

DAILY POINTS

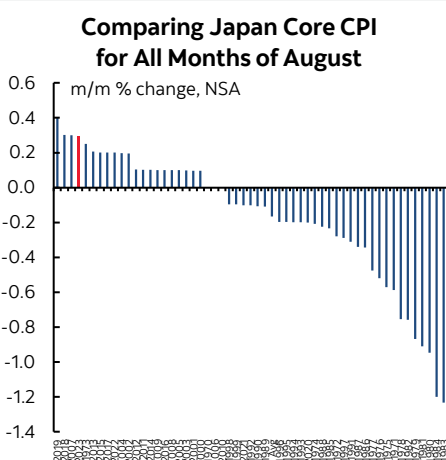
September 22, 2023 @ 6:55 EST

Contributors

Derek Holt

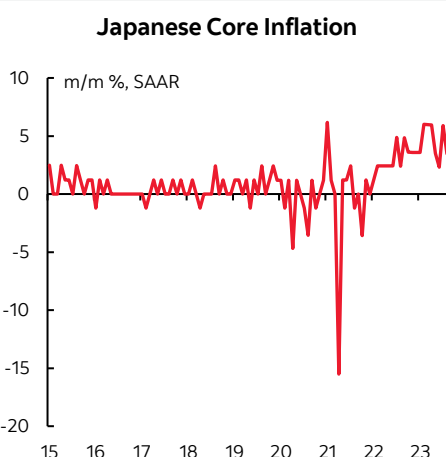
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Chart 1



Sources: Scotiabank Economics, Bloomberg.

Chart 2



Sources: Scotiabank Economics, Bloomberg.

On Deck for Friday, September 22

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	09-22	08:30	Retail Sales (m/m)	Jul	0.4	0.4	0.1
CA	09-22	08:30	Retail Sales ex. Autos (m/m)	Jul	--	0.5	-0.8
US	09-22	13:00	Fed's Dally to Discuss Inflation, Monetary Policy, and the Economy				

KEY POINTS:

- **A calmer end to the week may be in store for markets...**
- **...after gullible markets believed in the Fed's random dots**
- **BoJ's Ueda tamps down speculation about policy shifts that he provoked...**
- **...but Japanese core inflation keeps it alive**
- **Mixed global PMIs**
- **UK retail sales post a mild rebound**
- **Canada to update retail sales for July and August**

Global markets are sailing into the weekend under relatively more stable conditions compared to the volatility we've seen on other days this week. The week's main event was no doubt the Fed and the market's extreme gullibility when it came to believing the little scribbled dots that Committee participants jot down on paper about next year's intentions and thereafter that showed a more modest pace of rate cuts than previously. In reality, the dots are largely useless in terms of forecasting what actually happens and are dirtied by the objective of trying to micro manage markets. I'm biased to fading the curve reaction and have difficulty understanding how most folks know the dots are of extremely limited use and yet the herd followed them by chasing 2s10s bear steepeners.

Sovereign bonds are slightly richer across gilts, EGBs and US Ts. N.A. equity futures are up by 1/4% to 1/2% and with London performing similarly versus as slightly negative bias across the rest of Europe. Asian equities saw a strong 2.3% gain in HK and 1 1/2% to 2% gains at mainland China's exchanges amid speculation toward further pending stimulus measures. The USD is a bit firmer mainly against the yen, sterling and euro.

Drivers include no surprises from the BoJ and mixed but generally mild data surprises. US auto strike action may intensify today.

The BoJ left its policy rate and 10-year JGB yield target range unchanged while Governor Ueda declined to speculate on if and when further policy adjustments may be delivered. He generally leaned on the need for continuing stimulus including this quote:

"Because we aren't in a state where inflation accompanied by wage growth—sustainable and stable inflation—is in sight, we're patiently continuing with monetary easing under the current framework."

That walked back his earlier casual remark. Ueda recently said that the chances of ending negative rates into year-end "aren't zero" if further evidence of wage and price pressures emerges. The selective hearing of markets heard "what, he's ending negative rates?!" Anonymous BoJ officials subsequently put out guidance indicating markets went too far and Ueda did not pursue the topic any further. The yen softened overnight and the curve slightly richened.

