

ON DECK FOR THURSDAY, JULY 11

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	07/11	08:30	New Housing Price Index (m/m)	May	--	0.1	0.0
US	07/11	08:30	CPI (m/m)	Jun	0.1	0.0	0.1
US	07/11	08:30	CPI (y/y)	Jun	1.6	1.6	1.8
US	07/11	08:30	CPI (index)	Jun	--	256	256
US	07/11	08:30	CPI ex. Food & Energy (m/m)	Jun	0.1	0.2	0.1
US	07/11	08:30	CPI ex. Food & Energy (y/y)	Jun	2.0	2.0	2.0
US	07/11	14:00	Treasury Budget (US\$ bn)	Jun	--	-8	-208

KEY POINTS:

- Stocks like the Fed more than fear Trump's latest tariff threat
- Round 2 of Powell's testimony...
- ...may include reference to a fresh CPI reading...
- ...that may guide expectations for the Fed's preferred PCE gauge
- Inflation traders are telling the Fed to give it up
- Broad dollar weakness post-Powell...
- ...has the pot calling the kettle black on charges of currency manipulation
- Swedish inflation dips by less than Riksbank anticipated...
- ...but markets still doubt hike guidance
- ECB minutes show unanimous support for easing
- Carney hints at lower counter cyclical capital buffer
- Banxico minutes could be stale on arrival
- Peru's CB expected to hold, but currency strength is a risk
- Other Fed-speak on tap

INTERNATIONAL

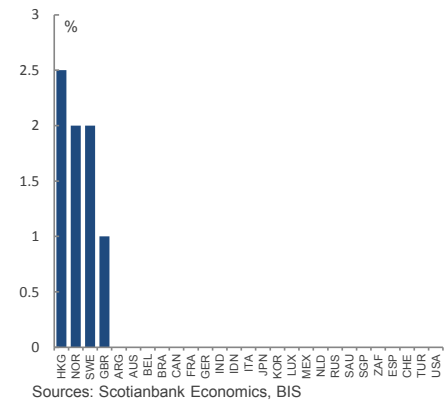
Fed up? Well, not so fast. Part two of Chair Powell's testimony arrives today, and after US CPI. Most expect core CPI to remain at 2.0% including my estimate. Obviously CPI is not the Fed's preferred gauge, but movements in it could inform expectations for movements in core PCE given how the latter tracks core CPI but at some distance below. Then Powell is followed by several other Fed speakers. A risk-on bias is taking its cues from Fed easing, but the inflation expectations market is the one asset class that is totally ignoring it all (see below). ECB minutes are also assisting risk appetite as signals in favour of policy easing were stronger. Banxico minutes may be stale and Peru is expected to hold its policy rate this evening. Also note that Carney remarked this morning that the counter-cyclical capital buffer may be eased if needed, with chart 1 showing the few countries with a positive CCyB.

- US equity futures are up by another ¼% to just under ½%. TSX futures are fairly flat. European cash markets are little changed on balance with a slight decline in Frankfurt and a ½% rally in Milan the tail performers. French equities are not fussed by Trump's tariff threat.

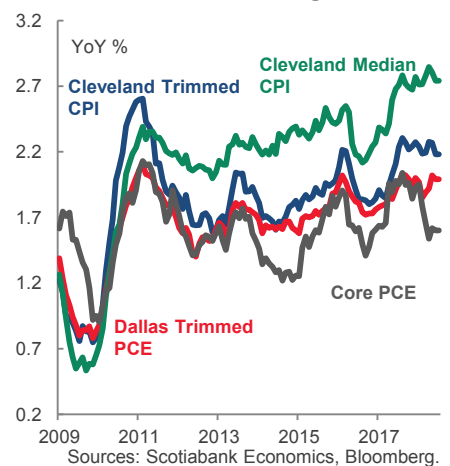
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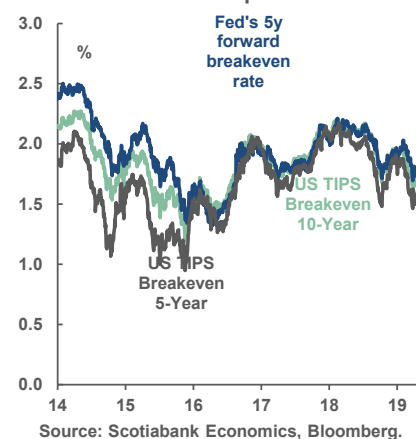
Counter Cyclical Capital Buffers



Core Inflation Gauges



US Inflation Expectations



- Treasuries are very slightly bull steepening along with Canadas. The gilts sovereign curve is cheaper by 4–5bps across maturities. French and German 10s are up by 3–4bps while the Italian ten year yield is about 5bps lower.
- Oil prices are up a little further after yesterday's reported drawdown of US oil inventories.
- The USD is broadly weaker again against all crosses. Who's manipulating currencies now? The USD is down across all major and semi-major currencies over the past couple of days since before Powell spoke. Additional euro strength is added reason for ECB stimulus with the pot calling the kettle black through Trump's charges of late.

