

KEY POINTS:

- What the ECB giveth, tech earnings taketh?
- Lagarde: ALL options on the table in December...
- ...while existing purchase limits will be tailored to current needs
- US tech earnings beats offset by guidance, details
- US GDP lands on the screws
- US jobless claims register slower progress
- ECB SPF will provide private guidance to ECB forecasts
- GDP on tap: Eurozone, Canada, Mexico, HK
- Will Eurozone CPI follow Germany and Spain lower?
- US consumption should be strong in September...
- ...with incomes getting a boost...
- ...and core PCE expected to be soft
- BanRep expected to hold

TODAY'S NORTH AMERICAN MARKETS

What the ECB giveth, US tech taketh away? We'll have to see into the overnight market session and through tomorrow, but after ECB President Lagarde made it clear that multi-faceted easing will arrive at the December meeting this morning, US tech earnings in the after-market sapped some of the enthusiasm.

- Stocks closed mixed on the day with the S&P up by 1.2% and Toronto up ½%, while the FTSE100 and CAC40 were flat, the Dax was up by about ¼% and Spain fell 1%.
- The US Treasury curve bear steepened with 10s up 6bps and 2s flat. Italian and peripheral debt tightened over bunds in 10s by about 3–6bps post-ECB.
- The USD appreciated against almost all crosses and especially the euro and euro-related (Scandies, CHF) after the ECB announcements.
- Oil fell by over 3%. Gold was little changed following yesterday's drop.

The ECB statement ([here](#)) and President Lagarde's press conference made it clear that the central bank will be expanding stimulus at the December 10th meeting. The statement noted that "Governing Council will recalibrate its instruments" which is ECB code language for doing more but not just now as it left all stimulus programs unchanged. Lagarde did note that **the current implementation of the asset purchase programs would be adjusted to current market conditions** which suggests they may expedite purchases to influence market risk appetite as markets spend the next one and a half months debating exactly what the ECB may do next. Lagarde's press conference noted that Governing Council is in unanimous agreement that more needs to be done at the next meeting and that **this will involve looking at ALL instruments**. That's a hint that everything is on the table including an expansion of pre-existing asset purchase programs, an expansion of the crisis Pandemic Emergency Purchase Program, and a possible rate cut somewhere along the way. Lagarde dismissed questioning on the ECB's tolerance to alter its inflation

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Chart 1

Quarterly US Real GDP Growth

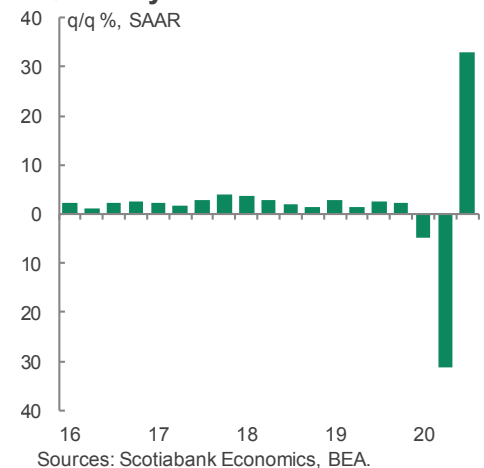
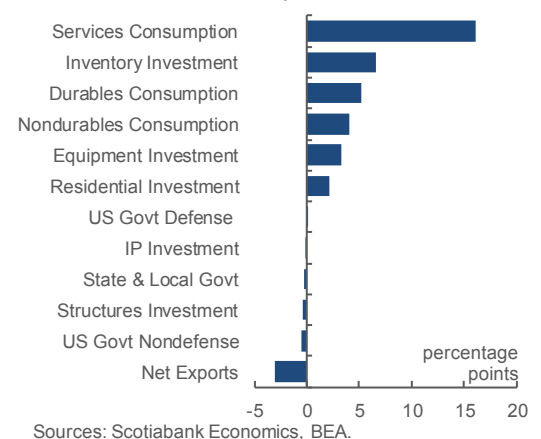


Chart 2

Contributions to Q3 US GDP Growth



goals including allowance of overshooting by stating “You’re a bit early, if I may say” in relation to the ongoing strategy review.

On tech earnings, it’s never enough apparently. **A round of strong Q3 tech earnings beats nevertheless failed to impress trading in the after-market in several cases due to guidance and momentum concerns.** Twitter smashed expectations (EPS US\$0.19, consensus US\$0.05) but registered only one million new users in Q3 after adding 20 million in Q2 which slammed the stock in the after-market. Facebook beat expectations (EPS US\$2.71 versus US\$1.91) but there were question marks surrounding high spending. Amazon beat (US\$12.37 versus US\$7.55) but operating income was viewed as soft. Apple beat expectations (US\$0.73 versus US\$0.70) but iPhone revenues were down and so were sales to China while no Q4 guidance was offered so the stock also got hit in the after-market.

