

### ON DECK FOR TUESDAY, AUGUST 27

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	08/27	09:00	S&P/Case-Shiller Home Price Index (m/m)	Jun	--	0.1	0.1
US	08/27	09:00	S&P/Case-Shiller Home Price Index (y/y)	Jun	--	2.3	2.4
US	08/27	10:00	Consumer Confidence Index	Aug	128	129.0	135.7
US	08/27	10:00	Richmond Fed Manufacturing Index	Aug	--	-2.0	-12.0

### KEY POINTS:

- Risk-on as markets rest between tweets
- China's state media lashes out on trade...
- ...making Trump's claims appear to be entirely fabricated
- US consumer confidence expected to decline...
- ...but the worst probably still lies ahead
- US Richmond Fed will further inform ISM expectations
- A mixed CDN bank earnings season so far
- German GDP dragged down by exports...
- ...and would have been worse yet if not for higher inventories

### INTERNATIONAL

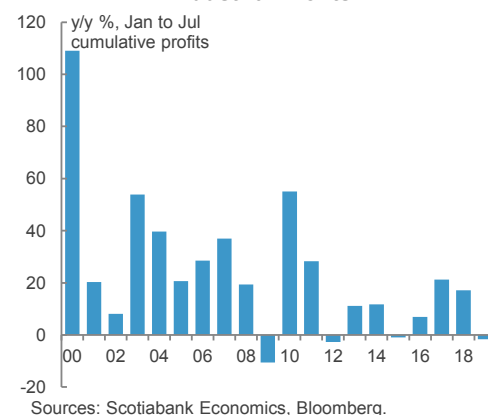
Markets lie in a state of nervous apprehension with mixed performances across asset classes. A temporary calming of volatile trade headlines is driving a mild risk-on mood in equities and commodities while the USD slightly weakens and sovereign bonds catch a minor bid on average across markets. **China's state media took a shot at the US again overnight and there continues to be zero evidence from the Chinese side to buttress Trump's claim they have come begging at his feet for a deal.** Fool markets once, shame on Trump, but fool them over and over and shame on markets for listening to him. US consumer confidence will be the main macro release, but the truncated survey period for August and the rapidly evolving trade tensions suggest there will be worse revisions the next time around. The US will also release the Richmond manufacturing gauge and repeat sale home prices that have only been rising by about 2½% y/y. Chinese industrial profits, soft details to German GDP and a beat (BNS) and a miss (BMO) in Canada's bank earnings parade round out the developments.

- The USD is slightly weaker on a DXY basis this morning. Pound sterling is beating all other crosses and is appreciating along with the yen, CAD, some Scandies and the won. The Mexican peso, A\$/NZ\$ and Swiss franc are depreciating while the euro is flat.
- Sovereign bonds are catching a minor bid across several markets. The US 10 year Treasury yield is down 2bps with the gilts benchmark performing similarly. Italy is the star performer with its 10 year note yield down 9bps on hope for a coalition arrangement either between the Five Star Movement and either the Democrats or the League.
- Oil prices are catching a bid with WTI and Brent both up by about half a buck or slightly more. Volatile trade headlines are ahead of the start of weekly US oil inventory figures later today and tomorrow morning.

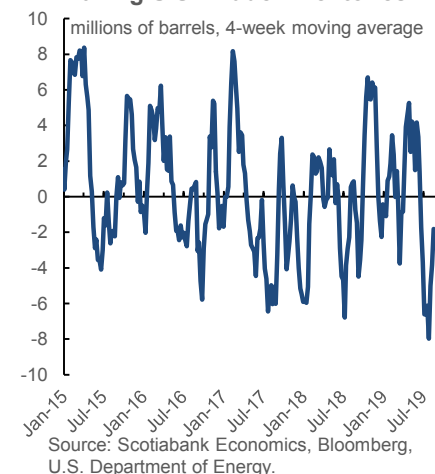
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### July Year to Date Chinese Industrial Profits



### Falling U.S. Crude Inventories



- US equity futures and slightly higher with TSX futures flat. The FTSE100 is flat with London back from holiday, while the rest of Europe is rallying by as much as 1.2% in Milan with politics in the driver's seat. Asian equities were mostly higher with the Nikkei up by about 1%, mainland China up by over 1%, Seoul up by just under ½% and HK flat.

