

ON DECK FOR WEDNESDAY, JANUARY 13

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	01/13	07:00	MBA Mortgage Applications (w/w)	Jan 8	--	--	1.7
US	01/13	08:30	CPI (m/m)	Dec	0.3	0.4	0.4
US	01/13	08:30	CPI (y/y)	Dec	1.3	1.3	1.4
US	01/13	08:30	CPI (index)	Dec	--	260.4	260.5
US	01/13	08:30	CPI ex. Food & Energy (m/m)	Dec	0.2	0.1	0.1
US	01/13	08:30	CPI ex. Food & Energy (y/y)	Dec	1.7	1.6	1.6
US	01/13	09:30	Fed's Bullard Speaks at a Virtual Forum				
US	01/13	13:00	Fed's Brainard Discusses Economic Outlook				
US	01/13	14:00	Treasury Budget (US\$ bn)	Dec	--	-143.5	-145.3
US	01/13	14:00	Fed's Harker Discusses the Economic Outlook				
US	01/13	14:00	Federal Reserve Releases Beige Book				
US	01/13	15:00	Fed's Clarida Discusses Fed's New Framework				

KEY POINTS:

- Bonds richen in cautious markets
- US core CPI holds steady for a 6th straight month...
- ...as emergency deflation risk is well behind markets...
- ...while a vaccine and stimulus fed recovery are forecast to challenge the Fed's revised goals statement in 2022
- Fed's Clarida likely to repeat a more positive bias...
- ...while continuing to lean against early taper...
- ...in a speech on consequences to the Fed's new framework
- US impeachment in the House is likely to fizzle in the Senate

INTERNATIONAL

Global risk appetite is muted this morning following nothing by way of overnight developments and ahead of soft calendars into the North American session. There were no meaningful developments overnight.

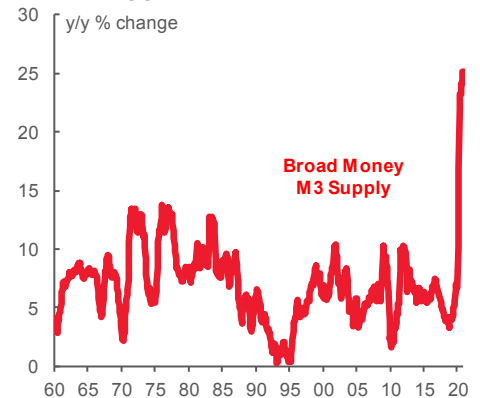
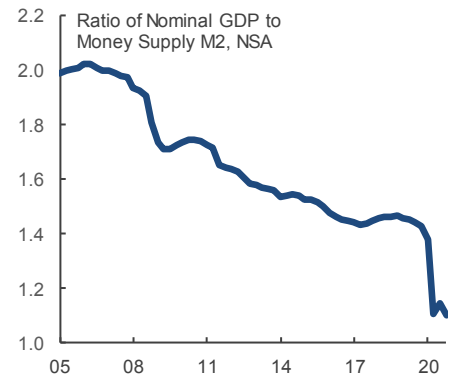
- Equities are mixed with the S&P500 flat so far while the TSX is marginally lower. London is flat while small gains of ¼% or slightly firmer are being booked across the rest of Europe.
- Sovereign bond curves are a bit flatter especially in Europe. 10 year yields are down by up to 4–6bps in gilts, bunds and French bonds, and 2–4bps lower across the US, Canada and elsewhere in Europe.
- The USD is a touch stronger against most major currencies.
- Oil is flat and so is gold.

UNITED STATES

US developments start to heat up today and will continue to do so over the duration of the week. Today brings out slightly softer core CPI than anticipated for December and Q4, ongoing Fed-speak with the focus today primarily upon Vice Chair Clarida's remarks later in the day, and impeachment proceedings that are likely to be mostly symbolic in nature.

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Chart 1
What Happens to Inflation if This...

Chart 2
...Combines with a Rebound in Velocity Along with GDP?

