

### DAILY POINTS

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#### Contributors

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#### On Deck for Tuesday, June 14

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	06-14	08:30	Manufacturing Shipments (m/m)	Apr	1.6	1.7	1.7
US	06-14	08:30	PPI (m/m)	May	0.8	0.8	0.8
US	06-14	08:30	PPI ex. Food & Energy (m/m)	May	0.6	0.6	0.5

#### KEY POINTS:

- **Markets consolidating Fed-motivated sell-off**
- **Fed to hike 75bps tomorrow...**
- **...as the WSJ sets up a Fed whisperer trade...**
- **...though it's not a slam dunk...**
- **...and would pose a bigger communications credibility challenge**
- **UK data beats**
- **Swedish inflation tops estimates**
- **German ZEW gently rising off bottom**
- **US producer prices land a smidge weaker than expected**
- **Canadian manufacturing shipments beat expectations on revisions**

Markets are consolidating yesterday's repricing of tomorrow's FOMC communications. Sovereign bonds are slightly rallying in the US, Canada and UK after yesterday's rout, but so far it's a minor move lower compared to the scale of yesterday's selloff. The USD is more mixed this morning and losing ground to the euro and related crosses, but generally holding onto most of yesterday's rally. US equity futures are up by around ½% following yesterday's 3.9% plunge by the S&P. TSX futures are up ½% after yesterday's drop of over 2½%.

I hate the feeling around doing this but now think the Fed will hike 75bps tomorrow instead of 50bps. I've long preferred seeing a faster pace of front-loaded hikes and although it's not a slam dunk, the case for accelerating the size of hikes outweighs the case against while nevertheless making inter-meeting Fed forward guidance largely useless. The supporting points include:

a) Last Friday's CPI report showed no indications that inflationary pressures are abating at the margin as evidenced by high m/m readings and very high breadth. Being in blackout, the Fed couldn't officially respond to another upside surprise to consensus. As previously argued, this raised the risk of 75.

b) Unless they are being super mischievous, then we may be back to the times when the Fed communicated through preferred financial media outlets. Note the WSJ piece that started it all yesterday afternoon before other outlets basically ran with the same points which either suggests copycat behaviour or that the Fed pushed out the same messages to each outlet. If the Fed doesn't hike 75 then the WSJ and its reporter are toast as Fed whisperers. If the Fed does hike 75 then what ever happened to the requirements set by our regulators to engage in full and open disclosure?? Do as I say not as I do, I guess.

c) It would no longer surprise markets given that it's fully priced and so the fear of sparking market turmoil has already come and gone. By corollary, not going 75bps would risk awkward optics around easing financial conditions with inflation ripping and after a jobs beat unless they really hit forward guidance much harder than is already priced which is tough to see given we have 3½ – 3¾% priced for year-end now. In other words, if they pass on 75 and don't go to 3¾% by year-end then headlines on dovish market reactions relative to what's priced would be super awkward optics for them;

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Other arguments don't hold water in my view. The argument that the Fed realizes it is behind and must pick up the pace is a bit of a joke as they've been behind for basically a year now and so why the sudden epiphany. The argument that the language used by Powell and in the last statement left open the possibility of a 75bps move tomorrow is equally farcical. The explicit guidance was 50 right up to the blackout and markets took the "nimble" and data dependent guidance as being more about the future path after tomorrow while hoping they could at least count on explicit one-meeting ahead guidance.

Hiking 75 is not going to be a costless move by the Fed. If they do indeed hike by 75bps tomorrow, then even their one-meeting ahead forward guidance will become utterly useless. Every meeting will become open season on the Fed and power to drive market volatility will be handed over to media outlets. Every blackout period will be open to speculation to the benefit of the WSJ et al which seems to me to seriously violate full transparent disclosure. We'll be going back to the days when WSJ reporters were made stars solely because of their preferential access and that's just plain wrong if that is indeed what is happening here.

Swedish inflation exceeded expectations. Headline CPI was up 1.0% m/m (consensus 0.8%) and underlying inflation was exactly the same. The figures reinforced pricing for a more aggressive Riksbank hike of 50bps at the June 30<sup>th</sup> meeting.

The UK generated 75k jobs in April which pumped the 3-month moving change up to 177k, handily beating consensus expectations for a 106k rise. Wage growth ex-bonuses also exceeded expectations at 4.2% y/y (4% consensus) but was unchanged from the prior month, although including bonuses saw wages up 6.8% y/y which was softer than consensus that had 7.4%. The May payroll figures were up 90k (consensus 70k) but with a mild downward revision to 107k from 121k for the prior month. In all, it seems pretty strong to me, though markets took it as evidence the BoE would continue to lean toward a 25bps hike on Thursday instead of a larger one.

