

### DAILY POINTS

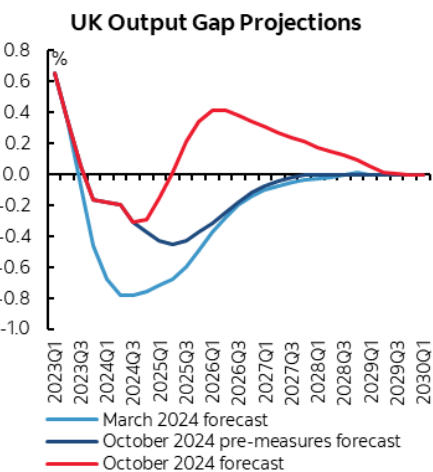
October 31, 2024 @ 7:40 EST

#### Contributors

##### Derek Holt

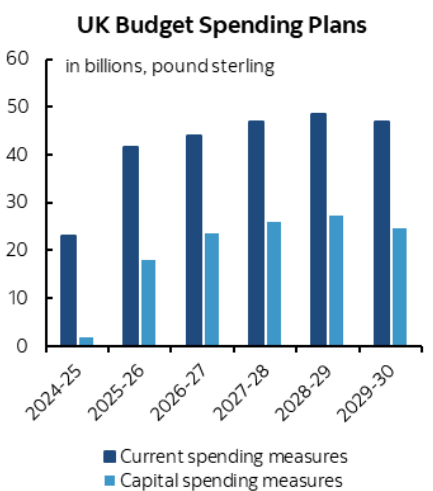
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Chart 1



Sources: Scotiabank Economics, UK OBR.

Chart 2



Sources: Scotiabank Economics, OBR.

### On Deck for Thursday, October 31

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	10-31	08:30	Real GDP (m/m)	Aug	-0.1	0.0	0.2
US	10-31	08:30	Employment Cost Index (q/q)	3Q	1.0	0.9	0.9
US	10-31	08:30	Initial Jobless Claims (000s)	Oct 26	235	230.0	227.0
US	10-31	08:30	Continuing Claims (000s)	Oct 19	1995	1880.0	1897.0
US	10-31	08:30	PCE Deflator (m/m)	Sep	0.2	0.2	0.1
US	10-31	08:30	PCE Deflator (y/y)	Sep	2.1	2.1	2.2
US	10-31	08:30	PCE ex. Food & Energy (m/m)	Sep	0.3	0.3	0.1
US	10-31	08:30	PCE ex. Food & Energy (y/y)	Sep	2.7	2.6	2.7
US	10-31	08:30	Personal Spending (m/m)	Sep	0.4	0.4	0.2
US	10-31	08:30	Personal Income (m/m)	Sep	0.4	0.3	0.2
US	10-31	09:45	Chicago PMI	Oct	--	47.0	46.6

#### KEY POINTS:

- **Markets playing defence partly on US earnings weakness**
- **UK Budget creams gilts...**
- **...as it is forecast to push the economy into excess aggregate demand...**
- **...that severely constrains policy easing by the BoE...**
- **...while serving as a warning against fiscal expansion in the US, Canada**
- **China's PMIs barely budged after earlier stimulus announcements**
- **BoJ holds as expected, reaffirms hike guidance**
- **Canada's economy was probably weak as Q3 closed out**
- **Three soft m/m Eurozone core CPI readings in a row keep ECB easing on track**
- **Whoa — Is that the German Consumer??**
- **Canada real wage growth to be updated along a rising trend**
- **US core PCE might be a firm reading for September**
- **US consumer spending, incomes probably posted solid gains**
- **US jobs cuts were slightly elevated in October compared to like months**
- **US ECI to set up mild gain in Unit Labour Costs**
- **BanRep expected to cut again**

Markets are playing defence this morning. Stocks are broadly lower across N.A. futures and European cash markets. US Treasuries are slightly bid versus cheapening across Europe led by underperforming gilts again. Oil is a touch higher. The biggest currency movers are the yen (post-BoJ, see below) and sterling (post-Budget, see below). Last evening's US earnings didn't help risk appetite (Meta Platforms, eBay, Microsoft). US and Canadian data may pose significant market risk this morning.

