

ON DECK FOR THURSDAY, AUGUST 1

| Country | Date | Time | Indicator | Period | BNS | Consensus | Latest |
|---------|-------|-------|-------------------------------|--------|------|-----------|--------|
| US | 08/01 | 08:30 | Initial Jobless Claims (000s) | JUL 27 | 210 | 214 | 206 |
| US | 08/01 | 08:30 | Continuing Claims (000s) | JUL 20 | 1680 | -- | 1676 |
| US | 08/01 | 10:00 | Construction Spending (m/m) | Jun | 0.4 | 0.4 | -0.8 |
| US | 08/01 | 10:00 | ISM Manufacturing Index | Jul | 51.5 | 52.0 | 51.7 |
| US | 08/01 | 09:00 | Total Vehicle Sales (mn a.r.) | Jul | 17.0 | 16.9 | 17.3 |

KEY POINTS:

- USD and Treasury yields pick up where they left off post-Fed
- BoE stance remains conditional upon Brexit scenarios...
- ...as markets debate the credibility of hard Brexit ambiguity
- US ISM-mfrg could inform Fed risks
- China, UK manufacturing sectors remain weak but are stabilizing
- US construction spending and vehicle sales on tap
- Gold gets smacked by Fed real rate driver
- Inflation informs CB stances in Peru, three Asian economies

INTERNATIONAL

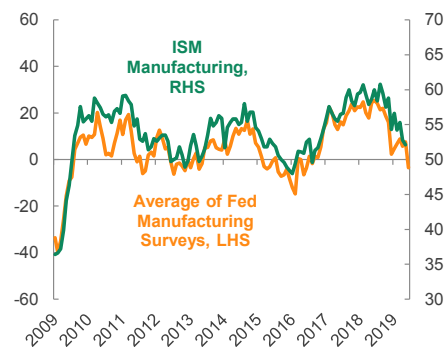
With the Fed out of the way, and nonfarm due out tomorrow, markets face somewhat of a lull in major potential catalysts. Yesterday's reactions to the Fed's communications (recap [here](#)) continue this morning in the form of broad dollar strength and cheaper Treasuries, but equities may be tentatively stabilizing. US ISM-manufacturing could inform next risks to the Fed outlook given Powell's manufacturing references, with claims, construction spending and vehicle sales also on tap (see below). China's and the UK's manufacturing sectors may be carving out bottoms (see below). The Bank of England's policy communications have been somewhat of a dull affair this morning, not least of which because they are monitoring Brexit risks like everyone else (see below). A series of inflation reports from Peru and three Asian economies incrementally inform market and central bank risks.

- The US dollar is broadly stronger against most major crosses again this morning. On a DXY basis, the USD is at its strongest in over two years. Since Tuesday's close and hence ahead of the Fed, the USD has appreciated by between ¼% to the yen and pound sterling to almost 2% versus the rand. CAD has depreciated by about ½% with the Mexican peso ¾% softer. The euro is down 1% in a gift from Powell to Draghi.
- US Treasury yields are about 1bp higher across the curve. The US 2 year yield is up by about 7–8bps since just before the Fed communications. The gilts curve is flat post-BoE. EGB yields are up by 1–2bps in 10s across much of Europe except for spread widening in Italy where the 10 year yield is up by 6bps.
- Oil prices are lower despite yesterday's reported inventory draw down in the US. WTI and Brent are both off by about a buck. Gold is weaker by about US\$23 since

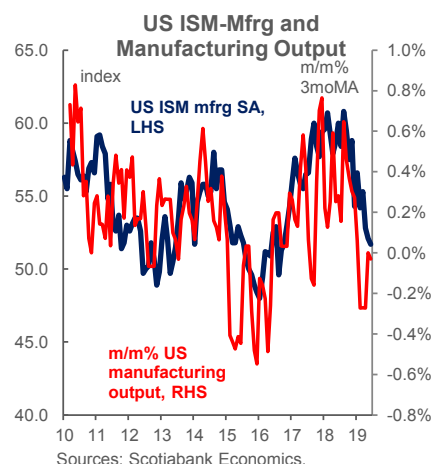
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The Five Fed Surveys As A Predictor Of ISM Manufacturing

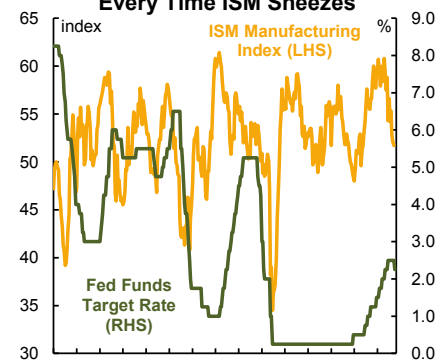


Sources: Scotiabank Economics, Federal Reserve System, ISM.



