Scotiabank.

GLOBAL ECONOMICS

DAILY POINTS

December 6, 2023 @ *7:45 EST*

Contributors

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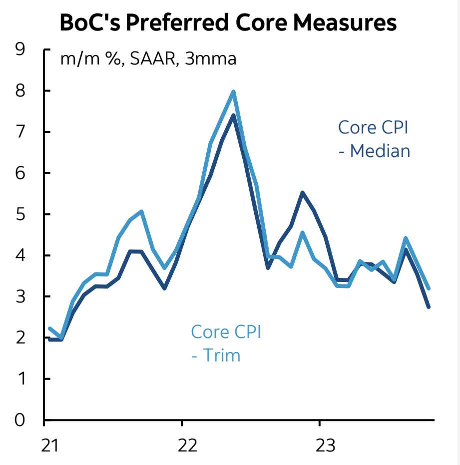
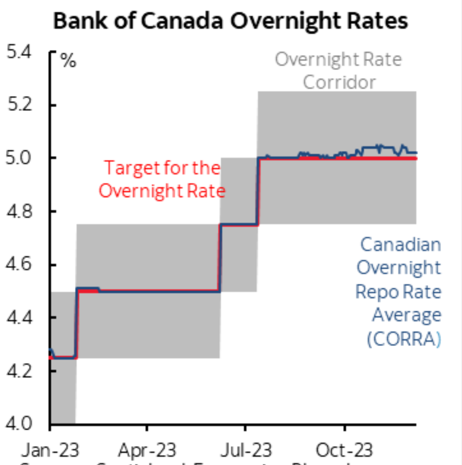
Chart 1



Sources: Scotiabank Economics, Statistics Canada.

Chart 2



Sources: Scotiabank Economics, Bloomberg.

On Deck for Wednesday, December 6

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	12-06	07:00	MBA Mortgage Applications (w/w)	Dec 01	--	--	0.3
US	12-06	08:15	ADP Employment Report (000s m/m)	Nov	150	130.0	113.0
CA	12-06	08:30	Merchandise Trade Balance (C$ bn)	Oct	--	1.8	2.0
CA	12-06	08:30	Productivity (q/q)	3Q	-0.6	-0.6	-0.6
US	12-06	08:30	Productivity (q/q a.r.)	3Q F	--	4.9	4.7
US	12-06	08:30	Trade Balance (US$ bn)	Oct	--	-64.2	-61.5
US	12-06	08:30	Unit Labor Costs (q/q a.r.)	3Q F	--	-0.9	-0.8
CA	**12-06**	**10:00**	**BoC Interest Rate Announcement (%)**	**Dec 06**	**5.00**	**5.00**	**5.00**

KEY POINTS:

- **The Bank of Canada will be first up among the majors to address rate cut pricing**
- **ECB's Kazaks poured cold water on pricing for 2024H1 cuts**
- **What to expect in today's Bank of Canada statement…**
- **…as the BoC is probably very uncomfortable with market pricing**
- **ADP to tease markets that await nonfarm payrolls**
- **Volatile German factory orders tumble**

Sovereign yields are under mild upward pressure in the US, Canada, and UK. EGBs are volatile; they began turning higher on the heels of remarks that pushed back against rate cut pricing but have since shaken that offf. Stocks are taking it in stride with a mild positive bias. The BoC and US ADP payrolls will be the main focal points into the N.A. session. The BoC will be the canary in the coalmine among central banks ahead of next week's deluge of decisions by the Fed, ECB and BoE among others and in the context of the aggressive market shift toward pricing rate cuts.

Yields on EGBs were falling until remarks by the ECB's Martins Kazaks who poured cold water on market pricing for cuts in 2023H1. He flagged wage growth and profit margins that have yet to peak.

German factory orders arrived before those remarks when EGB yields were slipping. Orders fell 3.7% m/m in October against consensus expectations for a flat reading. Markets shook off the reading when the ECB comments hit.

The principal focus will be upon beginning to track BoC communications with today's statement-only outcome followed by a potentially insightful speech tomorrow. Check the Global Week Ahead's focus upon it, plus scroll back to yesterday afternoon's post.

US ADP payrolls for November (8:15amET) will continue to tease markets ahead of the only job market update that matters on Friday. Consensus guesses 130k ADP for its median estimate but with a scattered range from 80k to 200k. It is a poor and very often misleading gauge of hiring activity, but markets are prone to reacting to surprises in any event.

