

**ON DECK FOR TUESDAY, SEPTEMBER 3**

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	09/03	10:00	Construction Spending (m/m)	Jul	0.5	0.3	-1.3
US	09/03	10:00	ISM Manufacturing Index	Aug	52.0	51.2	51.2
US	09/03	17:00	Fed's Rosengren Speaks in Easton, MA				

**KEY POINTS:**

- Risk-off tone greets US, Canada back from holiday
- US-China negotiations stalled with no meeting in sight
- UK parliament to vote on Brexit delay tonight...
- ...that could trigger an election or increased 'no deal' risks
- Mixed China PMIs
- China's HK messages mix tolerance with a warning
- Dorian expected to veer off into the Atlantic
- Do the regional surveys provide stale ISM-mfrg guidance?
- US construction, neutral/hawkish Rosengren on tap
- UK PMIs continue to decline
- RBA holds with dovish bias
- Chile's CB expected to cut by ½ point
- Tomorrow's BoC: Decent, but exaggerated data...
- ...increased downside risks...
- ...with the key being "appropriate"
- Global Week Ahead

Please see the Global Week Ahead [here](#). Key risks this week will include:

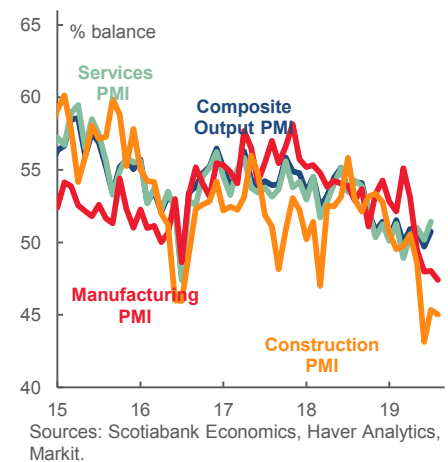
- Hurricane Dorian
- Tariff hikes
- US nonfarm payrolls
- CBs: BoC, RBA, Riksbank, Chile, Russia
- Argentina & contagion redux
- Brexit legal challenges
- PMIs: China, UK
- CDN jobs, trade
- US ISM, construction, trade...
- ...auto sales, ADP, factory orders
- Fed-speak
- CPI: Brazil, Chile, Peru, Colombia, Switzerland
- German industrial data
- Australian GDP

**INTERNATIONAL**

A risk-off tone is welcoming back Canadians and Americans from their long weekend and there are several catalysts summarized as follows:

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**UK PMIs**


**1. US-China negotiations:** The goal of meeting fairly early on in September has hit a roadblock as China's hopes for a last second change of mind on Trump's latest round of tariffs came and went. The 15% tariff rate on about US\$110 billion worth of imports from China went ahead as planned yesterday and there is no reported progress in negotiations.

**2. Hong Kong:** It's not entirely clear what message Chinese officials delivered at a full briefing on Hong Kong protests this morning. The officials generally indicated tolerance toward peaceful protests, but left open the possibility of implementing a state of emergency if violent protests continue. Some interpreted this as leaving the door open to intervention while others interpreted it as a stronger signal to the protestors.

**3. Brexit:** The day might end with either the British Parliament forcing the UK to ask the EU to delay the October 31<sup>st</sup> Brexit deadline and thus triggering PM Johnson's threatened election call, or failure to stop a 'no deal' outcome. There is a vote tonight in the British parliament that seeks to delay the Brexit deadline from October 31<sup>st</sup> to January 31<sup>st</sup> 2020. PM Johnson has guided this could trigger an early election call for October 14<sup>th</sup>—the day the Queen was scheduled to speak. The vote is expected to be held between 9pm–10pmBST (4–5pmET). Sterling has depreciated by about 1½% to the dollar since Friday. An election call would still need the support of two-thirds of the 650 MPs. In the background, UK macro data continues to disappoint as the manufacturing PMI for August slipped six-tenths and further into sub-50 contraction territory at 47.4 while the construction PMI fell three-tenths to 45 (see chart).

