

DAILY POINTS

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Chart 1

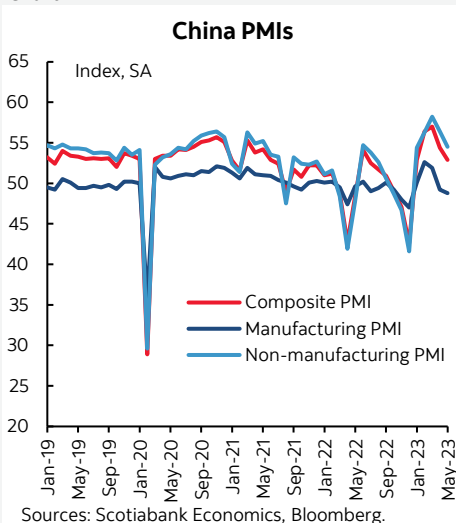
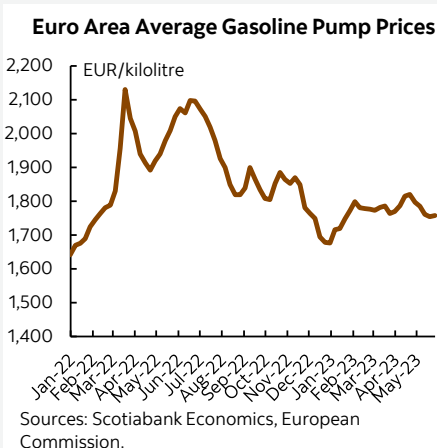


Chart 2



On Deck for Wednesday, May 31

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	05-31	07:00	MBA Mortgage Applications (w/w)	May 26	--	--	-4.6
CA	05-31	08:30	Real GDP (m/m)	Mar	0.0	-0.1	0.1
CA	05-31	08:30	Real GDP (q/q a.r.)	1Q	2.5	2.5	0.0
US	05-31	09:45	Chicago PMI	May	--	47.2	48.6
US	05-31	10:00	JOLTS Job Openings (000s)	Apr	--	9400.0	9590.0
US	05-31	08:50	Collins, Bowman Give Opening Remarks at Fed Listens Event				
US	05-31	12:20	Fed's Collins Gives Closing Remarks at Fed Listens Event				
US	05-31	12:30	Fed's Harker Speaks on Macroeconomic, Monetary Conditions				
US	05-31	13:30	Fed's Jefferson Speaks on Financial Stability and US Economy				
US	05-31	14:00	Federal Reserve Releases Beige Book				

KEY POINTS:

- **Global sovereign yields dip on soft overnight data, debt ceiling uncertainty**
- **The debt ceiling agreement almost failed at the committee level...**
- **...amplifying uncertainty into tonight's full House vote**
- **Oil drops as China's PMIs weaken, adding to sovereign yield dips**
- **Eurozone headline CPI is looking soft...**
- **...but reserve some judgement as core will be key**
- **Canadian GDP the last piece of evidence pre-BoC**
- **A\$, rates shake off upside surprise to Australian CPI**
- **US ADP, JOLTS on tap**

Safe havens are in vogue this morning following a squeaker of a House committee vote on the debt ceiling that amplifies risk into the full vote tonight and after a round of soft Chinese growth and European inflation prints with month-end rebalancing in the mix. Canadian GDP and US job market readings are on tap for the day along with the House vote. If that's not enough, there is more hawkish Fed-speak to consider (Mester, FT, no "compelling reason" to halt hikes, nonvoting 2023, voting 2024).

The dollar is broadly stronger against all major crosses. Sovereign yields are moving lower across the US, Canada and especially Europe including all maturities. US equity futures are down by ¼%, TSX futures are off by double that and European cash markets are down by up to about ½%. That followed a weak Asian session that saw stocks in Tokyo and HK fall by 1–2% and smaller declines in Seoul and across mainland China's indices. Oil prices are off by almost 3%.

Here's the round-up of overnight developments:

1. It's debt ceiling crunch time and the first test has been passed, but just barely. The US House of Representatives Rules Committee passed the debt ceiling deal by a squeaker of a margin (7–6) last evening and the deal now heads to the full House floor for a vote probably at around 8:30pmET. If that passes, it then heads to the Senate perhaps by the weekend. Media commentary pinned the Treasury rally on last evening's vote but US 2s shook it off when the news hit at about 8:45pmET and rallied later through the overnight session as soft global data was digested.
2. China's PMIs disappointed overnight. The May composite gauge fell 1.5 points to 52.9 mainly because the non-manufacturing PMI fell by 1.9 points to 54.5 but also because of a small drop in the manufacturing PMI to 48.8 from 49.2. Chart 1 shows the readings coming off the initial reopening-driven jump.
3. Three out of four Eurozone economies are registering softer than expected headline CPI prints ahead of tomorrow's add-up but there should still be some judgement being

reserved until we get the core Eurozone CPI reading. A major reason for this is that energy prices fell in May over April and drove at least some of the weakness across inflation prints (chart 2). Gasoline prices fell by over 2% m/m NSA in May and the CPI prints are all seasonally unadjusted. After Spain landed weaker than expected yesterday, both France and the suite of individual German states followed suit with only Italy surprising higher on total CPI this morning. The German national CPI reading arrives at 8amET, but the 0.2% m/m estimate is now too high in relation to the individual state readings that ranged from -0.3% to +0.1% including three negatives. France's -0.1% m/m readings was well below the 0.3% consensus but a 3% m/m drop in energy prices played a major role along with a 1.5% drop in fresh food prices as service price inflation remained firm at 0.3%; hence why we need core Eurozone CPI tomorrow to more fully judge underlying price pressures across the monetary union. Italy's 0.3% was well above consensus (-.2%).

