

**ON DECK FOR WEDNESDAY, OCTOBER 13**

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	10-13	07:00	MBA Mortgage Applications (w/w)	Oct 8	--	--	-6.9
US	10-13	08:30	CPI (m/m)	Sep	0.4	0.3	0.3
US	10-13	08:30	CPI (y/y)	Sep	5.5	5.3	5.3
US	10-13	08:30	CPI (index)	Sep	--	274.1	273.6
US	10-13	08:30	CPI ex. Food & Energy (m/m)	Sep	0.3	0.2	0.1
US	10-13	08:30	CPI ex. Food & Energy (y/y)	Sep	4.2	4.0	4.0
US	10-13	14:00	FOMC Meeting Minutes				
US	10-13	16:30	Fed's Brainard Speaks at Fed Listens Event				
US	10-13	20:00	Fed's Bowman Discusses the Economy & Monetary Policy				

**KEY POINTS:**

- **Markets focused upon US developments...**
- **...as earnings season kicks off with beats...**
- **...ahead of a possible reacceleration of US inflation...**
- **...while FOMC minutes are likely to be stale on arrival**
- **A disastrous month for UK forecasters...**
- **...was at first totally ignored by gilts, sterling**

US CPI, US earnings and FOMC minutes will dominate market attention after a relatively quiet overnight session.

Sovereign curves are bull flattening with 10 year yields down ~4bps across Europe and with N.A. underperforming. The dollar is broadly weaker, but only slightly. Stocks are mostly higher with N.A. futures up by either side of ¼% across exchanges and European cash markets split between a slight dip in London and Spain and rallies across the rest of Europe.

The monthly UK data dump for August was an overall disappointment in what can best be described as a disaster for UK forecasters. If markets cared, then there was a long fuse on the trade as UK 10s didn't start rallying until about a couple of hours after the releases and around the same time that a milder rally in US 10s began.

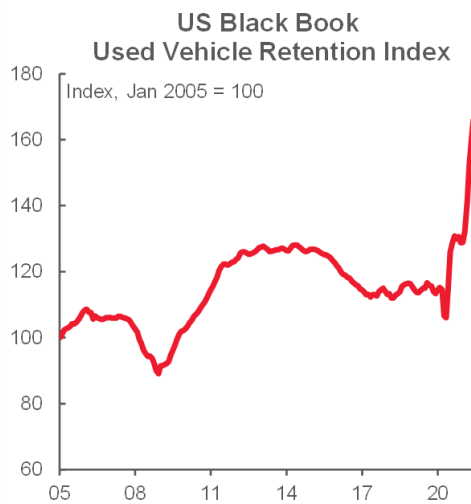
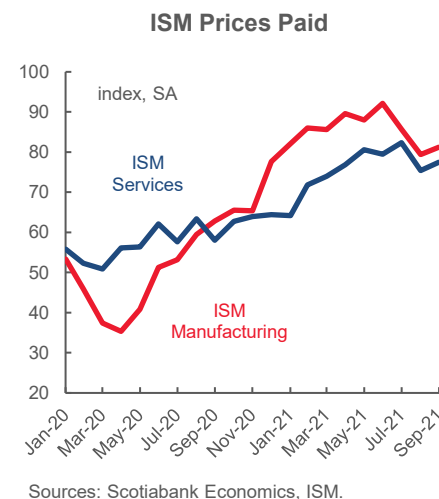
So what happened? The UK economy grew by 0.4% m/m in August (0.5% consensus) but the prior month was revised from a mild +0.1% expansion to a mild -0.1% dip. Industrial output grew by 0.8% m/m (0.2% consensus) which looked good at first except the beat only occurred because the prior month was revised down to 0.3% from 1.2%. Services missed all around with August up 0.3% m/m (consensus 0.6%) and the prior month was revised down a tick to -0.1%. Construction output came close to meeting expectations as a 0.2% m/m drop in August (+0.4% consensus) was mainly due to a higher than previously report jumping off point as July got revised up to -1% m/m from -1.6%. Finally, the trade deficit widened with negative revisions and against expectations for a narrower deficit as exports fell faster than the drop in imports.

