

DAILY POINTS

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Chart 1



On Deck for Wednesday, May 17

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	05-17	07:00	MBA Mortgage Applications (w/w)	May 12	--	--	-5.7
CA	05-17	08:30	International Securities Transactions (C\$ bn)	Mar	--	--	-19.1
US	05-17	08:30	Building Permits (000s a.r.)	Apr	--	1430.0	1416.0
US	05-17	08:30	Housing Starts (000s a.r.)	Apr	1392	1400.0	1401.0
US	05-17	08:30	Housing Starts (m/m)	Apr	-2.0	-1.4	2.2
US	05-17	14:30	Senate Banking Hearing on Strengthening Fed Accountability				

KEY POINTS:

- **Canadian rates continue to underperform, CAD outperforming**
- **BoC myths**
- **Australian wage growth remains hot**
- **Japan's economy doubled expectations**
- **US housing supply remains very tight...**
- **...as the then-and-now real estate alarms are greatly exaggerated**
- **Quiet N.A. calendar**

It's a very light morning in term of fresh developments. Stocks are mixed with N.A. futures a little higher and European cash markets unchanged on balance. Sovereign bonds are slightly richer across most markets except for Canadian and Antipodean curves including the effects of Canadian CPI on local markets (recap [here](#)). The USD is a touch firmer against most majors with the only exceptions being the NZ\$, won, CAD and the A\$. Overnight developments were very light and there is nothing notable on tap into the N.A. session.

That places ongoing attention upon debt ceiling talks. The main players tried to sound optimistic yesterday as it was pretty obvious that they all agreed to do so at least publicly. We'll see, but a deal is likely to remain elusive until the Hollywood actors running Congress decide that market pressures and tough choices are staring them in the face. Biden leaves for Asia today but has truncated his trip while leaving negotiations in the hands of others. McCarthy came out of yesterday's meeting and sounded relatively upbeat for him when he said "We've got a lot of work to do. It is possible to get a deal by the end of the week. It's not that difficult to get to an agreement."

Australian wage growth in Q1 was unchanged from the prior quarter's 0.8% q/q SA (consensus 0.9%), or 3.4% q/q SAAR. The recent peak was 4.3% in 2009Q3. The trend is still hotter than the roughly 2% readings we were getting from about 2014 through 2022H1 and so wage growth has indeed accelerated notwithstanding the fact that the second derivative has not (chart 1). The Australian front-end richened a touch after the release but still wound up cheaper for the session as a whole.

Japan's economy grew faster than expected in Q1 with GDP up by 0.4% q/q SA non-annualized (0.2% consensus). Markets didn't really care. The main drivers of the beat were consumption that grew by 0.6% (0.4% consensus) and business spending that was up 0.9% q/q (-0.3% consensus).

US housing starts were up 2.2% m/m in April but only because the prior month was revised down to a 4.5% m/m drop instead of -0.8%. Building permits were down 1.5% m/m but here it's the opposite in the sense that the prior month was revised up from -8.8% m/m to -3%. Not great either way. The US has the same tight housing supply as Canada. In the US, there is soft building activity and months of new homes under construction sit at just 2.8 while months supply of resale homes is just 2.6. Both continue to hover around record lows and vastly lower than into the GFC when both supply measures punched into

the double digits. This is an important consideration against the fact that at the time of the GFC the real estate problems were vastly greater versus today when they are largely confined to the office property markets and not in all cities. Housing and commercial real estate ex-offices are vastly healthier than past real estate shocks such that I find much of the current real estate narrative is lacking balance.

Canadian markets will continue to debate rate hikes. Further to my note yesterday is the topic of June versus July. I wouldn't overstate the argument that the BoC needs an MPR and presser in July to hike or Macklem to speak. They could easily go in June with two points to back that up:

a) recall they surprised markets 3 of 8 decisions last year. They couldn't care less about what markets and the street expect and I swear they wear that as a bit of a mischievous badge of honour, and

b) even if they do think they need to set it up then they can easily point to everything they said in the April statement, MPR, press conference, his IMF media roundtable and his two rounds of parliamentary testimony. His line could very easily be that I told you I'd hike if we're surprised. And my, what a surprise CPI and housing have been to them!

And on the bias, they don't need full communications as the BoC can simply repeat the line from the April statement that said:

"Governing Council continues to assess whether monetary policy is sufficiently restrictive to relieve price pressures and remains prepared to raise the policy rate further if needed to return inflation to the 2% target."

