

DAILY POINTS

March 3, 2022 @ 8:30 EST

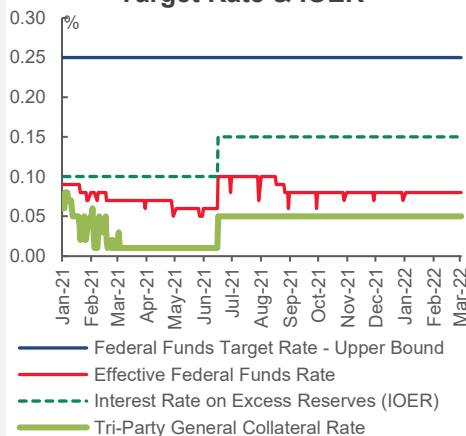
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Chart 1

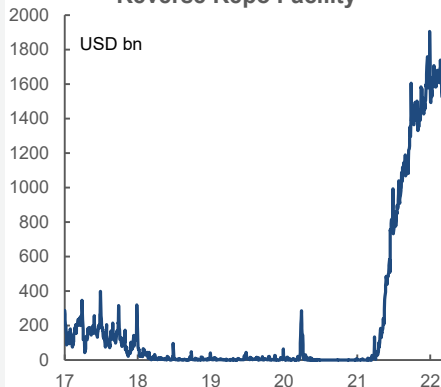
The Effective Federal Funds Target Rate & IOER



Sources: Scotiabank Economics, Bloomberg.

Chart 2

Demand for Fed's Overnight Reverse Repo Facility



Sources: Scotiabank Economics, Bloomberg.

On Deck for Thursday, March 3

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	03-03	08:30	Initial Jobless Claims (000s)	Feb 26	220	225	215
US	03-03	08:30	Continuing Claims (000s)	Feb 19	1,400	1,420	1,476
US	03-03	08:30	Productivity (q/q a.r.)	4Q F	--	6.7	6.6
US	03-03	08:30	Unit Labor Costs (q/q a.r.)	4Q F	--	0.3	0.9
US	03-03	10:00	Factory Orders (m/m)	Jan	1.3	0.7	-0.4
US	03-03	10:00	ISM Non-Manufacturing Composite	Feb	61.5	61.1	59.9
US	03-03	10:00	Fed Chair Powell Testifies Before Senate Panel				
CA	03-03	11:30	Bank of Canada's Macklem Gives Economic Progress Report				
US	03-03	12:00	Fed's Barkin Speaks on Economy				
US	03-03	18:00	Fed's Williams Takes Part in Discussion on the Economy				

KEY POINTS:

- **Funding markets continue to hold firm**
- **BoC's Macklem may provide reinvestment guidance...**
- **...after his expected hawkish message yesterday**
- **Fed's Powell to repeat the same core messages on day two**
- **US ISM-services expected to improve as omicron fades**
- **Nonfarm payrolls preview**

We're back to mild risk-off sentiment this morning. Stocks are little changed (NA futures) to down as much as 2% in Europe except Paris. US Ts are slightly bid with yields ~3bps lower with Canada slightly underperforming and versus for sale signs springing up all over European fixed income land. Gilts are performing the worst with yields up 5-7bps. The USD is slightly firmer on balance, but with CAD, the A\$ and one or two others holding their own. And yes, oil is up again by about 3-4% or so for a US\$38/barrel rise in WTI so far this year and 75% higher than at the start of December. Regular unleaded gasoline is up about 11% so far this year and the highest since July 2014.

The main calendar-based focal points will include round two of Chair Powell's testimony this time before the Senate Banking Committee (10amET), and appearances by BoC Governor Macklem.

I would expect Powell to reaffirm his guidance that included:

- they'll hike 25bps in two weeks;
- they are open to 50 moves if inflation surprises higher for longer;
- that they plan a series of rate hikes;
- that the war in Ukraine represents significant risk to the ultimate path;
- that they will further discuss but not finalize balance sheet plans at the March meeting and therefore won't have a decision at the ready on reinvestment plans.

