

### DAILY POINTS

January 18, 2023 @ 9:20 EST

### Contributors

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Chart 1

#### BoJ Looking Through Transitory Inflation

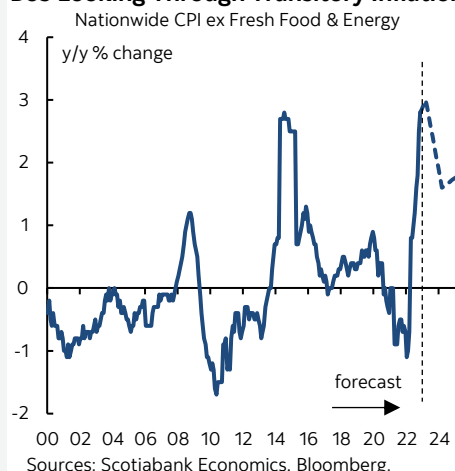
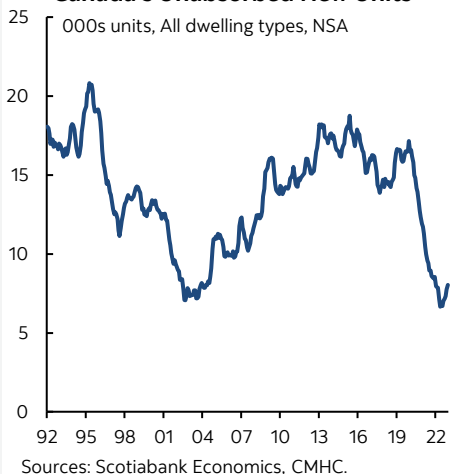


Chart 2

#### Canada's Unabsorbed New Units



### On Deck for Wednesday, January 18

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	01-18	07:00	MBA Mortgage Applications (w/w)	Jan 13	--	--	27.9
CA	01-18	08:30	IPPI (m/m)	Dec	--	--	-1.1
CA	01-18	08:30	Raw Materials Price Index (m/m)	Dec	--	--	-3.1
US	01-18	08:30	PPI (m/m)	Dec	-0.1	-0.1	-0.5
US	01-18	08:30	PPI ex. Food & Energy (m/m)	Dec	0.1	0.1	0.1
US	01-18	08:30	Retail Sales (m/m)	Dec	-0.5	-0.9	-1.1
US	01-18	08:30	Retail Sales ex. Autos (m/m)	Dec	-0.2	-0.5	-1.1
US	01-18	09:00	Fed's Bostic Makes Welcoming Remarks at Academic Conference				
US	01-18	09:15	Capacity Utilization (%)	Dec	79.6	79.5	78.8
US	01-18	09:15	Industrial Production (m/m)	Dec	-0.1	-0.1	-0.7
US	01-18	10:00	Business Inventories (m/m)	Nov	--	0.4	0.3
US	01-18	10:00	NAHB Housing Market Index	Jan	--	31.0	31.0
US	01-18	14:00	Federal Reserve Releases Beige Book				
US	01-18	14:00	Fed's Harker Discusses the Economic Outlook				
US	01-18	16:00	Total Net TIC Flows (US\$ bn)	Nov	--	--	179.9
US	01-18	16:00	Net Long-term TIC Flows (US\$ bn)	Nov	--	--	67.8
US	01-18	17:00	Fed's Logan Gives Speech in Austin				

### KEY POINTS:

- Global yields pushed lower by BoJ inaction
- BoJ douses tightening talk...
- ...prompting JGBs to richen, yen to soften
- UK core CPI surprises a touch higher
- US macro reports drive further bond rally...
- ...as US retail sales disappoint, eyes on total spending including services...
- ...US core producer prices sticky, but total prices slipped more than expected...
- ...and US industrial output slips, Fed's Beige Book on tap
- Excessive bearishness toward Canadian housing?

JGBs richened across the curve especially toward 10s with the yield undershooting the ceiling by about 10bps following the BoJ overnight (see below). That carried a bit of a ripple effect across other Asian markets overnight and through carry spilled over into increased appetite for US Ts and Canadian govies this morning with US data amplifying the moves (see below). UK inflation had an otherwise relatively dampening effect on demand for gilts but not enough to fully thwart a mild richening bias (see below). Otherwise there is also a speech by China's Vice Premier Liu He to consider; he told Davos that China has returned to normal and is exiting Covid. That's a bit punchy at this stage, but he'll probably be proven right as the year unfolds.

