

DAILY POINTS

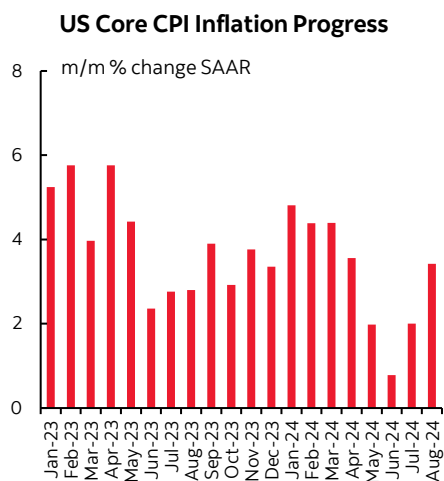
October 10, 2024 @ 7:45 EST

Contributors

Derek Holt

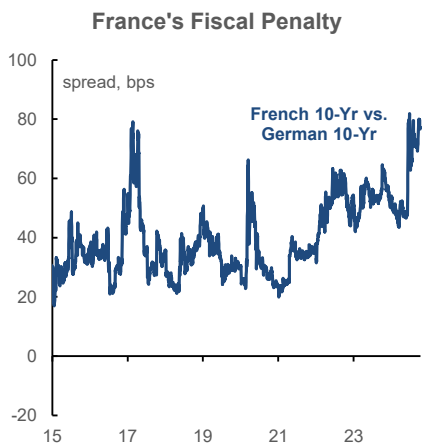
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Chart 1



Sources: Scotiabank Economics, BLS.

Chart 2



Sources: Scotiabank Economics, Bloomberg.

On Deck for Thursday, October 10

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	10/10	08:30	CPI (m/m)	Sep	0.1	0.1	0.2
US	10/10	08:30	CPI (y/y)	Sep	2.3	2.3	2.5
US	10/10	08:30	CPI (index)	Sep	-	314.9	314.8
US	10/10	08:30	CPI ex. Food & Energy (m/m)	Sep	0.2	0.2	0.3
US	10/10	08:30	CPI ex. Food & Energy (y/y)	Sep	3.2	3.2	3.2
US	10/10	08:30	Initial Jobless Claims (000s)		220	230.0	225.0
US	10/10	08:30	Continuing Claims (000s)		1830	1830.0	1826.0
US	10/10	09:15	Fed's Cook Speaks on Entrepreneurship				
US	10/10	10:30	Fed's Barkin Speaks in Fireside Chat				
US	10/10	11:00	Fed's Williams Gives Keynote Remarks				

KEY POINTS:

- **Markets await US CPI that may not matter to the FOMC anyway**
- **How the FOMC handles hurricanes**
- **No matter what US core CPI does...**
- **...it's unlikely to sway the FOMC to upsize again...**
- **...as the next jobs report and the US election may matter more**
- **BoC speculation intensifies...**
- **...but it's key pending data that will inform the next move...**
- **...and don't trivialize the case for gradualism**
- **France's Budget to inform French spreads**
- **Peru's central bank to cut again**

Regular publishing resumes after marketing in western Canada.

Asset classes are playing defence this morning ahead of US CPI. US Ts are very slightly cheaper but outperforming EGBs and gilts with Canada's curve slightly outperforming (more on that below). Stocks are flat to slightly softer. Chinese equities rallied a bit after the prior sell off as they look to Saturday's MoF presser that is being billed as part two of the stimulus act focused on the fiscal policy plans this time. Governments are still in pump-priming mode and that's fighting monetary easing while foisting more supply onto global bond markets, with the latest examples being from Trump last evening and risks around France's budget later this afternoon.

US CORE CPI PROBABLY WON'T MATTER TO THE FOMC'S SIZE AND PACE DECISIONS

The US updates CPI for September this morning (8:30amET). Core CPI has been on an accelerating trend in m/m SAAR terms (chart 1). If this trend continues, then it presents a potentially awkward dynamic for the FOMC when paired with hot jobs.

And yet on size and pace it's unclear whether the figures will matter to the FOMC a) because their dot plot and individual guidance is leaning against a 50 repeat, and b) because we get the outcome of the US election and another payrolls report before the next decision which are both more important than CPI and PCE at month's end. They have made it clear that their focus has turned more toward the full employment half of the Fed's dual mandate and relatively away from the price stability half. After nonfarm payrolls exceeded expectations, this calculus is now much less clear.

Almost all shops including Scotia have 0.1% m/m SA for headline CPI as gasoline prices knock about 0.1% m/m off weighted contributions to CPI. There is more of a split in

consensus on core CPI with a modest majority expecting 0.2% and a significant minority expecting 0.3% (Scotia 0.2%). The Cleveland Fed's 'nowcast' for core is 0.3%. Core is the number that will inform expectations for core PCE and hence what matters more to the FOMC. A few other drivers include:

- Rent of primary residence and owners equivalent rent are both expected to remain sticky.
- Core services inflation is also expected to remain warm.
- Core goods prices have been declining for a while now and may face greater risk in October on the heels of Hurricane Helene's effects and the temporary disruptions caused by the port strike.
- Food prices are expected to be a flat contribution to headline inflation.

