

### DAILY POINTS

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Chart 1

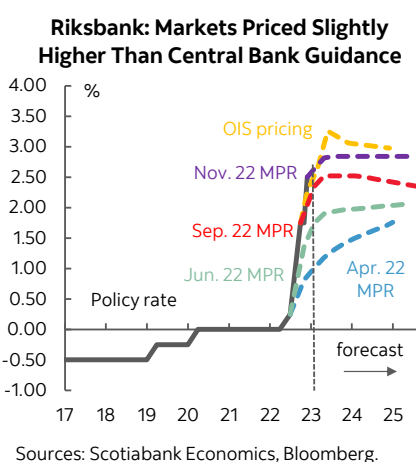
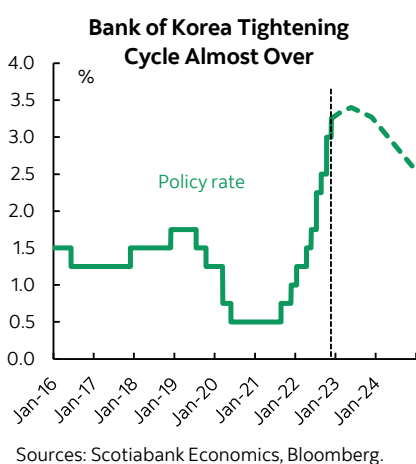


Chart 2



#### KEY POINTS:

- **Stocks and bonds richen, USD weakens**
- **Four factors affecting markets other than the FOMC minutes**
- **FOMC minutes offered no new or unexpected information**
- **Key US data on the path to the next FOMC decision**
- **Riksbank hikes 75bps, forward guidance points to only a little further tightening**
- **BoK hikes 25bps, Board consensus points to getting close to being done**
- **SARB hiked 75bps but the decision was split**
- **BoC's Macklem offered nothing new, Canada's payrolls are too stale to matter**
- **Turkey cuts on Thanksgiving**

Risk-on sentiment is carrying stocks and sovereign bond prices higher amid lighter market activity given the US holiday. There may be several catalysts beyond all the headlines on FOMC minutes. In fact, as argued below in a separate section, I'm skeptical toward the minutes-are-dovish angle and so with that here are some other considerations.

- The first caution is to acknowledge the US Thanksgiving holiday that a) drives lower volumes of global trading activity, b) can prompt wild reactions to things in whippy markets, and c) may drive defensive position covering in rates until more normal volumes can react to developments next week.
- Second, much of the action was baked in before yesterday's FOMC minutes after US releases that included slightly higher jobless claims and especially the reaction to a drop in the US S&P composite PMI while markets nevertheless ignored decent durable goods orders and a strong and unexpected 7% m/m gain in new home sales. The S&P gauges aren't even the ones that the Fed watches versus the ISM measures that weed out international operations to focus upon the domestic economy. In any event, these market reactions may be continuing to drive sentiment that (some) weakening data is dovish this morning. I thought those reactions were overdone and selectively picked through the data.
- Third is speculation toward China cutting its required reserve ratio in the wake of guidance from the State Council. Efforts to stimulate China's economy would be of benefit to global equity risk appetite. We'll see if they deliver and if it matters, or if lenders and borrowers alike are reticent to engage because of mounting downside risks to the economy.
- Fourth, bond markets might be taking Chinese developments differently and as evidence of mounting downside risks to the Chinese economy as a reason to buy bonds. I don't know how this will play out, but the lockdowns and generally stricter controls pose renewed risks to supply chains that will have to be closely monitored for implications by way of renewed inflationary shocks. That depends upon how far the measures wind up going through winter.

And so US and Canadian equity futures are up by about ¼% and European cash markets are up by ¼% to ¾% in Germany's case. Tokyo and Seoul gained about 1% with the Hang Seng up by a little less as mainland China's exchanges were little changed to slightly

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negative. Sovereign bond yields are under downward pressure in Europe and led by +/- 10bps declines in 10-year EGB yields. Canada's curve is slightly richer in sympathy toward global moves. The USD is slightly weaker with gainers led by the won, yen, sterling and A\$/NZ\$.

### Bank of Canada

Last evening's testimony by Governor Macklem contained no new information. His opening statement is [here](#). On hikes he repeated that "We are getting closer, but we are not there yet" in reference to an end. He also repeated that "We are still far from that goal" in reference to the inflation target.

