

DAILY POINTS

June 9, 2023 @ 7:25 EST

Contributors

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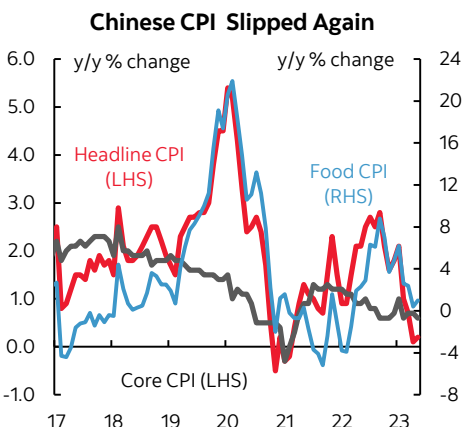
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Chart 1



Sources: Scotiabank Economics, Bloomberg.

Chart 2



Sources: Scotiabank Economics, China National Bureau of Statistics.

On Deck for Friday, June 9

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	06-09	08:30	Capacity Utilization (%)	1Q	81.9	82.0	81.7
CA	06-09	08:30	Employment (000s m/m)	May	25	21.3	41.4
CA	06-09	08:30	Unemployment Rate (%)	May	5.0	5.1	5.0

KEY POINTS:

- **Canada week continues amid few other developments**
- **Canadian jobs to start the data dependent march to the July BoC decision**
- **Recapping what BoC's Beaudry said...**
- **...on near-term and longer-term policy rate guidance**
- **China's core inflation rate slips again**
- **Peru's central bank holds, leans against easing**

Canada week continues this morning with updated readings on the job market following BoC guidance late yesterday. Global markets face little by way of useful new information. Sovereign curves are mostly under cheapening pressure across US Ts, Canadas, EGBs and gilts. Equities are little changed across N.A. futures and European cash markets with a slight cheapening bias.

Canada's jobs report for May (8:30amET) is expected to post another gain with a reasonably stable unemployment rate. It will inform the data dependent march to the July meeting along with the June jobs report before then. Most estimates range from flat to +50k with a median of about 21k. The 95% confidence interval for the Labour Force Survey's estimated jobs changed is +/-57k and so the whole range of estimates is captured within the noise factor. One driver of the call is the fact that there remain 800,000 job vacancies which is hundreds higher than pre-pandemic levels and so even amid uncertainty toward how many are truly live this points toward ongoing excess demand for labour (chart 1). More drivers and expectations are in the Global Week Ahead ([here](#)). Key may also be wage growth that in m/m SAAR terms has slowed over recent months but may begin to accelerate partly as collective bargaining agreements start to filter through. Also watch the continued evolution of hours worked as a guide to GDP growth in Q2 following over 5% q/q SAAR growth in hours during Q1.

Overnight developments were light. China's core CPI inflation slipped another tenth to 0.6% y/y with headline inflation matching expectations at 0.2% y/y (chart 2). That's far below the state's 3% target that they never hit while holding back on more material stimulus. Producer prices followed commodity prices lower and fell by 4.6% y/y.

Banco Central de Reserva del Peru held its policy reference rate unchanged at 7.75% again as widely expected. Guidance leaned against easing prematurely while sounding data dependent on the slim possibility of further tightening.

KEY TAKEAWAYS FROM BOC DEPUTY GOVERNOR BEAUDRY'S SPEECH AND PRESS CONFERENCE

BoC Deputy Governor Beaudry's speech is available [here](#) and what follows are key takeaways drawn from the speech itself plus having watched his short 20 minute press conference after yesterday's market close. It's frankly more useful listening to what the BoC is saying than listening to loud cry babies who blew their calls and are throwing temper tantrums instead of committing to doing better next time.

1. Near-term guidance was data dependent and left the door wide open to doing more.

In response to a question during the press conference, Beaudry said they will be data dependent and that nothing is determined going forward but they have set out what variables they are looking at.

His speech text said "We'll have more to say about all of this in our July forecast."

When pressed further during the press conference about what could tip the BoC in favour of a hike in July, Beaudry deflected once more and said they'll be looking at the data.

He was given another opportunity to comment on near-term policy rate expectations by commenting on market pricing for July and whether markets are behaving incorrectly and merely said that markets are looking at the same data they are and they don't have a predetermined decision and will be data dependent.

2. Neutral rate guidance came across as wishy washy.

Beaudry argued that they still thought the neutral rate range was 2–3% with a 2.5% midpoint as updated in the April MPR and the preceding staff research paper, but he also said they now view there to be upside risk to this estimate which matches my long held bias.

The speech elaborated on this upside risk including the following remark:

"Those ranges are our base case for where we think short-term rates will settle once inflation returns to normal. However, the risks around that base case are tilted to the upside. Looking across the four forces I just listed, there are good reasons to believe that some may be reaching a plateau or even changing course. That makes it unlikely the real neutral rate will fall below pre-pandemic estimates and creates a meaningful risk that it could go up."

He also emphasized that the policy rate might return to pre-pandemic lows, but it was more likely that the policy rate would be higher for longer. One could argue that by corollary, a 4.75% policy rate when neutral faces upside risk to their estimates indicates that they are less certain that policy is as restrictive as they may have previously thought.

