

ON DECK FOR THURSDAY, OCTOBER 3

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	10/03	08:30	Initial Jobless Claims (000s)	Sep 28	215	215.0	208
US	10/03	08:30	Continuing Claims (000s)	Sep 21	1650	1654.0	1661
US	10/03	10:00	Factory Orders (m/m)	Aug	0.0	-0.2	1.4
US	10/03	10:00	ISM Non-Manufacturing Composite	Sep	55.5	55.0	56.4
US	10/03	12:10	Fed's Mester Panel Discussion on Inflation				

KEY POINTS:

- Safe haven seeking driving sovereign bond yields lower
- Will the EU wait to retaliate?
- Will US tariffs send shoppers across the border?
- October's ridiculously heavy trade line-up
- UK PMIs point to recession
- Eurozone PMIs revised lower
- Will US ISM-services follow manufacturing lower?
- ISM-services employment could offer a nonfarm clue
- Fed-speak kicks into higher gear
- API versus DOE: A 9 million barrel discrepancy??

INTERNATIONAL

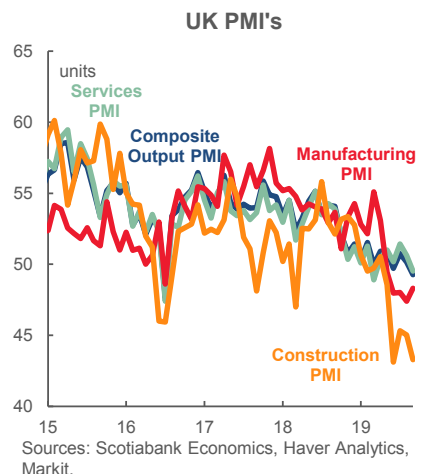
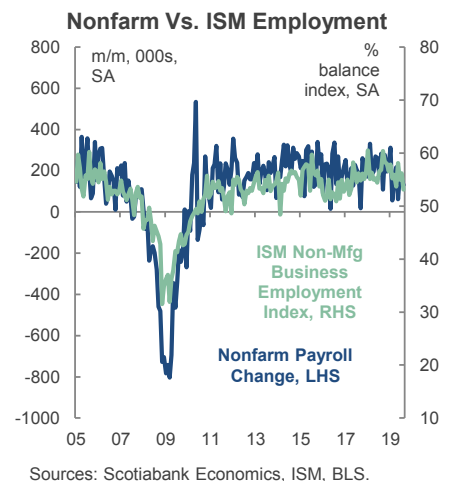
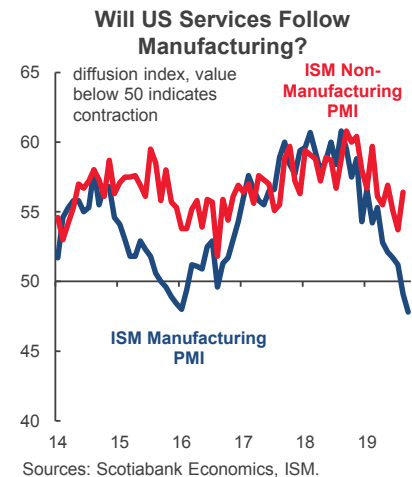
Sovereign bonds are richening ahead of what might be key US data, following US tariff announcements against Europe and ahead of Fed-speak while European data soured this morning.

- The USD is little changed on balance. There is slight appreciation in sterling, the yen, Mexican peso and A\$ and a handful of others, but the euro and CAD are flat.
- Sovereign bond yields are under downward pressure everywhere. Japan's 10 year JGB yield is threatening to breach the lower bound of the BoJ's 0% +/- 20bps range. US Treasuries are rallying by about 2bps across the curve and Canada is performing similarly. The gilts curve is rallying by 3–4bps. EGB 10s are about 3–4bps richer across most markets.
- Oil prices are flat in terms of both Brent and WTI.
- US and Canadian equity futures are little changed. European cash markets are mixed with London off by ¼%, Paris up ¼%, the Dax shut and both Italy and Spain up by just under ¼%. Asian equities were lower across the board as they followed western markets lower except for mainland China's exchanges that remain shut.

