

ON DECK FOR TUESDAY, SEPTEMBER 24

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	09/24	09:00	S&P/Case-Shiller Home Price Index (m/m)	Jul	0.1	0.1	0.0
US	09/24	09:00	S&P/Case-Shiller Home Price Index (y/y)	Jul	2.2	2.1	2.1
US	09/24	10:00	Consumer Confidence Index	Sep	134.0	133.0	135.1
US	09/24	10:00	Richmond Fed Manufacturing Index	Sep	--	1.0	1.0

KEY POINTS:

- Mixed global asset classes digest multiple idiosyncratic factors
- UK court delivers total defeat to PM Johnson
- China increases buying of US soybeans in positive trade signal
- German IFO confidence still trending around multi-year lows
- Oil drops on Saudi headlines ahead of US inventories
- A\$ appreciates as RBA's Lowe doesn't strongly signal cut next week
- US consumer confidence is around a two decade high...
- ...which conflicts with gloomy headlines...
- ...and indicates no imminent risk of recession
- US Richmond Fed, house prices on tap
- US to auction 2s
- Canada quiet

INTERNATIONAL

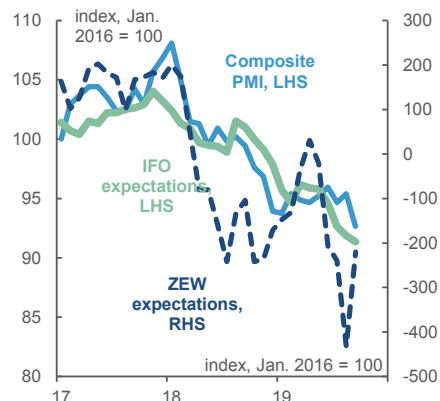
Global asset classes are highly mixed this morning with no unifying theme. Next steps in the Brexit saga remain unclear following a damning indictment by the Supreme Court of PM Johnson's action to prorogue parliament (see below) but sterling's rise is denting the FTSE. Markets don't know how to handle the increasing prospect that the more radical left may be gaining strength across markets like the UK, US and Canada. China granted fresh tariff waivers to some domestic buyers of US soybeans to purchase 2–3 million tons and this is feeding some optimism toward trade negotiations next month, but markets are fairly guarded given the volatility of the developments. US macro data and an auction are on tap after the NY Fed once again encountered high demand for liquidity with its repo operation oversubscribed by a factor of two-to-one this morning.

- Sovereign bond yields are divided between a mild bull flattener in the US, Canada's curve that is rallying by 1–2bps and a slightly cheaper gilts curve. The ten year JGB yield fell again overnight to -0.25% and didn't react to BoJ Governor Kuroda's address that did not rule out further declines in negative rates but also did not address policy options applied to bringing the 10 year yield back in the around 0% +/-20bps zone. The 30 year JGB yield fell to 0.34% and is damaging Japan's key insurers and pensions.
- Oil prices are falling by 50–75 cents ahead of private weekly US oil inventory figures later today and following Saudi headlines regarding the return of oil to previous levels before the drone attacks.

CONTACTS

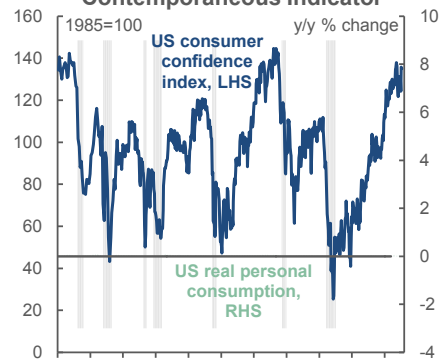
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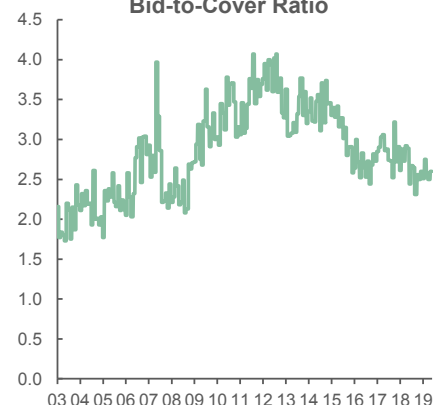
Sources: Scotiabank Economics, Bloomberg.

