

Contributors

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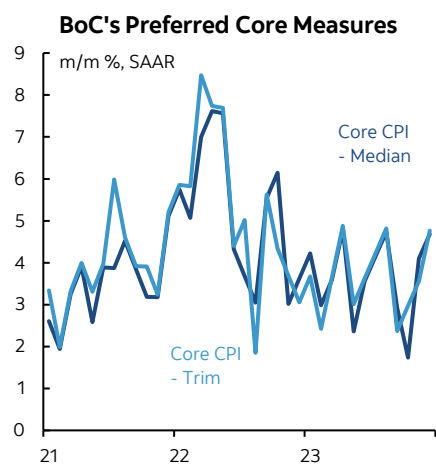
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Chart 1



Sources: Scotiabank Economics, People's Bank of China, Bloomberg.

Chart 2



Sources: Scotiabank Economics, Statistics Canada.

On Deck for Tuesday, February 20

| Country | Date | Time | Indicator | Period | BNS | Consensus | Latest |
|---------|-------|-------|--------------------------|--------|-----|-----------|--------|
| CA | 02-20 | 08:30 | Core CPI - Median (y/y) | Jan | -- | 3.6 | 3.6 |
| CA | 02-20 | 08:30 | Core CPI - Trim (y/y) | Jan | -- | 3.6 | 3.7 |
| CA | 02-20 | 08:30 | CPI, All items (m/m) | Jan | 0.6 | 0.4 | -0.3 |
| CA | 02-20 | 08:30 | CPI, All items (y/y) | Jan | 3.5 | 3.3 | 3.4 |
| CA | 02-20 | 08:30 | CPI, All items (index) | Jan | -- | 159.0 | 158.3 |
| CA | 02-20 | 08:30 | Core CPI - Common (y/y) | Jan | -- | -- | 3.9 |
| US | 02-20 | 10:00 | Leading Indicators (m/m) | Jan | -- | -0.3 | -0.1 |

KEY POINTS:

- Markets return from N.A. long weekends on cautious footings
- Canada awaits an inflation report upon which nothing rests
- PBOC sensibly holds
- Chinese banks cut their key property finance rate, buoying banks
- RBA minutes confirm hike bias
- Quiet US calendar
- Global Week Ahead reminder [here](#)

Welcome back from long weekends. We didn't miss much, but Canada will immediately liven it up with CPI on tap as the main event this morning. Chinese stocks—including banks—rallied after a key lending rate was cut. Equities elsewhere are mixed with US futures down, TSX futures steady, and mixed European exchanges. Sovereign bonds are catching a light bid led by gilts outperformance. The dollar is slightly softer on a DXY basis as Antipodean crosses outperform along with the Euro and related crosses.

PBOC Stays on Hold

The weekend only revealed that the PBOC held its policy rate at 2.5% in line with consensus but against another solid minority that speculated upon a cut. Why cut short-term rates?? The Fed's easing is being pushed out, China's core CPI in m/m terms is bouncing back a bit, and authorities are relying upon other easing measures like cutting RRRs, easing some regs and offering targeting stimulus.

Because the PBOC held, Chinese banks also left their 1-year Loan Prime Rate unchanged.

Chinese Banks Cut Property Lending Rate

Chinese banks nevertheless cut the 5-year Loan Prime Rate by 25bps to 3.95%. This measure is key to the property finance sector, as it is in Canada. The 5-year LPR can tend to move lower with a lag to the 5-year Chinese government bond yield that has declined so far this year (chart 1). Despite concerns about margins, the share prices of Chinese diversified banks gained about 1%. That doesn't mean markets are correct in evaluating the margin effects and future willingness to lend, but for now, they may be assuming that lending volumes and implications for the property sector outweigh the margin implications. Stay tuned.

RBA Minutes Handled the Hike Bias Better than the BoC

Kudos to the RBA. They avoided the BoC's mishandling of rate hike language that deleted it from the statement but retained reference to hike risk in Governor Macklem's opening remarks to his press conference and during the press conference. Instead, the minutes to the RBA's February 5th meeting reinforced its hawkishness at the time by saying that they considered a hike but decided to hold while emphasizing future hike risk should inflation prove to be sticky. That's not really new information, even though markets reacted to the

headlines. When she delivered the decision on the 5th, Governor Bullock said “a further increase in interest rates cannot be ruled out” and “we are not ruling in anything or out anything.”

Canadian CPI—Making Something Out of Nothing

As for Canadian CPI, the January estimates arrive at 8:30amET. Please see the preview in the Global Week Ahead. There is one thing I’m pretty certain of going into the numbers: any surprise will be met by overreaction in markets even though this number on its own will determine nothing at the BoC that has made it clear they are on in a longer-lived period of monitoring data and developments.

My estimate is 0.6% m/m NSA and 3.5% y/y (3.4% prior). That would translate into 0.4% m/m SA. Traditional core CPI (ex-food and energy) is estimated to have risen by about ½ m/m NSA and by 0.3% m/m SA.

At 0.6% I’m toward the upper end of consensus with a little company; the median call is 0.4%. Most shops are between 0.3 and 0.6.

Rent should be an upside contributor again. Gasoline won’t be. A rebound in the volatile recreation/education/reading category could occur and carries a 10% weight. Watch for whether core services rebound and whether core goods CPI can build upon prior momentum.

But it’s all about trimmed mean and weighted median CPI—both in m/m SAAR terms—given how clear the BoC is about those being its two preferred measures of underlying inflation and in the context of the pattern of strong readings (chart 2).

