

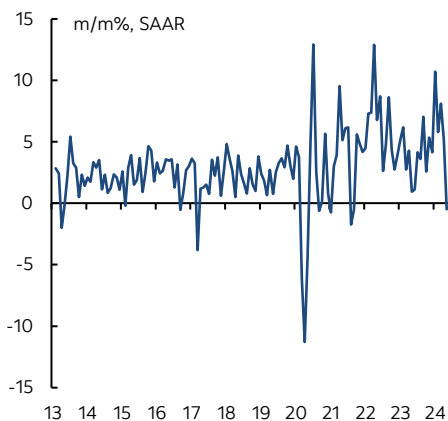
#### Contributors

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Chart 1

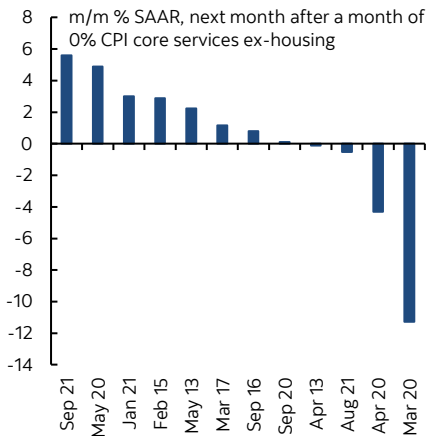
#### US CPI Core Services Ex-Housing



Sources: Scotiabank Economics, BLS.

Chart 2

#### US CPI Core Services Ex-Housing



Sources: Scotiabank Economics, BLS.

#### On Deck for Thursday, July 11

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	07-11	08:30	CPI (m/m)	Jun	0.1	0.1	0.0
US	07-11	08:30	CPI (y/y)	Jun	3.0	3.1	3.3
US	07-11	08:30	CPI (index)	Jun	--	314.6	314.1
US	07-11	08:30	CPI ex. Food & Energy (m/m)	Jun	0.3	0.2	0.2
US	07-11	08:30	CPI ex. Food & Energy (y/y)	Jun	3.5	3.4	3.4
US	07-11	11:30	Fed's Bostic Speaks in Moderated Q&A				
US	07-11	13:00	Fed's Musalem Speaks in Q&A on Economy				
US	07-11	14:00	Treasury Budget (US\$ bn)	Jun	--	-76.1	-347.1

#### KEY POINTS:

- **Markets on tenterhooks ahead of US inflation**
- **US core inflation *might* reaccelerate**
- **UK macro beats drive slight gilts underperformance**

US core CPI inflation will clearly dominate market attention today. Overnight developments were light and included solid beats by UK macro readings as GDP grew by 0.4% m/m, doubling consensus and thanks to services which pushed yields on gilts very slightly higher than elsewhere. Meh. The global market tone hangs on CPI.

#### US Core CPI Expectations

US CPI for the month of June will be released at 8:30amET. Was the prior month's sudden deceleration of core CPI to 0.16% m/m SA anomalous and poised for a rebound that could thwart rate cut prospects? Or the start of something beautiful that could pave the way to rate cuts? On its own, today's reading is unlikely to do either, but market volatility is all but assured. This is one of three CPI readings and two more PCE readings before the FOMC's September 18th decision.

Estimates vary. Out of 70 forecasters (yes 70!), four think that core could land at 0.1% m/m SA, 12 of us are in the 0.3% camp including Scotia, and 54 are in the 0.2% bucket. I maintain that the sample is far too large.

There is a lot of uncertainty, but I like the reasoning behind why I went higher than others.

For starters, the prior month's sudden deceleration was partly driven by the sudden collapse of core services inflation (CPI-services ex-energy services and ex-shelter) as shown in chart 1. Core services represent about one-quarter of the CPI basket and nearly one-third of the core CPI basket. There are two reasons why this might rebound.

One is a statistical observation drawn from what has happened in the past that observes rebounds following sudden decelerations by a usually high and sticky measure with the only material exceptions being at the very start of the pandemic (chart 2).

The more substantive point is that sticky wage growth may motivate a rebound in core services prices because wages are a big cost component behind their delivery. Think car repairs, hair cuts, bar and restaurant tabs etc.

