

Contributors

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Chart 1

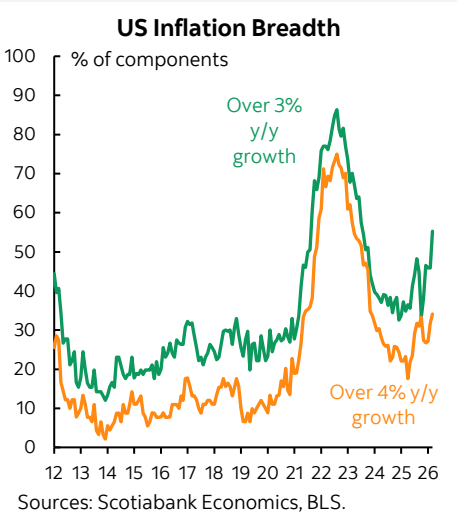
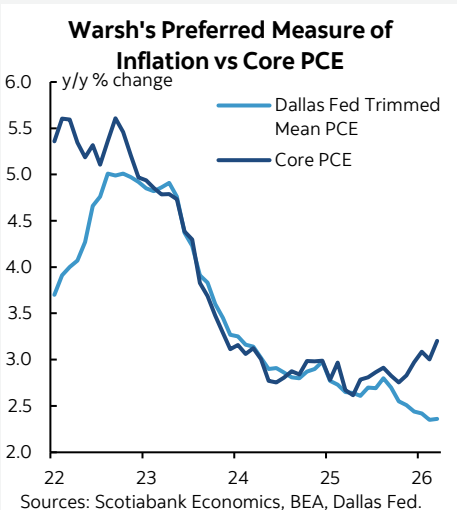


Chart 2



On Deck for Tuesday, May 12th

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	05-12	08:30	CPI (m/m)	Apr	0.7	0.6	0.9
US	05-12	08:30	CPI (y/y)	Apr	3.9	3.7	3.3
US	05-12	08:30	CPI (index)	Apr	--	332.7	330.2
US	05-12	08:30	CPI ex. Food & Energy (m/m)	Apr	0.4	0.3	0.2
US	05-12	08:30	CPI ex. Food & Energy (y/y)	Apr	2.9	2.7	2.6
US	05-12	14:00	Treasury Budget (US\$ bn)	Apr	--	219.0	-164.1
US	05-12	11:00	NY Fed Quarterly Report on Household Debt and Credit				
US	05-12	13:00	Fed's Goolsbee Speaks at Greater Rockford Chamber of Commerce				

KEY POINTS:

- Oil continues to climb as US-Iran rhetoric heats up
- US CPI both extends and starts tracking of second-round effects
- Gilts underperform on inflation risk plus political uncertainty
- US Budget to temporarily swing into seasonal surplus
- Australia's budget was a yawner...
- ...but embraced a dicey path toward addressing housing affordability

Oil prices continue to rally and are back up to where they were last Wednesday before sliding in false anticipation of a US-Iran deal. WTI and Brent are up by about \$3-4/barrel this morning with Brent at almost \$108. Higher oil prices yesterday and today follow Trump's ineloquent dismissal of Iran's counter-offer as "a piece of garbage" while saying the ceasefire that isn't much of a ceasefire is "unbelievably weak" and on "massive life support" which somehow seeks to draw a distinction from garden variety life support.

Bond yields are accordingly higher on a perceived increase in inflation risk. Gilts are underperforming with borderline double-digit basis point increases at the longer-end while all other major markets are cheaper by single digit moves led by Europe. Gilts have inflation worries and political instability on the mind as PM Starmer digs in against a rebellious cabinet that is stoking fear that a freer-spending leader could step in. Stocks are broadly lower by up to 1% in Germany. The dollar is generally firmer against major crosses but with oil-driven currencies like the krone and CAD outperforming others. Iran countered with a take-it-or-leave-it posture and noted it was "ready to respond and to reach a lesson for any aggression."

And so, with that as the backdrop, it only seems appropriate to talk inflation.

US CPI—THE LONG MARCH OF SECOND-ROUND EFFECTS

US CPI for April (8:30amET) and tomorrow's producer prices will set the stage for the last PCE inflation reading before Kevin Warsh takes the helm at the Fed although there will be another CPI release just before the June FOMC. This one is expected to be warm and tentatively begins the tracking of second-round inflation effects stemming from the surge in commodities layered onto pre-existing passthrough impulses.

Gains of 0.7% m/m (0.6% consensus) and 0.4% (0.3% consensus) are expected for headline CPI and core ex-food and energy. The year-over-year rates should rise to the high 3% and high 2% range for total and core CPI respectively.

See my weekly for discussion of some of the drivers to the call. Watch the breadth of price increases that has been soaring of late (chart 1).

Soon afterward the Cleveland Fed will then updated its trimmed CPI measure. Recall that incoming Chair Warsh has indicated a preference for this measure which is controversial among other FOMC members. Still, it's not surprising why Warsh's dovish leanings would prefer the trimmed measure (chart 2).

