

KEY POINTS:

- Mild risk-on driven by vaccines and European negotiations
- What does the RBA think of Australia's second wave?
- Canadian retail sales are rebounding
- Tracking American mobility readings amidst rising covid cases
- Japanese CPI update

TODAY'S NORTH AMERICAN MARKETS

A mild risk on session marked the start of the week amidst little fresh information to drive it after the early morning announcement of another positive covid-19 vaccine trial. The trial shows progress toward stimulating production of t-cells and antibodies but the trials are not yet at the point of proving they will prevent catching the virus, let alone mass production. Overnight Asian markets may have one eye on continuing EU negotiations toward a €750B recovery fund. Overnight releases should be pretty light, but how the RBA manages a second wave of covid-19 cases will be a focal point. A full Q2 update through June for Canadian retail sales will inform recovery expectations and I've included updates to US mobility readings below.

- North American stocks rallied over the course of the day and were led by tech. The Nasdaq exchange was up 2½%, the S&P500 by just under 1% and the DJIA was flat. The S&P, however, lacked breadth as the only gains were in IT, consumer discretionaries and communication services with all other sectors lower. The TSX rallied by just under ½%. European cash markets saw between ½% and 1% increases except for the FTSE100 that fell ½%.
- The biggest moves in fixed income took the form of spread compression by Italian and peripheral bonds over bunds as the EU successfully hammered out a €750 billion Recovery Fund agreement.
- The USD was slightly weaker against a majority of major and semi-major crosses as a continuation of this morning's bias.
- Oil prices rallied were a smidge higher as WTI stayed above US\$40/barrel.

OVERNIGHT MARKETS

June Japanese CPI (7:50pmET): Our colleague Tuuli McCully sees headline inflation lowering a tenth to 0.0% y/y in June. Core inflation—excluding food prices—is expected to remain slightly below zero due to lower oil prices, which has been a major drag on inflation in many parts of the world during the pandemic.

July RBA Policy Meeting Minutes (11:30pmET): There will be an elevated interest in both the July meeting minutes and speech from Governor Lowe an hour later as Australia's new cases put the current recovery outlook at risk (chart 1). The recent pick up of cases in the state of Victoria has forced a partial lockdown of Melbourne for at least another four weeks. While the localized flair

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Chart 1

Australia's Recent Rise in New Cases

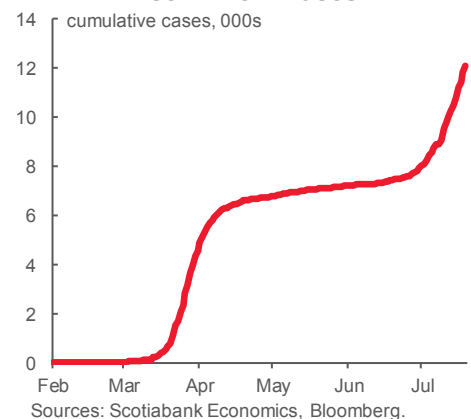
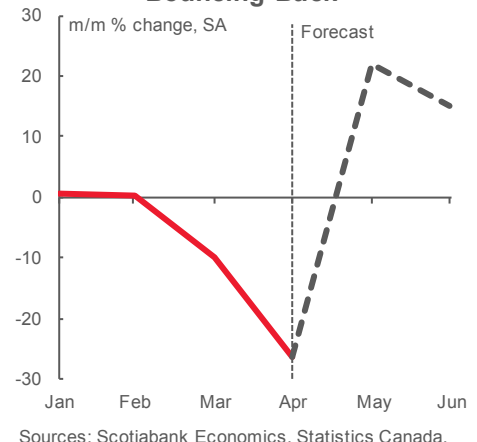


Chart 2

Canadian Retail Sales Bouncing Back



up in cases looks to have peaked, it is still too early to say that cases are trending down. In addition, 20 new cases on Monday in New South Wales represents the largest daily increase there in three months. The Premier of NSW stated that restrictions in Sydney would become more stringent if new cases continued to rise over the next few weeks, which effectively would end hopes of Australia's speedy recovery.