The second key is that shelter costs represent about 36% of the CPI index and 45% of core CPI. I expect shelter costs to continue to grow at around a 0.4-0.5% m/m SA pace.

So, all totalled, we have about 60% of the CPI basket and about three-quarters of the core CPI basket that could come on quite strong through core services and shelter.

In addition to the uncertainty around these estimates is the limited ability to track other components. Vehicle prices should be a minor influence. Gasoline prices could knock a tenth or so off of m/m headline CPI. Food prices will probably be a benign influence. Core goods inflation was flat the month before after prior declines and is an added risk today. For more on the estimates and reasoning see my Global Week Ahead article.

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.	4.63	4.62	4.71	4.24	4.24	4.33	4.28	4.29	4.36	4.47	4.48	4.53	Canada - BoC	4.75
CANADA	3.92	3.93	4.02	3.46	3.48	3.57	3.48	3.49	3.56	3.40	3.42	3.46	US - Fed	5.50
GERMANY	2.91	2.90	2.94	2.54	2.53	2.59	2.55	2.53	2.61	2.72	2.70	2.75	England - BoE	5.25
JAPAN	0.34	0.34	0.35	0.61	0.61	0.58	1.09	1.09	1.08	2.24	2.23	2.28		
U.K.	4.14	4.12	4.19	4.01	3.98	4.05	4.16	4.13	4.20	4.65	4.64	4.68		
	Spreads vs. U.S. (bps):													
CANADA	-71	-69	-68	-77	-76	-76	-81	-80	-80	-107	-106	-106	Euro zone - ECB	4.25
GERMANY	-172	-172	-177	-169	-171	-174	-173	-175	-175	-175	-178	-177	Japan - BoJ	-0.10
JAPAN	-428	-428	-436	-362	-363	-374	-319	-320	-328	-224	-225	-225		
U.K.	-48	-50	-52	-23	-26	-28	-13	-16	-16	18	16	16	Mexico - Banxico	11.00
<b>Equities</b>	Level						% change:							
	Last		Change		1 Day		1-wk		1-mo		1-yr			
S&P/TSX	22350		307.7		1.4		0.6		2.1		12.4		Australia - RBA	4.35
Dow 30	39721		429.4		1.1		1.0		2.5		15.9		New Zealand - RBNZ	5.50
S&P 500	5634		56.9		1.0		2.3		4.8		26.9			
Nasdaq	18647		218.2		1.2		3.4		7.5		35.5			
DAX	18434		26.8		0.1		-0.1		0.3		16.7			
FTSE	8212		18.7		0.2		-0.4		0.8		12.8			
Nikkei	42224		392.0		0.9		3.2		7.9		31.1		Canada - BoC	Jul 24, 2024
Hang Seng	17832		360.7		2.1		-1.1		-1.9		-4.4		US - Fed	Jul 31, 2024
CAC	7598		24.6		0.3		-1.3		-2.5		5.2		England - BoE	Aug 01, 2024
<b>Commodities</b>	Level						% change:							
WTI Crude	82.26		0.16		0.2		-1.9		5.6		9.9		Euro zone - ECB	Jul 18, 2024
Natural Gas	2.34		0.01		0.3		-3.4		-25.3		-14.5		Japan - BoJ	June 14, 2024
Gold	2381.85		10.59		0.4		1.1		6.8		23.3			
Silver	30.94		-0.12		-0.4		2.7		4.2		34.3			
CRB Index	289.71		-0.27		-0.1		-0.9		-1.0		8.3			
<b>Currencies</b>	Level						% change:							
USDCAD	1.3638		0.0019		0.1		0.2		-0.9		3.1		Mexico - Banxico	Aug 08, 2024
EURUSD	1.0848		0.0018		0.2		0.3		1.0		-1.5		Australia - RBA	Aug 06, 2024
USDJPY	161.55		-0.1400		-0.1		0.2		2.8		15.1			
AUDUSD	0.6755		0.0008		0.1		0.4		2.3		1.0			
GBPUSD	1.2876		0.0027		0.2		0.9		1.1		-0.4		New Zealand - RBNZ	Aug 13, 2024
USDCHF	0.8983		-0.0013		-0.1		-0.2		0.1		2.1			

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