

DAILY POINTS

October 19, 2023 @ 7:50 EST

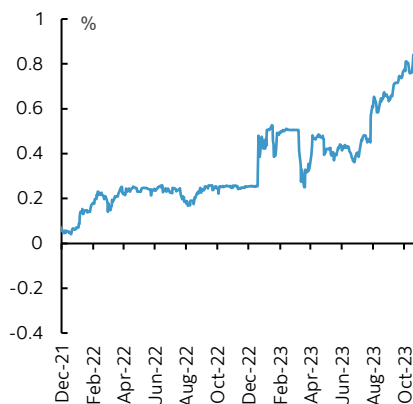
Contributors

Derek Holt

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

Chart 1

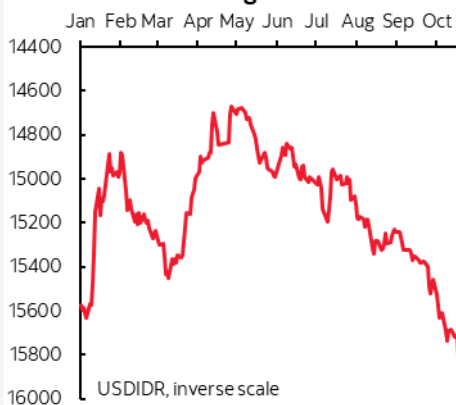
Japanese 10 Year Bond Yield



Sources: Scotiabank Economics, Bloomberg.

Chart 2

Bank Indonesia's Surprise Hike Not Working For Now



Sources: Scotiabank Economics, Bloomberg.

On Deck for Thursday, October 19

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	10-19	08:30	IPPI (m/m)	Sep	--	0.3	1.3
CA	10-19	08:30	Raw Materials Price Index (m/m)	Sep	--	1.7	3.0
US	10-19	08:30	Initial Jobless Claims (000s)	Oct 14	205	210.0	209.0
US	10-19	08:30	Continuing Claims (000s)	Oct 07	1700	1710.0	1702.0
US	10-19	08:30	Philadelphia Fed Index	Oct	--	-7.0	-13.5
US	10-19	09:00	Fed's Jefferson Delivers Welcoming Remarks				
US	10-19	10:00	Existing Home Sales (mn a.r.)	Sep	4.0	3.9	4.0
US	10-19	10:00	Existing Home Sales (m/m)	Sep	0.0	-3.7	-0.7
US	10-19	10:00	Leading Indicators (m/m)	Sep	--	-0.4	-0.4
US	10-19	12:00	Fed's Powell Speaks at the Economic Club of New York				
US	10-19	13:20	Fed's Goolsbee Participates in Moderated Q&A				
US	10-19	13:30	Fed's Barr Speaks About Stress Testing				
US	10-19	16:00	Fed's Bostic Speaks at the New School				
US	10-19	17:30	Fed's Harker Speaks on Economic Outlook				
US	10-19	19:00	Fed's Logan Speaks in New York				

KEY POINTS:

- **Powell, BoJ speculation tag team to drive heightened market caution**
- **Powell should sound more hawkish than some other FOMC members**
- **BoJ speculation intensifies**
- **Bank Indonesia's surprise hike did nothing to stem rupiah weakness**
- **Australia's soft jobs report**
- **Light US, Canadian data on tap**

He hasn't even spoken yet and the Powell effect is rippling through global markets this morning.

The USD and euro are broadly stronger along with safe havens like the yen and Swiss franc. Sovereign yields are under mild upward pressure including further slight bear steepening in the US and with Canada's curve slightly underperforming. Rising bond yields are performing like one of those annoying Alexa devices. Alexa stop. Alexa Stop. ALEXA STOP! <window opens, Alexa learns to fly...>. Stocks are mildly in the red across N.A. futures, European cash markets, and after Asian benchmarks sold off by 1–2% overnight. Oil is down by over 1% as it tangoes with the dollar. Or maybe it's the cha-cha.

