

KEY POINTS:

- Stocks play defence, curve steepens anyway...
- ...as idiosyncratic factors counted for more than macro factors
- Brexit uncertainty, tech antitrust, ECB risk & vaccines ding risk
- Brazil's central bank stays on hold as expected
- ECB: how much will be good enough to markets?
- US inflation faces possible further downside tomorrow
- Markets shake off BoC ahead of speech

TODAY'S NORTH AMERICAN MARKETS

Stocks played a bit of defense today but not all for reasons having to do with the macro picture. Vaccine headlines didn't help as Pfizer advised people with allergies to the vaccine ingredients to pass on the shot and a data breach occurred at the European Medicines Agency that involved Pfizer's regulatory submission. Tech stocks sold off on an antitrust suit brought against Facebook. A massive oil inventory build in the US sparked volatility in oil prices as WTI initially lost a buck and then regained most of that. Markets quickly shook off the BoC's policy statement as a non-event (recap [here](#)). The thesis that the CUSMA/USMCA deal would not sweep aside trade irritants as sector files would remain hotly contested was somewhat validated as the US filed its first enforcement action under the agreement against Canada's dairy industry.

- The US S&P500 fell by about ¾% and the TSX dropped by ½%. Tech fared the worst with the Nasdaq down almost 2% and IT on the S&P down almost 6%. Europe was mixed with Paris down ¼% along with Milan, while the rest of Europe's bourses closed up as much as ½%.
- US and Canadian longer-term yields cheapened 1–2bps toward the longer end.
- WTI oil recovered after having lost a buck following a surge in US oil inventories (chart 1) to close little changed on the day.
- The USD recovered from earlier selling pressure to post a small gain mostly against the euro in weighted terms and ahead of the ECB as sterling and yen appreciated.

Brazil's central bank kept its Selic rate unchanged at 2% as universally expected. The full statement ([here](#))

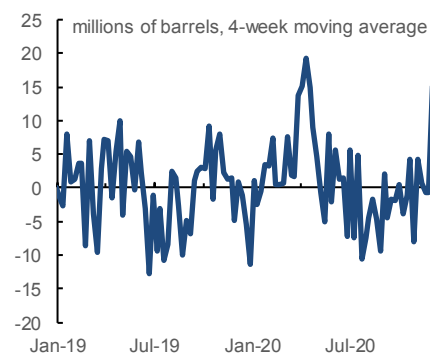
OVERNIGHT MARKETS

Whether Brexit talks bust up or continue may inform risks into the ECB decisions in the morning. Possible remarks following the working dinner between UK PM Johnson and EC President von der Leyen could arrive at any moment as this publication is being distributed.

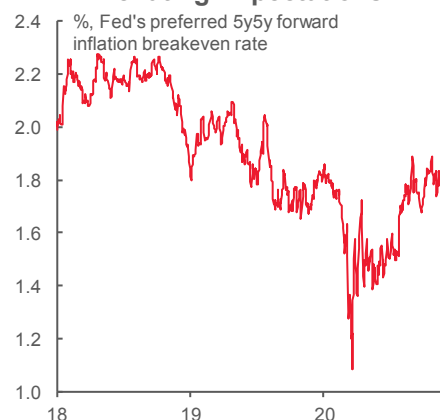
CONTACTS

Derek Holt, VP & Head of Capital Markets Economics
 416.863.7707
 Scotiabank Economics
derek.holt@scotiabank.com

Evan Andrade, Economic Analyst
 416.862.3080
 Scotiabank Economics
evan.andrade@scotiabank.com

Chart 1
Weekly U.S. Crude Inventory Changes


Source: Scotiabank Economics, Bloomberg, U.S. Department of Energy.

Chart 2
Reflating Expectations


Sources: Scotiabank Economics, Bloomberg.

Independent of Brexit, multiple measures may be more likely from the ECB given the advance hype starting in October and up to recently about reconsidering everything. The statement arrives at 7:45amET followed by President Lagarde's press conference at 8:30amET. Keys are what they do to the PEPP and TLTRO-III with widespread expectations they extend and expand both. Doing just one could disappoint. Length of extensions and magnitudes are uncertain but unofficial guidance was toward a one-year PEPP extension at "at least" the middle of 2022. With vaccines on the way, one point of debate would be whether utilization of whatever they announce would push to the maximum potential sizes of the facilities.

Other overnight developments through to tomorrow will include:

- Norway's CPI inflation rate for November is expected to be unchanged from 1.7% y/y (2amET);
- UK macro reports at 2amET will cover the month of October for GDP, industrial output, the monthly services index and trade. Being for October and given Brexit risks ahead of next week's Bank of England it'll be a tough sell for markets to care about backward data.
- France updates October industrial output (2:45amET). See line above.
- Sweden CPI for November (3:30amET). Little change from 0% y/y is expected.

