

DAILY POINTS

July 25, 2024 @ 7:10 EST

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Chart 1

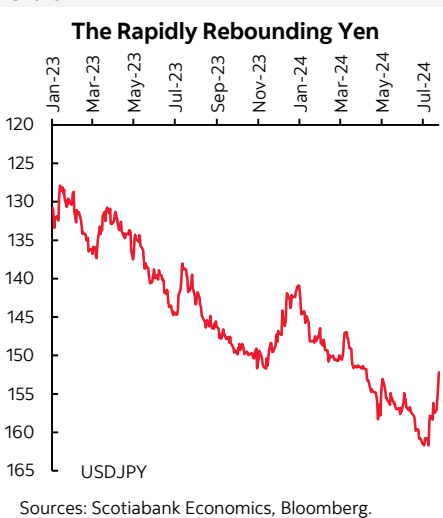
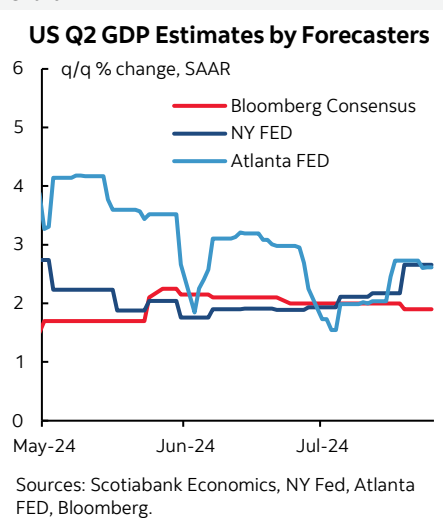


Chart 2



On Deck for Thursday, July 25

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	07-25	08:30	Durable Goods Orders (m/m)	Jun P	0.4	0.3	0.1
US	07-25	08:30	Durable Goods Orders ex. Trans. (m/m)	Jun P	0.3	0.2	-0.1
US	07-25	08:30	GDP (q/q a.r.)	2Q A	2.0	2.0	1.4
US	07-25	08:30	GDP Deflator (q/q a.r.)	2Q A	--	2.6	3.1
US	07-25	08:30	Initial Jobless Claims (000s)	Jul 20	235	238.0	243.0
US	07-25	08:30	Continuing Claims (000s)	Jul 13	1855	1868.0	1867.0

KEY POINTS:

- **A classic risk-off trade is sweeping through global markets**
- **Theories behind why risk appetite may be suffering**
- **Fastest yen appreciation since late last year...**
- **...as BoJ bets intensify, rock global carry trade**
- **PBOC unexpectedly cuts another reference rate**
- **US Q2 GDP, core PCE could inform Fed pricing**
- **South Korea's economy unexpectedly shrank**
- **Soft US core durable goods orders due for an update**
- **Was the jump in US jobless claims a holiday distortion?**
- **Canada to update one of the BoC's wage measures**

A classic risk-off trade is sweeping through asset classes this morning. The USD, yen and Swiss franc are leading gainers with the euro holding its own to the dollar. Stocks are falling again with US futures off by roughly ¼% and TSX futures down ¾%. European cash markets are lower by between ¾% to 2¾%. Sovereign bonds are rallying with US Treasuries and Canadas outperforming. Markets are pricing another 50bps of BoC cuts by year-end which remains our forecast (BoC recap [here](#)).

Why is Risk Appetite Suffering?

It's not fully clear why risk-off sentiment is unfolding but there are a few plausible explanations. One catalyst is the lacklustre global earnings season.

Another is apprehension ahead of next week's Bank of Japan decision that may deliver a rate hike which is why JGBs are underperforming other sovereign bonds this morning particularly via mild front-end cheapening. This is helping the yen in addition to safe haven flows as carry trades are vulnerable; the yen has appreciated from 162 to the buck on July 10th to 152 now which is the largest move seen since the final six weeks of last year (chart 1).

