

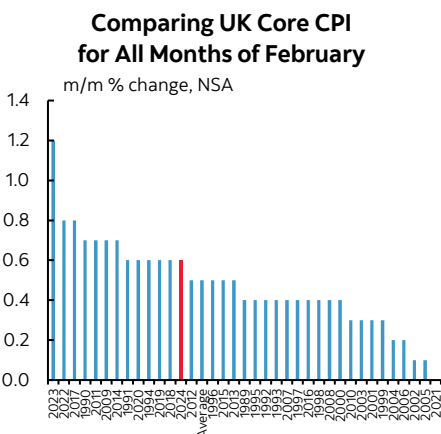
DAILY POINTS

March 20, 2024 @ 7:00 EST

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Chart 1



Sources: Scotiabank Economics, UK Office for National Statistics.

On Deck for Wednesday, March 20

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	03-20	07:00	MBA Mortgage Applications (w/w)	Mar 15	--	--	7.1
CA	03-20	13:30	Bank of Canada Releases Summary of Deliberations				
US	03-20	14:00	FOMC Interest Rate Meeting (%)	Mar 20	5.5	5.5	5.5
US	03-20	14:30	Fed Chair Powell Holds Post-Meeting Press Conference				

KEY POINTS:

- **Markets nervously await the Fed**
- **Will the FOMC’s dot plot reduce projected easing?**
- **The FOMC will advance a QT dialogue with no decisions expected**
- **Gilts outperform on a slight miss by UK CPI**

Markets are playing defence this morning in anticipation of what the Fed might deliver this afternoon. The USD is gaining against all major crosses and the trend is yet again defying expectations for broad dollar softening. Equities are flat to slightly lower across major global benchmarks. Sovereign yields are a little lower and led by the UK post-CPI.

UK CPI SLIGHTLY MISSES

UK core CPI was up 0.6% m/m NSA which was a tick faster than the historical average for like months of February (chart 1). This follows January’s softer than normal reading compared to all like months of January over time. February wasn’t light, but you could average the two and say that year-to-date core inflation has eased off from the warmer than usual reading for December.

What motivated a decline in UK yields that are outperforming other benchmarks was that the broad set of readings came in slightly softer than expected. Headline was up 0.6% m/m (0.7% consensus) and 3.4% y/y (4% prior, 3.5% consensus). Core was up 4.5% y/y (5.1% prior, 4.6% consensus).

Other overnight developments were light. Chinese banks left their 1- and 5-year Loan Prime Rates unchanged this time after the prior cut to the 5-year that is key to the property market. Bank Indonesia held as expected and remains sensitive to rocking the boat on the rupiah in relation to their policy changes compared to when the Fed eases.

FOMC EXPECTATIONS — SHIFTING DOTS, CHEAP TALK ON QT?

As for the FOMC, this will be a full set of communications including the statement (2pmET) and Summary of Economic Projections with the dot plot (2pmET) and followed by Chair Powell’s press conference at 2:30pmET.

Expect a hawkish tone that is in no rush to be easing. The dot plot may downshift from 75bps of cuts this year to two given how close the dispersion of the dots between the two estimates was at the December meeting and comments by some Fed officials. The risk is clearly lower than 75bps, not higher, but whether markets believe it relative to -75bps+ that is priced remains to be seen. It wouldn’t take much change across the individual dots to get the median projection for 75bps to move to 50bps this year. 2025 may be more interesting and uncertain; I can see pushing out and reducing the pace in 2024 but I’m not sure they’d extend that to 2025 at this point. No change in neutral at 2.5% is expected but the range may widen.

Also expect a fuller discussion on balance sheet plans including QT timelines as promised in advance by Chair Powell, but with no decision likely to be announced at this meeting. Nothing I’m reading from key Fed officials makes it sound like they think QT plans need to be adjusted imminently. A recent Bloomberg survey showed only 2 participants expecting

an announcement to adjust QT at this meeting and only a minority expecting an announcement in May. Most expect June or later.

The macro backdrop for the meeting remains one of resilience. Q1 GDP nowcasts are in the 2% vicinity after 3.2% q/q SAAR growth in Q4 which continues to showcase resilience. In fact, economists are repeating the pattern of revising up Q1 GDP growth expectations in consensus estimates (chart 2). Wage growth in m/m SAAR terms was on an upward trend since late last summer and eclipsing productivity growth but suffered a set back to start the new year. Core CPI inflation has surprised higher for the past two months and is trending well above 2% in m/m SAAR terms over the past four months (chart 3). Core PCE has surprised higher once and with the February print not due until next week but expected to put in another 0.3–0.4 reading. Nonfarm gains were revised lower but the 3-month MA is still averaging 265k/month over the latest three months which remains above estimates of a rate of gains that would be compatible with longer-run labour force expansion.

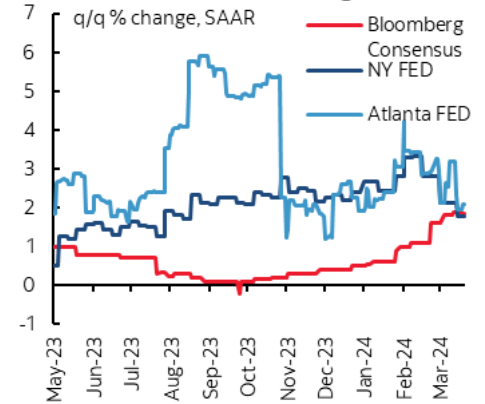
**OTHER STUFF**

I wouldn't pay much attention to the BoC's Summary of Deliberations in the lead up to the March 6th decision (1:30pmET). Deputy Governor Gravelle's speech tomorrow might offer the BoC's reaction to yesterday's CPI which would make it more relevant given that the balance sheet focus is less pertinent after Governor Macklem's remarks.

