

DAILY POINTS

May 11, 2022 @ 7:05 EST

Contributors

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Chart 1

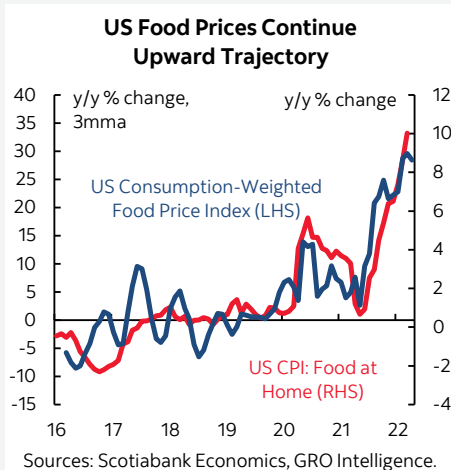


Chart 2



On Deck for Wednesday, May 11

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	05-11	07:00	MBA Mortgage Applications (w/w)	May 6	--	--	2.5
US	05-11	08:30	CPI (m/m)	Apr	0.3	0.2	1.2
US	05-11	08:30	CPI (y/y)	Apr	8.3	8.1	8.5
US	05-11	08:30	CPI (index)	Apr	--	288.7	287.5
US	05-11	08:30	CPI ex. Food & Energy (m/m)	Apr	0.5	0.4	0.3
US	05-11	08:30	CPI ex. Food & Energy (y/y)	Apr	6.1	6.0	6.5
US	05-11	12:00	Fed's Bostic Discusses Economy and Monetary Policy				
US	05-11	14:00	Treasury Budget (US\$ bn)	Apr	--	220.0	-192.7

KEY POINTS:

- **Markets hoping for a soft US inflation print**
- **US CPI expectations**
- **The Fed's summertime narrative is set regardless of today's inflation reading**
- **Lagarde repeats guidance a hike could quickly follow the end of APP buying in July**
- **Chinese core inflation decelerates**
- **Oil up as Shanghai lockdowns cut new cases**
- **Bank Negara Malaysia surprises with a hike and hawkish guidance**

Another day, another inflation wiggle to feed the obsession of our times. Markets may be positioning themselves for a soft print with sovereign curves richer across the board and the USD weaker against all crosses. Stocks are trying to add to a comeback with US futures up by about 1%, TSX futures up by ¾% and European cash markets up by either side of 1%. Oil is about \$3 higher and is getting an assist from Shanghai's reporting that new COVID-19 cases dropped by half which I suppose happens when you strip everyone of their last shreds of dignity and rights.

US CPI inflation for April (8:30amET) will be the main draw and a distant second to that will be more ECB- and Fed-speak. Lagarde repeated that the first rate hike could come as soon as a few weeks after ending APP purchases and hence intimated that could happen by the July 21st meeting.

On US inflation, I'm a little higher than consensus on headline and core CPI but not by much this time. The main rationale is offered in the section on US inflation in the week ahead write-up.

- As for estimates, consensus expects 0.2% m/m for headline CPI but estimates are skewed higher including my guesstimate of 0.3% m/m SA. The year-over-year rate is expected to pull back to 8.1% (8.5% prior) and I'm at 8.3%. Core inflation is expected to rise by 0.4% m/m with the distribution skewed toward a higher reading including my estimate of 0.5% m/m. The year-over-year core rate is expected to ease to 6% y/y from 6.5% and I'm at 6.1%.
- Year-ago base effect shifts will lower the inflation rate. For that not to happen the price gain would have to be eight-tenths m/m NSA or greater which seems unlikely. As on the way up, pay more attention to m/m SAAR for evidence of inflationary pressures at the margin. This measure has been steadily accelerating over the past three months and hit 16% in the prior CPI report for March.
- Seasonality should be a light influence on m/m NSA and add only a touch to the y/y rate.
- Gasoline prices were off a bit in NSA terms and should subtract a few tenths in weighted m/m SA terms.

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- Spot natural gas prices were up by about one-third m/m NSA and SA and could offset the gasoline drag.
- Used vehicle measures were divided this time but the one I think matters most should add a bit to m/m SA.
- New vehicle prices were up and should add a tenth or two. The BLS will change its measure of this (see below).
- Food prices are a wildcard at the consumer level but I've factored in a small further rise to the strong upward trend (chart 1).
- I've assumed a further reopening/normalization effect on services prices.

One wildcard uncertainty concerns methodological changes this time that merit caution into this one. With April CPI the BLS will formally switch to the measure of new vehicle prices tracked by JD Power. That index was up by 3.4% m/m NSA at a 4.1% weight so it would provide a small NSA contribution that is mostly retained after considering April SA factors. Motorcycle prices will drop out of the measure this is replacing and the new vehicle price category will break out cars and trucks but if I understand correctly then they won't combine the two into one category.

