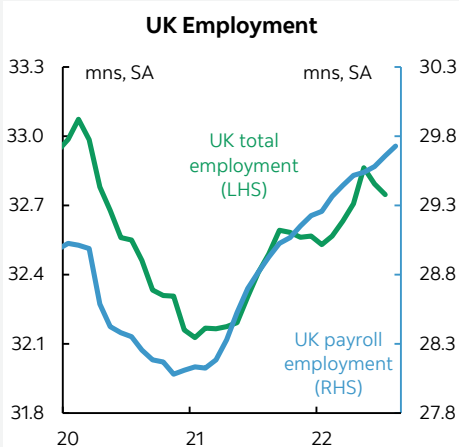


Contributors

Derek Holt

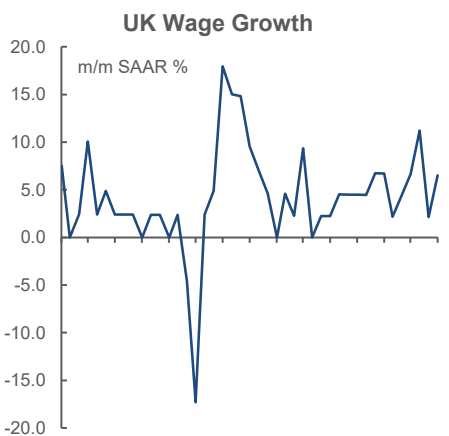
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Chart 1



Sources: Scotiabank Economics, UK ONS.

Chart 2



Sources: Scotiabank Economics, Bloomberg.

On Deck for Tuesday, September 13

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	09-13	08:30	CPI (m/m)	Aug	0.1	-0.1	0.0
US	09-13	08:30	CPI (y/y)	Aug	8.1	8.0	8.5
US	09-13	08:30	CPI (index)	Aug	--	295.6	296.3
US	09-13	08:30	CPI ex. Food & Energy (m/m)	Aug	0.4	0.3	0.3
US	09-13	08:30	CPI ex. Food & Energy (y/y)	Aug	6.1	6.1	5.9
US	09-13	14:00	Treasury Budget (US\$ bn)	Aug	--	-216.0	-211.1

KEY POINTS:

- **Are markets correct in dovishly positioning for US CPI?**
- **Look through the gas-induced softness in headline US CPI...**
- **...as core is what matters...**
- **...except that the FOMC has likely already made up its mind on next week's hike...**
- **...after passing on the chance to lean against 75bps pricing with data dependent optionality**
- **The UK lost jobs even as payrolls gained...**
- **...while wage growth firmed**
- **German investment sentiment is a sour start to monthly sentiment surveys**

Global markets are setting up for US CPI with a risk-on bias. Broad dollar weakness is helping oil gain a buck. US equity futures are up by over ½% and ditto for TSX futures while European cash markets are performing similarly. US Ts are richer by ~4–5bps across most of the curve. Rather mixed UK job market readings have had little to no durable effect on gilts and sterling; 2-years opened a touch cheaper but faded that and are now richer and sterling's appreciation at the time of release coincided with a broad shift toward dollar weakness with sterling a middle of the pack performer to the dollar so far today. The real show for global markets will nevertheless be US core CPI.

The UK lost 46,000 jobs in July for the second consecutive decline after losing 71,000 jobs in June, seasonally adjusted. When newswires report 3m/3m rolling tallies they always miss the turns in m/m terms. All the headlines are about the subset of payroll jobs that went up with the flash reading for August indicating a gain of 71k after a small upward revision to July (77k from 73k). Payroll employment has generally outperformed total employment since the switch got flicked back on early last year and has been on a steady upward trend versus several soft patches in total jobs (chart 1).

UK wage growth accelerated to 5.2% y/y (5.1% consensus, 4.7% prior) in July. The more useful figure for purposes of capturing pressures at the margin is m/m seasonally adjusted and annualized wage growth that landed at 6.5%, up from 2.1% the prior month but is pretty consistently trending at a fairly hot rate since last August (chart 2).

German ZEW investor expectations fell again to their lowest level since October 2008. This rather unpleasantly kicks off the September round of survey-based readings ahead of next week's PMIs and the following week's IFO business confidence gauge. Expect further weakening and more inflation as Russia plays pipeline games into winter.

Then it's the big show, at least for this week and that's also an indication of a light week for calendar-based risk. US CPI expectations range from -0.4% m/m to +0.2% m/m with most estimates in a -0.2 to 0% range. The median consensus estimate is -0.1% m/m and my estimate for Scotia's contribution to the surveys is +0.1%.

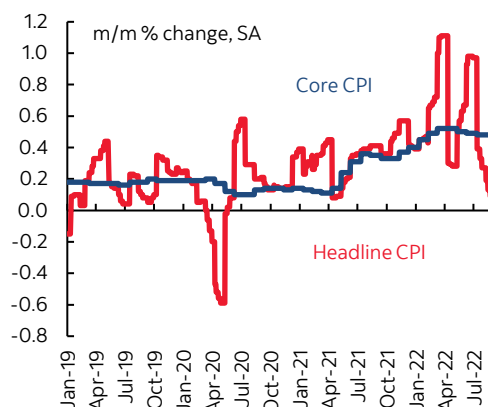
Key, however, will be core CPI. Most estimates range from +0.1% to +0.6% with a heavy concentration upon 0.3% as the first choice and 0.4% as second choice. My estimate for Scotia's contribution is 0.4% that annualizes to just shy of 5% m/m SAAR.