Here's the overnight run down of key developments before turning to the day's expected developments.

#### UK'S EXPANSIONARY BUDGET CONFLICTS WITH MONETARY EASING

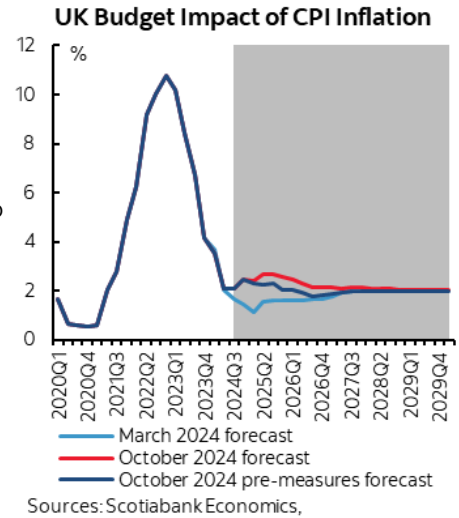
Gilts are underperforming other global benchmarks again this morning and in the aftermath of yesterday's more expansionary than expected Budget. The 2s yield is up by another 11bps this morning for a cumulative post-Budget rise of about 25bps. This is a good lesson to other countries and their central banks as fiscal easing is treated as a substitute for monetary easing, with markets shaving a little off November BoE meeting

pricing but still largely priced for a quarter point cut, yet December pricing has fallen by 10bps to only a small chance at another cut at that meeting.

Why? Chart 1 explains all that you need to know. The UK Office of Budget Responsibility (OBR) issued an updated projection for the UK output gap with chart 1 comparing the pre-Budget forecast as the dark blue line along with the light blue line's March projection, alongside the post-Budget forecast shown as the red line. The fiscal stimulus effects will push the UK into excess aggregate demand by 2025H2 as a result of the spending surge (chart 2). The effect is projected to add upside to inflation forecasts (chart 3). That is as clear as sign as any that monetary easing is likely to be less significant in the UK than elsewhere. Should other governments — looking at you, US, maybe even Canada into its election year—replicate the UK's choices here, then brace for higher rates for longer.

This remains my chief problem with US fiscal stimulus under either candidate but especially Trump. Talk of draconian spending cuts is entirely impractical hot air, while aggressive tax cuts would inflame the deficit and prime the pump in an economy that is already in excess aggregate demand with a strongly performing consumer. In that scenario, the dollar, the Fed, and the bond market sterilize the effects in a higher-for-longer outcome for the Fed's terminal rate and term premia.

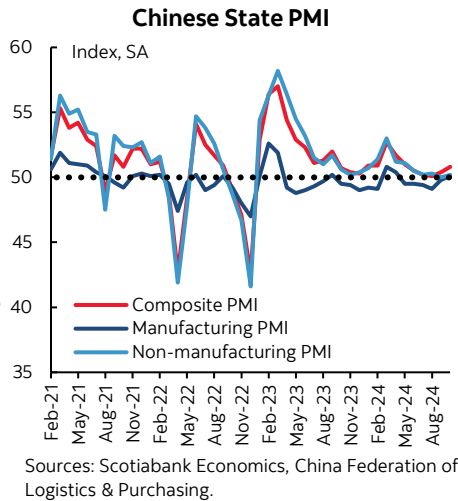
Chart 3



**CHINA'S PMIS BARELY BUDGED POST-STIMULUS ANNOUNCEMENTS**

China's composite PMI edged very slightly higher to 50.8 from 50.4 driven by both the manufacturing PMI (50.1, 49.8 prior) and non-manufacturing PMI (50.2, 50.0 prior). Chart 4. The gains were barely noticeable and so the yuan shook it off.