Sources: Scotiabank Economics.

The Fed Hasn't Eased Every Time ISM Sneezes



Source: Scotiabank Economics, U.S. Federal Reserve Board, ISM.

just before the Fed as real rate drivers were less bullish on a less dovish Fed.

- US equity futures are very slightly in the black with TSX futures performing similarly. European cash markets are mixed with London down ¼% but Eurozone bourses up by between ¼% and ½%. Asian markets followed yesterday's US equity session lower.

The Bank of England left all policy variables intact as expected this morning. Both sterling and short-term yields shook off the statement ([here](#)) and the quarterly Inflation Report ([here](#)). The BoE basically said it would transition toward hiking if Brexit proceeded smoothly, but it might also do so if Brexit did not proceed smoothly. Markets will obviously continue to debate the credibility of such guidance. The explanation of the base case that is predicated upon a smooth Brexit was as follows:

"The Committee's updated projections are set out in the accompanying [August Inflation Report](#). They continue to assume a smooth adjustment to the average of a range of possible outcomes for the United Kingdom's eventual trading relationship with the European Union. In the central projection, conditioned on prevailing asset prices, underlying output growth is subdued in the near term, reflecting more entrenched Brexit uncertainties. This means that a margin of excess supply persists over the first year of the projection. Thereafter, GDP is projected to accelerate to robust growth rates, reflecting a gradual recovery in global growth and firming UK domestic demand growth, driven in large part by a recovery in investment growth as uncertainties dissipate in line with the Brexit conditioning assumption. The acceleration in GDP results in a significant build-up of excess demand, to around 1¾% of potential GDP by the end of the forecast period. After falling in the near term, CPI inflation is projected to rise above the 2% target, as building excess demand leads to firmer domestic inflationary pressures. Conditioned on prevailing asset prices, CPI inflation reaches 2.4% by the end of the three-year forecast period."

And:

"Assuming a smooth Brexit and some recovery in global growth, a significant margin of excess demand is likely to build in the medium term. Were that to occur, the Committee judges that increases in interest rates, at a gradual pace and to a limited extent, would be appropriate to return inflation sustainably to the 2% target."

But guidance surrounding alternative Brexit scenarios continues to indicate ambiguity toward the direction of the next policy moves:

"The appropriate path of monetary policy will depend on the balance of the effects of Brexit on demand, supply and the exchange rate. The monetary policy response to Brexit, whatever form it takes, will not be automatic and could be in either direction. In all circumstances, the Committee will set monetary policy appropriately to achieve the 2% inflation target."

Of course, when the Brexit referendum result hit in 2016, sterling tanked and the BoE eased both conventional and nonconventional policy measures.

The UK's manufacturing sector may be stabilizing but it continues to contract. The overall manufacturing PMI registered at 48.0 in July, unchanged from June. That's still the softest reading since 2013. New orders continue to contract albeit at a very slightly cooler pace and employment fell. Two year gilt yields initially increased after the release but then rallied and are outperforming other global front-ends.

China's private sector version of the manufacturing sector's purchasing managers' index improved a touch. It increased half a point to 49.9 and thus is on the border between expansion and contraction. That's generally consistent with the earlier release of the state's manufacturing PMI that also increased slightly toward 49.7.

