

ON DECK FOR FRIDAY, JULY 5

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	07/05	08:30	Employment (000s m/m)	Jun	0	9.9	27.7
CA	07/05	08:30	Unemployment Rate (%)	Jun	5.5	5.5	5.4
US	07/05	08:30	Average Hourly Earnings (m/m)	Jun	0.2	0.3	0.2
US	07/05	08:30	Average Hourly Earnings (y/y)	Jun	3.1	3.2	3.1
US	07/05	08:30	Average Weekly Hours	Jun	--	34.4	34.4
US	07/05	08:30	Nonfarm Employment Report (000s m/m)	Jun	100	160.0	75.0
US	07/05	08:30	Unemployment Rate (%)	Jun	3.6	3.6	3.6
US	07/05		Household Employment Report (000s m/m)	Jun	--	--	113.0

KEY POINTS:

- **Markets await nonfarm payrolls**
- **Nonfarm: mean reversion or another downside?**
- **CDN jobs: spin the wheel, mop up the aftermath**
- **Germany's economy is clearly troubled...**
- **...as factory orders plunge...**
- **...and add to the disturbing industrial and export picture...**
- **...while reinforcing expectations for ECB easing...**
- **...while Trump's currency manipulation charge rings hollow**

INTERNATIONAL

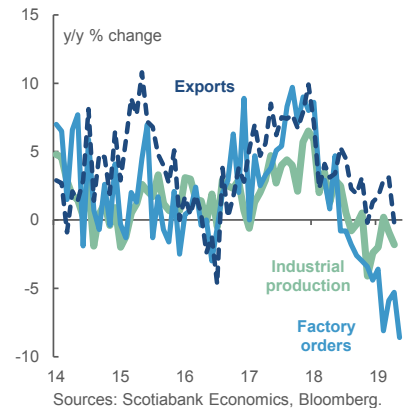
Global markets are bracing for a potential rebound in nonfarm payrolls in such fashion as to price in modestly reduced odds of near-term Fed easing. We'll see. For now, stocks are slightly lower, bond yields are reverting slightly higher and the USD is broadly stronger. German factory orders were miserably weak and add to the case for ECB easing. Canada also releases jobs for June this morning.

- The USD is appreciating ahead of nonfarm payrolls this morning. The dollar is up against almost all major and semi-major crosses. Positioning may therefore leave the dollar somewhat more vulnerable to a downside surprise than a consensus match. The euro is among the depreciating crosses on the back of soft German data (see below).
- Sovereign bond yields are under mild upward pressure across most major markets. The US Treasury curve is up by about 2bps through the front-end which dissipates slightly at the long end. Canada's curve is performing roughly similarly ahead of its own jobs report. European government bond yields are up somewhat despite soft German data as they're watching payrolls as the more significant potential swing factor.
- Oil prices are mixed. WTI is off half a buck but Brent is up a bit. Again, let's just wait for nonfarm and with gold little changed so far.
- US equity futures are slightly negative with losses of about ¼% across exchanges. They too are likely assuming a payrolls rebound that may dampen July cut expectations. TSX futures are performing similarly as are most European cash markets.

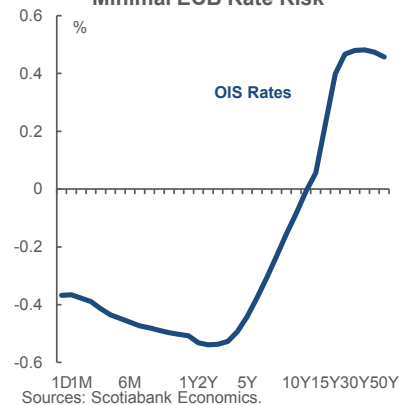
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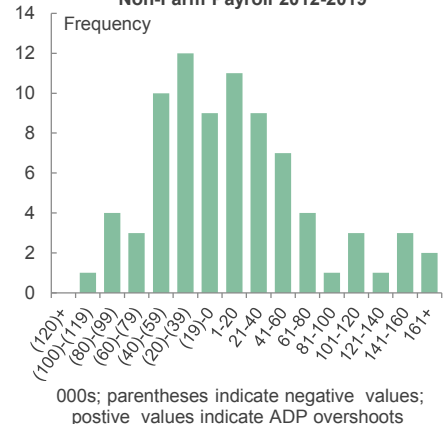
Germany's Troubled Economy



