

ON DECK FOR THURSDAY, SEPTEMBER 5

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	09/05	08:15	ADP Employment Report (000s m/m)	Aug	150	148	195
US	09/05	08:30	Initial Jobless Claims (000s)	Aug 31	215	215	215
US	09/05	08:30	Continuing Claims (000s)	Aug 24	--	1688	1698
US	09/05	08:30	Productivity (q/q a.r.)	2Q F	--	2.2	2.3
US	09/05	08:30	Unit Labor Costs (q/q a.r.)	2Q F	--	2.4	2.4
US	09/05	10:00	Durable Goods Orders (m/m)	Jul F	--	2.1	2.1
US	09/05	10:00	Durable Goods Orders ex. Trans. (m/m)	Jul F	--	-0.4	-0.4
US	09/05	10:00	Factory Orders (m/m)	Jul	1.0	1.0	0.6
US	09/05	10:00	ISM Non-Manufacturing Composite	Aug	54.0	54.0	53.7

KEY POINTS:

- Risk-on may be driven by false trade hopes
- What I would ask the BoC's Schembri today
- German factory orders reverse prior rise...
- ...and remain on a weak trend in 2019
- US ADP surprises higher ahead of nonfarm
- US ISM-services, factory orders on tap
- Philippines CPI supports further CB easing
- Krona jumps on hawkish Riksbank...
- ...but the central bank has misjudged key risks before

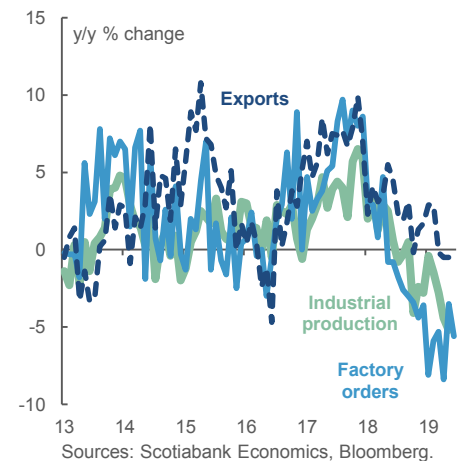
INTERNATIONAL

Markets are not doing a whole lot of questioning around vague trade-talk guidance from the US and China. The USTR guided that the countries are working toward trade talks in October, but no date has been set. That sounds like a re-run of the optimism into September that they might sit down and were working toward it, but clearly won't. Perhaps China is waiting to see if the Trump administration truly goes ahead with the jump in the 25% tariff rate on US\$250 billion of Chinese imports to 30% on October 1st, a culturally insensitive date that marks the birth of modern China. If so, I would think China has full justification to skip the talks and then October will look a lot like September by way of no progress if not potentially further escalation. Regardless, market manipulation with false hopes seems to be just a-o-k when public officials do it these days..

- The USD is broadly weaker except against a) safe havens like the yen and Swiss franc, and b) less so versus CAD following yesterday's BoC communications. The Swedish krona is beating all comers (Riksbank, see below) with sterling not far behind on continued optimism that PM Johnson's 'no-deal' exit is dead, at least for now...
- Sovereign bond yields are rising sharply across most major markets on the trade optimism. Ten year yields are up 8bps in each of the UK and Canada, 6bps in the US in a parallel upward curve shift, and 6–8bps across the Eurozone. German 10s are still negative at -0.62% with the ten year JGB up a little but still at -0.27%.

CONTACTS

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

Germany's Troubled Economy


- Oil prices are gently higher ahead of US oil inventories (10:30amET).
- US equity futures are up by about 1% on average across exchanges with TSX futures up ½%. European cash markets are up by either side of 1% or so except for a ¾% drop in London as sterling appreciates and impedes export competitiveness. Goods news on Brexit is bad news for exporters is the trade, without considering minor details like who they'd trade with in a post-Brexit world absent agreements. Meh.

Brexit risk is in limbo as tomorrow the House of Lords will take up the bill that Parliament passed yesterday and PM Johnson will deliver a speech calling for an election this afternoon, despite the fact that MPs voted against an election call yesterday. I might just yet hold out hope for democracy's checks and balances if the credibility continues to erode for the man who drove distorted facts that misled voters in the 2016 referendum and then prorogued parliament while sacking anyone who disagreed with him.

Expectations for Bankgo Sentral ng Pilipinas to cut its policy rate again got a shot in the arm with last evening's inflation reading. CPI fell to 1.7% y/y from 2.4% the prior month and a tick below consensus expectations. That's the weakest reading since September 2016. Core inflation fell to 2.9% y/y from 3.2% the prior month and is at its lowest since January of last year. The central bank targets inflation at 2–4% and so headline is beneath that and core is falling into the lower half of that range.

Sweden's Riksbank left its policy rate unchanged at -0.25% as expected but accompanied that with hawkish guidance. While the guided path of future rate hikes is shallower, Governor Ingves continues to guide that hikes will return toward year-end. The statement ([here](#)) noted unchanged guidance for the rate to be raised at the end of 2019 or the beginning of 2020. The krona rallied and is the strongest appreciating cross to the USD this morning. Sweden's central bank has misjudged the risks previously, including a famous spat with US economist Paul Krugman, so the jury is out on the path forward as the ECB probably eases this month in the context of sharp global risks.

German factory orders fell 2.7% m/m in July (-1.4% consensus) but this is an unwinding of an identical rise the prior month. That said, orders fell 2% in May, rose 2.7% in June and fell 2.7% in July which leaves behind a soft recent trend. In fact, orders have fallen in four of the seven months to date this year and the trend is weak (see chart).