It could also be that China's hurried monetary policy decisions following last week's dull Third Plenum are creating a negative signalling effect, as in what else does the PBOC see that worries it? Maybe the overnight disappointment in South Korea's economy that unexpectedly shrank for the first time in six quarters adds to regional despair.

Concern about the health of the US economy is something I would not discount. Growth is slowing and will probably continue to slow. Signs like soaring US homebuilder inventories are not helping. There is rising sentiment that the Fed is slow footed and may be pushed into more aggressive action. The NY Fed's probability of recession in 12 months derived from the curve went from nothing in 2023 to about 56% odds now. By contrast, the median forecasters' probability of recession has fallen from over 60% odds last year to 30% now fwiw....

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Markets may also be repricing US election probabilities. Whether correct or not—and I don't view markets as the greatest arbiter of the complex debate with its myriad potential policy influences—the sentiment has been that Trump would be better for equities. Harris is from the far left (aka 'progressive') wing of the Dems (see Tuesday's note on that [here](#)) and her past policy stances would be quite negative for markets. Risk appetite may be evolving more negatively as the Dems regain some momentum while Trump is getting classically unglued as he behaves like a nervous brat watching his favourite toy being taken away.

US data could also be impactful this morning if it influences Fed expectations (see below).

Another possibility is preparation ahead of peak summer vacation period in Europe and N.A. through August. Ok, maybe that's just what I'm looking forward to, bwah!

What Has the PBOC Suddenly in a Flap?

To describe Chinese monetary policy as erratic and hurried would be an understatement given developments over the past week. After holding the 1-year Medium-Term Lending Facility Rate unchanged on July 14th as per the normal schedule, the PBOC decided to cut it by 20bps last night which is a relatively large move. The rate has moved 65bps lower since the beginning of 2022 but had not changed since last August. This cut follows the decision on Monday to cut the 7-day repo rate by 10bps which is also the first cut since last August. China's 1- and 5-year Loan Prime Rates were also cut by 10bps each on Monday.

The yuan took it in stride. In fact, it appreciated overnight. That could be because markets had already adjusted to the cut as the yuan depreciated slightly on Monday in response to the first cuts. Last night's cut didn't do much to help out Chinese equities that fell, but by less than the sharp declines in Tokyo and Seoul that followed yesterday's US sell off.

US GDP and Core PCE Could Inform Fed Expectations

Today's main focus will be US Q2 GDP and core PCE (8:30amET).

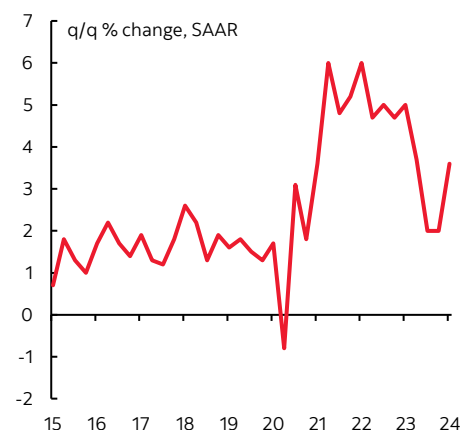
Consensus expects 2% q/q SAAR US Q2 GDP growth. Scotia is the same. Most are within 1.5–2.5%. The Atlanta Fed's nowcast is 2.6% which is the same as the New York Fed's nowcast. Nowcasts have trended up a little more than consensus of late (chart 2). See my GWA text for more about the uncertainties.

US core PCE inflation is expected to slow to 2.7% q/q SAAR from 3.7% in Q1 when it rebounded from the prior softening pattern (chart 3). This includes a 0.1% m/m SA estimate for June. Q2 will embed the June estimate that we get on Friday but may also include revisions to prior months, so be careful with inferring from the overall Q2 number what may have happened to June.

US durable goods orders in June (8:30amET) and weekly jobless claims (8:30amET) are also due this morning. Core durable goods orders (ex-air and defence) are a proxy for business investment and have been on a weak trend. Watch US claims to see if they may come back down after falling during the July 4th week and rebounding the week after even though the figures are seasonally adjusted. Canada updates its lagging SEPH payrolls report including one of the wage figures the BoC watches (8:30amET).

