

### DAILY POINTS

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Chart 1

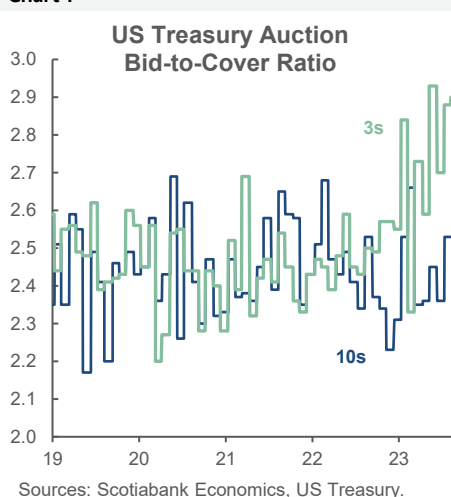


Chart 2



### On Deck for Wednesday, August 9

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	08-09	07:00	MBA Mortgage Applications (w/w)	Aug 04	--	--	-3.0
CA	08-09	08:30	Building Permits (m/m)	Jun	--	--	10.5

#### KEY POINTS:

- **Stability returns to global markets...**
- **...on signs that US debt supply is being digested in orderly fashion...**
- **...as Italy's unhelpful assault on banks gets pared back...**
- **...and as markets benignly position for tomorrow's US CPI**
- **But talk of Chinese deflation being exported is utter nonsense**
- **Today's US 10s auction will further inform Treasury curve pressures**

Global asset classes are a little more stable so far this morning. Stocks are broadly higher with N.A. futures up by ¼% to ½% and European cash markets up by around 1% on average expect for a 2% gain in Italy. Sovereign bond yields have settled down after yesterday's rallies across the long ends of global curves. The USD is a touch softer. Oil is up by about 1% across WTI and Brent.

The culprits? Some hypotheses may be more sensible than others. One may be a sense that US debt supply is being taken down in an orderly manner after yesterday's successful 3s auction but ahead of today's more critical 10s auction and tomorrow's 30s. If so, then that allays concern that had crept into markets as part of the bear steepener trade that seems to have passed at least for now. The 3s bid-to-cover ratio held strong on the attractiveness of front-end yields and perhaps the 10s bid-to-cover ratio will close some of the spread between the two measures with the yield holding around 4% this morning (chart 1).

Second is that the populist keystone cops running Italy's government backpedaled on their dig at banks by watering down some of the tax on "excess" profits including higher definitions of tolerated profit gains before triggering the higher tax and setting a cap relative to assets, albeit still being worked out in definitional terms. Italy, like Canada, prefers populism over sensible policies as tax incidence effects get passed on one way or another whether the average voter gets that or not.

Third is that markets are benignly positioning for tomorrow's marquee print-of-the-week when CPI arrives.

But Chinese deflation?? Being exported across the world in dovish fashion??? Yeah, that interpretation is about as believable as the likelihood of me being spotted next to our PM at a Taylor Swift concert. The widespread media headlines about deflation are making four interpretive errors.

- The most glaring one is that China just posted the strongest month-over-month rise in core CPI for a month of July in records back to at least 2012 (chart 2). At 0.5% m/m NSA, the gain strongly exceeded the average for months of July over the past dozen years that works out to 0% m/m NSA. The evidence at the margin points toward a strong rebound in inflation pressures. I'll include a chart in the fuller morning note.
- Second is that deflation has to be about more than just year-ago base effects and yet that was the only reason why CPI fell in year-over-year-terms.
- Third is that the negative year-over-year headline CPI reading was narrowly driven by food prices (-1.7% y/y). Ex-food, prices were flat at 0% y/y. Ex-food and energy CPI

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was up 0.8% y/y. Deflation isn't just about commodity prices and yet it was commodity prices that drove the negative year-over-year CPI reading.

- Fourth is a casual interpretation of what constitutes deflation. Most economists would define deflation as a sustained, economy-wide decline in a broad array of prices that affects behaviour in such fashion as to result in decisions like postponing consumption and investment into periods when cheaper prices are expected to prevail. That can be a devastating spiral effect that is difficult for policy to turn around. Think 1930s. China is nowhere close to facing this scenario and the talk of deflation is often far too fast and loose.

Granted, all of this assumes that the price figures are reliable and not just the made-up creations of local Chinese Communist Party sycophants who are either seeking approval or avoiding retribution within the ranks of the Chinese dictatorship. That concern is nevertheless omnipresent when it comes to Chinese data and hence it would apply to not just one month's figures.

If this month-over-month pressure persists as year-ago base effects shake out, then China's year-over-year readings will be sharply rebounding later this year and through 2024. That would quash the narrative that China is exporting deflation elsewhere in the world and doing the work of global central banks for them. It could give rise to the opposite nonsense that China is exporting inflation to the world. Furthermore, the whole reshoring narrative posits that reconfiguring supply chains away from countries like China to other markets like Mexico merely shifts the inflationary pressures around in shell game fashion. This narrative remains at a highly nascent stage as c-suites seek to reduce financial distress costs within supply chains that have been rocked by serial border shocks since 2016 even if that means accepting higher operating expenses and passing them on to various stakeholders.

