

Contributors

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Chart 1

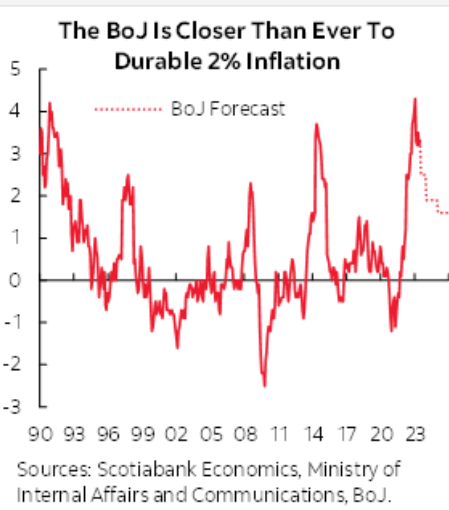
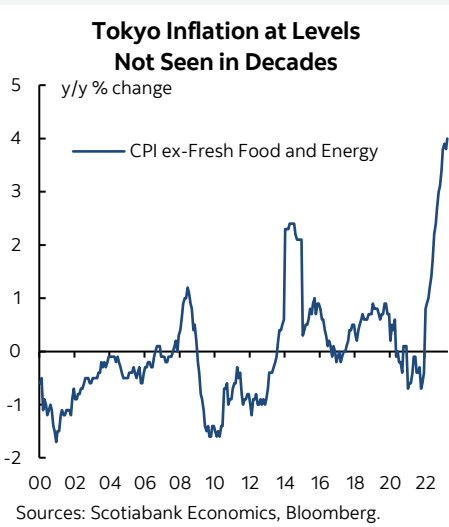


Chart 2



On Deck for Friday, July 28

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	07-28	08:30	Real GDP (m/m)	May	0.4	0.3	0.0
US	07-28	08:30	Employment Cost Index (q/q)	2Q	1.1	1.1	1.2
US	07-28	08:30	PCE Deflator (m/m)	Jun	0.1	0.2	0.1
US	07-28	08:30	PCE Deflator (y/y)	Jun	2.9	3.0	3.8
US	07-28	08:30	PCE ex. Food & Energy (m/m)	Jun	0.1	0.2	0.3
US	07-28	08:30	PCE ex. Food & Energy (y/y)	Jun	4.1	4.2	4.6
US	07-28	08:30	Personal Spending (m/m)	Jun	0.4	0.4	0.1
US	07-28	08:30	Personal Income (m/m)	Jun	0.5	0.5	0.4
US	07-28	10:00	U. of Michigan Consumer Sentiment	Jul F	--	72.6	72.6

KEY POINTS:

- **BoJ policy tweaks ripple through markets ahead of key US data**
- **The Bank of Japan took another normalization step...**
- **...and its inflation forecast is closer to achieving durable 2% than over 3+ decades**
- **Mixed Eurozone inflation, GDP figures offset BoJ spillovers into local curves**
- **US employment cost index, core PCE could offer a mixed picture**
- **Canada's economy likely grew strongly in May, but June guidance will be key**
- **Chile's central bank expected to cut**

The not-normalization move that normalized the Bank of Japan's policy stance rippled through markets but with mixed Eurozone data restraining the translation of those effects into EGBs and gilts. JGBs sold off in bear steeper fashion overnight with 10s up 12bps and 2s mildly cheaper. The broad Asia-Pacific rates complex sold off in tandem, such as Aussie 10s that cheapened by 14bps. US Ts had cheapened in advance when the Nikkei rumour tape bomb hit yesterday afternoon and are consolidating the move with a mild rally this morning ahead of potentially impactful US data. The USD is little changed as the yen held onto the rally from just over 141 pre-rumour to just over 139 now. Stocks are richer across N.A. futures but little changed with a slight negative bias on balance across Europe after Asian equities saw Japan post a mild dip amid mostly gains elsewhere.

Bank of Japan Governor Ueda spoke out of both sides of his mouth while indeed tweaking yield curve control. He said the YCC target range on 10-year JGBs would be held at 0% +/-50bps, but that the BoJ would now offer to buy 10s at 1% each day. Somehow, he figures that's not a step toward normalization as opposed to allowing greater flexibility to maneuver should inflation and fundamentals put upward market pressure on the YCC range. Phooey. It's a further step toward normalization after the prior step toward normalization that widened the bands from +/-25bps to 50 late last year was also positioned as not being a step toward normalization. Whatever. The 10-year JGB cheapened again and the yield is more than double what it was last December in the first move. 2s10s has steepened by roughly 1/2% since last December. But Ueda says don't call it normalization in the latest entry to mealy-mouthed guidance from major central banks seeking to have their cake and eat it too as they tighten while trying to micro-manage markets.

The BoJ revised its inflation forecast to be generally higher and now expects this year to wind up at 2.5% (from 1.8%), next year at 1.9% (from 2%) and the following year to land at an unchanged 1.6%. Ueda emphasized skepticism toward sustainably achieving 2% inflation in his press conference. Markets will debate this as the numbers they produce are about as close to durably achieving the target as the BoJ has ever been ever since the popping of its real estate and stock market bubble over three decades ago and central banks remain stuck in a pattern of chasing inflation higher (chart 1). On that note, Tokyo

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CPI for July added to the upside surprises when the overnight update landed at 3.2% y/y (2.9% consensus) and core was 3% (2.9% consensus). See chart 2.

Eurozone CPI is due out on Monday but several of the biggest countries released this morning. France met expectations for a flat reading (0% m/m SA). Spain was firmer than expected at -0.1% m/m (-0.5% consensus). Germany updates at 8amET, but individual states registered readings between 0.2–0.4% m/m, suggesting that the national print will land near the 0.3% consensus.

