

### DAILY POINTS

May 27, 2024 @ 7:50 EST

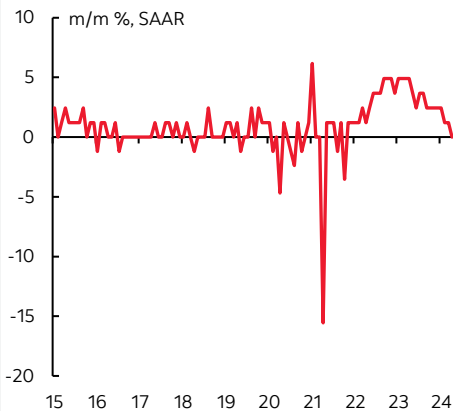
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Chart 1

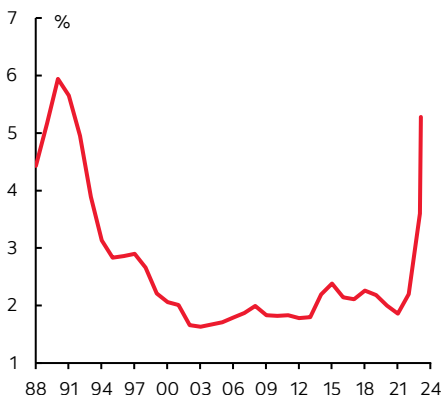
#### Japanese Core Inflation



Sources: Scotiabank Economics, Ministry of Internal Affairs and Communications.

Chart 2

#### Japan's Spring Wage Negotiations



Sources: Scotiabank Economics, Ministry of Health, Labor & Welfare.

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
No Scheduled Events							

#### KEY POINTS:

- Quiet markets with the US and UK on holiday
- BoJ officials jawbone imaginary progress...
- ...perhaps because the alternative would torpedo the yen
- German business confidence is stable
- Canada quiet with an empty calendar, absent foreign participants
- The Top Five things to watch on the Global Week Ahead calendar...
- ...with most of the macro risk focused upon Friday...
- ...when Canadian GDP, US core PCE, EZ CPI and China PMIs arrive

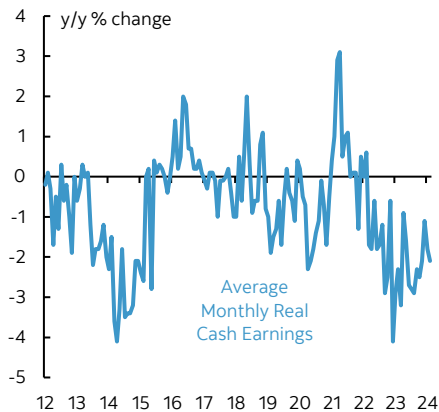
It's a very quiet start to the week. The US is out for Memorial Day, the UK is out for another bank holiday and there are only minor macro developments mainly focused upon BoJ comments. Canadian markets will be quiet with nothing on the domestic calendar and with major foreign buyers out. I'll highlight the week's main macro expectations.

Comments from the Bank of Japan mildly reinforced sentiment toward further BoJ hikes this year despite the lack of a convincing case for doing so. DepGov Uchida said "the end of our battle is in sight" in reference to getting inflation expectations durably set at 2%. That—along with indirect comments by Governor Ueda—was taken as a further signal in favour of additional policy rate hikes this year. Markets have about 30bps of additional hikes priced by year-end.

While year-over-year Japanese inflation is still over 2% it has been falling since the start of last year. That's because month-over-month pressures on core inflation have waned and have hit 0% m/m SAAR in each of the past couple of months (chart 1). Further, Japan's Shunto wage negotiations that struck strong gains last year and this year (chart 2) have yet to turn around falling real wages (chart 3) partly because those negotiations affect less than one-in-five Japanese workers. Japan's economy is shrinking as evidenced by a 3.6% q/q SAAR decline in 2023Q3, a flat reading in Q4, and another 2% drop in 2024Q1 (chart 4).

Chart 3

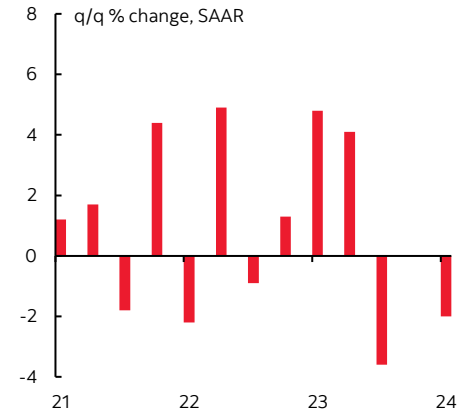
#### Still No Real Wage Inflation In Japan



Source: Scotiabank Economics, Ministry of Health, Labour and Welfare, Japan.

