

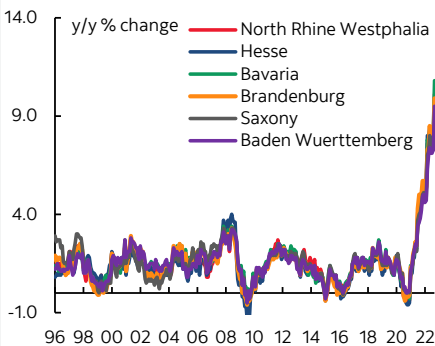
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Chart 1

German Inflation by State



Sources: Scotiabank Economics, German Federal Statistical Office.

On Deck for Thursday, September 29

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	09-29	08:30	Real GDP (m/m)	Jul	-0.2	-0.1	0.1
US	09-29	08:30	GDP (q/q a.r.)	2Q T	-0.5	-0.6	-0.6
US	09-29	08:30	GDP Deflator (q/q a.r.)	2Q T	--	8.9	8.9
US	09-29	08:30	Initial Jobless Claims (000s)	Sep 24	215	215	213
US	09-29	08:30	Continuing Claims (000s)	Sep 17	1,350	1,385	1,379
US	09-29	09:30	Fed's Bullard Discusses Economic Outlook				
US	09-29	13:00	Fed's Mester and ECB's Lane Take Part in Policy Panel				
US	09-29	16:45	Fed's Mary Daly Speaks at Boise State University				

KEY POINTS:

- **Risk-off sentiment continues...**
- **...as German inflation exceeds expectations...**
- **...in a deluge of hawkish ECB-speak...**
- **...while UK markets continue to suffer from a lack of Trusst**
- **Canada's economy was likely soft through July and August**
- **Banxico expected to follow the Fed with +75**
- **BanRep to launch mega-hike**
- **US Q2 GDP revision and claims on tap**
- **More central bank speak!**

A combination of German inflation, hawkish ECB-speak and the ongoing UK train wreck is adding to risk-off sentiment this morning with bonds and equities tumbling. We'll get some big rate hikes out of key LatAm central banks this aft and top shelf Canadian data as central bank speak continues.

That's hardly a favourable market backdrop. US and Canadian equity futures are both down by around 1% and European cash markets are off by over 1%. US Treasury yields are up by 6–10bps in a mild bear steepener. Canada's curve is underperforming out of the gates. Gilts are exploding again with 2s up 19bps and 10s up 14 (see below). EGBs are cheaper by double digit yield increases across 10s. The USD is gaining against all major crosses.

Gilts are back to suffering from a lack of Trusst. UK PM Truss kept digging and unearthed some more words to disturb markets. She deflected criticism and market reactions to her administration's fiscal plans by saying it's just a reflection of difficult economic times. She rejected the notion that her administration should alter course and in fact doubled down by saying "I'm very clear the government has done the right thing. This is the right plan." And so we're back to selling gilts with yields up 15bps from 2s through 10s. Even Carney got into the act with criticism that the Truss admin has been debasing critically important institutions and among the examples are likely the firings and rejection of supposed orthodoxy in the UK Treasury. Not exactly first world stuff we're witnessing here folks.

The early reads on Eurozone inflation are mixed. German states are pointing to upside risk to the consensus estimate for CPI to rise by 1.5% when the 8amET figures land. The individual states that report in advance were almost all up by between 1.8–2.2% m/m with just one below that at 1.4%. Chart 1 shows continued upward pressure upon year-over-year inflation. Germany ended some temporary supports like sales tax cuts but still the figures so far are exceeding estimates of the impact of such measures. Spain, however, posted 0% change in prices in September (consensus 0.6% m/m) and core inflation also ebbed. Tomorrow will reveal the rest of the Eurozone tally when France and Italy also report.

ECB hawks circled over the figures and momentum continues to build toward a large hike. There are just far too many ECB speakers to recap (and more coming today) but the gist of what they has markets largely priced for a 75bps hike on October 27th.

Canadian GDP is on tap for July and August updates this morning. July will be the final estimate compared to the initial 'flash' reading of -0.1% m/m and will offer details, but August will be fresh and may face more downside than upside risk itself given flat hours worked and generally soft readings from the goods sector but uncertainty around tracking growth in services.

Banxico is widely expected to hike by another 75bps this afternoon (2pmET) and hence match the Fed. BanRep is expected to launch a mega-hike of between 100–150bps at the same time and on the back of hot core inflation.

