

ON DECK FOR TUESDAY, OCTOBER 1

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	10/01	08:30	Real GDP (m/m)	Jul	0.0	0.1	0.2
US	10/01	09:00	Total Vehicle Sales (mn a.r.)	Sep	17.0	17.0	17.0
US	10/01	10:00	Construction Spending (m/m)	Aug	0.3	0.5	0.1
US	10/01	10:00	ISM Manufacturing Index	Sep	49.90	50.0	49.1

KEY POINTS:

- Japan triggers global bond selloff
- BoJ indicates a possible end to long-bond JGB buying
- CDN GDP: a soft start to Q3?
- Peru hit by double whammy of soft inflation & political turmoil
- US: ISM, construction spending, vehicle sales
- Fed's Evans indicates "appropriate" rates...
- ...and fingers the USD as a driver of low inflation
- RBA cuts and leaves the door open to more
- UK manufacturing is contracting at a little slower pace
- Eurozone CPI edges lower, core edges higher

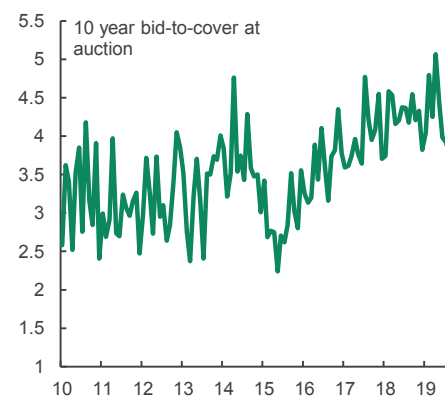
INTERNATIONAL

Global bond markets are in turmoil in the wake of developments in Japan that are spilling abroad. The Bank of Japan and a large government controlled pension are delivering upon Governor Kuroda's earlier remarks that negative yields were getting too negative for the health of the financial sector. After falling to about -30bps earlier this month, the 10 year JGB yield is now at -17bps and back inside the BoJ's around 0% +/-20bps target zone. Missing accomplished? For now at least. US and Canada macro data, turmoil in Peru, Fed-speak, a more dovish than expected RBA, a little slower pace of contraction in UK manufacturing and still soft Eurozone inflation round out developments.

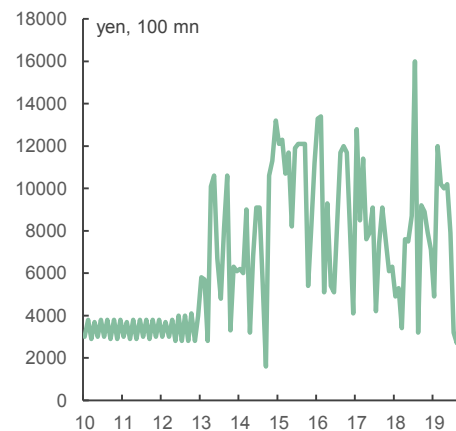
- Sovereign bond yields are under upward pressure everywhere with developments in Japan serving as the catalyst (see below). The result is a repriced carry out of JGBs into debt abroad. The US Treasury curve is bear steepening with 2s up 3bps and 10s up 6bps. Canada's curve is performing similarly as are gilts. EGBs are slightly outperforming partly due to soft Eurozone inflation.
- Equities are mixed with North American futures moving a little higher while European cash markets have a slight negative bias on average. Japanese stocks rallied overnight by between ½% and 1%.
- Oil prices are up by about half a buck as private US oil inventory figures from the API are due later today.
- The USD is generally firmer this morning, but mostly due to softness in the yen, CAD, A\$ and Mexican peso while the euro and pound sterling are little changed.

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Japan's Weakening 10 Year Bond Auctions


Sources: Scotiabank Economics, Bloomberg, Bank of Japan.

BoJ's Reduced Bond Purchases


Sources: Scotiabank Economics, Bloomberg, Bank of Japan.

The epicenter for the global bond market sell-off is Japan and the country offered two catalysts overnight. The combined effects were demonstrated in a weak 10 year JGB auction that drove the bid-to-cover ratio to its lowest since August 2016 (chart 1). One driver was that the BoJ issued [this](#) statement overnight that a) reduced purchase amounts across multiple maturities and b) by signaling a range of purchases for bonds with maturities over 25 years that included zero at the lower bound and hence the prospect of a total cessation of long bond buying. This is in the wake of reduced purchases toward the end of September (chart 2). Second, the Government Pension Investment Fund moved to embrace foreign debt hedged for currency risk as equivalent to domestic debt. This lessens domestic demand for JGBs but one would think it might have also been a catalyst for increased foreign demand and hence constrained the sell-off abroad.

