

ON DECK FOR TUESDAY, JULY 30

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	07/30	08:30	PCE Deflator (m/m)	Jun	0.1	0.1	0.2
US	07/30	08:30	PCE Deflator (y/y)	Jun	1.4	1.5	1.5
US	07/30	08:30	PCE ex. Food & Energy (m/m)	Jun	0.2	0.2	0.2
US	07/30	08:30	PCE ex. Food & Energy (y/y)	Jun	1.7	1.7	1.6
US	07/30	08:30	Personal Spending (m/m)	Jun	0.3	0.3	0.4
US	07/30	08:30	Personal Income (m/m)	Jun	0.3	0.4	0.5
US	07/30	09:00	S&P/Case-Shiller Home Price In	May	--	0.2	0.0
US	07/30	09:00	S&P/Case-Shiller Home Price In	May	--	2.4	2.5
US	07/30	10:00	Consumer Confidence Index	Jul	125	125.0	121.5
US	07/30	10:00	Pending Home Sales (m/m)	Jun	-0.5	0.5	1.1

KEY POINTS:

- Global markets in risk-off mode on trade policy concerns
- Trump slaps China again...
- ...adding to negative trade policy remarks since Friday...
- ...which means it must be the start of the FOMC meeting!
- Eurozone inflation, growth and confidence readings deteriorate
- Will US core PCE inflation continue to recover?
- Upside risk to US consumer spending?
- BoJ sounds more open to adding stimulus
- US consumer confidence expected to rebound
- This is not a stand-out year for Canadian job growth
- Canada quiet

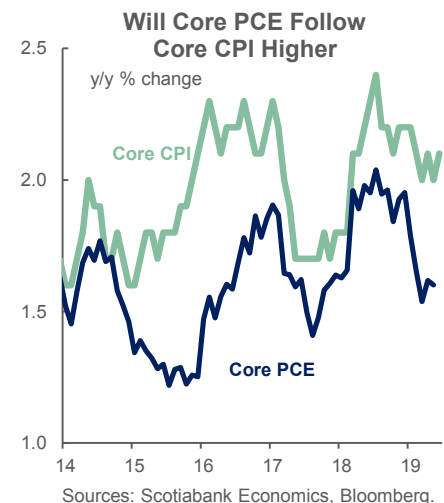
INTERNATIONAL

Global markets are in a risk-off frame of mind so far this morning as negative trade policy sentiment once again surfaces. As the Fed's two-day meeting commences ahead of tomorrow's decisions, the focal points include more negative China/trade tweets by Trump, top shelf US releases on inflation and consumer spending that may favour less dovish FOMC perspectives, the Bank of Japan's increased openness toward doing more, and a series of soft Eurozone readings on inflation, growth and confidence. Canada remains quiet until tomorrow's GDP and Friday's trade as the only relevant releases on the week.

- Currency safe havens like the yen and Swiss franc are appreciating versus the USD and all other crosses this morning. The USD is otherwise gaining ground on crosses like sterling and the A\$/NZ\$ while the euro, CAD and Mexican peso are little changed.
- Sovereign bond yields are mixed. US Treasury yields are down by about 2bps across the curve while Canadian bond yields are down by about 1bp. Yields on gilts are down about 2bps through to 10s. Eurozone debt yields are little changed in France and Germany while Italian debt spreads are about 6bps wider over bunds in 10s.

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- US equity futures are down by about ½% on average across the exchanges. TSX futures are performing similarly. European cash markets are down by up to 2.2% in the case of the Dax, 1.5% in Paris and 2% in both Madrid and Milan. The FTSE100 is down by only 0.2%.
- Oil prices are rallying with WTI and Brent both up by about half a buck this morning ahead of the private US oil inventory figures later today and tomorrow's government report.

The ECB is digesting three soft, dovish sets of readings so far this morning with one key metric still pending.