Confidence is a Contemporaneous Indicator



Sources: Scotiabank Economics, US Conference Board, US BEA, US NBER.

US Treasury Auction Bid-to-Cover Ratio



Sources: Scotiabank Economics, US Treasury.

- US equity futures are up by about 1/4% with TSX futures up by less. European cash markets are slightly rallying on balance except for a quarter point decline in London due to sterling's appreciation. Asian equities were generally higher including a 1/2% rise in Seoul, 1/4% rise at mainland China's two main exchanges and Hong Kong and a small rise in the Nikkei.
- Currency markets are selling the USD against multiple crosses but especially sterling in the wake of the Brexit ruling. The A\$ is a close second due to the lead-up and aftermath of a speech by RBA Governor Lowe (see below).

The UK Supreme Court delivered the disaster scenario right to the doorstep of 10 Downing Street this morning. In a stern rebuke, the court unanimously ruled that it did indeed have jurisdiction to review the matter of proroguing parliament. It went on to rule that the act was unlawful, that the PM's advice to the queen was void and itself unlawful and that Parliament should return as soon as possible. The decision is precedent setting in what had been a murky area of UK constitutional law and nixes future abuse of this parliamentary tactic. It prompted predictable calls from Labour's Corbyn and others for Johnson to resign and for a general election to be held. PM Johnson said he will respect the court ruling but he strongly disagrees with it. Still open to debate is whether one can mislead the populace about the implications, costs and feasibility of Brexit in the lead-up to the 2016 referendum and get away with it. That's a matter perhaps for voters to weigh in upon again.

German IFO business confidence generally did not follow the same path as the sharp drop in the recent purchasing managers' indices (chart 1). Confidence increased three tenths which is statistically insignificant and a minor lift off the lowest reading since late 2012. The current conditions component increased slightly off of its lowest point since November 2014. The forward looking expectations component fell to a new low dating back to June 2009.

In his last remarks ahead of Tuesday's rate decision, **RBA Governor Lowe delivered a speech** ([here](#)) and Q&A session this morning in which he noted that further monetary easing may be required, an extended period of low rates is likely, the RBA would consider QE but deems is unlikely, all the while expressing concern that monetary policy is becoming less effective. The A\$ is nevertheless stronger this morning perhaps as market participants were expecting a more direct signal in favour of easing next week. **Futures contracts on the RBA's cash rate are pricing about six-in-ten odds of a cut on Tuesday.** At present, 11 economists expect a hold within consensus and 10 expect a cut.

UNITED STATES

US markets will consider a trio of second or third tier macro releases and a bond auction.

Of the three releases, only the Conference Board's consumer confidence measure usually stands much of a chance at influencing the market tone (10amET). **You wouldn't know it from the dissatisfaction that is replete across headlines nor from the inequality concerns, but it remains the case that overall confidence has not been trending around such heights since 2000 (chart 2).** That two decade high is true for the headline reading, the current conditions subcomponent and the forward-looking expectations component. Confidence is a contemporaneous measure that is not in the least bit compatible with near-term recession risk as shown by plotting confidence levels and recession periods that are denoted by grey vertical bars in chart 3. Remember at the start of the year when some analysts and economists were certain that a recession would occur this year and some even went so far as to say around mid-year that the US was already in one? Bah, no matter, just push out the view another year in a tactic that's right once every 10–15 years and dead wrong every other year.

