

DAILY POINTS

June 27, 2023 @ 7:10 EST

Contributors

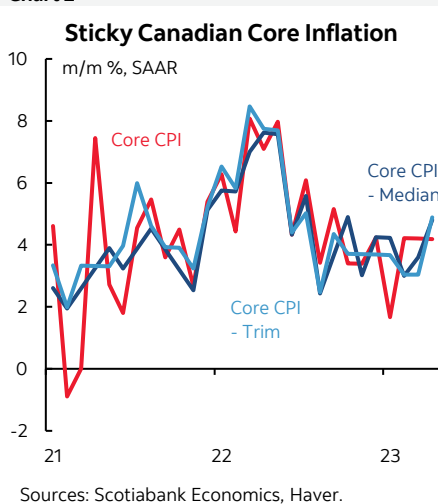
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Chart 1



Chart 2



On Deck for Tuesday, June 27

| Country | Date | Time | Indicator | Period | BNS | Consensus | Latest |
|---------|-------|-------|---|--------|-------|-----------|--------|
| CA | 06-27 | 05:30 | Bank of Canada Deputy Governor Sharon Kozicki in Sintra | | | | |
| CA | 06-27 | 08:30 | Core CPI - Median (y/y) | May | -- | 4.0 | 4.2 |
| CA | 06-27 | 08:30 | Core CPI - Trim (y/y) | May | -- | 3.9 | 4.2 |
| CA | 06-27 | 08:30 | CPI, All items (m/m) | May | 0.5 | 0.4 | 0.7 |
| CA | 06-27 | 08:30 | CPI, All items (y/y) | May | 3.5 | 3.4 | 4.4 |
| CA | 06-27 | 08:30 | CPI, All items (index) | May | -- | 157.1 | 156.4 |
| US | 06-27 | 08:30 | Durable Goods Orders (m/m) | May P | -1.0 | -0.8 | 1.1 |
| US | 06-27 | 08:30 | Durable Goods Orders ex. Trans. (m/m) | May P | 0.0 | 0.0 | -0.3 |
| CA | 06-27 | 08:30 | Core CPI - Common (y/y) | May | -- | -- | 5.7 |
| US | 06-27 | 09:00 | S&P/Case-Shiller Home Price Index (m/m) | Apr | -- | 0.4 | 0.5 |
| US | 06-27 | 09:00 | S&P/Case-Shiller Home Price Index (y/y) | Apr | -- | -2.6 | -1.2 |
| US | 06-27 | 10:00 | Consumer Confidence Index | Jun | 103.5 | 103.9 | 102.3 |
| US | 06-27 | 10:00 | New Home Sales (000s a.r.) | May | 710 | 675.0 | 683.0 |
| US | 06-27 | 10:00 | Richmond Fed Manufacturing Index | Jun | -- | -12.0 | -15.0 |

KEY POINTS:

- Light overnight developments shift focus to Canadian, US releases
- Canadian CPI to further inform BoC pricing for the July decision
- China's managed yuan depreciation
- ECB's Lagarde tells us what markets already knew
- Tire kickers are supporting US new home sales
- US consumer confidence will probably follow UoFM higher
- Can US house prices make it two-in-a-row?
- US durable goods orders probably fell

The main focal points will be Canadian CPI and several US releases around the same time. Overnight developments were light, as China continues to fight yuan depreciation in largely futile fashion and the ECB's Lagarde fell flat in her key opening address at the Sintra boondoggle. Equities are mixed but generally little changed across N.A. futures and European cash markets. Gilts are underperforming other curves that are little changed on balance thus far. The dollar is broadly softer. CAD and the Canadian front-end may be vulnerable to CPI this morning.

China continues to attempt to drive a strong yuan, or at least stem the pace of depreciation (chart 1). The PBoC set a lower reference rate of 7.2098 and while it appreciated on an intraday basis a) it did so on a day of broad dollar softness, and b) the yuan is already shaking it off at just shy of 7.22 which extends the pattern of persistent depreciation against the fixings. The yuan has been depreciating all year and is about 8% weaker than in January. Such intervention is largely futile against the pattern of mild Chinese policy easing amid growth downsides, versus a continued Fed-tightening bias.

I suppose ECB President Lagarde thought she was saying something meaningful in her opening comments at the ECB's Sintra forum. A closer look at her exact quote should result in a shrug of one's shoulders relative to what was already priced and therefore for an opening address she fell flat in terms of offering something incrementally insightful. She said:

"It is unlikely that in the near future the central bank will be able to state with full confidence that the peak rates have been reached. Barring a material change to the outlook, we will continue to increase rates in July."