Chart 3
Core PCE & CPI


US CPI headline, m/m % / y/y %, Dec:

Actual: 0.4 / 1.4

Scotia: 0.3 / 1.3

Consensus: 0.4 / 1.3

Prior: 0.2 / 1.2

US core CPI headline, m/m % / y/y %, Dec:

Actual: 0.1 / 1.6

Scotia: 0.2 / 1.7

Consensus: 0.1 / 1.6

Prior: 0.2 / 1.6

US core CPI inflation held unchanged at 1.6% y/y and 0.1% m/m during December. Core CPI has been stuck at 1.6–1.7% for about six months with inflation risk remaining a future story. Core CPI averaged 1.3% y/y in 2020Q4, a tenth lower than our revised forecast issued yesterday. Still, however, that's a lot more resilient than some had feared when the pandemic first struck and given the tendency to dredge up deflation talk every time an ant sneezes. 1.6% core inflation is not deflationary, but it also doesn't put any pressure on the Fed's dual mandate either—yet.

Inflation is going to be more of a story over the next couple of years with various drivers. That's likely why market-derived inflation expectations have moved as much as they have. Among the drivers may well be when explosive growth in money supply combines with a recovery in velocity as GDP recovers. Chart 1 shows broad money is growing at the fastest pace in at least six decades and likely a lot longer than that given present data limits. Explosive growth in broad money is occurring as the Fed's balance sheet aggressively expands absent the countervailing forces of broad money destruction in the depths of the GFC. Limiting the pass through of aggressive money supply growth into prices is that velocity has fallen naturally because GDP plunged so much in Q2, but given it is GDP over money supply, velocity could well rebound alongside GDP while growth in money supply wanes but the level remains exceptionally high. Now if the pandemic is a transitory shock (mind you, a really bad one) that vaccines snuff out, then unprecedented monetary and fiscal policy stimulus with more of the latter ahead in the Biden administration could well combine to achieve higher inflation.

In yesterday's revised forecasts, we anticipate core PCE inflation to rise to over 2% y/y next year and thus to begin challenging the Fed's revised goals statement that signal a willingness to tolerate marginally above-2% inflation for a modest time period. That's one reason we have short market rates materially rising over our forecast horizon even if the Fed doesn't hike until their scout's honour pledge says so. We anticipate a gradual move away from emergency conditions with greater distance from deflationary risk that should drive cheaper Treasuries over time notwithstanding near-term tactical risks.

Chart 3 shows core CPI likely means core PCE remains stuck at about 1.4% y/y when we get PCE at month-end. That remains well below the Fed's revised long run goals statement that aims for inflation “moderately above 2 percent for some time” before tightening policy. For now.

Chart 4 provides a break down of the year-over-year changes across individual components within the CPI basket. Chart 5 does the same thing on a weighted contribution basis and it shows that housing and vehicles are the top drivers of inflation. Chart 6 shows the CPI changes in month-over-month seasonally adjusted terms while chart 7 does the same thing on a weighted contribution basis.

While the Fed's Beige Book (2pmET) will be largely ignored by markets as a set of regional anecdotes, greater attention may be placed upon **Federal Reserve Vice Chair Clarida who speaks at 3pmET on the Federal Reserve's new framework and its consequences**. I suspect he's likely to repeat that “the downside risk to the outlook has diminished” as he stated on January 8th, but to also repeat that “My economic outlook is consistent with us keeping the current pace of purchases throughout the remainder of the year” notwithstanding the fact that some regional Presidents (e.g. Bostic, Evans) have indicated openness toward tapering by year-end.

The US House of Representatives' impeachment vote is likely to occur toward the market close this afternoon and is expected to pass. Then it's a matter of whether the articles of impeachment go straight to the Senate or are delayed until the Democrats take control with the pending changeover in Congress. Either way, two-thirds support is required in the Senate trial which means it's unlikely to occur.

