KEY POINTS

- **Stocks rally and ignore the surge in US jobless claims**
- **Energy rallied on Trump's jawboning…**
- **…that awaits confirmation or denial by the Saudis & Russians…**
- **…yet energy was by no means the only stock market driver**
- **Alas fair nonfarm, you may not matter—this time**
- **A sweep through nonfarm drivers…**
- **…and how cracks were evident before the COVID-19 shock**
- **US ISM-services will likely offer a fresher assessment than nonfarm**
- **Italy, Spain could register the worst Eurozone PMIs…**
- **…to inform revision risk to the Eurozone composite readings**
- **China's private PMIs likely won't rebound as much as the state versions**

TODAY'S NORTH AMERICAN SESSION

The COVID-19 global case count crossed 1 million today and if it keeps rising at the pace at which it has over the past week, then we'll be at 2 million inside of two weeks from now and who knows where beyond. US jobless claims soared to 6.65 million and doubled the consensus guesstimate. Stocks couldn't have cared less about either of these things. The human suffering is heart wrenching to see and to observe in the numbers and no feeling person can look past this. Forward looking stocks nevertheless filled their dance card with bad partners long ago and since raised their sights upon the rebound coming on the other side of this shock with the help of massive dollops of stimulus. Energy played a significant role in driving stocks higher today, but it was by no means the only driver. The focus now turns to broader damage assessments in European and Chinese macro releases overnight and then onto top shelf macro figures in the US. Here too, however, the US data might amount to diddly squat.

- The S&P500 closed 2¼% higher today. The energy sub-index was up 9.1% but only accounts for 2.8% of the index to account for ¼% of the overall S&P gain in weighted contribution terms. All major sub-indices were higher by 1–3% except for a mild gain in consumer discretionary stocks. The TSX rallied by 1.7% with all but IT and consumer discretionary stocks moving higher. European stocks rallied by ¼%–½% except for flat stocks in Madrid and a stronger 1 ¾% gain in Italy.

- Oil prices soared by the most in a single day on record at least in percentage terms off of a low base! WTI and Brent both jumped higher by about $5 which translates into about 22% gains. All traders had to do was take President Trump at his word; now what could go wrong with that! Trump claimed he drove an agreement between the Saudis and Russians to slash production but a) this has not been confirmed by the others, and b) nobody seems to quite believe the magnitude of the number he cavalierly threw out. Overnight markets may be vulnerable to confirmation or denial. Gold piggybacked with a US$25/oz gain to US$1,616/oz.

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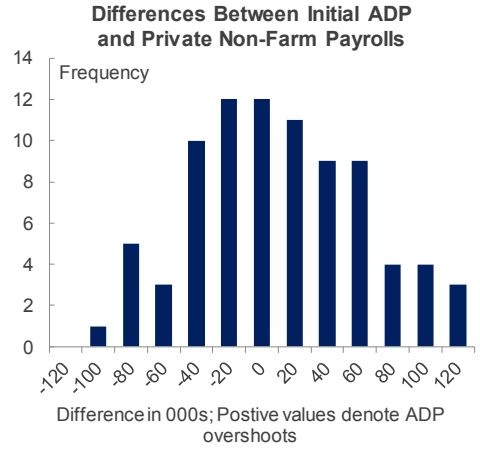
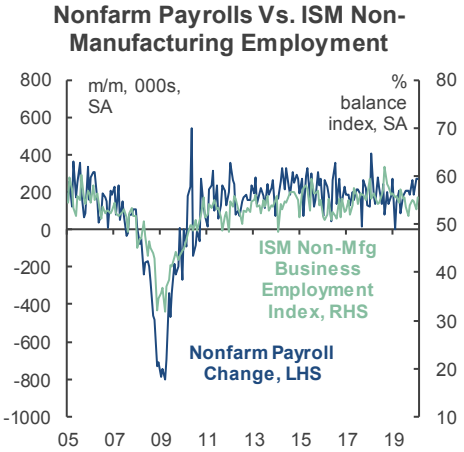
Chart 1



Sources: Scotiabank Economics, Bloomberg.