German inflation eased to 1.1% (1.5% prior, 1.2% consensus) on an EU-harmonized basis. That's the weakest reading since November 2016. Individual German states registered softer headline inflation but the national add-up and what it reveals by way of influences upon core CPI at 8amET will be key. One state's inflation rate fell by three-tenths to 1.5% y/y (Brandenburg), one state (Saxony 1.6%) fell by two-tenths, three states (Baden Wuerttemberg 1.7%, Bavaria 1.7%, Hesse 1.4%) fell by a tick and one state (North Rhine Westphalia) was unchanged at 1.7%.

France's economy decelerated a touch more than expected in Q2. GDP grew by only 0.2% q/q and 1.3% y/y, both a tick softer than consensus. Quarter-ago growth is the weakest since Q2 of last year. Consumption was up by just 0.2% q/q at a seasonally adjusted by non-annualized rate. Total investment grew by a respectable 0.9% as business investment grew 1.2% and public investment was up 0.8%. Exports grew by only 0.2% and imports were up 0.1% such that net trade was a marginal contributor to overall growth. Total government spending grew by 0.4% which was the strongest growth rate since 2017Q3.

Last, they don't garner a whole lot of attention from markets, but Eurozone confidence readings slipped. Depending upon the metric, confidence is at the lowest in about 2–6 years with industry gauges performing the worst. Overall economic confidence fell slightly and sits at the lowest reading since March 2016. Industrial confidence also slipped again and is at its lowest since July 2013. Services confidence also slipped and is at its weakest since September 2016. Consumer confidence was unchanged and is trending sideways so far this year around readings that take us back to early 2017.

The Bank of Japan left all policy variables unchanged and revised forecasts generally as expected, but the bias opened the door toward doing something further at a future meeting. On the bias, Governor Kuroda flatly stated that he is "more positive" toward additional easing and that "The meaning behind that is that risks are on the rise, especially surrounding overseas economies. Under that situation, that may spread to Japan's economy and prices." In the meantime, the BoJ marginally revised down its growth projections to 0.7% y/y GDP growth this year (0.8% prior), left 2020 at 0.9% y/y and revised 2021 down a tick to 1.1%. The Core CPI forecast was also revised marginally lower to 1.0% y/y this year (1.1% prior), 1.3% in 2020 (1.4% prior) and 1.6% in 2021 (unchanged).

Buried behind the BoJ was some pretty bleak data. Industrial output fell by 3.6% m/m which was double the consensus estimate for the decline. That was the fourth largest monthly drop since the GFC. In year-ago terms, output is down by 4.1% and the rate of decline is trending around its weakest since 2016.

UNITED STATES

Trump is tweeting bad things about trade. It must be day one of the two day FOMC meeting! An emboldened Trump is pretty clearly trying to bully the Fed into easing with his remarks on trade since late last week. It's also about jockeying for position as trade negotiations start up again in China today and tomorrow with Treasury Secretary Mnuchin and USTR Lighthizer leading a delegation and perhaps reporting back on a lack of early progress to motivate Trump's tweets. Since Friday, Trump has threatened tariffs on French wine, threatening to seek an end to China's developing economy status at the WTO and now this:

"China is doing very badly, worst year in 27—was supposed to start buying our agricultural product now—no signs that they are doing so. That is the problem with China, they just don't come through. Our Economy has become MUCH larger than the Chinese Economy is last 3 years. My team is negotiating with them now, but they always change the deal in the end to their benefit. They should probably wait out our Election to see if we get one of the Democrat stiffs like Sleepy Joe. Then they could make a GREAT deal, like in past 30 years, and continue to ripoff the USA, even bigger and better than ever before. The problem with them waiting, however, is that if & when I win, the deal that they get will be much tougher than what we are negotiating now...or no deal at all. We have all the cards, our past leaders never got it!"

