

### DAILY POINTS

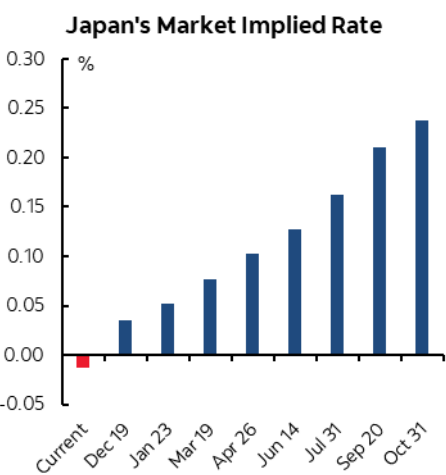
December 7, 2023 @ 9:00 EST

#### Contributors

##### Derek Holt

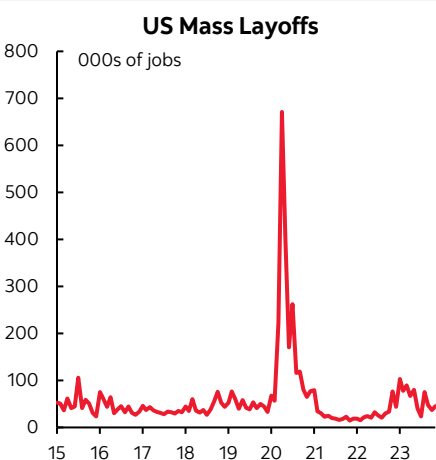
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Chart 1



Sources: Scotiabank Economics, Bloomberg.

Chart 2



Sources: Scotiabank Economics, Challenger, Gray & Christmas Inc.

### On Deck for Thursday, December 7

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	12-07	08:30	Building Permits (m/m)	Oct	--	2.1	2.3
US	12-07	08:30	Initial Jobless Claims (000s)	Dec 02	220	220.0	220.0
US	12-07	08:30	Continuing Claims (000s)	Nov 25	1940	1910.0	1861.0
CA	12-07	12:50	Bank of Canada Economic Progress Report - Gravelle Speech				
US	12-07	15:00	Consumer Credit (US\$ bn m/m)	Oct	--	8.5	9.1

#### KEY POINTS:

- **BoJ rate hike speculation heats up with uneven spillover effects**
- **Here's what happened at the BoJ**
- **Round Two of the BoC's communications is today...**
- **...with eyes on potential rate guidance...**
- **...further elaboration upon how the BoC is reading the tea leaves...**
- **...and possible guidance around balance sheet plans**
- **Guiding an earlier end to BoC QT would be entirely consistent with cutting rates when they get to that point...**
- **...while ending QT earlier than planned could head off market dysfunction if they pushed reserves too low**
- **The US labour market is strong on the eve of nonfarm payrolls**

Some theatrics out of the Bank of Japan are the prime market mover this morning, although I'm really not sure that we got a whole lot of new information compared to speculation that has existed for some time that the central bank might end negative rates over coming meetings. The fresh guidance is provided below and retains a rather high air of ambiguity and conditionality while bearing in mind that the BoJ loves to spring surprises.

Regardless, the yen is the class leader this morning as it appreciated from about the 147.3 mark to 144.7 for a 1¾% gain to the USD. JGBs bear steepened with the 2s yield up about 4bps and 10s climbing 11bps. OIS pricing added a handful of basis points to December through Spring meeting pricing by leaning a little further toward raising the -0.10% policy balance rate at some point but with little conviction about exactly when (chart 1).

The extent to which this rippled through world markets was rather uneven. US Ts bear steepened with 2s flat and 10s up by 4bps. Canada's curve is richer in 2s by 3bps and flat in 10s. Gilts are cheaper by about 5bps across the curve. EGBs are slightly dearer on balance. Equities are little changed across N.A. futures and European cash markets, but Asian equities were mildly in the red outside of Japan but the Nikkei 225 fell 1¾%.

So what drove it all? Here's a summary:

- Deputy Governor Himino started by discussing the impact that reducing monetary stimulus could have on the economy.
- during testimony before parliament, Ueda said his job will get "even more challenging" toward year-end and early 2024. I guess that's a hint that a big decision looms.
- Ueda then told parliament "There are various options. But we have not made a decision yet on which interest rate to target once we end our negative interest rate policy. We could either keep the interest rate applied to reserves (financial institutions park with the central bank), or revert to a policy targeting the overnight call rate."