**China's state media lashed out at the US administration again overnight.** [This](#) editorial in the Communist Party's People's Daily may require the assistance of Google translate, but it makes clear at least in face-saving fashion to the domestic readership that China isn't altering its course.

China's industrial profits returned to positive growth (2.6% y/y, -3.1% prior) and by the most since March. A softer year-ago base effect when seasonally unadjusted profit levels dipped in July 2018 versus the prior month explained much of the improvement in the year-ago growth rate, but then again, the role this factor played in driving the June 2019 year-ago negative growth rate wasn't mentioned in popular coverage at the time. China's seasonally unadjusted profit levels for the month of July were the fourth highest in the past eight years. **The way to look at China's volatile seasonally unadjusted figures is to look at year-to-date year-over-year growth as the accompanying chart depicts; this is indeed a weak year, but profits aren't exactly collapsing.**

**Germany released the details behind Q2 GDP** after the initial estimate was released without supporting details on August 14<sup>th</sup>. Headline growth was left unchanged at -0.1% q/q (+0.4% prior). Another negative in Q3 would mark a technical recession defined as back-to-back quarterly declines. In weighted contribution terms, net exports were the biggest drag and knocked 0.5% off of quarter-over-quarter GDP growth due to a 1.3% decline in exports and a smaller 0.3% dip in imports. In weighted terms, consumption only added 0.1% to GDP growth and government spending added the same amount. **Growth would have been weaker yet if not for rising inventory investment** that contributed 0.3% to GDP growth after dragging Q2 GDP growth down by 1%.

## UNITED STATES

**US markets face a relatively light release schedule with most of the focus upon the Conference Board's consumer confidence measure for August (10amET).** A decline is universally expected, but by how much is unclear as is how much of the deterioration will be driven by pessimism toward nearer term conditions versus future expectations. **Today's preliminary measure will probably underestimate the magnitude of the hit on consumer confidence because of the speed of developments relative to the sample period that is marked by a cut off date around mid-month.** Therefore, expect negative revisions to today's estimate when the next batch of results comes out in another month's time. Recall the timeline for recent trade tensions and market effects. On August 1<sup>st</sup>, Trump announced that he would pursue another 10% tariff on Chinese imports starting on September 1<sup>st</sup>. On August 13<sup>th</sup>, Trump announced he would delay this tariff hike until December 15<sup>th</sup> for the portion of targeted imports that included a select number of goods like cellphones and laptops ahead of the holiday shopping season. Toward the end of last week and through this past weekend, China retaliated against this US provocation and then Trump lost it and jacked up tariffs again by raising the 25% rate on \$250 billion of targeted goods to 30% effective October 1<sup>st</sup> and then raising the September 1<sup>st</sup> tariff to 15% from 10%.

Secondary releases will include the Richmond Fed's manufacturing gauge for August (10amET) and repeat home sale prices for June (9amET). We already know that the Philly Fed measure fell in August, but not by as much as expected, the Empire gauge was little changed, the Kansas measure deteriorated a little as did the Chicago Fed's national activity reading. The Dallas Fed's measure improved. Of all of these, it is the Richmond Fed and Philly measures that are among the best correlated with the key ISM-manufacturing gauge as an advance peak at the risks to the ISM report.

US oil inventories will be updated with private industry figures toward later this afternoon ahead of tomorrow morning's government report. While the weekly figures are volatile, a four week moving average of oil inventories moved into net draw position starting in the second half of June.

