

DAILY POINTS

June 8, 2023 @ 9:00 EST

Contributors

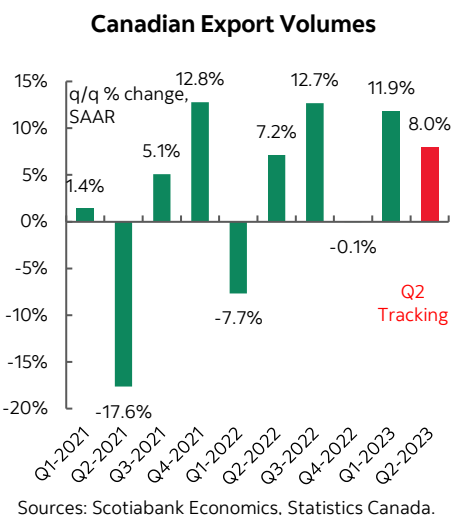
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Chart 1



Chart 2



On Deck for Thursday, June 8

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	06-08	08:30	Initial Jobless Claims (000s)	Jun 03	230	235.0	232.0
US	06-08	08:30	Continuing Claims (000s)	May 27	1800	1802.0	1795.0
US	06-08	10:00	Wholesale Inventories (m/m)	Apr F	-	-0.2	-0.2
CA	06-08	15:25	Bank of Canada's Paul Beaudry -- Economic Progress Report				

KEY POINTS:

- **Global bond markets rethink the BoC's ripple effect...**
- **...as Canada's situation is influenced by idiosyncratic drivers**
- **BoC's Beaudry, Macklem could further inform expectations**
- **The BoC's balance sheet option**
- **US 2s richen as jobless claims edge up**
- **RBI adds another more hawkish than expected central bank**

After the BoC's hike (recap [here](#)) blew a foul stench over world bond markets yesterday, a consolidation trade is part of what is richening curves somewhat into the N.A. open alongside US data. That could be because it's unclear—at least to me—that the idiosyncratic drivers of the Canadian picture that are motivating further BoC tightening should be treated as fully portable across multiple bond markets.

For instance, the US debt ceiling deal will crimp some US government spending, but Canadian governments (plural, all stripes) can't stop themselves while wondering why the central bank is neutralizing some of the fiscal pump-priming's effects upon inflation. Further, the US doesn't have Canada's immigration surge with nearly 3% y/y population growth into a market with no housing supply, versus basically no population growth in the US. Or consider the terms of trade lift via commodities in Canada versus the net importer status of many other countries.

The RBI surprised markets with a hawkish hold to add its voice to hawkish moves from the BoC and RBA. No change in the RBI's policy rate was expected or delivered, but instead of shifting guidance toward something more neutral/dovish as some expected, it largely retained its concerns about inflation risk and a bias toward withdrawing accommodation. A trio of LatAm inflation prints generally came in a bit lower than expected in Colombia, Chile and Mexico starting last evening through to this morning.

The BoC will follow up on yesterday's hike with DepGov Beaudry's explanations this afternoon and largely after the close. Speech highlights will appear at 3:10pmET and Beaudry hosts a press conference at 4:45pmET. Key will be anything that potentially informs forward guidance. Watch for anything more explicit around whether this is one-and-done or the start of a few hikes and the intermeeting timing of such possible moves. I suspect he'll say it depends on the data with a hawkish sounding bias.

Still, a key question will be whether the past tense reference to how Governing Council judged that "monetary policy was not sufficiently restrictive" also applies in a future tense.

The concluding paragraph's guidance that the BoC "will be evaluating whether the evolution of excess demand, inflation expectations, wage growth and corporate pricing behaviour are consistent with achieving the inflation target" suggests openness to doing more but watch for any further interpretation of what this meant.

Any intimation around whether possible further tightening is likely to be along a straight line or with serial pauses for reflection along the way could also inform meeting-by-meeting pricing for policy rate moves. A risk is if serial pauses are signaled then perhaps July hike pricing is too high, or it may be reinforced by Beaudry's possible remarks.