For my two cents, nothing in this report will affect nearer term decisions by the Fed that has teed up a 50bps hike at each of the next two meetings.

China's inflation rate picked up to 2.1% y/y (1.5% prior, 1.8% consensus) but solely due to commodity pressures and namely oil. Core inflation weakened to 0.9% y/y (1.1% prior) and has been trending lower this year. The diverging pattern of US versus Chinese core inflation explains the relative monetary policy divergence and yuan weakness (chart 2). The question will be how quickly Chinese core inflation may rebound as the shackles get loosened.

Bank Negara Malaysia hiked 25bps to a 2% overnight policy rate that only about one-quarter of consensus expected and accompanied this with hawkish forward guidance pointing to further hikes.

Fixed Income	Government Yield Curves (%):												Central Banks		
U.S. 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	Canada - BoC	1.00	
	2.58	2.61	2.65	2.85	2.92	2.91	2.93	2.99	2.94	3.08	3.13	3.04			
	2.66	2.68	2.65	2.76	2.80	2.76	2.97	3.00	2.92	2.94	2.97	2.87			
	0.13	0.16	0.27	0.64	0.69	0.72	0.97	1.00	0.97	1.14	1.14	1.08			
	-0.05	-0.05	-0.05	0.02	0.02	0.02	0.25	0.25	0.23	1.03	1.04	0.99			
1.31	1.33	1.64	1.46	1.48	1.73	1.82	1.85	1.97	2.04	2.06	2.08	England - BoE	1.00		
Spreads vs. U.S. (bps):														Euro zone - ECB	0.00
8	6	1	-9	-11	-15	3	1	-2	-15	-16	-17				
-246	-245	-237	-221	-223	-220	-196	-199	-197	-194	-199	-196				
-263	-266	-269	-283	-289	-290	-268	-275	-271	-206	-209	-205				
-128	-129	-101	-139	-143	-119	-111	-115	-97	-104	-107	-96	Japan - BoJ	-0.10		
Equities	Level						% change:						Mexico - Banxico	6.50	
S&P/TSX Dow 30 S&P 500 Nasdaq DAX FTSE Nikkei Hang Seng CAC	Last	Change					1 Day	1-wk	1-mo	1-yr	Australia - RBA	0.35			
	19890	-109.6					-0.5	-6.1	-8.7	3.2					
	32161	-85.0					-0.3	-2.9	-6.3	-6.2					
	4001	9.8					0.2	-4.2	-9.3	-3.6					
	11738	114.4					1.0	-6.6	-12.5	-12.3					
	13704	168.8					1.2	-1.9	-3.4	-9.4					
	7323	80.0					1.1	-2.3	-3.9	5.4					
	26214	46.5					0.2	-2.4	-2.3	-8.4					
	19825	190.9					1.0	-6.1	-6.5	-29.2					
	6238	121.3					2.0	-2.5	-4.8	-0.5					
Commodities	Level						% change:						New Zealand - RBNZ	1.50	
WTI Crude	103.29	3.53					3.5	-4.2	9.5	58.2					
Natural Gas	7.48	0.10					1.3	-11.1	12.6	153.2					
Gold	1852.96	14.69					0.8	-1.5	-5.1	0.8					
Silver	21.87	0.00					0.0	-3.4	-11.2	-21.2					
CRB Index	297.09	-2.36					-0.8	-3.2	0.7	43.1					
Currencies	Level						% change:						Canada - BoC	Jun 01, 2022	
USDCAD	1.2968	-0.0059					-0.5	1.7	2.7	7.2					
EURUSD	1.0544	0.0015					0.1	-0.7	-3.1	-13.2					
USDJPY	129.86	-0.5900					-0.5	0.6	3.6	19.6					
AUDUSD	0.7005	0.0067					1.0	-3.5	-5.6	-10.7					
GBPUSD	1.2338	0.0022					0.2	-2.3	-5.3	-12.8					
USDCHF	0.9901	-0.0058					-0.6	1.8	6.4	9.6	Japan - BoJ	Jun 17, 2022			
USDCAD EURUSD USDJPY AUDUSD GBPUSD USDCHF	Level						% change:						Mexico - Banxico	May 12, 2022	
	1.2968	-0.0059					-0.5	1.7	2.7	7.2	Australia - RBA	Jun 07, 2022			
	1.0544	0.0015					0.1	-0.7	-3.1	-13.2	New Zealand - RBNZ	May 24, 2022			
	129.86	-0.5900					-0.5	0.6	3.6	19.6					
0.7005	0.0067					1.0	-3.5	-5.6	-10.7						
1.2338	0.0022					0.2	-2.3	-5.3	-12.8						
0.9901	-0.0058					-0.6	1.8	6.4	9.6						

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