ON DECK FOR FRIDAY, AUGUST 30

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	08/30	08:30	IPPI (m/m)	Jul	--	0.4	-1.4
CA	08/30	08:30	Raw Materials Price Index (m/m)	Jul	--	1.5	-5.9
CA	08/30	08:30	Real GDP (m/m)	Jun	0.2	0.1	0.2
CA	08/30	08:30	Real GDP (q/q a.r.)	2Q	3.1	3.0	0.4
US	08/30	08:30	PCE Deflator (m/m)	Jul	0.2	0.2	0.1
US	08/30	08:30	PCE Deflator (y/y)	Jul	1.4	1.4	1.4
US	08/30	08:30	PCE ex. Food & Energy (m/m)	Jul	0.2	0.2	0.3
US	08/30	08:30	PCE ex. Food & Energy (y/y)	Jul	1.6	1.6	1.6
US	08/30	08:30	Personal Spending (m/m)	Jul	0.4	0.5	0.3
US	08/30	08:30	Personal Income (m/m)	Jul	0.3	0.3	0.4
US	08/30	09:45	Chicago PMI	Aug	--	47.7	44.4
US	08/30	10:00	U. of Michigan Consumer Sentiment	Aug F	--	92.3	92.1

KEY POINTS:

- **Risk-on faces macro data, tariffs, hurricanes and month-end rebalancing**
- **CDN GDP: does a strong quarter matter to the BoC?**
- **Does US core PCE face upside risk following core CPI?**
- **US consumption is probably still going strong**
- **Eurozone core inflation held unchanged**
- **Japanese core inflation fell again**
- **German consumers retrench, adding downside to Q3 GDP**
- **BoK holds**
- **What hurricanes do to markets and economic indicators**

INTERNATIONAL

A combination of month-end rebalancing, significant macro data risk out of the US and Canada, Trump's tariffs that kick in on Sunday and hurricane tracking will make for an interesting end to the trading week and transition to the next one. The potential for hurricane effects on markets and economic indicators is reviewed below as Dorian has the potential to be influential upon multiple readings in addition to the human toll as our best thoughts and wishes go out to Floridians. Assessing current markets is therefore to be done with a grain of salt as conditions could alter quickly. Other macro releases were fairly light overnight and are summarized below.

- The USD is little changed on a DXY basis. Appreciating crosses include the rand, won, Mexican peso and yen while depreciating crosses are being led by the Swedish krona, Swiss franc and Euro.

- Sovereign bonds are mixed as Treasury yields rise by 1–2bps across maturities, Canadas are cheapening by slightly less along with gilts and 10s in Germany and France are flat while Italian spreads continue to tighten over bunds.

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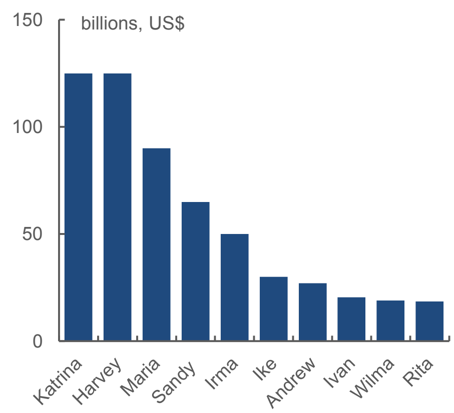
Top 10 Detrimental US Hurricanes



Sources: Scotiabank Economics, NOAA.

- US equity futures are up ½% so far with TSX futures performing similarly. European cash markets are up by between about ½% and 1%. Asia played catch-up overnight, with gains of over 1% for the Nikkei, 1.8% in Seoul, ¾% in India, but the Hang Seng was flat while Shanghai and Shenzhen experienced mild sell-offs.

- Oil prices are down with Brent lower by about 25 cents and WTI down by about 80 cents. Gold is flat again.

Eurozone headline inflation fell to 1.0% y/y (1.1% prior) but core remained stuck at 0.9% y/y. That doesn't really shed material light on much of anything as core inflation has been bouncing around 0.8%–1.3% y/y for over a year. The euro and EGBs largely shook it off. More interesting

The Bank of Korea held its policy rate at 1.5% in line with consensus but two out of seven board members voted for a cut now. Guidance was dovish, but noncommittal, as Governor Lee Ju-yeol noted "some room in monetary policy to respond" conditional upon external risks. The 2.6% m/m jump in industrial output during July was encouraging just before the rate decision as it blew away consensus expectations for a 0.5% rise.