TRUMP'S LATEST TAX PROPOSAL SETS UP AN OWN GOAL

Ok, think about the consequences to this next one, because Trump didn't. Trump offered a loose pledge—sans details—to end double taxation that applies to some of the 4½ million Americans living abroad which is basically anyone earning over about \$126k and/or those who haven't renounced their US citizenship and/or those for whom the deduction on taxes paid to other governments are not big enough to lower or eliminate their US tax liabilities. That's an added incentive to leave the United States for those who were contemplating doing so. Good one, in an own goal sense. A further consequence is that his new tax cut per week in the campaign is inflaming the deficit outlook in a very different bond market than in 2016 such that pledging to do these things is part of what is behind our steeper for longer curve with upside risk. As I wrote earlier this summer, the US fiscal train wreck risks pushing the 10s yield toward levels last seen in the dot com and 1990s.

FRENCH BONDS TO CLOSELY WATCH FRANCE'S BUDGET AND THE POLITICAL AFTERMATH

France introduces its much-awaited Budget this afternoon. Key is how French bond spreads will react to the details and how Parliament reacts to PM Barnier's plan which could affect the ability to pass the budget and the very survivability of the government. Higher taxes and spending cuts will still leave the deficit above the EU's 3% of GDP limit through much of the rest of the decade. France's fiscal penalty shines in the widening of spreads over bunds (chart 2).

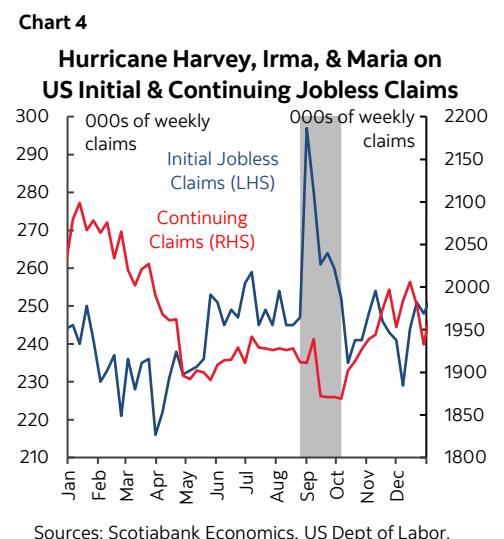
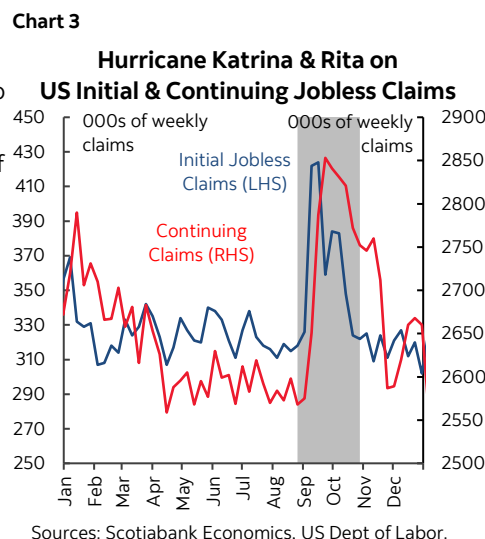
BOC SPECULATION FRONT-RUNS KEY DATA

Speculation toward what the BoC may do on October 23rd heated up partly on the back of a light competitor report from a bond desk (and coordinated buying from the issuing firm?) that in my opinion trivialized the case for gradualism and curiously did so ahead of potentially key but highly volatile and often entirely random data. Let's see the data including tomorrow's jobs and wages plus the BoC's twin surveys with measures of inflation expectations, and then next week's CPI.

HURRICANES TO LIFT JOBLESS CLAIMS OVER COMING WEEKS

Also watch for weekly initial jobless claims out of the US given hurricane effects over coming weeks (8:30amET). Difficulty getting to offices to file and process claims is likely to give way to a surge in claims like we saw in 2017 when a trio of bad hurricanes hit the US. Charts 3 and 4 depict what happened around prior hurricanes.

As Hurricane Milton slams into Florida after Hurricane Helene's destructive path, a key question is how the Federal Reserve may respond. Following the impact of Hurricanes Harvey (August 2017), Irma (September 2017) and Maria (September 2017) that drove a series of relatively soft payrolls reports, former Fed Chair Janet Yellen said:



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“While the effects of the hurricanes on the U.S. economy are quite noticeable in the short term, history suggests that the longer-term effects will be modest and that aggregate economic activity will recover quickly. The hurricanes will likely result in some hit to GDP growth in the third quarter but a rebound thereafter, and smoothing through those movements, I’m expecting growth that continues to exceed potential in the second half of the year.”

