

DAILY POINTS

October 17, 2023 @ 7:35 EST

Contributors

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Chart 1

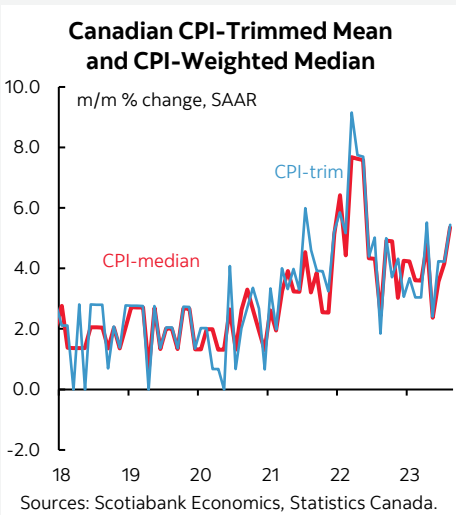
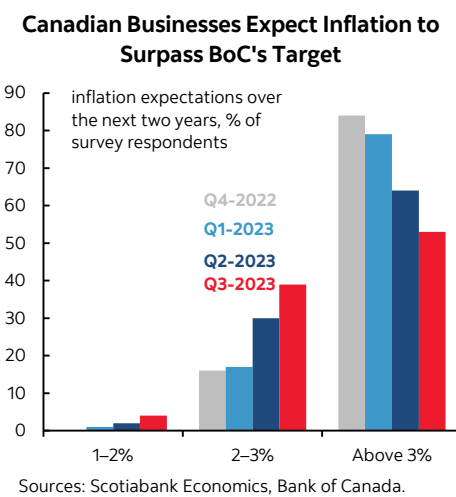


Chart 2



On Deck for Tuesday, October 17

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	10-17	08:00	Fed's Williams Moderates Discussion at Economic Club of NY				
CA	10-17	08:15	Housing Starts (000s a.r.)	Sep	240	240.0	252.8
CA	10-17	08:30	Core CPI - Median (y/y)	Sep	--	4.0	4.1
CA	10-17	08:30	Core CPI - Trim (y/y)	Sep	--	3.8	3.9
CA	10-17	08:30	CPI, All items (m/m)	Sep	0.2	0.1	0.4
CA	10-17	08:30	CPI, All items (y/y)	Sep	4.1	4.0	4.0
CA	10-17	08:30	CPI, All items (index)	Sep	--	158.7	158.7
CA	10-17	08:30	International Securities Transactions (C\$ bn)	Aug	--	--	11.6
US	10-17	08:30	Retail Sales (m/m)	Sep	0.5	0.3	0.6
US	10-17	08:30	Retail Sales ex. Autos (m/m)	Sep	0.3	0.2	0.6
CA	10-17	08:30	Core CPI - Common (y/y)	Sep	--	--	4.8
US	10-17	09:15	Capacity Utilization (%)	Sep	79.6	79.6	79.7
US	10-17	09:15	Industrial Production (m/m)	Sep	0.0	0.0	0.4
US	10-17	09:20	Fed's Bowman Speaks on Innovation in Payments				
US	10-17	10:00	Business Inventories (m/m)	Aug	--	0.3	0.0
US	10-17	10:00	NAHB Housing Market Index	Oct	--	44.0	45.0
US	10-17	10:45	Fed's Barkin Speaks on the Economic Outlook				
US	10-17	16:00	Total Net TIC Flows (US\$ bn)	Aug	--	--	140.6
US	10-17	16:00	Net Long-term TIC Flows (US\$ bn)	Aug	--	--	8.8

KEY POINTS:

- **US Treasuries, Canadas bear steepen**
- **Canadian CPI to inform BoC risks...**
- **...after surveys indicate a further unmooring of expectations**
- **Core US retail sales expected to be soft**
- **Gilts steepen, sterling slips on cooler wage pressures**
- **NZ\$ drops, kiwi front-end rallies post CPI**
- **The case for BoJ hikes heats up**
- **A\$ climbs as RBA minutes signal "low tolerance" for sticky inflation**
- **Strong US bank earnings**

Bear steepening, until the bottom falls out.

That remains the dominant narrative across the US and Canadian sovereign curves in the context of fluid developments in Israel and the broader Middle East. UK and NZ markets are going the other direction on data, while EGBs mope along. As conditions continue to be monitored amid frenzied diplomatic efforts including Biden's visit today, we can focus on potentially more pedestrian matters like a heavy line-up of fundamentals to consider.