Chart 3

US GDP Core PCE



Sources: Scotiabank Economics, BEA.

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.	4.36	4.43	4.47	4.08	4.17	4.12	4.22	4.28	4.20	4.49	4.54	4.42	Canada - BoC	4.50
CANADA	3.57	3.63	3.71	3.23	3.31	3.35	3.33	3.40	3.38	3.37	3.42	3.35	US - Fed	5.50
GERMANY	2.60	2.66	2.77	2.32	2.37	2.39	2.40	2.44	2.43	2.64	2.66	2.62	England - BoE	5.25
JAPAN	0.39	0.37	0.34	0.63	0.63	0.59	1.06	1.08	1.04	2.17	2.20	2.16		
U.K.	3.93	3.99	3.98	3.89	3.94	3.89	4.11	4.16	4.06	4.65	4.67	4.57		
	Spreads vs. U.S. (bps):													
CANADA	-79	-80	-77	-85	-87	-77	-89	-89	-83	-112	-112	-107	Euro zone - ECB	4.25
GERMANY	-176	-178	-171	-177	-180	-173	-182	-184	-177	-186	-188	-180	Japan - BoJ	-0.10
JAPAN	-397	-406	-413	-346	-355	-353	-316	-320	-316	-233	-234	-226		
U.K.	-43	-44	-49	-19	-23	-23	-11	-13	-14	15	13	14	Mexico - Banxico	11.00
Equities	Level						% change:							
	Last			Change	1 Day	1-wk	1-mo	1-yr						
S&P/TSX	22640			-174.2	-0.8	-0.9	3.9	10.2					Australia - RBA	4.35
Dow 30	39854			-504.2	-1.2	-3.3	1.9	12.5					New Zealand - RBNZ	5.50
S&P 500	5427			-128.6	-2.3	-2.9	-0.8	18.8						
Nasdaq	17342			-654.9	-3.6	-3.6	-2.1	22.6						
DAX	18126			-261.4	-1.4	-1.2	-0.3	11.8						
FTSE	8094			-60.1	-0.7	-1.4	-1.9	5.2						
Nikkei	37870			-1285.3	-3.3	-5.6	-3.3	15.9					Canada - BoC	Sep 04, 2024
Hang Seng	17005			-306.1	-1.8	-4.4	-5.9	-12.5					US - Fed	Jul 31, 2024
CAC	7356			-157.9	-2.1	-3.0	-4.0	-0.8						
Commodities	Level						% change:							
	Last			Change	1 Day	1-wk	1-mo	1-yr						
WTI Crude	76.64			-0.95	-1.2	-7.5	-5.2	-3.8					England - BoE	Aug 01, 2024
Natural Gas	2.15			0.03	1.3	0.9	-22.2	-21.4						
Gold	2378.88			-18.82	-0.8	-2.7	6.7	21.1					Euro zone - ECB	Sep 12, 2024
Silver	29.29			0.24	0.8	-5.3	-0.9	19.1					Japan - BoJ	June 14, 2024
CRB Index	279.75			-0.69	-0.2	-2.2	-4.2	-0.8						
Currencies	Level						% change:							
	Last			Change	1 Day	1-wk	1-mo	1-yr						
USDCAD	1.3833			0.0025	0.2	0.9	1.3	5.0					Mexico - Banxico	Aug 08, 2024
EURUSD	1.0852			0.0012	0.1	-0.4	1.3	-1.8						
USDJPY	152.36			-1.5300	-1.0	-3.2	-4.6	8.1					Australia - RBA	Aug 06, 2024
AUDUSD	0.6523			-0.0058	-0.9	-2.7	-1.9	-4.0						
GBPUSD	1.2875			-0.0032	-0.2	-0.5	1.5	-0.2					New Zealand - RBNZ	Aug 13, 2024
USDCHF	0.8786			-0.0065	-0.7	-1.0	-1.8	1.7						

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