

DAILY POINTS

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Contributors

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Chart 1

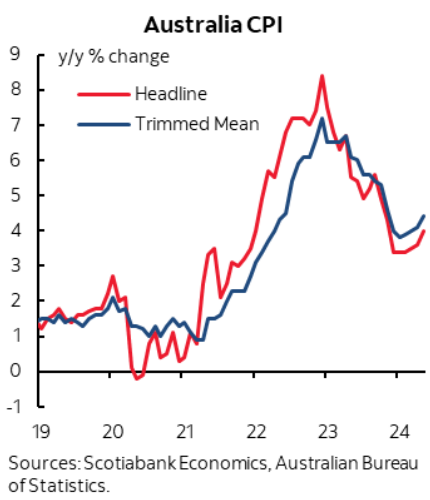
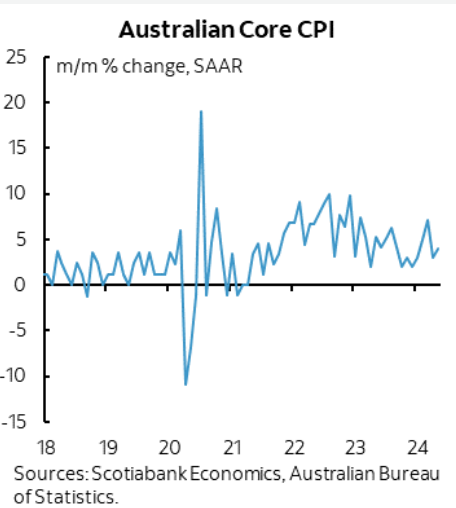


Chart 2



On Deck for Wednesday, June 26

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	06-26	07:00	MBA Mortgage Applications (w/w)	Jun 21	--	--	0.9
US	06-26	07:00	Fed's Bowman Speaks on Monetary Policy, Bank Capital Reform				
US	06-26	10:00	New Home Sales (000s a.r.)	May	625	633.0	634.0
US	06-26	12:00	Fed's Lisa Cook Speaks on Economic Outlook				
US	06-26	14:10	Fed's Bowman Gives Recorded Opening Remarks				

KEY POINTS:

- **Bonds slightly cheaper, equities little changed...**
- **...on light macro developments**
- **Markets shouldn't treat inflation risk in Canada/Australia as portable into US, Europe**
- **Australia's rates spike, A\$ outperforms after another hot inflation report...**
- **...that feed RBA hike risk**
- **Canada quiet ahead of tomorrow's 2s, Friday's GDP...**
- **...as markets assign low odds to a July BoC cut**
- **US auction risk continues, new home sales on tap**

It's a light session by way of fresh macro developments that has sovereign bonds broadly cheaper, equities little changed, and the dollar broadly stronger. The catalysts are not clear in my opinion. There was a slight cheapening bias in US Ts before hot Australian CPI landed and drove further cheapening.

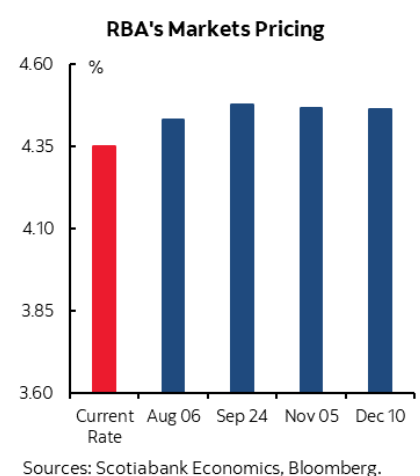
Nevertheless, to pin slightly cheaper US Ts this morning on Australian and Canadian inflation data suggests markets are applying some casual empiricism if they think that the unique drivers of US inflation have something in common with those two other countries at this point in the cycle. During the pandemic, the challenges facing global supply chains drove more correlated global inflation risk. Right now, I think inflation risk is more idiosyncratic and market-specific such that it's more likely that what happens in places like Canada and Australia is more likely to stay in Canada and Australia rather than being treated as portable risk into places like Europe and the US.

RBA HIKE PRICING INTENSIFIES AFTER HOT CPI

Australian monthly inflation surprised higher and that drove serious underperformance by Australia's rates curve and a stronger A\$. The real test will come on July 30th when full Q2 Australian CPI figures are released since RBA Governor Bullock has put significant emphasis upon that report in terms of potential hike risk.

For now, May's CPI was up 4% y/y (3.8% consensus, 3.6% prior) and key was that the trimmed mean CPI measure climbed to 4.4% and has been on a steady upward trend this year (chart 1). Higher frequency m/m core (not trimmed mean) inflation at a seasonally adjusted and annualized rate was 4% and hence remains materially above the RBA's 2–3% inflation target range (chart 2). In Australia's case, trimmed mean CPI takes the middle 70% of the CPI basket and trims out the tails to focus more closely upon central tendencies (Canada takes the middle 60%).