The RBA held its policy rate and 3-year government bond yield in July, as it signaled that policy would remain accommodative for a significant amount of time. Markets will look for the bank's latest thoughts on the outbreak developments, risks to the outlook, and what it would take for the RBA to introduce additional policy measures.

The UK will update its fiscal picture with June public sector finances at 2amET.

TOMORROW'S NORTH AMERICAN MARKETS

Canada is likely to sketch out expectations for how retailers performed during all of Q2 when it releases May retail sales and probably provides guidance on June's preliminary estimates (8:30amET). Chart 2 shows the expected pattern for May and June relative to the magnitude of contraction over March and April. As explained in the Global Week Ahead ([here](#)), May is expected to rise by 22% m/m for headline sales with sales ex-autos expected to be up by around 14%. Guidance for June's sales is expected to register another double-digit percentage gain based on what we already know about auto sales, gas prices, further reopening plans ([here](#)) and partial evidence from payments transactions (chart 3).

Think Americans have retrenched following rising covid-19 case counts? Charts 4–5 suggest otherwise in that they update Google and Apple mobility readings by mode of transportation. Often used as so-called 'alt-data' to track consumer behaviour, the figures suggest that Americans remain mobile. Driving data up to this past Saturday is higher than pre-covid, walking activity is on par with pre-covid, but transit figures remain in mild recovery mode. One may suspect that the quest for social distancing has killed the car pool as well as substituted driving for public transit. Chart 6 updates daily transit ridership.

Chart 3

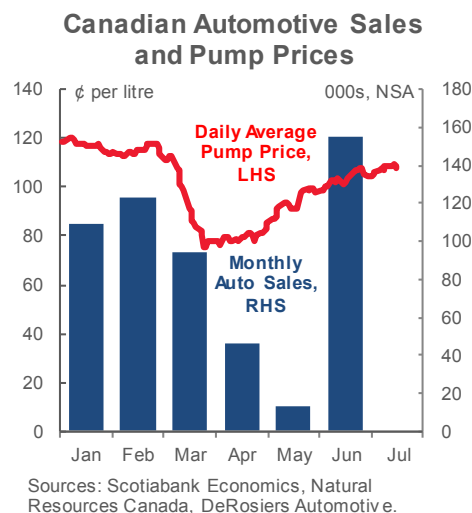


Chart 4

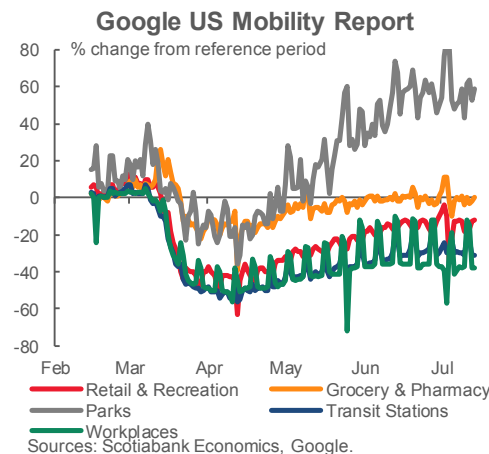


Chart 5

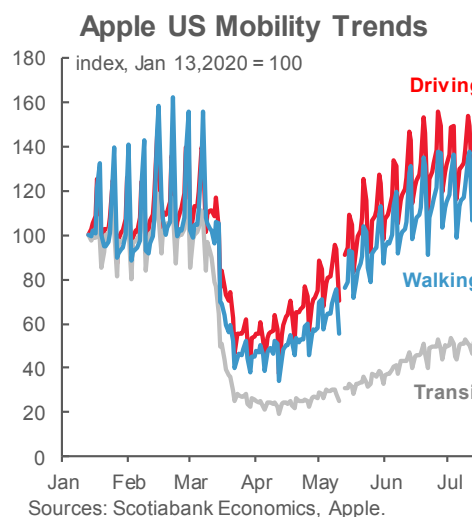
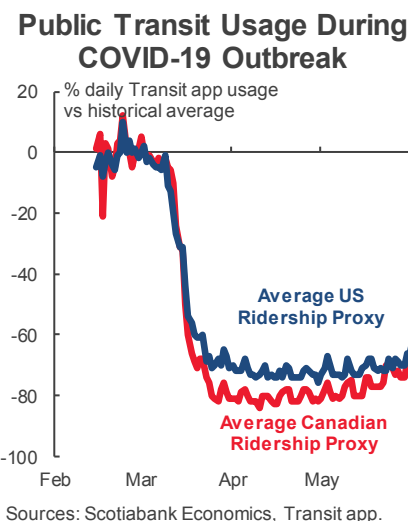