We'll see how the Fed reacts if inflation goes double digits... In any event, his remark on the war being something whose effects will be with us for years is likely spot on and is an argument for "being nimble" as he puts it while making necessary decisions along the way. The Fed tentatively believes it has the market infrastructure in place (e.g. standing repo facility) to avert a funding shock/crisis driven directly or indirectly by the war in Ukraine but obviously we'll be testing scenarios and limits to this going forward. So far, so good. The Fed is retaining control over effective fed funds with its relative policy rates corridor (chart 1), it's large repo book (chart 2) and with interbank funding markets remaining generally calm (chart 3).

Then it's over to BoC Governor Macklem after the BoC met our expectations for a hawkish hike that emphasized stronger GDP growth than they expected, firmer oil prices with terms of trade implications and greater upward pressure upon inflation (recap [here](#)). His speech and presser today may lay out parameters around reinvestment plans going forward. If it doesn't, then reducing reinvestment at the April meeting is probably not on. I'd expect him to repeat the main messaging in yesterday's statement, but also watch for remarks on pace and goalposts. By the time the parliamentary testimony rolls around afterward (3:30pmET) he'll be spent so don't even bother with it. It's usually a rather tedious affair in any event.

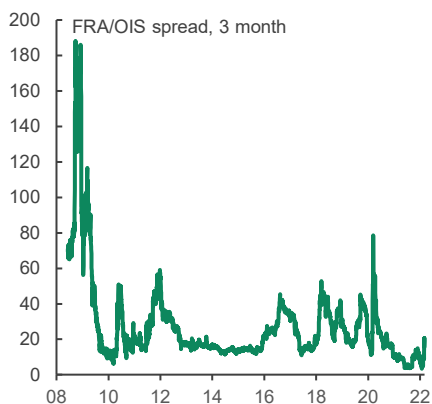
Limited data risk is also on tap in the US. Expected improvement in the service sector is the main highlight when ISM-services for February arrives (10amET). Weekly jobless claims (8:30amET) shouldn't matter a whole lot given they are between nonfarm reference periods. Ditto for factory orders in January that should follow the 1.6% rise in durable goods orders at a somewhat softer pace held back by nondurables (10amET).

The week will close with US payrolls tomorrow (Canada is off-cycle this time with jobs out the following Friday). It will probably be the least consequential jobs report in quite some time. The change between reference periods will be stale in relation to fresh developments like the war and surging oil. The Fed's script for March is largely set with a very high bar set against changing. For what it's worth, here's the run-down on expectations:

- Consensus expects +418k. My estimate is 450k and hence not materially different this time around.
- Most estimates are within about a 300–500k m/m range.
- The very thin tails are set at +80k and +730k.
- the mean and the median estimates are similar which indicates no real skewness.
- As for drivers, mobility improved between reference periods, fewer people indicated they were
- the standard deviation is 112k and the 90% confidence interval on payroll changes is +/- 110k.
- the 'whisper' number (to which anyone with a Bloomberg account can contribute...) is 331k.
- Key will be wages with growth inching toward 6% y/y and at a similar annualized m/m pace dating straight back to last April alongside tepid productivity growth and hence accelerating unit labour costs.

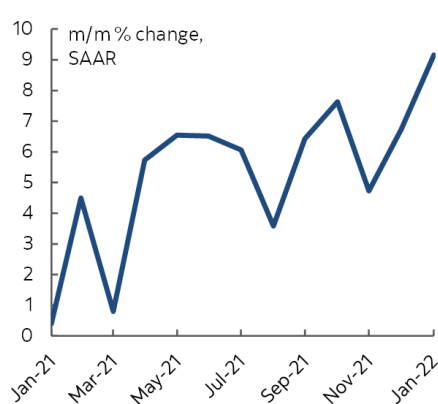
As charts 4 and 5 demonstrate the US is experiencing accelerating gains in wages and overall employment costs adjusted for productivity. The accelerating trends in tightening labour markets indicate that momentum is shifting away from real wage declines toward at least holding even with inflationary pressures if not exceeding them and especially on a productivity-adjusted basis.

