

ON DECK FOR FRIDAY, JUNE 23

| Country | Date | Time | Indicator | Period | BNS | Consensus | Latest |
|---------|-------|-------|---|--------|-----|-----------|--------|
| CA | 06/23 | 08:30 | Core CPI - Common (y/y) | May | -- | 1.4 | 1.3 |
| CA | 06/23 | 08:30 | Core CPI - Median (y/y) | May | -- | -- | 1.6 |
| CA | 06/23 | 08:30 | Core CPI - Trim (y/y) | May | -- | -- | 1.3 |
| CA | 06/23 | 08:30 | CPI, All items (m/m) | May | 0.1 | 0.2 | 0.4 |
| CA | 06/23 | 08:30 | CPI, All items (y/y) | May | 1.3 | 1.5 | 1.6 |
| CA | 06/23 | 08:30 | CPI, All items (index) | May | -- | 131.0 | 130.4 |
| US | 06/23 | 10:00 | New Home Sales (000s a.r.) | May | 610 | 590 | 569 |
| US | 06/23 | 11:15 | Fed's Bullard Speaks about Monetary Policy in Nashville | | | | |
| US | 06/23 | 12:40 | Fed's Mester Speaks in Cleveland | | | | |
| US | 06/23 | 14:15 | Fed's Powell Speaks in Chicago on Central Clearing | | | | |
| US | 06/23 | | United States Sovereign Debt to be rated by Moody's | | | | |

KEY POINTS:

- USD and equities broadly weaker to end the week
- CDN CPI: still falling?
- Markets putting better than even odds on a July BoC hike
- Eurozone PMIs: just volatility or a growth top?
- US new home sales to inform risks to construction activity
- Fed's Powell, Mester, Bullard on tap

Please see the Global Week Ahead [here](#). Key risk factors over the coming week will include:

- US health vote?
- US CPI
- Fed speak
- BoC speak
- CDN GDP
- Eurozone CPI
- European consumers
- Chinese PMIs, profits
- Japan macro hits
- Colombian rates

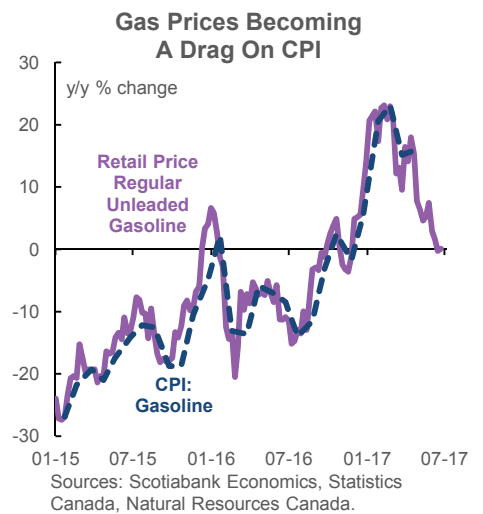
INTERNATIONAL

The only new pieces of information for markets this morning include softer growth evidence from Europe and pending Canadian inflation figures that may further inform Bank of Canada rate hike bets. Equity sentiment started to turn abruptly more negative shortly before 6am and hence well after weaker Eurozone PMI readings hit at 4amET.

- Stocks are mostly lower including about a half percent average drop in Europe. US equity futures are in the red and down 0.2% while Canadian futures are up 0.1%. Asian equities mostly closed a little higher except HK that was flat.
- Sovereign bond yields are under slight upward pressure in Europe and the US with 10 year yields higher by up to 2bps.
- Oil prices are flat with WTI just under of US\$43. Gold is up \$6 to \$1257 and is up \$14 since June 20th.
- The USD is broadly weaker against almost all other major currencies except it is flat versus CAD as the Canadian dollar is underperforming most other currencies ahead of CPI. The strongest performers are pound sterling, the peso, and A\$. The Euro is in the middle of the pack following weak PMI

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readings that weakened the currency's pace of appreciation this morning.

Eurozone growth signals deteriorated, but it's not yet clear if this is just volatile data or signalling a peak in growth. The Eurozone purchasing managers index for both manufacturing and services combined unexpectedly fell back by 1.1 points to 55.7. That's the lowest since January, but three quarters of the rise since September is still intact and so markets hardly have reason to be at panic stations. Furthermore, translating PMIs into GDP growth is done tenuously, and the sharp rise in PMI readings since last summer translated very minimally into very slightly stronger growth. The dip was caused by services, with that PMI slipping back by 1.7 points to 54.7 which still preserves about 60% of the rise since September. By contrast, the manufacturing PMI continues to climb and has risen by 5.6 points since last August. Services cooled in both Germany and France. Manufacturing grew at a quickened pace in France and Germany's manufacturing PMI was little changed and higher than France's.