Chart 3

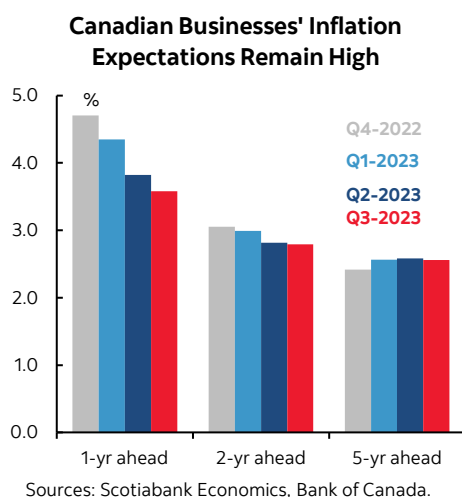
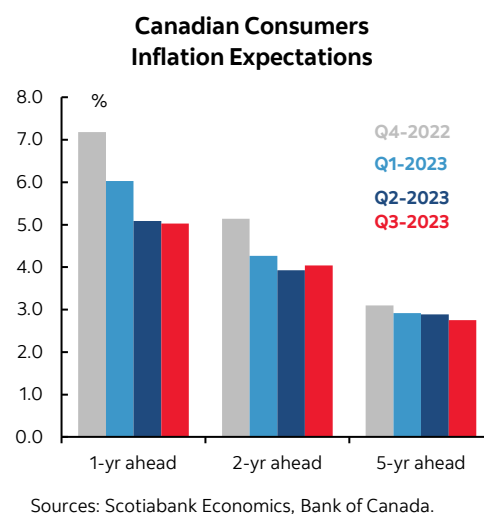
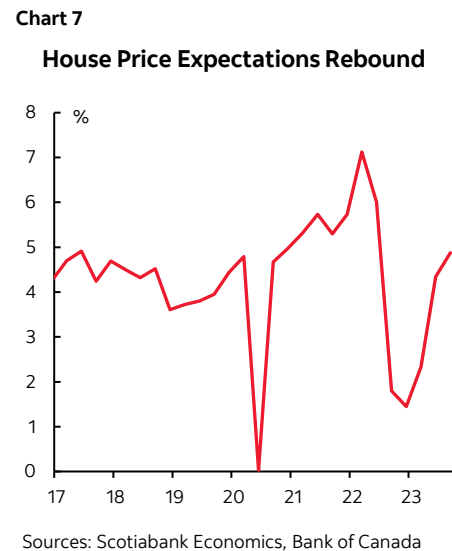


Chart 4





At the top of that list is Canadian CPI that may be the most impactful upon relative central bank narratives. Overnight developments were fairly light ahead of US earnings and retail sales.

CANADIAN CPI'S 'UPS AND DOWNS' ARE MOSTLY 'UPS'

Consensus estimates for Canadian CPI range between -0.1% to +0.3% with equal numbers of forecasters in the 0, 0.1 and 0.2 buckets. I'm in the 0.2 bucket. It's NSA data at a time of year with positive SA factors, so SA CPI could be up 0.4–0.5% m/m if my estimate is on the mark.

I don't expect much of a role to be played by gasoline prices or food, which is part of the reason for relatively subdued headline expectations.

It's not headline that matters to the BoC in this one though. Of course, they target 2% headline over the medium-term, but operationalize achievement of that target by using narrower measures that weed out some of the more volatile noise.

What matters much more are the underlying inflation gauges, namely trimmed mean and weighted median CPI. These measures have been excluding things like mortgage interest and gasoline, so forgot the talk of how the BoC is being fooled into believing that inflation is hot because of their rate hikes. That's just nonsense. Amateur hour, in fact.

These two measures both landed at 5.4% m/m SAAR in August and are tracking at about 4½% m/m SAAR on a 3-month moving average basis (chart 1). That's far too hot for the BoC's liking especially given real wages and productivity, inflation expectations, and other key drivers of the inflation complex. Another hot print could add to pricing for next week with roughly half a hike priced. I'm expecting some heat in seasonal categories that pass through a full year's worth of cost increases.

How the BoC reads the data is uncertain. Recall DepGov Kozicki's comment after the August data ripped higher when she dismissed it as data that just follows "ups and downs." If it's another up today, that'll be hard to do in an extension of the heated pattern. If it's cooler, will it just be "ups and downs" again or will the BoC seize upon the evidence of a cooler print and reveal a rather opportunistic and biased interpretation of the data?

