

ON DECK FOR FRIDAY, OCTOBER 18

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	10/18	08:30	Teranet - National Bank HPI (y/y)	Sep	--	--	0.6
US	10/18	09:00	Fed's Kaplan Speaks in Washington				
US	10/18	10:00	Leading Indicators (m/m)	Sep	--	0.0	0.0
US	10/18	10:05	Fed's George Speaks at Fed Conference				
US	10/18	11:30	Fed's Clarida on Economy and Policy Outlook				

KEY POINTS:

- Sovereign bond yields up ahead of Clarida, Brexit vote
- China's economy slows...
- ...but key readings ended Q3 on a stronger note
- Japanese inflation slips...
- ...and could be slipping further despite the sales tax hike
- Fed's Clarida speaks on the economy and policy...
- ...before the Fed's blackout kicks in
- Canada updates house prices, BoC's Lane on panel

INTERNATIONAL

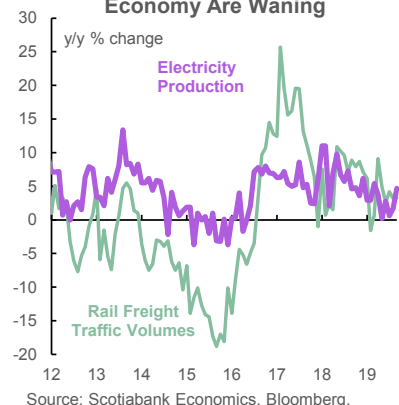
Perhaps bonds are cheaper this morning because US traders are selling them to pay for Trump's tariffs on scotch and European wine that take effect today. Europe continues to threaten retaliation perhaps sometime in 2020H1 when the WTO decision on Boeing's rich subsidies gives them better cover for doing so. Otherwise, global asset classes are likely to play it somewhat safe ahead of tomorrow's key Brexit vote; maybe a fourth time will be lucky, but there is strong reason to doubt this. China's economy slowed again but stayed six-handled on growth as higher frequency gauges offered more encouraging signals. Japanese inflation cooled again, and high frequency fintech data suggests further cooling this month despite the sales tax hike. The Fed's Clarida gets the last chance to influence market expectations ahead of October 30th before the Fed goes into blackout tomorrow. Canada only faces repeat sales home prices and a panel appearance by the BoC's Lane but no market effect is expected.

- The USD is weakening somewhat, but not uniformly so. The strongest crosses are the won, some Scandies, the A\$/NZ\$ and rand, but other higher beta currencies like CAD and the Mexican peso are flat while alternative safe havens are mixed as the Swiss franc strengthens somewhat ahead of Sunday's election and the yen is also flat.
- Sovereign bonds are slightly cheaper on balance. Gilts are the worst performer ahead of tomorrow's Brexit vote as yields are up by about 4–5bps across maturities. On this side of the pond, the fun starts at 4:30amET when Parliament convenes and the vote will follow an address by PM Johnson and a 90 minute debate. US Treasury yields are slightly higher and so are Canadas. EGB 10s are up by 2–3bps. The 10 year JGB continues to drift higher from a low of -24bps on October 6th to -16bps now.

CONTACTS

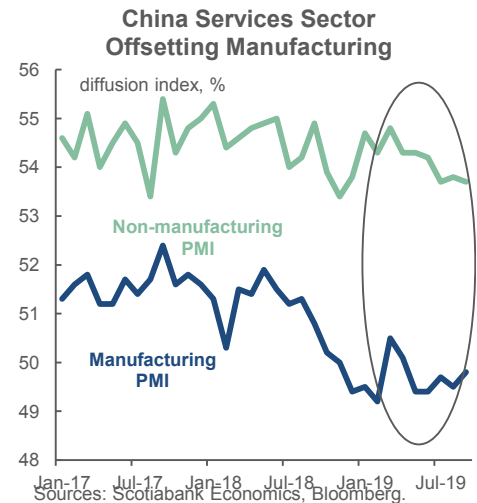
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A Bigger Chinese Economy Needs Less Growth

Core Readings On China's Economy Are Waning

Is China's Growth Momentum Waning Again?


- Oil prices are up by between 30–60 cents with WTI leading despite yesterday's US oil inventories report that showed a larger than expected build.
- US and Canadian equity futures are little changed. European cash markets are little changed on balance with Paris leading decliners (-0.3%) amidst otherwise largely flat regional indexes. Asian equities mostly fell except for a small rise in the Nikkei, as mainland China's stocks fell by over 1%, Seoul was off by just under 1% and HK fell by ½%.

China's economy decelerated a touch faster than consensus anticipated. GDP cooled to 6.0% y/y in Q3 (6.1 consensus, 6.2 prior). The glass half-full interpretation is that growth didn't go five-handed as some had anticipated. The glass half-empty angle is that it's the softest growth since at least 1992 when modern official data began. Slower growth is still driving a similar pace of increase from the standpoint of the level change in GDP in year-ago terms (chart 1).