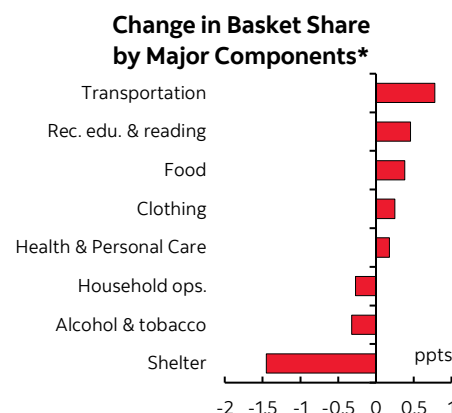
Markets were already pricing most of a quarter point hike on July 27th and she already said she was leaning toward a July hike at the last meeting. Furthermore, markets were already leaning toward another hike in September.

June 27, 2023

Canadian CPI today (8:30amET), Friday's GDP for April and May, Friday's Bank of Canada surveys including measures of inflation expectations and then the following Friday's jobs reports should firm up market pricing for the July 12th decision that is appropriately set at about a fair coin toss at the moment. Most expect Canadian CPI to rise by 0.4–0.5% m/m NSA and 3.4–3.5% y/y (Scotia 0.5% / 3.5%). Seasonally adjusted headline would therefore land at 0.1–0.2% m/m with seasonally adjusted traditional core CPI at 0.4% m/m. Key will nevertheless be the trimmed mean and weighted median gauges with no credible consensus given how sensitive these readings are to modest variations in the composition of the price changes and the limited tracking evidence of the 55 price series that go into calculating them. These 'core' readings have been remarkably sticky ever since the only period of improvement over 2022H1 (chart 2). Basket weight changes shown in chart 3 shouldn't materially affect the year-over-year rate, but the month-over-month pace may be slightly vulnerable to the 1.5 ppt lowered weight on shelter—primarily due to lower weights on real estate commissions that were likely higher and legal fees and new house prices that edged up for the first time since late last summer—and raised weights on other components given that Statcan never adjusts prior months for the basket changes that take effect in today's May readings. That's easily controlled for but will take a bit of time post release in order to see if the weighting changes affected the month-over-month reading.

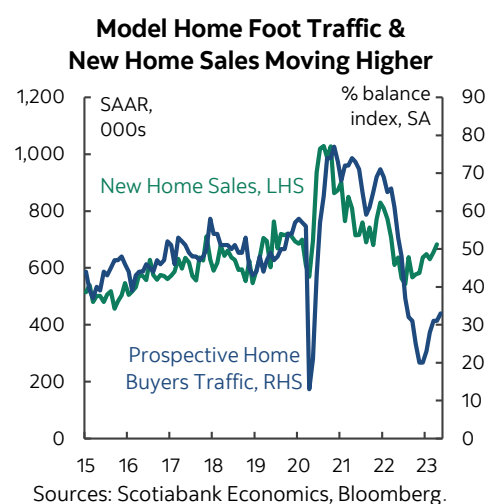
US releases are expected to reveal a drop in durable goods orders during May (8:30amET), a second consecutive rise in repeat-sales home prices (9amET), possibly higher new home sales given signals from model home foot traffic (chart 4), continued softness in the Richmond Fed's regional manufacturing survey (10amET) while consumer confidence will probably follow the UofM gauge higher (10amET).

Chart 3



*Statistics Canada basket weight adjustment to reflect 2022 expenditures will be reflected in the May 2023 CPI release on Jun 27, 2023 & onwards. Sources: Scotiabank Economics, Statistics Canada.