Tertiary releases will include the **Richmond Fed's manufacturing index** for September (10amET) and **repeat sale home prices** in July (9amET). Home prices have been rising for ten consecutive months but the year-ago pace of increase has slowed to just 3.1% y/y which is the coolest since late 2012. Richmond will further inform expectations for the next ISM-manufacturing reading that is due out next Tuesday. The Philly and Empire gauges both fell which may suggest that ISM could decline as well.

The US Treasury auctions 2s at 1pmET. Appetite for the bond at auction has been fairly steady over time judged by the bid-to-cover ratio as one variable (chart 3).

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		
	1.68	1.68	1.73	1.58	1.60	1.66	1.70	1.73	1.80	2.15	2.17	2.27	Canada - BoC	1.75
	1.56	1.56	1.61	1.40	1.41	1.47	1.36	1.37	1.45	1.51	1.53	1.62	US - Fed	2.00
	-0.73	-0.74	-0.71	-0.75	-0.75	-0.71	-0.58	-0.58	-0.47	-0.09	-0.09	0.08		
	-0.32	-0.29	-0.25	-0.35	-0.33	-0.26	-0.23	-0.21	-0.15	0.35	0.36	0.36		
	0.48	0.49	0.54	0.41	0.40	0.50	0.56	0.55	0.70	0.97	0.97	1.14	England - BoE	0.75
	Spreads vs. U.S. (bps):													
	-12	-12	-12	-19	-19	-19	-35	-35	-36	-64	-65	-65	Euro zone - ECB	0.00
	-241	-243	-244	-233	-236	-237	-228	-231	-228	-224	-226	-219	Japan - BoJ	-0.10
-199	-198	-197	-193	-193	-191	-194	-193	-196	-180	-181	-191			
-120	-120	-119	-117	-120	-116	-115	-118	-111	-118	-120	-113			
Equities	Level						% change:						Mexico - Banxico	8.00
	Last	Change					1 Day	1-wk	1-mo	1-yr				
S&P/TSX	16867	-32.5					-0.2	0.7	5.2	4.1	Australia - RBA			1.00
Dow 30	26950	14.9					0.1	-0.5	5.2	1.5	New Zealand - RBNZ			1.00
S&P 500	2992	-0.3					-0.0	-0.2	5.1	2.5				
Nasdaq	8112	-5.2					-0.1	-0.5	4.7	1.5				
DAX	12347	4.3					0.0	-0.2	6.3	-0.0				
FTSE	7299	-26.8					-0.4	-0.3	2.9	-2.1				
Nikkei	22099	19.8					0.1	0.5	6.7	-7.4	Canada - BoC			Oct 30, 2019
Hang Seng	26281	58.6					0.2	-1.9	0.4	-4.4	US - Fed			Oct 30, 2019
CAC	5642	11.0					0.2	0.5	5.9	3.0				
Commodities	Level						% change:						England - BoE	Nov 07, 2019
WTI Crude	57.98	-0.66					-1.1	-2.3	7.0	-19.6	Euro zone - ECB			Oct 24, 2019
Natural Gas	2.56	0.03					1.4	-4.0	19.1	-15.7	Japan - BoJ			Oct 31, 2019
Gold	1521.00	-1.24					-0.1	1.3	-0.4	26.8				
Silver	18.38	0.50					2.8	3.1	7.8	28.3				
CRB Index	177.90	-0.75					-0.4	-0.5	5.5	-8.7				
Currencies	Level						% change:						Mexico - Banxico	Sep 26, 2019
USDCAD	1.3254	-0.0009					-0.1	0.1	0.0	2.3	Australia - RBA			Oct 01, 2019
EURUSD	1.1002	0.0009					0.1	-0.6	-0.9	-6.4	New Zealand - RBNZ			Sep 24, 2019
USDJPY	107.70	0.1500					0.1	-0.4	1.5	-4.5				
AUDUSD	0.6796	0.0023					0.3	-1.0	0.3	-6.3				
GBPUSD	1.2475	0.0046					0.4	-0.2	2.1	-4.9				
USDCHF	0.9892	-0.0007					-0.1	-0.4	1.1	2.6				

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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