

DAILY POINTS

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On Deck for Wednesday, February 7

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	02-07	07:00	MBA Mortgage Applications (w/w)	Feb 02	--	--	3.7
CA	02-07	08:30	Merchandise Trade Balance (C\$ bn)	Dec	--	1.0	1.6
US	02-07	08:30	Trade Balance (US\$ bn)	Dec	-62.3	-62.0	-63.2
US	02-07	15:00	Consumer Credit (US\$ bn m/m)	Dec	--	16.0	23.8
US	02-07	11:00	Fed's Kugler Speaks at Brookings Event				
US	02-07	11:30	Fed's Collins Speaks at Boston Economic Club				
US	02-07	12:30	Fed's Barkin Speaks on Outlook & Regional Economy				
CA	02-07	13:30	Bank of Canada Releases Summary of Deliberations				
US	02-07	14:00	Fed's Bowman Speaks on Supporting Small Businesses				
US	02-07	15:15	Fed's Remache Delivers Keynote Remarks at NY Fed Conference				
US	02-07	16:30	Fed's Nordstrom Speaks at NY Fed Conference				

KEY POINTS:

- **Bonds, stocks cheapen on light developments**
- **Canadian trade to further inform Q4 GDP tracking**
- **BoC's Macklem gave a green light to a surging housing market...**
- **...that he may come to regret once again**
- **The BoC's Summary of Deliberations is likely to be a snoozer**
- **More Fed-speak, light data**
- **BoT holds as it hovers around neutral**
- **It's not a good week for German forecasters**

There isn't much worth updating compared to yesterday afternoon's preview. It should be a relatively light session by way of calendar-based risks. It's also fairly quiet across markets with slight cheapening across both bonds and stocks.

Stronger than expected job market readings in New Zealand drove a bear flattener as the NZ curve underperformed others by a wide margin. The NZ\$ appreciated by about a quarter cent appreciation in the NZ\$ to the dollar. The 2s yield spiked right after the numbers and moved 12bps higher overnight. Pricing for an RBNZ rate cut got fully wiped out through to the May contract and July's pricing was reduced by about 11bps to only 10bps now as pricing for a quarter point cut was pushed out to August. The catalysts were stronger than expected wage growth (1% q/q NSA, 0.8% consensus), stronger than expected job growth (+2.4% y/y, 2.1% consensus) with upward revisions, and a lower than expected unemployment rate at 4% (3.9% prior, 4.3% consensus).

It's not a good week for German forecasters. Industrial production disappointed with a 1.6% m/m drop in December (-0.5% consensus) while the prior month's half-point upward revision explained only a part of it. That follows the huge upside beat on factory orders the other day.

The Bank of Thailand held at 2.5% as expected. The vote was split again with two in favour of a cut. Inflation forecasts could inform a bias toward mild easing, but the policy rate has been described by the Governor as neutral.

Canadian trade figures for December will further inform Q4 GDP tracking (8:30amET). So far, export volumes are tracking a rise of 3.5% q/q SAAR in Q4 with import volumes down 3%, suggesting that net trade will be a positive contributor to GDP growth alongside a soft pulled effect on imports.

US trade figures are largely known given the advance merchandise release and so today just tacks on what is usually a stable services surplus (8:30amET).

Fed-speak will continue with Governor Kugler (11amET), Boston's Collins (11:30amET), Richmond's Barkin (12:30pmET) and Governor Bowman (2pmET) on tap. There will also be late afternoon addresses offered by two non-FOMC NY Fed officials.

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The BoC releases the Summary of Deliberations that arrives two weeks after policy decisions (1:30pmET); I don't expect much from this. The Summary was introduced at the behest of the IMF's demand for greater transparency at the central bank in keeping with best global practices, but is widely viewed as a poor substitute for a proper account of the range of opinions across Governing Council.

Governor Macklem Gave Housing a Green Light to Rip Higher

BoC Governor Macklem wants you and I to think he's a powerless man when it comes to housing markets, although his message has a few holes in it (speech [here](#)). He says that the Canadian housing affordability problem is "not one that can be fixed by raising or lowering interest rates."

I don't believe him. At least not entirely. I don't think he fully believes it either. It defies common sense. In fact, in February 2023, [this](#) speech by Macklem contained a significant focus upon all the ways in which the BoC was impacting housing and how monetary policy was therefore working as intended. Rates seemed to work to address housing excesses back then. The BoC learned that lesson when it delivered its premature pause in January 2023 only to contribute to lighting up the Spring housing market last year. It's at risk of doing it again in my opinion.