Chart 4

December 12-Month Changes in US Headline CPI Categories

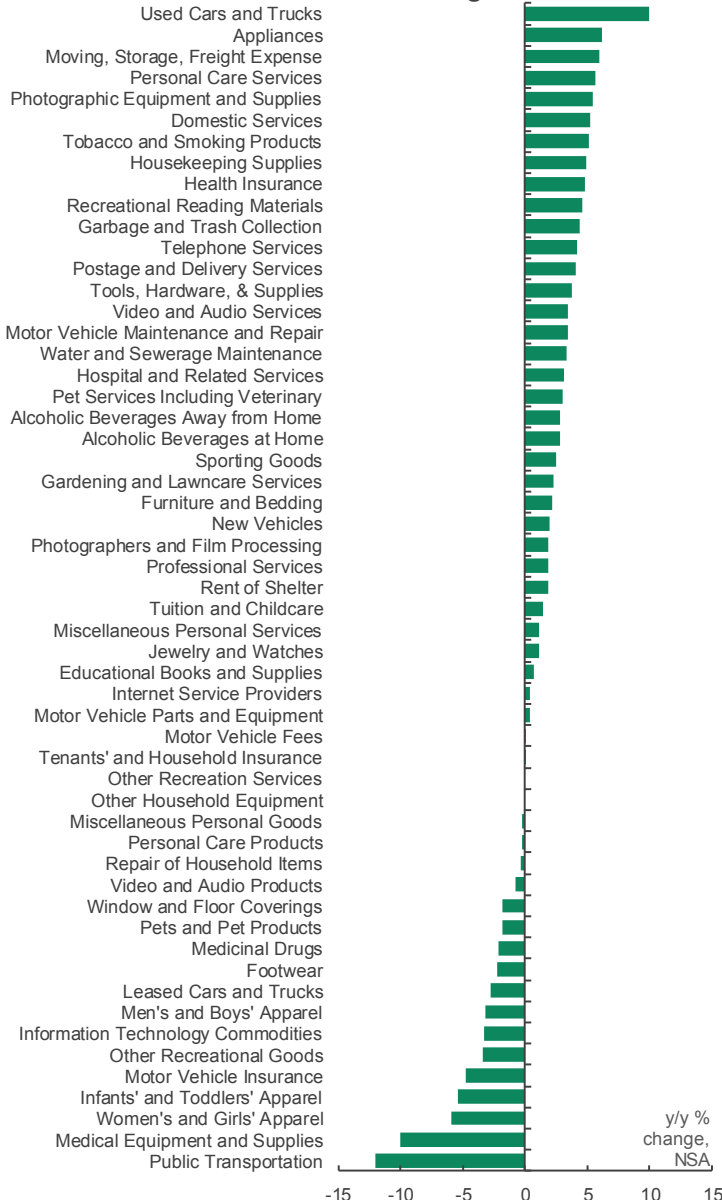


Chart 5