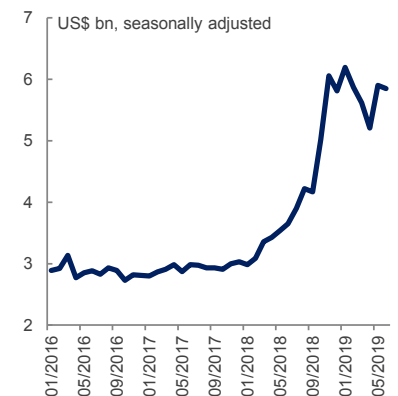
Peru's inflation decelerated to 2.1% y/y (2.3% prior, 2.2% consensus). That takes inflation closer to the mid-point of the central bank's 1–3% inflation target range. A cooler pace of year-ago price increases for food/beverages, housing, transportation including fuel, and furniture drove the deceleration. The more dominant influence that weakened the currency, the Sol, over the last day was the government's proposal to conduct elections on April 19th next year.

Indonesia's inflation rate was stable at 3.3% y/y and in line with consensus expectations. Core CPI was 3.2% y/y and also in line with consensus expectations for little change. Inflation is riding comfortably around the mid-point of Bank Indonesia's 2.5–4.5% target range. The rupiah largely shook off the inflation figures. Bank Indonesia cut on July 18th and likely faces little additional pressure to ease in the near-term.

Thailand's core inflation rate slipped a tick to 0.4% y/y. Headline inflation increased a tick to 1% y/y primarily due to higher food prices. Core inflation remains below the lower bound of the Bank of Thailand's 1–4% policy target range for headline CPI. The release did little to the baht and little to change expectations for the central bank. The BoT held policy on July 17th despite soft inflation in part because it is concerned about financial stability risks.

South Korea's inflation rate slipped a tick on headline (0.6% y/y) but core inflation increased a tick to 1% y/y. The won depreciated to the dollar overnight but that was largely driven by broad USD strength post-Fed. Inflation supports a continued easing bias at the Bank of Korea but a less dovish than anticipated Fed that weakens the won helps in the interim.

US Treasury's Tariff Receipts



Sources: Scotiabank Economics, Bloomberg.

UNITED STATES

After Fed Chair Powell referenced manufacturing conditions and the impact of trade tensions on global supply chains during yesterday's press conference, **today's ISM-manufacturing report may further inform Fed policy risks.** An average of the regional surveys suggests little change in the overall ISM reading (chart 1). Moderate growth may continue to be signaled. ISM-manufacturing sentiment loosely correlates with a smoothed trend for actual manufacturing output (chart 2). The historical connection to the Fed is shown in chart 3. The Fed's cut yesterday is a hastier response to softened ISM readings than several other points in time.

The US also released jobless claims for last week that marginally increased from 207k to 215k. They still remain low, and they don't matter in terms of expectations for tomorrow's nonfarm payrolls given that claims are outside of nonfarm's reference period. **Construction spending** for June (10amET) may inform Q2 GDP revision risk and **vehicle sales** from individual companies and the overall add-up later in the day will inform expectations for July retail sales.

Finally, since Navarro is claiming tariffs have been a huge success, it's worth perhaps looking at the revenues Treasury is collecting from them (chart 4). Annualized, the monthly seasonally adjusted flows into Treasury are trivial. The incidence effect substantially falls upon US consumers and businesses in a transfer to Treasury. They have not budged US-China trade negotiations one bit and have sparked substantial market uncertainty. The highly dubious nature of the economics behind the Trump administration's policies continues.