The Eurozone economy looks to have broadly held it together in Q2. German GDP was flat (0.1% q/q consensus) but the prior quarter was revised up two-tenths to -0.1% while nevertheless posting no material growth throughout the past five quarters. France's economy beat expectations, however, with a gain of 0.5% q/q SA (0.1% consensus) and a mild negative revision (0.1% from 0.2%). Spain's economy grew by 0.4% q/q and matched consensus but the prior quarter's 0.6% gain was revised down a tick.

Key risks lie ahead into the N.A. session:

1. US core PCE will be updated for June along with any possible revisions (8:30amET). My estimate remains at 0.1% m/m in the wake of yesterday's slightly softer than expected reading for Q2 core PCE.

2. US Employment Cost Index (8:30amET): This is among the Fed's favourite labour market readings because it takes an all-in approach to labour costs including wages and salaries and benefits. This could be the eighth consecutive quarter in which the indicator has risen by >1% q/q SA nonannualized (chart 3).

3. US consumer spending and income will be updated with June estimates after Q3 consumer spending surprised higher in yesterday's GDP accounts by posting a 1.6% q/q SAAR gain (1.2% consensus). Another strong gain in incomes is expected to extend the streak of nominal monthly gains averaging 0.4% m/m SA so far this year.

4. Canadian GDP for May and the preliminary take for June are due out (8:30amET). Statcan had guided May GDP to be tracking 0.4% higher back on June 30th. Consensus hair cut that a bit and my view is that it's incorrect to do so. There should be significant contributions from the Spring housing rebound effects on related service sectors plus May also brought an end to the Federal public sector strike and the negative effects on sectors like agriculture. The bigger uncertainty will be the estimate for June GDP; we know that hours were up 0.1% m/m, housing starts were up 41% m/m alongside another gain in existing home sales, and flash guidance for nominal retail sales was flat, but other 'flash' data has landed weaker like wholesale and manufacturing.

5. Chile's central bank is widely expected to cut after markets close this evening (6pmET). A 75bps reduction is the median consensus call with the tails roughly evenly balanced between a 50bps cut and a 100bps reduction.

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.	4.87	4.93	4.84	4.18	4.24	4.09	3.96	4.00	3.84	4.02	4.04	3.90	Canada - BoC	5.00
CANADA	4.74	4.78	4.58	3.97	4.01	3.81	3.58	3.61	3.41	3.39	3.42	3.26	US - Fed	5.50
GERMANY	3.02	3.09	3.09	2.51	2.55	2.55	2.46	2.47	2.47	2.53	2.53	2.49	England - BoE	5.00
JAPAN	-0.03	-0.04	-0.03	0.16	0.10	0.12	0.57	0.45	0.45	1.40	1.32	1.34		
U.K.	4.96	5.04	4.96	4.40	4.43	4.37	4.32	4.31	4.28	4.48	4.45	4.43		
	Spreads vs. U.S. (bps):													
CANADA	-13	-15	-26	-21	-23	-28	-38	-39	-43	-62	-62	-64	Euro zone - ECB	4.25
GERMANY	-185	-184	-175	-166	-170	-154	-150	-153	-137	-149	-151	-141	Japan - BoJ	-0.10
JAPAN	-489	-497	-488	-402	-414	-397	-339	-355	-339	-262	-272	-256		
U.K.	9	11	11	22	19	28	36	31	44	46	41	53	Mexico - Banxico	11.25
Equities	Level						% change:							
	Last		Change		1 Day		1-wk		1-mo		1-yr			
S&P/TSX	20385		-176.2		-0.9		-0.8		2.9		4.8		Australia - RBA	4.10
Dow 30	35283		-237.4		-0.7		0.2		4.2		8.5		New Zealand - RBNZ	5.50
S&P 500	4537		-29.3		-0.6		0.1		3.7		11.4			
Nasdaq	14050		-77.2		-0.5		-0.1		3.4		15.5			
DAX	16382		-23.8		-0.1		1.3		2.7		23.3			
FTSE	7693		0.7		0.0		0.4		2.6		4.7			
Nikkei	32759		-131.9		-0.4		1.4		-1.3		17.8		Canada - BoC	Sep 06, 2023
Hang Seng	19917		277.5		1.4		4.4		5.3		-1.2		US - Fed	Sep 20, 2023
CAC	7438		-27.1		-0.4		0.1		2.1		17.3			
Commodities	Level						% change:							
WTI Crude	79.83		-0.26		-0.3		3.6		14.8		-17.2		England - BoE	Aug 03, 2023
Natural Gas	2.58		-0.02		-0.7		-5.0		-1.0		-68.3		Euro zone - ECB	Sep 14, 2023
Gold	1955.10		9.10		0.5		-0.3		2.5		11.3		Japan - BoJ	Jul 27, 2023
Silver	25.01		0.34		1.4		-0.7		9.5		33.3			
CRB Index	280.17		-0.70		-0.2		2.0		8.1		-3.1			
Currencies	Level						% change:							
USDCAD	1.3225		0.0001		0.0		0.0		-0.2		3.3		Mexico - Banxico	Aug 10, 2023
EURUSD	1.1008		0.0029		0.3		-1.0		0.9		8.0		Australia - RBA	Aug 01, 2023
USDJPY	139.13		-0.3500		-0.3		-1.8		-3.7		3.6		New Zealand - RBNZ	Aug 15, 2023
AUDUSD	0.6668		-0.0041		-0.6		-0.9		1.0		-4.6			
GBPUSD	1.2871		0.0075		0.6		0.1		1.9		5.7			
USDCHF	0.8680		-0.0011		-0.1		0.3		-3.2		-9.1			

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