December Weighted Contributions to 12-Month Headline CPI Change

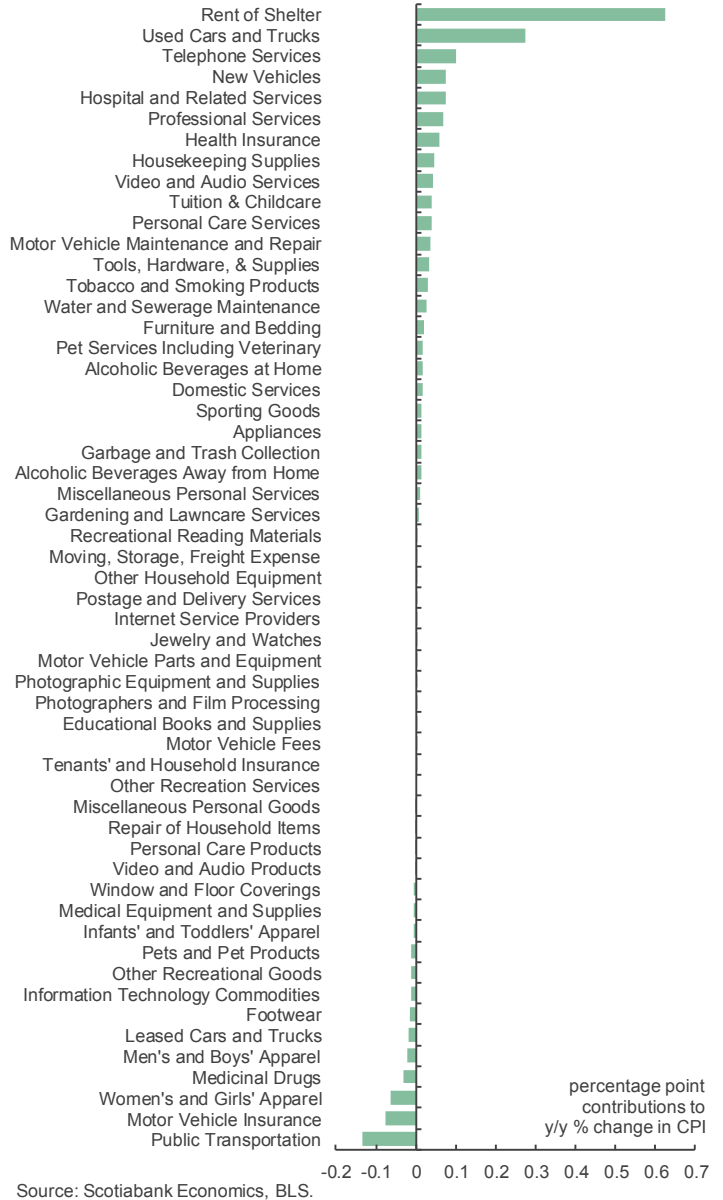
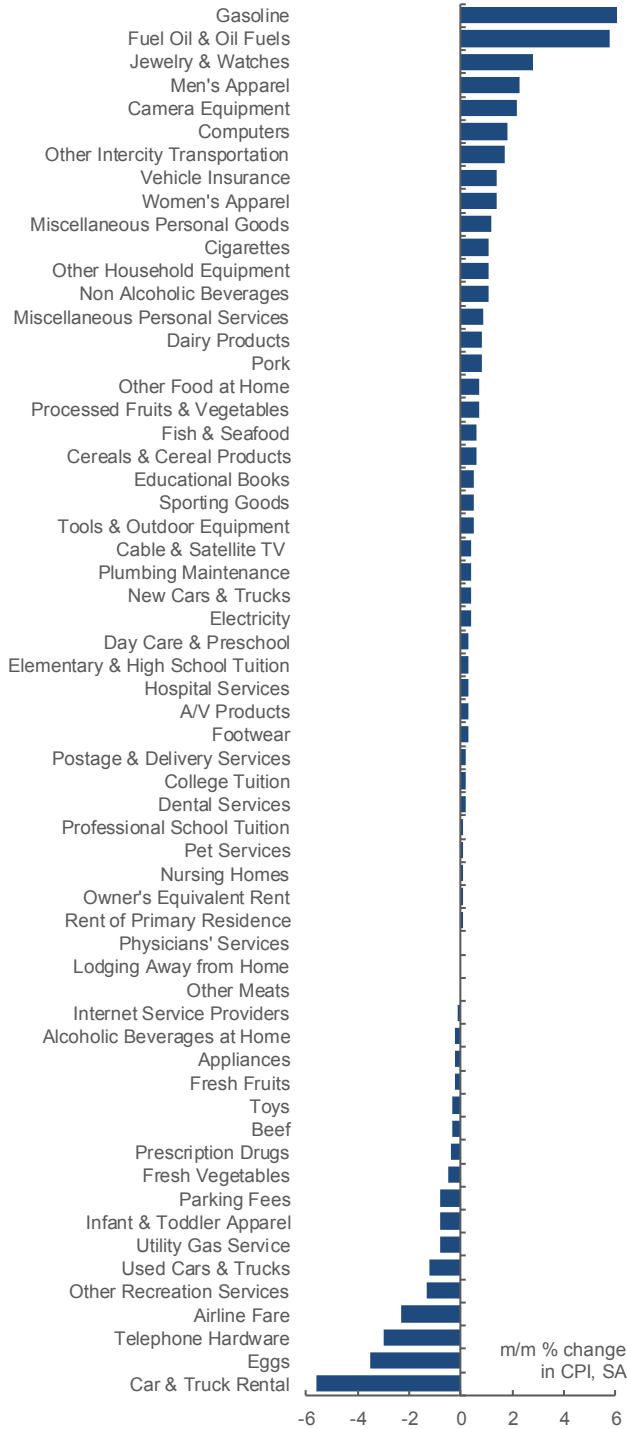


