

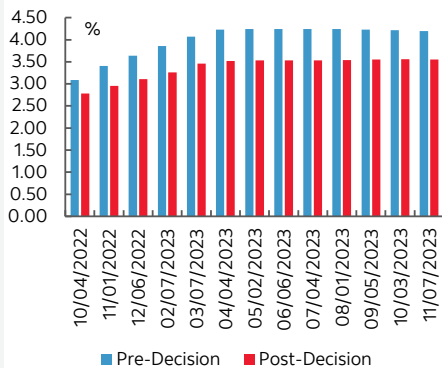
Contributors

Derek Holt

VP & Head of Capital Markets Economics
 Scotiabank Economics
 416.863.7707
derek.holt@scotiabank.com

Chart 1

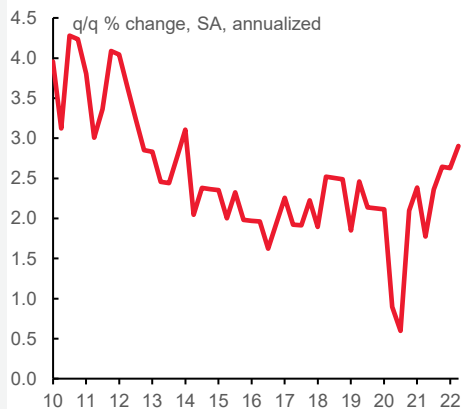
RBA Futures Implied Market Pricing



Sources: Scotiabank Economics, Bloomberg.

Chart 2

Australia's Wage Growth



Sources: Scotiabank Economics, Australian Bureau of Statistics.

On Deck for Tuesday, October 4

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	10-04	09:00	Fed's Logan Gives Welcoming Remarks at Event on Technology				
US	10-04	09:00	Williams Gives Opening/Closing Remarks at Work Culture Event				
US	10-04	09:15	Fed's Mester Speaks at Conference on Payment System				
US	10-04	10:00	Factory Orders (m/m)	Aug	0.2	0.0	-1.0
US	10-04	10:00	JOLTS Job Openings (000s)	Aug	--	--	11,239
US	10-04	11:45	Fed's Jefferson Speaks at Conference				
US	10-04	13:00	Fed's Daly Speaks to the Council on Foreign Relations				

KEY POINTS:

- **Bonds and stocks rallying hard...**
- **...post-RBA, and aided by a new quarter's rebalancing**
- **RBA opted for a smaller 25bps hike, still says rates are going higher**
- **Why the RBA's actions don't apply elsewhere**
- **Oil continues to rally ahead of tomorrow's OPEC+ meeting**
- **Watch JOLTS for a nonfarm turning point**
- **Legault wins an even bigger Quebec majority**
- **Minor US data on tap**

A strong risk-on session has bonds and stocks simultaneously rallying while the USD cheapens. One driver is the RBA's decision overnight, another is perhaps ongoing buying as the calendar flipped to a new quarter this week and another is ongoing spillover from yesterday's soft US data and the (very small) pivot by the UK government on its tax plan.

Sovereign bonds are rallying everywhere with the freshest catalyst being the RBA's smaller than expected rate hike. I go over reasons why I think that narrative is misplaced (again...) below, but for now the US 2-year yield is 7bps lower on the day so far (though 5bps higher than the lows) and 10s are 6bps lower. Gilts continue to rally hard with 2s down 26bps and 10s 12bps. EGBs are rallying by 5-10bps across maturities but double digit declines in Italian yields. Most currencies are rallying against the USD except for the A\$ (RBA), yen, NZ\$ (on the market assumption the RBNZ will follow the RBA tonight) and CAD on the often false market narrative that somehow the dynamics surrounding the RBA and the BoC are similar to one another. Stocks are up with US futures rallying by an impressive ~1½-2% and TSX futures performing similarly. European cash markets are up by between 2% to 3½%. Oil is up another 1%+ ahead of tomorrow's OPEC+ decision on whether to cut output and by how much.

