

**ON DECK FOR TUESDAY, OCTOBER 15**

Country	Date	Time	Event
US	10/15	04:25	Fed's Bullard Speaks at Bloomberg Conference in London
US	10/15	09:00	Fed's Bostic Speaks on Community Development
US	10/15	12:45	Fed's George Speaks at Payments System Conference
US	10/15	15:30	Fed's Daly Speaks Los Angeles World Affairs Council

**KEY POINTS:**

- Markets digest volatile US-China trade and Brexit headlines
- China nixes Trump's fake deal...
- ...by repeating that all tariffs to date must be eliminated...
- ...as China's state media laughably claims they're on the same page
- US bank earnings season starts off mixed
- Chinese CPI ticks higher on pork prices...
- ...with core inflation at half the PBOC's target
- China's relaxed lending rules are bearing fruit
- CDN home resales going for another gain...
- ...while volatile housing starts have levelled off
- UK loses jobs, wage growth decelerates but remains high
- German investor confidence at 9½ year low

**INTERNATIONAL**

Volatile US-China trade headlines continue (see below). Ditto for Brexit in that both sides say they're still trying, think they can get a deal, but don't have one yet with obstacles still present which is pretty much the same old same old. Chinese financing figures and soft core inflation bode well for continued stimulus efforts that are bearing fruit (see below). The US bank earnings season got off to a fairly solid start with three out of four main releases beating estimates (see below). Soft UK and German data and light Canadian housing data are also factoring into the overall picture as Canadian markets return from Thanksgiving.

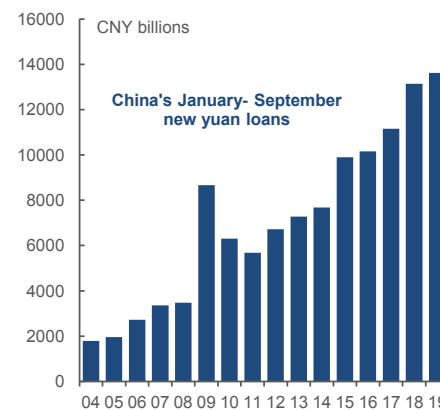
- Stocks are up but the gains have been dissipating from the overnight peak in light of China headlines and mixed US bank earnings. US equity futures are up by just over ¼% and TSX futures are performing similarly. European cash markets are mixed with London down by just over ¼% and Eurozone indices generally up by about ½%. Asian equities were also mixed as mainland China sold off while HK and Seoul were flat and Tokyo rallied by about 1½%.
- Sovereign bond yields are lower by about 4bps from 2s through 10s in the US while Canada slightly underperforms the US at the front-end and outperforms the US further out. Gilts are slightly richer toward the longer end of the curve and so are most EGB markets. Japan's 10 year is within the 0% +/- 20bps BoJ target range at -18bps.
- The USD is a touch stronger as the Euro, A\$/NZ\$, Scandies and a few others are depreciating, CAD and the yen are flat and both sterling and the Mexican peso are appreciating a bit.

**CONTACTS**

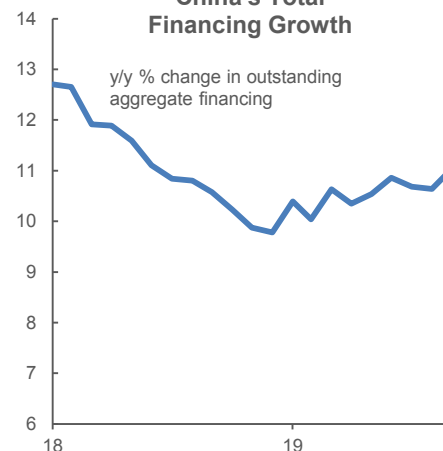
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**China's Aggregate Financing**


Sources: Scotiabank Economics, Bloomberg.

**China's New Yuan Loans**


Sources: Scotiabank Economics, Bloomberg.

**China's Total Financing Growth**


Sources: Scotiabank Economics, Bloomberg.

- Oil prices are lower by 20-30 cents in terms of WTI and Brent. Diminished trade optimism is partly responsible.

China trade headlines remain volatile. Unconfirmed reports from anonymous officials indicate that **China will only buy the US\$40–50 billion of US agricultural products within two years that Trump announced on Friday if the US eliminates all of the tariffs introduced since the start of the trade war.** That's unlikely, as one of the most consistent US positions has been that the tariffs would remain in place during a monitoring and enforcement period. The best, biggest and most fantastic trade non-deal therefore suffered another blow after the weekend when Chinese state media indicated a formal agreement was subject to formal negotiations. China is wise to dig in its heels on tariffs as NAFTA/CUSMA/USMCA observers well recall when the US refused to drop steel and aluminum tariffs as part of the broader agreement and maintained uncertainty on other tariff fronts.