Chart 6

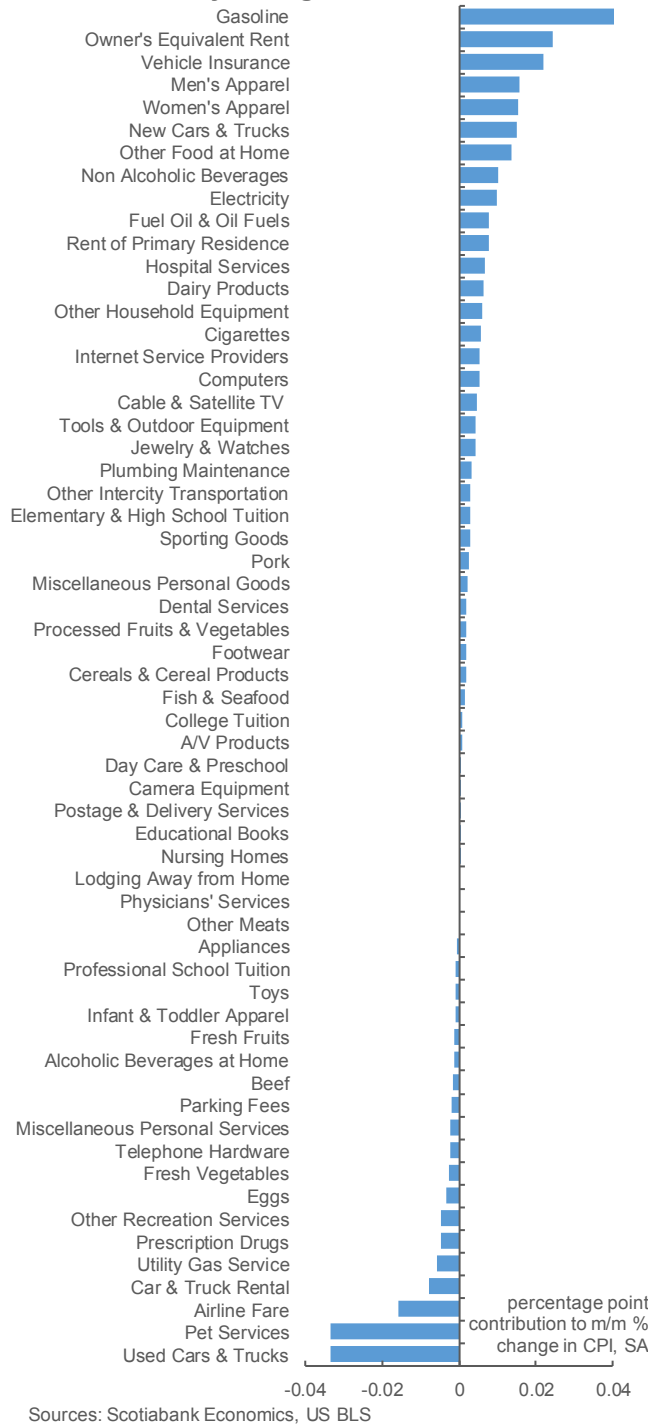
December Changes in US Headline CPI Categories