**Chile's central bank is expected to hike by 75–100bps later today (5pmET).**

Scotia's Chilean economist thinks they'll hike 75bps. Soaring inflation is the catalyst alongside the central bank's guidance that it feels it needs to get from an overnight rate of 1.5% to a more neutral level ~3.5% by 2022Q1.

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**Chart 1**

**Chart 2**


## UNITED STATES

**US earnings season kicked off in earnest this morning** with BlackRock already posting a beat (adjusted EPS US\$10.95, consensus \$9.39). JP Morgan followed that with a beat of its own as EPS landed at US\$3.74 (consensus \$2.97).

**The main focal point will be US CPI for August. I expect a reacceleration after a temporary deceleration in during August.** See the Global Week Ahead write-up for more thoughts ([here](#)) as well as the accompanying deck. A few highlights are as follows.

### Headline CPI:

- consensus 0.3% m/m, 5.3% y/y (Scotia 0.4, 5.5)
- one-third of consensus is at 0.4 m/m, two-thirds 0.3
- most are at 5.3–5.4 y/y. I'm at the high end.

### Core CPI:

- consensus 0.2% m/m, 4.0% y/y (Scotia 0.3 / 4.2)
- it's almost a 50–50 split between 0.2–0.3 m/m with a handful at 0, 0.1 and 0.4
- most estimates are at 4.0–4.1 y/y with a few at 3.8–3.9 and a few at 4.2

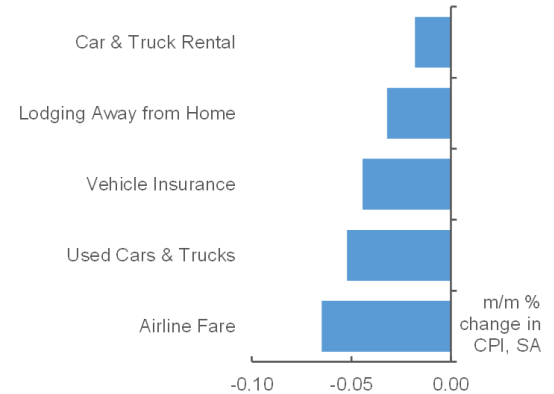
### Reasons:

- September is normally a mild seasonal up-month as a baseline.
- used and new vehicle prices were both tracking about +4% m/m SA in September and so used vehicles should reverse the prior month's outright decline as a one-off against the trend. The temporary small dip in used vehicle prices during August gave way to a renewed gain in September (chart 1).
- ISM price gauges bounced higher in September after a mild softening trend (chart 2).
- natgas prices soared in September and so I expect some pass through into CPI.
- 'Food at home' could accelerate at a quicker pace given broad composites of food prices have accelerated again over the past two months following a softening trend from May–July.
- I'm expecting less drag from the high contact components like airfare etc this time around. During August, it was the high contact sectors that made the biggest negative contributions to m/m price changes in weighted terms (chart 3).
- OER, rent and medical care are expected to be solid contributors as OER plays catch up to house prices in typical lagging fashion (chart 4).

**FOMC minutes (2pmET) will largely just reaffirm what was laid out in the statement, dots, forecasts and press conference 3 weeks ago.** Fresher information includes Friday's payrolls and today's CPI plus the week's Fed-speak. Today we'll hear from Governors Brainard (4:30pmET) and Bowman (8pmET) for their possible take on the latest inflation readings.

Chart 3

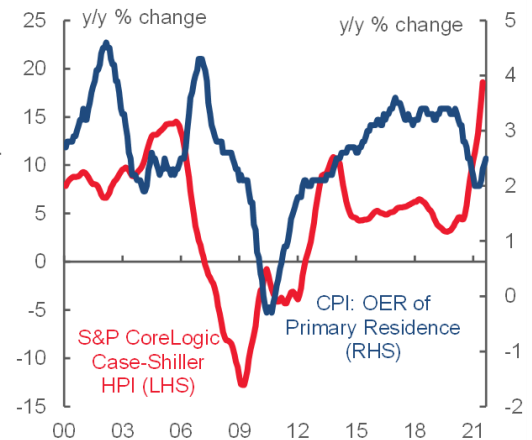
### Biggest Weighted Declines in August CPI



Sources: Scotiabank Economics, US BLS.

