

DAILY POINTS

December 5, 2023 @ 8:10 EST

Contributors

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Chart 1

ECB Measure of Inflation Expectations

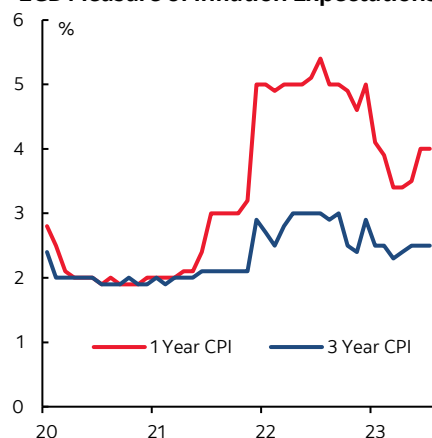
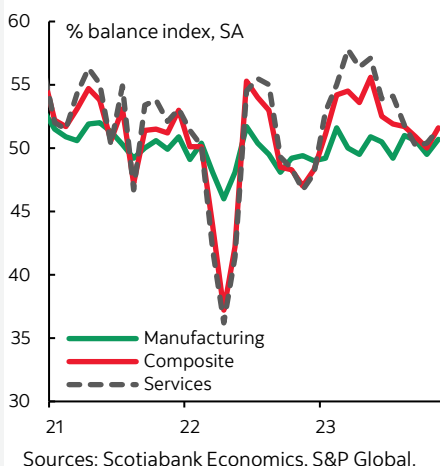


Chart 2

China's Private PMIs



On Deck for Tuesday, December 5

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	12-05	10:00	ISM Non-Manufacturing Composite	Nov	53.0	52.3	51.8
US	12-05	10:00	JOLTS Job Openings (000s)	Oct	--	9300.0	9553.0

KEY POINTS:

- Markets offer two more lessons for central bankers
- Eurozone inflation expectations moved a touch higher...
- ...but EGBs are outperforming as an ECB hawk called a rate peak...
- ...that markets somehow heard as a cut bias
- RBA holds and remains data dependent...
- ...which bonds used as an excuse to rally
- China data beats...
- ...but Moody's negative outlook dominated equity sentiment
- Tokyo core CPI slips, JGBs ignored before rallying on China spillover
- It's highly uncertain how three US data points will affect markets today

This morning brings two reminders of how central banks need to carefully manage markets and what they are up against in terms of a wall of money that's pushing them around. The wall of money that they created, to be clear. Talk about Frankenstein turning on his creator. Hopefully the BoC is watching ahead of the next couple of days of its communications.

We saw evidence of how markets hear and see what they want when they listen to central bankers on the backs of remarks from the RBA and an ECB official. As a consequence, EGBs and Australia's curve are outperforming US and Canadian yields that themselves are mildly richer after yesterday's cheapening. Yields are bouncing up and down as much as rumours that are coming out of baseball's winter meetings. US Ts are slightly lower this morning but could face significant data risk out of the US this morning and I for one have little directional conviction around the net effects (see below). I wouldn't stick one's neck out into the data, but if you do, well, good luck!

Here is a summary of overnight developments before flagging what's ahead into the N.A. session.

1. RBA: Almost everyone expected a pause after the prior surprise hike and sure enough they left the cash rate at 4.35%. Guidance was unchanged by repeating a data dependent willingness to do more if inflation doesn't cooperate. Australian rates rallied despite the widely expected outcome perhaps as soon were positioned for a tail surprise on either the rate or guidance. The market narrative could be described as being something like the following:

Trader 1: The RBA held and stayed data dependent with a willingness to hike again if needed.

Trader 2: Did they say anything about cutting?

Trader 1: No they didn't say when they would cut.

Trader 3: Did you say cut? RBA?

Trader 4: Whaaaaa? Cut?? Outta my way, gotta buy!!

2. What happens when hawks give up? Markets hear cut and cut very soon and move to

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pricing it. That lesson was reinforced in the aftermath of comments by the ECB's Schnabel. She said another hike is 'rather unlikely' and therefore abandoned her bias while pointing to improving inflation. She refused to speculate on timing a first cut but markets raised pricing for a cut by the March 2024 decision which seems aggressive to me. This is more of a lesson on market management by central banks that are notoriously bad at it. Here's the market narrative on that one:

Trader 1: Schnabel cried uncle, said no more hikes.