Lastly, there is the debate over crushing it now versus hanging out higher for longer. The way I settle that is by portraying the challenge of getting inflation under control as a race against the clock. The longer that consumers, businesses, governments and markets see core inflation being persistent if not reaccelerating, the less confidence they have that the BoC will ever achieve its 2% inflation target. It has already gone on too long. We already have survey-based evidence of that from the BoC's twin consumer and business surveys plus recent collective bargaining agreements that show no one really believes in 2% for years to come. If the BoC doesn't adopt the crush it, killer mentality, then it may never succeed in getting inflation down to 2%. A pledge to hang out high for longer doesn't address this problem and nobody would believe it anyway given a heavy discount attached to forecast credibility the further out in time we go.

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.	4.09	4.09	3.91	3.53	3.53	3.39	3.53	3.54	3.44	3.84	3.85	3.80	Canada - BoC	4.50
CANADA	4.01	3.96	3.69	3.25	3.21	3.00	3.09	3.05	2.90	3.12	3.09	3.05	US - Fed	5.25
GERMANY	2.64	2.66	2.58	2.28	2.31	2.23	2.31	2.35	2.29	2.51	2.55	2.48	England - BoE	4.50
JAPAN	-0.06	-0.05	-0.03	0.10	0.12	0.13	0.37	0.40	0.43	1.22	1.25	1.27	Euro zone - ECB	3.75
U.K.	3.81	3.81	3.83	3.63	3.63	3.63	3.80	3.82	3.80	4.24	4.26	4.19	Japan - BoJ	-0.10
	Spreads vs. U.S. (bps):													
CANADA	-8	-12	-22	-28	-32	-38	-44	-49	-54	-72	-76	-75	Mexico - Banxico	11.25
GERMANY	-145	-143	-134	-125	-122	-116	-122	-118	-116	-133	-130	-132	Australia - RBA	3.85
JAPAN	-415	-414	-394	-342	-341	-326	-316	-314	-302	-263	-261	-253	New Zealand - RBNZ	5.25
U.K.	-28	-27	-9	11	10	24	27	28	36	39	40	39		
Equities	Level						% change:						Next Meeting Date	
	Last	Change					1 Day	1-wk	1-mo	1-yr				
S&P/TSX	20242	-297.9					-1.5	-1.3	-1.9	-1.2	Canada - BoC	Jun 07, 2023		
Dow 30	33012	-336.5					-1.0	-1.6	-2.9	1.1	US - Fed	Jun 14, 2023		
S&P 500	4110	-26.4					-0.6	-0.2	-1.0	0.5	England - BoE	Jun 22, 2023		
Nasdaq	12343	-22.2					-0.2	1.3	1.5	3.0	Euro zone - ECB	Jun 15, 2023		
DAX	15955	57.5					0.4	0.4	1.1	12.5	Japan - BoJ	Jun 16, 2023		
FTSE	7744	-6.6					-0.1	0.0	-1.7	3.0	Mexico - Banxico	May 18, 2023		
Nikkei	30094	250.6					0.8	3.3	5.0	11.8	Australia - RBA	Jun 06, 2023		
Hang Seng	19561	-417.7					-2.1	-1.0	-5.3	-5.2	New Zealand - RBNZ	May 23, 2023		
CAC	7403	-2.6					-0.0	0.6	-1.3	15.1				
Commodities	Level						% change:							
WTI Crude	70.85	-0.01					-0.0	-2.4	-12.3	-37.0				
Natural Gas	2.39	0.02					0.8	9.3	5.2	-71.2				
Gold	1983.44	-5.73					-0.3	-2.3	-0.6	9.3				
Silver	23.79	-0.11					-0.4	-7.0	-8.6	12.4				
CRB Index	259.89	-1.76					-0.7	-0.9	-6.1	-17.6				
Currencies	Level						% change:							
USDCAD	1.3479	-0.0003					-0.0	0.8	0.6	5.2				
EURUSD	1.0818	-0.0044					-0.4	-1.5	-1.0	2.5				
USDJPY	137.20	0.8100					0.6	2.1	2.0	6.0				
AUDUSD	0.6652	-0.0004					-0.1	-1.9	-0.7	-5.4				
GBPUSD	1.2455	-0.0033					-0.3	-1.3	0.6	-0.3				
USDCHF	0.9008	0.0043					0.5	1.2	0.2	-9.3				

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