Drivers are in the week ahead and prior notes over the past month. Lower gasoline prices will shave around ½% m/m off headline inflation in weighted contribution terms so ignore headline inflation as the Fed's guns are not pointed at gasoline prices. Natural gas prices will likely add back a little to headline CPI but ignore that too. Key is therefore core CPI. The Cleveland Fed's 'nowcast' for core CPI points to a gain of about 0.5% m/m SA (chart 3) and an acceleration to 6.1% y/y from 5.9%. Vehicle prices are not expected to make material contributions this time while food prices should add a little in weighted terms and then modest seasonality and services-led price effects are expected.

As argued last week and in the global week ahead I think there is a high bar set for core CPI to matter. If Powell & Co were uncomfortable with fff pricing 75bps next week, then they probably might have leaned against it or emphasized more data dependent optionality. They did not. Their aim is to move into something that is restrictive in front-loaded fashion and a 75bps move to 3¼% would likely tick the box with enough of them. The more important factor will likely be what they show in the dot plot that I suspect will pull forward the peak policy rate and perhaps raise it compared to the June dots with ~4% in sight. I don't get the dovish pivot hopes especially into US mid-terms as the resulting easing of financial conditions would seem to run counter to getting inflation under control.

Chart 3

Cleveland Fed Nowcast



Sources: Scotiabank Economics, Cleveland Fed.

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.	3.51	3.57	3.51	3.39	3.45	3.45	3.31	3.36	3.35	3.47	3.51	3.50	Canada - BoC	3.25
CANADA	3.56	3.60	3.61	3.18	3.24	3.29	3.07	3.14	3.19	3.10	3.16	3.15	US - Fed	2.50
GERMANY	1.31	1.32	1.12	1.49	1.49	1.41	1.66	1.65	1.64	1.77	1.75	1.76	England - BoE	1.75
JAPAN	-0.07	-0.07	-0.08	0.03	0.06	0.02	0.25	0.25	0.24	1.23	1.29	1.26	Euro zone - ECB	1.25
U.K.	3.02	3.03	3.20	2.97	2.99	3.03	3.07	3.08	3.10	3.40	3.45	3.41	Japan - BoJ	-0.10
Spreads vs. U.S. (bps):														
	4	3	10	-21	-21	-16	-23	-22	-16	-37	-35	-35		
CANADA	4	3	10	-21	-21	-16	-23	-22	-16	-37	-35	-35	Mexico - Banxico	8.50
GERMANY	-221	-225	-239	-190	-196	-204	-165	-171	-171	-170	-176	-174	Australia - RBA	2.35
JAPAN	-359	-365	-359	-336	-340	-343	-306	-311	-311	-224	-223	-224	New Zealand - RBNZ	3.00
U.K.	-50	-54	-30	-42	-46	-43	-24	-28	-25	-7	-6	-9	Next Meeting Date	
Equities	Level						% change:							
	Last			Change			1 Day	1-wk	1-mo	1-yr				
S&P/TSX	19987			213.9			1.1	4.7	-1.0	-3.3	Canada - BoC	Oct 26, 2022		
Dow 30	32381			229.6			0.7	3.4	-4.1	-7.1	US - Fed	Sep 21, 2022		
S&P 500	4110			43.0			1.1	4.7	-4.0	-8.0	England - BoE	Sep 22, 2022		
Nasdaq	12266			154.1			1.3	5.5	-6.0	-18.8	Euro zone - ECB	Oct 27, 2022		
DAX	13495			92.6			0.7	4.8	-2.2	-14.1	Japan - BoJ	Sep 22, 2022		
FTSE	7509			36.0			0.5	2.9	0.1	6.2	Mexico - Banxico	Sep 29, 2022		
Nikkei	28615			72.5			0.3	3.6	0.2	-6.7	Australia - RBA	Oct 03, 2022		
Hang Seng	19327			-35.4			-0.2	0.5	-4.2	-24.2	New Zealand - RBNZ	Oct 04, 2022		
CAC	6375			41.6			0.7	4.4	-2.7	-4.5				
Commodities	Level						% change:							
	Last			Change			1 Day	1-wk	1-mo	1-yr				
WTI Crude	88.94			1.16			1.3	2.4	-3.4	26.2				
Natural Gas	8.32			0.07			0.8	2.1	-5.2	59.0				
Gold	1731.10			6.56			0.4	1.7	-4.0	-3.5				
Silver	19.22			0.45			2.4	5.4	-5.2	-20.0				
CRB Index	287.62			3.50			1.2	1.1	-2.0	30.0				
Currencies	Level						% change:							
	Last			Change			1 Day	1-wk	1-mo	1-yr				
USDCAD	1.2963			-0.0025			-0.2	-1.4	0.4	2.5				
EURUSD	1.0183			0.0061			0.6	2.8	0.2	-13.8				
USDJPY	141.97			-0.8700			-0.6	-0.6	6.5	29.1				
AUDUSD	0.6912			0.0024			0.3	2.6	-1.6	-6.2				
GBPUSD	1.1734			0.0051			0.4	1.9	-2.7	-15.2				
USDCHE	0.9488			-0.0048			-0.5	-3.5	0.3	2.9				

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