4. Australian CPI surprised higher at 6.8% y/y (6.4% consensus, 6.3% prior). The Australian 2-year yield temporarily shot higher by 3–4bps in the aftermath but much of that reaction was subsequently tamped down as Chinese and European data hit.

On tap into the N.A. session will be the following releases:

1. Canadian GDP (8:30amET): This is the last piece of domestic evidence that the BoC will have to consider before next Wednesday's decisions, along with external developments like the US debt ceiling deal's progress.

GDP figures for Q1 plus the months of March and April are due out. Statcan had previously guided Q1 growth at 2.5% q/q SAAR using production-side accounts while the BoC forecast 2.3% q/q SAAR growth using expenditure-based accounts. Statcan had previously guided that March GDP was tracking a small dip of -0.1% m/m based on preliminary evidence. That's why you see those quarterly and monthly numbers dominating in the incomplete consensus that has missing entries again. I went flat at 0% m/m for March because of a) data since then, b) my simple regression against known variables indicates mild growth, and c) because upward revisions to the initial guidance are not uncommon. For April, my simple model is leaning toward mild growth, but the public sector strikes may dent that somewhat in which case hopefully Statcan will provide an estimate of the strike's impact or hopefully we can back it out. All of this will also inform early tracking for Q2 GDP growth through the April start and the full Q1 hand-off to the math.

It would likely take a sizeable miss to the BoC's Q1 2.5% number to matter to next week's decision and even then it isn't clear. Details will also matter, such as final domestic demand and the overall composition of growth. April and May data will be dirtied by strikes and wildfires that the BoC may be inclined to look through as transitory effects.

2. US Jobs data starts to arrive today. US ADP payrolls (8:15amET) and JOLTS job openings (10amET) will be the last main macro factors to consider among the other more minor ones listed below. Only fools submit blind estimates for JOLTS, but any surprise to the general downward trend this year that either accelerates or interrupts it could be impactful to markets as they pass the time waiting for Friday's payrolls. ADP should only matter to nonfarm expectations if there is a big surprise to nonfarm consensus and even then it's not clear. The consensus guess is 170k and I'm at 200k.

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	4.50	
	4.43	4.45	4.38	3.77	3.81	3.82	3.65	3.69	3.74	3.86	3.89	3.99			
	4.20	4.25	4.18	3.46	3.51	3.47	3.21	3.25	3.26	3.19	3.22	3.27	US - Fed	5.25	
	2.71	2.78	2.85	2.26	2.36	2.47	2.25	2.34	2.47	2.44	2.50	2.63	England - BoE	4.50	
	-0.05	-0.06	-0.06	0.10	0.10	0.11	0.44	0.44	0.41	1.26	1.25	1.26	Euro zone - ECB	3.75	
	4.34	4.44	4.37	4.10	4.21	4.14	4.17	4.25	4.21	4.51	4.58	4.54			
	Spreads vs. U.S. (bps):														
	-23	-21	-20	-31	-30	-35	-44	-43	-48	-67	-67	-71			
	-173	-167	-152	-151	-145	-135	-140	-135	-127	-142	-139	-136	Japan - BoJ	-0.10	
-448	-451	-444	-368	-371	-371	-321	-325	-333	-260	-264	-273	Mexico - Banxico	11.25		
-10	-2	-1	33	40	32	52	56	47	65	69	56				
Equities	Level						% change:						Canada - BoC US - Fed	Jun 07, 2023 Jun 14, 2023	
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					
	19740			-228.3			-1.1	-0.9	-4.3	-4.8					
	33043			-50.6			-0.2	-0.7	-3.1	0.2					
	4206			0.1			0.0	0.3	0.9	1.8					
	13017			41.7			0.3	2.3	6.5	7.7					
	15844			-65.0			-0.4	0.0	-0.5	10.1					
	7513			-9.3			-0.1	-3.2	-4.5	-1.2					
	30888			-440.3			-1.4	0.7	7.0	13.2					
	18234			-361.5			-1.9	-6.2	-8.3	-14.4					
7173			-36.7			-0.5	-1.1	-4.3	10.9						
Commodities	Level						% change:						England - BoE Japan - BoJ	Jun 22, 2023 Jun 16, 2023	
WTI Crude Natural Gas Gold Silver CRB Index	67.47			-1.99			-2.9	-7.5	-12.1	-41.2					
	2.31			-0.02			-0.8	-0.5	-4.2	-71.7					
	1958.28			-1.06			-0.1	0.1	-1.6	6.6					
	23.26			0.11			0.5	0.4	-6.1	5.5					
	255.50			-5.21			-2.0	-2.3	-4.7	-19.3					
	Currencies	Level						% change:							
	USDCAD EURUSD USDJPY AUDUSD GBPUSD USDCHF	1.3643			0.0041			0.3	0.4	0.7	7.9				
		1.0679			-0.0056			-0.5	-0.7	-2.7	-0.5				
139.93				0.1400			0.1	0.3	1.8	8.8					
0.6479				-0.0038			-0.6	-1.0	-2.3	-9.7					
1.2366				-0.0048			-0.4	0.0	-1.0	-1.9					
0.9102			0.0043			0.5	0.6	1.6	-5.1						
														Australia - RBA	Jun 06, 2023
														New Zealand - RBNZ	Jul 11, 2023

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