The main focal point will be Fed Chair Powell's appearance before the Economic Club of New York today at noon. I don't see it listed so far under live events on Bloomberg but it will be available on youtube here <https://www.youtube.com/federalreserve>, although you may need to use your other devices to get around any employer blocks. The FOMC slips into blackout on Saturday, and so if he has anything to add by way of influencing expectations ahead of the November 1st decision, then now is the time to do it. He will deliver formal prepared remarks and then engage in Q&A.

There is plenty of scope for surprise in this one. I'm sure that one thing he won't say is to provide a definitive all clear on further potential hikes being ruled out. The risk is slanted toward being hawkish. Data has been very strong. Two years into higher market yields and resilience remains the theme. GDP is out next week and likely to arrive at around 4% q/q SAAR. Payrolls are strong after the 336k gain in September alongside +199k in revisions. Core CPI has been firming again. Oil prices have been trending higher since July and this time they can't deploy the old playbook that looks at this as a relative price shock that's disinflationary on second round effects; higher consumer capacity to pay and passthrough effects at an inflationary starting point make for a different dynamic upon recalling the dangers of monetary accommodation 70s style. Strong retail sales are adding to the narrative on the generally strong state of the consumer.

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With that as the backdrop, the dots signal one more hike this year, but several Fed speakers have indicated they are fine with taking a pass at this meeting in order to assess further information.

- Does the Chair agree with the ones who have weighed in?
- How he judges inflation risk is going to be closely followed especially following a pair of recently firmer core CPI readings with core PCE due one week from Friday. Powell spent a lot of time in his last press conference talking about surprisingly resilient GDP growth and what that means to future inflation risk and the data has strengthened since then.
- will he update thinking on higher now versus higher for longer and relying on lag effects? To date he has tended to walk somewhat down the middle by referencing lag effects while nevertheless saying they are shorter today than in the past (ergo why is everything so resilient?).
- Will he slant his speech toward signs of softening as indications tighter monetary policy is working? He could point to credit figures and housing data amid expectations for further tightening of financial conditions.
- How does he view bond market developments? As a substitute for hikes? As over tightening? Does the selloff merely reflect higher for longer guidance? Should the Chair embrace former NY Fed President Dudley's QT-or-bust advice, with two more years of aggressive run-off regardless of Treasury market volatility? Or will he address other drivers, some of which I've written about? I would expect him to be rather circumspect toward bond market developments not least of which to avoid the kind of hubris that marks some of the commentary.

Further speculation toward Bank of Japan moves contributed to a JGB sell off that's also not helping other sovereign bond markets this morning. A former BoJ board member, Makoto Sakurai, said the BoJ could hike and eliminate its negative policy balance rate at either the October 31st or December 19th meetings this year. That sounds like trick or treat on Happy Halloween. OIS markets were already largely priced for such an outcome. The rest of the curve may not be, alongside the possibility of further measures, so JGB 10s remain a one way trade that has rocked global bond markets since summer (chart 1).

Australia's modest 6,700 employment gain was marred by soft underlying quality. Full-time jobs fell by 40k and so a 46.5k jump in part-time jobs drove the small net gain. The labour force shrank as the participation rate fell three-tenths to a still high 66.7%. Hours worked fell by 0.4% m/m SA and have been on a slight softening trend since April. The A\$ dipped a touch on the release but I wouldn't say it was any worse of a performer to the USD than many others given broad USD strength. The Australian front-end shook off the report.

Bank Indonesia surprised markets with an unexpected 25bps hike that took its 7-day reverse repo rate up by 25bps overnight. Only one economist out of 31 locals got it right. The stated aim was to address weakness in the rupiah that raises risks to financial stability and imported inflation. It didn't work. All the rupiah did post-announcement was to reverse some of the appreciating pressure into the decision and wind up weaker on net for the session and extend the pattern of softening (chart 2). Broadly based USD strength was too powerful for BI's decision to stand much of a chance.

