

DAILY POINTS

June 5, 2024 @ 7:05 EST

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On Deck for Wednesday, June 5

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	06-05	07:00	MBA Mortgage Applications (w/w)	May 31	--	--	-5.7
US	06-05	08:15	ADP Employment Report (000s m/m)	May	175	175.0	192.0
CA	06-05	08:30	Productivity (q/q a.r.)	1Q	-1	-0.1	0.4
CA	06-05	09:45	BoC Interest Rate Announcement (%)	Jun 5	5.00	4.75	5.00
US	06-05	10:00	ISM Non-Manufacturing Composite	May	50.5	51.0	49.4

KEY POINTS:

- **Constructive global market risk appetite awaits the BoC, US data**
- **To cut today would violate the BoC’s communications...**
- **...cave to markets...**
- **...further embolden the recent easing of financial conditions...**
- **...is not required by the fundamentals like strong consumer spending...**
- **...that favour gathering more evidence...**
- **...but could carry spillover effects into other markets**
- **MXN rallies on post-election volatility**
- **India’s stock market rallies as Modi’s coalition comes together**
- **US ADP, ISM-services on tap**

We’re starting off with a bit more of a constructive tone in terms of market risk appetite this morning. Equities are gently higher, the dollar is little changed, oil prices are stable and sovereign bonds are slightly cheaper across US Ts, gilts and EGBs. The Mexican peso is outperforming all other crosses this morning on post-election volatility and perhaps second thoughts on the implications. The Indian equity casino rallied by over 3% overnight to claw back some of the prior session’s election-driven losses as a coalition appears to be coming together in support of Modi.

The Bank of Canada is obviously the main event this morning (statement 9:45amET, presser 10:30amET). Today is ‘live’ for a first cut, and so are the July and later meetings. Markets are mostly priced for a 25bps cut which the BoC doesn’t really care about given their track record of doing what they think is best. Of the overly diluted consensus of 30 forecasters (30? Canada???), 21 have a cut, nine of us have a hold at 5%; they also don’t much care about that either. Of the big banks who follow it closest there is a split, although one in particular is hedging with two forecasts but only one is included in the Bloomberg consensus.

A full set of arguments for going either in June or delaying until July or later are fully explored in my Global Week Ahead with the public edition [here](#). I’m super confident that holding is the right thing to do. It’s the BoC’s reaction function that has me worried.

Cutting now would violate Macklem’s guidance on May 2<sup>nd</sup>. Cutting now would negate the huge information advantage to deferring to the July meeting. Cutting now would mean rewriting the final paragraph of the April statement when nothing much has really changed since then!

How so? Inflation in y/y headline terms at 2.7% now is only one-tick lower than it was when they said it was “still too high” and that “risks remain” in the April statement. They were clear in stating that “Council will be looking for evidence that this downward momentum is sustained.” If it was still too high then and therefore they hadn’t arrived at the point of judging it to be sustained, then why would they be cutting now?

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To cut now would be a massive communications misstep given that the Governor has been consistently saying they want to see a period of low inflation, then have the confidence that it will be sustained, and only then begin a discussion on when to cut and that they require “months” of further evidence.

Macklem’s guidance and our careful analysis suggest that rushing a cut today would be unwise from both a communications and fundamentals standpoint and that the market is overpriced. If they cut, they have a lot of explaining to do versus the much easier path of sounding more dovish and open to July. The BoC is being pushed by markets here and we’ll see if they have the courage to push back.

It’s not inconceivable that the effects of the BoC’s decision could spill over into other markets as we’ve seen at times when significant regional central banks can surprise. The RBA is another example that has punched above its weight at times. For instance, a BoC cut could embolden market views that the Fed is still on track for easing.

I still think that a cut could drive a further rally in Canada 2s and 5s in a broader easing of financial conditions based on many meetings with global accounts that consistently signal interest in Canada, but that they are awaiting the first clear sign that a cycle has begun before piling in. You’re gonna swamp the boat with a cut folks. Some of the effect has been driving the 30bps rally in 5s over just the past week and the BoC has to be aware of the potential that a cut would drive even easier conditions especially on undershooting risks. The BoC is not typically very market savvy and so it’s unclear whether they would take this effect into consideration.

A hold with a reasonably clear cut bias could retain some of the recent curve richening but with greater risk of cheapening. Repeating that they are seeing what they need to see and just want to have more comfort while monitoring a little more evidence could be the best scenario in terms of managing risks.