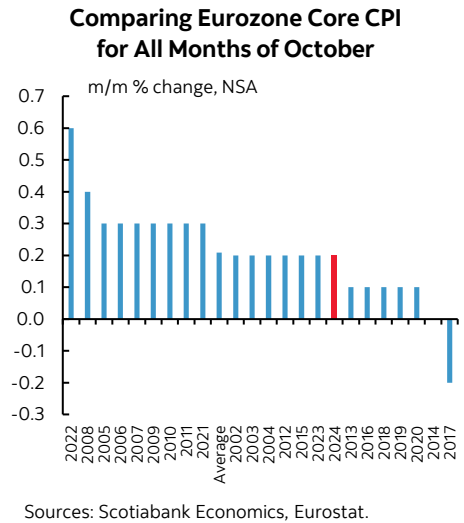
Chart 4



**BANK OF JAPAN HOLDS, STRENGTHENS FUTURE HIKE GUIDANCE**

The Bank of Japan left policy unchanged as widely expected because Governor Ueda had already made it clear that we shouldn't expect anything from this meeting as they monitor the US economy and financial stability considerations related to carry trade risks. That's fancy talk for maybe we shouldn't be zigging when the Fed is zagging. They slightly lowered the forecast for core CPI in 2025 by two-tenths to 1.9%. The policy bias remains to tighten further with Ueda saying "Our basic stance is that if our economic and price outlooks are realized, we'll respond by raising rates." Markets added a little to December meeting pricing but January is more significantly priced for a quarter point move.

Chart 5



**THREE MONTHS OF SOFT EUROZONE CORE CPI KEEPS ECB ON TRACK TO CUT**

Eurozone CPI core CPI was unchanged at 2.7% y/y while the m/m NSA reading of 0.2% was in line with the historical average for like months of October which is used because the figures are not seasonally adjusted (chart 5). This follows September data when core CPI m/m was the weakest September on record and August when the gain was in line with an average August. The significance lies in the fact that we now have three months of evidence that the year-to-date trend until then was toward stronger than seasonally normal prints for core CPI, supporting another ECB 25bps cut on December 12<sup>th</sup>.

**WHOA, IS THAT THE GERMAN CONSUMER I SEE?**

Are German consumers roaring back to life? Retail sales volumes were up by 1.2% m/m SA in September (-0.6% consensus) after a prior 1.2% gain that was revised a bit lower from 1.6% and following a 0.6% gain in July. The last time Germany posted three consecutive monthly gains was just before the pandemic hit.

**ELEVATED DATA RISK INTO THE N.A. OPEN**

On tap into the N.A. session will be several developments:

**1. Canadian GDP (8:30amET):**

A weak reading for August is expected, with consensus at 0% m/m SA and l'm at -0.1%. Statcan had guided "essentially unchanged" and then we got some soft data. August was when wildfires and strikes hit such that indicator tracking also has to take into account downside risk to sectors with more limited tracking abilities. The flash estimate for September GDP might also be weak based on limited data including a drop in hours worked. The August and 'flash' September readings will help firm up Q3 GDP tracking relative to the BoC's 1.5% q/q SAAR revised estimate. If l'm in the right ballpark on August and September then Q3 could be tracking close to only about 1% q/q SAAR (chart 6).

**2. Canadian payrolls (8:30amET):**

Who cares. Lagging, markets often ignore, it's not like the US that releases payrolls and the household survey simultaneously, and Canada's household labour force survey arrives next Friday. The average weekly earnings figure might be of mild interest as one of the wage figures the BoC monitors but not the more significant one. Real wage growth using both main measures has been accelerating (chart 7).

**3. US core PCE inflation (8:30amET):**

Yesterday's Q3 estimate was higher than expected at 2.2% q/q SAAR. That means one of two things for today's monthly figures. Either September core PCE is going to be quite strong (like 0.4% m/m SA) and/or there will be upward revisions to prior months. It's unclear which will be the case, but core CPI was not revised when it was released back on October 10th. That gives me a little more confidence in my 0.3% m/m SA core PCE estimate with possible upside risk and with consensus split between 0.2 and 0.3. Core PCE has been undershooting core CPI of late (chart 8).