Furthermore, we've already seen some fresh data since the statement was crafted in advance and perhaps Beaudry will offer some reaction to it. For one thing, before the statement landed yesterday morning, Q1 labour productivity fell by -0.6% q/q SA nonannualized versus my estimate of -0.4% and hence continued the poor trend (chart 1), and Statcan also released ripping net trade figures. Charts 2 and 3 showcase what kind of trade growth Canada seems to be registering in Q2 based on the Q1 hand-off and April figures before we get complete Q2 data. A combination of export strength and less of an import leakage effect could sharply raise our 2 ½% nowcast tracking for Q2 growth and put it further ahead of the BoC's 1% forecast in the prior April MPR that they have to revise upward. The good news here would be continued economic resilience, but the bad news would be greater rate pressure as the economy just keeps pushing further into excess demand conditions.

I guess it's also feasible that Beaudry will be asked about balance sheet plans, but doubt he'll offer much. That would be more likely to come from DepGov Gravelle or Macklem, and not now. Nevertheless, a former Deputy Governor Murray remarked yesterday that the BoC may have to entertain active QT versus its passive 100% roll-off approach toward maturing holdings of GoC bonds thus far. I still have a lot of sympathy for that view from when I put out a piece on the topic at the end of March.

Recall guidance from Deputy Governor Gravelle's earlier speech on this topic. They are targeting vastly leaner Lynx settlement balances at 1–2% of NGDP versus the Fed's targeted 10–13% reserves as a share of US NGDP (chart 4). That implies somewhere around \$20B–\$60B from \$172B now and that amount has been fairly range-bound since about mid-2022. That's a much leaner framework being targeted by the BoC, perhaps partly reflecting a sounder and more stable banking system. It could be that to jolt sticky reserves lower the BoC has to act more decisively around QT plans.

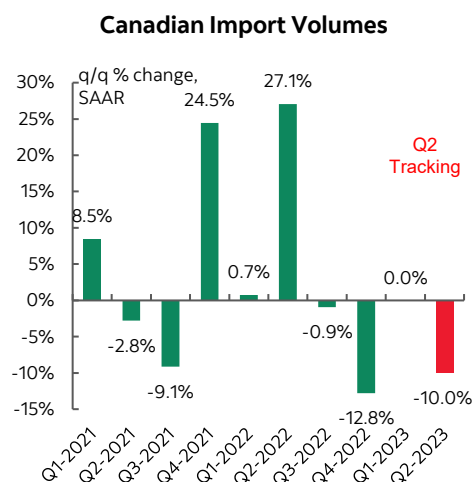
They've guided an end to QT roll-off plans between the end of 2024 and 2025H1 which is later than we have assumed for the Fed. That would imply GoC holdings bottom between about \$230–270B by that time frame if they only allow roll-off. That's still way above pre-pandemic levels that were around \$80B. On its own that may not be enough to get reserves down toward their target, or their reserves target is too low. To speed it up they could invite active asset sales as one option and that would have to mean GoCs to be meaningful. It's a curiosity as to why the BoC still holds over \$4B of real return bonds with no issuance relative to persistent demand but shedding those would only serve a signaling role absent a material effect. Shedding provincial bonds at \$10.7B could add to this but would still be relatively small potatoes. The case for more active QT would be to tighten monetary policy through quicker reduction of reserves and by impacting the term structure of interest rates.

In Gravelle's speech, they did guide that timing the end of QT and the amounts of reserves and GoC holdings could be adjusted relative to market conditions with the main metric being policy rate spreads and other potential dysfunction in short-term money markets that we're not seeing thus far.

Also watch for anything that may come out of Governor Macklem's private off-the-record appearance at the C.D. Howe Institute in Toronto this evening ([here](#)). I doubt that he will offer materially further remarks compared to yesterday's statement, today's comments from Beaudry and prior remarks from Macklem.

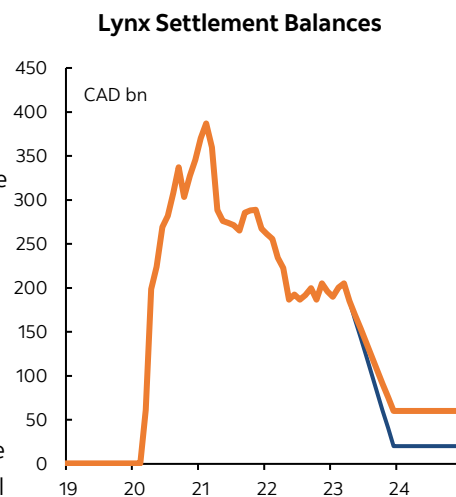
The US calendar is pretty light with just a mild uptick in initial jobless claims to 261k last week with no states estimated this time, while continuing claims fell to 1.757 million from 1.794 million. Still, it's just one week and we're in between nonfarm reference periods. The Fed will also release the quarterly US financial accounts (12pmET) that include various measures of household and business finances that may motivate headlines on the state of finances.