As for the main focus today, yet again, what the RBA did reverberated across global markets overnight on the probably false assumption that what happens in Australia doesn't stay in Australia and carries lessons for the rest of the world's central banks. First here's what they did before turning to why it doesn't apply elsewhere in my view.

The RBA hiked 25bps when there were more within consensus expecting 50 than 25 and markets were somewhat on the fence but leaning closer to 50. Guidance still says that "The Board expects to increase interest rates further over the period ahead." Markets reacted by reducing the priced amount of cumulative rate hikes by about 75bps to a cycle peak of 3 ½% by May 2023 compared to pricing at the end of last week. The A\$ is the worst performer among the majors versus the USD this morning and is off by about one-third of a cent on the day. The Australian rates curve rallied by 32bps in 2s and 17bps in 10s in a net bull steepener. Rates rallied everywhere else on assumed spillover effects to other central banks.

October 4, 2022

Here are some reasons why I think the narrative that what the RBA did carries lessons for the rest of the world is exaggerated.

a. That same thesis was ultimately invalidated just last month when the RBA's guidance and then Governor Lowe's speech and testimony soon thereafter combined to set up markets to think that central banks were pivoting more dovishly only for the Fed to crush that thesis on the 21st. Bonds rallied, positioning got off base, then participants got their heads handed back to them in the aftermath of it all.

b. The RBA's track record has involved multiple pivots and extreme swings on both the policy rate and its yield target and purchases. So have others, but the point is not to treat individual moves all that seriously.

c. But key is that maybe the RBA just felt that pricing for the terminal rate was getting too aggressive at 4¼% pre-meeting. Governor Lowe said last month that he hoped the cash rate would come to rest within a 2.5–3.5% rate with 'a few' more rate increases over coming meetings. Well, markets are now more aligned with the upper end of that range after the decision (chart 1). The RBA didn't turn more dovish relative to its prior guidance on the terminal rate; it only did so relative to markets that didn't listen. You don't have that same issue with pricing for the Fed, for instance, given broad alignment toward the dots.

d. Wage growth in Australia is muted so wage-price spiral effects are less material than, say, in the US and Canada. Annualized q/q nominal wage growth was just 2.9% in Q2 (chart 2). The US 3 mo MA of m/m annualized wage growth is about 5% and it's 10% in Canada.

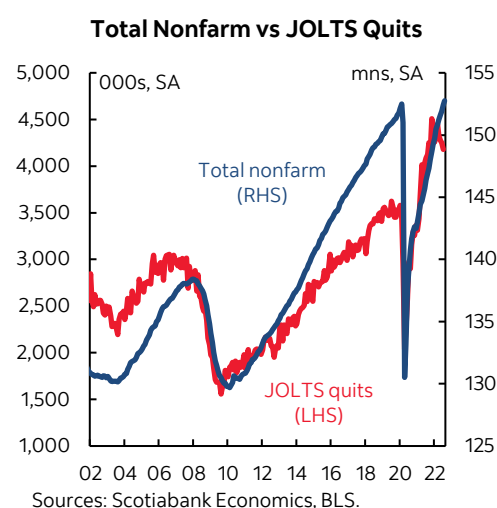
e. Aussie inflation (quarterly) was 6.1% y/y in Q2 with trimmed mean and weighted median CPI at under 5% y/y in both cases. US CPI was 8.3% in August ahead of next week's September print with core at 6.3%. Canada's CPI was 7% y/y in August with avg core at 5.2%.

Things not named the RBA don't matter as much so far this morning. Premier Legault and his CAQ party handily won yesterday's Quebec election by taking down 41% of the popular vote which was enough to win 90 seats or 72% of the total and form another majority government. That's the largest majority since 1989 and an increase in the number of seats from 76 going into the election. #chequeswork, and that's why the Feds did it afterward!

