

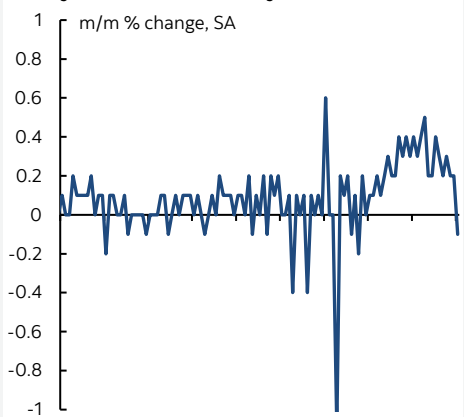
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Chart 1

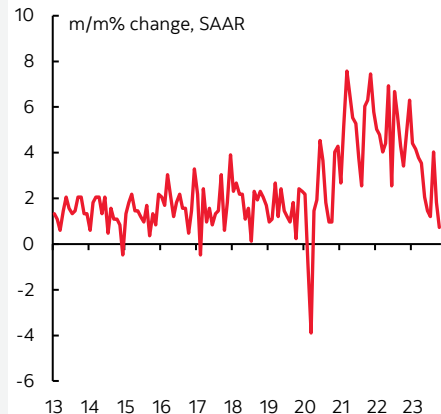
Tokyo Core Inflationary Pressure Eases



Sources: Scotiabank Economics, Bloomberg.

Chart 2

US Core PCE



Sources: Scotiabank Economics, Bureau of Economic Analysis.

On Deck for Friday, January 26

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	01-26	08:30	PCE Deflator (m/m)	Dec	0.2	0.2	-0.1
US	01-26	08:30	PCE Deflator (y/y)	Dec	2.6	2.6	2.6
US	01-26	08:30	PCE ex. Food & Energy (m/m)	Dec	0.2	0.2	0.1
US	01-26	08:30	PCE ex. Food & Energy (y/y)	Dec	3.0	3.0	3.2
US	01-26	08:30	Personal Spending (m/m)	Dec	0.5	0.5	0.2
US	01-26	08:30	Personal Income (m/m)	Dec	0.3	0.3	0.4
US	01-26	10:00	Pending Home Sales (m/m)	Dec	--	2.0	0.0

KEY POINTS:

- **Mild risk-on sentiment buoyed by central bank speculation, dampened by earnings**
- **The Fed's preferred inflation gauge may set the table for the FOMC**
- **US consumption, incomes expected to post solid growth**
- **Tokyo CPI further weakened the BoJ case to end negative rates**
- **The ECB's Vujcic gave the quote of the day**

Intel's earnings are not helping equity sentiment in the US but it's positive across TSX futures and European cash markets. The USD is a touch softer. EGBs have a slight richening bias with Canadas, gilts and US Ts slightly underperforming.

As we await US inflation, the catalysts include a) modest additional stimulus moves out of China, b) ongoing and exaggerated speculation that the ECB was dovish, and c) fresh inflation data out of Japan that continues to lessen the case to rush to hike.

The Bank of Japan won't be in any rush to end negative rates after these inflation numbers. Tokyo's core CPI ex-food and energy fell by -0.1% m/m SA (-0.3% NSA) this month. That extends the move away from hotter readings that peaked in the summer (chart 1). The JGB 2-year was slightly dearer in the aftermath. At issue is whether Spring wage negotiations add to last year's strong wage gains and translate into enough momentum in core inflation going forward to offset what may be maturing forces that previously drove greater pass through effects into underlying inflation.

The quote of the day goes to ECB Governing Council Member Vujcic who pushed back on any sense that the ECB was dovish by saying "But lately I have the feeling that markets take whatever you say as being dovish. They have been very trigger happy." Amen. ECB cut pricing for the April meeting has increased by about 6bps to price most of a 25bps reduction on the theory that Lagarde could've been more aggressive in countering nearer term easing which as far as I'm concerned is a large exaggeration.

The main focus today will be updates on the Fed's preferred inflation gauge, plus US consumer spending and incomes (8:30amET)

US core PCE will probably dominate in the context of the recently softer readings that inform debate over whether it's another temporary soft patch or something more durable. Oooh the suspense, will it be a tick higher or lower than everyone's guesstimates? Clearly the fate of the world rests upon the latest wiggle. Most estimates sit at 0.2% m/m, a tick beneath core CPI's earlier 0.3% estimate. There is a slight skewness toward 0.3% in the tails, over 0.1%. The Cleveland Fed's nowcast is roughly on the fence between 0.2-0.3%. Among the many methodological differences between CPI and the Fed's preferred PCE gauge is a much lower PCE weight on hot shelter costs.

