

DAILY POINTS

February 14, 2023 @ 7:10 EST

Contributors

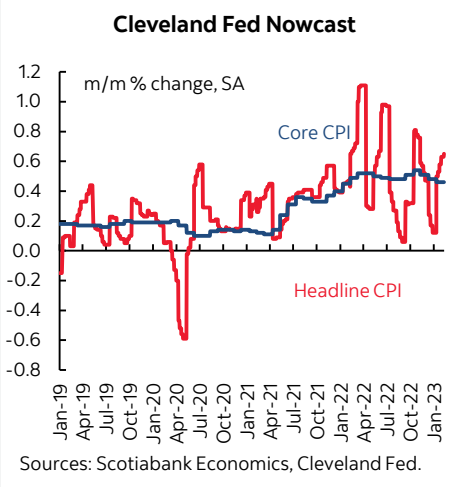
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Chart 1



Chart 2



On Deck for Tuesday, February 14

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	02-14	08:30	CPI (m/m)	Jan	0.4	0.5	0.1
US	02-14	08:30	CPI (y/y)	Jan	6.1	6.2	6.5
US	02-14	08:30	CPI (index)	Jan	--	298.6	298.8
US	02-14	08:30	CPI ex. Food & Energy (m/m)	Jan	0.3	0.4	0.4
US	02-14	08:30	CPI ex. Food & Energy (y/y)	Jan	5.4	5.5	5.7
US	02-14	11:00	Fed's Logan Takes Part in a Moderated Discussion				
US	02-14	11:30	Fed's Harker Discusses the Economic Outlook				
US	02-14	14:05	Fed's Williams Gives Speech at New York Bankers Conference				

KEY POINTS:

- Global markets await US CPI
- US core CPI expected to be firm
- Gilts cheapen, sterling rallies post-UK jobs & wages
- Yen shakes off GDP miss, Ueda nomination
- NZ\$ dips on lower inflation expectations
- Fed officials to weigh in post-CPI

Global markets await US CPI and for now are in risk-on mode. The USD is slightly softer. European cash equities are up by about ½% across exchanges while US equity futures are up ¼% and TSX futures are flat. US Ts are slightly richer and gilts are underperforming post-jobs. Oil is down a buck again and is only about a buck higher on net compared to just before Russia announced it would cut a half million barrels per day from production late last week.

UK job market readings prompted sterling to appreciate and the gilts curve to mildly bear flatten. They also reaffirmed quarter-point pricing for the March 23rd meeting and added about 4bps to terminal rate pricing. It's not clear that this should have been the reaction. On the plus side, payroll jobs were up 102k in January. Lagging total employment (including off-payroll jobs) was up by a mild 32k in December and only 74k on the rolling 3-month convention which is soft but still on the plus side. Earnings ex-bonuses were up 6.7% y/y (6.5% consensus and prior), but herein lies the rub: on a month-over-month basis, wage growth decelerated in seasonally adjusted terms at an annualized growth rate (chart 1). All of which is a potential sideshow anyway ahead of UK CPI tomorrow.

The yen largely shook off both GDP and the official nomination of Ueda as Governor of the BoJ pending parliamentary approval. Japanese GDP missed expectations (0.2% q/q, 0.5% consensus) with a slight negative revision to Q3 (-0.3% q/q from -0.2). Inventories, exports and business investment were all a touch weaker than expected while consumption growth generally performed as expected.

The NZ\$ is the weakest performer to the USD this morning after the central bank's survey of businesses showed that 2-year inflation expectations pulled back from 3.6% to 3.3%

All of which is a bunch of sideshows. US CPI will dominate global market attention given how it impacts the Fed, given the dominance of the dollar and the sheer enormity of the US Treasury market that spreads its tentacles through so many financial vehicles. The extent to which markets have been impacted by nonfarm including its large positive revisions may mean markets could be *relatively* more vulnerable to a downside surprise than a more significantly priced upside surprise imo. US 2s have cheapened by about 45bps since nonfarm and terminal rate pricing has edged up to 5¼% which brings markets into alignment with the December dots, but not any possible upward revision at the March FOMC. Then we'll get another payrolls report, plus PCE, plus one more CPI report before that FOMC meeting and its revised SEP.

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Here are expectations for US CPI // core cpi that is due out for January at 8:30amET.

Consensus: 0.5% m/m // 0.4% m/m

Scotia: 0.4% m/m // 0.3% m/m

Range: mostly 0.4–0.5 // mostly 0.3–0.4

Cleveland Fed's 'nowcast': 0.65% m/m // 0.46%

Drivers:

- The Cleveland Fed's nowcast has overestimated inflation for a few recent reports but it performs reasonably well over time and points to upside risk to my estimate and consensus. Chart 2.
- headline should get a boost from higher gasoline prices (+4% m/m NSA, +3.5% m/m SA). That would add around 0.15% m/m in weighted SA terms to CPI.
- Headline CPI NSA will also benefit from January being a seasonal up-month for CPI NSA
- OER is expected to be strong again as the lagging influences of cooler market rent gauges still lie ahead
- New and used vehicle price changes were minimal in January according to industry sources (not Manheim).
- Food price inflation has ebbed the past couple of months and is well below the 1% m/m increases up to last July. A modest contribution is factored in.
- Another solid gain of 0.4–0.5 m/m is expected for core services ex-housing (Powell's fave measure these days).

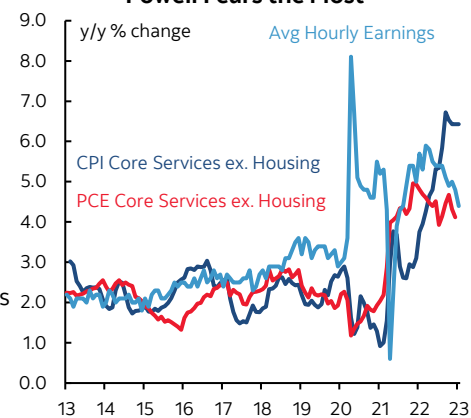
What should we watch for signs inflation is being licked?