Minor US data is on tap today including factory orders during August (consensus 0% m/m, 10amET) and JOLTS job openings in August (10amET). Keep chart 3 in mind as refreshed job openings arrive in that it illustrates how a cooling labour market first witnesses falling job openings with probably a number of the remaining ones being zombie postings, and then sees the other shoe drop with lower payrolls. The turning points in JOLTS have preceded turning points in nonfarm payrolls by roughly 6–12 months over the limited sample of data since JOLTS became available in late 2000.

There is nothing due out in Canada. ECB President Lagarde speaks at 11amET.

Chart 3



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.	4.04	4.12	4.29	3.80	3.88	4.19	3.59	3.64	3.95	3.66	3.68	3.83	Canada - BoC	3.25
CANADA	3.67	3.76	3.89	3.20	3.28	3.45	3.07	3.13	3.32	3.09	3.13	3.18	US - Fed	3.25
GERMANY	1.54	1.62	1.98	1.67	1.77	2.17	1.84	1.92	2.23	1.86	1.92	2.09	England - BoE	2.25
JAPAN	-0.06	-0.05	-0.04	0.04	0.06	0.09	0.22	0.25	0.25	1.33	1.33	1.43		
U.K.	3.85	4.05	4.65	4.03	4.23	4.70	3.83	3.96	4.51	3.89	3.89	4.99		
	Spreads vs. U.S. (bps):													
CANADA	-36	-36	-40	-60	-60	-74	-52	-51	-63	-57	-55	-65	Euro zone - ECB	1.25
GERMANY	-250	-250	-230	-213	-211	-202	-175	-172	-172	-179	-176	-174	Japan - BoJ	-0.10
JAPAN	-410	-417	-433	-376	-382	-409	-337	-339	-369	-233	-235	-239		
U.K.	-19	-6	36	23	35	51	24	32	56	24	21	116	Mexico - Banxico	9.25
Equities	Level						% change:							
	Last	Change			1 Day	1-wk	1-mo	1-yr						
S&P/TSX	18881	437.0			2.4	3.1	-2.0	-5.8					Australia - RBA	2.60
Dow 30	29491	765.4			2.7	0.8	-5.8	-13.3					New Zealand - RBNZ	3.00
S&P 500	3678	92.8			2.6	0.6	-6.3	-14.5						
Nasdaq	10815	239.8			2.3	0.1	-7.0	-24.1						
DAX	12563	353.5			2.9	3.5	-3.7	-16.5						
FTSE	7041	131.8			1.9	0.8	-3.3	0.4						
Nikkei	26992	776.4			3.0	1.6	-2.3	-3.0					Canada - BoC	Oct 26, 2022
Hang Seng	17080	-143.3			-0.8	-4.3	-12.2	-28.9					US - Fed	Nov 02, 2022
CAC	5994	199.6			3.4	4.2	-2.8	-7.5					England - BoE	Nov 03, 2022
Commodities	Level						% change:							
WTI Crude	84.76	1.13			1.4	8.0	-2.4	9.2					Euro zone - ECB	Oct 27, 2022
Natural Gas	6.46	-0.01			-0.2	-2.9	-26.5	12.0					Japan - BoJ	Oct 28, 2022
Gold	1705.93	6.05			0.4	4.7	-0.4	-3.6						
Silver	19.42	0.40			2.1	4.2	8.4	-12.1						
CRB Index	272.82	4.53			1.7	3.2	-4.1	17.0						
Currencies	Level						% change:							
USDCAD	1.3637	0.0013			0.1	-0.6	3.8	8.3					Mexico - Banxico	Nov 10, 2022
EURUSD	0.9891	0.0065			0.7	3.1	-0.4	-14.9					Australia - RBA	Oct 03, 2022
USDJPY	144.82	0.2700			0.2	0.0	3.0	30.6					New Zealand - RBNZ	Oct 04, 2022
AUDUSD	0.6459	-0.0057			-0.9	0.4	-5.0	-11.3						
GBPUSD	1.1336	0.0013			0.1	5.6	-1.6	-16.7						
USDCHF	0.9879	-0.0044			-0.4	-0.4	0.8	6.8						

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