### China

There was more bad news out of China overnight with further lockdowns including Zhengzhou where the Foxconn "iPhone City" plant is located that is now locked down for mass testing starting tomorrow and over five days and then we'll see when the results come in. There were more cases in Beijing and more preparations for a surge.

### Riksbank

Sweden's Riksbank hiked by 75bps to a policy rate of 2.5% which was priced, while forward guidance had little effect on the krona and Swedish short-term yields that if anything were both a little softer pre- and post-decision. Forward guidance slightly added to the prior projection with less than another 50bps of hikes expected next year to a peak projection of just under 3% (chart 1). Market pricing for the next meeting in February was unaffected with just over ¼% hike priced.

### Bank of Korea

The Bank of Korea slowed the pace of rate hikes as expected by unanimously raising the 7-day repo rate by 25bps to 3.25% and guided that most of its members think only a little further tightening is likely. The front-end rallied and its higher beta currency rallied overnight, but probably more due to global forces than any surprises from the central bank. One of the earliest hiking central banks in the world began to raise rates in August of last year and has now raised by a cumulative 275bps. Governor Rhee Chang-yong guided that most Board members think the end is near, so to speak, with 1 thinking they're done, 3 expecting only another +25bps hike, and two open to raising by more than 75bps. Pricing is shown in chart 2.

### SARB

South Africa's central bank hiked by 75bps to a 7% policy rate as expected. It was a 3–2 decision with a minority in favour of a smaller 50bps move.

### Turkey

With the serious central banks out of the way we can turn our attention toward the others. Turkey's central bank cut on US Thanksgiving; you can't make this stuff up. Anyway, it cut its one-week repo rate by 150bps to 9% as expected. That has been Erdogan's stated goal since September when he said that the rate should come down to single digit territory by year-end and so the complicit central bank declared that cuts are now at an end. What Erdogan wants, Erdogan gets, or he fires anyone who objects. Turks pay the price through a collapsed lira and 85% y/y inflation.

German business confidence climbed in November with the IFO expectations gauge rise by 4.1 points to 80. Big whoop, it's still toward the lowest since the start of the pandemic after plunging ever since the peak in mid-2021.

Mexican bi-weekly inflation was in the ballpark of expectations with a 0.6% m/m rise and core up 0.3% m/m.

Beyond that the focus is likely to be mainly upon off-calendar risks into lighter global liquidity on the US Thanksgiving holiday. Canada updated payroll figures this morning that showed a gain of 85,300 positions, but that report is little watched because it seriously lags with September data on tap today (LFS is due out for November next Friday) and they only measure payroll employees in a country that has a large number of folks employed at small businesses.

### FOMC MINUTES RECAP

We're also asked to believe that an added market catalyst is that the FOMC minutes were dovish relative to already known and priced considerations. I didn't see any new information in the minutes, but maybe folks were positioned amid lighter volumes for something other than what the FOMC officials have been saying and what markets were pricing.

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Here is a recap of what the minutes contained.

**1. Terminal rate:** They reinforced what Powell said on November 2nd followed by other FOMC officials by way of openness toward raising it but without pre-judging how high just yet. Stay tuned for the December dot plot that I think will raise the median to 5%. This wasn't new information relative to market pricing for a 5% peak. Here is the direct passage of relevance from the minutes:

"Even so, various participants noted that, with inflation showing little sign thus far of abating, and with supply and demand imbalances in the economy persisting, their assessment of the ultimate level of the federal funds rate that would be necessary to achieve the Committee's goals was somewhat higher than they had previously expected."

So what does 'somewhat higher' mean? I'd be surprised if it's higher than 5–5.25%, but we'll see.

**2. Pace:** Powell said on November 2nd that they might downshift at either the December or January meeting. Since then, we've heard a number of officials lean toward December. The minutes reinforce this expectation with the reference to a "substantial majority" leaning toward downshifting and likely 50bps. Here is the direct quote with the key being the 'soon' set up given the way the Fed's language evolves:

"In addition, a substantial majority of participants judged that a slowing in the pace of increase would likely soon be appropriate."

**3. Pause:** I thought they might reinforce FOMC officials' comments against pausing any time soon and against premature easing. That has characterized other communications but I don't see it in the minutes.