Will core PCE inflation continue to rise off of its March bottom? That's among the main market risks this morning. Given that core CPI inflation increased to 2.1% when it came out on July 11th, core PCE inflation could also rise a tick to 1.7% this morning as the main logic behind consensus expectations (see chart). If that happens, it would be the second up-tick from the low point of 1.5% that was set in March. That, in turn, would fan the perspective that earlier softness was transitory and it would support the less dovish members of the FOMC. To wit, read Bill Dudley's piece on the Fed on Bloomberg today; I have a lot of sympathy toward his views.

There may also be upside risk to consumer spending for June (8:30amET). Consensus expects 0.3% m/m but recall that the retail sales control group was up by 0.7% m/m when it was released on July 16th. The income and spending figures will also reveal how revisions contributed to monthly changes in income growth and the saving rate. Recall that the Q2 GDP accounts registered an upward revision to the saving at 8.1%. That's about four times higher than it was during the boom years of the mid-2000s before the wheels fell off. How a recession results from zero evidence of strained household finances given this saving rate and record low debt payments as a share of incomes continues to escape me.

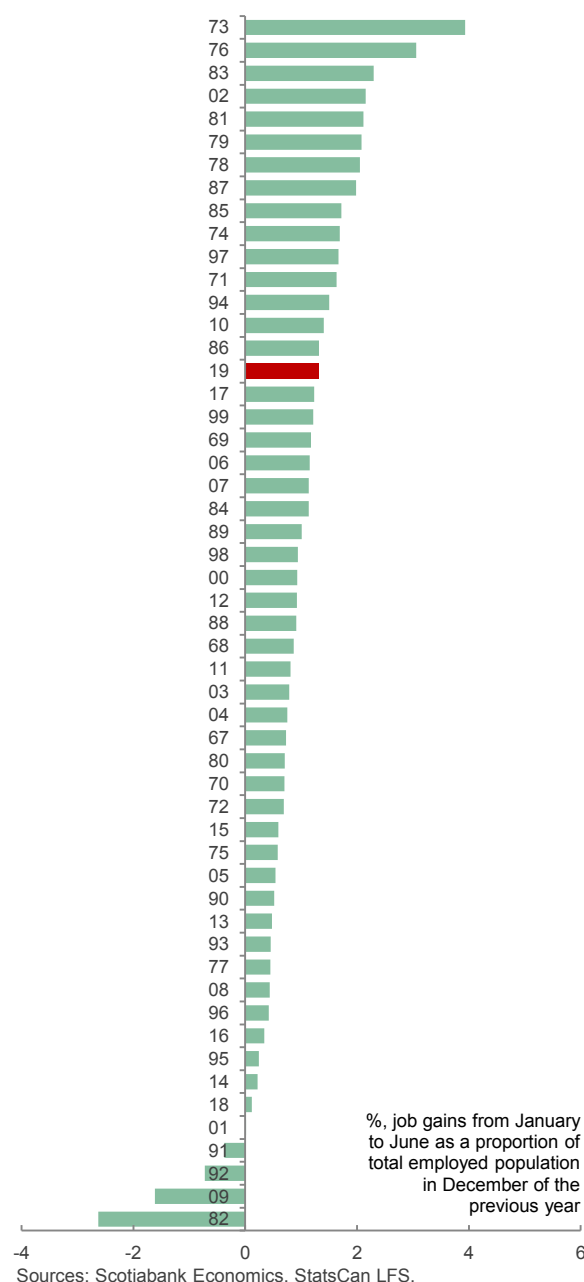
The Conference Board's US consumer confidence metric also gets updated with a July reading this morning and it is expected to rebound from the drop that was registered in June. That prior decline was driven by Trump's Mexican stand-off over tariffs and border crossings as well as the total collapse of US-China trade negotiations.

CANADA

There are no releases today and only two releases of any significance to markets this week including tomorrow's monthly GDP for May and Friday's trade figures for June.

