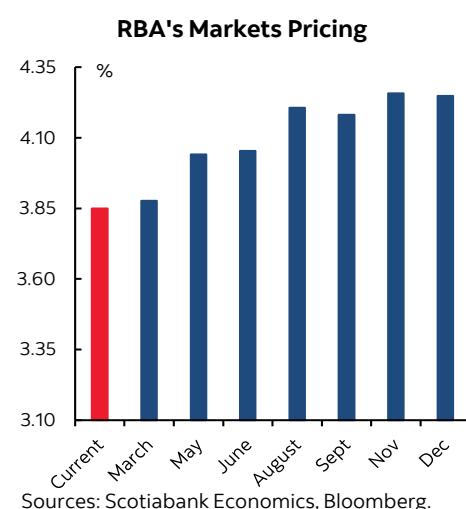
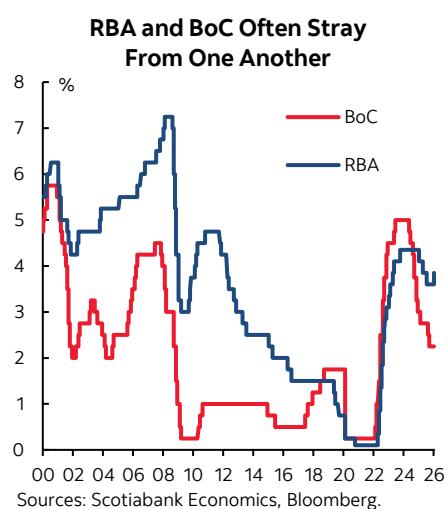


Chart 7



OTHER LIGHT OVERNIGHT DEVELOPMENTS

Other overnight developments were light. French CPI was weaker than expected (-0.4% m/m, consensus -0.2%) but was ignored as some countries have already released and confirmed expectations for a weak Eurozone tally tomorrow ahead of nothing being expected from the ECB on Thursday. South Korean inflation met expectations at 2% y/y and 0.4% m/m but core inflation was a tick above consensus at 2% y/y. Combined with the RBA's hike, the effect was to push short-term Korean yields a little higher. Turkish inflation surprised a little higher at 4.8% m/m (4.3% consensus) and 30.7% y/y (30% consensus).

MY FRIDAY GOT A LITTLE EASIER FOR THE WRONG REASON

A light N.A. calendar lies ahead. We were to have received the JOLTS job vacancies reports for December this morning but it's the first casualty of another US government shutdown. The next casualty will be initial claims (Thursday) and then Friday's nonfarm payrolls report has been delayed until the government re-opens and a new release date can be set. The suspended US payrolls report will mean a cleaner read on Canada's jobs numbers, where the government remains open!

So in the meantime, we're left with vehicle sales figures from Canada and the US. The US releases by the end of the day with a combination of industry guidance for the first half of January and crippling snowstorms over late January expected to drive sales sharply lower (consensus 15.2 million SAAR, Scotia 14.8, prior 16.02). Canada's sales figures may be released at some point today.

Also watch for more Fed-speak from Richmond Fed President Barkin (8amET) and Governor Bowman (9:40amET).

Fixed Income	Government Yield Curves (%):												Central Banks	
	2-YEAR			5-YEAR			10-YEAR			30-YEAR				
	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk		
U.S.	3.58	3.57	3.57	3.84	3.84	3.83	4.29	4.28	4.25	4.92	4.91	4.86	Canada - BoC	
CANADA	2.58	2.57	2.59	2.95	2.94	2.94	3.45	3.43	3.42	3.90	3.88	3.86	US - Fed	
GERMANY	2.13	2.11	2.13	2.47	2.45	2.47	2.89	2.87	2.88	3.54	3.52	3.49	England - BoE	
JAPAN	1.29	1.27	1.28	1.69	1.66	1.72	2.27	2.24	2.29	3.65	3.66	3.67	Euro zone - ECB	
U.K.	3.71	3.70	3.74	3.95	3.94	3.99	4.52	4.51	4.53	5.29	5.27	5.27	Japan - BoJ	
Spreads vs. U.S. (bps):														
CANADA	-100	-100	-99	-89	-90	-89	-84	-85	-83	-103	-104	-100	Mexico - Banxico	
GERMANY	-145	-146	-145	-138	-139	-136	-140	-141	-137	-138	-140	-137	Australia - RBA	
JAPAN	-228	-231	-229	-215	-218	-211	-202	-204	-195	-127	-125	-119	New Zealand - RBNZ	
U.K.	13	13	17	11	10	16	23	23	28	37	36	41	Next Meeting Date	
Equities	Level						% change:							
S&P/TSX	Last	260.4		1 Day	0.8	-2.7	1-wk	0.9	27.5	Canada - BoC	Mar 18, 2026			
Dow 30	49408	515.2			1.1	-0.0		2.1	11.2	US - Fed	Mar 18, 2026			
S&P 500	6976	37.4			0.5	0.4	1-mo	1.7	16.4	England - BoE	Feb 05, 2026			
Nasdaq	23592	130.3			0.6	-0.0	1-yr	1.5	21.7	Euro zone - ECB	Feb 05, 2026			
DAX	24902	104.3			0.4	0.0		1.5	16.2	Japan - BoJ	Mar 19, 2026			
FTSE	10295	-46.1			-0.4	0.9		3.5	19.9	Mexico - Banxico	Feb 05, 2026			
Nikkei	54721	2065.5			3.9	2.6		8.7	41.0	Australia - RBA	Feb 02, 2026			
Hang Seng	26835	59.2			0.2	-1.1		1.9	32.7	New Zealand - RBNZ	Feb 17, 2026			
CAC	8177	-3.7			-0.0	0.3		-0.2	4.1	Next Meeting Date				
Commodities	Level						% change:							
WTI Crude	62.48	0.34		0.5	0.1	9.0		-14.6		Canada - BoC	Mar 18, 2026			
Natural Gas	3.29	0.06		1.7	-52.6	-9.0		-1.8		US - Fed	Mar 18, 2026			
Gold	4909.95	248.57		5.3	-5.2	13.3		74.4		England - BoE	Feb 05, 2026			
Silver	81.98	-21.22		-20.6	-25.2	10.5		159.4		Euro zone - ECB	Feb 05, 2026			
CRB Index	305.14	-14.95		-4.7	-3.2	2.5		-1.2		Japan - BoJ	Mar 19, 2026			
Currencies	Level						% change:							
USDCAD	1.3660	-0.0021		-0.2	0.6	-0.8		-5.3		Mexico - Banxico	Feb 05, 2026			
EURUSD	1.1797	0.0006		0.1	-2.0	0.6		14.0		Australia - RBA	Feb 02, 2026			
USDJPY	155.90	0.2700		0.2	2.4	-0.3		0.8		New Zealand - RBNZ	Feb 17, 2026			
AUDUSD	0.7012	0.0064		0.9	0.0	4.4		12.6						
GBPUSD	1.3681	0.0015		0.1	-1.2	1.0		9.9						
USDCHF	0.7774	-0.0022		-0.3	2.1	-1.8		-14.6						

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