ON DECK FOR FRIDAY, AUGUST 9

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	08/09	08:15	Housing Starts (000s a.r.)	Jul	200	202.0	246
CA	08/09	08:30	Building Permits (m/m)	Jun	--	1.0	-13.0
CA	08/09	08:30	Employment (000s m/m)	Jul	25	15.0	-2.2
CA	08/09	08:30	Unemployment Rate (%)	Jul	5.4	5.5	5.5
US	08/09	08:30	PPI (m/m)	Jul	0.2	0.2	0.1
US	08/09	08:30	PPI ex. Food & Energy (m/m)	Jul	0.2	0.1	0.3

KEY POINTS:

- **Risk-off tone being driven by Italy, trade concerns, mixed data**
- **The UK economy contracted in Q2…**
- **…and the inventory-import dynamic portends further weakness**
- **Japan's economy powers forward on business investment**
- **Talk of Chinese deflation is off the mark**
- **Peru's CB cuts but with a neutral bias**
- **Norges Bank's hike plans confronted by cooler inflation**
- **Canada updates job markets…**
- **…as wage growth approaches 4%**
- **US only updates producer prices**

INTERNATIONAL

Renewed concern about global trade tensions and Italian politics are combining to drive a mild risk-off tone so far. The PBOC set the yuan fixing higher again (a new record since April 2008) as it signals tolerance toward a cooler pace of depreciation than markets have been driving (chart 1). The UK economy contracted and the inventory-import dynamic is such that another weak quarter in Q3 is entirely possible just ahead of the Brexit deadline at the end of October. By contrast, Japan's economy put in a much better than expected performance in Q2 partly due to stronger business investment. Talk of 'deflation' in China just isn't supported by the broad price signals that shone through CPI and producer price updates overnight. Peru joined the list of easing central banks, but with a fairly neutral sounding bias and Norges Bank's hiking bias is complicated by slipping inflation. Canada updates job market figures including accelerating wage figures. The US faces omnipresent tweet risk, but little calendar-based risk through an update to producer prices.

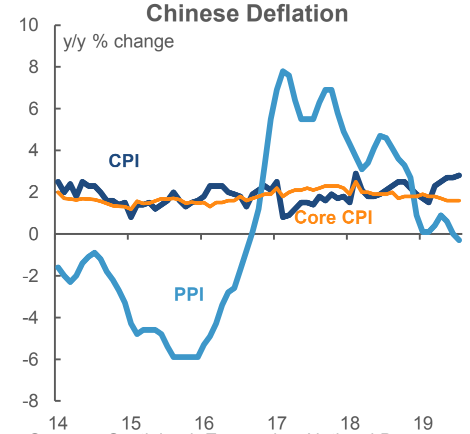
- Equity markets are in the red. US equity futures are selling off by between ½% and ¾%. TSX futures are down by 0.5%. European cash markets are down by between 0.1% (London) and generally much more across the continent and led by a 2.4% drop in Milan.

- Sovereign bond markets are divided between slight rallies in the US, Canada, UK and Germany, an unchanged curve in France, and a sharp cheapening across Italy's debt curve and peripheral economies within the Eurozone. Italy's curve is exploding with yields up by 25–30bps from 2s

CONTACTS

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

Sources: Scotiabank Economics, China Foreign Exchange Trade System.



Sources: Scotiabank Economics, National Bureau of Statistics of China, Bloomberg.

through 10s and slightly less at the longer end with political divisions, election risk and uncertainty toward future deficit tussles with Brussels all hanging in the air.

- Oil prices are up by 60–80 cents and gold is flat.
- The USD is little changed overall this morning, as appreciating crosses like the yen, Swiss franc, some Scandies and Euro are leading flat ones like CAD and the A$ and depreciating currencies like pound sterling and the Mexican peso.

UK GDP was pretty bad all around and the inventory-import drivers could well drive another weak GDP reading in Q3. The second quarter figure unexpectedly shrank a touch (-0.2% q/q, 0% consensus, +0.5% prior). On a weighted contribution basis, consumers added 0.3 percentage points to growth, government spending added 0.1% and weaker imports added 4.5 percentage points via less import leakage effect. What dragged on growth were a large inventory drawdown of about £4 billion that subtracted over two percentage points from GDP growth, exports that sapped one full percentage point from top line GDP growth and business investment in capital goods that subtracted 0.05 points. It's unclear that the inventory draw down should be removed as a transitory driver of weakness related to unwinding pre-Brexit stocking, versus also removing the addition to growth from weaker imports that made net trade a 3.5 percentage point source of contribution to GDP growth. Lower Brexit-related stocking on the path to the first blown Brexit deadline in March also means weaker imports and the latter played a bigger role in boosting growth than the former effect played in dragging growth down. **Into Q3, it's unclear how this inventory-import balance evolves but it could well net out to be a combined drag on top-line growth.**

Higher frequency readings on the health of the UK economy were also mostly soft as industrial output fell 0.1% m/m in June, construction output fell 0.7% with downward revisions on top of that and the services side of the economy was flat. Exports, however, jumped by 7.6% m/m as imports declined by 3.6%, driving the overall trade deficit to its narrowest since 2011.