Chart 3



The result pushed August RBA hike pricing about 7bps higher to a still slim 8bp and added 7–8bps to September pricing which is now a 50–50 call (chart 3). Australian 2s cheapened by 18bps and 10s were up 11bps while the A\$ is outperforming almost all major and semi-major crosses this morning.

RISING PRESSURE ON FUTILE YEN INTERVENTION

The yen continues to soften on a morning of broad-based USD strength and is now at 160. That will put more pressure upon the MoF to intervene. And they'll fail. Again. One-sided intervention against fundamental macro drivers can only at best temporarily manage a currency but without lasting consequences.

LIGHT US DEVELOPMENTS

US auction risk continues with 2-yr FRN (11:30amET) and 5-year Ts auctions (1pmET).

US new home sales may face downside risk given the correlations with model home visits that have been weakening (10amET).

MARKETS LARGELY WIPED OUT JULY BOC CUT PRICING

There is nothing out in Canada today ahead of tomorrow's 2s auction in the wake of yesterday's hot CPI, and Friday's GDP figures. Markets now see only 6bps of a cut priced for the BoC's July 24th decision, down from about 15bps of a cut priced before yesterday's CPI figures (reminder recap [here](#)). A lot of data is still ahead before the next decision including another CPI report, the BoC's surveys of businesses and consumers including measures of inflation expectations, a jobs report, and both April and May GDP estimates.

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.	4.73	4.74	4.72	4.31	4.28	4.24	4.28	4.25	4.22	4.41	4.38	4.36	Canada - BoC	4.75				
CANADA	4.02	3.98	3.85	3.47	3.42	3.31	3.44	3.38	3.29	3.32	3.26	3.22	US - Fed	5.50				
GERMANY	2.81	2.81	2.81	2.45	2.42	2.42	2.44	2.41	2.40	2.63	2.60	2.56	England - BoE	5.25				
JAPAN	0.31	0.31	0.28	0.56	0.55	0.51	1.03	1.00	0.93	2.25	2.20	2.13	Euro zone - ECB	4.25				
U.K.	4.23	4.21	4.19	3.99	3.95	3.93	4.12	4.08	4.07	4.60	4.58	4.55	Japan - BoJ	-0.10				
	Spreads vs. U.S. (bps):																	
CANADA	-71	-77	-86	-84	-85	-93	-85	-87	-93	-109	-112	-114	Mexico - Banxico	11.00				
GERMANY	-192	-193	-191	-187	-185	-182	-184	-184	-182	-179	-178	-180	Australia - RBA	4.35				
JAPAN	-442	-444	-443	-375	-372	-373	-325	-324	-329	-217	-218	-223	New Zealand - RBNZ	5.50				
U.K.	-50	-53	-53	-32	-32	-31	-17	-17	-16	19	20	19						
Equities	Level			Change			1 Day			1-wk			1-mo			1-yr		
S&P/TSX	21788			-60.1			-0.3			0.8			-2.4			11.2		
Dow 30	39112			-299.0			-0.8			0.9			0.1			16.0		
S&P 500	5469			21.4			0.4			-0.1			3.1			26.3		
Nasdaq	17718			220.8			1.3			-0.8			4.7			32.9		
DAX	18159			-18.7			-0.1			0.5			-2.9			14.8		
FTSE	8236			-11.5			-0.1			0.4			-1.0			10.5		
Nikkei	39667			493.9			1.3			2.8			2.0			21.9		
Hang Seng	18090			17.0			0.1			-1.8			-3.9			-5.5		
CAC	7606			-56.7			-0.7			0.5			-6.0			5.9		
Commodities	Level			Change			1 Day			1-wk			1-mo			1-yr		
WTI Crude	81.35			0.52			0.6			-0.3			4.7			17.3		
Natural Gas	2.70			-0.06			-2.0			-7.2			7.1			-3.3		
Gold	2312.84			-6.78			-0.3			-0.7			3.7			20.3		
Silver	29.56			0.00			0.0			1.5			-3.4			32.3		
CRB Index	292.06			-2.72			-0.9			-0.3			-0.8			10.9		
Currencies	Level			Change			1 Day			1-wk			1-mo			1-yr		
USDCAD	1.3692			0.0034			0.2			-0.1			0.4			4.1		
EURUSD	1.0683			-0.0031			-0.3			-0.6			-1.6			-2.0		
USDJPY	160.31			0.6100			0.4			1.4			2.2			11.7		
AUDUSD	0.6655			0.0008			0.1			-0.3			0.0			-0.3		
GBPUSD	1.2648			-0.0038			-0.3			-0.6			-0.9			-0.5		
USDCHF	0.8977			0.0030			0.3			1.5			-1.8			0.2		
													Next Meeting Date					
													Canada - BoC	Jul 24, 2024				
													US - Fed	Jul 31, 2024				
													England - BoE	Aug 01, 2024				
													Euro zone - ECB	Jul 18, 2024				
													Japan - BoJ	June 14, 2024				
													Mexico - Banxico	Jun 27, 2024				
													Australia - RBA	Aug 06, 2024				
													New Zealand - RBNZ	Jul 09, 2024				

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