

DAILY POINTS

March 16, 2023 @ 7:45 EST

Contributors

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Chart 1

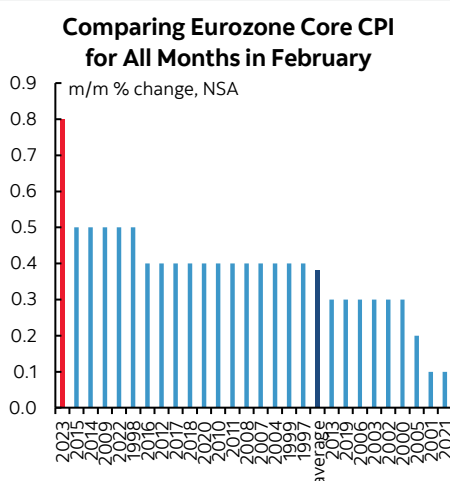
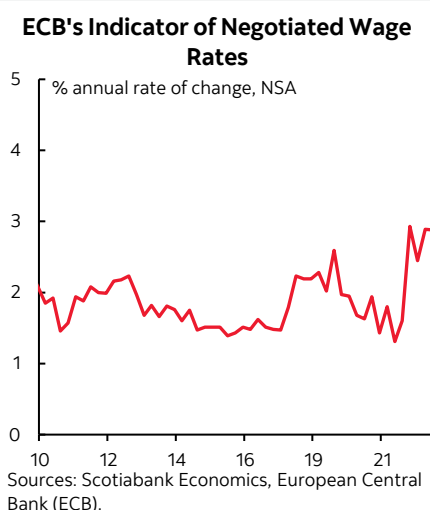


Chart 2



On Deck for Thursday, March 16

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	03-16	08:30	Wholesale Trade (m/m)	Jan	3.0	--	-0.8
US	03-16	08:30	Building Permits (000s a.r.)	Feb	--	1346.0	1339.0
US	03-16	08:30	Export Prices (m/m)	Feb	--	-0.3	0.8
US	03-16	08:30	Housing Starts (000s a.r.)	Feb	1322	1310.0	1309.0
US	03-16	08:30	Housing Starts (m/m)	Feb	1.0	0.1	-4.5
US	03-16	08:30	Import Prices (m/m)	Feb	--	-0.2	-0.2
US	03-16	08:30	Initial Jobless Claims (000s)	Mar 11	205	205.0	211.0
US	03-16	08:30	Continuing Claims (000s)	Mar 04	1725	1698.0	1718.0
US	03-16	08:30	Philadelphia Fed Index	Mar	--	-15.0	-24.3

KEY POINTS:

- **With banks calmer, will the ECB be the spoiler?**
- **ECB pricing is on the fence between 25 and 50bps; there is a case for both**
- **The long and the short on bond liquidity**
- **A\$ rallies on jobs, rates had a different take**
- **NZ\$ dips on GDP miss**
- **BI held as expected**
- **US jobless claims still low, Philly Fed and housing starts also on tap**

Risk appetite is tentatively improving but with the ECB looming ahead this morning. European cash equities are up by ½% to 1% and with bank stocks leading, but US and Canadian equity futures are slightly lower. Sovereign yields are pushing higher with US 2s up 13bps, gilts cheaper by 8–10bps across maturities and EGBs higher by double digits across countries and maturities. The USD is slightly weaker as the yen, CHF, euro and A\$ (jobs, see below) lead the way. Fed funds futures are back to pricing about a two-thirds chance at a 25bps hike next week which is what I continue to think they will deliver barring any further calamities between now and then.

Credit Suisse is back up above CHF2 but has slipped a little from the opening. The Finma and SNB statement yesterday about providing supporting liquidity if needed is helping and so are CS's CHF50 billion borrowing from the SNB and its buyback of CHF3B of its bonds. Perhaps a Saudi investor also learned a lesson here on choosing his words more carefully next time so as to avoid torpedoing his own investment!