A vague comment by China's main state TV broadcaster (CCTV) then hit with the almost laughable claim that US and China attitudes on trade are "actually the same" and that they have found a way to solve the problem at trade talks. Which problem wasn't spelled out.

**China's relaxed lending rules including cuts to required reserve ratios are feeding through to loan growth.** Domestic currency loans grew at the quickest pace for a month of September since the data began in 1992 and beat consensus expectations by about 25%. Aggregate financing also beat expectations by about 20%. Rolling year-to-date tallies are shown in charts 1 and 2 and they portray the biggest year-to-date jumps in financing activity on record. The year-ago growth rates of outstanding balances are shown in charts 3 and 4 and indicate fairly stable growth in local currency loans but with the peak earlier this year, and total financing rising at a mildly accelerating pace.

China also released inflation figures for September. **Chinese core CPI inflation was unchanged at 1.5% y/y as headline inflation climbed to 3.0% y/y (2.8% prior).** Total CPI is running at its hottest since November 2013 while core CPI is at its lowest since April 2016. The difference is accounted for by food prices and especially pork given the swine flu. Food prices are up by 11.2% y/y while non-food prices decelerated to 1.0% y/y.

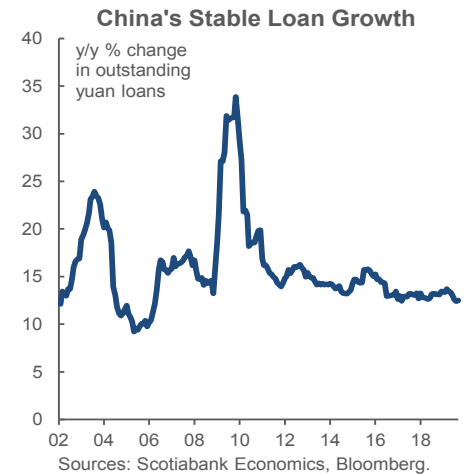
**German investor confidence fell in October to its lowest level since April 2010** in terms of the assessment of current conditions. The ZEW survey's future expectations component held flat toward cyclical lows but off the bottom registered in August.

**A pair of dovish UK labour market readings were released this morning.** The UK releases job figures on a rolling three month ago basis and for the month of August there were 56,000 fewer jobs (consensus +26k). That was the biggest decline since October 2017. One month does not make a trend given that the figures are highly volatile. At the same time, wages excluding bonuses decelerated a tick to 3.8% y/y, but only because the prior month's registered gain was revised up a tick. Such figures are still around the highest wage growth numbers since 2008. Sterling initially depreciated on the back of the releases but then shook it off and remains the best performing major cross to the USD on volatile Brexit headlines.

## UNITED STATES

**The Q3 US bank earnings season is off to a pretty strong start so far with three out of four main releases beating expectations.** JP Morgan beat analyst expectations with EPS of US\$2.68 (\$2.46 consensus). This followed BlackRock's earlier beat with EPS of US\$7.15 (\$6.97 consensus). Then Goldman came in with a miss at US\$4.79 (\$4.86 consensus). Citi followed that up with a small beat of its own (US\$1.97 versus \$1.95).

There is nothing on the economics calendar today. The main focal points in US markets this week will be US retail sales tomorrow, industrial production on Thursday and a speech on the economic and policy outlook by Fed Vice Chair Clarida on Friday.

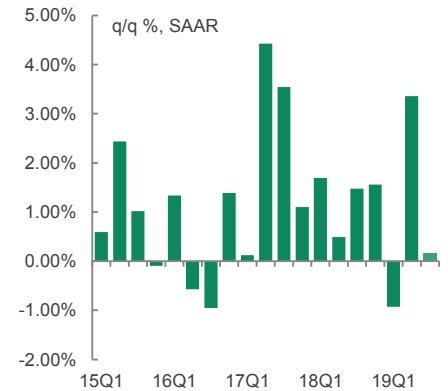


## CANADA

**Canada will update home sales for September this morning (9amET).** There is no useful consensus estimate, but a third straight monthly gain would make it five gains in the past six months and seven in the past nine. There is little value added in resales that are mostly just paper swaps while the value-added lies in ancillary services to facilitate the sales. For housing's value added, what matters more in Q3 is that housing starts were up by only about 1% q/q at an annualized pace. Starts have been super volatile over the past several quarters including a 103% gain in Q2 at a seasonally adjusted and annualized pace after a 45% drop in Q1, a 48% rise in 2018Q4 and a 34% drop in 2018Q3. Cutting through the noise, starts are still floating around cycle highs but they've regained levels that were being registered over 2017 into 2018H1.