Banco Central do Brasil is expected to cut by 50bps later today which would take the Selic rate down to 10.75% for a cumulative 300bps of easing dating back to August and with more to come (5:30pmET).

Chart 2

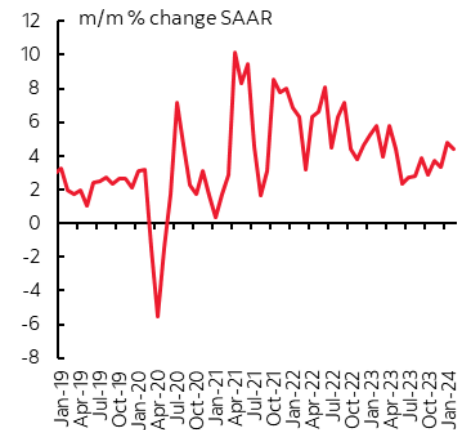
**Most Forecasters Are Marking Up US Q1 GDP Estimates Again**



Sources: Scotiabank Economics, NY Fed, Atlanta FED, Bloomberg.

Chart 3

**US Core CPI Inflation Sticky**



Sources: Scotiabank Economics, BLS.

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.	4.67	4.69	4.64	4.28	4.30	4.20	4.28	4.29	4.19	4.43	4.44	4.34	Canada - BoC	5.00
CANADA	4.14	4.17	4.15	3.53	3.56	3.50	3.48	3.52	3.42	3.38	3.42	3.32	US - Fed	5.50
GERMANY	2.90	2.92	2.89	2.43	2.45	2.39	2.42	2.45	2.37	2.57	2.61	2.52	England - BoE	5.25
JAPAN	0.18	0.18	0.20	0.38	0.38	0.38	0.74	0.74	0.77	1.81	1.81	1.82		
U.K.	4.24	4.26	4.27	3.91	3.95	3.94	4.01	4.06	4.02	4.48	4.51	4.47		
	Spreads vs. U.S. (bps):													
CANADA	-53	-51	-48	-76	-74	-70	-79	-77	-77	-105	-103	-102	Euro zone - ECB	4.50
GERMANY	-177	-177	-175	-185	-185	-181	-186	-184	-182	-186	-183	-182	Japan - BoJ	-0.10
JAPAN	-449	-450	-444	-391	-392	-382	-354	-355	-342	-262	-263	-252		
U.K.	-43	-43	-36	-37	-34	-26	-26	-24	-17	5	7	13	Mexico - Banxico	11.25
Equities	Level						% change:							
	Last			Change	1 Day	1-wk	1-mo	1-yr						
S&P/TSX	21861			23.4	0.1	0.1	3.0	12.0					Australia - RBA	4.35
Dow 30	39111			320.3	0.8	0.3	1.4	21.3					New Zealand - RBNZ	5.50
S&P 500	5179			29.1	0.6	0.1	4.1	31.0						
Nasdaq	16167			63.3	0.4	-0.6	3.4	38.5						
DAX	18020			32.7	0.2	0.3	5.6	20.7						
FTSE	7723			-15.4	-0.2	-0.6	0.0	4.3						
Nikkei	40004			263.2	0.7	3.1	4.3	48.5					Canada - BoC	Apr 10, 2024
Hang Seng	16543			13.6	0.1	-3.2	1.8	-12.9					US - Fed	Mar 20, 2024
CAC	8157			-43.9	-0.5	0.2	4.6	16.3						
Commodities	Level						% change:							
			Change	1 Day	1-wk	1-mo	1-yr							
WTI Crude	82.20		-1.27	-1.5	3.1	5.1	21.5					England - BoE	Mar 21, 2024	
Natural Gas	1.73		-0.02	-0.9	4.2	9.6	-22.3							
Gold	2154.49		-3.10	-0.1	-0.9	6.4	8.9					Euro zone - ECB	Apr 11, 2024	
Silver	24.93		-0.25	-1.0	2.3	8.0	13.9							
CRB Index	286.86		-0.38	-0.1	3.1	5.9	12.4					Japan - BoJ	A Field Not Applica	
Currencies	Level						% change:							
			Change	1 Day	1-wk	1-mo	1-yr							
USDCAD	1.3598		0.0031	0.2	0.9	0.6	-0.5					Mexico - Banxico	Mar 21, 2024	
EURUSD	1.0843		-0.0023	-0.2	-1.0	0.3	1.1							
USDJPY	151.65		0.7900	0.5	2.6	1.1	15.5					Australia - RBA	May 07, 2024	
AUDUSD	0.6518		-0.0014	-0.2	-1.6	-0.5	-3.0							
GBPUSD	1.2699		-0.0023	-0.2	-0.8	0.6	3.4					New Zealand - RBNZ	Apr 09, 2024	
USDCHF	0.8908		0.0027	0.3	1.4	1.0	-4.1							

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