The Bank of Japan stood its ground and did nothing overnight. Kuroda told everyone to calm down, go home and walk the dog. The BoJ's policy rate and yield curve control remained unchanged. There had been some wild speculation that December's widening of the 10-year yield target range to 0+/-50bps instead of 25 was a precursor to further changes. Not. Kuroda had emphasized in December that this was not an effort to reduce stimulus and was instead designed to improve JGB market functioning. He further emphasized this point in his press conference and went one step further. Revised forecasts show that the BoJ continues to look through transitory upsides to inflation via past oil and yen movements. The CPI forecast continues to show inflation resting below the 2% target in future (chart 1). If there is change afoot at the BoJ then it would likely have to come through Kuroda's successor in April and a potential policy review. That too seems unlikely given the 9-0 vote in support of the decisions just taken.

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UK core CPI inflation was a little stickier than consensus expected. It held firm at 6.3% y/y against the median call for 6.2%. Headline CPI also surprised a touch higher at least in m/m NSA terms at 0.4% versus consensus that was a tick lower.

December's US retail sales (8:30amET) fell by 1.1% m/m in nominal terms. Softness had been expected as auto sales volumes and gasoline prices fell, but there was more to the weakness than just that and a caveat to consider. Sales ex-autos and gas also fell by 0.7% m/m with a negative revision to the prior month that is now at -0.5% m/m instead of -0.2%. The key retail sales control group that excludes autos, food, building materials and gas and serves as a guide to what drives total consumption in GDP accounts also fell by -0.7%. The caveat lies in the fact that retail sales are under half of total consumption with the other half represented by various types of services spending. It seemed to me that restaurants, bars, airlines and hotels were pretty busy over the holiday season and so perhaps there was a substitution toward that kind of spending that we will learn more about with hard figures toward month-end.

US producer prices eased by more than expected for headline but core was sticky. Total producer prices fell 0.5% m/m in December with PPI ex-food and energy on consensus at 0.1% m/m albeit with a negative revision to November (+0.2% m/m instead of 0.4%).

US industrial production also fell, by -0.7% m/m (consensus -0.1%). Capacity utilization fell by six-tenths to 78.8%. The drop was driven by manufacturing that fell 1.3% m/m.

There is nothing out in Canada today of any real consequence after yesterday's CPI and the prior day's BoC surveys (recap [here](#)). There remains a consensus pile-on of Canadian housing haters. I still think they are too bearish toward the path forward beyond just now and this bias is infecting debates on whether the BoC should hike further. Consider the following points as reminders of a narrative that cautions against just following all of the shorter-run bearishness and that favours a future rebound.

1. There remains no product to buy. Unsold new home inventories are at rock bottom levels (chart 2). Existing home inventories have been rising but so far remain below the historical average as a listing strike serves to counter softening sales (chart 3). Canada needs to expand the housing stock, but homebuilders can't keep up now, let alone with what lies ahead.
2. Higher immigration might help on both the labour and homebuilding fronts. The surge is basically adding the equivalent of a new City of Ottawa or City of Edmonton roughly every couple of years. Chart 4. The challenge lies in the fact that they tend to overwhelmingly go to the biggest cities. Canada has the fastest growing population of any peer group economy out there. I'm also a fan of shocking the system and then letting the players adapt, rather than waiting for everyone to be fully prepared with plans for infrastructure and housing supply which would be highly unlikely to ever happen. There's work to be done and little to be gained from fighting it as the rewards to pulling it off will go to the builders and regions that successfully adapt.
3. A key driver of mortgage borrowing costs is already plummeting and if the BoC chickens out next week with a pause then it will rally further and perhaps back to yields unseen since early Spring of last year. The 5-year Government of Canada bond yield has fallen by about a full percentage point since the peak last October. It feeds into the important 5-year fixed mortgage rate. The folks who are constantly harping on about higher Canadian debt and rate sensitivity are talking like it's last October with the peak in yields; as bond markets rally, perhaps the reverse argument begins to hold with Canada faces relatively greater upside on the heels of such market movements.
4. There are not enough folks in consensus who are acknowledging how wrong we've all been on Canadian jobs to date. You can't just ignore or talk through the data when it's blowing the confidence bands around estimates. The common narrative was that the lagging effects of higher market-driven borrowing costs (like 2s and 5s) would drive a deceleration of job growth and perhaps outright losses by now. That might eventually come true I suppose, but if it does then it's coming off higher and higher peaks and in any event, the opposite is happening so far. Job growth has accelerated with almost a quarter million jobs created in the final quarter of 2022. Incredibly tight job markets are fanning wage pressures.

Chart 3

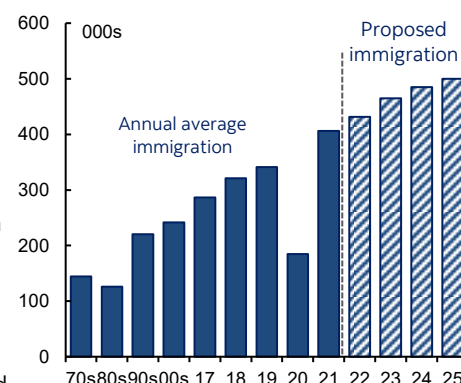
### Canada's Existing Housing Supply



Sources: Scotiabank Economics, CREA.