Chart 2



Sources: Scotiabank Economics, ISM, BLS.

- Sovereign bonds felt left out. The US Treasury curve cheapened by about 1–3bps across the curve while Canada's curve cheapened a touch more toward the belly.
- The USD appreciated, but lost some momentum toward the end of the day. The weakest crosses were the rand, Euro, euro-related (CHF, SEK, DKK) and yen. The strongest crosses that appreciated were the krone, sterling, Singapore dollar, CAD and the NZ$. In other words, oil heavy crosses like NOK, CAD, sterling and even the Mexican peso were the beneficiaries of the day's moves.

Please see this morning's note for brief recaps of US releases (claims, trade, factory orders) and Canadian trade. All but claims were stale and ignored by markets.

OVERNIGHT MARKETS

COVID-19 and damage assessments will be the prime focal point in the form of European and Chinese PMIs.

Spain (3:15amET) and Italy (3:45amET) release their first estimates of purchasing managers indices for March that will inform revision risk to the Eurozone composite PMIs (4amET). Given that Italy and Spain have been the hardest hit regions, the downside risk is marked.

China's private Caixin PMIs for the service sector and the composite reading will be released at 9:45pmET. The earlier private manufacturing PMI was not as positive as the state version in part because the private PMI samples are more skewed toward smaller producers in export-oriented coastal cities and less toward the SOEs. The same picture might emerge with the private services PMI not improving as much as the rebound in the state's version from 29.6 in February to 52.3 in March and hence just over the 50 line into expansion territory for the economy.

TOMORROW'S NORTH AMERICAN SESSION

Further policy announcements are unlikely tomorrow and the US will be the source of calendar-based data risk through **nonfarm payrolls (8:30amET) and ISM-services (10amET).** Of the two readings, ISM is the fresher one because the ISM folks say they get most responses toward the end of the month whereas nonfarm is skewed to mid-month. However, that was also the case for ISM-manufacturing that did not fall as far as expected on Wednesday yet for unhealthy reasons as supplier deliveries and customer inventories were among the drivers that prevented a worse reading. The same is possible for tomorrow despite the freshness of the ISM reading.

The rest of the focus will be upon nonfarm expectations. Throughout the COVID-19 shock, expect hours worked to probably suffer even more than payrolls as companies are relatively more likely to curtail or eliminate hours through furloughs rather than eliminate payroll positions they might not be able to get back on the other side of the shock. Wage growth is also likely to largely disappear, though not in tomorrow's reading as the suddenness of the shock takes time to impact average wages.

As for the change in nonfarm payrolls, there are multiple advance indicators to draw upon in formulating an estimate. Overall, the -200k estimate that I submitted a week ago may be toward the outer limit of what to expect. Before looking at three advance signals in particular, it's always useful to start with a reminder that the 90% confidence interval surrounding estimated changes in nonfarm payrolls is +/- 110,000 jobs. Whatever the number tomorrow, there is a ginormous bracket around it. That always counsels not taking your own estimate too seriously!

The clues from advance indicators line up as follows:

a) Initial jobless claims: They soared outside of the nonfarm payrolls reference period which is the pay period that includes the 12th of the month. That means that nonfarm may not capture the sudden deterioration of the job market. Initial claims were cruising along at between about 205k–220k through February into early March and then in the second week ending March 13th increased to 282k from 211k the prior week. Then they exploded to 3.3 million for the week ending March 20th and 6.65 million last week. Social distancing and shutdown effects came on very suddenly and probably after the ability of payrolls to capture the effects.