German ZEW investor expectations improved by a little less than what is a total guesstimate by consensus. That's two months in a row of gentle improvements off the April bottom.

Canadian manufacturing shipments exceeded expectations due to upward revisions. While April landed on the screws at +1.7% m/m, the prior month was revised up from 2.5% m/m to a full percentage point higher. Sales were up by 0.9% m/m in volume terms during April such that the gain was not just fed by higher prices.

US producer prices landed a smidge weaker than expected but were still strong. Headline final demand prices were up 0.8% m/m and on consensus, but the prior month was revised a tick lower to 0.4% m/m. Core producer prices ex-food and energy were up 0.5% m/m and the prior month was revised down to 0.2% from 0.4%. All-in, that says final demand prices were up 10.8% y/y which was a tick softer than both consensus and the prior month.

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.	3.29	3.36	2.73	3.43	3.48	2.99	3.33	3.36	2.98	3.34	3.35	3.13	Canada - BoC	1.50			
CANADA	3.35	3.40	3.04	3.46	3.51	3.12	3.47	3.51	3.18	3.28	3.31	3.10	US - Fed	1.00			
GERMANY	1.17	1.15	0.67	1.49	1.49	1.03	1.66	1.63	1.29	1.78	1.72	1.53	England - BoE	1.00			
JAPAN	-0.04	-0.04	-0.07	0.08	0.04	0.00	0.25	0.26	0.25	1.19	1.20	1.06					
U.K.	2.03	2.12	1.75	2.14	2.23	1.84	2.48	2.53	2.21	2.60	2.64	2.43					
Spreads vs. U.S. (bps):																	
	5	4	31	3	3	13	14	15	21	-6	-4	-3					
CANADA	5	4	31	3	3	13	14	15	21	-6	-4	-3	Euro zone - ECB	0.00			
GERMANY	-212	-221	-206	-194	-199	-196	-167	-173	-168	-156	-163	-160	Japan - BoJ	-0.10			
JAPAN	-334	-340	-280	-335	-344	-298	-308	-311	-273	-215	-216	-206	Mexico - Banxico	7.00			
U.K.	-126	-124	-98	-129	-125	-114	-86	-84	-76	-74	-71	-70	Australia - RBA	0.85			
Equities	Level						% change:										
	Last	Change		1 Day		1-wk		1-mo		1-yr							
S&P/TSX	19743	-532.3		-2.6		-5.7		-1.8		-2.1				New Zealand - RBNZ	2.00		
Dow 30	30517	-876.0		-2.8		-7.3		-5.2		-11.3							
S&P 500	3750	-151.2		-3.9		-9.0		-6.8		-11.9							
Nasdaq	10809	-530.8		-4.7		-10.4		-8.4		-23.7							
DAX	13401	-26.1		-0.2		-7.9		-4.5		-14.5							
FTSE	7184	-21.7		-0.3		-5.5		-3.2		0.5							
Nikkei	26630	-357.6		-1.3		-4.7		0.8		-9.5				Canada - BoC	Jul 13, 2022		
Hang Seng	21068	0.4		0.0		-2.2		5.9		-26.4				US - Fed	Jun 15, 2022		
CAC	5983	-39.5		-0.7		-8.0		-6.0		-9.6				England - BoE	Jun 16, 2022		
Commodities	Level						% change:										
	Level			% change:			Level			% change:							
WTI Crude	122.49			1.56			1.3			2.6			10.9		72.8	Euro zone - ECB	Jul 21, 2022
Natural Gas	8.69			0.08			1.0			-6.5			13.4		159.3		
Gold	1820.68			1.42			0.1			-1.7			0.5		-2.4		
Silver	21.56			-0.03			-0.1			-3.1			3.5		-23.4		
CRB Index	321.44			-4.37			-1.3			-1.7			4.2		52.3	Japan - BoJ	Jun 17, 2022
Currencies	Level						% change:										
	Level			% change:			Level			% change:							
USDCAD	1.2935			0.0036			0.3			3.2			0.7		6.5	Mexico - Banxico	Jun 23, 2022
EURUSD	1.0455			0.0046			0.4			-2.3			0.2		-13.7		
USDJPY	134.57			0.1500			0.1			1.5			4.2		22.3	Australia - RBA	Jul 05, 2022
AUDUSD	0.6901			-0.0022			-0.3			-4.6			-1.0		-10.5		
GBPUSD	1.2074			-0.0060			-0.5			-4.1			-2.0		-14.4	New Zealand - RBNZ	Jul 12, 2022
USDCHF	0.9952			-0.0024			-0.2			2.3			-0.7		10.6		

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