Just before the BoJ delivered its communications, Japanese core CPI put in among the strongest readings compared to like months in history (chart 1). Core CPI in seasonally unadjusted terms declines more often than not in August, but this time it was up by about 0.3% m/m NSA for the fourth strongest gain on record. That has been a generally persistent pattern all year (chart 2) and if it continues while being accompanied by

September 22, 2023

ongoing wage gains then the BoJ may very well take another step to the exit over coming meetings. When it does so, it will be a surprise given the central banks proclivity toward catching markets off guard twice since December.

A wave of global purchasing managers indices for September arrived overnight. Charts 3–6 illustrate one reason why they can matter given correlations to GDP growth.

- Australia's composite PMI climbed 2.2 points to 50.2, signaling mild improvement in the economy driven entirely by a jump in the services PMI (50.5 from 47.8) as manufacturing's decline accelerated (48.2 from 49.6).
- Japan's composite PMI fell to signal softer growth (51.8 from 52.6). Both services (53.3 from 54.3) and manufacturing (48.6 from 49.6) weakened.
- The UK economy deteriorated as the composite PMI fell further into contraction (46.8 from 48.6) as a worsening in services (47.2 from 49.5) offset a slightly slower pace of decline in manufacturing (43.4 from 43.5).
- The Eurozone composite PMI was little changed and remained in contraction (47.1, 46.7 prior) as a slightly softer pace of contraction in services was accompanied by little change in the pace of contraction in manufacturing).

UK retail sales were in line with expectations as a mild rebound from the prior month's weakness unfolded in August. Sales were up 0.4% m/m with ex-gas up 0.6%.

Canada will also update retail sales this morning (8:30amET). Statcan had previously

guided that sales were tracking a small gain of 0.4% m/m SA. It will also provide preliminary guidance for August sales. Canada's numbers will inform July and August GDP tracking but it would take a large surprise to deviate from my current estimate of mild growth for July.

The US updates the S&P PMIs (9:45amET) that speak to global operations of US companies versus the Fed's preferred ISM gauges that focus upon domestic operations.

Chart 3

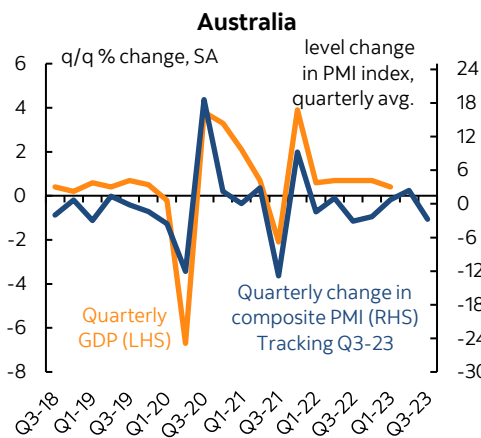


Chart 4

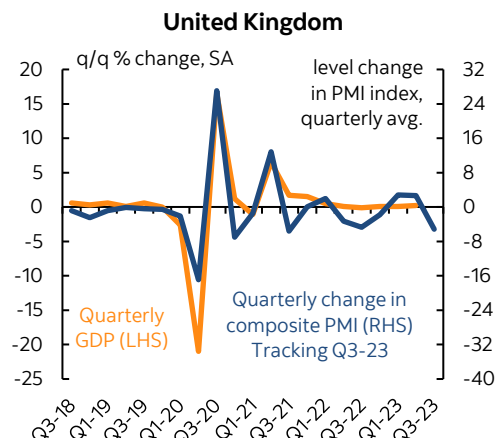


Chart 5

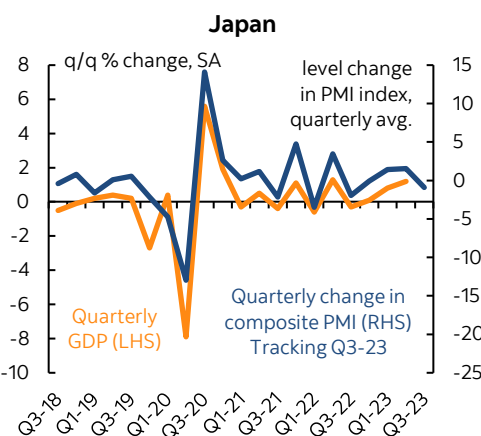
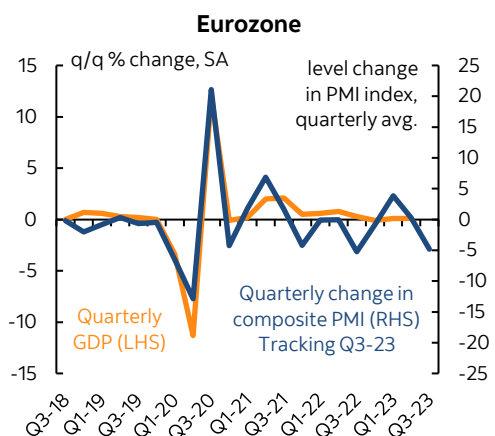