December 7, 2023

- Ueda provided ambiguous guidance about when the BoJ might consider raising its policy rate. He said "Whether we keep short-term rates at zero or move them to 0.1%, and at what speed we will push up rates to 0.25% or 0.50%, would depend on economic and financial conditions at the time."
- a regular once a quarter meeting between Governor Ueda and PM Kishida reportedly involved Ueda saying that the coming Shunto spring wage negotiations and what shape the domestic economy is in will inform next steps for monetary policy.
- Ueda said: "I explained that the BOJ hopes to check whether wages will rise sustainably including next year, whether higher wages will push up service prices, and the strength of domestic demand."

While it's unclear if and when the BoJ may hike, there are milestones ahead that could be informative. The next BoJ decision is due on December 19<sup>th</sup> after next week's deluge of decisions by other central banks. The January 23<sup>rd</sup> meeting will be the next time the BoJ updates its forecasts including for inflation. The Japanese Trade Union Confederation recently confirmed it is going into the Spring wage negotiations demanding a 5% hike after employers and the unions agreed on a 3.8% increase last Spring. Given that the BoJ is emphasizing wage growth as a pre-condition for sustained achievement of its 2% inflation target, they might opt to wait for further clarity on the negotiations and signals from the business community regarding its willingness to meet such demands.

### US LABOUR MARKET IS STRONG ON THE EVE OF NONFARM PAYROLLS

The US labour market remains on strong footings ahead of tomorrow's nonfarm payrolls. Weekly initial jobless claims landed at 220k last week which is unchanged from the prior week's 219k. Continuing claims moved lower from 1.925 million to 1.861 million last week. Further, layoffs remain low at about 45k which is a level for November that is perfectly compatible with job growth (chart 2). US weekly jobless claims (8:30amET) as another teaser to pass the time ahead of tomorrow's payrolls. The Fed updates its quarterly flow of funds accounts for the US economy that includes measures of household, business, government and external finances at 12pmET.

### HOW ROUND TWO OF THE BANK OF CANADA'S COMMUNICATIONS MIGHT BE IMPACTFUL

Round Two of the Bank of Canada Vs. the Markets will be a main focal point today. The rest of the day's calendar-based developments are likely to be unremarkable.

BoC Deputy Governor Gravelle delivers the customary Economic Progress Report the day after policy decisions not accompanied by an MPR. He heads the markets and payments divisions and has been rolled out previously to update thinking on the BoC's overall policy framework. Gravelle's speech will be released at 12:35pmET and he will host a press conference at about 2:10pmET.

On the heels of my recap of the BoC ([here](#)), here is what I think could be interesting today:

### FURTHER POSSIBLE GUIDANCE ON POTENTIAL RATE MOVES.

In particular, if he doesn't address this in his text, then he's likely to be asked during the presser to expand upon what is meant by saying they want to see "further and sustained easing in core inflation." How much further? How sustained? Oooohhhh inquiring minds wanna know! I doubt he'll want to be pinned down by precision but he could provide some nuanced way of getting at this. In my view, they might want a period of, say, 6 months of soft core inflation readings versus what Macklem recently dismissed as only one month's evidence, and then a period of evidence that it is staying down. The optimistic scenario is that this might support easing as early as next summer. January? Uh, no. March? Nope. April? Na-uh. Then maybe it gets interesting, unless, of course, the forces already at work reignite inflation pressures in which case it's dumb to sound overly confident that hikes are over.

### GRAVELLE WILL FURTHER EXPAND UPON HOW THEY ARE READING THE TEA LEAVES.

The BoC doesn't update forecasts until next month's meeting, but Gravelle might be asked whether they still think inflation won't be durably at 2% until 2025H2 or earlier and if earlier then how much so? Their framework rests upon the output gap and excess demand/supply arguments, whereas in my opinion that framework doesn't go very far in terms of explaining inflation of the sort we have gotten for years.

