

ON DECK FOR WEDNESDAY, OCTOBER 2

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	10/02	07:00	MBA Mortgage Applications (w/w)	Sep 27	--	--	-0.1
US	10/02	08:15	ADP Employment Report (000s m/m)	Sep	150	140.0	195.4
US	10/02	10:50	New York Fed's Williams Speaks in San Diego				

KEY POINTS:

- Risk off on uncertainty toward US economy
- Sterling depreciates after strident speech by Johnson
- US ADP payrolls decelerate...
- ...but commonly shed false signals ahead of nonfarm
- Fed's Williams on tap as repo operations continue
- Will DOE inventories back up API's draw?
- UK PMIs in contraction so far, ahead of services tomorrow
- Japan's bond market settles down

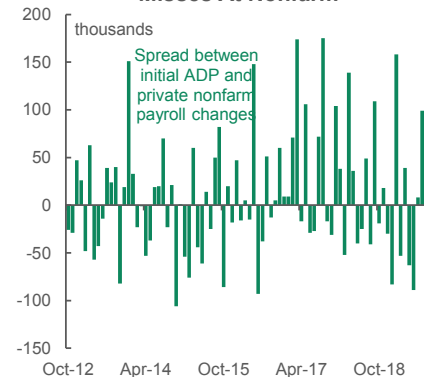
INTERNATIONAL

Global markets remain in risk-off mode this morning. Concern toward the health of the US economy is front and center following yesterday morning's weaker than expected ISM-manufacturing report (recap [here](#)). That said, US vehicle sales increased a touch when they came out late yesterday. Sales climbed to 17.2 million units at a seasonally adjusted and annualized pace from 16.97 million the prior month. Only a soft US ADP payrolls report was released in the US this morning (see below) and this serves as a warm-up for tomorrow's ISM non-manufacturing report (watch out if it follows ISM-mfrg lower...) and Friday's nonfarm release. Recall that ADP is a misleading advance indicator for nonfarm unless it blows the bands with a big surprise (see below). Fed-speak may focus upon NY Fed President Williams.

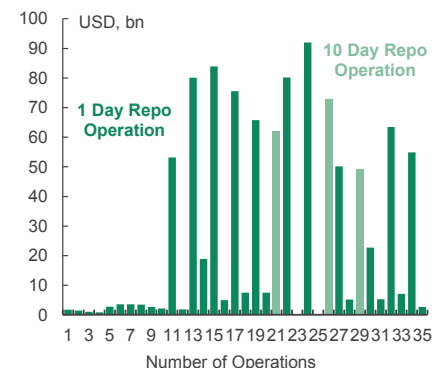
- Sovereign bond markets are mixed. US Treasuries are rallying in a bull steepener that has 2s down 2bps and flat. Canadian 2s are 1bp lower and 10s are 1bp higher ahead of a 10s auction at 12pmET. EGBs are cheaper with 10s up by 2–5bps across the major benchmarks. Japan's bond market settled down somewhat after the prior day's sell-off. The 10 year JGB yield fell by almost 3bps while the 30 year bond yield marginally declined.
- US equity futures are off by ½% and TSX futures are down by less. European cash markets are down by about 1½% to 2% across benchmarks. Asian equities were lower but mainland China remains shut.
- Oil prices are a little firmer. US oil inventories declined by 5.9 million barrels last week according to the API ahead of the government's report at 10:30amET.
- The USD is little changed on balance. The yen is slightly firmer, the euro is little changed, sterling is selling off after a strident take-it-or-leave-it Brexit speech by PM Johnson this morning. CAD is softer along with the A\$.

CONTACTS

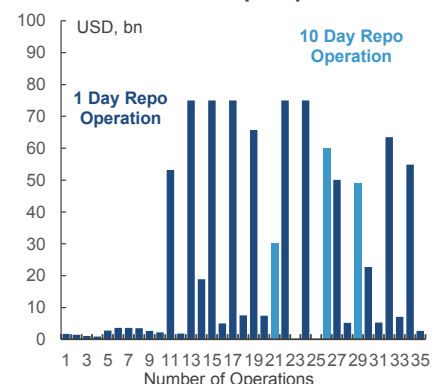
Derek Holt, VP & Head of Capital Markets Economics
416.863.7707
Scotiabank Economics
derek.holt@scotiabank.com

ADP's Swings And Misses At Nonfarm


Sources: Scotiabank Economics, BLS, ADP.

Submitted Bids for New York Fed Repo Operations


Sources: Scotiabank Economics, Federal Reserve of New York.

Accepted Bids for New York Fed Repo Operations


Sources: Scotiabank Economics, Federal Reserve of New York.

The UK construction sector PMI fell to 43.3 (45 prior and consensus) which is testing the low in June. So far, the purchasing managers' indices are shedding somewhat mixed signals on the health of the US economy, but they point to contraction. Yesterday's manufacturing PMI increased to 48.3 (47.4 prior) but remains sub-50. Tomorrow's services PMI will complete inputs to the composite reading and the risk is that the services gauge declines from the barely above-50 mark that was set the prior month. If so, the overall UK economy could be risking a second consecutive quarterly contraction.

UNITED STATES

US ADP payrolls increased by 135k in September but were revised down by 38k to 157k the prior month. Consensus had forecast 140k (Scotia 150k). That brings ADP a little closer to private nonfarm payrolls for August that registered a gain of only 96k. The three month moving average for ADP is now 145k which is off the prior low of 98k set in July, but the range over recent months is the softest pace of payroll gains since mid-2012. Most of the hiring remains in services.

