

ON DECK FOR THURSDAY, SEPTEMBER 12

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	09/12	08:30	New Housing Price Index (m/m)	Jul	--	0.0	-0.1
US	09/12	08:30	CPI (m/m)	Aug	0.1	0.1	0.3
US	09/12	08:30	CPI (y/y)	Aug	1.8	1.8	1.8
US	09/12	08:30	CPI (index)	Aug	--	257	257
US	09/12	08:30	CPI ex. Food & Energy (m/m)	Aug	0.1	0.2	0.3
US	09/12	08:30	CPI ex. Food & Energy (y/y)	Aug	2.3	2.3	2.2
US	09/12	08:30	Initial Jobless Claims (000s)	Sep 7	215	215	215
US	09/12	08:30	Continuing Claims (000s)	Aug 31	1665	1675	1698
US	09/12	14:00	Treasury Budget (US\$ bn)	Aug	--	-195.0	-119.7

KEY POINTS:

- Global markets await ECB
- Super Mario's final act is unlikely to disappoint
- ECB expectations
- Is a Trump capitulation on China and Iran underway?
- US CPI: a possible core up-tick is likely to be faded
- Turkey's CB slashes rate by 325bps
- Bank Negara holds
- Peru's CB expected to hold
- US claims, auction on tap

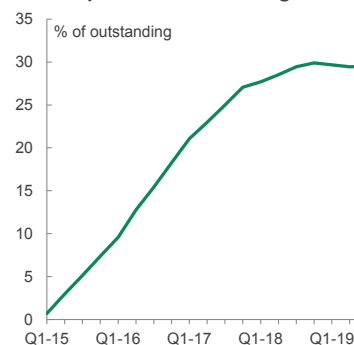
INTERNATIONAL

The ECB statement (7:45amET) and President Draghi's press conference (8:30amET) will substantially contribute toward shaping the market tone over the duration of the week. If they do as expected (see below), then there is added scope for Trump to rant about currency manipulation again. Markets see a hint of optimism that US President Trump is engineering policy reversals after sacking Bolton, musing that sanctions on Iran could be eased, and delaying the October 1st 5% tariff hike on Chinese imports to two weeks later and hence no longer on one of the most culturally insensitive days on China's calendar. There are other developments, but they pale by comparison. Three other central banks are weighing in with policy decisions with Bank Negara holding, Peru expected to hold tonight and Turkey aggressively cutting its repo rate again. Canadian markets will follow external risks.

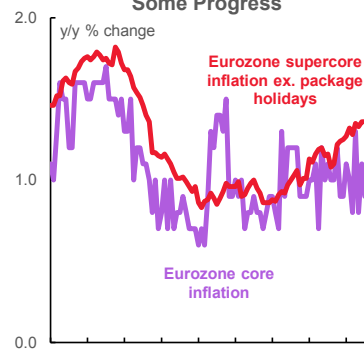
- The USD is broadly softening a little, but the post-ECB vulnerability of the Euro will rapidly inform this positioning.
- Sovereign bond yields are slightly richer across the main benchmarks. US Treasury yields are slightly lower, but mostly toward the 10s30s end of the curve. Yields on gilts are a touch higher at the front-end. 10s in Germany and France are dearer by 2bps, while Italian 10s are slightly cheaper.

CONTACTS

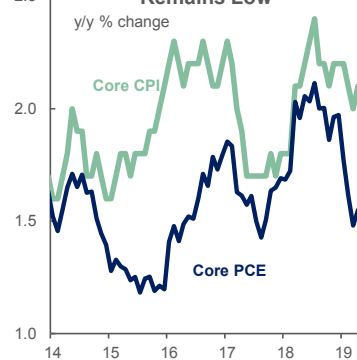
Derek Holt, VP & Head of Capital Markets Economics
416.863.7707
Scotiabank Economics
derek.holt@scotiabank.com

ECB's Holdings of European Union Sovereign Bonds


Sources: Scotiabank Economics, European Central Bank.

The ECB Is Making Some Progress


Sources: Scotiabank Economics, Bloomberg.

Core PCE Inflation Remains Low


Sources: Scotiabank Economics, Bloomberg.