**4. US personal income and spending (8:30amET):**

Both readings are expected to post mild growth of 0.3–0.4% m/m each in September's figures (8:30amET), but key will be how the stronger than expected Q3 consumption figure of 3.7% q/q SAAR shows up in the September figure versus revisions to prior months and we can't tell which until we see the data. As explained in this morning's note, this issue of whether September was strong or there were upward revisions to prior months could affect hand-off momentum math for consumption into Q4.

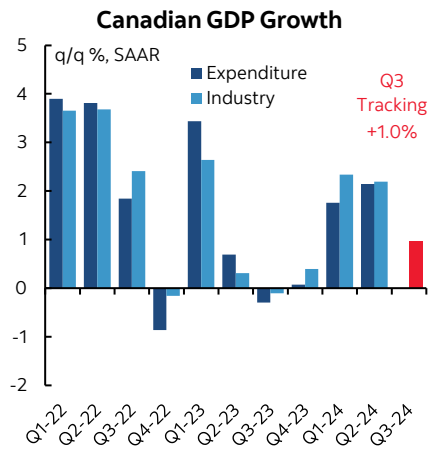
**5. Some US labour market readings will tease ahead of tomorrow's payrolls.**

Challenger job cuts landed at 55.6k in October which is lower than the prior month's 72.8k but they are not seasonally adjusted; this October was relatively elevated compared to historical Octobers including last year (chart 9). The Q3 Employment Cost Index (8:30amET) is expected to rise by about another 1% and potentially set the stage for a modest rise in unit labour costs next week given moderate productivity growth. Weekly claims are surprisingly showing very little hurricane effect with just the temporary one-week blip higher in early October (8:30amET).

**6. BanRep Policy Decision (2pmET):**

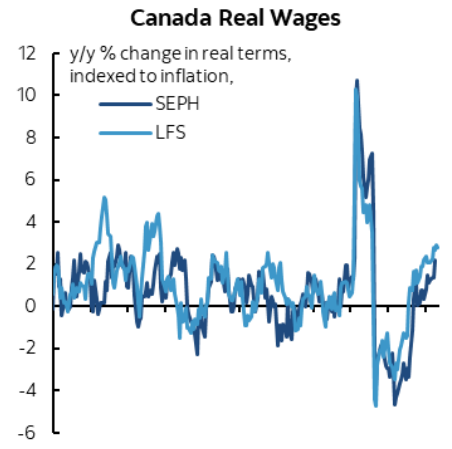
Colombia's central bank is expected to cut another 50bps this afternoon (2pmET). Our economists in Bogota expect -50bps. Some within consensus think they could upsize at -75bps.

Chart 6



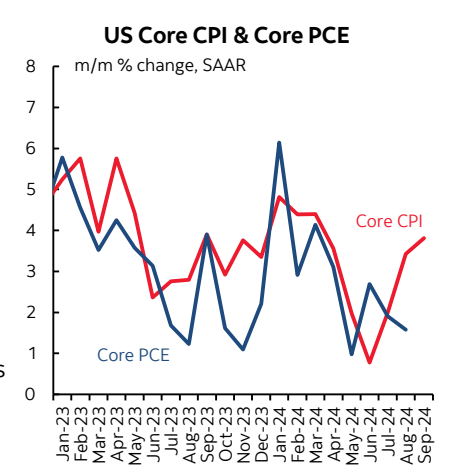
Sources: Scotiabank Economics, Statistics Canada.

Chart 7



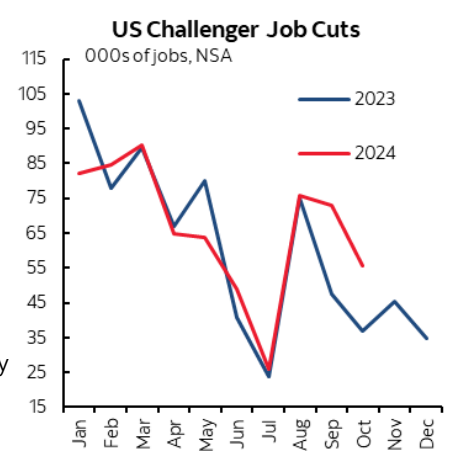
Sources: Scotiabank Economics, Statistics Canada.