German consumers retrenched again in July. Retail sales volumes fell 2.2% m/m (-1.3% consensus) after a downwardly revised rise of 3% the prior month. While it's early, this puts tracking at -2.6% q/q for retail sales volume growth in Q3 over Q2 at a seasonally adjusted and annualized rate. In turn, that indicates a worsening from 1.8% annualized growth in Q2 over Q1 as the consumer picture deteriorates. The GfK measure of consumer confidence has been falling since February to the lowest since April 2017, though it remains cyclically elevated.

Ahead of imposing a planned sales tax hike, Japanese core inflation is tumbling. CPI ex fresh food slipped to 0.7% y/y in the August reading for the timely Tokyo gauge. That is likely to translate into downside pressure for the national measure on September 19th. Japan will raise its sales tax by two percentage points to 10% in October for the first hike since November 2014 as the rate has risen from 0% up until 1989. The effects will likely pull forward consumption in anticipation of the tax hike and create a consumer demand vacuum thereafter.

CANADA

Canada updates monthly and quarterly GDP growth this morning (8:30amET). Consensus is at 0.1% m/m for June and 3.0% for the quarter. I'm at 0.2% and 3.1%. I run a regression model against higher frequency activity readings and it spits out 0.3% which I scaled back a touch in part because the export/manufacturing softness in June is likely to reflect softness across other industries that are more difficult to observe through higher frequency readings. Nevertheless, there were solid gains in retail sales volumes (+0.4%), wholesale trade (+0.6%), housing starts (+25% m/m) and hours worked (+0.7%). The jump in hours worked suggests a GDP gain as long as productivity didn't sour, as GDP is hours worked times output per hour worked.

A challenge is that we don't know how much of that export and shipment weakness came out production during July before inventories and for the monthly GDP accounts it's only the former that would matter.

Regardless, a three handled Q2 GDP print would be materially stronger than the BoC forecast in the July MPR (2.3%). **Does that matter to the BoC's bias?** It didn't when conditions were somewhat similar around the 'surprise' January 2015 cut. 2014Q3 and 2014Q4 were strong quarters for growth and yet Poloz shrugged them off in favour of forward looking risks because the terms of trade were getting hammered. Fast forward to today and we've had one decent quarter in the past three while commodities and external trade prospects are under pressure in the context of high inventories, persistent slack, and an inverted Canada bond curve. I'm not sure this is the environment in which a central bank should even sound neutral in such fashion as to potentially tighten financial conditions through the rates and FX complexes.

Canada's bond market will shut early at 1pmET tomorrow ahead of the Labour Day long weekend. The US bond market does not have an early close ahead of Labor Day on Monday. US and Canadian stock markets will face normal hours.

UNITED STATES

The July set of data covering the Fed's preferred measure of inflation, consumer spending, income growth and the saving rate is on tap for release at 8:30amET. There may be upside risk to consensus expectations for headline and core PCE inflation. **Consensus is assuming that none of the rise in headline CPI (1.8% from 1.6% prior) and none of the rise in core CPI (2.2% from 2.1% prior) will translate into the PCE measures.** The probabilities are hence likely skewed to an upside surprise. Also watch for strength in consumption during July given we already know that retail sales were strong for the month that will inform tracking of consumption growth in Q3 after the 4.7% advance in Q2 that was the strongest quarter for consumer spending growth since 2014Q4.

Apart from the human toll with our best thoughts going out to Floridians over the weekend into next week, how should we look at the potential economic and market impact of hurricanes? In short, while the impact of Dorian is highly uncertain, markets should be thinking ahead to the potential impact upon a suite of economic and market indicators. Charts 1–8 depict what has happened to a variety of measures around past hurricanes that are shown as grey vertical bars. Summary points are as follows:

1. **Initial claims:** they tend to drop at first due to difficulty filing and processing claims, but then temporarily soar. Look through.

2. **Nonfarm payrolls:** There are two effects to monitor here. One is hours worked that can often get hit significantly. Two is headline payrolls due to difficulty of employers to post/interview/hire and difficulty getting around. Dorian will be hitting Florida on the path to the September nonfarm reference period which is the pay period including the 12th of each month so it's reasonable to expect softer payrolls. At just over 9 million, Florida is about 6% of total nationwide payrolls and exceeded only by Cal (17.5), Texas (12.8) and NY (9.8).