Eonia Curve is Pricing Minimal ECB Rate Risk



Differences Between Initial ADP And Private Non-Farm Payroll 2012-2019



Germany's economy is clearly in trouble. German factory orders plunged in May. They fell by -2.2% m/m (consensus - 0.2%, prior revised up a tick to 0.4%). After a couple of months of modest growth, we're back to readings that are similar to what was being registered at the start of the year when orders fell by 2.1% in January and 3.9% in February. The accompanying chart depicts how rapidly factory orders are falling along with weakness in industrial production and exports. The euro depreciated following the German release on intensified speculation toward ECB easing as reflected in this morning's Eonia (Euro Overnight Index Average) curve that measures expectations for the one day interbank rate within the eurozone. Now, if your economy is in freefall and a big part of the reason is the damage to world trade done by protectionist and belligerent US trade policy, then of course one would contemplate easing monetary policy. Trump calls that currency manipulation. Markets call it sensible.

CANADA

Canada's job change for June (8:30amET) is expected to land at 10k according to consensus and the range runs from -45k to +35k.

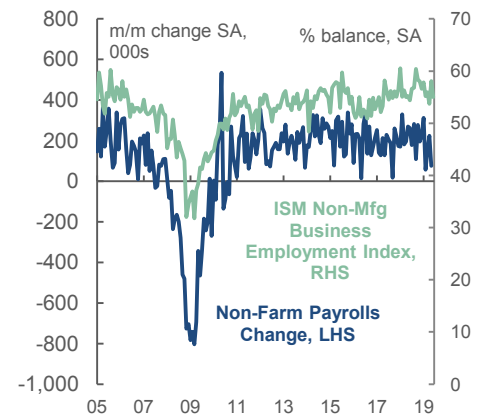
The 95% confidence interval attached to the monthly estimate of the change in job growth derived from the Labour Force Survey is +/- 54,400. Enough said. Unless there are technical distortions, walk away from anyone preaching outlier estimates on this survey with high confidence. The trend is your friend with LFS but the monthly gyrations along that trend in the survey of households is often more about statistical noise more than anything else. It still amazes me that Canada—less than a tenth of the size of the US workforce—can't seem to jointly release its household and payroll surveys. StatsCan's survey of payroll employment presently only runs up to April and we don't get May's figures until July 25th. In the meantime, we have a noisy household survey that depends upon households accurately disclosing their working conditions through self-reporting rather than harder payroll data.

UNITED STATES

Partly because of a +/- 110,000 90% confidence interval, all one can ever really do with a nonfarm payrolls report (8:30amET) is wait and sometimes weep. While you wait, here are a few suggested points for consideration. In general, I've gone low on both nonfarm and wage growth.

- the range of consensus estimates for the change in payrolls runs from 100k to 220k with a median call for 160k;
- What goes down must go up is about as sophisticated as the consensus call gets and who knows, that may be the right approach after the 75k reading the prior month. Relying upon mean reversion, however, will have one always missing turning points including slope shifts to signal softer growth and, at the extreme, recessions;
- However, I've gone to the low end of consensus for a few reasons;
- One reason is that confidence effects stemming from Trump's Mexican stand-off and the deterioration in the US-China trade dialogue could have had a peak influence upon hiring confidence in the period leading up to the nonfarm reference period which is the pay period that includes the 12th of each month. Anything that happened to hiring confidence after that won't matter in this morning's estimate;
- Don't look to measures like initial claims or Challenger job cuts for positive signals given they were fairly well behaved last month. They don't measure gross or net hiring. They measure firings and employment insurance applications.
- ADP delivered another warning shot this month (102k) but consensus doesn't typically revise nonfarm estimates after ADP. That's usually because ADP can throw false signals, but the probability of throwing a false signal is lower around outliers. ADP is a private payroll measure, so it aligns with nonfarm private payrolls and not the sister household survey;

Nonfarm Vs. ISM-Employment



Sources: Scotiabank Economics, ISM, BLS.

