

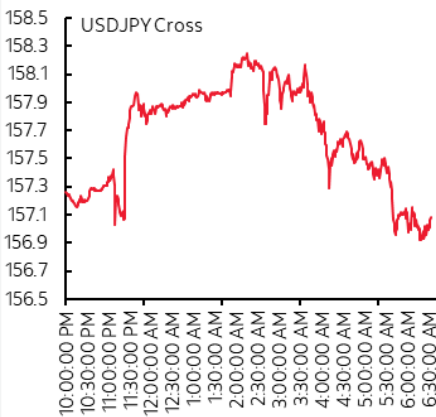
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Chart 1

#### Japanese Yen Overnight



Sources: Scotiabank Economics, Bloomberg.

#### On Deck for Friday, June 14

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	06-13	08:30	PPI ex. Food & Energy (m/m)	May	0.3	0.3	0.0
CA	06-14	08:30	Manufacturing Shipments (m/m)	Apr	1.2	1.2	-2.1
CA	06-14	08:30	Wholesale Trade (m/m)	Apr	2.5	2.8	-1.1
US	06-14	08:30	Export Prices (m/m)	May	--	0.1	0.5
US	06-14	08:30	Import Prices (m/m)	May	--	-0.1	0.9
US	06-14	08:30	Fed's Mester Appears on CNBC				
US	06-14	10:00	U. of Michigan Consumer Sentiment	Jun P	71.5	72.0	69.1
US	06-14	13:15	Fed's Mester Appears on Bloomberg Television				
US	06-14	14:00	Fed's Goolsbee Speaks in Fireside Chat				
US	06-14	19:00	Fed's Cook Gives Speech for AEA Summer Program				

#### KEY POINTS:

- **Safe havens in demand on a not-so-happy Friday**
- **German bunds rally double digits on French election worries**
- **The G7 family picture could soon look very different**
- **Global central bank outlooks clouded by European turmoil**
- **ECB's Lagarde to speak amid political turmoil**
- **The BoJ announced QT intentions, plan details deferred to July...**
- **...and Ueda guided that a July hike is feasible**
- **Peru's central bank surprises with a hawkish hold**
- **Swedish markets ignored hotter inflation**
- **Canadian data could reinforce solid growth tracking**
- **UMich sentiment expected to improve**

Anyone thinking that politics can be separated from economics is getting another rude awakening this morning. It's a not-so-happy Friday as safe havens are in demand primarily due to ongoing uncertainty in Europe that is centered upon France's elections with the first round two weeks from now. The CAC40 and Milan's exchange are leading decliners with roughly 2½–3% declines. London is off by ½%, other European exchanges are down by 1%+, and N.A. futures are ½% to ¾% weaker. The USD is firmer except against other havens like CHF and maybe the yen that is also impacted by the BoJ, while the peso leads decliners along with the NZ\$, Scandies, and the euro. Global sovereign bond benchmarks are all rallying and led by double digit declines in bund yields across the curve.

#### The G7 Family Picture May Soon Look Very Different

A look at the latest G7 leaders' family photo naturally has one thinking it will probably be a very different picture within 12–18 months as most of them could well be out of their jobs given current polling.

UK PM Sunak may be first after the July 4<sup>th</sup> UK election. Biden (November 5<sup>th</sup>) and Trudeau (no later than October 2025) are polling very poorly. German Chancellor Scholz's three party alliance only secured 31% support amid record participation and a 70% personal disapproval rating. This is driving pressure to call German elections as early as this summer but no later than October of next year. Japanese and Italian governments are inherently unstable. With the UK's exception—where a sequence of conservative prime ministers has looked like anything but—most of these countries could turn further to the center-right unless France's left continues to gain.

June 14, 2024

Macron's resignation rumours could have something to them despite denials if his party loses badly as current polling suggests. The other day's poll by Elabe showed Marine Le Pen's National Rally (formerly National Front) party securing 31% of the vote, an alliance of left-wing parties getting 28%, and Macron's Renaissance party getting 18%. That's a close outcome between left and right and roughly within polling error. Macron's approval rating sits at 24%, his lowest since 2018. The latest poll points to only 40% of Macron's MPs qualifying on June 30<sup>th</sup> for the second-round vote on July 7<sup>th</sup>. The four French left wing political parties agreed yesterday to form an alliance. Losing this badly and having to appoint Le Pen as prime minister could well be too much for Macron to accept with the next Presidential election not scheduled until April 2027 but he would very likely lose an election held now.

What is at stake in France is concern that a Eurozone break-up premium may resurface and be driven by parties less amenable to the EU. Fiscal policy is an added concern as France's National Rally is feared to favour expansionist policies that risk ratings downgrades. I'm not saying it's a base case or even close to being one at this point, but one has got to keep a part of one's mind open to the possibility that central bank plans could be thrown into a state of upheaval toward greater easing pressures if market turmoil intensifies over the summer.