3. **Retail sales:** Growth usually gets brought forward due to preparations (generators etc) and in the immediate aftermath as damage is assessed and repaired. Then sales tend to weaken. The second round negative effects also get compounded by the hurricane impact upon incomes through hours and payrolls.

4. **Mortgage applications:** There is some evidence that they can decline somewhat around hurricanes.

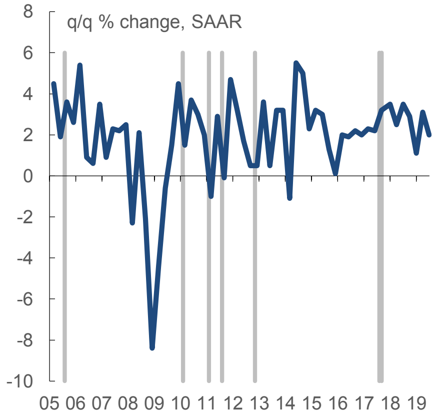
5. **GDP:** The first round hit is almost always negative until activity gets punted into the subsequent period. The timing of this storm could impact Q3 GDP negatively, but raise Q4/Q1.

6. **2s10s:** Sometimes this spread can tighten.

7. **S&P500:** It's not unusual for the S&P to take a temporary hit. Think insurers, airlines etc. EPS for those sectors tends to get hit hard. Home Depot etc then register positive earnings effects.

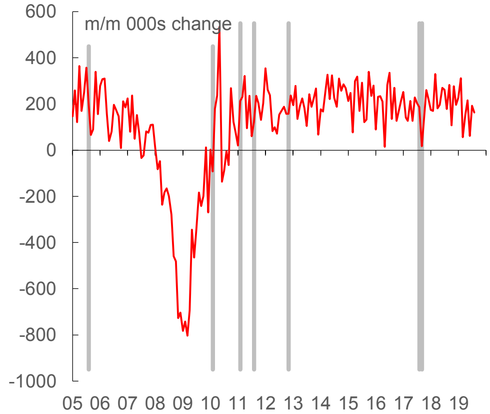
8. **The Fed:** It usually takes an exceptional hurricane season, like 2017, for it to really mess up reading of the tea leaves and prompt remarks by the Fed. Yellen frequently referenced the effects in October onward that year as Harvey, Irma and Sandy all hit. She nevertheless cited the temporary effects as the Fed looks through the distortions. Nevertheless, we'll go through a period in which it may be temporarily difficult to monitor activity.

GDP



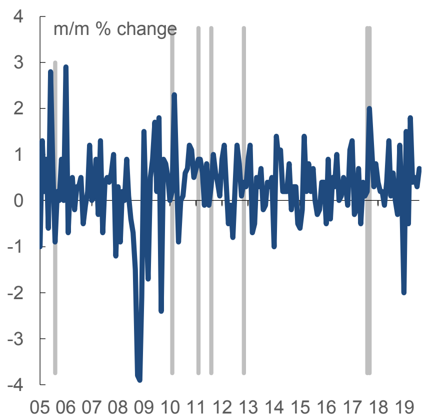
Sources: Scotiabank Economics, Bloomberg.

Non-farm Payrolls



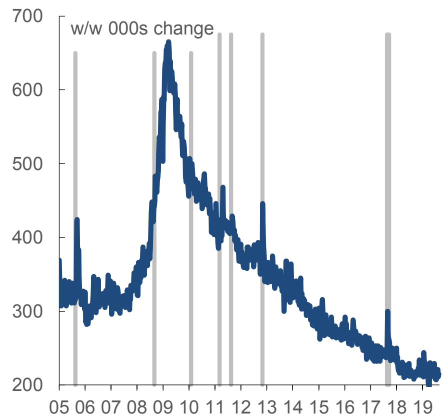
Sources: Scotiabank Economics, Bloomberg.