Consumption growth should be solid given what we know about retail sales and is expected to outpace growth in incomes this time in a flip from the prior month. I'm still of the view that consumption can durably outpace income growth given wealth and liquidity effects on spending not captured in the traditional measure of the personal saving rate.

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.	4.31	4.30	4.39	4.01	4.00	4.05	4.12	4.12	4.12	4.36	4.37	4.33	Canada - BoC	5.00
CANADA	4.02	4.01	4.08	3.52	3.52	3.56	3.48	3.48	3.49	3.45	3.45	3.42	US - Fed	5.50
GERMANY	2.61	2.62	2.74	2.18	2.19	2.28	2.29	2.29	2.34	2.51	2.50	2.49	England - BoE	5.25
JAPAN	0.05	0.07	0.04	0.30	0.33	0.26	0.72	0.75	0.67	1.82	1.83	1.76	Euro zone - ECB	4.50
U.K.	4.39	4.39	4.32	3.91	3.92	3.85	3.98	3.98	3.93	4.60	4.59	4.57	Japan - BoJ	-0.10
Spreads vs. U.S. (bps):														
CANADA	-29	-29	-30	-48	-48	-49	-64	-64	-63	-91	-92	-91	Mexico - Banxico	11.25
GERMANY	-170	-168	-165	-183	-181	-177	-183	-183	-178	-186	-187	-184	Australia - RBA	4.35
JAPAN	-426	-423	-435	-370	-367	-380	-340	-337	-346	-254	-254	-257	New Zealand - RBNZ	5.50
U.K.	8	9	-7	-9	-8	-20	-14	-14	-20	23	22	24		
Equities	Level						% change:						Next Meeting Date	
	Last	Change			1 Day	1-wk	1-mo	1-yr						
S&P/TSX	21102	75.8			0.4	1.7	1.1	1.9						
Dow 30	38049	242.7			0.6	1.5	1.3	12.1						
S&P 500	4894	25.6			0.5	2.4	2.5	20.5						
Nasdaq	15511	28.6			0.2	3.0	2.9	34.7						
DAX	16932	25.2			0.1	2.3	1.4	11.9						
FTSE	7622	91.9			1.2	2.1	-1.0	-1.8						
Nikkei	35751	-485.4			-1.3	-0.6	7.3	30.7	Canada - BoC Mar 06, 2024					
Hang Seng	15952	-259.7			-1.6	4.2	-2.4	-29.3	US - Fed Jan 31, 2024					
CAC	7622	157.8			2.1	3.4	0.7	7.4	England - BoE Feb 01, 2024					
Commodities	Level						% change:						Next Meeting Date	
WTI Crude	76.80	-0.56			-0.7	4.6	1.6	-5.2	Euro zone - ECB Mar 07, 2024					
Natural Gas	2.56	-0.01			-0.4	1.6	0.4	-13.0	Japan - BoJ Mar 19, 2024					
Gold	2024.19	3.35			0.2	-0.3	-2.1	4.9	Mexico - Banxico Feb 08, 2024					
Silver	22.88	0.11			0.5	1.2	-6.5	-2.4	Australia - RBA Feb 05, 2024					
CRB Index	272.40	1.42			0.5	2.6	1.4	-2.6	New Zealand - RBNZ Feb 27, 2024					
Currencies	Level						% change:						Next Meeting Date	
USDCAD	1.3441	-0.0034			-0.3	0.1	1.9	0.9	Mexico - Banxico Feb 08, 2024					
EURUSD	1.0875	0.0029			0.3	-0.2	-1.5	-0.2	Australia - RBA Feb 05, 2024					
USDJPY	147.69	0.0300			0.0	-0.3	3.7	13.4	New Zealand - RBNZ Feb 27, 2024					
AUDUSD	0.6600	0.0015			0.2	0.0	-3.3	-7.2						
GBPUSD	1.2741	0.0033			0.3	0.3	0.1	2.7						
USDCHF	0.8632	-0.0039			-0.4	-0.6	1.1	-6.2						

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