## CANADA

Canada's bank earnings season is turning up mixed results thus far. **This morning, BNS (my employer) released Q3 earnings that beat expectations with adjusted EPS of C\$1.88 (consensus \$1.85). BMO missed at \$2.38 (consensus \$2.49).** Last Friday, RBC also missed expectations. National Bank releases tomorrow followed by TD, Laurentian and Canadian Western Bank on Thursday.

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			
	1.53	1.54	1.51	1.40	1.42	1.43	1.50	1.54	1.56	1.99	2.04	2.04	Canada - BoC	1.75	
	1.38	1.39	1.34	1.23	1.25	1.19	1.19	1.21	1.16	1.45	1.46	1.39	US - Fed	2.25	
	-0.90	-0.89	-0.90	-0.88	-0.88	-0.91	-0.68	-0.67	-0.69	-0.16	-0.13	-0.18			
	-0.30	-0.31	-0.29	-0.34	-0.35	-0.33	-0.26	-0.26	-0.23	0.16	0.16	0.20	England - BoE	0.75	
	0.39	0.45	0.49	0.35	0.37	0.37	0.54	0.48	0.45	1.07	1.08	1.01			
	Spreads vs. U.S. (bps):														
	-15	-15	-17	-17	-17	-24	-31	-32	-40	-54	-57	-65	Euro zone - ECB	0.00	
	-243	-243	-241	-228	-230	-234	-218	-220	-225	-215	-216	-221	Japan - BoJ	-0.10	
-183	-185	-181	-173	-177	-176	-177	-180	-179	-183	-187	-184				
-114	-109	-102	-105	-105	-106	-97	-105	-110	-92	-96	-103				
Equities	Level						% change:								
	Last	Change					1 Day	1-wk	1-mo	1-yr					
S&P/TSX	16099	61.2					0.4	-1.3	-2.6	-2.1	Australia - RBA	1.00			
Dow 30	25899	269.9					1.1	-0.9	-4.8	-0.6					
S&P 500	2878	31.3					1.1	-1.5	-4.9	-0.6	New Zealand - RBNZ	1.00			
Nasdaq	7854	102.0					1.3	-1.9	-5.7	-2.0					
DAX	11753	95.0					0.8	0.9	-5.4	-6.3					
FTSE	7099	4.2					0.1	-1.3	-6.0	-6.3					
Nikkei	20456	195.0					1.0	-1.1	-5.6	-10.3					
Hang Seng	25664	-16.3					-0.1	-2.2	-9.6	-9.2	Canada - BoC	Sep 04, 2019			
CAC	5379	27.7					0.5	0.6	-4.1	-1.8	US - Fed	Sep 18, 2019			
Commodities	Level						% change:								
WTI Crude	54.17	0.53					1.0	-3.9	-3.6	-21.3	England - BoE	Sep 19, 2019			
Natural Gas	2.21	-0.02					-0.9	-0.3	1.9	-23.1					
Gold	1529.84	2.69					0.2	1.5	7.8	26.3	Euro zone - ECB	Sep 12, 2019			
Silver	17.05	0.09					0.5	-0.6	3.8	16.6					
CRB Index	169.46	0.54					0.3	-0.8	-4.3	-12.1	Japan - BoJ	Sep 19, 2019			
Currencies	Level						% change:								
USDCAD	1.3232	-0.0022					-0.2	-0.7	0.5	2.0	Mexico - Banxico	Sep 26, 2019			
EURUSD	1.1108	0.0006					0.1	0.1	-0.3	-4.9					
USDJPY	105.81	-0.3100					-0.3	-0.4	-2.7	-4.7	Australia - RBA	Sep 03, 2019			
AUDUSD	0.6769	-0.0006					-0.1	-0.1	-1.9	-7.9					
GBPUSD	1.2280	0.0063					0.5	0.9	0.5	-4.7	New Zealand - RBNZ	Sep 24, 2019			
USDCHF	0.9806	0.0020					0.2	0.3	-1.1	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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