There will also be some light US data before we get to Powell for anyone who cares about anything other than the war in the Middle East, Fed guidance, or Jim Jordan's rejection along with his extreme ideology. Weekly jobless claims have been trending very low (8:30amET). The Philly Fed's gauge will further inform risks on the path to the next ISM-manufacturing report (10amET). Existing home sales are expected to fall again (10amET). Canada updates producer prices with no real implications for next week's BoC (8:30amET).

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.	5.25	5.22	5.07	4.99	4.93	4.69	4.98	4.92	4.70	5.07	5.00	4.86	Canada - BoC	5.00
CANADA	4.94	4.90	4.82	4.39	4.32	4.24	4.19	4.10	4.03	3.89	3.79	3.79	US - Fed	5.50
GERMANY	3.20	3.20	3.16	2.85	2.84	2.72	2.93	2.92	2.79	3.11	3.10	2.98	England - BoE	5.25
JAPAN	0.08	0.07	0.05	0.37	0.35	0.31	0.84	0.81	0.76	1.80	1.77	1.67		
U.K.	5.00	5.01	4.85	4.74	4.70	4.47	4.70	4.66	4.42	5.09	5.04	4.86		
	Spreads vs. U.S. (bps):													
CANADA	-31	-32	-25	-60	-62	-46	-79	-81	-67	-118	-121	-106	Euro zone - ECB	4.50
GERMANY	-205	-202	-191	-214	-209	-198	-205	-199	-191	-195	-190	-188	Japan - BoJ	-0.10
JAPAN	-517	-515	-502	-461	-458	-438	-414	-411	-394	-327	-323	-318		
U.K.	-25	-22	-22	-25	-23	-22	-28	-26	-28	3	4	1	Mexico - Banxico	11.25
Equities	Level						% change:							
	Last			Change			1 Day	1-wk	1-mo			1-yr		
S&P/TSX	19451			-242.1			-1.2	-1.1	-3.8			4.2	Australia - RBA	4.10
Dow 30	33665			-332.6			-1.0	-0.4	-2.5			10.7	New Zealand - RBNZ	5.50
S&P 500	4315			-58.6			-1.3	-1.4	-2.9			16.8		
Nasdaq	13314			-219.5			-1.6	-2.5	-2.7			24.7		
DAX	15054			-41.3			-0.3	-2.4	-3.9			18.1		
FTSE	7520			-67.8			-0.9	-1.6	-1.8			8.6		
Nikkei	31431			-611.6			-1.9	-3.3	-4.8			16.4	Canada - BoC	Oct 25, 2023
Hang Seng	17296			-436.6			-2.5	-5.2	-3.3			6.2	US - Fed	Nov 01, 2023
CAC	6921			-45.2			-0.6	-2.6	-5.0			14.6	England - BoE	Nov 02, 2023
Commodities	Level						% change:							
WTI Crude	87.46			-0.86			-1.0	5.5	-4.1			2.2	Euro zone - ECB	Oct 26, 2023
Natural Gas	3.01			-0.05			-1.5	-10.0	5.7			-44.9	Japan - BoJ	Oct 31, 2023
Gold	1951.35			3.80			0.2	4.4	1.0			19.8		
Silver	23.21			0.53			2.3	5.2	0.1			24.2		
CRB Index	285.83			2.75			1.0	3.0	-1.4			5.3		
Currencies	Level						% change:							
USDCAD	1.3722			0.0006			0.0	0.2	2.0			-0.3	Mexico - Banxico	Nov 09, 2023
EURUSD	1.0557			0.0021			0.2	0.3	-1.1			8.0	Australia - RBA	Nov 06, 2023
USDJPY	149.85			-0.0800			-0.1	0.0	1.3			-0.0	New Zealand - RBNZ	Nov 28, 2023
AUDUSD	0.6310			-0.0026			-0.4	-0.1	-2.2			0.6		
GBPUSD	1.2119			-0.0021			-0.2	-0.5	-2.2			8.0		
USDCHF	0.8971			-0.0019			-0.2	-1.2	-0.1			-10.7		

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