

DAILY POINTS

January 12, 2024 @ 8:50 EST

Contributors

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Chart 1

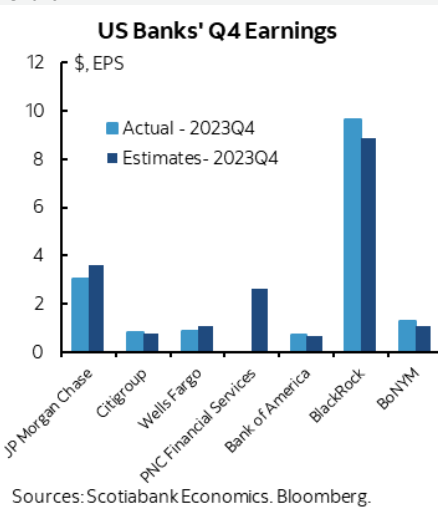
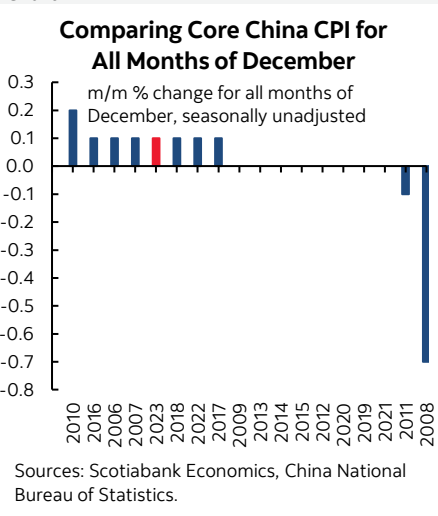


Chart 2



On Deck for Friday, January 12

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	01-12	08:30	PPI (m/m)	Dec	0.2	0.1	-0.1
US	01-12	08:30	PPI ex. Food & Energy (m/m)	Dec	0.2	0.2	0.0
US	01-12	10:00	Fed's Kashkari Speaks at Regional Economic Conditions Conference				

KEY POINTS:

- Oil soars after US, UK attacks on Houthis
- Bonds grossly overreact to US producer prices
- Soft lagging US core producer prices indicate weak pipeline price pressures...
 ...but passthrough to consumers continues while supply chain pressures return
- US earnings disappoint, dragging S&P futures lower
- Chinese CPI still isn't deflation
- Chinese financing disappoints, exports picked up
- Markets largely ignored the UK's lagging data dump
- Toronto's awful traffic will only get worse, requiring workforce flexibility

Oil prices are up by about 3% this morning as Brent is back up at about \$80 again and WTI sits at about \$75. US and UK forces launched air and missile attacks on locations across western Yemen to knock out launch and drone storage sites being used to attack ships in the Red Sea. There will also probably be another spike in container freight rates and shipping costs on the back of these attacks as the Iran-backed Houthis threaten to escalate.

US Ts and Canadas were slightly cheapening across the curve and underperforming EGBs and gilts that are rallying, until producer prices landed and drove a violent move lower in US yields. That says more about how whippy and reactionary markets are particularly into a US long weekend than anything else imo. US equity futures were slipping until PPI, European cash markets are higher. The dollar is little changed while petro currencies are rallying including MXN and CAD that are among the morning's star pupils.

The US updated producer prices that were flat excluding food and energy for a third straight month in December (consensus +0.2%). That drove a large drop in US bond yields, reversing the earlier rise that was driven by higher oil prices this morning. Excluding food, energy and trade services saw prices up 0.2% m/m and on consensus and so excluding trade services was the difference maker. It's lagging data when shipping costs and supply chain pressures are rising again. Plus, passthrough of higher prices into consumption baskets is ongoing.

US financials are kicking off the US earnings season in earnest with a number of top names on the docket. It's a weak start so far with a combination of names generally either disappointing on earnings, and/or earnings details like revenues, and/or guidance. Headline results are shown in chart 1 but the details to the figures that are being examined by equity analysts matter much more. This is modestly weighing on lower US equity futures as they underperform European gains.

A trio of Chinese macro readings arrived overnight:

- Chinese CPI landed at -0.3% y/y (-0.4% consensus). In month-over-month terms, CPI was up by 0.1% NSA which is slightly on the firmer side compared to like months of December in the past (chart 2). The media calls it deflation, economists generally wouldn't say they are ticked that box. One reason is that much of the softness is base-

effect driven through comparisons to a year ago. Much of it is narrowly based, with food prices down 3.7% y/y (non-food +0.5%) while service prices were up by 1% y/y again. Within food, categories like pork are still being based to the temporary surge of prices and year ago and previously. So the definition of deflation—a broad economy-wide decline in prices that is expected to persist and by more than just base effects and that changes behaviour—isn't really being met.