Sources: Scotiabank Economics, US BLS

Chart 7

December Weighted Contributions to Monthly Change in Headline CPI



Sources: Scotiabank Economics, US BLS

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.	0.15	0.15	0.14	0.48	0.50	0.43	1.10	1.13	1.04	1.84	1.87	1.82	Canada - BoC	0.25
CANADA	0.17	0.17	0.18	0.46	0.46	0.41	0.83	0.84	0.76	1.46	1.47	1.36	US - Fed	0.25
GERMANY	-0.70	-0.69	-0.70	-0.71	-0.69	-0.73	-0.52	-0.47	-0.52	-0.13	-0.07	-0.14	England - BoE	0.10
JAPAN	-0.11	-0.11	-0.11	-0.11	-0.11	-0.11	0.04	0.04	0.02	0.64	0.66	0.65	Euro zone - ECB	0.00
U.K.	-0.11	-0.08	-0.13	-0.01	0.01	-0.08	0.31	0.35	0.24	0.88	0.93	0.82	Japan - BoJ	-0.10
Spreads vs. U.S. (bps):														
CANADA	2	3	4	-3	-4	-2	-27	-29	-28	-39	-41	-45	Mexico - Banxico	4.25
GERMANY	-85	-84	-84	-119	-119	-116	-162	-160	-156	-197	-194	-195	Australia - RBA	0.10
JAPAN	-26	-25	-24	-60	-61	-53	-106	-109	-102	-120	-122	-116	New Zealand - RBNZ	0.25
U.K.	-26	-22	-27	-49	-49	-50	-79	-78	-80	-96	-94	-99	Next Meeting Date	
Equities	Level			% change:										
	Last			Change	1 Day	1-wk	1-mo	1-yr						
S&P/TSX	17926			-60.1	-0.3	0.5	2.1	3.7						
Dow 30	31080			11.3	0.0	0.8	3.4	7.5						
S&P 500	3802			0.7	0.0	1.4	3.8	15.6						
Nasdaq	13123			50.6	0.4	3.0	6.0	41.5						
DAX	13966			40.9	0.3	0.5	6.5	3.8						
FTSE	6750			-4.2	-0.1	-1.3	3.1	-11.4						
Nikkei	28457			292.3	1.0	4.8	6.8	19.3					Canada - BoC	Jan 20, 2021
Hang Seng	28236			-41.2	-0.1	2.0	6.5	-2.5					US - Fed	Jan 27, 2021
CAC	5674			22.6	0.4	0.8	3.0	-6.0					England - BoE	Feb 04, 2021
Commodities	Level			% change:										
WTI Crude	53.13			-0.08	-0.2	4.9	14.1	-8.5					Euro zone - ECB	Jan 21, 2021
Natural Gas	2.76			0.01	0.3	1.7	6.6	26.6					Japan - BoJ	Jan 21, 2021
Gold	1860.07			5.30	0.3	-3.1	1.1	20.2					Mexico - Banxico	Feb 11, 2021
Silver	25.53			0.51	2.0	-7.2	7.2	42.5					Australia - RBA	Feb 01, 2021
CRB Index	175.67			0.72	0.4	2.1	8.9	-4.0					New Zealand - RBNZ	Feb 23, 2021
Currencies	Level			% change:										
USDCAD	1.2721			0.0010	0.1	0.3	-0.3	-2.6						
EURUSD	1.2178			-0.0029	-0.2	-1.2	0.3	9.4						
USDJPY	103.80			0.0400	0.0	0.7	-0.2	-5.6						
AUDUSD	0.7750			-0.0022	-0.3	-0.7	2.9	12.3						
GBPUSD	1.3658			-0.0006	-0.0	0.4	2.5	5.2						
USDCHF	0.8856			-0.0008	-0.1	0.8	-0.1	-8.8						

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