BANK OF CANADA

This one is a two-step tango, only it's the clumsy feet of central bankers and economists doing the dancing and so execution risk is pretty high! First comes the statement today at 10amET, then the BoC's markets head (DepGov Gravelle) delivers a speech and press conference tomorrow. See my Global Week Ahead (**here**) for what I think he might do in his speech or at least intimate such an approach in the speech and presser; that appearance could be more impactful than today's statement.

This past year has demonstrated that one shouldn't fade risks of material guidance or policy shifts delivered by the DepGovs during Macklem's term in office; a case in point was when Gravelle laid out the QT framework in March and set up Macklem's speech and another case in point was when they resumed hikes in June and then (now departed) DepGov Beaudry delivered the speech to explain it all the day after.

Key is that I think they are probably feeling a bit antsy about how far markets have come since the last decision with about a ¾% rally in 5s. Gone is prior sentiment that financial conditions have tightened given developments in bond markets and with the TSX and US S&P500 flirting with record highs. At a five year GoC yield of 3.45% now, there isn't much term premia built into the curve if they are leaning toward the neutral rate probably being higher than previously judged as per Macklem's remarks. If, say, they think neutral is 3-ish and back up Macklem's indirect reference (and Beaudry's before that) by revising it higher with fresh estimates into the April MPR when they usually do so, then what's priced may be too much too soon for them amid evidence of mortgage rate cuts returning and extraordinarily tentative evidence that inflation is moving toward target.

As for the statement comparison between now and the last time they issued one way back on October 25th, here are some things to watch for split into things that are key and less important.

KEY:

- the statement will look very different from October's which was an MPR statement replete with discussion about the revised outlook. There will be no forecasts this time; they will come next with the January 24th decision. This statement should be relatively cogent.
- it's very unlikely they change the policy rate, but if we're going for tail bets, then it's more likely they hike over a zero chance that they cut. The hike motive would be to counter the easing of financial conditions and to jolt markets away from pricing cuts to begin in Q1 which is presently the case.
- On forward guidance, will they repeat they are "prepared to raise the policy rate further if needed"? I think so. Striking it out now would be very premature and fan easing bets which I don't think they are anywhere close to welcoming, but they could soften it with a reference to greater confidence they may be restrictive enough. What makes me nervous on that one is how much Macklem waffled when he said it on November 22nd. Maybe they say it may be restrictive enough but accompany that with high for long guidance.
- The final paragraph could easily stay intact by saying there are "clearer signs" tighter policy is working, "However, Governing Council is concerned that progress towards price stability is slow and inflationary risks have increased, and is prepared to raise the policy rate further if needed." I think that flagging higher inflationary risks has continued merit given factors like accelerating trend wage growth, tumbling productivity, surging immigration, tight housing supply, ongoing fiscal stimulus, an undervalued CAD, and a supportive terms of trade.
- They may say inflation is tracking broadly in line with expectations, which it is. They forecast 3.3% q/q in Q4 and October was 3.1% with two-thirds of the quarter still to go and in any event it's underlying inflation they use to operationalize achievement of the 2% inflation target. They don't forecast the core measures, but the trend in underlying inflation remains too hot for them. Trimmed mean and weighted median CPI are both running at 3½% y/y and the 3-month moving average of the m/m SAAR readings also indicates trend persistence of inflationary pressures (chart 1). This suggests they are probably not considering being blown off course toward nearer term easing which would be a signal to markets they aren't close to easing. Recall they last said inflation wasn't expected to durably hit 2% until 2025H2; that won't be updated until the next meeting, but don't expect any intimations that they're bringing this massively forward to merit Q1 easing on the basis of just the October reading.
- They'll likely repeat reference in the concluding statement to the key things that they are monitoring: the supply and demand balance, inflation expectations, wage growth and corporate pricing behaviour.
- I don't expect any statement-codified reference to QT plans and guidance despite CORRA signalling repo market pressures relative to the overnight rate that might indicate the BoC is achieving optimal reserves earlier than expected (chart 2). That might be a point of discussion in tomorrow's communications. See the Global Week Ahead for a more in-depth discussion of this point.

OTHER:

- Key may be do they repeat that "The Bank's preferred measures of core inflation show little downward momentum" which I think they will. They might soften it a touch, but Macklem recently faded such an expectation by saying it was only one month's softness of late.
- On recent indicators, I would expect them to continue to reference decent job growth but to repeat that "recent job gains have been below labour force growth and job vacancies have continued to ease. However, the labour market remains on the tight side and wage pressures persist."

- Instead of “a range of indicators suggest that supply and demand in the economy are now approaching balance” they may give a nod to the nascent re-emergence of spare capacity in a manner consistent with Macklem’s guidance toward moving into slight excess supply.