The main focal point for Canadian markets this week will be tomorrow's CPI readings for September. As further follow up to Friday's job market readings (recap [here](#)), see chart 5 that shows how hours worked stalled in Q3 after a large transitory gain in Q2.

Canadian Total Hours Worked



Sources: Scotiabank Economics, StatsCan.

Fixed Income	Government Yield Curves (%):												Central Banks					
U.S. 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				
	1.55	1.60	1.42	1.51	1.55	1.35	1.69	1.73	1.53	2.17	2.20	2.03						
	1.63	1.65	1.44	1.48	1.52	1.29	1.47	1.51	1.28	1.61	1.64	1.48			US - Fed	2.00		
	-0.70	-0.70	-0.78	-0.69	-0.68	-0.80	-0.47	-0.46	-0.59	0.06	0.07	-0.08						
	-0.28	-0.29	-0.32	-0.30	-0.31	-0.35	-0.17	-0.18	-0.20	0.40	0.39	0.38					England - BoE	0.75
0.50	0.50	0.32	0.43	0.44	0.22	0.63	0.64	0.42	1.09	1.12	0.93	Euro zone - ECB	0.00					
Spreads vs. U.S. (bps):																		
CANADA	8	5	2	-3	-3	-6	-22	-22	-25	-56	-55			-55	Japan - BoJ	-0.10		
GERMANY	-225	-230	-221	-219	-224	-215	-215	-219	-212	-211	-212			-210				
JAPAN	-182	-189	-174	-181	-187	-171	-186	-191	-173	-177	-180			-165				
U.K.	-105	-109	-110	-108	-111	-114	-106	-109	-111	-107	-108	-110	Mexico - Banxico	7.75				
Equities	Level						% change:											
S&P/TSX Dow 30 S&P 500 Nasdaq DAX FTSE Nikkei Hang Seng CAC	Last			Change			1 Day	1-wk	1-mo	1-yr	Australia - RBA	0.75						
	16415			-7.5			-0.0	-0.2	-1.6	6.5								
	26787			-29.2			-0.1	1.2	-1.6	6.1					New Zealand - RBNZ	1.00		
	2966			-4.1			-0.1	0.9	-1.4	7.8								
	8049			-8.4			-0.1	1.2	-1.6	8.3								
	12530			43.5			0.3	4.7	0.5	7.9			Next Meeting Date					
	7197			-16.0			-0.2	0.8	-2.3	2.4			Canada - BoC	Oct 30, 2019				
	22207			408.3			1.9	3.9	1.0	-2.1					US - Fed	Oct 30, 2019		
	26504			-17.9			-0.1	2.4	-3.1	4.2			England - BoE	Nov 07, 2019				
	5668			24.9			0.4	3.9	0.2	11.2					Euro zone - ECB	Oct 24, 2019		
Commodities	Level						% change:						Japan - BoJ	Oct 31, 2019				
WTI Crude	53.23			-0.36			-0.7	1.1	-3.0	-25.8	Mexico - Banxico	Nov 14, 2019						
Natural Gas	2.29			0.01			0.2	-0.1	-12.6	-29.5					Australia - RBA	Nov 04, 2019		
Gold	1494.04			0.79			0.1	-0.8	0.4	21.7							New Zealand - RBNZ	Nov 12, 2019
Silver	17.61			0.01			0.0	1.0	-3.0	20.6								
CRB Index	174.65			-0.34			-0.2	0.9	-0.1	-11.8								
Currencies	Level						% change:											
USDCAD	1.3229			-0.0005			-0.0	-0.7	-0.1	1.8	Australia - RBA	Nov 04, 2019						
EURUSD	1.1007			-0.0020			-0.2	0.5	0.1	-4.9			New Zealand - RBNZ	Nov 12, 2019				
USDJPY	108.31			-0.0900			-0.1	1.1	0.2	-3.1								
AUDUSD	0.6756			-0.0019			-0.3	0.4	-1.6	-5.2								
GBPUSD	1.2646			0.0038			0.3	3.5	1.7	-3.8								
USDCHF	0.9972			-0.0001			-0.0	0.5	0.4	1.0								

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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