b) ADP: The -27k drop in ADP's measure of private payrolls was better than feared and is not to be ignored. Yes ADP private payrolls can be well off from a private nonfarm payrolls estimate for any given month, but it's not likely to be so far off as to lend credibility to the harshest estimates within consensus for what happens to nonfarm payrolls. Since ADP revised its methodology to more closely follow nonfarm in 2010, the biggest ADP overshoot of the initial private nonfarm payrolls estimate was 184,000 in December 2010. The biggest ADP undershoot of nonfarm was -199k in April 2010. Thus, ADP's March 2020 estimate of -27k plus the biggest prior overshoot of nonfarm (184k) would yield at most a -211k private nonfarm print. Chart 1 shows the historical distribution of the difference between ADP and private nonfarm estimates to give a sense of how low the chances are to get a real doozy of a negative payroll reading.

c) The ISM-services employment gauge: This measure increased in February but we won't know what happened to the March estimate until ISM-services gets updated after nonfarm tomorrow morning. That said, payroll growth had been overshooting the ISM employment indicator for some time (chart 2).

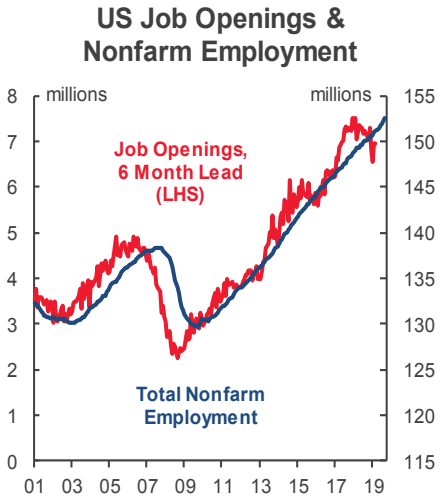
That's not the only evidence that something was off well before the COVID-19 shock hit. There were at least two other warning signs that payrolls were vulnerable well before the COVID-19 shock and that may portend protracted softening in payrolls.

First, **unfilled job openings were trending lower ever since the peak in January of last year**. With a six month lag, this tends to suggest nonfarm payrolls will experience a turning point lower (chart 3).

Second, there is also the possibility that we've been in a protracted period of overshooting **job growth relative to the inventory cycle.** As chart 4 shows, normally the ratio of inventories-to-sales was broadly correlated with nonfarm payroll growth until just before the time of the US election. Thereafter, inventory levels ballooned to cycle highs while payrolls continued to expand at a healthy trend pace. Inventory burn from elevated levels could magnify downside risk to jobs.

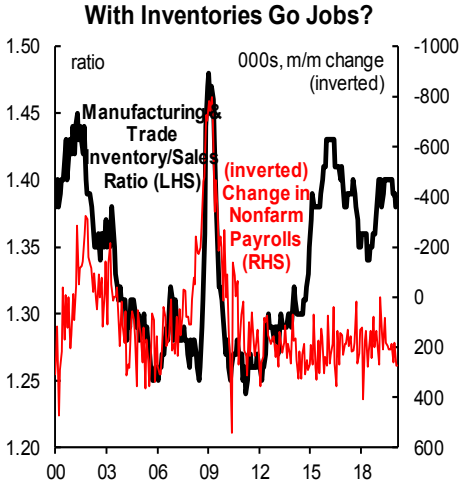
As a final reminder, though this is by no means a 'typical' recession—whatever that is—chart 5 shows what happens to payrolls during past recessions marked by grey bars in the early 1980s, early 1990s, early 2000s and during the GFC. The worst drop was during the GFC and we are likely to smash that in the next payrolls report a month from now.

Chart 3



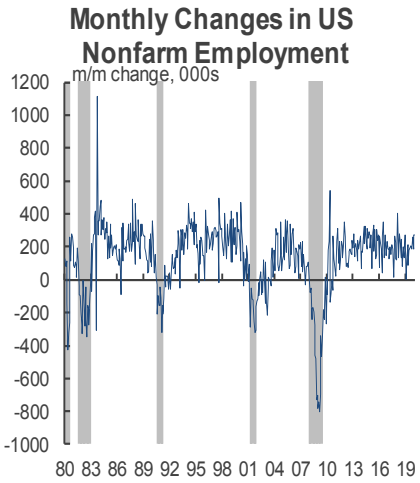
Sources: Scotiabank Economics, Bloomberg.