Chart 6



Fixed Income	Government Yield Curves (%):												Central Banks			
U.S. CANADA GERMANY JAPAN U.K.	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	Canada - BoC	5.00		
	5.13	5.15	5.03	4.60	4.62	4.47	4.48	4.50	4.33	4.56	4.58	4.42				
	4.96	4.97	4.69	4.26	4.23	3.97	3.97	3.91	3.69	3.74	3.65	3.53			US - Fed	5.50
	3.25	3.26	3.22	2.76	2.76	2.69	2.75	2.74	2.68	2.90	2.87	2.82				
	0.03	0.03	0.03	0.30	0.30	0.28	0.75	0.74	0.72	1.69	1.69	1.68				
	4.84	4.87	5.02	4.41	4.43	4.53	4.29	4.31	4.36	4.70	4.71	4.70				
Spreads vs. U.S. (bps):													Euro zone - ECB	4.50		
CANADA	-18	-18	-34	-34	-39	-50	-51	-59	-64	-82	-92	-89				
GERMANY	-188	-189	-182	-185	-187	-177	-173	-176	-166	-166	-171	-160			Japan - BoJ	-0.10
JAPAN	-510	-512	-501	-430	-432	-419	-373	-375	-362	-287	-289	-274				
U.K.	-30	-27	-1	-20	-20	7	-19	-19	2	13	13	28				
Equities	Level						% change:						Mexico - Banxico	11.25		
S&P/TSX Dow 30 S&P 500 Nasdaq DAX FTSE Nikkei Hang Seng CAC	Last	Change					1 Day	1-wk	1-mo	1-yr	Australia - RBA	4.10				
	19792	-423.1					-2.1	-3.8	0.5	4.2						
	34070	-370.5					-1.1	-2.4	-0.6	13.3			New Zealand - RBNZ	5.50		
	4330	-72.2					-1.6	-3.9	-1.3	15.2						
	13224	-245.1					-1.8	-5.0	-2.1	19.5						
	15547	-25.0					-0.2	-2.2	-1.0	24.1			Next Meeting Date			
	7729	49.9					0.7	0.2	6.3	7.9			Canada - BoC	Oct 25, 2023		
	32402	-168.6					-0.5	-2.3	1.7	19.3						
	18057	402.0					2.3	-0.7	1.5	-0.5					US - Fed	Nov 01, 2023
	7176	-38.4					-0.5	-2.8	-0.9	21.2						
Commodities	Level						% change:						England - BoE	Nov 02, 2023		
WTI Crude	90.60	0.97					1.1	-0.2	12.8	8.5						
Natural Gas	2.64	0.03					1.0	-0.3	3.0	-62.8	Euro zone - ECB	Oct 26, 2023				
Gold	1924.65	4.63					0.2	0.0	1.4	15.2						
Silver	23.24	-0.04					-0.2	2.7	1.6	19.1					Japan - BoJ	Sep 21, 2023
CRB Index	285.93	-2.55					-0.9	-1.5	4.4	2.9						
Currencies	Level						% change:								Mexico - Banxico	Sep 28, 2023
USDCAD	1.3453	-0.0030					-0.2	-0.5	-0.7	-0.3						
EURUSD	1.0636	-0.0025					-0.2	-0.2	-1.9	8.1	Australia - RBA	Oct 02, 2023				
USDJPY	148.26	0.6700					0.5	0.3	1.6	4.1						
AUDUSD	0.6443	0.0027					0.4	0.2	0.3	-3.0			New Zealand - RBNZ	Oct 03, 2023		
GBPUSD	1.2245	-0.0053					-0.4	-1.1	-3.8	8.7						
USDCHF	0.9068	0.0023					0.3	1.1	3.0	-7.3						

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