Chart 4



| norwa | 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. | 4.68 | 4.75 | 4.69 | 3.98 | 3.97 | 3.95 | 3.73 | 3.72 | 3.72 | 3.83 | 3.82 | 3.81 | Canada - BoC | 4.75 | |
| CANADA | 4.62 | 4.62 | 4.58 | 3.72 | 3.71 | 3.69 | 3.31 | 3.31 | 3.34 | 3.16 | 3.16 | 3.19 | | | |
| GERMANY | 3.11 | 3.09 | 3.11 | 2.46 | 2.45 | 2.53 | 2.31 | 2.31 | 2.41 | 2.37 | 2.37 | 2.49 | US - Fed | 5.25 | |
| JAPAN | -0.07 | -0.07 | -0.06 | 0.06 | 0.05 | 0.08 | 0.37 | 0.36 | 0.39 | 1.19 | 1.20 | 1.21 | | | |
| U.K. | 5.19 | 5.16 | 4.95 | 4.59 | 4.56 | 4.51 | 4.33 | 4.30 | 4.34 | 4.38 | 4.39 | 4.45 | England - BoE | 5.00 | |
| | Spreads vs. U.S. (bps): | | | | | | | | | | | | | | |
| CANADA | -6 | -13 | -11 | -26 | -26 | -26 | -42 | -42 | -38 | -67 | -65 | -63 | Euro zone - ECB | 4.00 | |
| GERMANY | -158 | -166 | -158 | -151 | -152 | -143 | -142 | -141 | -132 | -146 | -144 | -132 | | | |
| JAPAN | -475 | -482 | -475 | -392 | -392 | -387 | -336 | -336 | -333 | -264 | -262 | -260 | Japan - BoJ | -0.10 | |
| U.K. | 51 | 41 | 27 | 61 | 59 | 56 | 60 | 58 | 61 | 55 | 57 | 64 | | | |
| Equities | Level | | | | | | % change: | | | | | | Mexico - Banxico | 11.25 | |
| | Last | Change | | | | | 1 Day | 1-wk | 1-mo | 1-yr | | | | | |
| S&P/TSX | 19587 | 169.1 | | | | | 0.9 | -0.8 | -1.7 | 1.7 | Australia - RBA | | | | 4.10 |
| Dow 30 | 33715 | -12.7 | | | | | -0.0 | -1.7 | 1.9 | 7.2 | New Zealand - RBNZ | | | | 5.50 |
| S&P 500 | 4329 | -19.5 | | | | | -0.4 | -1.8 | 2.9 | 11.0 | | | | | |
| Nasdaq | 13336 | -156.7 | | | | | -1.2 | -2.6 | 2.8 | 15.7 | | | | | |
| DAX | 15825 | 11.6 | | | | | 0.1 | -1.8 | -1.0 | 20.0 | | | | | |
| FTSE | 7454 | 0.1 | | | | | 0.0 | -1.5 | -2.3 | 2.7 | | | | | |
| Nikkei | 32538 | -160.5 | | | | | -0.5 | -2.5 | 5.2 | 21.1 | Canada - BoC | | | | Jul 12, 2023 |
| Hang Seng | 19148 | 354.0 | | | | | 1.9 | -3.8 | 2.1 | -13.9 | US - Fed | | | | Jul 26, 2023 |
| CAC | 7192 | 8.1 | | | | | 0.1 | -1.4 | -1.7 | 18.9 | | | | | |
| Commodities | Level | | | | | | % change: | | | | | | | | |
| WTI Crude | 68.56 | -0.81 | | | | | -1.2 | -2.8 | -5.7 | -37.4 | England - BoE | | | | Aug 03, 2023 |
| Natural Gas | 2.76 | -0.03 | | | | | -1.2 | 10.6 | 26.4 | -57.6 | Euro zone - ECB | | | | Jul 27, 2023 |
| Gold | 1922.12 | -1.14 | | | | | -0.1 | -0.7 | -1.3 | 5.4 | Japan - BoJ | | | | Jul 28, 2023 |
| Silver | 22.80 | 0.46 | | | | | 2.1 | -4.8 | -1.5 | 9.3 | | | | | |
| CRB Index | 263.44 | 0.44 | | | | | 0.2 | -2.8 | 1.1 | -11.8 | | | | | |
| Currencies | Level | | | | | | % change: | | | | | | | | |
| USDCAD | 1.3157 | 0.0002 | | | | | 0.0 | -0.6 | -3.2 | 2.2 | Mexico - Banxico | | | | Aug 10, 2023 |
| EURUSD | 1.0949 | 0.0043 | | | | | 0.4 | 0.3 | 2.3 | 3.4 | Australia - RBA | | | | Jul 04, 2023 |
| USDJPY | 143.79 | 0.2800 | | | | | 0.2 | 1.6 | 2.4 | 6.1 | New Zealand - RBNZ | | | | Jul 11, 2023 |
| AUDUSD | 0.6690 | 0.0015 | | | | | 0.2 | -1.4 | 2.3 | -3.4 | | | | | |
| GBPUSD | 1.2722 | 0.0009 | | | | | 0.1 | -0.3 | 3.0 | 3.7 | | | | | |
| USDCHF | 0.8944 | -0.0013 | | | | | -0.1 | -0.4 | -1.1 | -6.5 | | | | | |

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