China's core CPI inflation rate was stable as headline CPI and headline producer prices moved in opposite directions. On balance, while the press loves to toss around sensational terms like deflation and is doing so this morning, this is nothing close to deflation. Most economists would view deflation as a sustained decline in broad prices that comes to be expected in its persistence such that it fundamentally alters behavior by postponing spending until later when prices are expected to be lower. The result is a self-reinforcing downward spiral. As chart 2 shows, this isn't what China is experiencing. Core CPI remained stable at 1.6% y/y for the third month in a row while headline CPI inflation edged up to 2.8%. Both are below the 3% inflation target that is loosely set at each year's National Congress. The 0.3% y/y decline in overall producer prices was primarily driven by a 2.9% y/y drop in raw materials prices that reflects what is going on in commodity markets which actually benefits many Chinese firms. Total consumer goods prices received by producers were only up 0.8% y/y as food was up 2%, clothing prices increased 1.3%, 'daily use' items were up 0.8% y/y but consumer durables producer prices fell 1.2% y/y.

There is one market where business investment is surprising higher: Japan. Q2 GDP growth was 1.8% at an annualized and seasonally adjusted pace and that blew away consensus expectations for a rise of 0.5%. On top of that, the prior quarter was revised upward to post growth of 2.8% from 2.2% before revisions. Business spending advanced by 6% in Q2 at an annualized pace (0.8% consensus). Consumption was up 2.5%, residential investment advanced by 1% and government spending was up by 3.8%. Net trade was a drag effect on growth as exports slipped by 0.2% and imports were up by 6.7%.

Another central bank eased. Peru's central bank cut its policy reference rate by 25bps to 2.5% for the first cut since March 2018. Nine out of 15 economists got the call right. The bias was purely data dependent and fairly neutral sounding, primarily as manifest through the statement's (here) reference to how "This decisions does not necessarily imply additional reductions in the policy rate."

Norway's inflation update complicates Norges Bank's hiking bias in ways that go beyond global trade tensions. Underlying CPI inflation slipped a tick to 2.2% y/y and has fallen a half point from the 2.7% peak in March. Norges Bank had guided in its June statement that the policy rate "will most likely be increased further in the course of 2019."

German exports mostly retained the prior month's upwardly revised jump of 1.3% m/m back in May by slipping only by 0.1% m/m in June. Imports were up 0.5% m/m which reversed the prior month's 0.3% decline to exhibit more of a pull effect from the domestic economy.

The same cannot be said for France's economy where industrial output fell by 2.3% m/m in June and fully reversed the prior month's 2% rise.

A glimmer of hope for Mexico's economy came through industrial output in June. Output jumped higher by 1.1% m/m, though this followed a 2.5% downwardly revised drop the month before that had been the largest drop since early 2009.

CANADA

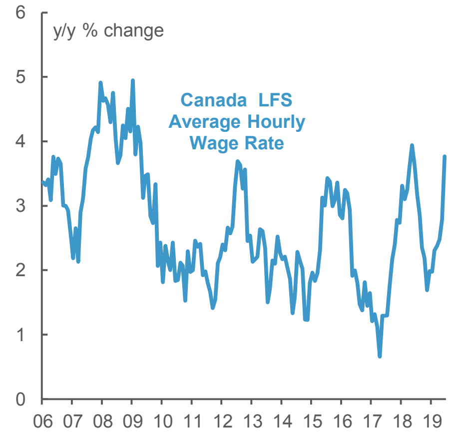
Canada updates labour market readings with July estimates drawn from Statistics Canada's Labour Force Survey (8:30amET). Consensus expects a job gain of 15k with estimates running from flat to +35k (Scotia 25k). Wage figures will also be worth keeping an eye on as the hourly wage rate for permanent employees that used to be the BoC's preferred gauge is pushing toward 4% y/y as it was in the Spring of 2018. As observed in the Global Week Ahead, various wage measures have been rather divergent (charts 3, 4). Today's wage measure is fresher than other inputs that receive much higher weights in the BoC's preferred wage common composite and can lead developments in the other more stale readings.

Canada also updates housing starts for July (8:15amET) and they are likely to cool down from the prior month's jump to 246k that was mostly fed by volatile multi-family units. 200k to 245k is the range of consensus expectations with a median estimate of 202k (Scotia 200k).