There is nothing on the go in the US today, where Trump now fashions himself to be a shoe salesman carrying Putin’s briefcase for him; would you like a shine too sir?

| 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. | 4.61 | 4.64 | 4.66 | 4.26 | 4.27 | 4.32 | 4.27 | 4.28 | 4.32 | 4.44 | 4.44 | 4.46 | Canada - BoC | 5.00 |
| CANADA | 4.30 | 4.25 | 4.21 | 3.68 | 3.63 | 3.62 | 3.59 | 3.54 | 3.54 | 3.43 | 3.41 | 3.41 | US - Fed | 5.50 |
| GERMANY | 2.80 | 2.82 | 2.77 | 2.36 | 2.39 | 2.36 | 2.38 | 2.41 | 2.39 | 2.53 | 2.57 | 2.56 | England - BoE | 5.25 |
| JAPAN | 0.15 | 0.15 | 0.13 | 0.36 | 0.36 | 0.34 | 0.73 | 0.74 | 0.73 | 1.75 | 1.78 | 1.80 | | |
| U.K. | 4.57 | 4.61 | 4.71 | 4.07 | 4.13 | 4.19 | 4.05 | 4.11 | 4.15 | 4.60 | 4.64 | 4.65 | | |
| Spreads vs. U.S. (bps): | | | | | | | | | | | | | | |
| CANADA | -32 | -39 | -45 | -58 | -64 | -70 | -69 | -74 | -78 | -101 | -103 | -105 | Euro zone - ECB | 4.50 |
| GERMANY | -182 | -183 | -189 | -190 | -189 | -196 | -189 | -187 | -192 | -191 | -187 | -191 | Japan - BoJ | -0.10 |
| JAPAN | -446 | -449 | -453 | -390 | -392 | -398 | -354 | -355 | -359 | -269 | -265 | -267 | | |
| U.K. | -5 | -3 | 5 | -18 | -14 | -13 | -22 | -17 | -16 | 16 | 21 | 19 | Mexico - Banxico | 11.25 |
| Equities | Level | | | | | | % change: | | | | | | | |
| | Last | Change | | 1 Day | | 1-wk | | 1-mo | | 1-yr | | | | |
| S&P/TSX | 21256 | 32.9 | | 0.2 | | 1.2 | | 1.7 | | 3.6 | | Australia - RBA | | 4.35 |
| Dow 30 | 38628 | -145.1 | | -0.4 | | -0.1 | | 2.0 | | 14.2 | | New Zealand - RBNZ | | 5.50 |
| S&P 500 | 5006 | -24.2 | | -0.5 | | -0.4 | | 3.4 | | 22.7 | | | | |
| Nasdaq | 15776 | -130.5 | | -0.8 | | -1.3 | | 3.0 | | 33.8 | | | | |
| DAX | 17046 | -46.3 | | -0.3 | | 1.0 | | 3.0 | | 10.1 | | | | |
| FTSE | 7732 | 3.6 | | 0.0 | | 2.9 | | 3.6 | | -3.5 | | | | |
| Nikkei | 38364 | -106.8 | | -0.3 | | 1.1 | | 6.7 | | 39.3 | | Canada - BoC | | Mar 06, 2024 |
| Hang Seng | 16248 | 91.9 | | 0.6 | | 3.2 | | 6.1 | | -22.2 | | US - Fed | | Mar 20, 2024 |
| CAC | 7786 | 17.1 | | 0.2 | | 2.1 | | 5.6 | | 6.1 | | | | |
| Commodities | Level | | | | | | % change: | | | | | | | |
| | | Change | | 1 Day | | 1-wk | | 1-mo | | 1-yr | | | | |
| WTI Crude | 78.88 | -0.31 | | -0.4 | | 2.5 | | 7.5 | | 3.3 | | England - BoE | | Mar 21, 2024 |
| Natural Gas | 1.60 | -0.01 | | -0.6 | | -9.5 | | -36.5 | | -29.7 | | Euro zone - ECB | | Mar 07, 2024 |
| Gold | 2026.20 | 8.99 | | 0.4 | | 1.7 | | -0.2 | | 10.0 | | Japan - BoJ | | Mar 19, 2024 |
| Silver | 23.09 | 0.08 | | 0.3 | | 0.7 | | 1.3 | | 8.8 | | | | |
| CRB Index | 272.59 | 1.31 | | 0.5 | | -0.6 | | 2.7 | | 1.9 | | | | |
| Currencies | Level | | | | | | % change: | | | | | | | |
| | | Change | | 1 Day | | 1-wk | | 1-mo | | 1-yr | | | | |
| USDCAD | 1.3486 | -0.0005 | | -0.0 | | -0.6 | | 0.1 | | 0.2 | | Mexico - Banxico | | Mar 21, 2024 |
| EURUSD | 1.0799 | 0.0020 | | 0.2 | | 0.8 | | -0.8 | | 1.1 | | Australia - RBA | | Mar 18, 2024 |
| USDJPY | 150.21 | 0.0800 | | 0.1 | | -0.4 | | 1.4 | | 11.9 | | | | |
| AUDUSD | 0.6557 | 0.0017 | | 0.3 | | 1.6 | | -0.2 | | -5.1 | | | | |
| GBPUSD | 1.2592 | -0.0002 | | -0.0 | | 0.0 | | -0.9 | | 4.6 | | New Zealand - RBNZ | | Feb 27, 2024 |
| USDCHF | 0.8818 | -0.0006 | | -0.1 | | -0.6 | | 1.5 | | -4.5 | | | | |

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