KEY POINTS:

- **Landing on Santa's naughty list reins in equity shorts**
- **And other more boring alternative explanations...**
- **…like Brexit and fish, US stimulus, WHO reassurances**
- **Ontario shuts down economy again**
- **US Q3 GDP revisions could slightly inform the hand-off to Q4**
- **US consumer confidence might have edged higher**
- **US home resales, Richmond on tap**

TODAY'S NORTH AMERICAN MARKETS

Maybe fear of landing on Santa's naughty list reined in equity shorts as the day went on. What started off as a bigger round of equity losses this morning when the S&P500 was down 2% from Friday's close began to turn around by about 10:30amET such that the S&P500 ended only modestly lower. European exchanges generally followed a similar pattern but closed down by more than the S&P.

Catalysts for the diminished selling over the day may have included possible movement on the fishy issues holding up Brexit talks, the finalization of the US stimulus bill's text and when the WHO came in and said there are no clear signs that virus mutations will cause a more severe disease or changed diagnostics or vaccine efficacy as testing trials set out to test this.

- The S&P500 ended down 0.4% with Toronto off by under ¼%. European exchanges closed down by between 1 ¾% (London) and about 3% (Spain). Recall that when this morning's note was put out US, Canadian and European stocks were generally tracking bigger sell-offs.

- Ditto for sovereign bonds as they still rallied on the day, but generally reined in the magnitudes. For example, US 10s ended about 1bp lower (instead of 5bps this morning).

- The USD offered a similar picture. After hitting peak weakness with a decline of 1.2% on a DXY basis by around 5:30amET, the dollar then rallied to close only ¼% lower.

- And the same logic spills over into oil markets as the earlier 4% sell-off slightly diminished into the close with losses in Brent and WTI of about 3%. Gold still treaded water.

The Ontario government is the latest to extend aggressive lockdowns (details here). The widening in 10 year spreads today was comparable to Quebec and consistent with a general global risk-off tone (chart 1). At home and abroad, it's unfortunate that with the better part of a full year for individuals to take preventative measures and governments to plan for second and potentially subsequent waves that it has come to this again notwithstanding heroic front-line and stimulus measures. Key this time around is that schools will be shut again as elementary schools will close for at least one week until January 11th

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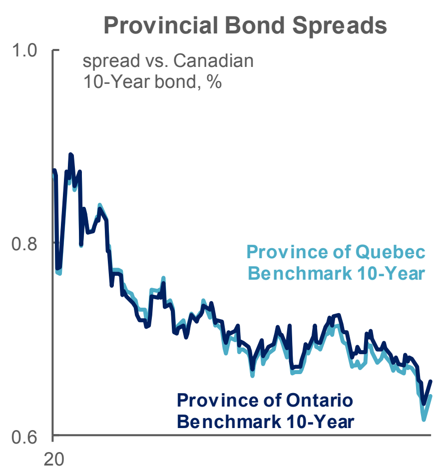
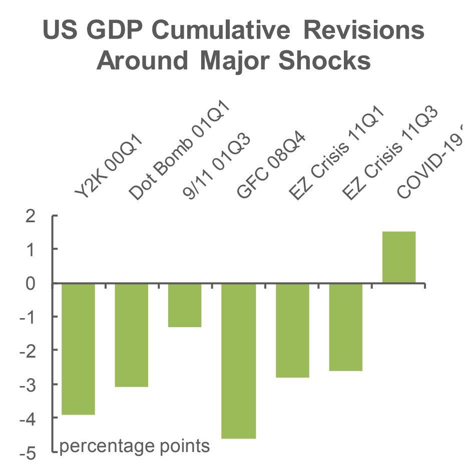
Chart 1



Source: Scotiabank Economics, Bloomberg.

Chart 2



Sources: Scotiabank Economics, BEA.

and secondary schools will shut for a month. That is much less of a shock to the job market than back in the Spring when the kids were sent to on-line learning from March through June, but it is still going to carry negative consequences for the December and January job markets and especially for mothers given the experience to date. Parents with younger children may be able to adapt to a short-lived closure of in-person learning at elementary schools, but the risk of extensions to this guidance—given the pattern to date—is going to magnify uncertainty with respect to the ability to retain employment or hire new employees. Ditto for the closure of before—and after-school programs. The impact of shutting secondary schools depends on many individual considerations but a full month won't be costless. Those who have already shifted to work from home may adapt easier than those for whom this option is not possible.

At this tentative stage, the lock downs and school closures will add downside to the way Q4 GDP ends as an offset to the positive tracking to date and set up a poor start to Q1 and the full-year GDP math. With the information we have to go by so far, the effects are likely to be transitory as activity picks up again in subsequent periods. They should be far less severe than in Q2 if the lock downs are more transitory and given the growth in work from home options, heavy tech spending, a more aggressive push into on-line sales, greater experience with curbside pick-up and home delivery and established support programs to replace a part of lost income especially for lower wage earners. There may be brought-forward price discounting into the final holiday shopping season and through more aggressive discounting ahead of Boxing Day when stores will now have to shut other than for on-line and curbside sales.

OVERNIGHT MARKETS

Nothing material to global markets is due out overnight, just Australian retail sales for November (7:30pmET). Brexit negotiations will continue with possible movement on the fish dispute that is holding thing's up.