As a side issue, how does 2019 rank compared to other years for employment growth? Against the sense that Canadian job growth is somehow off the charts, there have been 15 years when job growth was stronger on a year-to-date basis as a share of total employment. 2019 has been solid. Just not spectacular with almost a quarter million new jobs created so far according to the Labour Force Survey. This plays against any sense that a day of reckoning off the peak must be at hand.

Cumulative Canadian First Half Job Gains



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			
	1.84	1.86	1.84	1.83	1.85	1.83	2.05	2.07	2.08	2.57	2.59	2.62	Canada - BoC	1.75	
	1.49	1.49	1.45	1.41	1.41	1.40	1.47	1.47	1.49	1.73	1.74	1.74	US - Fed	2.50	
	-0.75	-0.76	-0.77	-0.68	-0.68	-0.68	-0.40	-0.39	-0.36	0.18	0.19	0.24			
	-0.21	-0.21	-0.20	-0.24	-0.23	-0.23	-0.15	-0.14	-0.14	0.36	0.37	0.38	England - BoE	0.75	
	0.46	0.47	0.49	0.42	0.44	0.48	0.64	0.65	0.69	1.35	1.34	1.32			
	Spreads vs. U.S. (bps):														
	-35	-37	-38	-42	-44	-43	-58	-59	-59	-84	-85	-88	Euro zone - ECB	0.00	
	-259	-262	-261	-251	-253	-251	-245	-246	-244	-240	-240	-238	Japan - BoJ	-0.10	
-205	-207	-204	-207	-208	-206	-220	-221	-222	-221	-222	-224				
-138	-139	-134	-141	-141	-136	-141	-141	-139	-122	-125	-130				
Equities	Level						% change:						Mexico - Banxico	8.25	
	Last	Change					1 Day	1-wk	1-mo	1-yr					
S&P/TSX	16492	-38.9					-0.2	-0.2	0.7	0.9	Australia - RBA				1.00
Dow 30	27221	28.9					0.1	0.2	2.3	7.6	New Zealand - RBNZ				1.50
S&P 500	3021	-4.9					-0.2	1.2	2.7	7.8					
Nasdaq	8293	-36.9					-0.4	1.1	3.6	8.7					
DAX	12154	-263.7					-2.1	-2.7	-2.0	-5.0					
FTSE	7671	-15.3					-0.2	1.5	3.3	-0.4					
Nikkei	21709	92.5					0.4	0.4	2.0	-3.7	Canada - BoC				Sep 04, 2019
Hang Seng	28147	40.1					0.1	-1.1	-1.4	-2.0	US - Fed				Jul 31, 2019
CAC	5520	-81.2					-1.5	-1.7	-0.3	0.5					
Commodities	Level						% change:						England - BoE	Aug 01, 2019	
WTI Crude	57.25	0.38					0.7	0.8	-2.1	-18.4	Euro zone - ECB				Sep 12, 2019
Natural Gas	2.14	0.02					0.9	-7.2	-7.5	-23.7	Japan - BoJ				Jul 29, 2019
Gold	1428.70	1.90					0.1	0.8	1.4	17.0					
Silver	16.39	-0.05					-0.3	0.0	7.7	6.7					
CRB Index	177.95	0.15					0.1	-0.6	-1.7	-9.1					
Currencies	Level						% change:						Mexico - Banxico	Aug 15, 2019	
USDCAD	1.3174	0.0010					0.1	0.3	0.3	1.1	Australia - RBA				Aug 06, 2019
EURUSD	1.1157	0.0012					0.1	0.0	-1.1	-4.7	New Zealand - RBNZ				Aug 06, 2019
USDJPY	108.48	-0.3000					-0.3	0.2	0.0	-2.3					
AUDUSD	0.6888	-0.0014					-0.2	-1.7	-1.1	-7.0					
GBPUSD	1.2172	-0.0047					-0.4	-2.2	-3.7	-7.3					
USDCHF	0.9892	-0.0024					-0.2	0.4	0.2	0.1					

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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