US macro releases were of little consequence to markets. US GDP growth was pretty much on the screws at +33.1% q/q SAAR (32% consensus) with consumption up 40.7%. Trump was quick to point to the record rate of expansion but of course neglected to remind us of the record Q2 contraction of -31% (chart 1). A six percentage point contribution from inventories may have dented to quality, but it followed several quarters of inventory depletion. Chart 2 shows weighted contributions to Q3 GDP growth by source.

Weekly claims fell again to 751k from 791k the prior week. As chart 3 shows, however, the pace of change between nonfarm reference weeks has been sharply diminishing **which may point to a softer nonfarm payrolls report next Friday.**

OVERNIGHT MARKETS

Overnight releases through tomorrow are unlikely to be a major influence on markets.

Overnight releases will include private sector forecast guidance to the ECB’s forecasting exercises while a series of GDP figures may inform hand-off math into Q4. The only CB is BanRep that is expected to hold.

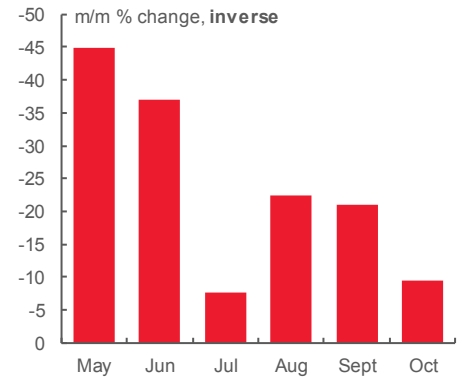
1. **The ECB’s Survey of Professional Forecasters (5amET)** will serve as freshened input into ECB forecasting exercises. It should provide a consensus ballpark set of expectations for where the ECB forecasts are likely to go in December.
2. **Eurozone CPI will likely only reinforce ECB pricing.** After Spain and Germany averaged out lower this morning, the new information will be whether France & Italy follow suit. France will release its CPI figures at 3:45amET. Inflation is expected to remain near zero in both m/m and y/y terms as food and accommodation prices soften under a rising case count. Italian CPI is scheduled to be released alongside the full Eurozone CPI flash estimate at 6am ET. While transitory factors like subdued oil prices and German VAT reductions have driven most of the disinflationary pressure across the Eurozone, the tourism industry is heading into the low season and COVID restrictions are returning. The result could be prolonged price disinflation well beyond the seasonal price decline seen in the travel industries.
3. **Each of the Eurozone (6amET), France (2:30amET), Germany (5amET), Italy (5amET), Spain (4:00amET) and Hong Kong (4:30amET) release Q3 GDP estimates and all are expected to post strong rebounds.** Also watch for how Q3 ended and handed off to Q4 for European consumers when German retail sales (3amET) and French consumer spending (2:30amET) land; both are expected to contract after strong prior gains which will be a weak hand-off for Q4 growth.

TOMORROW’S NORTH AMERICAN MARKETS

In addition to spillover from US tech earnings, a dominant market consideration into tomorrow is likely to be how PMs want to position their books going into the weekend ahead of the uncertain US election and with omnipresent covid-19 tape bombs. If you trust polls, then you trust what people admit to the pollsters, how the parties will mobilize voters on election day, and how it all translates through America’s funny handshake Electoral College which at this point is based on statistical models. Gosh, what could go wrong...

Chart 3

Change in US Initial Jobless Claims Between Non-Farm Reference Weeks



Note: Reference week defined as containing the 12th of each month.

Sources: Scotiabank Economics, US BLS.

North American data risk is likely to be low.

Canada updates monthly GDP figures (8:30amET). The value here is the hand-off effect in terms of what is baked into Q4 growth. That's because we get the preliminary headline September number to go along with August GDP with details. StatsCan has already provided advance guidance for a 1.0% m/m rise in August. I think September will continue positive momentum on the basis of the indicators we know so far which may assuage some Q4 concerns.

US consumer spending, incomes and inflation during September are due out at 8:30amET. A strong rise in consumption should follow the already known 1.9% m/m gain in retail sales including a 1.4% rise in the 'control group' that serves as input to consumption figures. We know from today's GDP release that Q3 core PCE rose by 3.5% q/q, missing expectations for a 4% rise. This also implies that September core PCE should register a 0.25% m/m decline, barring revisions to other months in the quarter. This is substantially lower than the 0.2% m/m consensus expectation and diverges from core CPI's 0.2% m/m growth in September. I suspect revisions will be a factor. We also expect personal income growth to rise modestly as government unemployment benefits expired the month prior.

BanRep is expected to hold its Overnight Rate Target at 1.75% tomorrow afternoon (2pmET). Inflation surprised higher in September, rising to 2% y/y—the bottom of BanRep's target inflation range. Bank communications have suggested that it will make all future decisions gradually in a wait-and-see approach. In addition, we expect officials to highlight the limited room left in the policy rate and their commitment to monetary stimulus for as long as appropriate.

Mexican Q3 GDP is expected to strongly rebound following five consecutive quarterly contractions.

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