### **The BoJ's July Meeting Will be Key**

The BoJ decided by an 8–1 vote that it will reduce bond purchases at the next meeting on July 31<sup>st</sup> but deferred details until then and will consult with market participants. Governor Ueda said during his press conference that a reduction would be 'substantial' and that a rate hike at the same time is possible. The lack of detail was disconcerting to some and drove a mild rally in JGBs, but an initial sell off in the yen subsequently reversed during Ueda's press conference and as European influences upon global markets took over during a volatile overnight session (chart 1). JGBs are also caught up in a general surge in demand for global sovereign bonds today.

### **Peru's Central Bank Delivers a Surprise Hawkish-Hold**

Peru's BCRP surprised most within consensus who expected a 25bps cut last evening by holding at 5.75%. A minority of 3 out of 12 expected the hold. The statement had a bit more of a hawkish feel to it as it noted that core inflation "is showing some persistence associated with the services industry."

### **Swedish Markets Ignored Hotter CPI**

Swedish inflation was hotter than expected but markets ignored it in favour of global drivers. Headline and underlying CPI were both up by 0.2% m/m (-0.1% consensus for both).

### **Modest Data Risk Into the N.A. Session; Lagarde On Tap**

Modest data risk arrives in Canada with a pair of readings that are expected to reinforce expectations for solid economic growth in April (8:30amET). Manufacturing sales were previously guided by Statcan to have risen by 1.2% m/m and wholesale sales were guided to be up 2.8%. Revisions and details like volumes could matter.

US UMich consumer sentiment is also on tap (10amET). Amid increased political uncertainty, ECB President Lagarde will deliver a keynote dinner speech at a conference in Croatia this afternoon (1:30pmET).

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.	4.68	4.70	4.89	4.21	4.24	4.46	4.20	4.25	4.43	4.34	4.40	4.56	Canada - BoC	4.75
CANADA	3.83	3.87	3.98	3.30	3.35	3.50	3.27	3.33	3.46	3.21	3.27	3.38	US - Fed	5.50
GERMANY	2.74	2.87	3.08	2.36	2.48	2.68	2.36	2.47	2.62	2.52	2.64	2.73	England - BoE	5.25
JAPAN	0.31	0.33	0.35	0.53	0.55	0.56	0.94	0.98	0.98	2.11	2.13	2.10		
U.K.	4.16	4.22	4.40	3.92	4.00	4.15	4.04	4.12	4.26	4.53	4.61	4.69		
	Spreads vs. U.S. (bps):													
CANADA	-85	-83	-91	-91	-90	-96	-93	-92	-97	-113	-113	-117	Euro zone - ECB	4.25
GERMANY	-194	-183	-180	-185	-176	-178	-184	-178	-181	-182	-175	-183	Japan - BoJ	-0.10
JAPAN	-437	-437	-454	-368	-369	-391	-325	-327	-346	-223	-227	-246		
U.K.	-52	-48	-49	-29	-25	-32	-16	-12	-17	19	22	13	Mexico - Banxico	11.00
Equities	Level						% change:							
	Last			Change	1 Day	1-wk	1-mo	1-yr						
S&P/TSX	21698			-263.4	-1.2	-2.4	-2.5	8.4	Australia - RBA	4.35				
Dow 30	38647			-65.1	-0.2	-0.6	-2.3	13.7	New Zealand - RBNZ	5.50				
S&P 500	5434			12.7	0.2	1.5	3.6	24.3						
Nasdaq	17668			59.1	0.3	2.9	7.0	29.7						
DAX	18074			-191.3	-1.0	-2.6	-3.4	10.8	Next Meeting Date					
FTSE	8150			-14.0	-0.2	-1.2	-3.3	7.2	Canada - BoC	Jul 24, 2024				
Nikkei	38815			94.1	0.2	0.3	0.1	15.2	US - Fed	Jul 31, 2024				
Hang Seng	17942			-170.9	-0.9	-2.9	-8.2	-10.5	England - BoE	Jun 20, 2024				
CAC	7542			-165.6	-2.1	-5.7	-8.3	2.9	Euro zone - ECB	Jul 18, 2024				
Commodities	Level						% change:							
WTI Crude	78.89			0.27	0.3	4.4	1.1	15.6	Japan - BoJ	June 14, 2024				
Natural Gas	2.98			0.02	0.7	2.1	27.1	27.2	Mexico - Banxico	Jun 27, 2024				
Gold	2335.17			30.97	1.3	1.8	4.7	20.2	Australia - RBA	Jun 18, 2024				
Silver	29.24			-0.14	-0.5	-3.5	4.0	20.9	New Zealand - RBNZ	Jul 09, 2024				
CRB Index	295.63			0.49	0.2	1.1	2.9	13.6						
Currencies	Level						% change:							
USDCAD	1.3753			0.0010	0.1	-0.1	0.7	3.2						
EURUSD	1.0699			-0.0038	-0.4	-0.9	-1.1	-1.2						
USDJPY	157.11			0.0800	0.1	0.2	0.4	12.1						
AUDUSD	0.6620			-0.0016	-0.2	0.6	-0.1	-2.6						
GBPUSD	1.2713			-0.0049	-0.4	-0.0	1.0	0.4						
USDCHF	0.8920			-0.0019	-0.2	-0.5	-1.6	-1.0						

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