Last evening, the USTR announced its list of European imports targeted for tariff hits on October 18th ([here](#)). High tariffs on wine, scotch, cheese, olives and other items combined with the greater buying power of the US dollar exchange rate might send Americans still heck bent on buying European products instead of

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substituting (where possible...) to do their shopping in Canada where it takes President Trump to make Ontario's state-directed alcohol prices look attractive relative to the US. Even paying the penalties for going over the limits may be worth it ([here](#)). The tariffs may or may not get implemented depending upon the outcome of the October 14th meeting between the US and EU negotiators. **The risk of EU retaliation is high** if the US goes ahead and acting in pre-emptive fashion to send a message that it's a two way street when it comes to subsidizing each other's plane manufacturers ahead of the meeting can't be ruled out.

All of this feeds into what is a very heavy month and path to year-end for trade policy tensions as outlined below.

1. October 10th: US-China trade negotiators meeting in Washington
2. October 14th: US-EU meeting.
3. October 18th: US tariffs on EU imports go into effect.
4. October 15th: US 5% tariff hike to 30% on US\$250 billion of Chinese imports goes into effect.
5. October 31st: possible UK withdrawal from the EU.
6. November 17th: US decision on auto tariffs is due.
7. Late November: hoped for timeline for passage of USMCA.
8. December 15th: US to impose 15% tariff on US\$160 billion of Chinese imports.

While there was little incremental market reaction in sterling or gilts, **UK purchasing managers' indices slipped into contraction in September**. After Q2 GDP fell, the PMIs point to the risk of a technical recession or at least moribund Q3/Q4 growth on the path to the October 31st Brexit deadline. The composite PMI fell to 49.3 (50.2 prior, 50.0 consensus) because the simultaneously released services gauge fell into contraction at 49.5 (50.6 prior, 50.3 consensus). Earlier releases had already pointed to a deepening contraction in the construction sector and a contracting manufacturing sector. See chart 1.

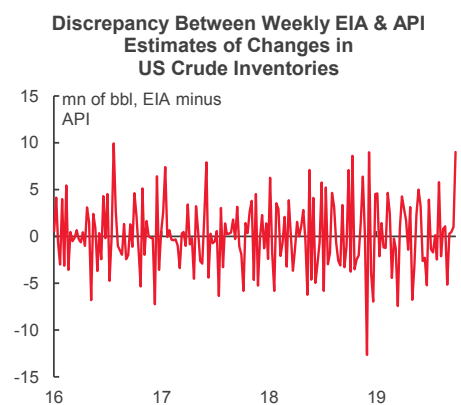
Revisions to the Eurozone PMIs dented the composite figure that is hovering around no growth. The composite PMI was revised three-tenths lower to 50.1 because the services PMI was revised four-tenths lower to 51.6. We already knew the final revisions to the manufacturing PMI that took it up a tick to 45.7 and hence in contraction.

UNITED STATES

With US manufacturing in recession, is the services sector headed in the same direction? This morning's ISM-services gauge (10amET) will inform this risk. So far, while ISM services has deteriorated since the end of last year, it has held up better than the manufacturing measure and continues to point to moderate growth in the overall US economy (chart 2). The reading is expected to soften somewhat (consensus 55, Scotia, 55.5, prior 56.4).

The ISM-services gauge is also useful in terms of the employment subcomponent. Chart 3 shows the correlations between this measure and the monthly changes in nonfarm payrolls. If ISM-services employment falls again after declining by almost three points to 53.1 in August, then it would be a bearish signal ahead of tomorrow's payrolls report.

Now, speaking of made up data. If you are left scratching your head over movements in oil prices from Tuesday afternoon—when weekly API US oil inventories were released showing a big draw—and yesterday—when DOE inventories showed a sizeable build—then you are not alone. **The discrepancy between the nearly six million draw shown in API data and the roughly 3 million build shown in DOE inventories was the biggest since July 2016 (chart 4).** How nine million barrels get miscounted is somewhat of a mystery, but it explains some the wild gyrations in oil prices lately as traders are left scratching their heads over what the true picture may be.



Sources: Scotiabank Economics, US Energy Information Administration, American Petroleum Institute.

The US also updates **factory orders** for August (10amET) and they are expected to be little changed as nondurables data adds to the already known 0.2% m/m rise in durable goods orders. **Weekly jobless claims** (8:30amET) don't matter at this stage since they are in between reference periods for nonfarm payrolls.