Chart 4

### Proposed Immigration for Canada



Sources: Scotiabank Economics, Statistics Canada, Ministry of Immigration, Refugees & Citizenship Canada.

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5. First time home buyers have been saving up down payments as prices ease off of their peaks. This is a double whammy in favour of greater purchasing power in the housing market.

To sum up, if we're not careful, then we'll be back at 25% annual house price gains before you know it. The housing bears routinely fall into the trap of being too bearish toward the weakest soft patches only to wind up wondering gosh golly gee-whiz how did things recover so quickly?! The BoC should bear this in mind when it sets monetary policy because anything it does that allows financial conditions to ease further could complicate its inflation fight beyond the fixation on the latest month's data and toward the fuller cycle ahead when there is already a strong case to be made for how the inflation regime has pivoted toward more upside than downside risk compared to the period between China's WTO entry and the pandemic.

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	4.21	4.22	3.46	3.62	3.66	3.39	3.55	3.54	3.54	3.66	3.67	Canada - BoC	4.25	
	3.46	3.55	3.80	2.82	2.93	3.13	2.74	2.85	3.01	2.84	2.92	3.03			
	2.45	2.46	2.59	2.04	2.11	2.22	1.99	2.09	2.20	1.95	2.09	2.14	US - Fed	4.50	
	0.02	0.05	0.03	0.24	0.33	0.24	0.46	0.52	0.51	1.57	1.54	1.64			
	3.42	3.46	3.53	3.20	3.28	3.34	3.23	3.32	3.41	3.59	3.67	3.76	England - BoE	3.50	
	Spreads vs. U.S. (bps):														
	-62	-65	-42	-64	-70	-53	-66	-70	-53	-70	-74	-64	Euro zone - ECB	2.50	
	-164	-175	-163	-141	-151	-144	-140	-146	-134	-159	-157	-153			
-407	-416	-419	-321	-330	-342	-293	-303	-304	-197	-212	-203	Japan - BoJ	-0.10		
-67	-74	-69	-26	-35	-32	-16	-23	-13	5	1	8				
Equities	Level						% change:						Mexico - Banxico	10.50	
	Last	Change					1 Day	1-wk	1-mo	1-yr					
S&P/TSX	20457	67.1					0.3	2.2	5.2	-3.8	Australia - RBA				3.10
Dow 30	33911	-391.8					-1.1	1.2	3.0	-4.1					
S&P 500	3991	-8.1					-0.2	2.5	3.6	-12.8	New Zealand - RBNZ				4.25
Nasdaq	11095	16.0					0.1	4.3	3.6	-23.5					
DAX	15241	53.5					0.4	2.0	9.7	-3.4					Next Meeting Date
FTSE	7855	3.8					0.0	1.7	7.1	3.9					
Nikkei	26791	652.4					2.5	1.3	-1.6	-2.5	Canada - BoC				Jan 25, 2023
Hang Seng	21678	100.4					0.5	1.1	12.0	-10.2	US - Fed				Feb 01, 2023
CAC	7111	33.5					0.5	2.7	10.2	-0.3					
Commodities	Level						% change:						England - BoE	Feb 02, 2023	
WTI Crude	81.42	1.24					1.5	8.4	9.6	-4.7	Euro zone - ECB				Feb 02, 2023
Natural Gas	3.45	-0.14					-3.8	-5.2	-47.7	-19.4	Japan - BoJ				Jan 17, 2023
Gold	1922.57	13.88					0.7	2.5	7.2	6.0					
Silver	24.10	-0.07					-0.3	2.5	5.6	4.7					
CRB Index	277.22	1.31					0.5	3.4	2.2	12.2					
Currencies	Level						% change:						Mexico - Banxico	Feb 09, 2023	
USDCAD	1.3378	-0.0011					-0.1	-0.4	-2.0	6.9	Australia - RBA				Feb 06, 2023
EURUSD	1.0880	0.0092					0.9	1.1	2.6	-3.9					
USDJPY	127.76	-0.3600					-0.3	-3.5	-6.7	11.5	New Zealand - RBNZ				Feb 21, 2023
AUDUSD	0.7053	0.0065					0.9	2.2	5.3	-1.8					
GBPUSD	1.2427	0.0141					1.1	2.3	2.3	-8.6					
USDCHF	0.9098	-0.0123					-1.3	-2.3	-2.0	-0.8					

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