- China's exports picked up last month (chart 3). In dollar terms, they were up 2.3% y/y (1.5% consensus) and in yuan terms they were up 3.8%. Imports were also slightly better than expected at 0.2% y/y (-0.5% consensus) and in yuan terms 1.6% y/y (chart 4).
- Aggregate financing missed expectations and so did core domestic currency loans. Charts 5 and 6 show that the full-year financing flows were robust, but charts 7 and 8 show that growth in outstanding amounts remains weak. Domestic currency loan growth continues to decelerate, but total financing has picked up a bit and includes bonds, equities, short-term paper, other shadow products and a mixture of government and private financing.

The UK dumped several lagging releases for November this morning. They were mixed. Nobody much cared. GDP was a tick better than expected at 0.3% m/m. Industrial output was up 0.3% m/m and on consensus, but there were negative revisions. The services index was strong as it increased 0.4% m/m (0.2% consensus) with positive revisions. Construction output was soft.

There is nothing due out in Canada where the fireworks start on Monday with the BoC's inflation expectations and then Tuesday's CPI.

As an aside, pressures to get workers to commute into the office in a place like Toronto won't like [this](#) one. Toronto just ranked worst in North America for traffic and third worst in the world. Enormous immigration is only going to make this worse on top of housing shortfalls.