Chart 4



Source: Scotiabank Economics, Bloomberg.

Chart 5



Sources: Scotiabank Economics, BLS.

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.	0.23	0.21	0.30	0.38	0.35	0.53	0.60	0.58	0.85	1.24	1.22	1.44
CANADA	0.42	0.39	0.60	0.59	0.54	0.75	0.66	0.61	0.84	1.23	1.21	1.34
GERMANY	-0.65	-0.64	-0.64	-0.60	-0.61	-0.55	-0.43	-0.46	-0.36	-0.03	-0.02	0.12
JAPAN	-0.11	-0.11	-0.23	-0.11	-0.10	-0.12	-0.01	0.01	0.00	0.40	0.42	0.43
U.K.	0.12	0.13	0.13	0.18	0.18	0.24	0.33	0.31	0.40	0.79	0.77	0.83
	Spreads vs. U.S. (bps):											
CANADA	20	18	31	20	19	22	6	3	-1	-1	-2	-10
GERMANY	-87	-85	-94	-98	-96	-107	-103	-104	-121	-127	-124	-131
JAPAN	-33	-31	-52	-49	-46	-64	-60	-57	-85	-84	-80	-100
U.K.	-10	-8	-16	-20	-17	-29	-26	-27	-45	-45	-45	-60

Equities	Level		% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	13098	221.5	1.7	-2.0	-20.9	-19.5
Dow 30	21413	469.9	2.2	-5.0	-19.8	-18.2
S&P 500	2527	56.4	2.3	-3.9	-18.2	-11.9
Nasdaq	7487	126.7	1.7	-4.0	-16.4	-4.6
DAX	9571	26.1	0.3	-4.3	-19.3	-18.6
FTSE	5480	25.7	0.5	-5.8	-17.7	-25.9
Nikkei	17819	-246.7	-1.4	-4.5	-15.5	-17.9
Hang Seng	23280	194.3	0.8	-0.3	-11.4	-22.4
CAC	4221	13.7	0.3	-7.1	-20.9	-22.2
Commodities	Level		% change:			
WTI Crude	24.76	4.45	21.9	9.6	-47.0	-60.4
Natural Gas	1.55	-0.04	-2.3	-5.3	-11.7	-42.3
Gold	1614.68	0.69	0.0	-0.8	-1.6	25.2
Silver	14.02	0.09	0.6	0.4	-18.4	-7.0
CRB Index	124.84	6.34	5.3	-1.2	-23.6	-33.0
Currencies	Level		% change:			
USDCAD	1.4141	0.0003	0.0	1.1	5.7	6.0
EURUSD	1.0860	0.0002	0.0	-2.5	-2.8	-3.3
USDJPY	107.85	-0.0600	-0.1	-0.1	0.7	-3.3
AUDUSD	0.6059	-0.0002	-0.0	-1.8	-8.0	-14.8
GBPUSD	1.2406	0.0010	0.1	-0.4	-3.2	-5.7
USDCHF	0.9735	-0.0005	-0.1	2.3	1.8	-2.5

Central Banks	Current Rate
Canada - BoC	0.25
US - Fed	0.25
England - BoE	0.10
Euro zone - ECB	0.00
Japan - BoJ	-0.10
Mexico - Banxico	6.50
Australia - RBA	0.25
New Zealand - RBNZ	0.25

	Next Meeting Date
Canada - BoC	Apr 15, 2020
US - Fed	Apr 29, 2020
England - BoE	May 07, 2020
Euro zone - ECB	Apr 30, 2020
Japan - BoJ	Apr 28, 2020
Mexico - Banxico	May 14, 2020
Australia - RBA	Apr 07, 2020
New Zealand - RBNZ	May 12, 2020