Juxtapose this latest pending evidence on inflation against yesterday's BoC surveys. Charts 2–4 show that inflation expectations remain unmoored. Charts 5–7 show high wage expectations, although one of either businesses or consumers will be wrong despite both measures being elevated, plus rebounding house price expectations.

In addition to the monthly gyrations in inflation data remains the valid point that we've moved into a more dangerous phase for the BoC. One in which behaviour has changed as consumers and businesses give up faith in the BoC's ability to hit 2% over the medium-term and are thereby adjusting their behaviour and wage setting exercises accordingly.

UK WAGE GROWTH DECELERATES

We got a partial take on the status of UK job markets this morning that should reserve at least some judgement for later. That's because the more complete Labour Force Survey was delayed until next Tuesday and that's the source for total employment changes and other details like participation and unemployment rates. So, for now, we have a limited take based solely upon wages and payrolls as a subset of

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employment that excludes the important small business sector.

The results drove sterling to compete with the NZ\$ (post-CPI) for the status of weakest cross this morning, while the gilts curve bull steepened. It's not the year-over-year wage figures that matter, it's the evidence at the margin and free of base effects. Wages ex-bonuses grew by 4.2% m/m SAAR in August for the coolest reading since last December while maintaining a four-month path of decelerating readings (chart 8). We've seen decelerations before—including this year—and how they reversed, but for now, markets are taking it as given the BoE's Bailey justification to go merrily skipping along Threadneedle street on November 2nd.

Chart 8

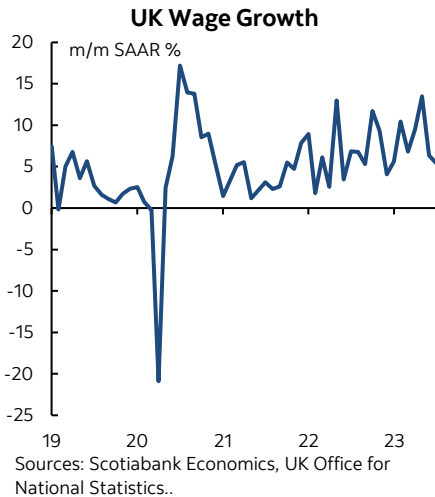
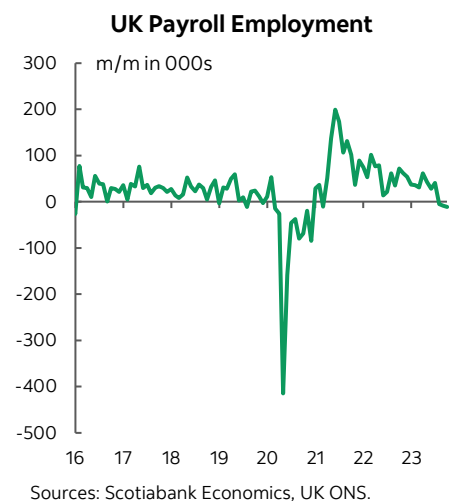


Chart 9



UK payrolls fell 11k in September with slight negative revisions for the third straight decline for about 23k lost payroll positions since June (chart 9). Next Tuesday's total employment figures will cover August and have been falling for the prior three months.

NZ INFLATION DRIVERS WEAKER KIWI DOLLAR

Shifting gears, NZ CPI was softer than expected and that drove the NZ\$ to be the weakest among the majors to the USD while the front-end rallied a touch. To be clear, the numbers were not soft; just softer than the guesses. CPI was up 1.8% q/q in Q3 in NSA terms which was hotter than normal seasonality compared to like quarters in history but missed consensus by a tick. Likewise for non tradeable CPI, up 1.7% q/q, but missed by a tick. Tradeable CPI had the biggest miss at 1.8% q/q (2.4% consensus), even though it too was among the hottest on record compared to like quarters.

US RETAIL SALES

Gains in vehicle sales volumes (+4% m/m SA) and gasoline prices (+1.7% m/m SA) could influence upside risks given that upon weighting them they would add about 0.7 ppts to m/m retail sales for September (8:30amET). One key will be core sales ex-autos that are expected to be soft. Another key will be the retail sales control group that influences how the numbers are captured in consumer spending with the GDP accounts.

BOJ HIKE CASE HEATS UP

Several impactful headlines hit this morning that may reinforce expectations for BoJ rate hikes. Anonymous officials indicated that the BoJ is considering increasing its inflation forecast to 3% this year and raising next year to 2% or higher while maintaining FY25 at 1.6%. Earlier this morning, Japan's key unions announced it is seeking 5%+ wage gains into the coming Spring round of wage negotiations. If they achieve this, then it would add further confidence toward achieving 2% inflation on a fairly durable basis.