UNITED STATES

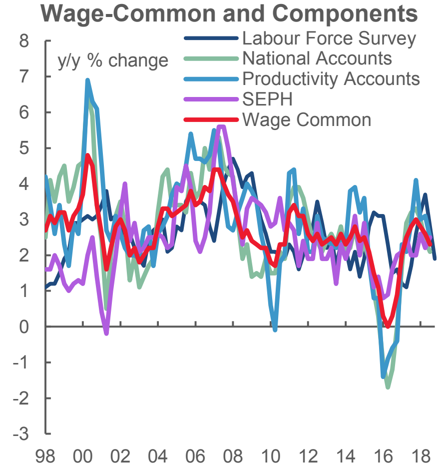
Producer prices in July will be the only calendar-based risk to US markets today. Little change is expected to final demand prices (1.7% y/y) and core producer prices excluding food and energy (2.3% y/y).

Bottoming Wage Growth?



Sources: Scotiabank Economics, Statistics Canada.

Wage-Common and Components



Sources: Scotiabank Economics, Bank of Canada.

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.	1.61	1.62	1.71	1.54	1.55	1.66	1.71	1.72	1.85	2.23	2.23	2.38
CANADA	1.36	1.36	1.46	1.23	1.23	1.35	1.24	1.24	1.37	1.49	1.49	1.61
GERMANY	-0.86	-0.85	-0.79	-0.83	-0.81	-0.74	-0.58	-0.56	-0.50	-0.07	-0.04	0.01
JAPAN	-0.27	-0.24	-0.20	-0.30	-0.28	-0.25	-0.22	-0.19	-0.16	0.22	0.26	0.33
U.K.	0.45	0.47	0.44	0.34	0.37	0.34	0.49	0.52	0.55	1.15	1.18	1.24
	Spreads vs. U.S. (bps):											
CANADA	-25	-26	-26	-31	-32	-31	-48	-48	-47	-75	-74	-77
GERMANY	-247	-247	-250	-236	-236	-240	-229	-228	-234	-230	-227	-238
JAPAN	-188	-186	-191	-184	-183	-191	-193	-191	-201	-201	-196	-205
U.K.	-117	-115	-127	-120	-118	-132	-122	-120	-130	-109	-105	-114

Equities	Level		% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	16405	139.3	0.9	-0.0	-0.9	-0.1
Dow 30	26378	371.1	1.4	-0.8	-1.5	3.4
S&P 500	2938	54.1	1.9	-0.5	-1.4	3.0
Nasdaq	8039	176.3	2.2	-0.9	-1.3	1.9
DAX	11713	-132.3	-1.1	-1.3	-5.8	-7.6
FTSE	7282	-4.0	-0.1	-1.7	-3.4	-5.9
Nikkei	20685	91.5	0.4	-1.9	-4.1	-8.5
Hang Seng	25939	-181.5	-0.7	-3.6	-7.7	-9.3
CAC	5338	-50.0	-0.9	-0.4	-4.2	-3.0
Commodities	Level		% change:			
WTI Crude	53.16	0.62	1.2	-4.5	-8.1	-20.4
Natural Gas	2.09	-0.04	-1.8	-1.5	-13.8	-29.3
Gold	1502.22	1.26	0.1	4.3	7.5	23.9
Silver	17.02	0.20	1.2	6.3	12.9	10.9
CRB Index	170.96	0.63	0.4	-1.4	-5.4	-11.2
Currencies	Level		% change:			
USDCAD	1.3218	-0.0009	-0.1	0.1	0.7	1.3
EURUSD	1.1202	0.0022	0.2	0.8	-0.1	-2.8
USDJPY	105.78	-0.2900	-0.3	-0.8	-2.8	-4.8
AUDUSD	0.6806	0.0004	0.1	0.1	-1.8	-7.7
GBPUSD	1.2076	-0.0057	-0.5	-0.7	-3.1	-5.8
USDCHF	0.9732	-0.0015	-0.2	-0.9	-2.1	-2.1

Central Banks	
Current Rate	
Canada - BoC	1.75
US - Fed	2.25
England - BoE	0.75
Euro zone - ECB	0.00
Japan - BoJ	-0.10
Mexico - Banxico	8.25
Australia - RBA	1.00
New Zealand - RBNZ	1.00
Next Meeting Date	
Canada - BoC	Sep 04, 2019
US - Fed	Sep 18, 2019
England - BoE	Sep 19, 2019
Euro zone - ECB	Sep 12, 2019
Japan - BoJ	Sep 19, 2019
Mexico - Banxico	Aug 15, 2019
Australia - RBA	Sep 03, 2019
New Zealand - RBNZ	Sep 24, 2019

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.