

### DAILY POINTS

September 22, 2022 @ 8:45 EST

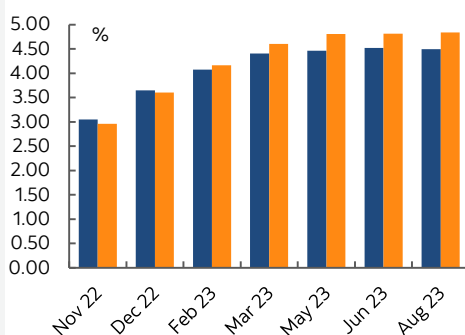
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Chart 1

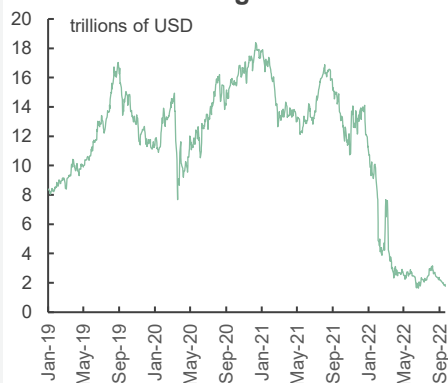
#### BoE Market Implied Policy Rate



Sources: Scotiabank Economics, Bloomberg.

Chart 2

#### Disappearing Negative Yielding Debt



Sources: Scotiabank Economics, Bloomberg

### On Deck for Thursday, September 22

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	09-22	08:30	Current Account (US\$ bn)	2Q	--	-260.0	-251.1
US	09-22	08:30	Initial Jobless Claims (000s)	Sep 17	215	217.0	213.0
US	09-22	08:30	Continuing Claims (000s)	Sep 10	1380	1417.5	1379.0
US	09-22	10:00	Leading Indicators (m/m)	Aug	--	-0.1	-0.4

#### KEY POINTS:

- Little follow-through on hawkish Fed as other CBs offered a few twists
- Yen intervention halts post-Fed dollar gains
- BoJ stands pat and didn't seem to anticipate post-briefing intervention orders
- BoE delivers more hawkish than expected message despite hiking only 50bps...
- ...as it unveiled gilt sales that markets had thought might have been delayed...
- ...and raised medium-term inflation warnings in the wake of the Truss energy plan
- SNB ditched negative rates...
- ...as over US\$16 trillion of negative yielding global debt has now been wiped out
- BoC hike pricing is probably too light
- Bank Indonesia hiked by more than expected
- Norges Bank's hike and forward guidance drives lower yields despite minimal changes
- Erdogan's central bank unexpectedly cuts as monetary policy remains in ruins
- CBCT and BSP hike in Fed's aftermath
- SARB expected to hike this morning
- The US job market remains very tight

Phase 2 of central bank week kicked in overnight through to this morning with little aftermath to yesterday's post-FOMC moves (recap [here](#)) that supports +75 in November, +50 in December and then either +25 or +50 in February with a likely pause signal, but with other central banks offering a few twists and flairs most notably being yen intervention by Japan's MoF and a more hawkish turn by the Bank of England. The yen is the pack leader against the USD as yen intervention erased further overnight gains in the USD on a DXY basis following the FOMC. US Treasury yields are up 3–5 bps across maturities. Gilts are bear steepening as the gilts selling announcement was the bigger shock to markets. Shorter term EGBs are cheapening by 3–9bps in 2s as the Fed's carry effects ripple through. Stocks are flat to mildly lower with US futures little changed, TSX futures slightly positive, and European cash markets down by either side of  $-\frac{1}{2}\%$ . Yen intervention hit after the Nikkei shut but futures are slipping.

Markets are probably not yet catching onto the likelihood that the BoC will be dragged even high by the Fed imo. Canada's productivity performance is awful and nominal wage growth is strong which adds to second-round wage-price effects. The terms of trade, serial stimulators in Ottawa and the provinces, higher immigration into tight builder supply, and pent-up services demand (even more than in the US) shouldn't have the BoC falling materially behind the Fed in my view and so if the Fed is going toward 5% in Q1 then market pricing for the BoC is probably light.

Here's the central bank rundown and note that there were no significant overnight macro releases.