Chart 4

### Homebuying Price Surges May Cause Upward Pressure on Rents



Sources: Scotiabank Economics, BLS, S&P.

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.	0.35	0.34	0.29	1.07	1.07	0.98	1.56	1.58	1.52	2.07	2.10	2.08	Canada - BoC	0.25
CANADA	0.74	0.74	0.60	1.24	1.24	1.09	1.61	1.62	1.50	2.04	2.05	1.99	US - Fed	0.25
GERMANY	-0.67	-0.66	-0.69	-0.49	-0.47	-0.55	-0.13	-0.09	-0.18	0.32	0.38	0.30	England - BoE	0.10
JAPAN	-0.11	-0.11	-0.10	-0.08	-0.08	-0.08	0.09	0.09	0.08	0.70	0.70	0.69		
U.K.	0.56	0.56	0.47	0.75	0.78	0.69	1.10	1.15	1.07	1.38	1.45	1.43		
Spreads vs. U.S. (bps):														
CANADA	39	40	31	17	17	11	5	4	-2	-3	-5	-9	Euro zone - ECB	0.00
GERMANY	-102	-100	-99	-156	-154	-153	-169	-166	-170	-175	-172	-178	Japan - BoJ	-0.10
JAPAN	-46	-44	-40	-114	-115	-106	-147	-149	-144	-137	-140	-139		
U.K.	21	22	18	-31	-30	-29	-46	-43	-45	-69	-65	-65	Mexico - Banxico	4.75
Equities														
	Level			Change			% change:							
	Last						1 Day	1-wk	1-mo	1-yr				
S&P/TSX	20437			20.8			0.1	1.3	-1.1	23.8			Australia - RBA	0.10
Dow 30	34378			-117.7			-0.3	0.2	-1.4	19.9			New Zealand - RBNZ	0.50
S&P 500	4351			-10.5			-0.2	0.1	-2.6	23.9				
Nasdaq	14466			-20.3			-0.1	0.2	-4.2	21.9				
DAX	15260			112.9			0.7	1.9	-2.8	17.2				
FTSE	7126			-4.5			-0.1	1.9	0.8	19.4				
Nikkei	28140			-90.3			-0.3	2.2	-7.6	19.2				
Hang Seng	24963			-362.5			-1.4	3.6	-3.3	1.3				
CAC	6567			18.4			0.3	1.1	-1.7	32.7				
Commodities														
	Level			Change			% change:							
WTI Crude	80.20			-0.44			-0.5	3.6	13.8	99.5			England - BoE	Nov 04, 2021
Natural Gas	5.40			-0.11			-1.9	-4.9	3.2	89.1			Euro zone - ECB	Oct 28, 2021
Gold	1772.97			12.79			0.7	0.6	-1.2	-6.3			Japan - BoJ	Oct 28, 2021
Silver	22.64			0.12			0.5	0.7	-5.8	-9.7				
CRB Index	235.87			-0.48			-0.2	1.2	6.6	56.8				
Currencies														
	Level			Change			% change:							
USDCAD	1.2445			-0.0023			-0.2	-1.2	-1.6	-5.3			Mexico - Banxico	Nov 11, 2021
EURUSD	1.1561			0.0031			0.3	0.0	-2.1	-1.6			Australia - RBA	Nov 01, 2021
USDJPY	113.56			-0.0500			-0.0	1.9	3.2	7.7			New Zealand - RBNZ	Nov 23, 2021
AUDUSD	0.7354			0.0004			0.1	1.1	-0.2	2.7				
GBPUSD	1.3627			0.0039			0.3	0.3	-1.5	5.3				
USDCHF	0.9273			-0.0035			-0.4	-0.0	0.6	1.3				

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