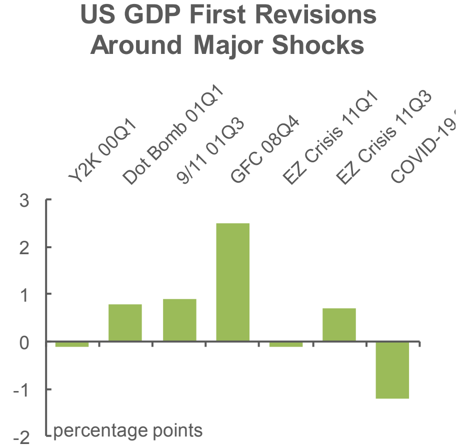
TOMORROW'S NORTH AMERICAN MARKETS

A sprinkling of US releases will provide a bit of variety. The US House and Senate votes on stimulus and funding bills face uncertain timing into this evening before they go to outgoing President Trump's desk for his signatures (they only just released the full 5½ thousand pages of text by about mid-afternoon).

No material revision is expected to US Q3 GDP (8:30amET) as the final services spending tally gets incorporated into the final revision. Remember that the US releases advance, then second and then final quarterly GDP estimates. Tomorrow's is the final. That doesn't mean there *will not* be a further revision as they are pretty common around major shocks and in general. Chart 2 shows the cumulative revisions to US GDP growth from initial print to final around major recent shocks. Chart 3 shows the magnitude of the first revisions around these shocks. Chart 4 is the one that is pertinent to tomorrow's release and it shows that revisions can still be material in the final round. Of course revision risk in percentage terms should perhaps be viewed in proportionate terms given the magnitude of the shock this year.

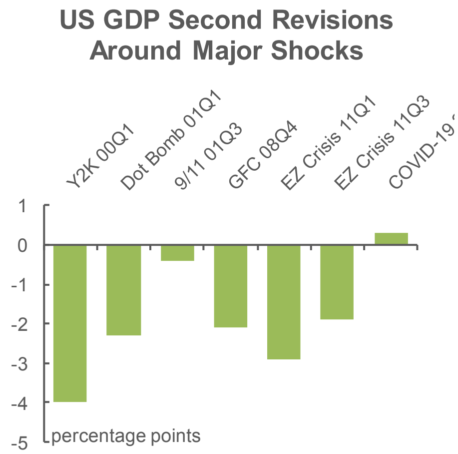
The Conference Board's consumer confidence measure for December (10amET) might get a lift from vaccines like the UofM sentiment gauge did, but near-term forward-looking risks may discount its relevance. Existing home sales during November probably slipped on the basis of softer tracking of pending home sales that show up as completed resales within 30–90 days. The Richmond Fed's manufacturing gauge will probably follow the Philly and Empire metrics lower (10amET).

Chart 3



Sources: Scotiabank Economics, BEA.

Chart 4



Sources: Scotiabank Economics, BEA.

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.	0.12	0.12	0.12	0.38	0.38	0.36	0.93	0.95	0.89	1.67	1.69	1.63
CANADA	0.23	0.24	0.25	0.44	0.45	0.44	0.73	0.75	0.72	1.28	1.30	1.28
GERMANY	-0.74	-0.73	-0.77	-0.75	-0.74	-0.80	-0.58	-0.57	-0.62	-0.18	-0.16	-0.21
JAPAN	-0.13	-0.12	-0.13	-0.12	-0.12	-0.12	0.01	0.01	0.01	0.64	0.63	0.63
U.K.	-0.11	-0.08	-0.09	-0.08	-0.04	-0.06	0.21	0.25	0.22	0.75	0.81	0.76
	Spreads vs. U.S. (bps):											
CANADA	11	12	14	6	7	9	-21	-20	-18	-39	-39	-35
GERMANY	-86	-85	-89	-113	-113	-116	-151	-152	-151	-185	-185	-184
JAPAN	-25	-25	-24	-50	-50	-48	-92	-94	-88	-104	-106	-100
U.K.	-23	-21	-21	-46	-42	-42	-73	-70	-67	-92	-89	-87

Equities	Level		% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	17501	-33.7	-0.2	0.7	2.8	2.2
Dow 30	30216	37.4	0.1	1.2	3.3	6.2
S&P 500	3695	-14.5	-0.4	1.3	3.9	14.7
Nasdaq	12743	-13.1	-0.1	2.4	7.5	42.8
DAX	13246	-384.2	-2.8	0.2	0.8	-0.5
FTSE	6416	-112.9	-1.7	-1.8	1.0	-15.4
Nikkei	26714	-49.0	-0.2	-0.1	4.7	12.2
Hang Seng	26307	-191.9	-0.7	-0.3	-0.5	-5.6
CAC	5393	-134.5	-2.4	-2.4	-1.9	-10.4
Commodities	Level		% change:			
WTI Crude	47.74	-1.36	-2.8	1.6	13.3	-21.0
Natural Gas	2.70	0.00	0.0	0.7	1.9	16.0
Gold	1876.90	0.01	0.0	1.3	0.3	27.0
Silver	25.82	0.08	0.3	8.4	6.2	51.9
CRB Index	164.83	-1.63	-1.0	1.6	5.5	-10.9
Currencies	Level		% change:			
USDCAD	1.2852	-0.0005	-0.0	1.2	-1.8	-2.3
EURUSD	1.2237	-0.0007	-0.1	0.7	3.3	10.4
USDJPY	103.32	0.0000	0.0	-0.3	-1.1	-5.6
AUDUSD	0.7583	-0.0004	-0.1	0.3	4.1	9.5
GBPUSD	1.3465	0.0001	0.0	0.0	1.1	4.1
USDCHF	0.8861	0.0004	0.0	0.0	-2.9	-9.8

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	4.25
Australia - RBA	0.10
New Zealand - RBNZ	0.25
Next Meeting Date	
Canada - BoC	Jan 20, 2021
US - Fed	Jan 27, 2021
England - BoE	Feb 04, 2021
Euro zone - ECB	Jan 21, 2021
Japan - BoJ	Jan 21, 2021
Mexico - Banxico	Feb 11, 2021
Australia - RBA	Feb 01, 2021
New Zealand - RBNZ	Feb 23, 2021