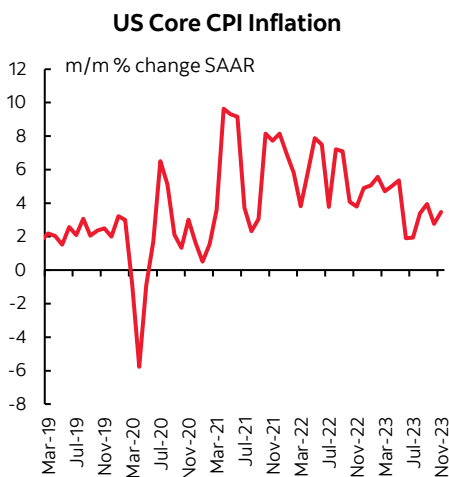


#### Contributors

##### Derek Holt

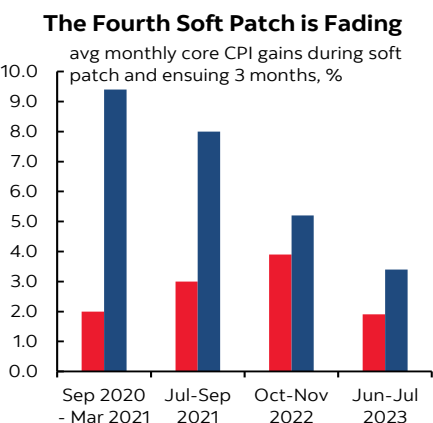
VP & Head of Capital Markets Economics  
 Scotiabank Economics  
 416.863.7707  
[derek.holt@scotiabank.com](mailto:derek.holt@scotiabank.com)

Chart 1



Sources: Scotiabank Economics, BLS.

Chart 2



\* post-June/July '23 uses the latest 4 months  
 Sources: Scotiabank Economics, BLS.

#### On Deck for Thursday, January 11

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	01-11	08:30	CPI (m/m)	Dec	0.3	0.2	0.1
US	01-11	08:30	CPI (y/y)	Dec	3.3	3.2	3.1
US	01-11	08:30	CPI (index)	Dec	--	306.6	307.1
US	01-11	08:30	CPI ex. Food & Energy (m/m)	Dec	0.3	0.3	0.3
US	01-11	08:30	CPI ex. Food & Energy (y/y)	Dec	4.0	3.8	4.0
US	01-11	08:30	Initial Jobless Claims (000s)	Jan 06	215	210.0	202.0
US	01-11	08:30	Continuing Claims (000s)	Dec 30	1885	1869.5	1855.0
US	01-11	11:10	Fed's Mester Speaks on BTV				
US	01-11	12:40	Fed's Barkin Speaks in Richmond				
US	01-11	14:00	Treasury Budget (US\$ bn)	Dec	--	-75.0	-314.0

#### KEY POINTS:

- **Markets await US CPI—and will probably overreact no matter the outcome**
- **Will core inflation continue its reemergence from a temporary soft patch?**
- **Key is how long core goods disinflation can continue as an offset to core services inflation**
- **Is inflation risk pointed higher again?**

The main focal point today will be US CPI for December (8:30amET). Whatever the outcome, I wouldn't be the least surprised to see markets overreact to a single print given their volatile, whippy tendencies in our times. Overnight developments were light as the Bank of Korea held as widely expected and leaned again premature easing, and data flow was light. Early positioning appears to be poised for a relatively soft outcome with rates mildly rallying along with most equity benchmarks. An upside surprise would likely have the opposite effect in terms of Fed pricing, but even at that it's going to take more data to impact the Fed's timing than one report especially if you think—as I do—that we may be at another inflection point that is slanted to upside risks to inflation.

Year-over-year measures are more of a base effect story whereas to evaluate inflationary pressures at the margin we need to look at month-over-month changes and in the context of trends. To that effect, core and headline CPI are expected to rise 0.3% m/m SA.

If this estimate pans out, then it will confirm that the mild softening in October was the aberration along the five-month trend. The trend since then may come to be marked by a mild reacceleration (chart 1). That five-month m/m SAAR core CPI trend could be tracking just shy of 3½% which would remain too hot for the Fed. While each successive soft patch on core inflation gives way to milder rebounds in their wake, the pattern is still ongoing (chart 2).

