

ON DECK FOR FRIDAY, SEPTEMBER 6

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	09/06	08:30	Employment (000s m/m)	Aug	20	20.0	-24.2
CA	09/06	08:30	Unemployment Rate (%)	Aug	5.7	5.7	5.7
US	09/06	08:30	Average Hourly Earnings (m/m)	Aug	0.3	0.3	0.3
US	09/06	08:30	Average Hourly Earnings (y/y)	Aug	3.0	3.0	3.2
US	09/06	08:30	Average Weekly Hours	Aug	--	34.4	34.3
US	09/06	08:30	Nonfarm Employment Report (000s m/m)	Aug	150	160.0	164.0
US	09/06	08:30	Unemployment Rate (%)	Aug	3.7	3.7	3.7

KEY POINTS:

- Risk-on tone before nonfarm and Powell
- Nonfarm: improbable to get a major downside post-ADP
- US wage growth likely fell again
- Fed Chair Powell on outlook panel today
- Canadian jobs: on watch for three dips in a row
- PBOC cuts RRRs as follow through on yesterday's state direction
- Russia's CB cuts
- German industrial output surprises lower
- Brexit drama continues

INTERNATIONAL

US nonfarm payrolls (8:30amET) will be the dominant market risk to close out the week and Fed Chair Powell's panel appearance will follow early this afternoon. China's reduction of its required reserve ratios was expected after guidance from the State Council yesterday, so some of the market reaction was captured in yesterday's equity rally. Imagine that, a central bank that does what the state tells it to do which no doubt makes for serious China-envy by Trump. Nonfarm and Powell make an early assessment of the tone across the global risk trade premature. Trade tweet risk may be in limbo as they try to piece together a date for a US-China meeting in October which I'd say is a remote chance that markets are overestimating. Brexit risks continue to push PM Johnson back on his heels (see below). Canadian jobs, a delivered rate cut by Russia's central bank and softer than expected German industrial figures round out other pre-nonfarm distractions.

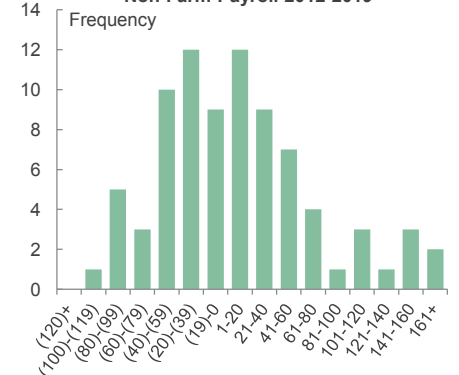
- US equity futures are up by about ¼% with TSX futures little changed. European cash markets are mixed with London and Paris little changed and Frankfurt up by about ½%. Asia generally rallied as follow through to yesterday's US rally.
- The USD is slightly softer in tone this morning, but not by much as individual crosses are divergent. Appreciating currencies include the rand, NZ\$, Mexican peso, A\$ and won. CAD and the yen are flat, while the euro, pound sterling and Swiss franc are slightly depreciating.

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China Is Unleashing Its Banks


Sources: Scotiabank Economics, Bloomberg.

Differences Between Initial ADP And Private Non-Farm Payroll 2012-2019


000s; parentheses indicate negative values; positive values indicate ADP overshoots

Sources: Scotiabank Economics, BLS, ADP.

- US Treasury yields are under upward pressure with yields up by about 3–14bps across the curve. Canadas are performing similarly. Gilts are dearer, including a 5bps drop in the 10 year yield. Bunds and French bonds are little changed while Italian debt is slightly rallying.
- Oil prices are down by about a buck in terms of WTI and Brent.

China reduced its required reserve ratio by 50bps this morning. The move became anticipated after guidance was provided yesterday by the State Council to the People's Bank of China. The cumulative reductions in the required reserve ratios for major and smaller banks are shown in the accompanying chart. The reductions will take effect on September 16th. A few city commercial banks will have their ratios reduced by one percentage point spread between October 15th and November 15th. The PBOC estimates that the RRR reductions will unleash about US\$125 billion of liquidity.

German industrial production surprised lower and fell by 0.6% m/m in July (+0.4% consensus). The downside surprise was only partly attributable to a four-tenths upward revision to the prior month's drop that now sits at -1.1%. Output has fallen for three of the past four months and is now down by a cumulative 6½% since the peak last November and which puts output back to where it last was at the end of 2016. Clearly the trade war has dragged down Germany's economy. The drivers of the declines have been diverse. In July, manufacturing and mining output fell 0.8%, energy output dropped by 1.3%, and building construction fell 1.3%.

Russia's central bank cut its key rate by 25bps this morning to 7% as expected.

The UK's House of Lords will determine by 12pmET whether to approve the bill that forces the UK government to request the EU to delay the Brexit deadline until January 31st and could make for a very deserving end to a bad week for Boris. Both court challenges to PM Johnson's decision to prorogue parliament were won by Johnson, but will be appealed. Further, unconfirmed reports indicate that opposition parties have agreed upon voting against a planned second vote to be brought forward by Johnson in favour of a snap election call on Monday. Any amendments by the Lords would go back to Parliament on Monday when PM Johnson may pursue another vote to allow an election.

CANADA

At issue in Canada is whether we get three in a row for job losses this morning (8:30amET). Being a household survey, the 90% confidence interval is +/- 54,200, or about the number of people the Jays baseball team could fit into their stadium in a better season. The wage measure in this report doesn't matter as it gets a small roughly 5% weight in the BoC's preferred wage common composite metric. Scotia's estimated job gain is 20k and hence coincidentally in line with consensus this time.