- I expect them to discount volatile GDP and GDP revisions and to instead flag persistent mild growth in final domestic demand (C+I+G) which they have done in the past under similar circumstances. That would fade the negative Q3 GDP print as well as the upward revision to Q2. On net including revisions, they are not getting materially surprised by GDP tracking to date. The October MPR went with Q2 GDP growth of -0.2% q/q SAAR which was revised up to +1.4% and forecast +0.8% for Q3 which turned out to be -1.1%. On net, that’s all roughly a wash.

- They may repeat that “spending by governments contributes materially to growth over the forecast horizon” but that the recent Fall statement offers little change to this view.

- On inflation, they’ll likely repeat that housing-derived inflation “remains high” and that expectations and corporate pricing behaviour are “normalizing only gradually.”

Fixed Income	Government Yield Curves (%):											
	2-YEAR			5-YEAR			10-YEAR			30-YEAR		
	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk
U.S.	4.60	4.58	4.65	4.16	4.14	4.21	4.19	4.17	4.26	4.31	4.30	4.44
CANADA	4.10	4.07	4.16	3.46	3.44	3.59	3.35	3.34	3.50	3.16	3.16	3.33
GERMANY	2.60	2.61	2.84	2.18	2.19	2.37	2.24	2.25	2.43	2.45	2.45	2.68
JAPAN	0.04	0.04	0.05	0.24	0.26	0.26	0.64	0.67	0.67	1.59	1.67	1.61
U.K.	4.52	4.51	4.57	4.06	4.06	4.10	4.02	4.03	4.10	4.56	4.57	4.60
	Spreads vs. U.S. (bps):											
CANADA	-51	-51	-48	-70	-69	-62	-84	-83	-75	-115	-114	-111
GERMANY	-200	-197	-181	-199	-195	-184	-194	-192	-182	-186	-185	-176
JAPAN	-456	-454	-460	-392	-388	-395	-355	-350	-358	-272	-263	-283
U.K.	-8	-6	-8	-11	-8	-11	-16	-14	-16	24	27	16

Equities	Level		% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	20376	-34.3	-0.2	1.7	3.2	1.9
Dow 30	36125	-79.9	-0.2	2.0	5.9	7.5
S&P 500	4567	-2.6	-0.1	0.3	4.6	15.9
Nasdaq	14230	44.4	0.3	-0.4	5.3	29.2
DAX	16576	42.7	0.3	2.5	9.5	15.6
FTSE	7525	34.7	0.5	1.4	1.4	0.0
Nikkei	33446	670.1	2.0	0.4	3.6	20.8
Hang Seng	16463	135.4	0.8	-3.1	-6.8	-12.5
CAC	7422	34.6	0.5	2.1	5.8	11.0
Commodities	Level		% change:			
WTI Crude	71.72	-0.60	-0.8	-7.9	-11.3	-3.4
Natural Gas	2.73	0.02	0.6	-2.8	-16.5	-50.2
Gold	2024.57	5.21	0.3	-1.0	2.3	14.3
Silver	24.27	-0.90	-3.6	-1.5	7.2	5.6
CRB Index	266.32	-1.30	-0.5	-2.7	-5.5	-0.4
Currencies	Level		% change:			
USDCAD	1.3566	-0.0026	-0.2	-0.2	-1.0	-0.6
EURUSD	1.0777	-0.0020	-0.2	-1.8	0.6	3.0
USDJPY	147.31	0.1600	0.1	0.0	-1.8	7.5
AUDUSD	0.6573	0.0021	0.3	-0.7	1.3	-1.7
GBPUSD	1.2591	-0.0004	-0.0	-0.8	2.0	3.8
USDCHF	0.8749	-0.0001	-0.0	0.1	-2.7	-7.1

Central Banks	
Current Rate	
Canada - BoC	5.00
US - Fed	5.50
England - BoE	5.25
Euro zone - ECB	4.50
Japan - BoJ	-0.10
Mexico - Banxico	11.25
Australia - RBA	4.35
New Zealand - RBNZ	5.50
Next Meeting Date	
Canada - BoC	Dec 06, 2023
US - Fed	Dec 13, 2023
England - BoE	Dec 14, 2023
Euro zone - ECB	Dec 14, 2023
Japan - BoJ	Dec 19, 2023
Mexico - Banxico	Dec 14, 2023
Australia - RBA	Feb 05, 2024
New Zealand - RBNZ	Feb 27, 2024