- focus on core PCE, not core CPI: Among the many methodological differences is that PCE has half the weight on shelter that CPI does and so housing disinflation wouldn't be anywhere close to the same issue in dragging down PCE. PCE is the Fed's preferred gauge.
- ignore base effect influences as year-ago comps shift. That's how the Fed/BoC etc got into trouble in 2021 and argued it was all just base effect driven inflation, which it never was. I doubt they'll be fooled again which is why some Fed officials have also been emphasizing m/m.
- you'll need to see core PCE coming down toward 2% on a *durable* basis that will take a long time to evaluate. We'll also need to see how the breadth evolves. If goods disinflation keeps shaking out and we rebase then that part of inflation could be subject to renewed future gains in 2024–25. If housing largely finishes pushing through inflation readings—and much less so for PCE as per above comment—by 2024H1 then the Fed could misinterpret cooling inflation if it doesn't control for this. Last, pay attention to when Powell says he's watching core PCE services ex-housing that dominates over half of the core basket. That's driven more by wages and given an extremely tight labour market this could prove to be a persistent form of inflation (chart 3).
- regime shift. Regular readers know my views on how developments since 2016 and ongoing adjustments make for higher long-wave inflationary pressures than the pattern after China's entry to the WTO and especially after the GFC.

The Fed is once again looking for another #2 as the Biden administration rewards Vice Chair Brainard for her qualifications and her loyalty to the Democrats' causes over the years. The longstanding rumour that she was being considered as the Biden administration's top economic adviser appears to be on the mark with a formal nomination coming perhaps as soon as today. There will also be a fair amount of Fed-speak today including Richmond's Barkin (9:30amET), Dallas President Logan (11amET), Philly's Harker (11:30amET) and the NY Fed's Williams (2:05pmET).

Chart 3

This is the Inflation that Powell Fears the Most



Sources: Scotiabank Economics, Bloomberg.

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.	4.50	4.52	4.47	3.89	3.91	3.84	3.69	3.70	3.68	3.76	3.78	3.71	Canada - BoC	4.50
CANADA	4.07	4.08	3.96	3.28	3.28	3.21	3.11	3.11	3.09	3.12	3.11	3.12	US - Fed	4.75
GERMANY	2.78	2.78	2.71	2.42	2.42	2.37	2.37	2.37	2.35	2.32	2.32	2.32	England - BoE	4.00
JAPAN	-0.05	-0.05	-0.02	0.19	0.20	0.18	0.51	0.51	0.50	1.49	1.51	1.56		
U.K.	3.72	3.64	3.51	3.41	3.35	3.22	3.44	3.40	3.32	3.84	3.81	3.75		
	Spreads vs. U.S. (bps):													
CANADA	-42	-44	-51	-61	-63	-63	-58	-60	-59	-65	-66	-59	Euro zone - ECB	3.00
GERMANY	-171	-174	-176	-147	-149	-146	-133	-134	-133	-145	-145	-140	Japan - BoJ	-0.10
JAPAN	-455	-457	-449	-370	-372	-365	-318	-319	-318	-227	-227	-215		
U.K.	-78	-88	-95	-48	-56	-62	-25	-30	-36	7	4	4	Mexico - Banxico	11.00
Equities	Level						% change:							
	Last		Change		1 Day		1-wk		1-mo		1-yr			
S&P/TSX	20702		90.1		0.4		-0.1		1.7		-3.0		Australia - RBA	3.35
Dow 30	34246		376.7		1.1		1.0		-0.2		-0.9		New Zealand - RBNZ	4.25
S&P 500	4137		46.8		1.1		0.6		3.5		-6.0			
Nasdaq	11892		173.7		1.5		0.0		7.3		-13.8			
DAX	15451		53.9		0.4		0.9		2.4		2.2		Next Meeting Date	
FTSE	7983		35.7		0.4		1.5		1.8		6.0		Canada - BoC	Mar 08, 2023
Nikkei	27603		175.5		0.6		-0.3		5.7		1.9		US - Fed	Mar 22, 2023
Hang Seng	21114		-50.7		-0.2		-0.9		-2.9		-14.0		England - BoE	Mar 23, 2023
CAC	7242		33.4		0.5		1.5		3.1		5.7		Euro zone - ECB	Mar 16, 2023
Commodities	Level						% change:							
WTI Crude	78.98		-1.16		-1.4		2.4		-1.1		-17.3			
Natural Gas	2.50		0.09		3.9		-3.3		-26.9		-40.4		Japan - BoJ	Mar 10, 2023
Gold	1857.20		3.71		0.2		-0.8		-3.3		-0.7			
Silver	21.99		-0.13		-0.6		-1.8		-7.1		-4.0			
CRB Index	272.79		0.12		0.0		2.5		-1.1		2.8			
Currencies	Level						% change:							
USDCAD	1.3333		0.0001		0.0		-0.5		-0.6		4.7		Mexico - Banxico	Mar 30, 2023
EURUSD	1.0755		0.0032		0.3		0.3		-0.6		-4.9			
USDJPY	132.18		-0.2400		-0.2		0.8		2.8		14.4		Australia - RBA	Mar 06, 2023
AUDUSD	0.6969		0.0003		0.0		0.1		0.2		-2.2			
GBPUSD	1.2207		0.0068		0.6		1.3		0.1		-9.8		New Zealand - RBNZ	Feb 21, 2023
USDCHF	0.9182		-0.0013		-0.1		-0.4		-0.9		-0.7			

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