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GLOBAL ECONOMICS

DAILY POINTS

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Contributors

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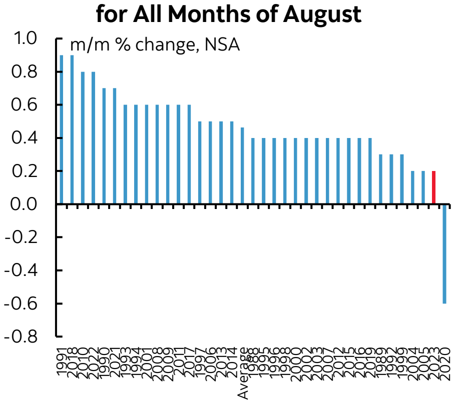
Chart 1

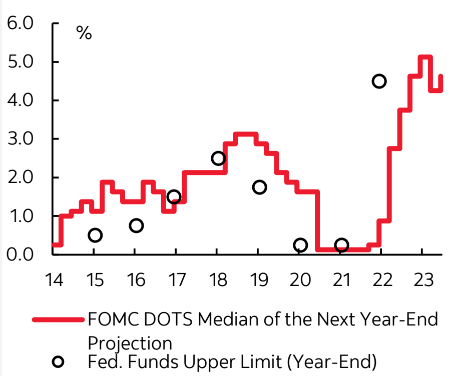
Comparing UK Core CPI for All Months of August



Sources: Scotiabank Economics, UK Office for National Statistics..

Chart 2

DOT Projections for Next Year-End is a Little Less Reliable



Sources: Scotiabank Economics, Bloomberg.

On Deck for Wednesday, September 20

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	09-20	07:00	MBA Mortgage Applications (w/w)	Sep 15	--	--	-0.8
CA	09-20	13:30	Bank of Canada Releases Summary of Deliberations				
US	**09-20**	**14:00**	**FOMC Interest Rate Meeting (%)**	**Sep 20**	**5.50**	**5.50**	**5.50**
US	**09-20**	**14:00**	**FOMC Rate Decision (Upper Bound)**				
US	09-20	14:30	Fed Chair Holds Press Conference Following FOMC Meeting				

KEY POINTS:

- **Global markets await the Fed**
- **FOMC expected to deliver a hawkish pass…**
- **…raise its GDP forecast, lower the UR, leave core PCE little changed…**
- **…probably continue to signal another hike for two main reasons…**
- **…while changing future dots is largely futile**
- **BoC to deliver its Summary of Deliberations today**
- **The BoC's selective 'ups and downs' is about putting on a brave face**
- **UK core CPI undershot all forecasts…**
- **…slashing BoE hike pricing toward a hawkish pause**

Welcome to Fed Day with a side order of UK inflation after Canadian inflation rattled a few cages yesterday. Gilts are strongly outperforming post UK core CPI that came in far beneath forecasts as 2s rally by about 15bps in a 2s10s bull steepener. The result drove pricing for tomorrow's BoE decision toward being more of a coin toss and more toward one-and-done terminal rate pricing.

Other sovereign curves are slightly richer but generally fading the UK data as specific to that market and with the greater focus being upon the Fed. Sterling is underperforming while the dollar is little changed on balance. Equities have a slight bid across NA futures and European cash markets.

UK core inflation swung from one of the hottest m/m NSA readings on record in July to one of the weakest readings for like months of August (chart 1). Core CPI was up by just 0.16% m/m NSA which is about half of the average for months of August. That dragged the year-over-year reading down to 6.2% (6.9% prior, 6.8% consensus). 6.2% was four-tenths below the lowest forecast in consensus and so economists totally blew their calls. The result even offset energy's effects on headline CPI that itself came in much weaker than expected at 0.3% m/m (0.7% consensus).

The trend in UK core CPI is still rather warm and there were some distortions in this print, but still, the magnitude of the weakening also has to be put in the context of other recent data that has disappointed. Jobs are being lost. Wage pressures have eased somewhat. GDP has stalled out. Higher frequency activity readings have been disappointing of late. The BoE has candidly expressed openness to forecasting recession but as evidence accumulates that it is unfolding, it will require steely resolve to stick to tightening that may be too much for the doves and moderates on the MPC.

So, onto the Fed we must go. Please see the Global Week Ahead for a fuller set of expectations and arguments **here**. Statement, Summary of Economic Projections and the 'dot plot' all land at 2pmET followed by Chair Powell's presser 30 minutes later for around an hour.

