

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	06-12	07:00	MBA Mortgage Applications (w/w)	Jun 07	--	--	-5.2
US	06-12	08:30	CPI (m/m)	May	0.2	0.1	0.3
US	06-12	08:30	CPI (y/y)	May	3.5	3.4	3.4
US	06-12	08:30	CPI (index)	May	--	314.4	313.5
US	06-12	08:30	CPI ex. Food & Energy (m/m)	May	0.3	0.3	0.3
US	06-12	08:30	CPI ex. Food & Energy (y/y)	May	3.5	3.5	3.6
US	06-12	14:00	FOMC Interest Rate Meeting (%)	Jun 12	5.5	5.5	5.5
US	06-12	14:00	Treasury Budget (US\$ bn)	May	--	-276.5	209.5
US	06-12	14:30	Fed Chair Powell Holds Post-Meeting Press Conference				

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Chart 1

#### US Inflation Showing Falling Breadth

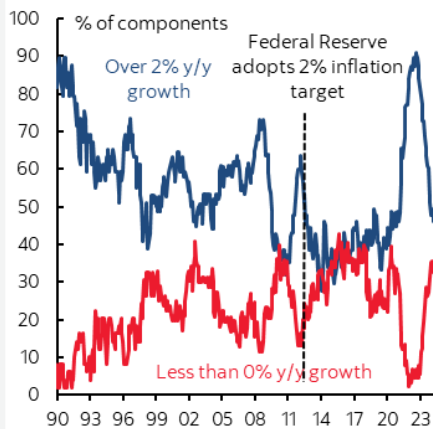
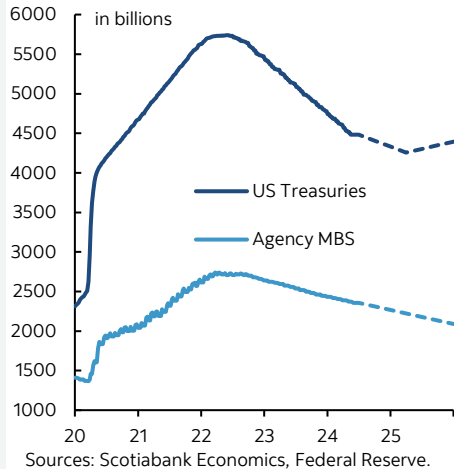


Chart 2

#### The Fed's Balance Sheet Plans



### KEY POINTS:

- **Markets face the week's biggest tests today**
- **Today's US CPI on its own won't sway the FOMC**
- **FOMC expectations: rates on hold, balance sheet on autopilot...**
- **...dot plot to downgrade cuts...**
- **...and GDP forecast may be lowered, with minor PCE and UR changes...**
- **...as Powell retains cautious optimism on dual mandate progress**
- **Scotia's tentative call remains September for a first cut**
- **Macklem, Villeroy and Nagel will be on a post-Fed panel**

Today will probably be the biggest day of the week for global macro risk. US CPI and the FOMC will dominate.

### US CPI Expectations—Just One of Several Before Cut Risk May Grow

CPI for May arrives at 8:30amET. Lower SA gasoline prices and little change in food prices are expected to drive a softer headline CPI reading in m/m SA terms than core. 57 of 69 in consensus expect 0.3 for core with the remainder in the 0.2 camp. The Cleveland Fed's 'nowcast' sits at 0.1 for headline and 0.3 for core. Drivers are discussed in my week ahead article ([here](#)). Evidence on breadth that has been improving will also matter (chart 1).

How much of an effect will this report have on FOMC expectations going forward? Not much on its own because a) it's not the Fed's preferred inflation gauge, and b) the FOMC requires more than one report to give it confidence to ease. It's more about passing the time trading market volatility before the Fed's communications arrive this afternoon. This is just one of four CPI and three PCE reports before Scotia's first cut may be delivered at the September FOMC meeting. That's a tonne of price information still ahead of us.

### FOMC Expectations

As for the Fed, the statement and Summary of Economic Projections including the 'dot plot' arrive at 2pmET. Chair Powell's press conference starts at 2:30pmET and will last for up to an hour, probably less. Obviously no policy changes are expected. Balance sheet plans are on autopilot since they adjusted QT parameters on May 1st and only began to implement the changes at the start of this month. Chart 2 shows an optimistic path.

Key will be a) the dot plot, b) the economic projections, and c) the presser.

On the dot plot, there is a very low hurdle set to lower this year's cuts from 75bps to 50bps as it would only take one dot to shift to make that happen. While there will probably be more at 0bps or 25bps for this year, I don't expect enough dots and the composition of those dots to change toward those votes. As for next year's dot plot? Oh please. The further out in time the dots go, the worse and worse their performance against what the Fed actually does becomes. If markets haven't learned that by now then there's no hope.

On the projections, the last projection in March was high on GDP growth in 2024 and 2025 compared to our just published update and so the Committee might revise lower in part given the way the year's math began in Q1. On core PCE inflation, we're a tick or two lower in 2024 -25 than the March SEP. And on the unemployment rate, our projection is similar to the March SEP.