CANADA

Canadian inflation figures for May will further inform Bank of Canada rate risks. A cooler reading is anticipated for headline inflation. No one credibly forecasts core inflation since the BoC moved to its 3 new measures (the BoC doesn't even forecast them). However, the average of the 3 core measures has been trending lower and therefore whether it stabilizes or continues to decline will be closely watched. Consensus expects 1.5% headline inflation which would be down a tick from April and down six-tenths since the peak in January. The range of estimates is unusually wide and runs from 1.2% to 2.1% and my estimate is toward the lower end but I think figures in the 1.3-1.5% range are all easily defended.

Markets are now pricing better than even odds of a Bank of Canada hike in July and are mostly priced for a hike before year-end. Scotia's forecast remains a hike in October with risk of a move next month. This BoC couldn't care less what markets have priced beforehand. It's not the least bit clear what suddenly motivated a bias shift at the BoC, but there are some causes for a little more enthusiasm. For one thing, Canada is not importing the BoC's feared bond market shock (indeed it has been the opposite). For another, NAFTA risks have lessened and may be pushed out for a long time and at some point one has to make the call on monetary policy and adjust later as needed. Further, growth has consistently beaten BoC and consensus expectations for several quarters now, and spare capacity is shut by one measure and will be shut by the other measure within a one year horizon. There remain risks aplenty that continue to counsel caution, but hiking twice to reverse the insurance taken out in 2015 and adding one more to give a nod to the fact that spare capacity is being closed off makes some sense. Going any further than that when the BoC has missed its inflation target for most of the past six years and been no better at forecasting it than markets despite models aplenty continues to counsel caution.

A few further points on today's CPI reading could include:

- if seasonally unadjusted CPI comes in flat in month-ago terms which enables us to focus on year-ago base effects without introducing directional bias on the month-ago changes, then CPI would drop all the way back to 1.2% y/y from 1.6% the prior month through that influence alone. That's partly because by May of last year the weakness in gasoline prices was on the mend compared to the start of 2016 and so base effects are shifting toward reducing pressure on CPI.
- to further illustrate this point, we've gone from y/y gas price increases of 23% in February down to around 5% in May and 0% in June (see chart). So gas prices are a big swing factor for year-ago CPI with about a 3½% weight.
- I estimate seasonally unadjusted CPI to rise by 0.1% m/m in May which raises the y/y CPI seasonally unadjusted rate to 1.3%.
- May is a seasonal up-month for broad CPI. It has averaged a 0.3% m/m rise in the last five years. But, April's m/m seasonally unadjusted rise was about double the norm for that month. So I'm expecting some moderation in the components in May.
- the range within consensus is from 1.2% y/y CPI to 2.1% y/y with a cluster around 1.5% y/y and roughly even tails except for one that's way too high imo.

UNITED STATES

US markets will be focused upon Fed speak, limited data risk and ongoing reaction to initial health care proposals before the Senate that are once again showcasing divisions with the GOP.

Fed speakers will include Governor Powell at 2:15pmET but not on a market sensitive topic, Cleveland Fed President Mester

on inequality (12:40pmET) and St. Louis President Bullard (11:15amET) on monetary policy. The latter said yesterday that the Fed's rate hike path is "unnecessarily aggressive" but he continues to favour an earlier reduction of reinvestment and balance sheet unwind. On balance, there should be relatively little if any new information today.

New home sales for May (10amET) will inform the debate over whether housing starts are falling temporarily or faced with further downside. A rebound is expected following a large 11% m/m drop.

Note that Fed chair Yellen is now scheduled to speak on Tuesday in London about the global economy in an informal conversation style including audience Q&A. This appearance was added only yesterday afternoon.