Further, I continue to think they are too dismissive toward temporary drags on growth. Upon controlling for them, the economy wouldn't have been booming over the summer by any means, but I can easily see materially stronger growth in Q2 and Q3. Prudent inventory shedding, maintenance shutdowns in the oil patch, strikes aplenty and wildfires are among the considerations that go well beyond the effects of rate hikes in driving Canadian economic underperformance relative to the US.

## UPDATED BALANCE SHEET PLANS

Gravelle was the one who laid out the guideposts in his March speech. Might he update them and with that use an updated framework of conventional and unconventional policy guidance to inform a range of possibilities for timing possible rate cuts? As argued in my Global Week Ahead, they are getting market signals, such as the CORRA-overnight rate spread (chart 3), that suggest they are arriving at optimal settlement balances earlier than previously thought when Gravelle laid out aggressive targets. The BoC began exiting stimulus by ending QE, embracing full-on 100% QT and hiking all at about the same point in early 2022. Are the risks symmetrical as they court the possibility of reducing policy tightening, or will he guide that ending QT and cutting rates don't have to be lined up this time?

But could the BoC end QT earlier while shifting to cutting? Absolutely. Doing so would be an elegant, internally consistent framework.

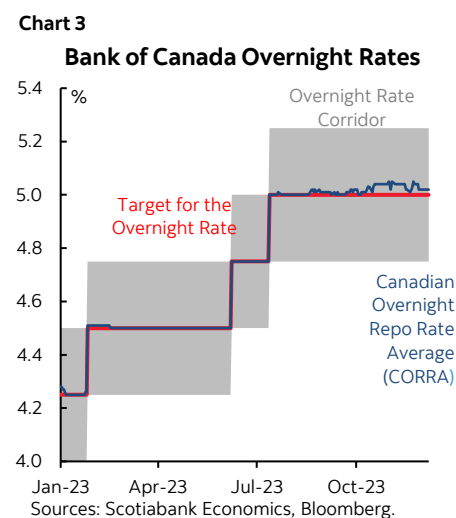
- They will face this inevitability regardless. If, say, they stick to present plans to end QT by the end of 2024 or early 2025, then that would entail returning to buying bonds at the same time they are probably in an easing cycle by that point.
- Ending QT earlier than previously guided and by corollary shifting back to buying bonds to keep their holdings constant could be entirely consistent with cutting the policy rate.
- Some of the present curve richening, say around the belly, probably reflects this view in part and so the incremental impact upon bonds of shifting toward ending QT earlier than previously guided might not be much of a surprise to what is presently priced.
- So what's the value to guiding a potentially earlier end to QT? They might have to bring forward that point for ending QT if what dominates their thinking is that the market is sending signals that they can't push reserves in the system as low as they say without courting dysfunction. They might have to trade-off the bond market effects against the risk of destabilizing funding markets by being overly aggressive on reserve management.
- There is also the value of framework consistency in symmetrical fashion to what they did upon shifting toward a tightening stance in early 2022 by changing balance sheet and policy rate tools basically simultaneously to one another.
- What impact could there be upon bond yields through the belly? Well, if they guide they are thinking of rate cuts later than markets are pricing then that could dominate curve pricing and push yields higher. The rate equivalence to QT plans is less than the impact of changing the policy rate.

In any event, we'll see if Gravelle provides such guidance today or defers to a later date. It's a fact that there is rising interest in the CORRA-overnight rate spread and I've had this discussion with multiple clients. It's my speculation that the BoC might think they need to take this into consideration at this point, though they might get to that point a little later. But hey, that's the job of research—not to wait until something is fact before courting dialogue and speculation ahead of developments!!!

Chile's inflation was hotter than expected at 0.7% m/m SA (0.2% consensus) and 4.8% y/y (4.2% consensus) with CPI ex-volatile items also firm at 0.5% m/m and 6% y/y (6.5% prior).

Mexico's inflation rate during November landed on the screws at 0.6% m/m for headline and 0.3% m/m for core with the year-over-year rates at 4.3% and 5.3% for headline and core respectively. Of course they did. Mexico releases inflation figures on a bi-weekly basis and so the month's tally is rarely a surprise when it arrives. The results offer no surprises ahead of next week's Banxico decision that is widely expected to remain on hold at 11.25%.