Chart 4

#### Japan's GDP Slowed Down



Sources: Scotiabank Economics, Economic and Social Research Institute Japan.

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So why are the BoJ officials seemingly whistling by the graveyard? Maybe because to do anything other than speak of hikes would further destabilize the yen that has depreciated from about 141 at the start of this year to about 157 now, bringing out government intervention around the end of April.

Other overnight developments only included German IFO business confidence during May that held unchanged as a slight downtick in the current assessment was offset by a slight gain in the expectations component.

There are no Canadian releases on tap today. Local market drivers this week will include bank earnings starting tomorrow with BNS and with GDP updates for Q1, March and the preliminary April reading on tap this Friday.

### THE WEEK'S TOP FIVE DEVELOPMENTS

There is no Global Week Ahead article this week as I was away last week, but here are the key developments to watch out for this week.

#### Canadian GDP—Blowing the BoC's Narrative?

GDP figures on Friday will be the final significant releases ahead of the BoC decision one week from Wednesday. Q1 GDP is widely expected to land somewhere between about 2% and 2½% q/q SAAR. There is significant uncertainty in both directions given that key components like parts of the services sector and inventory contributions are difficult to estimate in the absence of enough data. The BoC's April MPR had forecast Q1 at 2.8% q/q SAAR which was a major upgrade from its view in the January MPR when they forecast basically no growth (0.5% q/q SAAR).

More important than Q1 could be the estimate for March GDP relative to Statcan guidance on April 30<sup>th</sup> that it was “essentially unchanged,” plus the advance ‘flash’ estimate for April. I wouldn't be surprised to see a slight dip in March GDP. April GDP could get a solid lift from drivers like a large 0.8% m/m SA jump in hours worked after the prior -0.3% drop, given that GDP is hours times labour productivity. Tracking also points to gains in retail and manufacturing sales volumes but a slight slip in housing starts during April. Overall, I wouldn't be surprised to see April's preliminary estimate land at a similar rate to the 0.4% gain in February that itself was the hottest print since May of last year.

If so, then Q2 GDP could have a running head start with over 1% q/q SAAR growth baked in just based on the Q1 average and April estimate while assuming no change in May and June solely in order to focus the math on the effects of what may be known come Friday. So, after Q4 surprised the BoC by about a percentage point higher than they had forecast and if Q1 is around 2–2.5% and Q2 has a running head start, then these are material upside surprises to the BoC's more dovish narrative earlier in the year that H1 would be peak pain for the Canadian economy.

#### Eurozone CPI—The Last One before the June ECB

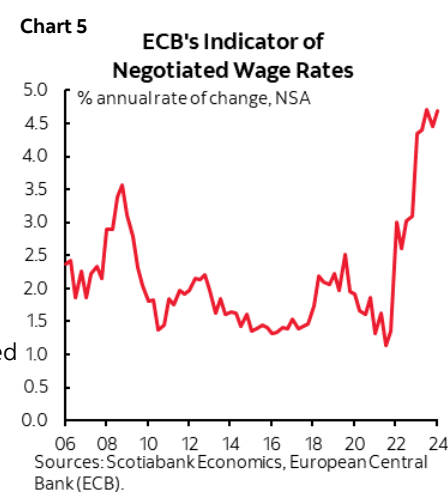
The last inflation print before the June 6<sup>th</sup> ECB decision lands on Friday and it would probably take a big surprise to knock them off course from a largely priced cut. Consensus is expecting a reading around 0.2% m/m NSA that would keep the y/y rate floating around 2½% y/y and with core at about 2.7%. What's more likely is that any surprise in either direction could impact pricing beyond the June meeting. Last week's negotiated wage figure of 4.7% q/q at an annualized but seasonally unadjusted rate (chart 5) kept the figures toward the high end of the recent range and leans toward a very cautious path after next week if they do indeed decide to cut.

#### US PCE Inflation—Will it Follow Core CPI?

PCE inflation for April arrives on Friday and the key question is the degree to which the Fed's preferred inflation gauge will follow CPI that was released on May 15<sup>th</sup>. Recall that CPI was up by 0.3% m/m SA with core CPI up 0.3%. Consensus is split between 0.2% and 0.3% m/m SA for core PCE. 0.2 could reinforce pricing for rate cuts this year, while 0.3% could push against such pricing.