- As the accompanying chart demonstrates and as explained [here](#), there is a 78% chance that nonfarm will land at 160k or lower today following the ADP reading at 102k. A nonfarm reading over 200k after ADP landed at 102k would be a spread that would be pretty much unprecedented over the period since ADP revised its methodology to more closely follow nonfarm starting in October 2012.
- Also explained in that note is the rough correlation between nonfarm payrolls and ISM-employment that fell (see chart).
- Another reason for soft payrolls is that there were fewer than normal working days in the lead up to the reference period this past June. There were just eight working days by the 12th of June. Whether this is adequately controlled through seasonal adjustments is often uncertain but could impact hiring and hours worked;
- Focus upon private payrolls by casting aside the effects of temporary Census-related hiring on total nonfarm payrolls.
- I've estimated wage growth at 3.1% y/y which would be unchanged and a tick below consensus. The motivation is that a fairly typical seasonal gain for a month of June and the shift in year-ago base effects would drive unchanged wage growth.

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		
	1.79	1.76	1.76	1.76	1.73	1.77	1.97	1.95	2.01	2.48	2.47	2.53	Canada - BoC	1.75
	1.55	1.52	1.47	1.45	1.42	1.39	1.50	1.47	1.46	1.68	1.66	1.68	US - Fed	2.50
	-0.75	-0.76	-0.75	-0.64	-0.65	-0.66	-0.39	-0.40	-0.33	0.21	0.20	0.27		
	-0.21	-0.22	-0.22	-0.25	-0.25	-0.26	-0.16	-0.16	-0.16	0.34	0.34	0.36		
	0.52	0.51	0.62	0.50	0.49	0.63	0.69	0.68	0.83	1.33	1.31	1.47	England - BoE	0.75
	Spreads vs. U.S. (bps):													
	-24	-24	-28	-30	-31	-38	-47	-48	-54	-79	-81	-85	Euro zone - ECB	0.00
	-254	-252	-251	-240	-239	-243	-235	-235	-233	-227	-227	-227		
-200	-198	-197	-200	-198	-202	-212	-211	-216	-214	-212	-217	Japan - BoJ	-0.10	
-126	-125	-114	-126	-125	-114	-128	-127	-117	-115	-116	-106			
Equities	Level					% change:								
	Last	Change				1 Day	1-wk	1-mo	1-yr					
S&P/TSX	16589	12.6				0.1	1.7	2.3	2.0	Australia - RBA 1.00				
Dow 30	26966	179.3				0.7	1.6	6.4	11.5					
S&P 500	2996	22.8				0.8	2.8	6.9	10.4	New Zealand - RBNZ 1.50				
Nasdaq	8170	61.1				0.8	3.3	8.5	8.9					
DAX	12588	-41.7				-0.3	1.5	5.1	1.0					
FTSE	7580	-23.6				-0.3	2.1	5.0	-0.3	Next Meeting Date				
Nikkei	21746	43.9				0.2	2.2	4.7	0.9	Canada - BoC Jul 10, 2019				
Hang Seng	28775	-20.9				-0.1	0.5	7.0	2.1	US - Fed Jul 31, 2019				
CAC	5602	-18.6				-0.3	1.1	5.9	4.4					
Commodities	Level					% change:								
WTI Crude	56.89	-0.45				-0.8	-4.3	10.1	-22.0	England - BoE Aug 01, 2019				
Natural Gas	2.32	0.02				1.1	-0.4	-2.6	-18.4					
Gold	1412.03	-4.06				-0.3	0.2	6.1	12.3	Euro zone - ECB Jul 25, 2019				
Silver	15.28	-0.03				-0.2	0.2	3.8	-4.8					
CRB Index	180.03	-0.45				-0.2	-1.3	2.6	-8.8	Japan - BoJ Jul 30, 2019				
Currencies	Level					% change:								
USDCAD	1.3066	0.0013				0.1	-0.2	-2.6	-0.5	Mexico - Banxico Aug 15, 2019				
EURUSD	1.1259	-0.0026				-0.2	-1.0	0.3	-3.7					
USDJPY	108.13	0.3100				0.3	0.3	-0.3	-2.3	Australia - RBA Aug 06, 2019				
AUDUSD	0.7013	-0.0009				-0.1	-0.1	0.6	-5.1					
GBPU\$D	1.2551	-0.0028				-0.2	-1.1	-1.1	-5.1	New Zealand - RBNZ Aug 06, 2019				
USDC\$H\$F	0.9879	0.0029				0.3	1.2	-0.7	-0.5					

Source: Bloomberg. All quotes reflect Bloomberg data as at the time of publishing. While this source is believed to be reliable, Scotiabank cannot guarantee its accuracy.

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