The Reserve Bank of Australia cut its cash rate by 25bps to 0.75% as most economists and market participants anticipated. The A\$ sold off upon release of the statement [here](#) and Governor Lowe's remarks [here](#) because the door was left wide open to further easing with the remark that the RBA "is prepared to ease monetary policy further if needed to support sustainable growth in the economy, full employment and the achievement of the inflation target over time." The statement also expressed some concern about the full employment angle by noting that "forward-looking indicators of labour demand indicate that employment growth is likely to slow from its recent fast rate."

Eurozone CPI inflation slipped to 0.9% y/y (1.0% consensus and prior) but core CPI ticked up to 1.0% as expected. Core has been trending largely sideways since 2017 but so-called super core has gradually edged higher. The Euro largely shook off the release as supportive of ECB stimulus moves that are priced in but not offering materially new information.

UK manufacturing stabilized in September. There was a modest increase in the manufacturing PMI to 48.3 (47.4 prior, 47.0 consensus). That's largely just noise as the indicator has been bottom feeding since June. The new orders sub-index improved a touch but remains in contraction (46.4, 44.4 prior).

Peru got hit by a double whammy of political turmoil and softer than expected inflation. CPI fell to 1.85% y/y (2.0% prior, 2% consensus) which continues a decelerating trend since the peak at 2.7% in May. Core CPI, however, edged very slightly higher to 2.2% y/y. That keeps inflation well within the 2% +/-1% inflation target zone. By far the bigger consideration was the move by President Vizcarra to dissolve Congress and call for elections on January 26th 2020. A bizarre sequence of events then saw his Prime Minister Mercedes Araoz to be voted in by Congress as the new President while Vizcarra was swearing in her replacement. The validity of the moves in Congress is in doubt and the general has little regard for Congress following years of corruption probes.

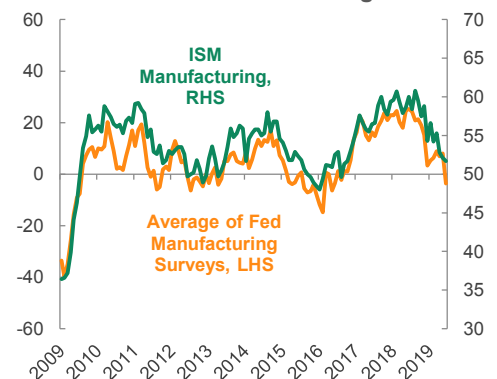
UNITED STATES

US ISM-manufacturing (10amET) is expected to marginally improve but if it does it would largely have to be driven by parts of the industry that are not well captured by the regional manufacturing surveys that mostly deteriorated. Chart 3 shows the average of the regional gauges alongside ISM. Important industries like autos and aircraft plus their value chains are not reflected in the regional surveys and yet auto sales have likely improved over the past couple of months.

We'll get September auto sales this afternoon amidst evidence that generous rebates cleared out dealer lots, and **construction spending** at 10amET that is expected to post a health rise.

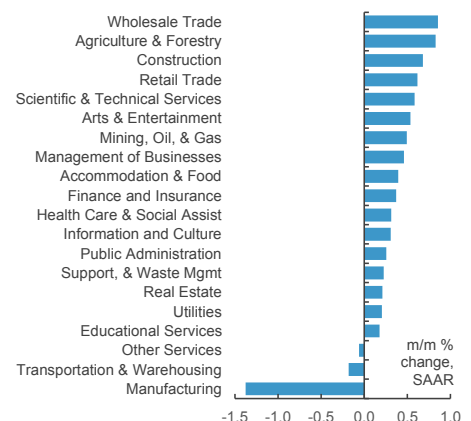
Fed-speak will include Vice Chair Clarida (brief remarks, 8:50amET) and Governor Bowman (community banking, 9:30amET).

The Five Fed Surveys As A Predictor Of ISM Manufacturing



Sources: Scotiabank Economics, Federal Reserve System, ISM.

Canadian GDP Growth by Industries in June



Sources: Scotiabank Economics, Statistics Canada.

Chicago Fed President Evans (voting 2019) remarked earlier this morning ([here](#) and in Q&A) that the fed funds rate is at an “appropriate” level which indicates **opposition to further easing** for now. He anticipates that inflation will increase to over 2% by 2021 despite his remark that “A strong dollar, everything else equal, usually puts downward pressure on the inflation rate, and that’s something to be taken account of.”