Minutes to the ECB's meeting on June 5th–6th reinforced expectations for easing on relatively short order by showcasing unanimity in favour of easing. Here's the most relevant passage:

"At the same time, there was broad agreement that, in the light of the heightened uncertainty, which was likely to extend further into the future, the Governing Council needed to be ready and prepared to ease the monetary policy stance further by adjusting all of its instruments, as appropriate, to achieve its price stability objective. Potential measures to be considered included the possibility of further extending and strengthening the Governing Council's forward guidance, resuming net asset purchases and decreasing policy rates."

German inflation was revised up. The June reading went from an initial estimate of 1.3% y/y on an EU-harmonized basis to 1.5% with this morning's revisions. Nevertheless, core German CPI excluding energy and food was still softer at 1.3% y/y (1.4% prior). The upward revision to headline CPI was primarily driven by idiosyncratic factors the ECB would look through, such as revisions to prices for packaged holidays. The ECB looks at supercore gauges of inflation around the April through June period given the shifting timing of the annual Easter holiday and the impact this can have upon prices for related holiday spending.

Swedish inflation notably decelerated, but did so in line with expectations. Headline inflation fell from 2.2% to 1.8% y/y and underlying inflation fell from 2.1% to 1.7%. Still, that drops underlying inflation to its lowest rate since February of last year. Energy prices played a role in that excluding energy, CPI was up by 1.9% y/y (1.7% prior). Because underlying inflation was a bit stronger than the Riksbank had forecast, the krona rallied a touch further after the release but is more dominantly being influenced by broad dollar weakness in the wake of Powell's testimony yesterday. Still, however, markets view with some skepticism the Riksbank's guidance that a hike will arrive later in the year.

Banxico releases minutes to the June 27th meeting this morning (10amET). They may be stale on arrival given a) the Fed yesterday, b) Mexico's political challenges including the resignation of its Finance minister, and forward looking challenges. Still, the minutes may add to market debate over potential easing by Banxico following the one dissenting vote at that meeting that favoured easing against the consensus hold at 8.25%.

May Contributions To US Core CPI



Source: Scotiabank Economics, BLS.

Banco Central de Reserva del Peru is widely expected to hold its policy reference rate at 2.75% tonight (7pmET). After inflation during June pulled back to 2.3% y/y (2.7% prior), it has more closely approached the mid-point of the 1–3% inflation target range. At risk is how the central bank views currency strength as the Sol has appreciated by 3% to the USD since the end of May partly on expectations for Fed easing.

UNITED STATES

If Fed Chair Powell's second round of Congressional testimony matters this morning (10amET), then his appearance this time before the Senate Banking Committee faces the risk of commenting on the freshest inflation print.

CPI for June arrives this morning (8:30amET). Of course, this isn't even the Fed's preferred inflation metric, but it can serve as a guidepost. Core CPI tracks persistently above core PCE, but movements in trends in core CPI can inform expectations for the next core PCE print. A combination of the shift in base effects, typical seasonality and declining gas prices could bring headline inflation down again to about 1.6% y/y (1.8% prior). Core inflation is forecast to remain unchanged at 2.0% y/y primarily due to seasonality and base effect arguments. Because CPI tends to overestimate core PCE by several tenths over time, such a reading for core CPI would suggest there is no progress toward getting core PCE inflation back up toward the 2% target.

Chart 2 shows the drivers of the prior CPI report and how narrowly distributed the biggest upside and downside components were that month. Two additional points include:

Don't be fooled by alternative inflation measures: Core PCE rules. Alternatives such as median or trimmed CPI gauges (chart 3) don't speak to the Fed's preferred PCE inflation gauge and CPI persistently tracks above PCE over time such that it's little surprise that trimmed and median CPI would do so as well. Trimmed PCE from the Dallas Fed arguably trims out far too many price signals as shown in chart 4. In fact, the Dallas trimmed PCE measure hacks out 70% of the items in the basket that in weighted terms represent over half the basket.

