

KEY POINTS:

- Theories abound for today's equity selloff...
- ...but there was little reaction in sovereigns and FX
- Markets may not be all about nonfarm tomorrow
- Top officials to speak before ECB's quiet period
- BoE's dove Saunders gets the last word before the quiet period
- Nonfarm payrolls: various readings point to continued healing...
- ...but crucial is the still large furlough effect
- Canadian jobs: Ontario's callback effect in focus
- Canada's Ivey may reinforce Markit's PMI gain
- Australian, German, UK releases on tap

TODAY'S NORTH AMERICAN MARKETS

Now why'd you have to go ahead and ruin a perfectly nice day (at least out my window) like that folks. Well now that you got that off your chests maybe tomorrow will be different. But first, why did the S&P500 suffer the single worst one-day point correction since June 11th?

There are plenty of after the fact possibilities, but none are clearly superior to one another. Folks suddenly got worried about valuations? Maybe, but why today, and at a price-to-forward ratio in 2021 (the first full year of post-pandemic projected earnings recovery) of 20.75 times, it's not obvious that snps were overvalued despite what the perma-bears say. The uber bears look at this year's price-to-earnings that is distorted by the denominator. Maybe it's apprehension ahead of nonfarm payrolls, but this would be an outsized illustration of such concern. Tech played a major role with IT stocks on the S&P down 6.4%, but every sector straight through defensives fell so the explanation cannot just stop at tech. Maybe markets don't like Trump's chances and are worried about capital gains and income taxes, but if so, they're reacting to polls that have favoured Biden for some time as opposed to all of a sudden. Maybe this morning's ISM-services dip to 56.9 (58.1 prior) spooked folks toward slowing economy concerns, but it was on expectations and cooling impulses from the immediate aftermath of reopening plans were always to be expected. Let's go with one explanation we can probably all agree upon: more sellers than buyers.

It's also possible that this was concentrated selling applied only to equities and the door is always open to algo activity. Otherwise, why were sovereigns and the USD barely affected?

One of those debates may be settled tomorrow, but sorry nonfarm, it's not all about you as discussed below. In the meantime, here's the market wrap.

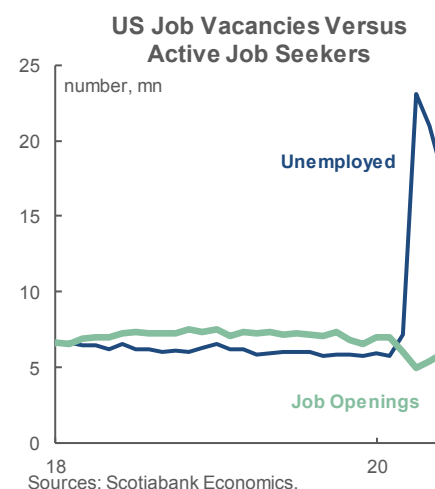
- The S&P500 fell by 3½%, the Nasdaq fell 5% and the DJIA fell by 2¾%. Toronto was down by 1½%. Selling accelerated over the afternoon and so the more muted ½% to 1½% selloffs in Europe into their market closes might have further legs to run into the Asian and European market opens.

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Chart 1



- Sovereign bond yields were down which, if you have a really good explanation for the sudden drop in equities, makes sense as a safe haven bid. The US Treasury curve bull flattened with 10s and 30s down 1–3bps. Canada's curve performed similarly.
- Oil prices fell by a few dimes with WTI just over US\$41 and Brent just under US\$44. Gold did not pick up any bid and fell \$11.
- Currency markets were not immune to the developments. The USD was little changed overall because gainers like the Mexican peso and Swiss franc and flat currencies like the euro and yen offset depreciating crosses like sterling, CAD, the A\$/NZ\$ and some Scandies.

OVERNIGHT MARKETS

ECB-speak ahead of next week may be worth monitoring. They go into their quiet period after tomorrow ahead of next Thursday's decision. The ECB's Chief Economist Lane (dove) speaks again at 11amET and has expressed concern about the euro. Bank of France Governor Villeroy also speaks again at 5:25amET and has emphasized the importance of a symmetrical inflation target and the importance of Powell's shift.

BoE MPC member Saunders speaks on 'the economy and covid-19' with both a retrospective and look ahead approach. Saunders is a policy dove on the MPC and he is the last scheduled BoE speaker before going into the quiet period by mid-week ahead of the September 17th policy decision.

Australia releases retail sales for July (9:30pmET). The rebound in consumer spending that we have seen through May and June has been particularly apparent in apparel and restaurant sales. The rebound has been so strong that June headline sales sat 7.2% above February levels. According to a preliminary estimate from the Australian Bureau of Statistics, July retail sales saw an impressive gain of 3.3% m/m and 12.2% y/y. This is despite Melbourne re-imposing stage three restrictions through the majority of July.

Germany updates factory orders for July (2amET). Orders shot up 27.9% m/m in June, far surpassing the expectation of 10.1%. An expected 5% m/m gain in July is supported by Ifo Institute data which shows that the number of furloughed workers continued to decline across a variety of sectors. Despite the record surge June, factory orders remain 11% below pre-pandemic levels. Growth in July is expected to be driven by a rise in foreign demand which has been initially slow to return.

TOMORROW'S NORTH AMERICAN MARKETS

The US and Canada will release August jobs reports in the morning.