#### The Q2 Canadian Bank Earnings Season

My employer BNS kicks off Q2 earnings releases tomorrow and will be followed by BMO and National Bank the next day, then RBC and CIBC on Thursday with Laurentian and Canadian Western Bank following on Friday. TD had already released last week and faced idiosyncratic challenges but the bank earnings season begins in earnest tomorrow.



**China PMIs—Still Signalling Modest Growth?**

Thursday evening (ET, Friday in China) will bring out the May readings for the state’s purchasing managers indices. They are expected to continue to showcase modest growth.

There are quite a few other global macro reports out this week that will be previewed and recapped in daily notes, but these are the main 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.	4.95	4.95	4.85	4.53	4.53	4.47	4.47	4.47	4.45	4.57	4.57	4.58	Canada - BoC	5.00
CANADA	4.25	4.23	4.23	3.70	3.68	3.69	3.62	3.60	3.62	3.49	3.46	3.48	US - Fed	5.50
GERMANY	3.07	3.09	2.99	2.64	2.65	2.57	2.58	2.58	2.53	2.70	2.70	2.67	England - BoE	5.25
JAPAN	0.35	0.34	0.34	0.60	0.59	0.58	1.03	1.01	0.98	2.18	2.17	2.08		
U.K.	4.50	4.50	4.31	4.18	4.17	4.01	4.26	4.26	4.13	4.71	4.70	4.60		
	Spreads vs. U.S. (bps):													
CANADA	-70	-72	-62	-83	-85	-77	-85	-87	-82	-108	-111	-110	Euro zone - ECB	4.50
GERMANY	-187	-186	-186	-189	-188	-189	-189	-188	-192	-187	-187	-192	Japan - BoJ	-0.10
JAPAN	-460	-461	-451	-393	-394	-389	-344	-346	-346	-239	-240	-250		
U.K.	-45	-45	-54	-35	-36	-46	-20	-21	-32	14	13	2		
Equities	Level					% change:								
	Last	Change			1 Day	1-wk	1-mo	1-yr						
S&P/TSX	22321	120.1			0.5	0.1	1.6	12.1		Australia - RBA	4.35			
Dow 30	39070	4.3			0.0	-2.3	2.2	18.1						
S&P 500	5305	36.9			0.7	0.0	4.0	26.1		New Zealand - RBNZ	5.50			
Nasdaq	16921	184.8			1.1	1.4	6.2	30.4						
DAX	18718	24.7			0.1	-0.3	3.1	17.1						
FTSE	8318	-21.6			-0.3	-1.2	2.2	9.1						
Nikkei	38900	253.9			0.7	-0.4	2.5	25.8		Canada - BoC	Jun 05, 2024			
Hang Seng	18827	218.4			1.2	-4.1	6.7	0.4		US - Fed	Jun 12, 2024			
CAC	8103	8.4			0.1	-1.1	0.2	10.7						
Commodities	Level					% change:								
		Change			1 Day	1-wk	1-mo	1-yr						
WTI Crude	78.19	0.47			0.6	-2.0	-6.8	7.6		England - BoE	Jun 20, 2024			
Natural Gas	2.53	0.01			0.3	-8.1	56.6	15.9						
Gold	2343.97	10.15			0.4	-3.4	5.1	20.4		Euro zone - ECB	Jun 06, 2024			
Silver	30.59	0.05			0.2	3.1	12.8	30.6		Japan - BoJ	June 14, 2024			
CRB Index	294.28	0.50			0.2	0.2	-0.9	12.9						
Currencies	Level					% change:								
		Change			1 Day	1-wk	1-mo	1-yr						
USDCAD	1.3655	-0.0010			-0.1	0.2	-0.0	0.5		Mexico - Banxico	Jun 27, 2024			
EURUSD	1.0859	0.0012			0.1	0.0	1.3	1.4						
USDJPY	156.88	-0.1100			-0.1	0.4	0.3	11.7		Australia - RBA	Jun 18, 2024			
AUDUSD	0.6646	0.0018			0.3	-0.3	1.2	1.6						
GBPUSD	1.2753	0.0016			0.1	0.4	1.5	3.2		New Zealand - RBNZ	Jul 09, 2024			
USDCHF	0.9141	-0.0006			-0.1	0.4	0.4	1.1						

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