## Bank of Japan

No policy changes amid guidance from Governor Kuroda that there wasn't any need for policy guidance to be altered for 2–3 years as it looks through inflationary implications of yen weakening and oil prices because of concern that doesn't drive the medium-term progress toward the inflation target that Kuroda desires. The MoF photobombed the end of Kuroda's presser during which he said he wasn't expecting a call to intervene by directing the BoJ to do just that and intervene against yen weakening. The yen gained from 145.7 to 140.7 before slipping back to 143 now. Going on its own in a world where coordinated efforts are unlikely means little chance at durable success against powerful drivers.

## Bank of England

Near-term dovish, longer-term more hawkish. That about sums up my reading of what they did. Go [here](#) for the Monetary Policy Summary and meeting minutes. The BoE hiked 50bps which was less than markets had priced by being on the fence halfway between 50 and 75 but most economists had expected Bank Rate to go up 50bps. That slightly weakened sterling in the aftermath. There was no formal forecast update or MPR or presser with this one, but two other developments were incrementally hawkish relative to uncertainties into the communications. Chart 1 shows updated market pricing for the rate path.

First, there had been some uncertainty over whether the MPC would remain committed to guidance provided at the August meeting that they could shift toward actively selling gilts shortly after the September meeting. Well, they did remain committed to doing so and unanimously so with plans to reduce the stock by £80 billion over the next year starting on October 3rd. the 10 year yield benchmark yield jumped by about a dozen basis points in the immediate aftermath as the commitment surprised traders.

Secondly, the guidance on how to incorporate the Truss administration's energy plan tamped down near-term expectations but raised the guidance on medium-term inflation expectations with a fuller assessment pending tomorrow's release of further energy plan details. The impact reinforced a cheapening bias to the two-year gilt yield. Here are the two relevant quotes from the statement.

"Given the Energy Price Guarantee, the peak in measured CPI inflation is now likely to be lower than projected in the August Report, at just under 11% in October. Nevertheless, energy bills will still go up and, combined with the indirect effects of higher energy costs, inflation is expected to remain above 10% over the following few months, before starting to fall back."

"While the Guarantee reduces inflation in the near term, it also means that household spending is likely to be less weak than projected in the August Report over the first two years of the forecast period. All else equal, and relative to that forecast, this would add to inflationary pressures in the medium term."

## Swiss National Bank Ends Negative Rates

The Swiss central bank ditched negative rates by hiking 75bps to a 0.5% policy rate as most had expected although more economists had +50bps as a second choice rather than 100bps. The franc nevertheless fell on two-sided intervention guidance. The stock of negative yielding debt collapsed long ago from a peak of about US\$18 trillion in early 2021 to about US\$1.8 trillion now as inflation killed the negative rates era everywhere except in Japan (chart 2).

## Bank Indonesia Hikes More than Expected

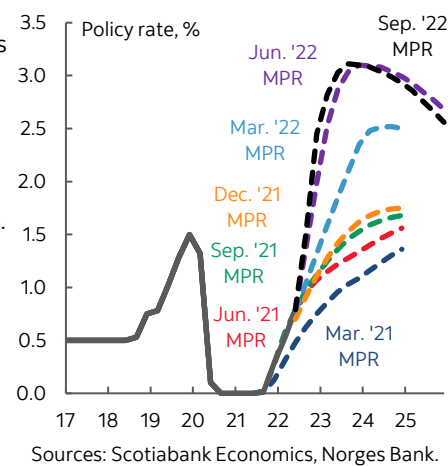
Bank Indonesia hiked 50bps to take its 7-day reverse repo rate up to 4.25% which was 25bps more than most had expected. The rupiah outperformed other weaker Asian crosses to the dollar.

## Norges Bank Drivers Lower Yields Despite Hike and Minimal Change to Forward Guidance

Norges Bank: Hiked 50bps to 2.25% as widely expected and in keeping with prior guidance. It revised guidance to show a planned increase to 2.45% in Q4 including a hike in November and then 2.82% in 2023Q1 but the changes were minimal (chart 3). There were double digit declines in yields across the curve on weaker than expected guidance.

Chart 3

### Norges Bank Policy Rate Projections



## Asian Central Banks Follow the Fed

Bangko Sentral ng Pilipinas hiked 50bps in line with expectations.

The Central Bank of China Taiwan (CBCT) raised its policy rate 12.5bps to 1.625%.