CANADA

Bank of Canada Deputy Governor Schembri delivers the Economic Progress Report that follows non-MPR meetings. His speech will be released at 11:45amET and there will be a press conference at 1pmET. An obvious question following yesterday's statement ([here](#)) is whether the BoC deliberately meant to tighten financial conditions. Schembri might dodge the question, but it's perfectly legitimate to ask and there is risk around a response. CAD has appreciated by well over a cent to the USD since just before yesterday morning's statement and the two year Canada yield increased by 7bps and has since heavily underperformed US short term yields. It's unclear that the BoC would have understood the impact of its guidance upon market conditions and whether it feels it is appropriate to tighten conditions at this point in the outlook. I don't.

UNITED STATES

US markets face several macro reports this morning.

ADP private payrolls surpassed expectations at +195k for August (148k consensus). That might suggest that private nonfarm payrolls will face upside risk tomorrow, but bear in mind the 45k or so absolute value of monthly average differences between private ADP payrolls and private nonfarm payrolls on the initial first passes at both. The difference can be much larger at times.

Nevertheless, there are at least two competing forces here. One is the impact of Trump's August 1st tariff announcement and escalation since then. This hit into the nonfarm reference period (the pay period including the 12th of each month) and when happened in May, it dragged payrolls down to very little growth. That didn't impair ADP's hiring confidence in today's reading, but nonfarm remains to be seen.

Second, August was a challenge for seasonal adjustments to a variety of indicators because of the unusually high number of weekends (5) and because Labor Day activity mostly fell into August this year. That might be difficult to control against in retail

sales, consumer spending and housing indicators and was a factor artificially boosting yesterday's vehicle sales print (see Rebekah Young's recap of the US and Canadian vehicle sales figures [here](#)).

In addition:

1. ISM-services: The non-manufacturing PMI for August is due out at 10amET. The reading has dropped from a peak of 60.8 a year ago to just under 54 in July that, being above 50, continues to signal expansion but at a decelerating pace. Consensus expects little change, but further downside would add to negative sentiment from ISM-manufacturing.

2. Factory orders: They are expected to follow upward the large 2.1% m/m jump in durables but at a more muted pace that reveals growth in the roughly other half of the report that measures orders for nondurable goods.

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.	1.50	1.43	1.52	1.39	1.32	1.40	1.53	1.47	1.50	2.03	1.97	1.97	Canada - BoC	1.75
CANADA	1.40	1.34	1.34	1.23	1.15	1.18	1.22	1.13	1.15	1.48	1.41	1.40	US - Fed	2.25
GERMANY	-0.88	-0.89	-0.91	-0.86	-0.90	-0.91	-0.61	-0.67	-0.69	-0.04	-0.15	-0.18	England - BoE	0.75
JAPAN	-0.29	-0.29	-0.31	-0.33	-0.35	-0.35	-0.26	-0.28	-0.29	0.14	0.12	0.14		
U.K.	0.43	0.36	0.36	0.41	0.34	0.29	0.58	0.49	0.44	1.10	1.00	0.98		
	Spreads vs. U.S. (bps):													
CANADA	-10	-10	-18	-16	-17	-22	-31	-34	-35	-54	-56	-57	Euro zone - ECB	0.00
GERMANY	-238	-232	-243	-225	-222	-230	-214	-214	-219	-207	-212	-215	Japan - BoJ	-0.10
JAPAN	-178	-173	-183	-172	-166	-175	-179	-174	-178	-188	-185	-182		
U.K.	-107	-107	-116	-98	-98	-111	-95	-97	-106	-92	-97	-98	Mexico - Banxico	8.00
Equities	Level			Change			% change:							
	Last						1 Day	1-wk	1-mo	1-yr				
S&P/TSX	16449			49.6			0.3	1.6	1.1	1.9				
Dow 30	26355			237.5			0.9	2.2	2.5	1.5				
S&P 500	2938			31.5			1.1	2.4	3.3	1.7				
Nasdaq	7977			102.7			1.3	1.9	3.2	-0.2				
DAX	12124			98.6			0.8	2.4	4.0	0.7				
FTSE	7259			-52.3			-0.7	1.0	0.5	-1.7				
Nikkei	21086			436.8			2.1	3.1	1.8	-6.6				
Hang Seng	26516			-7.7			-0.0	3.2	1.4	-2.7				
CAC	5594			61.8			1.1	2.6	6.7	6.3				
Commodities	Level			Change			% change:							
WTI Crude	56.39			0.13			0.2	1.1	3.1	-17.9				
Natural Gas	2.44			-0.00			-0.1	8.5	18.0	-12.6				
Gold	1536.33			-16.09			-1.0	0.6	5.0	28.4				
Silver	19.31			0.83			4.5	5.1	19.2	35.5				
CRB Index	173.08			0.39			0.2	1.1	0.9	-9.4				
Currencies	Level			Change			% change:							
USDCAD	1.3204			-0.0020			-0.2	-0.6	0.0	0.2			Mexico - Banxico	Sep 26, 2019
EURUSD	1.1065			0.0030			0.3	0.1	-1.2	-4.9				
USDJPY	106.87			0.4800			0.5	0.3	0.9	-4.2			Australia - RBA	Oct 01, 2019
AUDUSD	0.6819			0.0022			0.3	1.4	0.9	-5.2				
GBPUSD	1.2343			0.0090			0.7	1.3	1.6	-4.4			New Zealand - RBNZ	Sep 24, 2019
USDCHF	0.9836			0.0029			0.3	-0.3	1.0	1.2				
Next Meeting Date														
													Canada - BoC	Oct 30, 2019
													US - Fed	Sep 18, 2019
													England - BoE	Sep 19, 2019
													Euro zone - ECB	Sep 12, 2019
													Japan - BoJ	Sep 19, 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.

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.