Trader 2: When does she think they'll cut?

Trader 1: She didn't say. Refused to speculate on when to cut.

Trader 3: Dude, hold on, this Schnabel guy, he said the ECB would cut?? Now??? Like, whoaaa, buyyyyyyyy! By the way, Keanu Reeves is, like, my favourite actor, ya know. What's for lunch??

3. The 1-year ahead Eurozone inflation expectations measure surprised a little higher at an unchanged 4% y/y (3.8% consensus) and the 3-year measure was unchanged as expected at 2.5% (Chart 1). They've been drifting lower but remain elevated ahead of next week's ECB. Other eurozone data on industrial output was a bit softer than expected. Rapid wage growth and still high inflation expectations counsel not getting too far ahead of ourselves on ECB cut timing and magnitudes.

4. China data was better than expected as the private composite PMI moved up 1.6 points to 51.6 (chart 2). Both services and the previously reported manufacturing sectors improved. These gauges are less SOE oriented and more slanted toward smaller producers and manufacturers and exporters along the coastal cities.

5. Despite the decent data, Chinese equities fell by nearly 2% overnight. Among the catalysts was a leaked announcement by Moody's hours before the official release that kept the long-term A1 rating unchanged but lowered the outlook to negative implying risk of a downgrade. Meh. Ratings agencies are great at reporting on accidents so I'm never sure of their worth frankly, so I'd rather weigh the data upside more heavily than equities did. That said, rumours are swirling about another cut to the required reserve ratio and we'll see what the PBOC does next week.

6. Tokyo core CPI landed a little weaker than expected at 3.6% y/y (3.7% consensus, 3.8% prior). The month-over-month core gauge continued its softening trend (chart 3). The yen and rates ignored it as the 10-year JGB yield fell hours later and likely having more to do with spillover from China.

7. South Korean inflation was weaker than expected. Headline fell -0.6% m/m and doubled consensus and core also ebbed. The rates curved mildly richened.

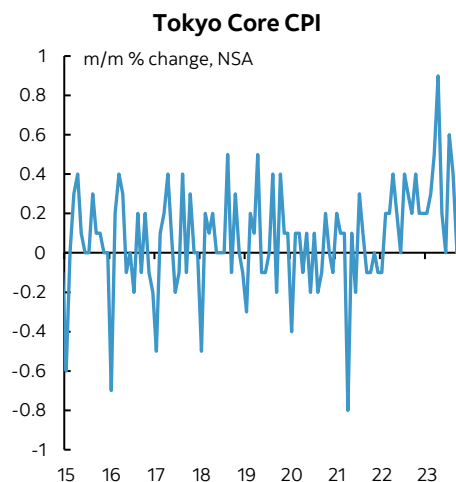
The main focal points into the N.A. session will be:

1. US JOLTS (10amET): Job openings surprised higher last time and prompted a rates sell off as the latest evidence of how they can be impactful before nonfarm arrives. We'll see what this morning's lagging update for October reveals as a pre-nonfarm teaser.

2. ISM-services (10amET): This will be a test of the holiday shopping season's effects. A modest rise is expected. Price signals should also be watched given evidence of broader price discounting this season than last year's holiday shopping period (charts 4, 5). Which effect may dominate—whether ISM's headline, ISM's details like prices, or JOLTS—is highly uncertain.

3. Canada updates its composite PMI (9:30amET). It's not widely followed.

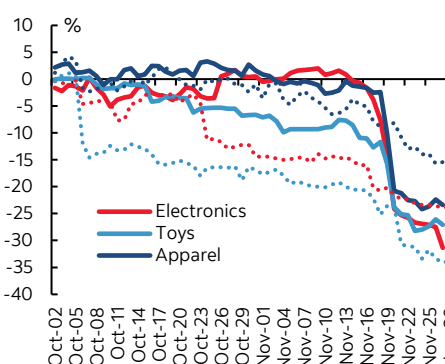
Chart 3



Sources: Scotiabank Economics, Bloomberg.