Chart 3
Interbank Lending Risk Proxy



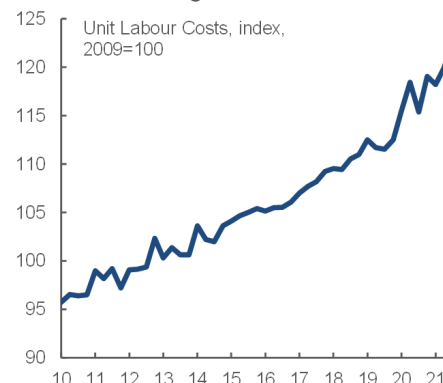
Sources: Scotiabank Economics, Bloomberg.

Chart 4
US Hourly Earnings



Sources: Scotiabank Economics, BLS.

Chart 5
US Wage Inflation Has Accelerated During the Pandemic



Sources: Scotiabank Economics, Bloomberg.

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.	1.48	1.51	1.58	1.72	1.76	1.86	1.85	1.88	1.97	2.24	2.25	2.28	Canada - BoC	0.50
CANADA	1.45	1.46	1.52	1.61	1.62	1.75	1.80	1.82	1.95	2.04	2.06	2.20	US - Fed	0.25
GERMANY	-0.56	-0.62	-0.42	-0.23	-0.25	-0.07	0.05	0.03	0.17	0.32	0.32	0.44	England - BoE	0.50
JAPAN	-0.03	-0.04	-0.03	0.01	-0.01	0.04	0.18	0.14	0.20	0.88	0.87	0.89		
U.K.	1.15	1.08	1.26	1.09	1.02	1.30	1.32	1.26	1.45	1.55	1.48	1.57		
	Spreads vs. U.S. (bps):													
CANADA	-3	-5	-6	-11	-14	-11	-5	-6	-1	-19	-20	-8	Euro zone - ECB	0.00
GERMANY	-204	-213	-200	-195	-201	-194	-180	-185	-179	-191	-194	-184	Japan - BoJ	-0.10
JAPAN	-151	-155	-161	-171	-177	-183	-167	-174	-176	-135	-138	-139		
U.K.	-33	-43	-32	-64	-74	-57	-53	-62	-52	-69	-78	-71	Mexico - Banxico	6.00
Equities	Level						% change:							
	Last			Change			1 Day	1-wk	1-mo	1-yr				
S&P/TSX	21256			251.1			1.2	2.4	0.8	16.0	Australia - RBA	0.10		
Dow 30	33891			596.4			1.8	2.3	-3.5	8.4	New Zealand - RBNZ	1.00		
S&P 500	4387			80.3			1.9	3.8	-2.0	14.8				
Nasdaq	13752			219.6			1.6	5.5	-0.9	5.8				
DAX	13913			-87.1			-0.6	-1.0	-9.5	-1.2				
FTSE	7380			-49.7			-0.7	2.4	-2.0	10.6				
Nikkei	26577			184.2			0.7	2.3	-3.1	-8.1	Canada - BoC	Apr 13, 2022		
Hang Seng	22467			123.4			0.6	-1.9	-8.6	-23.2	US - Fed	Mar 16, 2022		
CAC	6508			9.7			0.1	-0.2	-7.1	11.6				
Commodities	Level						% change:							
WTI Crude	113.83			3.23			2.9	22.6	26.1	85.8	England - BoE	Mar 17, 2022		
Natural Gas	4.75			-0.01			-0.2	4.0	-2.8	68.8	Euro zone - ECB	Mar 10, 2022		
Gold	1930.26			1.55			0.1	1.4	6.9	12.8	Japan - BoJ	Mar 18, 2022		
Silver	25.08			0.44			1.8	4.0	10.1	-4.5				
CRB Index	289.09			8.24			2.9	7.5	11.2	52.2				
Currencies	Level						% change:							
USDCAD	1.2640			0.0009			0.1	-1.4	-0.3	-0.1	Mexico - Banxico	Mar 24, 2022		
EURUSD	1.1074			-0.0045			-0.4	-1.1	-3.2	-8.2	Australia - RBA	Apr 05, 2022		
USDJPY	115.69			0.1700			0.1	0.1	0.6	8.1				
AUDUSD	0.7319			0.0022			0.3	2.2	2.5	-5.9				
GBPUSD	1.3381			-0.0025			-0.2	0.0	-1.6	-4.1	New Zealand - RBNZ	Apr 12, 2022		
USDCHF	0.9200			-0.0003			-0.0	-0.6	0.0	0.0				

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