And yet now, the head of a major central bank who controls monetary policy and hence interest rates, is saying he's powerless over housing affordability challenges?

He may be largely powerless over the supply side absent a world in which over a thousand BoC employees are given hammers and nails. Builders reject Macklem's assertion by saying that higher financing costs are reducing the incentive to build. I don't buy that and the Governor might have been better prepared to counter that assertion during the press conference. It's highly doubtful that builders would be better off if rates had not been raised since even more overheating would have driven even faster inflation that would have had an even stronger effect on the full range of building inputs and wages. Further, if the policy rate had not been raised, the rest of the term financing costs facing builders could have skyrocketed by more on the bond market's lack of faith in the central bank's efforts to contain inflation and hence the inflation risk premium. If the policy rate had not been raised while the Fed was jacking up its own rate, then CAD would have totally crumbled, raising costs for imported housing inputs.

But in saying he can't affect housing affordability the Governor is also implying that he has limited control over the demand side as well. Oh my. That sounds like a Governor who is washing his hands of any responsibility whatsoever for what is going on in housing markets as they light up again and that's just wrong.

Macklem has the full ability to bring housing demand into alignment with housing supply if that's what it takes to durably achieve 2% inflation *in the context of other upside risks to inflation which is the important caveat*. The fact he's not saying this should lessen everyone's confidence in his ability to do what it takes to durably contain inflation risk.

So would it be what is required to lean against housing? Is it still appropriate for the BoC to prefer clean over lean, by which I mean their assertion in years past that it's more suitable to clean up the consequences of housing excesses than lean against them? One way in which it might be suitable to lean would be if housing imbalances created large enough spillover effects into other prices, while feeding inflation expectations and wage demands. Shelter costs are not necessarily where housing pressures on inflation start and stop. Anyone who has ever bought a home knows that. It tends to drive a lot of other spending activity.

Another way in which it might be appropriate to lean against housing is if housing imbalances combined with other upside risks to inflation—that were not mentioned in his speech this time but were previously noted. These other upside risks could include still elevated inflation expectations, soaring wages, tumbling productivity, expansionary fiscal policy and upside risks to spending in the pending budget season, rising global shipping costs, painfully slow movement toward lessening capacity pressures, and an undervalued CAD. You cannot ignore housing as part of today's more complex drivers of inflation.

This is where context is important. Former Governor Poloz could say he'll accept housing imbalances and affordability pressures because inflation was low when he was Governor. It was one-handed when he cut twice in early 2015 and lit up housing over time. Governor Poloz absolutely played a part—alongside Federal stimulus—in driving the deterioration of housing affordability to among the worst in the world, but he did so under macroeconomic conditions that still kept inflation low.

Macklem cannot do the same. In the current context and starting point, any additional shock to inflation adds to serial pressures that further lessen confidence in achieving 2% inflation any time soon. Ignoring housing this time only adds another contribution to the list of serial upside shocks to inflation that feed additional pressure to demand strong wage gains out of scepticism toward ever achieving the BoC's inflation goals.

I think the Governor knows this deep down which makes his message rather muddled. For instance, when he was asked during the press conference whether he could cut if shelter cost inflation isn't coming down, here's what he had to say:

“We can't ignore shelter costs, but we don't target shelter costs we target total CPI. We're focused upon total CPI. One of the factors that's holding it up is high shelter inflation. That's something that's built into our forecast. If we gain assurance that inflation is coming down, then we can cut interest rates.”

Furthermore, when he was asked to comment on the BoC's estimates of pent-up housing demand and whether this demand could slow down the BoC's ability to cut interest rates, Macklem said this:

“We have housing rebounding in our forecast and with construction activity contributing 0.4 ppts to growth this year. There is uncertainty around prices. We are going to look at the whole economy and the evolution of the economy and how housing influences this.”

And btw, when Macklem referenced housing's contribution to GDP growth, that was the direct contribution excluding indirect multiplier effects.