For the US (8:30amET), I went with 1.5 million payrolls (consensus 1.35 million), a drop in the UR derived from the sister household survey to 9.8% from 10.2% and a further deceleration of wage growth to 4½% y/y that reflects more of the hardest hit jobs at lower wages coming in and bringing the prior reported wage surge back down. Lower claims, a five point rise in the ISM-mfrg employment gauge and a five point rise in the ISM-services employment gauge are among the readings that indicate labour market strengthening.

Still, however, the great wild card remains what happens to those who are counter as unemployed but on temporary layoff. There are still 9.22 million of them versus the normal run-rate before the pandemic of around three-quarters of a million. While JOLTS job vacancies lag with only June data available, thus far, the rise in job vacancies has been nothing to satisfy the sheer number of unemployed (chart 1).

As for Canadian jobs (8:30amET), before knowing consensus, I turned out to be bang on it at +250k. So we're all guessing the same spin at the wheel together. That said, my rationale was that Ontario expedited its reopening plans at the end of the July reference period for the Labour Force Survey and so the August reference period should pick up the Ontario callback effect that could be in the hundreds of thousands alongside softening effects elsewhere. This report's measure of wages is irrelevant. I went with 10.1% for the UR (10.9% prior).

August Canadian Ivey PMI (10am ET): The index rose 10.3 points to 68.5 in July, the highest reading since April 2018. As we move beyond the initial months after rebounding, expect the index to fall as the rate of businesses seeing continued improvement in sales falls.

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.	0.13	0.13	0.16	0.25	0.25	0.31	0.63	0.65	0.75	1.36	1.38	1.51	Canada - BoC	0.25
CANADA	0.27	0.26	0.29	0.35	0.35	0.44	0.54	0.55	0.66	1.04	1.06	1.19	US - Fed	0.25
GERMANY	-0.70	-0.70	-0.66	-0.71	-0.70	-0.64	-0.49	-0.47	-0.41	-0.05	-0.02	0.06	England - BoE	0.10
JAPAN	-0.11	-0.11	-0.11	-0.08	-0.08	-0.08	0.04	0.04	0.04	0.61	0.62	0.60		
U.K.	-0.10	-0.11	-0.02	-0.06	-0.07	0.03	0.24	0.23	0.34	0.81	0.82	0.93		
Spreads vs. U.S. (bps):														
	14	13	14	10	10	12	-10	-10	-9	-32	-32	-32		
CANADA	14	13	14	10	10	12	-10	-10	-9	-32	-32	-32	Euro zone - ECB	0.00
GERMANY	-83	-83	-82	-95	-95	-95	-112	-112	-116	-141	-140	-145	Japan - BoJ	-0.10
JAPAN	-24	-24	-27	-33	-33	-39	-59	-61	-71	-75	-76	-91		
U.K.	-22	-25	-17	-30	-32	-29	-40	-42	-42	-55	-56	-58	Mexico - Banxico	4.50
Equities	Level						% change:							
	Last	Change			1 Day	1-wk	1-mo	1-yr						
S&P/TSX	16449	-249.1			-1.5	-1.7	1.7	0.3						
Dow 30	28293	-807.8			-2.8	-0.7	6.1	8.3						
S&P 500	3455	-125.8			-3.5	-0.8	4.9	18.9						
Nasdaq	11458	-598.3			-5.0	-1.4	5.1	45.5						
DAX	13058	-185.7			-1.4	-0.3	3.2	9.6						
FTSE	5851	-90.1			-1.5	-3.2	-3.0	-19.5						
Nikkei	23466	218.4			0.9	1.1	4.0	13.6						
Hang Seng	25008	-112.5			-0.4	-1.1	0.2	-5.7						
CAC	5010	-22.2			-0.4	-0.1	2.7	-8.4						
Commodities	Level						% change:							
	Last	Change			1 Day	1-wk	1-mo	1-yr						
WTI Crude	41.32	-0.19			-0.5	-4.0	0.8	-23.4						
Natural Gas	2.49	-0.00			-0.0	-3.6	18.3	5.4						
Gold	1931.06	-11.86			-0.6	0.1	-2.3	24.8						
Silver	27.71	-1.18			-4.1	5.0	15.1	51.0						
CRB Index	150.42	-1.02			-0.7	-1.5	2.5	-11.1						
Currencies	Level						% change:							
	Last	Change			1 Day	1-wk	1-mo	1-yr						
USDCAD	1.3122	0.0077			0.6	-0.0	-2.0	-1.6						
EURUSD	1.1856	0.0001			0.0	0.3	0.8	8.0						
USDJPY	106.19	0.0100			0.0	-0.4	0.2	0.2						
AUDUSD	0.7275	-0.0063			-0.9	0.2	2.1	7.6						
GBPUSD	1.3280	-0.0070			-0.5	0.6	1.6	9.9						
USDCHF	0.9091	-0.0016			-0.2	0.0	-0.9	-7.9						
Next Meeting Date														
													Canada - BoC	Sep 09, 2020
													US - Fed	Sep 16, 2020
													England - BoE	Sep 17, 2020
													Euro zone - ECB	Sep 10, 2020
													Japan - BoJ	Sep 17, 2020
													Mexico - Banxico	Sep 24, 2020
													Australia - RBA	Oct 05, 2020
													New Zealand - RBNZ	Sep 22, 2020

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