The perennial issue is that ADP doesn't do terribly well as an advance signal ahead of Friday's nonfarm payrolls. Chart 1 shows the spread between the initial (pre-revision) readings on ADP private payrolls and nonfarm private payrolls since ADP revised its methodology to more closely track nonfarm back in October 2012. The largest overestimation of nonfarm by ADP was 175,000 in September 2017 when ADP figured there were 135,000 jobs created and private nonfarm payrolls fell by 40k. The largest undershoot by ADP was 106,000 in November 2014 when ADP figured 208k jobs were created but nonfarm estimated 314,000. On average, the absolute values of the spread between the initial ADP and initial private nonfarm estimates is 51k over the period since October 2012. Little of that closes upon revision given that the average of the absolute values of the spread between final estimates marginally declines to 47k.

There is also limited Fed-speak on tap today. The NY Fed's Williams (10:50amET) might be the most likely to have an effect if he comments on NY Fed operations and further policy options on the path to the October 30th FOMC. Charts 2 and 3 update the submitted and accepted bids for the NY Fed's 1 day and 10 day repo operations up to yesterday morning's actions in order to show the generally still large amounts being pumped into markets. Richmond's Barkin (non-voting) did not comment on monetary policy this morning with the focus upon the rural economy. Philly's Harker (non-voting) speaks at a community banking event (9amET).

As an aside, clients may be interested in [this](#) piece by our bank economists René Lalonde and Nikita Perevalov that models the broad dollar and estimates the impact of how elevated uncertainty during Trump's era has affected the USD while reinforcing the understanding that the dollar is driving a wider trade deficit.

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		
	1.53	1.55	1.68	1.48	1.49	1.61	1.64	1.64	1.74	2.10	2.09	2.19	Canada - BoC	1.75
	1.52	1.53	1.59	1.37	1.37	1.43	1.36	1.35	1.40	1.52	1.51	1.57		
	-0.77	-0.77	-0.73	-0.76	-0.78	-0.75	-0.53	-0.56	-0.58	-0.02	-0.06	-0.09	US - Fed	2.00
	-0.30	-0.28	-0.34	-0.32	-0.29	-0.38	-0.16	-0.15	-0.26	0.40	0.41	0.37		
	0.40	0.34	0.46	0.31	0.25	0.38	0.52	0.47	0.54	1.00	0.95	0.96	England - BoE	0.75
	Spreads vs. U.S. (bps):													
	-1	-2	-9	-11	-12	-18	-28	-29	-34	-58	-58	-62	Euro zone - ECB	0.00
	-229	-232	-242	-225	-227	-236	-217	-220	-231	-212	-215	-228		
-183	-183	-202	-181	-178	-199	-180	-179	-199	-170	-168	-182	Japan - BoJ	-0.10	
-113	-121	-123	-118	-124	-123	-112	-117	-120	-111	-114	-122			
Equities	Level					% change:					Mexico - Banxico		7.75	
	Last			Change		1 Day	1-wk	1-mo		1-yr				
S&P/TSX	16448			-211.0		-1.3	-2.1	0.0		2.7		Australia - RBA	0.75	
Dow 30	26573			-343.8		-1.3	-0.9	0.6		-0.8				
S&P 500	2940			-36.5		-1.2	-0.9	0.5		0.6		New Zealand - RBNZ	1.00	
Nasdaq	7909			-90.7		-1.1	-1.1	-0.7		-1.1				
DAX	12094			-170.0		-1.4	-1.1	1.2		-1.6				
FTSE	7197			-163.6		-2.2	-1.3	-1.2		-3.7				
Nikkei	21779			-106.6		-0.5	-1.1	5.6		-10.3		Canada - BoC	Oct 30, 2019	
Hang Seng	26043			-49.6		-0.2	-0.9	1.2		-6.3				
CAC	5499			-98.3		-1.8	-1.5	0.1		0.6		US - Fed	Oct 30, 2019	
Commodities	Level					% change:								
WTI Crude	54.05			0.43		0.8	-4.3	-1.9		-28.2		England - BoE	Nov 07, 2019	
Natural Gas	2.29			0.00		0.1	-8.6	0.0		-27.8				
Gold	1485.18			6.08		0.4	-1.2	-2.9		23.4		Euro zone - ECB	Oct 24, 2019	
Silver	17.11			-0.15		-0.8	-7.8	-6.9		17.6				
CRB Index	174.29			0.21		0.1	-1.3	2.3		-12.8		Japan - BoJ	Oct 31, 2019	
Currencies	Level					% change:								
USDCAD	1.3250			0.0029		0.2	-0.1	-0.6		3.3		Mexico - Banxico	Nov 14, 2019	
EURUSD	1.0920			-0.0013		-0.1	-0.2	-0.5		-5.4				
USDJPY	107.58			-0.1700		-0.2	-0.2	1.3		-5.3		Australia - RBA	Nov 04, 2019	
AUDUSD	0.6680			-0.0024		-0.4	-1.1	-0.5		-7.1				
GBPU\$D	1.2278			-0.0024		-0.2	-0.6	1.8		-5.4		New Zealand - RBNZ	Nov 12, 2019	
USDC\$H\$F	1.0016			0.0081		0.8	1.0	1.1		1.8				

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.