Retail Sales



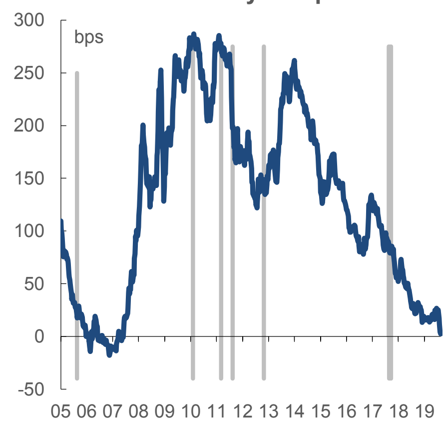
Sources: Scotiabank Economics, Bloomberg.

Initial Jobless Claims



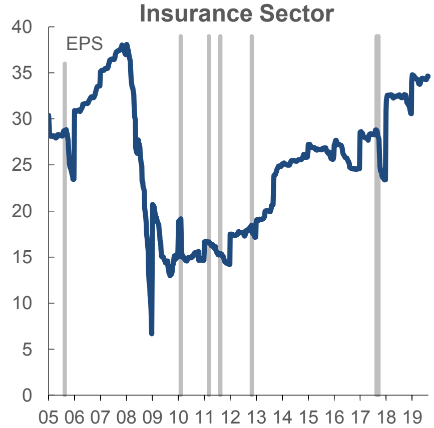
Sources: Scotiabank Economics, Bloomberg.

10-Year /2-year spread



Sources: Scotiabank Economics, Bloomberg.

Earnings Per Share
Insurance Sector



Sources: Scotiabank Economics, Bloomberg.

Earnings Per Share
Airline Sector

Sources: Scotiabank Economics, Bloomberg.

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.	1.53	1.52	1.53	1.41	1.40	1.42	1.52	1.50	1.54	1.98	1.97	2.03
CANADA	1.36	1.34	1.37	1.19	1.18	1.21	1.15	1.15	1.17	1.41	1.40	1.43
GERMANY	-0.92	-0.91	-0.89	-0.92	-0.91	-0.89	-0.70	-0.69	-0.68	-0.18	-0.18	-0.13
JAPAN	-0.30	-0.31	-0.29	-0.35	-0.35	-0.32	-0.27	-0.29	-0.23	0.16	0.14	0.21
U.K.	0.37	0.36	0.45	0.30	0.29	0.37	0.45	0.44	0.48	0.97	0.98	1.08
	Spreads vs. U.S. (bps):											
CANADA	-18	-18	-17	-22	-22	-21	-36	-35	-37	-58	-57	-60
GERMANY	-245	-243	-243	-233	-230	-231	-222	-219	-221	-216	-215	-215
JAPAN	-183	-183	-183	-176	-175	-174	-179	-178	-177	-183	-182	-182
U.K.	-116	-116	-108	-111	-111	-105	-107	-106	-105	-101	-98	-95

Equities	Level		% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	16384	112.8	0.7	0.8	-0.5	0.1
Dow 30	26362	326.2	1.3	0.4	-3.1	1.4
S&P 500	2925	36.6	1.3	0.1	-2.9	0.8
Nasdaq	7973	116.5	1.5	-0.2	-3.6	-1.4
DAX	11963	123.6	1.0	3.0	-1.5	-4.3
FTSE	7225	41.1	0.6	1.4	-5.5	-3.9
Nikkei	20704	243.4	1.2	-0.0	-4.6	-9.5
Hang Seng	25725	21.2	0.1	-1.7	-8.6	-8.7
CAC	5491	41.5	0.8	3.1	-0.4	0.2
Commodities	Level		% change:			
WTI Crude	55.96	-0.75	-1.3	3.3	-3.6	-20.3
Natural Gas	2.28	-0.02	-0.8	5.9	6.6	-20.7
Gold	1524.73	-2.97	-0.2	-0.1	6.6	27.1
Silver	18.48	0.12	0.6	9.0	12.8	25.8
CRB Index	171.31	-0.76	-0.4	1.6	-3.9	-11.1
Currencies	Level		% change:			
USDCAD	1.3288	0.0001	0.0	0.0	1.0	2.3
EURUSD	1.1036	-0.0021	-0.2	-1.0	-1.1	-5.4
USDJPY	106.32	-0.2000	-0.2	0.9	-2.1	-4.2
AUDUSD	0.6730	0.0002	0.0	-0.4	-2.1	-7.3
GBPUSD	1.2185	0.0004	0.0	-0.7	0.3	-6.3
USDCHF	0.9885	0.0019	0.2	1.5	-0.2	2.0

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	8.00
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	Sep 26, 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.