Beaudry was asked why they didn't flag the upside risk to neutral in April as usual and why they are only choosing to do so now, and he largely ducked it. All that he said was that they still think those estimates for neutral are valid but now they think the risks are higher rather than lower. That's unsatisfying and gave the appearance of acting on the fly.

Personally, while it's clear they are attempting to manage market expectations over time, I'd massively haircut what they are saying by way of implications for longer dated forward guidance with the neutral rate discussion. Guiding 'higher for longer' may prove to be correct, but it was accompanied by guidance that maybe they will wind up returning to pre-pandemic lows for the policy rate and in any event, this is the same central bank that promised rates wouldn't go up until 2023+ and reeled in a lot of leveraged home buyers. Its forward guidance tool has been seriously damaged.

3. Immigration's impact sounded more political than evidence-based to me.

When asked during the press conference about the impact of surging immigration and higher targets for years to come, Beaudry repeated the party line that it impacts both supply and demand and that the first approximation is that it's a neutral effect. He argued that what matters is at the level of individual households. My view remains that immigration affects demand more than supply from an inflation standpoint because it adds further demand stimulus to the household sector amid no evidence that it carries wage disinflationary effects. The US literature on the immigrant wage elasticity effect across numerous studies estimates that it is a neutral influence after controlling for other influences upon wage growth over time. If the BoC has credible research to the contrary then it should share it.

4. Nothing whatsoever was said on balance sheet plans even when Beaudry was asked about whether the BoC has other policy tools it can use beyond the policy rate.

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.	4.55	4.52	4.50	3.89	3.86	3.84	3.75	3.72	3.69	3.91	3.89	3.89	Canada - BoC	4.75
CANADA	4.57	4.53	4.30	3.75	3.71	3.49	3.45	3.41	3.23	3.32	3.27	3.17	US - Fed	5.25
GERMANY	2.92	2.89	2.80	2.44	2.42	2.34	2.41	2.40	2.31	2.56	2.56	2.49	England - BoE	4.50
JAPAN	-0.06	-0.06	-0.07	0.08	0.09	0.08	0.43	0.44	0.41	1.26	1.27	1.27		
U.K.	4.51	4.50	4.36	4.22	4.21	4.10	4.23	4.23	4.16	4.49	4.49	4.48		
	Spreads vs. U.S. (bps):													
CANADA	2	1	-20	-14	-15	-35	-29	-31	-46	-59	-61	-72	Euro zone - ECB	3.75
GERMANY	-163	-162	-170	-145	-144	-151	-134	-132	-138	-135	-133	-140	Japan - BoJ	-0.10
JAPAN	-461	-457	-457	-381	-377	-377	-332	-328	-328	-265	-262	-261		
U.K.	-4	-2	-14	33	35	26	49	51	46	58	60	59	Mexico - Banxico	11.25
Equities	Level						% change:						Next Meeting Date	
	Last	Change			1 Day	1-wk	1-mo	1-yr						
S&P/TSX	19943	-41.0			-0.2	-0.4	-3.1	-3.0	Australia - RBA	4.10				
Dow 30	33834	168.6			0.5	2.3	0.8	4.8	New Zealand - RBNZ	5.50				
S&P 500	4294	26.4			0.6	1.7	4.2	6.9						
Nasdaq	13239	133.6			1.0	1.0	8.7	12.6						
DAX	15947	-43.3			-0.3	-0.7	-0.1	12.3						
FTSE	7565	-34.6			-0.5	-0.6	-2.6	1.2						
Nikkei	32265	623.9			2.0	2.4	9.8	16.0	Canada - BoC	Jul 12, 2023				
Hang Seng	19390	90.8			0.5	2.3	-1.2	-11.1	US - Fed	Jun 14, 2023				
CAC	7200	-22.5			-0.3	-1.0	-2.7	13.2	England - BoE	Jun 22, 2023				
Commodities	Level						% change:							
WTI Crude	71.59	0.30			0.4	-0.2	-2.9	-41.1	Euro zone - ECB	Jun 15, 2023				
Natural Gas	2.29	-0.06			-2.6	5.5	1.1	-74.4	Japan - BoJ	Jun 16, 2023				
Gold	1966.51	1.05			0.1	1.0	-3.3	6.4	Mexico - Banxico	Jun 22, 2023				
Silver	23.67	0.09			0.4	0.8	-8.4	8.0	Australia - RBA	Jul 04, 2023				
CRB Index	262.32	0.88			0.3	1.9	-0.7	-20.4	New Zealand - RBNZ	Jul 11, 2023				
Currencies	Level						% change:							
USDCAD	1.3324	-0.0033			-0.2	-0.8	-0.4	4.9						
EURUSD	1.0769	-0.0013			-0.1	0.6	-1.8	1.4						
USDJPY	139.44	0.5200			0.4	-0.3	3.1	3.8						
AUDUSD	0.6722	0.0006			0.1	1.7	-0.6	-5.3						
GBPUSD	1.2551	-0.0009			-0.1	0.8	-0.6	0.5						
USDCHF	0.9018	0.0028			0.3	-0.8	1.3	-8.0						

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