TOMORROW'S NORTH AMERICAN MARKETS

The North American calendar will focus upon jobless claims, US CPI, the monthly US Treasury budget results and the follow-on speech by BoC Deputy Governor Beaudry.

Initial claims expectations are mixed with consensus at 725k (prior 712k) and Scotia at 700k (8:30amET).

US CPI for November (8:30amET) is expected to be little changed. I went down a tick to 1.1% y/y with the month-ago rate up a tick to 0.1% m/m due to seasonals, gas and jumping off points. Core is expected to be flat at 1.6% but I went down a tick. Markets are likely to treat it as an historical footnote given the rise in forward-looking inflation expectations (chart 2).

BoC Deputy Governor Beaudry will speak on "Our quantitative easing operations: looking under the hood" with the speech and highlights available at 1:30pmET.

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.	0.15	0.15	0.16	0.40	0.39	0.42	0.94	0.92	0.94	1.68	1.66	1.69	Canada - BoC	0.25
CANADA	0.28	0.27	0.27	0.48	0.47	0.47	0.75	0.74	0.76	1.30	1.28	1.28	US - Fed	0.25
GERMANY	-0.77	-0.77	-0.72	-0.79	-0.79	-0.72	-0.61	-0.61	-0.52	-0.18	-0.19	-0.11	England - BoE	0.10
JAPAN	-0.12	-0.12	-0.12	-0.11	-0.11	-0.10	0.02	0.02	0.03	0.63	0.64	0.66		
U.K.	-0.08	-0.08	-0.03	-0.04	-0.04	0.03	0.26	0.26	0.35	0.81	0.80	0.92		
Spreads vs. U.S. (bps):														
CANADA	13	12	11	7	7	5	-18	-18	-18	-39	-38	-41	Euro zone - ECB	0.00
GERMANY	-92	-93	-88	-120	-119	-113	-154	-153	-146	-186	-185	-179	Japan - BoJ	-0.10
JAPAN	-27	-27	-28	-52	-51	-52	-91	-90	-91	-106	-103	-103		
U.K.	-23	-23	-19	-44	-43	-39	-68	-66	-58	-88	-86	-77		
Equities	Level						% change:							
	Last			Change			1 Day	1-wk	1-mo	1-yr				
S&P/TSX	17560			-79.1			-0.4	1.2	6.6	3.6			Australia - RBA	0.10
Dow 30	30069			-105.1			-0.3	0.6	3.1	7.7				
S&P 500	3673			-29.4			-0.8	0.1	3.4	17.1			New Zealand - RBNZ	0.25
Nasdaq	12339			-243.8			-1.9	-0.1	5.3	43.1				
DAX	13340			61.8			0.5	0.2	1.9	1.8				
FTSE	6564			5.5			0.1	1.6	6.1	-9.3				
Nikkei	26818			350.9			1.3	0.1	7.7	14.6			Canada - BoC	Dec 09, 2020
Hang Seng	26503			198.3			0.8	-0.1	0.8	0.3			US - Fed	Dec 16, 2020
CAC	5547			-13.9			-0.2	-0.6	3.9	-5.0				
Commodities	Level						% change:							
WTI Crude	45.70			0.10			0.2	0.9	13.4	-22.6			England - BoE	Dec 17, 2020
Natural Gas	2.42			0.02			1.0	-12.8	-15.3	8.6				
Gold	1839.65			0.11			0.0	-0.1	-2.0	25.6			Euro zone - ECB	Dec 10, 2020
Silver	24.48			0.73			3.1	4.0	-5.1	44.5				
CRB Index	158.92			0.64			0.4	-0.3	5.1	-12.3			Japan - BoJ	Dec 18, 2020
Currencies	Level						% change:							
USDCAD	1.2818			0.0002			0.0	-0.3	-1.6	-3.1			Mexico - Banxico	Dec 17, 2020
EURUSD	1.2083			0.0002			0.0	-0.5	2.3	8.9				
USDJPY	104.23			0.0000			0.0	0.4	-1.0	-4.1			Australia - RBA	Feb 01, 2021
AUDUSD	0.7443			-0.0004			-0.1	0.1	2.2	9.3				
GBPUSD	1.3395			-0.0004			-0.0	-0.4	0.9	1.8			New Zealand - RBNZ	Feb 23, 2021
USDCHF	0.8892			-0.0001			-0.0	-0.2	-2.9	-9.7				

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