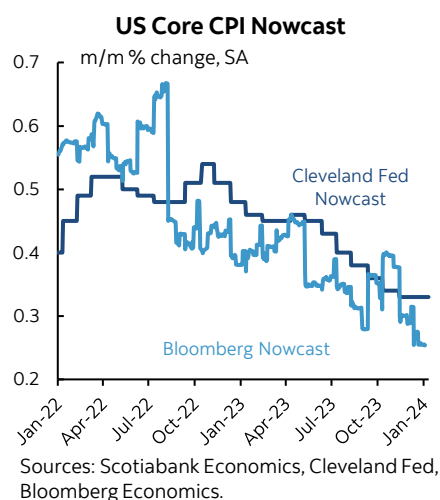
I didn't know consensus upon submission, but as it turns out, 0.3% m/m SA is the modal and median estimate with 36 economists in that camp. Another 27 expect 0.2% and three expect 0.1. Two nowcast estimates also point to 0.3% m/m (chart 3).

Keys will be how much longer core goods disinflation can continue (chart 4) as a mitigating offset to still-hot core services inflation (chart 5).

Among the expected drivers are the following:

- Gasoline prices were down by 5.2% m/m NSA. Since gas prices are normally a bit weaker in December the seasonal adjustments translate this into a nearly flat

Chart 3



Sources: Scotiabank Economics, Cleveland Fed, Bloomberg Economics.

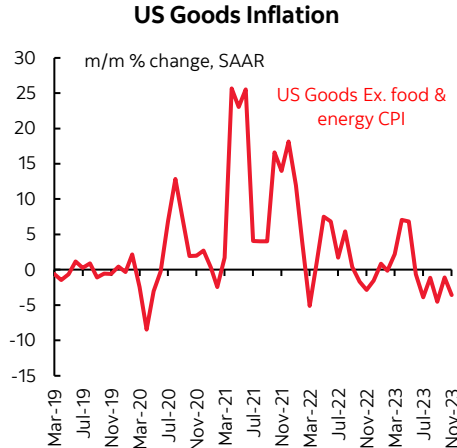
m/m contribution to headline CPI such that it shouldn't matter to the difference between headline and core CPI. The US prints CPI m/m in SA terms and that's what consensus is asked to estimate, versus other markets like the UK and Canada where consensus estimates NSA m/m changes.

- Food prices are not expected to be a material contributor. Therefore, here too there should be little reason to expect a difference between headline and core CPI in m/m terms.
- Owners' equivalent rent and rent of primary residence are tracking further increases of about ½% m/m SA.
- Core service prices (ex-housing and energy services) are expected to rise by 0.3% m/m SA.
- Seasonally adjusted vehicle prices could contribute a touch to headline and core CPI through a mild rise in new vehicle prices. Used vehicle prices were little changed.

As for a few of those upside risks at a potential inflection point? Supply chains are getting rattled again, for one (chart 6). It's nothing like it was during the pandemic so far, but the direction and speed of adjustment is pressuring shipping costs at a relatively rapid rate. Wage pressures have recently accelerated once more. If everyone's forecast for US growth to wane in 2024H1 come true, then that will probably mean that the productivity surge over recent quarters was a flash in the pan. Financial conditions have sharply eased off the peak for prior tightening. Fiscal stimulus remains strong.

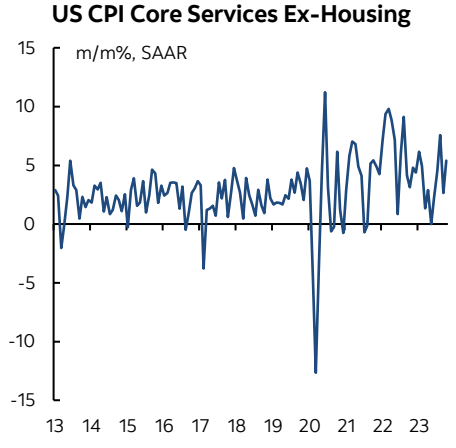
Also on tap will be US initial jobless claims (8:30amET) followed by more Fed-speak. Cleveland's Mester (11:40amET) and Richmond's Barkin (12:40pmET) will speak. The US monthly budget balance for December lands at 2pmET.