The September 2017 FOMC meeting interrupted a hiking cycle that began at the end of 2016 and went on pause between the June hike and resuming hikes in December. The statement said this:

“Hurricanes Harvey, Irma, and Maria have devastated many communities, inflicting severe hardship. Storm-related disruptions and rebuilding will affect economic activity in the near term, but past experience suggests that the storms are unlikely to materially alter the course of the national economy over the medium term. Consequently, the Committee continues to expect that, with gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace, and labor market conditions will strengthen somewhat further. Higher prices for gasoline and some other items in the aftermath of the hurricanes will likely boost inflation temporarily.”

This time around, I think it’s unlikely that the Fed would deliver a bigger cut because of hurricanes. In fact, I’d have little faith in the FOMC if they did so given the transitory nature of the impact on growth and inflation and given the greater role played by fiscal supports including FEMA-led actions.

PERU’S CENTRAL BANK TO CUT

Most economists—including our Lima-based economist—expect Banco Central de Reserva del Peru to cut by 25bps (7pmET). The Sol has appreciated a touch since the Fed’s 50bps cut on September 18th and may give added room to ease. Inflation at 1.8% y/y with core CPI at 2.6% lies within the 2% +/-1% target range. Forward guidance is expected to be cautious in the wake of the strong US jobs report that complicates market expectations for the Fed’s future moves and recall that BCRP has already cut by 250bps to date. A reduction to 5% would nevertheless remain above estimates of the neutral policy rate.

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.	4.05	4.02	3.71	3.94	3.92	3.63	4.09	4.07	3.85	4.36	4.34	4.18	Canada - BoC	4.25
CANADA	3.26	3.26	3.05	3.08	3.07	2.88	3.27	3.26	3.09	3.38	3.37	3.26	US - Fed	5.00
GERMANY	2.30	2.26	2.08	2.16	2.13	1.97	2.28	2.26	2.14	2.55	2.54	2.46	England - BoE	5.00
JAPAN	0.42	0.41	0.37	0.57	0.55	0.49	0.96	0.94	0.83	2.19	2.15	2.08		
U.K.	4.25	4.19	3.97	4.13	4.06	3.87	4.24	4.18	4.02	4.77	4.72	4.60		
	Spreads vs. U.S. (bps):													
CANADA	-78	-77	-66	-86	-85	-75	-83	-82	-75	-98	-98	-92	Euro zone - ECB	3.65
GERMANY	-174	-176	-163	-178	-179	-165	-181	-182	-170	-181	-180	-172	Japan - BoJ	-0.10
JAPAN	-363	-362	-333	-337	-337	-314	-313	-314	-301	-217	-219	-210		
U.K.	20	17	26	19	15	24	15	11	17	41	38	42	Mexico - Banxico	10.50
Equities	Level						% change:							
	Last		Change		1 Day	1-wk	1-mo	1-yr						
S&P/TSX	24225		152.4		0.6	0.9	5.3	24.2					Australia - RBA	4.35
Dow 30	42512		431.6		1.0	0.7	4.4	26.0					New Zealand - RBNZ	4.75
S&P 500	5792		40.9		0.7	1.4	5.4	32.9						
Nasdaq	18292		108.7		0.6	2.0	7.4	34.9						
DAX	19250		-4.6		-0.0	1.2	5.4	24.8						
FTSE	8224		-19.6		-0.2	-0.7	0.2	7.8						
Nikkei	39381		102.9		0.3	2.1	10.6	23.3					Canada - BoC	Oct 23, 2024
Hang Seng	21252		614.7		3.0	-3.9	24.2	18.8					US - Fed	Nov 07, 2024
CAC	7547		-12.9		-0.2	0.9	1.9	5.4						
Commodities	Level						% change:							
	Last		Change		1 Day	1-wk	1-mo	1-yr						
WTI Crude	74.07		0.83		1.1	0.5	12.7	-13.8					England - BoE	Nov 07, 2024
Natural Gas	2.61		-0.05		-1.8	-12.1	17.0	-22.8					Euro zone - ECB	Oct 17, 2024
Gold	2612.86		5.09		0.2	-1.6	17.2	40.4					Japan - BoJ	June 14, 2024
Silver	30.69		-0.60		-1.9	-2.2	9.1	41.7						
CRB Index	286.14		-1.14		-0.4	-0.3	7.8	2.2						
Currencies	Level						% change:							
	Last		Change		1 Day	1-wk	1-mo	1-yr						
USDCAD	1.3752		0.0041		0.3	1.5	1.0	1.2					Mexico - Banxico	Nov 14, 2024
EURUSD	1.0929		-0.0010		-0.1	-0.9	-0.8	3.1					Australia - RBA	Nov 04, 2024
USDJPY	149.07		-0.2400		-0.2	1.5	4.7	0.2						
AUDUSD	0.6714		-0.0004		-0.1	-1.8	0.9	4.4						
GBPUSD	1.3069		-0.0002		-0.0	-0.4	-0.1	6.4					New Zealand - RBNZ	Nov 26, 2024

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