RBA MINUTES FAN ONGOING HIKE RISK

RBA minutes said that "the board has a low tolerance for a slower return of inflation to target than currently expected." That signals that while the case for a pause was "stronger" at that meeting, should inflation persist higher than expected then they won't hesitate to hike again. Unfortunately headlines also hit about unionized RBA staff considering a strike in favour of higher wages. They're human, competing in a market for talent, and dealing with many of the same pressures as everyone else, but the optics of trying to control inflation while your staff goes on strike seeking higher pay don't exactly sit well with regular folks. Suck it up, except for us...

US EARNINGS

9 S&P500 firms release today including Goldman, BoA and BoNYM in the pre-market. BoA's release was taken positively by its share price. Goldman's results look strong across the board.

Other than all of that, we'll also get Canadian housing starts for September (8:15amET), US industrial production for September (9:15amET) and several Fed speakers throughout the day.

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.	5.12	5.10	4.97	4.76	4.72	4.61	4.77	4.71	4.65	4.92	4.85	4.83	Canada - BoC	5.00
CANADA	4.93	4.89	4.73	4.32	4.27	4.18	4.10	4.03	4.00	3.80	3.73	3.76	US - Fed	5.50
GERMANY	3.20	3.16	3.07	2.76	2.71	2.67	2.84	2.79	2.78	3.05	3.00	3.01	England - BoE	5.25
JAPAN	0.06	0.04	0.07	0.33	0.32	0.32	0.78	0.76	0.78	1.75	1.71	1.74		
U.K.	4.90	4.91	4.80	4.54	4.54	4.43	4.50	4.48	4.43	4.95	4.93	4.92		
	Spreads vs. U.S. (bps):													
CANADA	-19	-21	-24	-43	-45	-44	-66	-68	-66	-111	-112	-107	Euro zone - ECB	4.50
GERMANY	-192	-194	-190	-199	-200	-195	-193	-192	-188	-187	-185	-183	Japan - BoJ	-0.10
JAPAN	-506	-506	-490	-443	-440	-430	-399	-395	-387	-317	-314	-309		
U.K.	-21	-19	-17	-22	-18	-19	-26	-23	-23	3	8	9	Mexico - Banxico	11.25
Equities	Level			Change			1 Day			% change:				
	Last									1-mo	1-yr			
S&P/TSX	19621			157.9			0.8			1.9	-4.9	5.4	Australia - RBA	4.10
Dow 30	33985			314.3			0.9			1.1	-1.8	12.6	New Zealand - RBNZ	5.50
S&P 500	4374			45.9			1.1			0.9	-1.7	18.9		
Nasdaq	13568			160.8			1.2			0.6	-1.0	27.1		
DAX	15159			-78.7			-0.5			-1.7	-4.6	19.8		
FTSE	7652			21.3			0.3			0.3	-0.8	10.6		
Nikkei	32040			381.3			1.2			0.9	-4.5	18.0	Canada - BoC	Oct 25, 2023
Hang Seng	17773			133.0			0.8			0.6	-0.9	5.1	US - Fed	Nov 01, 2023
CAC	6998			-24.3			-0.3			-2.3	-5.2	15.8	England - BoE	Nov 02, 2023
Commodities	Level			Change			1 Day			% change:				
WTI Crude	86.80			0.14			0.2			1.0	-4.4	1.6	Euro zone - ECB	Oct 26, 2023
Natural Gas	3.10			-0.01			-0.3			-8.3	17.3	-48.3	Japan - BoJ	Oct 31, 2023
Gold	1925.49			5.29			0.3			3.5	0.1	16.7	Mexico - Banxico	Nov 09, 2023
Silver	22.60			0.52			2.3			4.4	-2.0	20.4	Australia - RBA	Nov 06, 2023
CRB Index	282.37			-1.60			-0.6			2.0	-2.5	2.6	New Zealand - RBNZ	Nov 28, 2023
Currencies	Level			Change			1 Day			% change:				
USDCAD	1.3626			0.0015			0.1			0.3	1.0	-0.7		
EURUSD	1.0577			0.0017			0.2			-0.3	-1.1	7.5		
USDJPY	149.41			-0.1000			-0.1			0.5	1.2	0.2		
AUDUSD	0.6363			0.0021			0.3			-1.1	-1.1	1.1		
GBPUSD	1.2186			-0.0031			-0.3			-0.8	-1.6	7.3		
USDCHF	0.8996			-0.0004			-0.0			-0.5	0.3	-9.7		

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