**4. Mixed China macro data:** China's latest round of purchasing managers' indices is coming in rather mixed. The state's composite PMI slipped a negligible tick to 53.0 which is still an above-50 expansion reading. The state's manufacturing PMI fell two-ticks to 49.5 which indicates contraction but the non-manufacturing PMI increased a tick to 53.8. The private PMIs so far indicate a half point rise in the manufacturing gauge to 50.4 with the services and composite readings pending release tomorrow night.

**5. Dorian:** After a devastating hit on Bahamas that has our best wishes and thoughts going out to Bahamians, the latest projections indicate a fair probability that Hurricane Dorian could well avoid making a direct hit on the US east coast before veering off into the Atlantic.

The market effects include the following:

- The USD continues to strengthen this morning after it rallied a little yesterday. Today, the USD is firmer against the euro and euro-related crosses, several Scandies, pound sterling, CAD and the NZ\$. The yen is little changed while the A\$ rallies and the Mexican peso is firmer.
- Sovereign bonds are catching a bid across the major markets. Canada's outperformance is a head-fake following Friday's early close (see below). Gilts are truly outperforming most other markets ahead of tonight's vote. Italian spreads continue to tighten versus bunds as the 10 year Italian yield is down by about 6bps.
- Oil prices are down by almost a buck in terms of both WTI and Brent.
- US equity futures are down by about ¾%. TSX futures are down by about ¼%. European cash markets are down by about ¼% on average.

**The Reserve Bank of Australia held its policy cash rate at 1%** as seen by the majority of economists and markets. The statement ([here](#)) contributed to a slightly weaker A\$ with guidance that the RBA will "ease monetary policy further if needed to support sustainably growth in the economy and the achievement of the inflation target over time."

**Chile's central bank is expected to cut its policy rate by 50bps tonight (6pmET).** Fourteen of twenty forecasts expected a ½ point cut while six expect a quarter point rate cut.

**UNITED STATES**

**US markets face significant macro data risk and limited Fed-speak.**

**The August edition of the ISM-manufacturing report will further inform conditions in the manufacturing sector (10amET).** It is expected to be little changed at 51.2 based upon the array of regional surveys that included improvements in the Richmond, Empire and Dallas Fed readings but slippage in the Philly and KC readings. The regional surveys do not fully capture conditions in important sectors like auto and aircraft manufacturing.

The majority of respondents to the survey tend to wait until later each month to reply. That means that **the full effect of the escalation of US-China trade tensions over the month could impact the reading and might not be entirely captured in the regional surveys that are released earlier in the month.** That includes Trump's 10% tariff rate that turned into a 15% rate on US\$110 billion of Chinese imports that took effect yesterday after being initially announced on August 1<sup>st</sup>. It also includes Trump's later delay to some of these tariffs by announcing a 15% rate on US\$160 billion of imports to take effect on December 15<sup>th</sup> and his decision to raise the prior 25% tariff rate on US\$250 billion of Chinese imports to 30% on October 1<sup>st</sup>. October 1<sup>st</sup> is a symbolic day in China in that it marks the founding of the People's Republic of China seventy years ago and is marked by the 'Golden Week' national holiday. Talk about being culturally insensitive if not ignorant.

**Construction spending** will also be released at 10amET and is expected to stabilize following a 1.3% drop in June.

**Boston Fed President Eric Rosengren (voting 2019) speaks at 5pmET. He's a relative hawk** compared to some of his other FOMC members. Rosengren said on August 19<sup>th</sup>: "I just want to see evidence that we're actually going into something that's more of a slowdown. We have to be careful not to ease too much when we don't have significant problems."

**CANADA**

Canada's curve is outperforming Treasuries this morning but largely only as catch-up. US Treasuries rallied into Friday's normal close after Canada's bond market shut early at 1pmET. As supporting evidence that today's bond moves aren't reflecting significantly new information, consider that CAD is little changed this morning and currency markets obviously don't have early closes. There are no planned releases today.