Chart 3



Sources: Scotiabank Economics, Statistics Canada.

Chart 4



Sources: Scotiabank Economics, Bank of Canada.

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.	4.51	4.56	4.34	3.91	3.94	3.70	3.79	3.80	3.60	3.95	3.95	3.82	Canada - BoC	4.75	
CANADA	4.56	4.58	4.21	3.72	3.73	3.41	3.44	3.44	3.16	3.30	3.28	3.09	US - Fed	5.25	
GERMANY	2.92	2.94	2.72	2.46	2.47	2.25	2.46	2.46	2.25	2.62	2.60	2.46	England - BoE	4.50	
JAPAN	-0.06	-0.06	-0.06	0.09	0.09	0.08	0.44	0.43	0.42	1.27	1.27	1.27			
U.K.	4.54	4.57	4.29	4.26	4.26	4.05	4.29	4.25	4.12	4.55	4.50	4.46			
	Spreads vs. U.S. (bps):														
CANADA	6	2	-14	-18	-21	-28	-34	-36	-44	-65	-67	-72	Euro zone - ECB	3.75	
GERMANY	-158	-162	-162	-144	-147	-145	-133	-134	-135	-133	-134	-136	Japan - BoJ	-0.10	
JAPAN	-456	-462	-440	-382	-385	-361	-335	-337	-317	-268	-268	-254			
U.K.	3	1	-5	35	31	35	50	45	52	59	55	64	Mexico - Banxico	11.25	
Equities	Level						% change:								
	Last	Change		1 Day	1-wk	1-mo	1-yr								
S&P/TSX	19984	-71.9		-0.4	1.6	-2.9	-3.9							Australia - RBA	4.10
Dow 30	33665	91.7		0.3	2.3	0.1	2.3							New Zealand - RBNZ	5.50
S&P 500	4268	-16.3		-0.4	2.1	3.1	3.7								
Nasdaq	13105	-171.5		-1.3	1.3	6.9	8.4								
DAX	15993	32.9		0.2	0.9	0.3	10.7							Next Meeting Date	
FTSE	7621	-3.4		-0.0	1.7	-2.0	0.4							Canada - BoC	Jul 12, 2023
Nikkei	31641	-272.5		-0.9	1.6	8.2	12.0							US - Fed	Jun 14, 2023
Hang Seng	19299	47.2		0.2	5.9	-2.9	-11.8							England - BoE	Jun 22, 2023
CAC	7228	25.3		0.4	1.3	-2.9	12.1							Euro zone - ECB	Jun 15, 2023
Commodities	Level						% change:								
WTI Crude	72.92	0.39		0.5	4.0	-0.3	-40.3							Japan - BoJ	Jun 16, 2023
Natural Gas	2.34	0.01		0.6	8.6	4.7	-73.1							Mexico - Banxico	Jun 22, 2023
Gold	1958.06	18.04		0.9	-1.0	-3.1	5.6							Australia - RBA	Jul 04, 2023
Silver	23.59	-0.06		-0.3	1.4	-8.7	6.8							New Zealand - RBNZ	Jul 11, 2023
CRB Index	261.43	0.76		0.3	1.6	-1.0	-20.6								
Currencies	Level						% change:								
USDCAD	1.3357	-0.0013		-0.1	-0.7	-0.1	6.3								
EURUSD	1.0746	0.0047		0.4	-0.1	-2.3	0.3								
USDJPY	139.44	-0.6900		-0.5	0.5	3.2	3.9								
AUDUSD	0.6696	0.0044		0.7	1.9	-1.3	-6.9								
GBPUSD	1.2482	0.0044		0.4	-0.4	-1.1	-0.4								
USDCHF	0.9033	-0.0068		-0.7	-0.2	1.6	-7.7								

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