Data on the path to December may inform terminal rate forecasts but there is a high bar to affecting 50bps pricing. Key data will include:

**1. PCE inflation for October next Thursday.** I put in 0.4% m/m for PCE and 0.3% m/m for core PCE inflation which is similar to what we saw in CPI. I'm below consensus for spending though as I think some are overestimating the match between the retail sales control group and total consumption plus services consumption may not have repeated the same large prior gain as goods consumption picked up the pace.

**2. Payrolls and wages for November next Friday.** My guesstimates include +205k for payrolls with wages up 0.3% m/m SA. Most of the advance readings are unavailable so far.

**3. CPI for November on December 13th** and hence on day 1 of the next two-day FOMC meeting when they can theoretically adjust forecasts in the SEP and dots that evening that they would have first submitted the prior Friday. While it overestimated core CPI the last time around, the Cleveland Fed's 'nowcast' has a decent track record and it's pointing to 0.5% m/m for core CPI on the eve of the next decision. Headline CPI is tracking similarly to core given that gas prices were slightly lower on the month with a possible modest offset from food prices.

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	Canada - BoC	3.75	
	4.48	4.48	4.45	3.88	3.89	3.94	3.69	3.70	3.77	3.73	3.73	3.88			
	3.90	3.92	3.93	3.17	3.21	3.33	2.92	2.97	3.11	2.94	2.97	3.19	US - Fed	4.00	
	2.09	2.14	2.12	1.89	1.97	1.99	1.85	1.93	2.02	1.79	1.88	1.93			
	-0.02	-0.02	-0.04	0.08	0.09	0.07	0.25	0.25	0.25	1.46	1.46	1.40	England - BoE	3.00	
	3.16	3.13	3.12	3.16	3.18	3.26	2.98	3.01	3.20	3.21	3.20	3.35			
	Spreads vs. U.S. (bps):													Euro zone - ECB	2.00
	-58	-56	-53	-72	-67	-61	-77	-73	-66	-79	-76	-69			
	-239	-234	-233	-200	-192	-195	-185	-177	-175	-194	-185	-195			
-450	-450	-450	-380	-380	-387	-344	-345	-352	-227	-227	-248				
-131	-135	-134	-72	-70	-68	-71	-68	-57	-51	-53	-52	Japan - BoJ	-0.10		
Equities	Level						% change:							Mexico - Banxico	10.00
	Last				Change	1 Day	1-wk	1-mo	1-yr	Australia - RBA	2.85				
S&P/TSX	20282				62.3	0.3	2.0	7.2	-5.9						
Dow 30	34194				96.0	0.3	1.9	8.6	-4.5	New Zealand - RBNZ	4.25				
S&P 500	4027				23.7	0.6	1.7	6.1	-14.3						
Nasdaq	11285				110.9	1.0	0.9	3.0	-28.8	Next Meeting Date					
DAX	14516				88.8	0.6	1.8	12.3	-8.6	Canada - BoC	Dec 07, 2022				
FTSE	7467				2.2	0.0	1.6	6.5	2.5						
Nikkei	28383				267.3	1.0	1.3	4.2	-3.8	US - Fed	Dec 14, 2022				
Hang Seng	17661				137.1	0.8	-2.1	16.5	-28.6						
CAC	6698				18.5	0.3	1.8	9.2	-4.9	England - BoE	Dec 15, 2022				
Commodities	Level						% change:								
WTI Crude	77.13				-0.81	-1.0	-5.5	-8.8	-1.6	Euro zone - ECB	Dec 15, 2022				
Natural Gas	7.31				0.00	0.0	14.7	40.6	44.2						
Gold	1756.49				6.81	0.4	-0.2	6.5	-1.8	Japan - BoJ	Dec 20, 2022				
Silver	21.27				-0.01	-0.0	-3.1	15.7	-10.7						
CRB Index	276.87				-2.37	-0.8	-2.1	1.9	16.2	Currencies					
	Level						% change:						Mexico - Banxico	Dec 15, 2022	
USDCAD	1.3347				-0.0007	-0.1	0.1	-2.6	5.4						
EURUSD	1.0420				0.0023	0.2	0.6	5.5	-7.0	Australia - RBA	Dec 05, 2022				
USDJPY	138.25				-1.3500	-1.0	-1.4	-7.2	19.8						
AUDUSD	0.6757				0.0024	0.4	1.1	7.1	-6.1	New Zealand - RBNZ	Feb 21, 2023				
GBPUSD	1.2120				0.0065	0.5	2.2	7.5	-9.1						
USDCHF	0.9418				-0.0009	-0.1	-1.0	-5.9	0.8						

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