**Tomorrow's BoC statement will be the week's main event.** OIS markets have only about a one-in-ten chance of a rate cut tomorrow that rises to about 75% odds by year-end. Expect Poloz to walk the line between acknowledging decent macro data, albeit heavily distorted, and greater downside risk to the outlook. He may well defer to the October MPR's full forecast round for a more complete reassessment. The key risk to the statement language is whether "appropriate" is retained as a nod to the current stance of monetary policy. **Please see the Canada section of the Global Week ahead for a fuller preview.**

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.	1.49	1.51	1.52	1.37	1.39	1.38	1.48	1.50	1.47	1.94	1.96	1.95	Canada - BoC	1.75
CANADA	1.32	1.35	1.33	1.14	1.19	1.17	1.12	1.16	1.12	1.39	1.43	1.38	US - Fed	2.25
GERMANY	-0.94	-0.93	-0.89	-0.95	-0.93	-0.89	-0.72	-0.70	-0.69	-0.20	-0.16	-0.19	England - BoE	0.75
JAPAN	-0.29	-0.30	-0.30	-0.35	-0.35	-0.34	-0.28	-0.27	-0.26	0.11	0.15	0.16		
U.K.	0.31	0.33	0.38	0.24	0.27	0.33	0.37	0.42	0.50	0.89	0.94	1.04		
	Spreads vs. U.S. (bps):													
CANADA	-18	-16	-19	-23	-20	-21	-36	-34	-35	-56	-54	-57	Euro zone - ECB	0.00
GERMANY	-243	-243	-241	-232	-232	-227	-220	-220	-217	-214	-213	-214	Japan - BoJ	-0.10
JAPAN	-178	-180	-182	-172	-173	-171	-176	-176	-174	-183	-181	-179		
U.K.	-118	-117	-114	-113	-112	-105	-111	-108	-97	-105	-103	-91	Mexico - Banxico	8.00
Equities	Level			Change			% change:			1 Day			Next Meeting Date	
	Last													
S&P/TSX	16442			57.6			0.4			2.5		1.0	Australia - RBA	1.00
Dow 30	26403			41.0			0.2			3.0		-0.3		
S&P 500	2926			1.9			0.1			2.8		-0.2	New Zealand - RBNZ	1.00
Nasdaq	7963			-10.5			-0.1			2.7		-0.5		
DAX	11915			-38.3			-0.3			1.6		0.4		
FTSE	7260			-21.8			-0.3			2.4		-2.0		
Nikkei	20625			5.0			0.0			0.8		-2.2	Canada - BoC	Sep 04, 2019
Hang Seng	25528			-98.7			-0.4			-0.5		-5.2	US - Fed	Sep 18, 2019
CAC	5469			-23.8			-0.4			1.5		2.1	England - BoE	Sep 19, 2019
Commodities	Level			Change			% change:			1 Day				
WTI Crude	54.12			-0.98			-1.8			0.9		-2.8	Euro zone - ECB	Sep 12, 2019
Natural Gas	2.32			0.03			1.3			3.8		9.1	Japan - BoJ	Sep 19, 2019
Gold	1530.98			1.58			0.1			-0.8		6.3		
Silver	18.35			-0.04			-0.2			7.6		13.3	Mexico - Banxico	Sep 26, 2019
CRB Index	169.06			-1.30			-0.8			0.1		-2.5	Australia - RBA	Sep 03, 2019
Currencies	Level			Change			% change:			1 Day				
USDCAD	1.3363			0.0037			0.3			0.6		1.2	New Zealand - RBNZ	Sep 24, 2019
EURUSD	1.0938			-0.0032			-0.3			-1.4		-2.4		
USDJPY	106.11			-0.1300			-0.1			0.3		0.2		
AUDUSD	0.6733			0.0017			0.3			-0.3		-0.3		
GBPUSD	1.2019			-0.0047			-0.4			-2.2		-1.0		
USDCHF	0.9903			-0.0004			-0.0			0.9		1.7		

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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