Overnight data was light and focused upon weak European industrial figures for October. German IP fell 0.4% m/m (+0.2% consensus) and Italian IP slipped -0.2% m/m (-0.4% consensus) with a slight upward revision.



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.	4.58	4.59	4.68	4.12	4.10	4.27	4.14	4.10	4.33	4.25	4.21	4.50	Canada - BoC	5.00		
CANADA	4.03	4.06	4.19	3.38	3.39	3.63	3.29	3.28	3.55	3.11	3.10	3.35	US - Fed	5.50		
GERMANY	2.60	2.62	2.82	2.15	2.17	2.37	2.20	2.20	2.45	2.40	2.37	2.69	England - BoE	5.25		
JAPAN	0.10	0.04	0.03	0.35	0.24	0.26	0.76	0.64	0.67	1.70	1.59	1.66	Euro zone - ECB	4.50		
U.K.	4.53	4.49	4.61	4.04	4.00	4.18	3.98	3.94	4.18	4.48	4.45	4.69	Japan - BoJ	-0.10		
	Spreads vs. U.S. (bps):															
CANADA	-55	-53	-49	-75	-71	-64	-86	-83	-78	-114	-112	-114	Mexico - Banxico	11.25		
GERMANY	-198	-197	-187	-198	-194	-189	-194	-190	-188	-186	-184	-181	Australia - RBA	4.35		
JAPAN	-448	-455	-465	-377	-386	-401	-338	-347	-366	-255	-263	-283	New Zealand - RBNZ	5.50		
U.K.	-6	-10	-7	-8	-10	-9	-16	-16	-15	22	23	20				
Equities	Level						% change:						Next Meeting Date			
	Last	Change		1 Day	1-wk	1-mo	1-yr									
S&P/TSX	20274	-101.7		-0.5	0.8	3.6	1.5							Canada - BoC	Jan 24, 2024	
Dow 30	36054	-70.1		-0.2	1.8	5.6	7.3							US - Fed	Dec 13, 2023	
S&P 500	4549	-17.8		-0.4	-0.0	3.9	15.6							England - BoE	Dec 14, 2023	
Nasdaq	14147	-83.2		-0.6	-0.8	3.7	29.1							Euro zone - ECB	Dec 14, 2023	
DAX	16616	-40.2		-0.2	2.5	9.7	16.5							Japan - BoJ	Dec 19, 2023	
FTSE	7517	1.3		0.0	0.8	1.4	0.4									
Nikkei	32858	-587.6		-1.8	-1.9	2.2	19.2							Mexico - Banxico	Dec 14, 2023	
Hang Seng	16346	-117.4		-0.7	-4.1	-7.0	-16.0							Australia - RBA	Feb 05, 2024	
CAC	7419	-17.0		-0.2	1.5	6.2	11.4							New Zealand - RBNZ	Feb 27, 2024	
Commodities	Level						% change:									
	Level		Change		1 Day	1-wk	1-mo	1-yr								
WTI Crude	70.34		0.96		1.4	-7.4	-9.1	-2.3							England - BoE	Dec 14, 2023
Natural Gas	2.56		-0.00		-0.2	-8.5	-18.3	-55.2							Euro zone - ECB	Dec 14, 2023
Gold	2034.93		9.38		0.5	-0.1	3.3	13.9							Japan - BoJ	Dec 19, 2023
Silver	24.10		-0.18		-0.7	-3.5	3.8	6.9								
CRB Index	259.66		-6.66		-2.5	-5.1	-5.8	-2.3								
Currencies	Level						% change:									
	Level		Change		1 Day	1-wk	1-mo	1-yr								
USDCAD	1.3592		-0.0001		-0.0	0.2	-1.3	-0.4							Mexico - Banxico	Dec 14, 2023
EURUSD	1.0785		0.0021		0.2	-0.9	0.8	2.7							Australia - RBA	Feb 05, 2024
USDJPY	144.78		-2.5300		-1.7	-2.3	-3.7	6.0							New Zealand - RBNZ	Feb 27, 2024
AUDUSD	0.6581		0.0032		0.5	-0.4	2.3	-2.1								
GBPUSD	1.2579		0.0019		0.2	-0.4	2.3	3.1								
USDCHF	0.8761		0.0013		0.1	0.1	-2.7	-6.9								

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