The Fed's efforts have already failed: Markets have priced in three fed rate cuts by year-end and four in total by the end of next year. Yet market measures of inflation expectations have kept moving lower. Since one aim of Fed policy easing is to boost such measures of inflation expectations, markets have perhaps already told the Fed it won't work. This argument plays to the point that Fed rate easing won't fix a perceived inflation problem. Personally I think it's fruitless for the Fed to attempt overshooting its 2% target to prove its symmetry.

Other Fed speakers today will include NY Fed President Williams (11:10amET, 1:30pmET), Atlanta's Bostic (12:15pmET), Richmond's Barkin (12:30pmET), Vice Chair Quarles (1:30pmET) and Minneapolis President Kashkari (5pmET).

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			
	1.82	1.83	1.76	1.82	1.83	1.73	2.06	2.06	1.95	2.58	2.58	2.47	Canada - BoC	1.75	
	1.57	1.58	1.52	1.52	1.53	1.42	1.58	1.58	1.47	1.76	1.75	1.66	US - Fed	2.50	
	-0.73	-0.73	-0.76	-0.58	-0.60	-0.65	-0.23	-0.31	-0.40	0.36	0.30	0.20			
	-0.19	-0.18	-0.22	-0.22	-0.21	-0.25	-0.14	-0.12	-0.16	0.36	0.38	0.34	England - BoE	0.75	
	0.62	0.57	0.51	0.62	0.56	0.49	0.82	0.76	0.68	1.42	1.38	1.31			
	Spreads vs. U.S. (bps):														
	-25	-25	-24	-30	-30	-31	-48	-48	-48	-82	-82	-81	Euro zone - ECB	0.00	
	-255	-256	-252	-241	-243	-239	-229	-237	-235	-222	-227	-227	Japan - BoJ	-0.10	
-201	-201	-198	-204	-203	-198	-220	-218	-211	-222	-220	-212				
-120	-126	-125	-120	-126	-125	-124	-130	-127	-116	-120	-116				
Equities	Level						% change:						Mexico - Banxico	8.25	
	Last	Change					1 Day	1-wk	1-mo	1-yr					
S&P/TSX	16563	18.1					0.1	-0.1	1.9	0.9	Australia - RBA				1.00
Dow 30	26860	76.7					0.3	0.3	3.1	8.7	New Zealand - RBNZ				1.50
S&P 500	2993	13.4					0.5	0.7	3.7	7.9					
Nasdaq	8203	60.8					0.7	1.2	4.9	6.3					
DAX	12352	-21.6					-0.2	-2.2	1.6	-0.5					
FTSE	7529	-1.8					-0.0	-1.0	1.8	-0.8					
Nikkei	21644	110.0					0.5	-0.3	2.1	-1.3	Canada - BoC				Sep 04, 2019
Hang Seng	28432	227.1					0.8	-1.3	2.3	0.4	US - Fed				Jul 31, 2019
CAC	5574	6.8					0.1	-0.8	3.1	4.1					
Commodities	Level						% change:						England - BoE	Aug 01, 2019	
WTI Crude	60.68	0.25					0.4	5.8	13.9	-13.8	Euro zone - ECB				Jul 25, 2019
Natural Gas	2.46	0.01					0.6	7.3	2.5	-13.1	Japan - BoJ				Jul 30, 2019
Gold	1420.19	1.21					0.1	0.3	7.0	14.4					
Silver	15.10	0.07					0.5	-1.4	2.4	-5.2					
CRB Index	184.56	0.39					0.2	2.3	5.5	-4.3					
Currencies	Level						% change:						Mexico - Banxico	Aug 15, 2019	
USDCAD	1.3056	-0.0026					-0.2	0.0	-1.7	-1.2	Australia - RBA				Aug 06, 2019
EURUSD	1.1281	0.0030					0.3	-0.0	-0.4	-3.4	New Zealand - RBNZ				Aug 06, 2019
USDJPY	108.06	-0.4000					-0.4	0.2	-0.4	-3.5					
AUDUSD	0.6986	0.0027					0.4	-0.5	0.3	-5.2					
GBPUSD	1.2563	0.0061					0.5	-0.1	-1.3	-4.9					
USDCHF	0.9852	-0.0043					-0.4	0.0	-0.7	-1.1					

Source: Bloomberg. All quotes reflect Bloomberg data as at the time of publishing. While this source is believed to be reliable, Scotiabank cannot guarantee its accuracy.

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