Pair this with headlines on how First Republic Bank in the US is considering a sale among other strategic options, yet its share price is lower in the pre-market.

Market pricing for the ECB's decisions (statement 9:15amET, press conference 9:45amET) has adjusted this morning in response to the stabilization in the banking sector. OIS pricing is on the fence between a 25bps and 50bps hike compared to pricing 25bps yesterday. Terminal rate pricing is capped at about a cumulative 75bps hike from here. To do nothing would signal panic in my view and risk backfiring while easing up on inflationary pressures. 50bps especially if accompanied by continued guidance for aggressive further hikes from before this recent round of banking sector developments would be a risky gamble under present circumstances but if accompanied by more cautious forward guidance then it could work. To this point there is no clear evidence of a looming major bank failure as opposed to a tightening of financial conditions that may make the ECB a little more cautious on the forward bias in a meeting-by-meeting sense. Still, we're coming off the hottest core CPI gain for a month of February on record (chart 1) and accelerating wage gains (chart 2) in a system where more reliance upon collective bargaining can lead to lagging wage gains that continue to fan inflation risk. The ECB is further behind the Fed relative to neutral rates and is not yet materially restrictive.

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Bond market functioning is an added consideration for central banks and I don't think they will view it as impaired enough to halt in their tracks. Yes liquidity has deteriorated, but depending upon one's frame of reference. Chart 3 shows measures that are the worst in years after being spoiled. Extend it back in time and of course the GFC makes everything that followed pale by comparison (chart 4).

Australia beat expectations by posting 65k new jobs created in January (50k consensus) as the economy sprang back from two prior months of mild losses. All of the gain was in full-time jobs (75k) as part-time jobs fell by 10k. The participation rate ticked up to 66.6% and the UR fell by two-tenths to 3.5%. That was good enough to drive a gain in the A\$, but the curve had other things in mind as a strong bull flattener unfolded on the argument that the RBA's hike cycle is over and cuts may lie ahead.

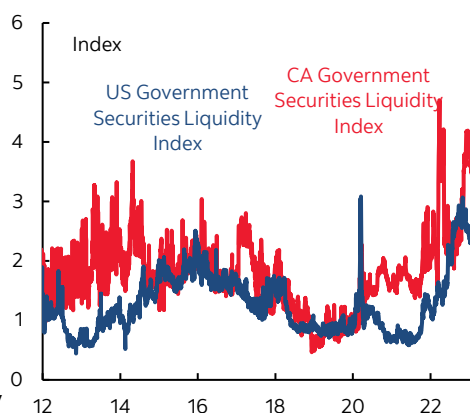
New Zealand's economy shrank by more than expected in Q4 (-0.6% q/q SA non-annualized) with a downward revision to the prior quarter (1.7% q/q SA non-annualized instead of 2%). That drove the NZ\$ to be among the weakest crosses overnight and a rally in kiwi rates.

Bank Indonesia held its 7-day reverse repo rate at 5.75% as expected.

The ECB will clearly dominate an otherwise light N.A. line-up this morning including US weekly claims (8:30amET) and the Philly Fed's regional gauge (8:30amET) as input to ISM-mfrg expectations. US housing starts during February (8:30amET) and Canadian wholesale trade (8:30amET) are also due.

Chart 3

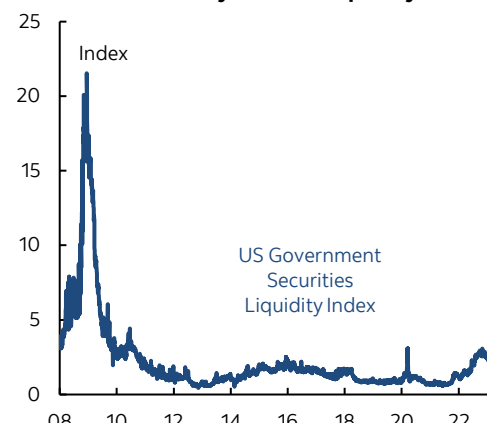
US & CA Bond Market Liquidity



Sources: Scotiabank Economics, Bloomberg.