- Oil prices are down by 50–70 cents in terms of WTI and Brent. Yesterday's US government oil inventories report that indicated another large drawdown is being faded in favour of emphasizing today's warning from the IEA that OPEC+ faces a "daunting" surplus next year.
- US equity futures are slightly higher, with TSX futures flat. European cash markets are mixed but little changed on balance.

The ECB's announcements will dominate market considerations into the remainder of the trading week. Last Friday's Global Week Ahead included expectations within the European section ([here](#)). **Opinions abound, but uncertainty is high on exactly what forms of stimulus will be offered.** My guesses are below. In general, it's highly doubtful that 'Super Mario' will fizzle into retirement versus strengthen his legacy by attempting to pull out all stops to address downside risks to growth and soft inflation. The main distinction is that I think a smaller purchase program than previous versions could be easier to pitch in terms of both the economics (core inflation) and the politics not least of which on the Governing Council. The binary bet between holding off now and potentially introducing it later, versus going much bigger now would be met with a happy compromise in the middle if they announced now but a somewhat modest program.

1. We forecast a -10bps cut to the deposit rate to -0.5%. Consensus is divided between -10bps and -20bps.

2. QE is likely to be announced today and implemented in October. A purchase program with a one year duration that buys €30B per month is feasible. Around that magnitude would not require a change in the self-imposed 33% limit assuming modest growth in the pool of eligible securities. The starting point offers some flexibility (chart 1). **That magnitude of purchases could be more easily sold to opponents on the Governing Council** than a much larger program, given significant opposition from Germany, France, Holland, Austria and the Netherlands. The ECB could target higher purchases that would be more in line with past QE purchase flows, but there may be more opposition to raising the limit in order to do so. A rationale for lower purchase volumes could include pointing out that supercore CPI inflation is firmer than it was in past years and trending up since early 2017 (chart 2). It's still below the inflation target, but closer than it has been in six years. 'Supercore' is at 1.36% y/y, up from 0.86% at the end of 2016. When ECB purchases were implemented and peaked over the 2015 to early 2017 period, supercore inflation was tumbling and hit bottom. It is a potentially different picture today, but market based inflation expectations are weaker which the more dovish members might emphasize more strongly than the past in voting for a bigger program.

3. I expect tiering of reserves with negative rates no longer applying beneath a tier. The likelihood of tiering would be higher if they cut -20bps instead of -10bps today, and/or the tiering threshold could be higher. Exempting 25–35% of excess reserves from the negative deposit rate is a reasonable range of expectations.

4. Forward guidance: I would expect this to be pushed out to remain at "present or lower levels" to at least 2021H1, possibly later. I can't see how it would make sense not to push out forward guidance if they are still purchasing securities until 2020Q4. In essence, policy would be pushing and pulling in such a scenario.

5. A further reduction in the deposit rate by another 10bps is not in our published forecasts, but I think it's possible for when Lagarde takes over after the end of October and hence at the December 12th meeting. Substitution toward gold (after inventory and financing costs) and pure cash is being risked the deeper negative rates plunge.

Turkey's central bank beat expectations by cutting its one-week repo rate by 325bps to 16.5% (17% consensus).

Bank Negara Malaysia left its overnight policy rate unchanged at 3% as generally expected. The accompanying statement ([here](#)) had a neutral dovish tinge to it. The central bank noted that unchanged growth forecasts were nevertheless subject to "further downside risks" due to trade tensions, global and domestic uncertainties and softness in commodity-related sectors. It also described the current stance of monetary policy as "accommodative and supportive of economic activity."

After a quarter point rate cut on August 8th, Peru's central bank is unlikely to offer additional stimulus just yet when it delivers another decision tonight (7pmET). Ten out of thirteen forecasters anticipate a hold. The accompanying statement in August ([here](#)) was fairly explicit in this regard where it noted "This decision does not necessarily imply additional reductions in the policy rate." However, the statement also emphasized paying "close attention to new information on inflation." Since the decision, inflation slipped a tick again to 2.0% y/y in August but core inflation was roughly stable at 2.2% (2.15% prior). Inflation is

tracking closely to the 2.0% inflation target in a 1–3% band, and the central bank may require further evidence of softening before offering additional easing so soon.