The worst scenario for bonds would be a BoC hold with an open bias that says they just haven’t seen enough evidence and see ongoing inflation risks which would largely repeat April’s statement. You’d have to tamp down July odds and question the recent rally in 5s.

I don’t think we can expect much by way of forward guidance beyond the very near-term from this decision and presser. Macklem has said that they will proceed carefully and methodically with no preset path and he’s likely to repeat that.

### **Things Not Named the BoC**

Other than the BoC, US ADP payrolls (8:15amET) are irrelevant to nonfarm expectations, but markets often react regardless even though they’ve had plenty of evidence over time that ADP throws off head fakes in serial fashion. US ISM-services (10amET) may also matter shortly after the BoC’s statement. We also get what is likely to be another drop in Canadian productivity when Q1 figures land (8:30amET).

For more on the BoC see my Global Week Ahead and yesterday afternoon’s chat room post.

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.	4.78	4.77	4.97	4.36	4.35	4.63	4.34	4.33	4.61	4.48	4.47	4.73	Canada - BoC	5.00
CANADA	4.06	4.05	4.32	3.51	3.50	3.82	3.45	3.45	3.76	3.32	3.32	3.60	US - Fed	5.50
GERMANY	3.00	2.99	3.10	2.58	2.58	2.72	2.53	2.53	2.69	2.67	2.68	2.82	England - BoE	5.25
JAPAN	0.36	0.38	0.38	0.57	0.61	0.64	1.02	1.03	1.09	2.19	2.21	2.22		
U.K.	4.39	4.35	4.56	4.11	4.09	4.30	4.20	4.18	4.40	4.63	4.61	4.86		
Spreads vs. U.S. (bps):														
CANADA	-72	-72	-66	-85	-84	-81	-89	-88	-86	-116	-115	-114	Euro zone - ECB	4.50
GERMANY	-179	-178	-187	-178	-177	-192	-181	-179	-192	-181	-180	-192	Japan - BoJ	-0.10
JAPAN	-442	-439	-459	-379	-374	-399	-332	-330	-353	-229	-227	-252		
U.K.	-40	-42	-41	-25	-26	-34	-13	-15	-21	15	14	12	Mexico - Banxico	11.00
Equities	Level						% change:							
	Last			Change	1 Day	1-wk	1-mo	1-yr						
S&P/TSX	21978			-138.5	-0.6	-1.3	0.1	10.3					Australia - RBA	4.35
Dow 30	38711			140.3	0.4	-0.4	0.1	15.3					New Zealand - RBNZ	5.50
S&P 500	5291			7.9	0.2	-0.3	3.2	23.8					Next Meeting Date	
Nasdaq	16857			28.4	0.2	-1.0	4.3	27.4					Canada - BoC	Jun 05, 2024
DAX	18561			155.6	0.8	0.5	3.1	16.3					US - Fed	Jun 12, 2024
FTSE	8257			25.4	0.3	0.9	0.5	8.7					England - BoE	Jun 20, 2024
Nikkei	38490			-347.3	-0.9	-0.2	0.7	19.5					Euro zone - ECB	Jun 06, 2024
Hang Seng	18425			-19.2	-0.1	-0.3	-0.3	-3.6					Japan - BoJ	June 14, 2024
CAC	8001			62.8	0.8	0.8	0.5	11.1					Mexico - Banxico	Jun 27, 2024
Commodities	Level						% change:							
				Change	1 Day	1-wk	1-mo	1-yr						
WTI Crude	73.47			0.22	0.3	-7.3	-5.9	1.8					Australia - RBA	Jun 18, 2024
Natural Gas	2.64			0.05	2.0	5.8	23.1	17.5					New Zealand - RBNZ	Jul 09, 2024
Gold	2333.53			6.52	0.3	-0.2	4.6	18.9						
Silver	29.71			-0.67	-2.2	-5.9	12.1	24.4						
CRB Index	286.27			-2.82	-1.0	-4.6	-0.1	9.9						
Currencies	Level						% change:							
				Change	1 Day	1-wk	1-mo	1-yr						
USDCAD	1.3682			0.0006	0.0	-0.3	0.1	1.8						
EURUSD	1.0867			-0.0012	-0.1	0.6	0.9	1.4						
USDJPY	156.06			1.1800	0.8	-1.0	1.4	11.8						
AUDUSD	0.6642			-0.0007	-0.1	0.5	0.3	0.4						
GBPUSD	1.2770			0.0000	0.0	0.5	1.7	2.7						
USDCHF	0.8924			0.0022	0.2	-2.3	-1.5	-1.5						

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