CANADA

Canada updates GDP for the month of July this morning (8:30amET). It’s a pretty straight forward release but it might pack a punch because it kicks off growth tracking for Q3 with the first round of hard evidence in the wake of the strong 3.7% growth rate in 2019Q2.

Canada probably experienced little if any growth during July. I figure there was no growth based upon a regression model of GDP against higher frequency activity measures that suggests 0.1% m/m supplemented by judgement applied to sectors that are more difficult to track but that may be challenged to post additional growth after quite a strong prior month. Chart 4 shows the month-over-month growth in sector GDP during June and how many industries were marked by strong gains. We can only guesstimate value-added activity in a handful of these sectors using higher frequency gauges for gross volumes of activity.

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			
	1.66	1.62	1.63	1.60	1.54	1.53	1.73	1.67	1.65	2.18	2.11	2.10	Canada - BoC	1.75	
	1.60	1.58	1.52	1.44	1.40	1.34	1.42	1.36	1.30	1.58	1.53	1.48	US - Fed	2.00	
	-0.76	-0.77	-0.73	-0.75	-0.77	-0.76	-0.53	-0.57	-0.60	-0.02	-0.07	-0.12	England - BoE	0.75	
	-0.28	-0.32	-0.32	-0.29	-0.36	-0.35	-0.15	-0.21	-0.23	0.41	0.37	0.35			
	0.40	0.37	0.46	0.32	0.29	0.38	0.55	0.49	0.53	1.04	0.97	0.95			
	Spreads vs. U.S. (bps):														
	-6	-5	-11	-16	-15	-19	-31	-31	-34	-60	-58	-63	Euro zone - ECB	0.00	
	-242	-239	-236	-235	-232	-229	-226	-224	-225	-219	-218	-222	Japan - BoJ	-0.10	
-194	-194	-194	-189	-190	-188	-188	-188	-188	-177	-174	-175				
-126	-125	-117	-129	-126	-115	-118	-118	-112	-113	-114	-115	Mexico - Banxico	7.75		
Equities	Level						% change:						Next Meeting Date		
	Last		Change		1 Day	1-wk	1-mo	1-yr							
S&P/TSX	16659		-35.6		-0.2	-1.2	1.3	3.4				Australia - RBA			0.75
Dow 30	26917		96.6		0.4	-0.1	1.9	1.0				New Zealand - RBNZ			1.00
S&P 500	2977		14.9		0.5	-0.5	1.7	1.8							
Nasdaq	7999		59.7		0.8	-1.4	0.5	-0.5							
DAX	12414		-14.3		-0.1	0.9	4.0	0.6							
FTSE	7386		-22.5		-0.3	1.3	2.5	-1.5							
Nikkei	21885		129.4		0.6	-1.0	5.7	-9.7				Canada - BoC			Oct 30, 2019
Hang Seng	26092		137.5		0.5	-0.5	1.4	-6.1				US - Fed			Oct 30, 2019
CAC	5666		-12.1		-0.2	0.7	3.4	2.9							
Commodities	Level						% change:								
	Last		Change		1 Day	1-wk	1-mo	1-yr							
WTI Crude	54.70		0.63		1.2	-4.5	-0.7	-27.4				England - BoE			Nov 07, 2019
Natural Gas	2.31		-0.02		-0.7	-7.6	1.3	-25.2				Euro zone - ECB			Oct 24, 2019
Gold	1467.58		-4.81		-0.3	-4.2	-3.5	23.4				Japan - BoJ			Oct 31, 2019
Silver	17.25		-0.27		-1.5	-6.1	-6.1	20.6							
CRB Index	174.48		0.54		0.3	-1.5	2.4	-11.8							
Currencies	Level						% change:								
	Last		Change		1 Day	1-wk	1-mo	1-yr							
USDCAD	1.3272		0.0031		0.2	0.2	-0.4	3.6				Mexico - Banxico			Nov 14, 2019
EURUSD	1.0902		0.0003		0.0	-1.1	-0.6	-5.8				Australia - RBA			Oct 01, 2019
USDJPY	108.29		0.2100		0.2	1.1	1.9	-5.0				New Zealand - RBNZ			Nov 12, 2019
AUDUSD	0.6700		-0.0050		-0.7	-1.5	-0.2	-7.3							
GBPUSD	1.2276		-0.0013		-0.1	-1.7	1.7	-5.9							
USDCHF	1.0009		0.0032		0.3	1.6	1.0	1.7							

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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