Canada's bond market will shut early at 1pmET for Truth and Reconciliation Day tomorrow aka Orange Shirt day. Banks and bonds are shut tomorrow, equities not.

Central bank speak will continue with the Fed's Bullard (9:30amET), Mester (1pmET) and Daly (4.45pmET) combining with another appearance by the BoE's Pill (11amET) and ECB speaks including Simkus and Muller (9amET), Tenreyro (11amET), Lane (1pmET) and de Cos (4:50pmET).

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.	4.20	4.14	4.12	4.05	3.95	3.94	3.82	3.73	3.71	3.76	3.70	3.64	Canada - BoC	3.25	
CANADA	3.76	3.89	3.77	3.26	3.45	3.22	3.08	3.32	3.03	2.97	3.18	2.94	US - Fed	3.25	
GERMANY	1.92	1.86	1.85	2.14	2.03	1.94	2.24	2.12	1.97	2.11	2.02	1.87	England - BoE	2.25	
JAPAN	-0.04	-0.04	-0.07	0.08	0.09	0.04	0.26	0.25	0.24	1.41	1.49	1.30	Euro zone - ECB	1.25	
U.K.	4.49	4.29	3.53	4.48	4.29	3.56	4.15	4.01	3.50	3.90	3.93	3.78	Japan - BoJ	-0.10	
	Spreads vs. U.S. (bps):														
CANADA	-44	-25	-36	-79	-50	-72	-74	-42	-68	-79	-52	-70	Mexico - Banxico	8.50	
GERMANY	-228	-228	-228	-192	-192	-200	-158	-161	-175	-165	-168	-177	Australia - RBA	2.35	
JAPAN	-424	-417	-419	-397	-386	-390	-356	-349	-348	-235	-222	-234	New Zealand - RBNZ	3.00	
U.K.	29	16	-60	43	34	-37	33	28	-22	14	23	13			
Equities	Level						% change:						Next Meeting Date		
	Last			Change			1 Day	1-wk	1-mo			1-yr			
S&P/TSX	18649			341.0			1.9	-2.8	-6.0			-7.5	Canada - BoC	Oct 26, 2022	
Dow 30	29684			548.8			1.9	-1.7	-7.5			-13.7	US - Fed	Nov 02, 2022	
S&P 500	3719			71.8			2.0	-1.9	-7.7			-14.7	England - BoE	Nov 03, 2022	
Nasdaq	11052			222.1			2.1	-1.5	-8.0			-23.8	Euro zone - ECB	Oct 27, 2022	
DAX	12034			-148.8			-1.2	-4.0	-6.7			-21.7	Japan - BoJ	Oct 28, 2022	
FTSE	6942			-63.5			-0.9	-3.0	-6.5			-2.3	Mexico - Banxico	Sep 29, 2022	
Nikkei	26422			248.1			0.9	-3.3	-5.2			-10.6	Australia - RBA	Oct 03, 2022	
Hang Seng	17166			-85.0			-0.5	-5.4	-14.3			-30.4	New Zealand - RBNZ	Oct 04, 2022	
CAC	5694			-71.1			-1.2	-3.8	-8.5			-13.2			
Commodities	Level						% change:								
			Change												
WTI Crude	82.46		0.31			0.4		-1.2		-15.0		10.2		England - BoE	Nov 03, 2022
Natural Gas	7.11		0.15			2.2		0.2		-24.0		29.7		Euro zone - ECB	Oct 27, 2022
Gold	1650.49		-9.48			-0.6		-1.2		-5.0		-4.4		Japan - BoJ	Oct 28, 2022
Silver	18.25		-0.43			-2.3		-6.4		-5.0		-17.8		Mexico - Banxico	Sep 29, 2022
CRB Index	271.82		5.85			2.2		-2.3		-9.9		19.7		Australia - RBA	Oct 03, 2022
Currencies	Level						% change:								
			Change												
USDCAD	1.3685		0.0077			0.6		1.5		5.2		7.3		New Zealand - RBNZ	Oct 04, 2022
EURUSD	0.9715		-0.0020			-0.2		-1.2		-2.8		-16.2			
USDJPY	144.66		0.5000			0.3		1.6		4.3		29.2			
AUDUSD	0.6473		-0.0049			-0.8		-2.6		-6.2		-9.8			
GBPUSD	1.0843		-0.0046			-0.4		-3.7		-7.4		-19.2			
USDCHF	0.9792		0.0032			0.3		0.1		1.1		4.8			

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