| 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. | 1.34 | 1.34 | 1.32 | 1.76 | 1.76 | 1.74 | 2.16 | 2.15 | 2.15 | 2.73 | 2.72 | 2.78 | Canada - BoC | 0.50 |
| CANADA | 0.94 | 0.93 | 0.89 | 1.16 | 1.15 | 1.14 | 1.50 | 1.50 | 1.52 | 1.99 | 1.99 | 2.03 | US - Fed | 1.25 |
| GERMANY | -0.63 | -0.63 | -0.66 | -0.38 | -0.38 | -0.40 | 0.25 | 0.25 | 0.28 | 1.05 | 1.04 | 1.11 | England - BoE | 0.25 |
| JAPAN | -0.10 | -0.10 | -0.11 | -0.07 | -0.07 | -0.07 | 0.06 | 0.06 | 0.06 | 0.81 | 0.78 | 0.82 | | |
| U.K. | 0.24 | 0.21 | 0.16 | 0.52 | 0.49 | 0.46 | 1.04 | 1.02 | 1.02 | 1.69 | 1.67 | 1.72 | | |
| Spreads vs. U.S. (bps): | | | | | | | | | | | | | | |
| CANADA | -41 | -41 | -42 | -60 | -60 | -61 | -66 | -65 | -63 | -73 | -73 | -74 | Euro zone - ECB | 0.00 |
| GERMANY | -197 | -197 | -198 | -215 | -214 | -215 | -191 | -190 | -188 | -168 | -168 | -167 | Japan - BoJ | -0.10 |
| JAPAN | -144 | -144 | -143 | -184 | -183 | -182 | -210 | -209 | -210 | -192 | -194 | -196 | | |
| U.K. | -110 | -114 | -116 | -124 | -127 | -128 | -112 | -113 | -113 | -104 | -105 | -106 | Mexico - Banxico | 7.00 |
| Equities | Level | | | | | | % change: | | | | | | | |
| | Last | Change | | 1 Day | | 1-wk | | 1-mo | | 1-yr | | | | |
| S&P/TSX | 15220 | 71.4 | | 0.5 | | 0.4 | | -1.7 | | 7.7 | | Australia - RBA | | 1.50 |
| Dow 30 | 21397 | -12.7 | | -0.1 | | 0.2 | | 2.2 | | 18.8 | | New Zealand - RBNZ | | 1.75 |
| S&P 500 | 2435 | -1.1 | | -0.0 | | 0.1 | | 1.5 | | 15.2 | | | | |
| Nasdaq | 6237 | 2.7 | | 0.0 | | 1.2 | | 1.6 | | 27.0 | | | | |
| DAX | 12712 | -82.4 | | -0.6 | | -0.3 | | 0.4 | | 23.9 | | | | |
| FTSE | 7405 | -34.7 | | -0.5 | | -0.8 | | -1.1 | | 16.8 | | | | |
| Nikkei | 20133 | 22.2 | | 0.1 | | 0.9 | | 2.6 | | 24.0 | | Canada - BoC | | Jul 12, 2017 |
| Hang Seng | 25670 | -4.5 | | -0.0 | | 0.2 | | 1.1 | | 23.0 | | US - Fed | | Jul 26, 2017 |
| CAC | 5253 | -28.7 | | -0.5 | | -0.2 | | -1.8 | | 17.6 | | | | |
| Commodities | Level | | | | | | % change: | | | | | | | |
| | Last | Change | | 1 Day | | 1-wk | | 1-mo | | 1-yr | | | | |
| WTI Crude | 42.81 | 0.07 | | 0.2 | | -4.3 | | -16.8 | | -14.6 | | England - BoE | | Aug 03, 2017 |
| Natural Gas | 2.91 | 0.02 | | 0.6 | | -4.1 | | -9.6 | | 7.9 | | Euro zone - ECB | | Jul 20, 2017 |
| Gold | 1257.76 | 7.31 | | 0.6 | | 0.3 | | 0.5 | | 0.1 | | Japan - BoJ | | Jul 20, 2017 |
| Silver | 16.71 | 0.13 | | 0.8 | | -0.3 | | -2.5 | | -3.4 | | | | |
| CRB Index | 166.50 | -0.92 | | -0.6 | | -3.6 | | -10.0 | | -14.0 | | | | |
| Currencies | Level | | | | | | % change: | | | | | | | |
| | Last | Change | | 1 Day | | 1-wk | | 1-mo | | 1-yr | | | | |
| USDCAD | 1.3234 | 0.0001 | | 0.0 | | 0.2 | | -2.1 | | 3.8 | | Mexico - Banxico | | Aug 10, 2017 |
| EURUSD | 1.1167 | 0.0015 | | 0.1 | | -0.3 | | -0.1 | | -1.9 | | Australia - RBA | | Jul 04, 2017 |
| USDJPY | 111.23 | -0.1000 | | -0.1 | | 0.3 | | -0.5 | | 4.8 | | New Zealand - RBNZ | | Aug 09, 2017 |
| AUDUSD | 0.7566 | 0.0024 | | 0.3 | | -0.7 | | 1.2 | | -0.6 | | | | |
| GBPUSD | 1.2733 | 0.0051 | | 0.4 | | -0.4 | | -1.8 | | -14.4 | | | | |
| USDCHF | 0.9716 | -0.0002 | | -0.0 | | -0.2 | | -0.5 | | 1.4 | | | | |

Source: Bloomberg. All quotes reflect Bloomberg data as at the time of publishing.

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