

ON DECK FOR WEDNESDAY, SEPTEMBER 4

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	09/04	07:00	MBA Mortgage Applications (w/w)	Aug 30	--	--	-3.1
CA	09/04	08:30	Merchandise Trade Balance (C\$ bn)	Jul	-0.1	-0.4	0.1
CA	09/04	08:30	Productivity (q/q a.r.)	2Q	--	0.1	0.3
US	09/04	08:30	Trade Balance (US\$ bn)	Jul	-52.3	-53.4	-55.2
US	09/04	09:00	Total Vehicle Sales (mn a.r.)	Aug	17.0	16.8	16.8
CA	09/04	10:00	BoC Interest Rate Announcement (%)	Sep 4	1.75	1.75	1.75

KEY POINTS:

- Risk-on driven by reduced or pushed out geopolitical risks
- No-deal Brexit risk has either diminished or been pushed out
- HK stocks rally as the extradition treaty is withdrawn
- But US-China trade tensions remain as acute as before
- The Bank of Canada needs to avoid tightening financial conditions...
-perhaps by altering 'appropriate' reference to the policy stance
- Heavy Fed-speak today
- US, Canada update trade figures
- US vehicle sales on tap

INTERNATIONAL

With the Bank of Canada slated to weigh in with its fresh decision and guidance, global risk-on sentiment is being driven by perceptions that at least some of the geopolitical risks overhanging markets may have either subsided or been pushed out. There is still zero traction on US-China trade tensions that represent the granddaddy of the risks overhanging markets. For now, however, markets are focused upon lessened no-deal Brexit risks after the vote in the British Parliament last evening while the formal bill to extend the UK's requested deadline to January 31st is slated for a vote this evening and potentially triggering a formal election call. Add in Hong Kong's somewhat more accommodating stance toward protestors upon withdrawal of the extradition treaty.

- The USD is broadly depreciating against most crosses. Underperformers include other safe havens like the yen and Swiss franc, but also CAD as traders are guarded ahead of the BoC statement.
- Sovereign curves are cheapening up almost everywhere except for Italy where spreads over bunds continue to tighten. Canada's curve is about 2bps cheaper across maturities. The US Treasury curve is 2-3bps cheaper in a mild bear steepener. Gilts are underperforming all other markets with 10s up 10bps on reduced safe haven seeking due to lessened or pushed out no-deal Brexit risks.
- US equity futures are up by ¾% to 1% across the exchanges with the TSX up by just over ½%. European cash markets are rallying by as little as ¼% in London as the pound appreciates, to 1% in Germany and France. Hong Kong ripped higher by 4% overnight.

CONTACTS

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

- Oil prices are up by about 70 cents or so in terms of WTI and Brent. US government reported oil inventories will be released tomorrow instead of today given the holiday-shortened week.

CANADA

The BoC is a statement-only affair today (10amET) followed by the economic progress report that follows non-MPR statements and that will be delivered tomorrow by Deputy Governor Schembri. Neither consensus nor markets expect the BoC to cut, but most probably wouldn't fault it for easing and at a minimum it needs to alter language so as to avoid tightening financial conditions. If it doesn't alter "appropriate" reference to the current policy rate either by striking it down or watering it down such as by adding qualifiers like "at this time" or something like "for now, as we reassess conditions", then the BoC risks tightening financial conditions through CAD and the rates complex. It would be a very brave central bank to tighten financial conditions in this environment. See the Canadian section of the Global Week Ahead for a fuller discussion. Canadian trade figures will be released just before (8:30amET). Also keep an eye on Q2 productivity readings given accelerating wage growth; at some point, productivity is the ultimate anchor point for inflation-adjusted wage gains and trend productivity growth has been tepid.

In addition to the arguments given in the BoC preview provided in the week ahead, one key matter is worth exploring a little further. What's different about the BoC easing today versus in 2015? Back then, they eased in a way that arguably overheated interest sensitive sectors like housing without doing much to counter weaker resource prices that could have flowed through to more stable second-round effects. They eased ahead of when Ottawa began doling out a large increase in child benefit cheques in mid-2016 and thus monetary policy and fiscal policy temporarily over-stimulated consumption. The transitory effects of the terms of trade shock in 2014H2 into 2015 might have run its course without being complicated by a transitory policy-induced overshoot by housing and consumption.

This time, the trade hit could be longer lasting and more damaging, B20 limits rate pass-through to mortgages, and borrowers are already flocking to fixed rate mortgages from variable rate mortgages such that cutting the administered policy rate wouldn't be as responsible for overheating housing on its own. For the BoC not to ease if the Fed delivers anything close to what is priced over time would tighten Canadian financial conditions at a time of legitimate worries overhanging the global economy and when Canada already has competitiveness problems.

UNITED STATES

A couple of macro reports and further monetary policy guidance are on tap for today.