Chart 3

Chinese Exports

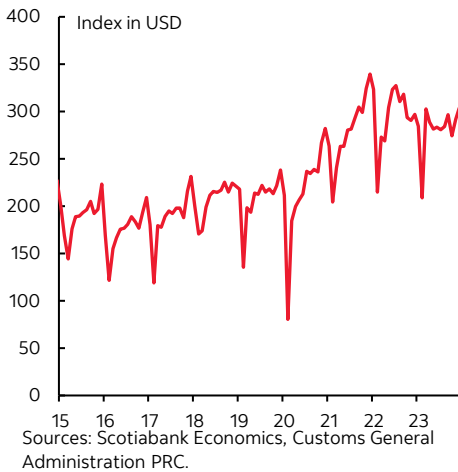


Chart 4

Chinese Imports

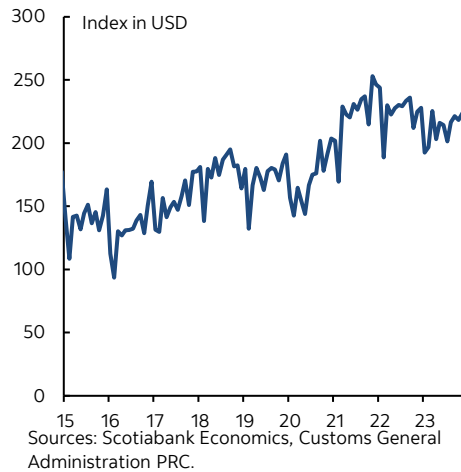


Chart 5

China's Year-to-Date Aggregate Financing

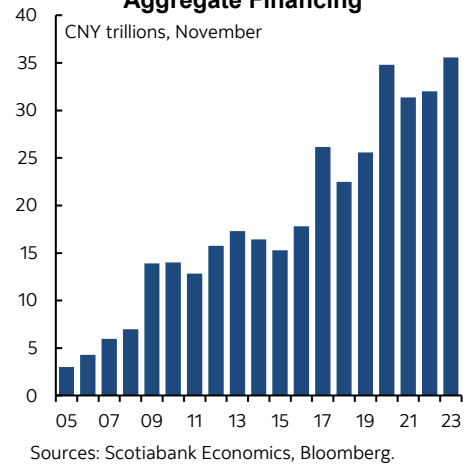


Chart 6

China's Year-to-Date New Yuan Loans

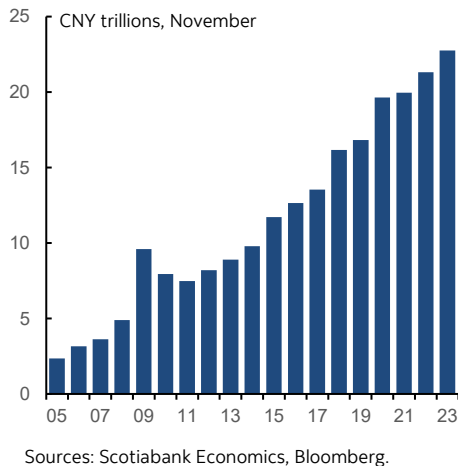


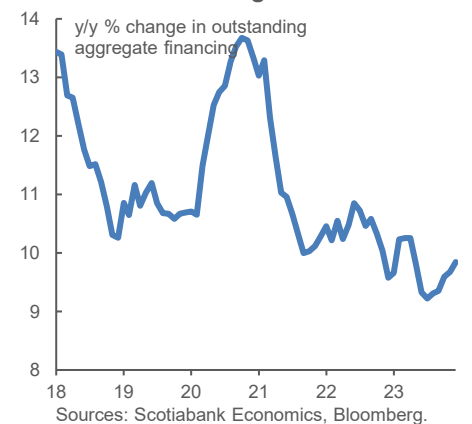
Chart 7

China's Loan Growth



Chart 8

China's Waning Total Financing Growth



That means that the cost of commuting into the office is ginormous in this city. I'm delighted to finally see the consensus of the street's economists waking up and ringing the alarm on excessive immigration as I've been arguing that for a long time now. The self-imposed problem in the office market relates to a combination of congestion in transportation networks combined with the decision to keep piling on office capacity in the downtown core while Toronto looks at massive property tax increases.

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.	4.20	4.25	4.38	3.87	3.88	4.01	3.98	3.97	4.05	4.22	4.17	4.20	Canada - BoC	5.00		
CANADA	3.81	3.83	3.90	3.30	3.31	3.35	3.25	3.24	3.26	3.21	3.18	3.17	US - Fed	5.50		
GERMANY	2.54	2.63	2.57	2.09	2.15	2.10	2.19	2.24	2.16	2.41	2.43	2.38	England - BoE	5.25		
JAPAN	0.01	0.02	0.04	0.18	0.18	0.21	0.61	0.60	0.61	1.58	1.58	1.63	Euro zone - ECB	4.50		
U.K.	4.21	4.26	4.24	3.71	3.76	3.76	3.81	3.84	3.79	4.42	4.44	4.40	Japan - BoJ	-0.10		
	Spreads vs. U.S. (bps):															
CANADA	-40	-42	-48	-57	-57	-65	-74	-73	-79	-101	-99	-103	Mexico - Banxico	11.25		
GERMANY	-166	-162	-181	-179	-173	-191	-179	-173	-189	-181	-175	-183	Australia - RBA	4.35		
JAPAN	-419	-423	-434	-369	-370	-380	-338	-336	-344	-264	-259	-258	New Zealand - RBNZ	5.50		
U.K.	1	1	-14	-17	-12	-25	-17	-12	-26	21	27	19				
Equities	Level						% change:						Next Meeting Date			
	Last			Change			1 Day		1-wk		1-mo		1-yr			
S&P/TSX	20918			-71.0			-0.3		0.2		3.4		3.5		Canada - BoC	Jan 24, 2024
Dow 30	37711			15.3			0.0		0.7		3.1		10.3		US - Fed	Jan 31, 2024
S&P 500	4780			-3.2			-0.1		2.0		2.9		20.0		England - BoE	Feb 01, 2024
Nasdaq	14970			0.5			0.0		3.2		3.0		36.1		Euro zone - ECB	Jan 25, 2024
DAX	16673			125.7			0.8		0.5		-0.7		10.7		Japan - BoJ	Jan 23, 2024
FTSE	7631			54.8			0.7		-0.8		1.2		-2.1			
Nikkei	35577			527.3			1.5		6.9		7.9		36.2			
Hang Seng	16245			-57.5			-0.4		-1.8		-3.3		-25.3			
CAC	7446			58.6			0.8		0.3		-1.3		6.7			
Commodities	Level						% change:									
WTI Crude	74.29			2.27			3.2		0.7		8.3		-5.2			
Natural Gas	3.22			0.12			3.9		11.2		39.2		-12.9			
Gold	2053.40			24.49			1.2		0.4		3.7		8.2			
Silver	23.03			0.07			0.3		0.3		0.5		-3.5			
CRB Index	264.10			1.78			0.7		-0.7		2.3		-3.5			
Currencies	Level						% change:									
USDCAD	1.3365			-0.0030			-0.2		0.0		-1.7		-0.0		Mexico - Banxico	Feb 08, 2024
EURUSD	1.0948			-0.0024			-0.2		0.0		1.4		0.9		Australia - RBA	Feb 05, 2024
USDJPY	144.99			-0.3000			-0.2		0.2		-0.3		12.2			
AUDUSD	0.6699			0.0011			0.2		-0.2		2.1		-3.9			
GBPUSD	1.2742			-0.0018			-0.1		0.2		1.4		4.4			
USDCHF	0.8531			0.0011			0.1		0.4		-2.5		-8.0			

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