A pause is almost universally expected along with unchanged balance sheet guidance. They have to revise up GDP growth at least for this year and perhaps take some of that away from next year on the math effects. They also have to revise down the UR this year and perhaps next year. Very little change if any is expected to core PCE forecasts.

On the bias, I would expect continued data dependence and a repeat of "In determining the extent of additional policy firming that may be appropriate…." language.

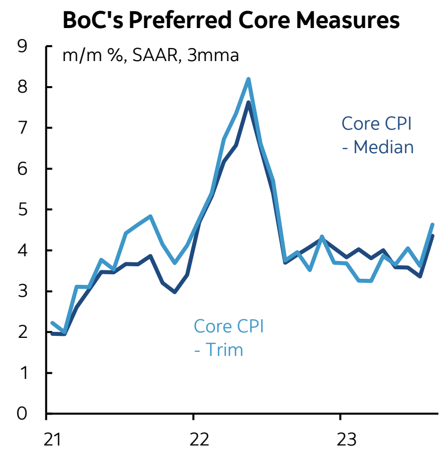
Regarding the Rorschach test, I'm unconvinced they'll make major changes to the dots and/or that markets should care. They probably have to carry over the residual hike in the June dots a) because of potential concern about prematurely removing a hike bias if the soft patch proves to be transitory like other pandemic-era episodes, and b) because they are seeking to manage markets and don't want everyone piling into the front-end just yet.

On the 2024 dots, why bother changing them? They only have 100bps of cuts by the end of 2024 assuming they hike once more from here over coming meetings, 75 if they don't. It's more likely that they will reduce rather than add to this amount of easing at this point. Markets might show a temporary reaction, but would probably quickly fade this, given that the present year dots perform reasonably well especially by mid-year, but the one-year out and further dots perform horribly in relation to what actually happens. Chart 2 illustrates tracking of the one-year ahead dots and what ultimately happens to fed funds. Longer-term forward guidance was always shaky at the Fed but has been severely damaged by the pandemic. So fool me once….you know how it goes.

The BoC's Summary of Deliberations (SoD, for short) to the process leading up to the September 6th pause decision will be released at 1:30pmET just before the FOMC statement. They're not meeting minutes per se, as opposed to being a descriptive account of views expressed during the lengthy formal process leading up to decision day. They are being published at the behest of IMF demands to increase transparency. Watch for hints around the degree of unanimity toward a pause and the range of discussion points after Macklem hinted that they would include such perspectives. I wouldn't say the SoD has been terribly useful since being introduced in part because they still don't allow for the full flavour of discussion and any differing views to shine through.

There isn't much follow through on yesterday's Canadian CPI print that met my expectations but was higher than consensus (recap **here**). Key may be how the Bank of Canada views the surprise and on that I'd be careful at this point.

Chart 3



Sources: Scotiabank Economics, Statistics Canada.

A Deputy Governor at the BoC said yesterday that ripping inflation is merely a sign of the "ups and downs" and "not that unusual." Really now, well let's see here. Chart 3 shows that it's about much more than just ups and downs since the trend is running around very sticky smoothed core gauges that are well above the BoC's 2% headline target. Like more than twice as high using trend core gauges and nearly three times higher going by the latest core gauges. There is high persistence and core inflation measures have accelerated over the summer months as opposed to mere 'ups and downs'.

So why did DepGov Kozicki say this when a dispassionate reading of the data should have counselled greater caution? It's possible it's just her opinion and not reflective of Governing Council. It's possible that was speaking without the glam and burden of being the Governor. It would also be rational if it was because the BoC wants to see much more data on the path to the late October decision and beyond.

But it's also important to emphasize that BoC communications are trying to assert that they've got it all under control when in reality they do not. They are under political pressure to sound like everything is under control. Despite the fact that they are, the BoC wants you to believe that they are not still way behind the inflation curve, nor are they way behind wage and productivity pressures with still much further work to do. Heck no, 2% inflation is in sight—by 2025, you know, kind of like how Mars comes into sight as a wee little reddish dot in a powerful enough backyard telescope. Ooooh look everyone, I can see it—and they're waving back! Yoo hoo! Yep, that's right, we've got it all under control. Minister Freeland said so.

You say Canada is taking on far too many new arrivals than the country can house in a horse's lifetime and that this is carrying inflationary effects? Meh, just ups and downs. Do a posting trot. Less painful.

The US$24 rise in WTI spot prices since June and the terms of trade are resulting in an imported positive income shock to a commodities producing economy? Meh, just ups and downs.