So where does all of this leave us? If housing continues to light up as it has been over December and January and as I think it will through Spring in a very strong market, and if this contributes to other upside risks to inflation including after the upcoming Budget season, then the Governor will find it very difficult to ignore housing especially in the broader context. So let's see how the Governor feels come Springtime. I don't like the green light he just basically gave to housing markets into Spring as we may be on the cusp of an absolute barn burner of a market. He's turning the other cheek and signalling a willingness to totally ignore the housing market at least until he sees what happens alongside other developments.

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.	4.42	4.40	4.21	4.06	4.05	3.84	4.12	4.10	3.91	4.33	4.30	4.17	Canada - BoC	5.00	
CANADA	4.11	4.08	3.97	3.57	3.52	3.40	3.47	3.43	3.32	3.38	3.33	3.25	US - Fed	5.50	
GERMANY	2.61	2.60	2.43	2.23	2.22	2.05	2.31	2.29	2.17	2.53	2.51	2.41	England - BoE	5.25	
JAPAN	0.11	0.12	0.08	0.32	0.32	0.31	0.72	0.72	0.73	1.78	1.80	1.83	Euro zone - ECB	4.50	
U.K.	4.48	4.47	4.26	3.98	3.95	3.75	3.99	3.95	3.79	4.58	4.55	4.46	Japan - BoJ	-0.10	
	Spreads vs. U.S. (bps):														
CANADA	-31	-33	-24	-50	-52	-43	-65	-68	-59	-95	-98	-92	Mexico - Banxico	11.25	
GERMANY	-181	-181	-178	-183	-183	-179	-181	-181	-175	-180	-179	-176	Australia - RBA	4.35	
JAPAN	-431	-429	-413	-374	-373	-353	-341	-338	-318	-255	-250	-233	New Zealand - RBNZ	5.50	
U.K.	6	7	5	-9	-9	-9	-14	-15	-12	25	25	29			
Equities	Level						% change:						Next Meeting Date		
	Last	Change		1 Day	1-wk	1-mo	1-yr								
S&P/TSX	20958	85.9		0.4	-1.3	0.1	1.1							Canada - BoC	Mar 06, 2024
Dow 30	38521	141.2		0.4	0.1	2.8	12.8							US - Fed	Mar 20, 2024
S&P 500	4954	11.4		0.2	0.6	5.5	19.0							England - BoE	Mar 21, 2024
Nasdaq	15609	11.3		0.1	0.6	7.5	28.9							Euro zone - ECB	Mar 07, 2024
DAX	16993	-40.7		-0.2	0.5	2.4	10.9							Japan - BoJ	Mar 19, 2024
FTSE	7650	-31.1		-0.4	0.3	-0.5	-2.7							Mexico - Banxico	Feb 08, 2024
Nikkei	36120	-40.7		-0.1	-0.5	8.2	30.8							Australia - RBA	Mar 18, 2024
Hang Seng	16082	-55.0		-0.3	3.9	-0.9	-24.4							New Zealand - RBNZ	Feb 27, 2024
CAC	7625	-13.7		-0.2	-0.4	2.8	6.9								
Commodities	Level						% change:								
	Last	Change		1 Day	1-wk	1-mo	1-yr								
WTI Crude	73.89	0.58		0.8	-2.6	0.1	-4.2							England - BoE	Mar 21, 2024
Natural Gas	2.02	0.01		0.6	-3.7	-30.1	-21.7							Euro zone - ECB	Mar 07, 2024
Gold	2033.94	-2.20		-0.1	-0.3	-0.6	8.6							Japan - BoJ	Mar 19, 2024
Silver	22.31	-0.20		-0.9	-3.3	-2.9	-0.3							Mexico - Banxico	Feb 08, 2024
CRB Index	269.05	0.86		0.3	-1.8	1.2	-0.6							Australia - RBA	Mar 18, 2024
Currencies	Level						% change:								
	Last	Change		1 Day	1-wk	1-mo	1-yr								
USDCAD	1.3465	-0.0027		-0.2	0.2	0.9	0.5							New Zealand - RBNZ	Feb 27, 2024
EURUSD	1.0775	0.0020		0.2	-0.4	-1.6	0.5								
USDJPY	148.19	0.2500		0.2	0.9	2.7	13.1								
AUDUSD	0.6528	0.0005		0.1	-0.6	-2.9	-6.2								
GBPUSD	1.2633	0.0035		0.3	-0.4	-0.9	4.9								
USDCHF	0.8719	0.0021		0.2	1.2	2.8	-5.4								

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