On the presser, I expect Powell to say they don't have the requisite 'greater confidence' that they are on track toward achieving dual mandate goals at this point, but to continue to sound cautiously optimistic that core inflation will ease going forward and to continue to emphasize how the economy is rebalancing. This morning's CPI update will likely get a nod one way or the other, but with the requirement for more data whatever the outcome.

Soft Q1 GDP growth of 1.3% q/q SAAR is one example of how the economy may be rebalancing. Excess demand moved marginally lower in an output gap framework sense, but volatile tracking for Q2 points to a pick up. Potential GDP growth is getting support from trend gains in productivity and population albeit somewhat inconsistently and with population forecasts very dependent on the US election. Job growth is solid, but openings to unemployed continue to trend lower which is one indication of a rebalancing labour market. I think the arguments for slower growth going forward are stronger than they've been in the past couple of years including market tightening of Fed rate cut pricing, tighter lending conditions, the strong dollar's effects on net trade, that fiscal policy is now a drag on GDP growth and that the US election may induce weaker confidence to invest amid uncertainty over the outcome and the policy implications.

Overall, expect Powell to repeat that monetary policy is working, they are getting there, but have more work to do. He may not sound as opposed to going in July as he sounded ahead of June, however, given that we get two more CPI reports and two more PCE reports before the July 31st statement after which they slip away for summer.

As an aside, BoC Governor Macklem is on a 3:30pmET panel titled 'Overcoming Economic Volatility' along with a pair of ECB officials (Villeroy and Nagel) right after Chair Powell's presser amid low expectations for reliable guidance despite the IMF's latest rebuke when they called for better communication by the BoC ([here](#)). Amen.

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.	4.84	4.84	4.72	4.41	4.42	4.30	4.40	4.41	4.28	4.53	4.54	4.43	Canada - BoC	4.75
CANADA	3.98	3.99	4.05	3.50	3.52	3.50	3.48	3.50	3.45	3.40	3.42	3.32	US - Fed	5.50
GERMANY	3.02	3.02	2.98	2.64	2.65	2.56	2.60	2.62	2.51	2.75	2.77	2.65	England - BoE	5.25
JAPAN	0.35	0.37	0.36	0.56	0.60	0.57	0.99	1.03	1.02	2.15	2.18	2.19		
U.K.	4.34	4.35	4.37	4.13	4.15	4.10	4.25	4.27	4.18	4.71	4.73	4.61		
	Spreads vs. U.S. (bps):													
CANADA	-85	-84	-67	-91	-90	-79	-92	-90	-83	-113	-112	-111	Euro zone - ECB	4.25
GERMANY	-182	-182	-174	-178	-177	-174	-180	-178	-176	-179	-176	-178	Japan - BoJ	-0.10
JAPAN	-449	-446	-436	-386	-382	-372	-341	-338	-326	-238	-236	-224		
U.K.	-50	-49	-35	-28	-27	-20	-15	-14	-9	18	20	18	Mexico - Banxico	11.00
Equities	Level						% change:							
	Last			Change			1 Day	1-wk	1-mo	1-yr				
S&P/TSX	21887			-182.4			-0.8	-0.4	-1.9	9.9			Australia - RBA	4.35
Dow 30	38747			-120.6			-0.3	0.1	-1.9	13.7				
S&P 500	5375			14.5			0.3	1.6	2.9	23.9			New Zealand - RBNZ	5.50
Nasdaq	17344			151.0			0.9	2.9	6.1	28.8				
DAX	18473			102.6			0.6	-0.6	-1.6	14.8				
FTSE	8203			55.4			0.7	-0.5	-2.7	8.4				
Nikkei	38877			-258.1			-0.7	1.0	1.7	19.9			Canada - BoC	Jul 24, 2024
Hang Seng	17938			-238.5			-1.3	-2.7	-5.4	-7.6			US - Fed	Jun 12, 2024
CAC	7824			34.3			0.4	-2.3	-4.8	7.9			England - BoE	Jun 20, 2024
Commodities	Level						% change:							
WTI Crude	78.81			0.91			1.2	6.4	0.7	17.4			Euro zone - ECB	Jul 18, 2024
Natural Gas	3.08			-0.05			-1.7	11.6	36.6	35.7				
Gold	2313.49			-3.52			-0.2	-1.8	3.7	18.2			Japan - BoJ	June 14, 2024
Silver	29.25			-0.44			-1.5	-1.5	2.1	20.3				
CRB Index	292.75			1.36			0.5	2.3	1.1	13.9			Mexico - Banxico	Jun 27, 2024
Currencies	Level						% change:							
USDCAD	1.3747			-0.0011			-0.1	0.4	0.6	2.8			Australia - RBA	Jun 18, 2024
EURUSD	1.0755			0.0014			0.1	-1.0	-0.3	-0.0			New Zealand - RBNZ	Jul 09, 2024
USDJPY	157.35			0.2200			0.1	0.8	0.7	12.7				
AUDUSD	0.6614			0.0008			0.1	-0.5	0.1	-2.0				
GBPUSD	1.2756			0.0016			0.1	-0.2	1.6	2.0				
USDCHF	0.8964			-0.0012			-0.1	0.3	-1.3	-1.4				

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