| 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. | 1.88 | 1.87 | 1.87 | 1.84 | 1.83 | 1.86 | 2.02 | 2.02 | 2.08 | 2.52 | 2.53 | 2.61 | Canada - BoC | 1.75 |
| CANADA | 1.57 | 1.54 | 1.45 | 1.47 | 1.45 | 1.38 | 1.50 | 1.47 | 1.46 | 1.71 | 1.69 | 1.73 | | |
| GERMANY | -0.77 | -0.78 | -0.76 | -0.71 | -0.72 | -0.67 | -0.43 | -0.44 | -0.36 | 0.12 | 0.12 | 0.24 | US - Fed | 2.25 |
| JAPAN | -0.18 | -0.20 | -0.21 | -0.22 | -0.24 | -0.24 | -0.13 | -0.15 | -0.15 | 0.37 | 0.35 | 0.36 | | |
| U.K. | 0.42 | 0.44 | 0.51 | 0.38 | 0.38 | 0.49 | 0.61 | 0.61 | 0.71 | 1.30 | 1.32 | 1.36 | England - BoE | 0.75 |
| | Spreads vs. U.S. (bps): | | | | | | | | | | | | | |
| CANADA | -31 | -33 | -42 | -37 | -38 | -48 | -53 | -54 | -62 | -81 | -83 | -88 | Euro zone - ECB | 0.00 |
| GERMANY | -265 | -265 | -263 | -255 | -254 | -253 | -246 | -246 | -244 | -240 | -240 | -237 | | |
| JAPAN | -206 | -208 | -207 | -206 | -206 | -209 | -215 | -217 | -223 | -215 | -217 | -225 | Japan - BoJ | -0.10 |
| U.K. | -146 | -144 | -136 | -147 | -145 | -137 | -142 | -140 | -137 | -123 | -121 | -125 | | |
| Equities | Level | | | | | | % change: | | | | | | Mexico - Banxico | 8.25 |
| | Last | Change | | | | | 1 Day | 1-wk | 1-mo | 1-yr | | | | |
| S&P/TSX | 16407 | -59.5 | | | | | -0.4 | -1.2 | 0.1 | 0.2 | | | Australia - RBA | 1.00 |
| Dow 30 | 26864 | -333.8 | | | | | -1.2 | -1.5 | 0.5 | 6.0 | | | | |
| S&P 500 | 2980 | -32.8 | | | | | -1.1 | -1.3 | 0.5 | 5.9 | | | New Zealand - RBNZ | 1.50 |
| Nasdaq | 8175 | -98.2 | | | | | -1.2 | -1.8 | 1.0 | 6.1 | | | | |
| DAX | 12216 | 27.0 | | | | | 0.2 | -1.2 | -2.4 | -4.1 | | | | |
| FTSE | 7567 | -19.4 | | | | | -0.3 | 1.0 | 0.9 | -1.1 | | | | |
| Nikkei | 21541 | 19.5 | | | | | 0.1 | -1.0 | -0.9 | -5.3 | | | Canada - BoC | Sep 04, 2019 |
| Hang Seng | 27566 | -212.0 | | | | | -0.8 | -3.6 | -3.4 | -2.7 | | | | |
| CAC | 5544 | 24.8 | | | | | 0.4 | -0.6 | -0.4 | 0.8 | | | US - Fed | Sep 18, 2019 |
| Commodities | Level | | | | | | % change: | | | | | | | |
| WTI Crude | 57.55 | -1.03 | | | | | -1.8 | 2.7 | -2.6 | -14.9 | | | England - BoE | Aug 01, 2019 |
| Natural Gas | 2.29 | 0.06 | | | | | 2.7 | 2.2 | 1.2 | -16.8 | | | | |
| Gold | 1403.51 | -10.39 | | | | | -0.7 | -0.8 | 1.4 | 15.4 | | | Euro zone - ECB | Sep 12, 2019 |
| Silver | 16.48 | 0.02 | | | | | 0.1 | -0.4 | 8.2 | 6.8 | | | | |
| CRB Index | 177.29 | -1.23 | | | | | -0.7 | -0.3 | -2.1 | -7.5 | | | Japan - BoJ | Sep 19, 2019 |
| Currencies | Level | | | | | | % change: | | | | | | | |
| USDCAD | 1.3234 | 0.0043 | | | | | 0.3 | 0.5 | 0.8 | 1.8 | | | Mexico - Banxico | Aug 15, 2019 |
| EURUSD | 1.1038 | -0.0038 | | | | | -0.3 | -1.0 | -2.2 | -5.3 | | | | |
| USDJPY | 108.80 | 0.0200 | | | | | 0.0 | 0.2 | 0.3 | -2.6 | | | Australia - RBA | Aug 06, 2019 |
| AUDUSD | 0.6839 | -0.0006 | | | | | -0.1 | -1.6 | -1.8 | -7.6 | | | | |
| GBPUSD | 1.2118 | -0.0041 | | | | | -0.3 | -2.7 | -4.1 | -7.7 | | | New Zealand - RBNZ | Aug 06, 2019 |
| USDCHF | 0.9958 | 0.0018 | | | | | 0.2 | 0.5 | 0.8 | 0.4 | | | | |

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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