Fed-speak kicks into higher gear today. Vice Chair Clarida speaks this evening (6:35pmET) on the economy and monetary policy at a WSJ event. I've found he has been more dovish than Chair Powell, but guidance toward further easing prospects and policy solutions to frictions in short-term rates markets may be offered. Chair Powell speaks tomorrow but only with opening remarks at a Fed Listens event. Powell's speech on Tuesday will be much more closely watched. Vice Chair Quarles speaks on regs at 8:30amET. Regional Presidents Mester (12:10pmET) and Kaplan (1pmET) are also on tap.

Fixed Income	Government Yield Curves (%):												Central Banks	
	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		
U.S.	1.47	1.48	1.66	1.42	1.43	1.58	1.58	1.60	1.69	2.06	2.09	2.14	Canada - BoC	1.75
CANADA	1.47	1.48	1.57	1.31	1.33	1.39	1.29	1.31	1.36	1.47	1.49	1.54	US - Fed	2.00
GERMANY	-0.78	-0.76	-0.75	-0.79	-0.77	-0.76	-0.58	-0.55	-0.58	-0.08	-0.04	-0.11	England - BoE	0.75
JAPAN	-0.32	-0.30	-0.33	-0.35	-0.32	-0.37	-0.20	-0.16	-0.25	0.35	0.40	0.33		
U.K.	0.36	0.39	0.44	0.27	0.30	0.36	0.47	0.50	0.52	0.96	0.99	0.95		
	Spreads vs. U.S. (bps):													
CANADA	0	1	-9	-11	-10	-19	-29	-29	-34	-59	-60	-60	Euro zone - ECB	0.00
GERMANY	-225	-224	-241	-221	-220	-234	-216	-215	-228	-214	-213	-225	Japan - BoJ	-0.10
JAPAN	-179	-178	-198	-177	-176	-195	-177	-176	-194	-172	-169	-181		
U.K.	-111	-109	-121	-115	-114	-122	-111	-110	-117	-110	-110	-119	Mexico - Banxico	7.75
Equities	Level						% change:							
	Last			Change			1 Day	1-wk	1-mo	1-yr				
S&P/TSX	16311			-136.7			-0.8	-2.8	-0.5	1.5			Australia - RBA	0.75
Dow 30	26079			-494.4			-1.9	-3.3	-0.2	-2.8			New Zealand - RBNZ	1.00
S&P 500	2888			-52.6			-1.8	-3.3	-0.6	-1.3			Next Meeting Date	
Nasdaq	7785			-123.4			-1.6	-3.6	-1.1	-3.0			Canada - BoC	Oct 30, 2019
DAX	11925			-338.6			-2.8	-2.5	0.1	-2.9			US - Fed	Oct 30, 2019
FTSE	7064			-58.8			-0.8	-3.9	-2.8	-5.9			England - BoE	Nov 07, 2019
Nikkei	21342			-436.9			-2.0	-3.2	3.5	-11.5			Euro zone - ECB	Oct 24, 2019
Hang Seng	26110			67.6			0.3	0.6	2.3	-3.6			Japan - BoJ	Oct 31, 2019
CAC	5433			9.9			0.2	-3.3	-0.6	-1.1			Mexico - Banxico	Nov 14, 2019
Commodities	Level						% change:							
WTI Crude	52.48			-0.16			-0.3	-7.0	-2.7	-31.3			Australia - RBA	Nov 04, 2019
Natural Gas	2.27			0.02			0.9	-6.6	-3.8	-29.8			New Zealand - RBNZ	Nov 12, 2019
Gold	1501.91			2.46			0.2	-0.2	-2.9	25.4				
Silver	17.26			0.15			0.9	-7.1	-5.9	19.0				
CRB Index	172.71			-0.24			-0.1	-2.0	2.1	-14.2				
Currencies	Level						% change:							
USDCAD	1.3332			0.0006			0.0	0.5	-0.0	3.6				
EURUSD	1.0952			-0.0007			-0.1	0.3	-0.2	-4.6				
USDJPY	106.97			-0.2100			-0.2	-0.8	1.0	-6.6				
AUDUSD	0.6721			0.0014			0.2	-0.4	-0.6	-5.4				
GBPUSD	1.2330			0.0027			0.2	0.0	2.1	-4.7				
USDCHF	1.0005			0.0036			0.4	0.7	1.4	0.8				

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.

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