Chart 4

US Treasury Market Liquidity



Sources: Scotiabank Economics, Bloomberg.

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		
	3.93	3.89	4.87	3.53	3.55	4.19	3.44	3.46	3.91	3.63	3.65	3.85	Canada - BoC	4.50
	3.53	3.51	4.15	2.86	2.86	3.36	2.79	2.78	3.16	2.89	2.89	3.03	US - Fed	4.75
	2.56	2.41	3.28	2.27	2.14	2.79	2.25	2.13	2.64	2.27	2.15	2.59	England - BoE	4.00
	-0.06	-0.03	-0.02	0.12	0.16	0.23	0.32	0.33	0.51	1.29	1.36	1.47		
	3.30	3.29	3.81	3.23	3.21	3.69	3.36	3.32	3.80	3.79	3.76	4.12		
	Spreads vs. U.S. (bps):													
	-40	-38	-73	-67	-70	-83	-66	-67	-75	-74	-76	-82	Euro zone - ECB	3.00
	-138	-148	-160	-126	-142	-140	-120	-133	-126	-135	-150	-126	Japan - BoJ	-0.10
-400	-392	-489	-341	-339	-396	-313	-313	-340	-233	-229	-238			
-64	-60	-106	-30	-34	-51	-8	-14	-11	17	11	27	Mexico - Banxico	11.00	
Equities	Level						% change:							
	Last	Change					1 Day	1-wk	1-mo	1-yr				
S&P/TSX	19379	-315.3					-1.6	-3.5	-6.0	-9.7	Australia - RBA	3.60		
Dow 30	31875	-280.8					-0.9	-2.8	-5.4	-6.4	New Zealand - RBNZ	4.75		
S&P 500	3892	-27.4					-0.7	-2.5	-4.9	-10.7				
Nasdaq	11434	5.9					0.1	-1.2	-3.6	-14.9				
DAX	14809	73.7					0.5	-5.3	-4.7	2.5				
FTSE	7406	61.4					0.8	-6.0	-7.6	1.6				
Nikkei	27011	-218.9					-0.8	-5.6	-1.8	1.3	Canada - BoC	Apr 12, 2023		
Hang Seng	19204	-336.0					-1.7	-3.6	-7.3	-10.7	US - Fed	Mar 22, 2023		
CAC	6945	58.9					0.9	-5.1	-5.7	5.4				
Commodities	Level						% change:							
WTI Crude	67.51	-0.10					-0.1	-10.8	-14.0	-29.0	England - BoE	Mar 23, 2023		
Natural Gas	2.50	0.06					2.5	-1.7	4.7	-47.3	Euro zone - ECB	Mar 16, 2023		
Gold	1925.57	6.99					0.4	5.2	4.9	-0.1	Japan - BoJ	Apr 28, 2023		
Silver	22.10	0.46					2.1	9.9	2.9	-10.3				
CRB Index	254.03	-7.04					-2.7	-4.9	-6.0	-9.5				
Currencies	Level						% change:							
USDCAD	1.3736	-0.0032					-0.2	-0.7	2.1	8.4	Mexico - Banxico	Mar 30, 2023		
EURUSD	1.0611	0.0034					0.3	0.3	-0.6	-3.8	Australia - RBA	Apr 04, 2023		
USDJPY	132.73	-0.6900					-0.5	-2.5	-0.9	11.8	New Zealand - RBNZ	Apr 04, 2023		
AUDUSD	0.6652	0.0033					0.5	0.9	-3.3	-8.8				
GBPUSD	1.2052	-0.0005					-0.0	1.1	0.5	-8.3				
USDCHF	0.9279	-0.0054					-0.6	-0.5	0.2	-1.3				

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