The northern Turkish lira? Just ups and downs and my do those twenty dollar bills look great in the bathroom.

Governments priming the pumps into their Fall updates? Bwah, me worry? Nah, just more little ups and downs, nothing to see there either, folks. Trudeau/Freeland and the Premiers have that under control too; they called and wrote to the Governor and promised us so who are we at the BoC to say otherwise??

Now, where was this ups and downs bias when it came to discussing Q2 GDP growth? Half the country was on fire—literally—with strikes aplenty and then toss in a really wet month of July, yet that was taken as a sign that higher rates are working. What's that smell? Must just be a little bonfire. Pass the marshmallows. In referencing the three-quarter trend in GDP growth we're also being asked to believe that Q4 last year was also such a sign, despite the biggest inventory drawn down in over forty years that dragged multiple percentage points off growth and had zippo to do with rates.

Fixed Income	Government Yield Curves (%):											
	2-YEAR			5-YEAR			10-YEAR			30-YEAR		
	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk
U.S.	5.06	5.09	4.97	4.48	4.51	4.38	4.34	4.36	4.25	4.41	4.43	4.34
CANADA	4.89	4.91	4.69	4.16	4.18	3.96	3.84	3.86	3.68	3.61	3.62	3.52
GERMANY	3.26	3.29	3.17	2.74	2.77	2.68	2.72	2.74	2.65	2.87	2.87	2.75
JAPAN	0.02	0.03	0.03	0.29	0.28	0.28	0.73	0.72	0.71	1.71	1.70	1.70
U.K.	4.87	4.99	4.99	4.40	4.54	4.57	4.25	4.34	4.35	4.66	4.71	4.66
	Spreads vs. U.S. (bps):											
CANADA	-17	-18	-28	-33	-33	-42	-50	-50	-57	-80	-80	-82
GERMANY	-180	-181	-180	-174	-174	-170	-162	-162	-160	-154	-156	-159
JAPAN	-504	-506	-494	-420	-423	-410	-361	-364	-354	-271	-273	-265
U.K.	-20	-10	1	-8	2	18	-9	-2	10	25	29	32

Equities	Level		% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	20219	-273.9	-1.3	-0.0	2.0	4.4
Dow 30	34518	-106.6	-0.3	-0.4	0.0	12.4
S&P 500	4444	-9.6	-0.2	-0.4	1.7	15.2
Nasdaq	13678	-32.0	-0.2	-0.7	2.9	19.7
DAX	15750	85.4	0.5	0.6	1.1	24.3
FTSE	7719	58.5	0.8	2.6	6.3	7.3
Nikkei	33024	-218.8	-0.7	0.8	5.0	19.3
Hang Seng	17886	-111.6	-0.6	-0.7	-0.4	-4.8
CAC	7308	26.4	0.4	1.2	2.0	22.2
Commodities	Level		% change:			
WTI Crude	90.32	-0.88	-1.0	2.0	11.2	7.0
Natural Gas	2.75	-0.10	-3.6	2.4	7.6	-64.4
Gold	1932.12	0.76	0.0	1.3	2.3	16.1
Silver	23.33	0.14	0.6	1.9	2.4	22.8
CRB Index	290.00	0.62	0.2	0.9	5.3	3.7
Currencies	Level		% change:			
USDCAD	1.3430	-0.0018	-0.1	-0.9	-0.8	0.5
EURUSD	1.0703	0.0024	0.2	-0.3	-1.8	7.3
USDJPY	147.88	0.0200	0.0	0.3	1.1	2.9
AUDUSD	0.6480	0.0026	0.4	0.9	1.0	-3.1
GBPUSD	1.2363	-0.0029	-0.2	-1.0	-3.1	8.6
USDCHF	0.8968	-0.0010	-0.1	0.3	2.1	-7.0

Central Banks	
Current Rate	
Canada - BoC	**5.00**
US - Fed	**5.50**
England - BoE	**5.25**
Euro zone - ECB	**4.50**
Japan - BoJ	**-0.10**
Mexico - Banxico	**11.25**
Australia - RBA	**4.10**
New Zealand - RBNZ	**5.50**
Next Meeting Date	
Canada - BoC	**Oct 25, 2023**
US - Fed	**Sep 20, 2023**
England - BoE	**Sep 21, 2023**
Euro zone - ECB	**Oct 26, 2023**
Japan - BoJ	**Sep 22, 2023**
Mexico - Banxico	**Sep 28, 2023**
Australia - RBA	**Oct 02, 2023**
New Zealand - RBNZ	**Oct 03, 2023**