Chart 4

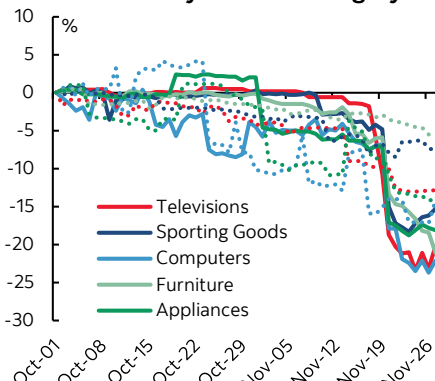
Discounts by Product Category



Dotted lines reflect 2022 & solid lines reflect 2023.
Sources: Scotiabank Economics, Adobe 2023
Holiday Shopping Report.

Chart 5

Discount By Product Category



Dotted lines reflect 2022 & solid lines reflect 2023.
Sources: Scotiabank Economics, Adobe 2023
Holiday Shopping Report.

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Fixed Income	Government Yield Curves (%):												Central Banks	
U.S. CANADA GERMANY JAPAN U.K. 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		
	4.62	4.64	4.74	4.19	4.21	4.28	4.23	4.25	4.32	4.38	4.41	4.51	Canada - BoC	5.00
	4.07	4.12	4.28	3.48	3.52	3.67	3.40	3.44	3.58	3.22	3.25	3.38	US - Fed	5.50
	2.64	2.70	2.92	2.22	2.28	2.45	2.29	2.35	2.50	2.52	2.59	2.73		
	0.04	0.04	0.06	0.26	0.26	0.33	0.67	0.70	0.76	1.67	1.68	1.71		
	4.55	4.62	4.63	4.12	4.19	4.21	4.12	4.19	4.17	4.67	4.72	4.65	England - BoE	5.25
	Spreads vs. U.S. (bps):													
	-55	-52	-46	-71	-68	-61	-83	-81	-74	-116	-116	-113	Euro zone - ECB	4.50
	-198	-194	-182	-197	-193	-183	-193	-190	-182	-186	-182	-178		
-458	-460	-468	-393	-395	-395	-356	-356	-356	-272	-273	-279	Japan - BoJ	-0.10	
-7	-2	-10	-7	-2	-7	-11	-6	-15	28	31	14			
Equities	Level						% change:						Mexico - Banxico	11.25
	Last	Change		1 Day		1-wk	1-mo		1-yr					
S&P/TSX	20410	-42.7		-0.2		1.9	3.0		0.8		Australia - RBA	4.35		
Dow 30	36204	-41.1		-0.1		2.5	6.3		6.6					
S&P 500	4570	-24.9		-0.5		0.4	4.9		14.3		New Zealand - RBNZ	5.50		
Nasdaq	14185	-119.5		-0.8		-0.4	5.2		26.2					
DAX	16454	49.6		0.3		2.9	8.3		13.9					
FTSE	7477	-35.8		-0.5		0.3	0.8		-1.2					
Nikkei	32776	-455.4		-1.4		-1.9	0.2		17.5		Canada - BoC	Dec 06, 2023		
Hang Seng	16328	-318.2		-1.9		-5.9	-9.1		-16.0					
CAC	7360	27.6		0.4		1.5	4.4		9.9		US - Fed	Dec 13, 2023		
Commodities	Level						% change:							
WTI Crude	73.01	-0.03		-0.0		-4.4	-9.3		-5.1					
Natural Gas	2.72	0.03		1.1		0.7	-22.5		-51.2		England - BoE	Dec 14, 2023		
Gold	2026.07	-3.36		-0.2		-0.7	1.7		14.6		Euro zone - ECB	Dec 14, 2023		
Silver	25.17	0.01		0.0		1.7	11.2		11.3					
CRB Index	267.61	-3.16		-1.2		-2.2	-5.0		-1.0		Japan - BoJ	Dec 19, 2023		
Currencies	Level						% change:							
USDCAD	1.3589	0.0052		0.4		0.1	-0.8		0.0		Mexico - Banxico	Dec 14, 2023		
EURUSD	1.0818	-0.0018		-0.2		-1.6	0.9		3.1					
USDJPY	147.10	-0.1100		-0.1		-0.3	-2.0		7.6		Australia - RBA	Feb 05, 2024		
AUDUSD	0.6559	-0.0061		-0.9		-1.4	1.1		-2.1					
GBPUSD	1.2620	-0.0013		-0.1		-0.6	2.2		3.5		New Zealand - RBNZ	Feb 27, 2024		
USDCHF	0.8741	0.0013		0.1		-0.4	-2.8		-7.3					

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