Three other inflation prints leaned against any deflation nonsense. One is that Taiwan's core CPI was up by 2.7% y/y (2.6% prior) and 0.1% m/m NSA. No deflation there.

Two is that Colombia's inflation reading remained hot last evening. Core CPI was up 11.4% y/y (11.6% prior) and 0.6% m/m NSA which was hotter than seasonally normal for a month of July that has averaged a 0.4% m/m NSA gain over like months of July since the GFC. Certainly no deflation there either.

Thirdly, the RBNZ's measure of inflation expectations two-years ahead held steady at 2.8% in Q3, unchanged from the Q2 estimate. That remains above the 2% medium-term inflation target as a persistent challenge to the central bank.

Mexico's CPI reading is next up (8amET). Forecasting monthly Mexican inflation is a bit of a cheater's paradise in that the country releases bi-weekly estimates. Half the month is already known by the time the monthly reading lands which makes forecasters of monthly Mexican CPI estimates look like geniuses compared to elsewhere. Gains of 0.5% m/m for headline CPI and 0.4% for core CPI are expected.

Then the US\$38B 10s auction will be a key focal point that informs whether we truly have put the roughly two-week bear steepener behind us after the 10s yield peaked last Thursday (1pmET). Yesterday's 3s auction was a nice set up.

Data risk will be very low with just weekly US mortgage applications on tap (7amET) and nothing material out of Canada all week.

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.	4.77	4.75	4.88	4.12	4.11	4.24	4.03	4.03	4.08	4.21	4.21	4.18	Canada - BoC	5.00
CANADA	4.53	4.58	4.73	3.82	3.87	3.99	3.50	3.54	3.60	3.42	3.45	3.41	US - Fed	5.50
GERMANY	2.94	2.92	3.00	2.50	2.49	2.55	2.49	2.47	2.54	2.59	2.55	2.62		
JAPAN	0.01	0.02	0.02	0.18	0.20	0.19	0.58	0.61	0.63	1.53	1.56	1.57	England - BoE	5.25
U.K.	4.96	4.95	5.00	4.43	4.42	4.45	4.40	4.39	4.40	4.59	4.58	4.55		
	Spreads vs. U.S. (bps):													
CANADA	-24	-18	-15	-31	-24	-25	-53	-48	-48	-79	-76	-77	Euro zone - ECB	4.25
GERMANY	-183	-184	-188	-162	-162	-168	-154	-156	-155	-162	-166	-155	Japan - BoJ	-0.10
JAPAN	-476	-474	-486	-394	-392	-405	-345	-342	-345	-268	-265	-261		
U.K.	19	20	12	31	31	21	37	36	32	39	37	37		
Equities	Level						% change:						Mexico - Banxico	11.25
	Last	Change					1 Day	1-wk	1-mo	1-yr				
S&P/TSX	20206	-30.1					-0.1	-2.0	1.9	3.2			Australia - RBA	4.10
Dow 30	35314	-158.6					-0.4	-0.9	4.7	7.8			New Zealand - RBNZ	5.50
S&P 500	4499	-19.1					-0.4	-1.7	2.3	9.1				
Nasdaq	13884	-110.1					-0.8	-2.8	1.6	11.1				
DAX	15965	189.9					1.2	-0.3	2.3	18.0			Next Meeting Date	
FTSE	7597	69.4					0.9	0.5	4.7	1.5				
Nikkei	32204	-173.0					-0.5	-1.5	-0.6	15.0			Canada - BoC	Sep 06, 2023
Hang Seng	19246	61.9					0.3	-1.4	4.8	-3.8			US - Fed	Sep 20, 2023
CAC	7367	97.3					1.3	0.7	3.6	13.5				
Commodities	Level						% change:							
WTI Crude	83.87	0.95					1.1	5.5	13.6	-7.3			England - BoE	Sep 21, 2023
Natural Gas	2.82	0.04					1.5	13.8	9.2	-64.0				
Gold	1925.71	0.47					0.0	-0.5	0.0	7.3			Euro zone - ECB	Sep 14, 2023
Silver	23.04	-0.36					-1.5	-6.0	1.4	14.1			Japan - BoJ	Sep 22, 2023
CRB Index	279.23	0.04					0.0	-0.6	5.6	-1.9				
Currencies	Level						% change:							
USDCAD	1.3418	-0.0001					-0.0	0.5	1.0	4.1			Mexico - Banxico	Aug 10, 2023
EURUSD	1.0980	0.0024					0.2	0.4	-0.2	7.5				
USDJPY	143.28	-0.1000					-0.1	-0.0	1.4	6.1			Australia - RBA	Sep 05, 2023
AUDUSD	0.6546	0.0002					0.0	0.1	-1.9	-6.0			New Zealand - RBNZ	Aug 15, 2023
GBPUSD	1.2742	-0.0006					-0.0	0.2	-0.9	5.5				
USDCHF	0.8762	0.0006					0.1	-0.1	-1.0	-8.1				

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