Chart 4



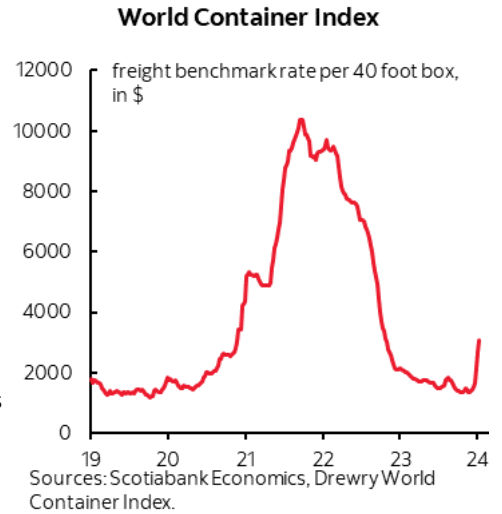
Sources: Scotiabank Economics, BLS.

Chart 5



Sources: Scotiabank Economics, BLS.

Chart 6



Sources: Scotiabank Economics, Drewry World Container Index.

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.	4.34	4.36	4.39	3.93	3.97	3.98	3.98	4.03	4.00	4.16	4.21	4.15	Canada - BoC	5.00
CANADA	4.01	4.04	4.05	3.31	3.36	3.34	3.21	3.27	3.23	3.13	3.18	3.15	US - Fed	5.50
GERMANY	2.64	2.65	2.53	2.14	2.17	2.06	2.21	2.21	2.12	2.39	2.42	2.35	England - BoE	5.25
JAPAN	0.02	0.02	0.06	0.18	0.19	0.21	0.60	0.59	0.62	1.58	1.59	1.64		
U.K.	4.22	4.24	4.20	3.71	3.76	3.69	3.78	3.82	3.73	4.37	4.42	4.36		
	Spreads vs. U.S. (bps):													
CANADA	-33	-32	-34	-62	-62	-64	-77	-76	-77	-103	-102	-100	Euro zone - ECB	4.50
GERMANY	-169	-171	-185	-179	-180	-192	-177	-182	-188	-177	-179	-180	Japan - BoJ	-0.10
JAPAN	-432	-434	-433	-375	-378	-377	-338	-344	-339	-258	-261	-251		
U.K.	-12	-13	-19	-23	-22	-29	-20	-21	-27	21	21	21	Mexico - Banxico	11.25
Equities	Level						% change:							
	Last		Change		1 Day		1-wk		1-mo		1-yr			
S&P/TSX	20989		18.4		0.1		0.8		3.3		4.8		Australia - RBA	4.35
Dow 30	37696		170.6		0.5		0.7		3.5		11.0			
S&P 500	4783		26.9		0.6		1.7		3.5		20.5		New Zealand - RBNZ	5.50
Nasdaq	14970		111.9		0.8		2.6		3.7		36.9			
DAX	16724		34.0		0.2		0.6		-0.4		11.9			
FTSE	7646		-5.5		-0.1		-1.0		1.3		-1.0			
Nikkei	35050		608.1		1.8		4.7		6.9		32.5		Canada - BoC	Jan 24, 2024
Hang Seng	16302		204.8		1.3		-2.1		0.6		-24.0			
CAC	7438		12.1		0.2		-0.2		-1.5		7.4		US - Fed	Jan 31, 2024
Commodities	Level						% change:							
WTI Crude	72.77		1.40		2.0		0.8		2.0		-6.0		England - BoE	Feb 01, 2024
Natural Gas	2.97		-0.07		-2.4		5.1		22.0		-19.2			
Gold	2034.06		9.65		0.5		-0.6		2.6		8.4		Euro zone - ECB	Jan 25, 2024
Silver	22.97		-0.16		-0.7		-1.4		-3.5		-2.3			
CRB Index	262.31		-2.37		-0.9		-1.1		0.2		-3.3		Japan - BoJ	Jan 23, 2024
Currencies	Level						% change:							
USDCAD	1.3366		-0.0015		-0.1		0.1		-1.5		-0.4		Mexico - Banxico	Feb 08, 2024
EURUSD	1.0980		0.0007		0.1		0.3		2.0		2.1			
USDJPY	145.38		-0.3800		-0.3		0.5		-0.5		9.8		Australia - RBA	Feb 05, 2024
AUDUSD	0.6708		0.0008		0.1		0.0		2.1		-2.8			
GBPUSD	1.2765		0.0023		0.2		0.7		1.7		5.1		New Zealand - RBNZ	Feb 27, 2024
USDCHF	0.8501		-0.0007		-0.1		-0.0		-3.2		-8.7			

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed in this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

**This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.**

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including: Scotiabank Europe plc; Scotiabank (Ireland) Designated Activity Company; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorized by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, and Scotia Inverlat Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.