UNITED STATES

Headline CPI (8:30amET) is forecast to remain unchanged at 1.8% y/y assuming a very slightly altered year-ago base effect and little typical seasonal pressure in August alongside modest further lifting of transitory downsides to inflation. **Core CPI is forecast to tick up one notch to 2.3% y/y.** Since the Fed's preferred core PCE gauge (1.6% y/y in July) tends to undershoot core CPI fairly steadily by several tenths of a percentage point over time (chart 1), the Fed's efforts to achieve the symmetrical 2% inflation target will be minimally affected. In addition, there are measurement differences between core CPI and core PCE that don't assure that changes in one lead to changes in the other.

Weekly jobless claims (8:30amET) and a reopened auction of 30 year bonds (1pmET) are also on tap.

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	Canada - BoC	1.75	
	1.67	1.68	1.53	1.59	1.59	1.43	1.72	1.74	1.56	2.20	2.22	2.05			
	1.58	1.58	1.45	1.43	1.44	1.29	1.40	1.42	1.26	1.61	1.63	1.51	US - Fed	2.25	
	-0.85	-0.84	-0.87	-0.84	-0.83	-0.86	-0.58	-0.56	-0.59	-0.00	0.02	-0.01			
	-0.28	-0.27	-0.29	-0.30	-0.28	-0.33	-0.21	-0.20	-0.26	0.29	0.29	0.14	England - BoE	0.75	
	0.51	0.49	0.44	0.47	0.45	0.43	0.65	0.64	0.60	1.11	1.12	1.13			
	Spreads vs. U.S. (bps):												Euro zone - ECB	0.00	
	CANADA	-9	-9	-8	-15	-15	-14	-32	-32	-29	-59	-59			-54
	GERMANY	-252	-252	-240	-243	-243	-229	-231	-230	-215	-220	-220			-206
JAPAN	-195	-194	-181	-189	-188	-176	-194	-194	-182	-191	-193	-191			
U.K.	-116	-119	-108	-112	-115	-100	-108	-110	-96	-109	-110	-92	Japan - BoJ	-0.10	
Equities	Level						% change:						Mexico - Banxico	8.00	
	Last	Change					1 Day	1-wk	1-mo	1-yr	Australia - RBA	1.00			
S&P/TSX	16611	73.8					0.4	1.0	2.3	3.5					
Dow 30	27137	227.6					0.8	3.0	4.7	4.4	New Zealand - RBNZ	1.00			
S&P 500	3001	21.5					0.7	2.1	4.1	3.9					
Nasdaq	8170	85.5					1.1	2.4	3.9	2.7	Next Meeting Date				
DAX	12379	19.9					0.2	2.1	6.0	2.9	Canada - BoC	Oct 30, 2019			
FTSE	7341	2.6					0.0	1.0	1.6	0.4					
Nikkei	21760	161.9					0.7	3.2	5.2	-3.7	US - Fed	Sep 18, 2019			
Hang Seng	27088	-71.4					-0.3	2.2	4.9	2.8					
CAC	5617	-0.6					-0.0	0.4	5.8	5.4	England - BoE	Sep 19, 2019			
Commodities	Level						% change:						Japan - BoJ	Sep 19, 2019	
	Last	Change					1 Day	1-wk	1-mo	1-yr	Euro zone - ECB	Sep 12, 2019			
WTI Crude	55.25	-0.50					-0.9	-1.9	0.6	-21.5					
Natural Gas	2.52	-0.03					-1.2	3.5	19.8	-10.9	Japan - BoJ	Sep 19, 2019			
Gold	1503.66	6.41					0.4	-1.0	-0.5	24.7					
Silver	18.17	0.18					1.0	-5.9	6.9	28.6	Mexico - Banxico	Sep 26, 2019			
CRB Index	173.73	-1.21					-0.7	0.6	1.8	-10.2					
Currencies	Level						% change:						Australia - RBA	Oct 01, 2019	
	Last	Change					1 Day	1-wk	1-mo	1-yr	New Zealand - RBNZ	Sep 24, 2019			
USDCAD	1.3184	-0.0010					-0.1	-0.3	-0.4	1.4					
EURUSD	1.1025	0.0015					0.1	-0.1	-1.7	-5.2					
USDJPY	107.87	0.0500					0.0	0.9	2.4	-3.0					
AUDUSD	0.6877	0.0015					0.2	0.9	1.9	-4.1					
GBPUSD	1.2321	-0.0005					-0.0	-0.1	2.0	-5.6					
USDCHF	0.9904	-0.0025					-0.3	0.5	2.2	2.0					

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.

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