Chart 6



Fixed Income	Government Yield Curves (%):												Central Banks	
U.S. CANADA GERMANY JAPAN U.K. CANADA GERMANY JAPAN U.K.	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		
	0.15	0.15	0.15	0.28	0.28	0.29	0.61	0.63	0.62	1.31	1.33	1.31	Canada - BoC	0.25
	0.27	0.27	0.28	0.35	0.35	0.35	0.51	0.52	0.54	0.98	1.00	1.06	US - Fed	0.25
	-0.67	-0.66	-0.66	-0.66	-0.64	-0.62	-0.46	-0.45	-0.42	-0.02	-0.00	0.01	England - BoE	0.10
	-0.13	-0.13	-0.12	-0.09	-0.11	-0.09	0.03	0.02	0.04	0.60	0.59	0.61		
	-0.10	-0.09	-0.10	-0.08	-0.07	-0.05	0.15	0.16	0.19	0.67	0.68	0.66		
	Spreads vs. U.S. (bps):													
	13	12	13	7	6	6	-10	-10	-8	-33	-33	-25	Euro zone - ECB	0.00
	-82	-81	-81	-94	-93	-91	-107	-107	-104	-133	-133	-130	Japan - BoJ	-0.10
-27	-27	-28	-37	-39	-37	-58	-60	-58	-71	-74	-70			
-24	-24	-26	-36	-35	-34	-46	-46	-43	-64	-65	-65	Mexico - Banxico	5.00	
Equities	Level						% change:							
	Last	Change				1 Day	1-wk	1-mo	1-yr					
S&P/TSX	16197	73.5				0.5	3.6	4.7	-1.8			Australia - RBA	0.25	
Dow 30	26681	8.9				0.0	2.3	3.1	-1.7			New Zealand - RBNZ	0.25	
S&P 500	3254	29.7				0.9	3.1	5.1	9.3					
Nasdaq	10767	263.9				2.5	3.6	8.3	32.2					
DAX	13047	127.3				1.0	1.9	5.8	6.4					
FTSE	6262	-28.8				-0.5	1.4	-0.5	-16.6					
Nikkei	22717	21.1				0.1	-0.3	1.1	5.8			Canada - BoC	Sep 09, 2020	
Hang Seng	25058	-31.2				-0.1	-2.8	1.7	-12.9			US - Fed	Jul 29, 2020	
CAC	5093	23.8				0.5	0.7	2.3	-8.3			England - BoE	Aug 06, 2020	
Commodities	Level						% change:							
WTI Crude	40.69	0.10				0.2	1.5	2.4	-26.9			Euro zone - ECB	Sep 10, 2020	
Natural Gas	1.64	-0.07				-4.3	-5.5	-1.5	-27.0			Japan - BoJ	Sep 17, 2020	
Gold	1817.87	7.45				0.4	0.8	4.2	27.5			Mexico - Banxico	Aug 13, 2020	
Silver	19.16	-0.09				-0.4	2.1	9.7	22.7			Australia - RBA	Aug 04, 2020	
CRB Index	140.69	-0.14				-0.1	0.0	2.0	-21.2			New Zealand - RBNZ	Aug 11, 2020	
Currencies	Level						% change:							
USDCAD	1.3537	-0.0043				-0.3	-0.5	0.1	3.2					
EURUSD	1.1445	0.0017				0.1	0.9	1.6	2.1					
USDJPY	107.30	0.2800				0.3	0.0	0.4	-0.5					
AUDUSD	0.7015	0.0019				0.3	1.1	1.5	-0.3					
GBPUSD	1.2658	0.0090				0.7	0.8	1.5	1.5					
USDCHF	0.9391	0.0005				0.1	-0.3	-0.9	-4.4					

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