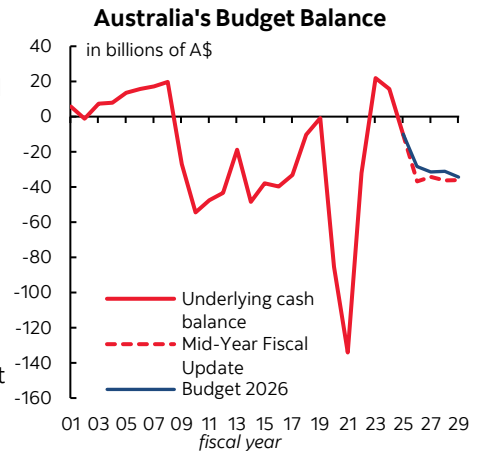
OTHER—US ADP, US BUDGET UPDATE, AUSTRALIAN BUDGET

Other developments are relatively minor. The US also releases the weekly ADP payrolls measure after the monthly measure surprised lower than the guidance offered by the weekly estimates, implying some form of revision or recent disappointment. Treasury reports the federal budget balance for April (2pmET) which is not seasonally adjusted and usually surges into surplus in April given seasonal tax receipts.

Australia’s budget barely drew any reaction in markets. The deficit was a smidge wider than expected, but at 1% of GDP it’s still lower than other roughly peer group economies and it is forecast by the government to stay around that level until decade’s end (chart 3). The Budget tightened property finance rules including higher minimum capital gains taxes and limits on negative gearing (deducting mortgage interest and other expenses on rental properties).

Mortgage interest deductibility never makes any sense but governments need to be careful about embracing policies designed to improve housing affordability by lowering prices. Expectations of capital losses can prompt a vicious cycle of falling prices that scares off prospective buyers, thereby worsening the situation. Policies designed to boost growth and incomes in sustainable, productivity-friendly ways would be wiser.

Chart 3



Sources: Scotiabank Economics, Australia's Parliamentary Budget Office.

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.	3.97	3.95	3.94	4.09	4.07	4.08	4.43	4.41	4.42	5.00	4.99	4.99	Canada - BoC	2.25
CANADA	2.96	2.94	3.02	3.22	3.19	3.26	3.57	3.54	3.61	3.94	3.90	3.96	US - Fed	3.75
GERMANY	2.69	2.65	2.68	2.79	2.75	2.77	3.08	3.04	3.06	3.61	3.58	3.58	England - BoE	3.75
JAPAN	1.40	1.39	1.39	1.92	1.89	1.89	2.56	2.52	2.52	3.83	3.79	3.75	Euro zone - ECB	2.15
U.K.	4.55	4.46	4.52	4.64	4.55	4.59	5.10	5.00	5.06	5.76	5.67	5.74	Japan - BoJ	0.75
	Spreads vs. U.S. (bps):												Mexico - Banxico	6.50
CANADA	-101	-102	-92	-87	-88	-82	-85	-88	-81	-106	-109	-103	Australia - RBA	4.35
GERMANY	-128	-131	-127	-130	-133	-131	-135	-137	-136	-139	-141	-141	New Zealand - RBNZ	2.25
JAPAN	-257	-257	-255	-217	-218	-219	-187	-189	-191	-117	-120	-124		
U.K.	58	51	58	55	47	51	67	58	64	76	69	75		
Equities	Level						% change:						Next Meeting Date	
	Last	Change		1 Day	1-wk	1-mo	1-yr							
S&P/TSX	34139	61.1		0.2	1.5	1.3	33.7	Canada - BoC	Jun 10, 2026					
Dow 30	49704	95.3		0.2	1.6	3.7	17.2	US - Fed	Jun 17, 2026					
S&P 500	7413	13.9		0.2	2.9	8.7	26.8	England - BoE	Jun 18, 2026					
Nasdaq	26274	27.0		0.1	4.8	14.7	40.4	Euro zone - ECB	Jun 11, 2026					
DAX	24085	-265.4		-1.1	-1.3	1.2	2.2	Japan - BoJ	Jun 16, 2026					
FTSE	10230	-39.0		-0.4	0.1	-3.5	18.9	Mexico - Banxico	Jun 25, 2026					
Nikkei	62743	324.7		0.5	5.8	10.2	66.7	Australia - RBA	Jun 16, 2026					
Hang Seng	26348	-58.9		-0.2	1.7	1.8	11.9	New Zealand - RBNZ	May 26, 2026					
CAC	8006	-50.0		-0.6	-0.7	-3.1	2.0							
Commodities	Level						% change:							
WTI Crude	101.82	3.75		3.8	-0.4	5.4	64.4							
Natural Gas	2.92	0.01		0.4	4.8	10.4	-19.8							
Gold	4693.54	-42.63		-0.9	3.0	-1.0	45.0							
Silver	80.40	-0.24		-0.3	9.9	6.4	147.3							
CRB Index	399.29	9.85		2.5	-0.4	8.1	35.1							
Currencies	Level						% change:							
USDCAD	1.3709	0.0031		0.2	0.7	-0.6	-1.9							
EURUSD	1.1741	-0.0042		-0.4	0.4	-0.2	5.9							
USDJPY	157.56	0.3700		0.2	-0.2	-1.2	6.1							
AUDUSD	0.7225	-0.0024		-0.3	0.6	1.8	13.4							
GBPUSD	1.3533	-0.0077		-0.6	-0.1	0.2	2.7							
USDCHF	0.7811	0.0031		0.4	-0.2	-0.3	-7.6							

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