Chart 8



Sources: Scotiabank Economics, BLS, BEA.

Chart 9



Sources: Scotiabank Economics, Challenger, Gray & Christmas Inc.

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.	4.17	4.18	4.08	4.15	4.16	4.03	4.28	4.30	4.21	4.47	4.50	4.47	Canada - BoC	3.75
CANADA	3.09	3.10	3.07	3.05	3.05	3.01	3.25	3.26	3.24	3.32	3.34	3.37	US - Fed	5.00
GERMANY	2.29	2.26	2.08	2.28	2.26	2.08	2.41	2.39	2.27	2.64	2.62	2.59	England - BoE	5.00
JAPAN	0.45	0.45	0.45	0.59	0.59	0.58	0.95	0.96	0.96	2.22	2.23	2.21		
U.K.	4.41	4.32	4.14	4.29	4.23	4.09	4.41	4.35	4.24	4.85	4.83	4.76		
	Spreads vs. U.S. (bps):													
CANADA	-108	-109	-101	-111	-111	-103	-103	-104	-97	-115	-117	-111	Euro zone - ECB	3.40
GERMANY	-189	-192	-200	-187	-190	-195	-187	-191	-195	-184	-188	-189	Japan - BoJ	-0.10
JAPAN	-373	-373	-363	-357	-357	-345	-333	-334	-325	-225	-227	-227		
U.K.	24	14	6	14	6	6	13	5	2	38	33	29	Mexico - Banxico	10.50
Equities	Level						% change:							
	Last	Change		1 Day	1-wk	1-mo	1-yr							
S&P/TSX	24508	-54.8		-0.2	-0.3	2.1	29.9						Australia - RBA	4.35
Dow 30	42142	-91.5		-0.2	-0.9	-0.4	27.5						New Zealand - RBNZ	4.75
S&P 500	5814	-19.3		-0.3	0.3	0.9	38.6							
Nasdaq	18608	-104.8		-0.6	1.8	2.3	44.8							
DAX	19154	-103.8		-0.5	-1.5	-0.9	29.3							
FTSE	8098	-61.2		-0.7	-2.1	-1.7	10.6							
Nikkei	39081	-196.1		-0.5	2.5	1.1	23.7						Canada - BoC	Dec 11, 2024
Hang Seng	20317	-63.3		-0.3	-0.8	-3.9	18.8						US - Fed	Nov 07, 2024
CAC	7356	-72.3		-1.0	-2.0	-3.7	6.8						England - BoE	Nov 07, 2024
Commodities	Level						% change:							
	Last	Change		1 Day	1-wk	1-mo	1-yr							
WTI Crude	69.10	0.49		0.7	-1.6	1.4	-14.7						England - BoE	Nov 07, 2024
Natural Gas	2.80	-0.05		-1.7	10.9	-4.3	-21.8						Euro zone - ECB	Dec 12, 2024
Gold	2779.60	-8.01		-0.3	1.6	24.7	40.1						Japan - BoJ	June 14, 2024
Silver	34.03	-0.12		-0.3	-1.4	9.5	47.0							
CRB Index	280.26	1.93		0.7	-1.1	-1.6	-0.3							
Currencies	Level						% change:							
	Last	Change		1 Day	1-wk	1-mo	1-yr							
USDCAD	1.3917	0.0013		0.1	0.4	2.9	0.3						Mexico - Banxico	Nov 14, 2024
EURUSD	1.0869	0.0013		0.1	0.4	-2.4	2.8						Australia - RBA	Nov 04, 2024
USDJPY	152.75	-0.6700		-0.4	0.6	6.3	0.7						New Zealand - RBNZ	Nov 26, 2024
AUDUSD	0.6568	-0.0004		-0.1	-1.1	-5.0	3.6							
GBPUSD	1.2981	0.0019		0.1	0.0	-2.9	6.8							
USDCHF	0.8654	-0.0013		-0.1	-0.0	2.3	-4.9							

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