A narrower all-in trade deficit is likely to be reported for the month of July (8:30amET). We already know that the advance merchandise balance narrowed so today incorporates revisions and tacks on the usually fairly stable services balance. Ergo, there should be little new in the report.

Vehicle sales will also be updated for August later in the day after companies report and will inform expectations for retail sales last month.

Fed-speak will be pretty heavy today with a number of voting officials on tap following a weak ISM-manufacturing report and ahead of nonfarm on Friday. We'll hear from New York Fed President Williams (9:25amET) ahead of Dallas President Kaplan (10amET), followed by the tag team of Governor Bowman and St. Louis President Bullard (12:30pmET). Minneapolis President Kashkari speaks at 1pmET followed by Chicago's Evans (3:15pmET). The Beige Book of regional conditions will be released at 2pmET.

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.	1.46	1.45	1.50	1.35	1.33	1.38	1.48	1.46	1.48	1.98	1.95	1.97	Canada - BoC	1.75
CANADA	1.32	1.31	1.33	1.14	1.13	1.17	1.13	1.11	1.12	1.40	1.39	1.37		
GERMANY	-0.89	-0.91	-0.88	-0.88	-0.92	-0.89	-0.65	-0.71	-0.71	-0.12	-0.19	-0.23	US - Fed	2.25
JAPAN	-0.29	-0.29	-0.30	-0.35	-0.35	-0.34	-0.28	-0.28	-0.28	0.12	0.11	0.16		
U.K.	0.36	0.33	0.35	0.34	0.27	0.29	0.49	0.41	0.44	0.99	0.92	0.99	England - BoE	0.75
	Spreads vs. U.S. (bps):													
CANADA	-14	-14	-18	-21	-20	-21	-36	-34	-36	-57	-56	-60	Euro zone - ECB	0.00
GERMANY	-235	-236	-238	-222	-225	-227	-213	-216	-220	-210	-214	-220		
JAPAN	-176	-174	-181	-169	-168	-172	-176	-174	-176	-186	-184	-181	Japan - BoJ	-0.10
U.K.	-110	-112	-115	-101	-106	-109	-99	-105	-104	-99	-104	-98		
Equities	Level						% change:						Mexico - Banxico	8.00
	Last	Change			1 Day	1-wk	1-mo	1-yr						
S&P/TSX	16399	-42.8			-0.3	1.9	0.8	1.5					Australia - RBA	1.00
Dow 30	26118	-285.3			-1.1	0.8	-1.4	0.6						
S&P 500	2906	-20.2			-0.7	1.0	-0.9	0.3					New Zealand - RBNZ	1.00
Nasdaq	7874	-88.7			-1.1	0.3	-1.6	-2.7						
DAX	12046	135.5			1.1	3.0	1.5	-1.3						
FTSE	7297	28.4			0.4	2.6	-1.5	-2.2						
Nikkei	20649	24.0			0.1	0.8	-2.1	-9.0					Canada - BoC	Sep 04, 2019
Hang Seng	26523	995.4			3.9	3.5	-1.5	-5.2					US - Fed	Sep 18, 2019
CAC	5530	63.5			1.2	3.0	3.2	3.5						
Commodities	Level						% change:							
WTI Crude	54.84	0.90			1.7	-0.2	-1.5	-21.5					England - BoE	Sep 19, 2019
Natural Gas	2.36	0.01			0.3	7.4	11.5	-16.3						
Gold	1536.37	-10.74			-0.7	-0.2	6.6	28.9					Euro zone - ECB	Sep 12, 2019
Silver	18.48	0.13			0.7	4.2	14.1	27.2						
CRB Index	170.35	1.16			0.7	0.4	-1.7	-11.3					Japan - BoJ	Sep 19, 2019
Currencies	Level						% change:							
USDCAD	1.3318	-0.0019			-0.1	0.1	0.9	1.0					Mexico - Banxico	Sep 26, 2019
EURUSD	1.1015	0.0041			0.4	-0.6	-1.7	-4.9						
USDJPY	106.22	0.2800			0.3	0.1	0.3	-4.7					Australia - RBA	Oct 01, 2019
AUDUSD	0.6792	0.0032			0.5	0.9	0.5	-5.4						
GBPUSD	1.2198	0.0117			1.0	-0.1	0.5	-5.1					New Zealand - RBNZ	Sep 24, 2019
USDCHF	0.9846	-0.0025			-0.3	0.3	1.1	1.0						

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.

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a "call to action" or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with "Global Banking and Markets", is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including, Scotiabanc Inc.; Citadel Hill Advisors L.L.C.; The Bank of Nova Scotia Trust Company of New York; Scotiabank Europe plc; Scotiabank (Ireland) Limited; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Scotia Inverlat Casa de Bolsa S.A. de C.V., Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorised by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorised by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., and Scotia Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.