## Erdogan's Ruinous Monetary Policy

On the more tragicomedy end of central bank decisions we have Erdogan's central bank in Turkey that unexpectedly cut 100bps to a one-week report rate of 12% despite inflation that is running at 80% y/y and a tanking lira that fell in the aftermath and that has seen the number of lira required to purchase one USD triple over about the past year and a half. Well done Erdogan. The Turkish people are losing their shirts through your inflation tax and the plummeting purchasing power of their currency.

## SARB Expected to Hike

The South African Reserve Bank is expected to hike 75bps at shortly after 9amET this morning.

The N.A. calendar will be very light. US weekly initial claims held steady at a low 213k while continuing claims fell again to 1.379 million from 1.403. Initial claims are still holding around early June levels before they had increased from June through early August and then fell back again. The labour market continues to be very tight. While some layoff announcements have picked up, some hiring announcements have been mixed in and on net thus far we're not seeing jobless claims pick up yet.

Fixed Income	Government Yield Curves (%):												Central Banks		
U.S. CANADA GERMANY JAPAN U.K.  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			
	4.09	4.05	3.87	3.81	3.77	3.67	3.56	3.53	3.45	3.52	3.50	3.47	Canada - BoC	3.25	
	3.81	3.77	3.81	3.30	3.26	3.34	3.07	3.03	3.14	2.96	2.94	3.05	US - Fed	3.25	
	1.84	1.76	1.54	1.87	1.84	1.66	1.88	1.89	1.77	1.80	1.84	1.76	England - BoE	2.25	
	-0.07	-0.05	-0.07	0.04	0.07	0.05	0.24	0.26	0.26	1.30	1.32	1.26			
	3.46	3.39	3.13	3.49	3.38	3.12	3.41	3.31	3.17	3.70	3.59	3.48			
	Spreads vs. U.S. (bps):														
	-29	-28	-5	-51	-51	-32	-49	-50	-31	-56	-56	-42	Euro zone - ECB	1.25	
	-226	-229	-233	-194	-193	-201	-169	-164	-168	-172	-167	-171	Japan - BoJ	-0.10	
-416	-410	-394	-378	-369	-361	-332	-327	-319	-221	-218	-221				
-63	-66	-74	-33	-39	-55	-15	-22	-29	18	8	1				
Equities	Level						% change:						Mexico - Banxico	8.50	
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	2.35			
	19185	-184.1					-1.0	-1.9	-4.0	-6.0	New Zealand - RBNZ	3.00			
	30184	-522.5					-1.7	-3.1	-8.7	-11.9					
	3790	-66.0					-1.7	-4.0	-8.4	-13.8					
	11220	-204.9					-1.8	-4.3	-9.4	-24.7					
	12680	-87.0					-0.7	-2.1	-4.2	-18.2					
	7219	-18.4					-0.3	-0.8	-4.2	1.9					
	27154	-159.3					-0.6	-2.4	-4.6	-8.4	Canada - BoC	Oct 26, 2022			
	18148	-296.7					-1.6	-4.1	-6.9	-26.0	US - Fed	Nov 02, 2022			
	5985	-46.6					-0.8	-2.8	-6.2	-9.8					
Commodities	Level						% change:								
WTI Crude	84.31	1.37					1.7	-0.9	-6.6	16.7	England - BoE	Sep 22, 2022			
Natural Gas	7.66	-0.12					-1.6	-8.0	-20.9	59.3	Euro zone - ECB	Oct 27, 2022			
Gold	1677.87	3.99					0.2	0.8	-3.4	-5.1	Japan - BoJ	Sep 21, 2022			
Silver	19.51	0.20					1.0	0.0	1.5	-13.5					
CRB Index	278.23	-1.31					-0.5	-1.0	-5.0	25.4					
Currencies	Level						% change:								
USDCAD	1.3438	-0.0025					-0.2	1.6	2.9	5.2	Mexico - Banxico	Sep 29, 2022			
EURUSD	0.9871	0.0034					0.3	-1.3	-0.7	-15.5	Australia - RBA	Oct 03, 2022			
USDJPY	140.92	-3.1400					-2.2	-1.8	2.5	28.4	New Zealand - RBNZ	Oct 04, 2022			
AUDUSD	0.6655	0.0025					0.4	-0.7	-3.2	-8.2					
GBPUSD	1.1318	0.0048					0.4	-1.3	-3.8	-16.9					
USDCHF	0.9807	0.0143					1.5	2.0	1.7	5.9					

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