UNITED STATES

Fed Chair Powell speaks on a panel at 12:30pmET today. He will share the stage with the SNB Chair Jordan. There will be no text with the focus being on a moderated Q&A session. The topic is "Economic Outlook and Monetary Policy" and it can be streamed off a link available on the Fed's web site ([here](#)).

Is there upside risk to nonfarm payrolls (8:30amET) because ADP surprised higher? Not necessarily. Scotia's estimate of 150k is similar to the consensus estimate of 160k.

The spread between initial ADP private payroll changes and initial readings on private nonfarm payrolls runs from -106k (ADP underestimate) to +175k (ADP overestimate) and a mean absolute value spread of about 50k over the period since October 2012 when ADP revised its methodology to more closely track nonfarm. ADP can be a useful harbinger of things to come with nonfarm payrolls when it is a sharp outlier (more so than this morning).

Another way of looking at the scope for surprise but more to the downside involves a look at the second accompanying chart. It shows the historical spread between the initial ADP and private nonfarm payroll estimates since ADP revised its methodology in October 2012 and expresses this in terms of the frequency of reported differences between the estimates. This is useful because what it says that **there is low probability of a major nonfarm downside this morning**. With ADP at 195k yesterday, a private nonfarm estimate of, say, 100k or less would be a spread in initial estimates that has happened only about ten times in roughly the past seven years. Hence, it's not impossible, but improbable.

Nevertheless, at issue remains whether hiring confidence held up into the nonfarm reference period (the pay period including the 12th day of each month) after Trump announced tariffs on China on August 1st and only delayed some of them to mid-December in mid-August before totally losing his mind at month-end. The deterioration in trade policy risks negative nonfarm revisions in the next report and if we don't get soft nonfarm in the morning then we might see it next month instead.

The bigger issue is that wage growth is expected to decelerate. On shifting base effects alone, wage growth could drop from 3.2% y/y in July to as low as 2.6–2.7%. Tacking on trend monthly wage gains lifts this to around 3.0% for estimated wage growth. Wage growth peaked at 3.4% back in February and has been stalled or slightly decelerating since then.

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		
	1.56	1.53	1.51	1.47	1.43	1.39	1.60	1.56	1.50	2.08	2.05	1.96	Canada - BoC	1.75
	1.49	1.45	1.35	1.32	1.29	1.19	1.29	1.26	1.16	1.53	1.51	1.43	US - Fed	2.25
	-0.87	-0.87	-0.93	-0.86	-0.86	-0.92	-0.60	-0.59	-0.70	-0.03	-0.01	-0.18	England - BoE	0.75
	-0.29	-0.29	-0.30	-0.33	-0.33	-0.35	-0.24	-0.26	-0.27	0.22	0.14	0.16	Euro zone - ECB	0.00
	0.39	0.44	0.40	0.37	0.43	0.33	0.55	0.60	0.48	1.08	1.13	1.02	Japan - BoJ	-0.10
	Spreads vs. U.S. (bps):													
	-8	-8	-16	-15	-14	-20	-30	-29	-34	-55	-54	-54	Mexico - Banxico	8.00
	-243	-240	-243	-232	-229	-231	-219	-215	-220	-211	-206	-214	Australia - RBA	1.00
-186	-181	-180	-180	-176	-173	-183	-182	-177	-186	-191	-181	New Zealand - RBNZ	1.00	
-117	-108	-111	-110	-100	-105	-105	-96	-102	-100	-92	-95			
Equities	Level						% change:							
	Last	Change					1 Day	1-wk	1-mo	1-yr				
S&P/TSX	16575	126.0					0.8	1.9	2.6	2.9				
Dow 30	26728	372.7					1.4	2.7	2.7	2.8				
S&P 500	2976	38.2					1.3	3.0	3.3	3.4				
Nasdaq	8117	139.9					1.8	3.3	3.6	2.4				
DAX	12193	66.5					0.5	2.1	5.4	2.0				
FTSE	7271	-0.5					-0.0	0.9	1.4	-0.7				
Nikkei	21200	113.6					0.5	2.4	3.0	-5.7				
Hang Seng	26691	175.2					0.7	3.8	2.8	-1.1				
CAC	5600	6.8					0.1	2.2	7.0	6.8				
Commodities	Level						% change:							
WTI Crude	55.41	-0.89					-1.6	-2.3	3.3	-18.2				
Natural Gas	2.41	-0.02					-1.0	5.0	14.2	-13.1				
Gold	1505.76	-13.22					-0.9	-1.0	2.1	25.5				
Silver	19.22	-0.09					-0.4	4.0	16.6	35.6				
CRB Index	170.94	-1.40					-0.8	-0.7	0.2	-9.9				
Currencies	Level						% change:							
USDCAD	1.3227	-0.0003					-0.0	-0.6	-0.4	0.6				
EURUSD	1.1023	-0.0012					-0.1	0.4	-1.6	-5.2				
USDJPY	107.00	0.0600					0.1	0.7	0.5	-3.4				
AUDUSD	0.6831	0.0016					0.2	1.5	1.0	-5.1				
GBPUSD	1.2308	-0.0026					-0.2	1.3	1.1	-4.8				
USDCHF	0.9912	0.0054					0.5	0.1	1.5	2.7				

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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