Higher frequency indicators suggest the economy exited Q3 on slightly firmer foundations. Retail sales growth improved a bit to 7.8% y/y (7.5% prior) and kept the year-to-date reading at 8.2%. Industrial output grew by 5.8% y/y (4.4% prior, 4.9% consensus) as both mining and manufacturing output accelerated. Electricity output is also accelerating again (chart 2) and that has helped to boost the alternative Keqiang index (chart 3) which is an arbitrarily weighted composite of old-economy readings on electricity consumption, rail traffic and credit growth. The newer economy is much more reliant upon services output which according to PMIs continues to expand but at a slower pace than a year ago (chart 4).

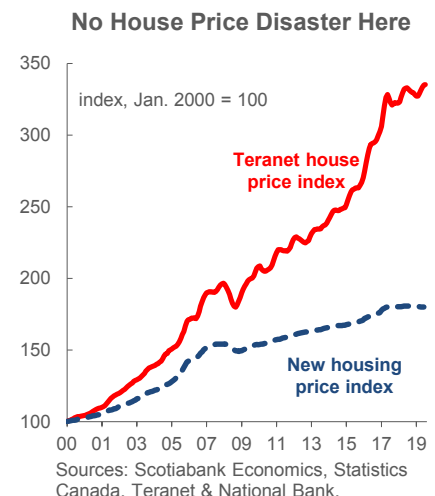
Japanese inflation decelerated again but did so in line with expectations and yet further softening may lie ahead. Core inflation (CPI less fresh food) slipped to 0.3% y/y in September and has been trending lower since April's 0.9% reading to what is now the lowest since April 2017. Some of that is due to energy as CPI excluding both fresh food and energy slipped to 0.5% y/y last month but has mostly moved sideways for several months. The hike in the sales tax from 8% to 10% on October 1st will carry uncertain effects. CPINow—a daily fintech inflation index ([here](#))—indicates that offsetting discounts provided by retailers as soon as the tax hike hit have resulted in softer tracking of inflation in October. In an attempt to offset some of the impact of the sales tax hike, the Japanese government offered a temporary reward points program to consumers who used cashless forms of payment in order to also help facilitate the move toward more modern payments systems. There is some debate on how effective the points system is given the older and rural parts of the population are less likely to use cashless means of payment. Also, food was exempt from the tax hike and is still subject to an 8% tax.

UNITED STATES

There is no notable macro data out today. **Fed-speak will be primarily focused upon a speech by Vice Chair Clarida (11:30amET).** Clarida will speak on the US economic outlook and monetary policy at a CFA conference in Boston that will also include moderated Q&A. Two regional Fed Presidents will also speak including Dallas President Kaplan (9amET) and KC's George (10:05amET). The Fed goes into communications blackout tomorrow ahead of the October 30th decision and so this is the last chance for a top official to influence market expectations.

CANADA

The only macro data is repeat home sale prices for September (8:30amET). No market effect ever results from the figures, but housing observers have had an eye on chart 5. With updated figures for September, the chart shows a) a levelling off in the year-ago pace of price increases for the same homes repeatedly sold so as to control for quality differences, and b) the level nevertheless hanging in at lofty heights.



Bank of Canada Deputy Governor Tim Lane will be on a panel at the annual meeting of the Institute of International Finance in Washington which is part of the annual IMF/World Bank/IIF boondoggle. Lane's panel is about "The Future of Money" (2:35pmET). No market effect is likely. There will be no published remarks and no media availability.

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.	1.59	1.60	1.60	1.57	1.58	1.55	1.75	1.75	1.73	2.24	2.24	2.20	Canada - BoC	1.75
CANADA	1.65	1.64	1.62	1.58	1.57	1.52	1.57	1.56	1.51	1.68	1.67	1.64	US - Fed	2.00
GERMANY	-0.66	-0.67	-0.72	-0.62	-0.64	-0.69	-0.38	-0.41	-0.44	0.15	0.12	0.10	England - BoE	0.75
JAPAN	-0.23	-0.25	-0.29	-0.27	-0.27	-0.31	-0.13	-0.15	-0.18	0.42	0.40	0.39		
U.K.	0.54	0.51	0.55	0.51	0.47	0.50	0.71	0.68	0.71	1.20	1.17	1.17		
Spreads vs. U.S. (bps):														
	6	4	3	1	-1	-3	-18	-20	-22	-56	-57	-55		
CANADA	-225	-227	-232	-219	-222	-225	-213	-216	-217	-209	-212	-210	Euro zone - ECB	0.00
GERMANY	-182	-185	-189	-184	-185	-187	-188	-190	-191	-182	-184	-180	Japan - BoJ	-0.10
JAPAN	-106	-109	-105	-106	-111	-106	-104	-108	-103	-104	-107	-102		
U.K.														
Equities														
	Level						% change:							
	Last				Change		1 Day	1-wk	1-mo	1-yr				
S&P/TSX	16426				-0.9		-0.0	0.3	-2.2	6.6				
Dow 30	27026				23.9		0.1	2.0	-0.4	6.5				
S&P 500	2998				8.3		0.3	2.0	-0.3	8.3				
Nasdaq	8157				32.7		0.4	2.6	-0.3	9.0				
DAX	12655				0.4		0.0	1.1	2.1	9.2				
FTSE	7178				-4.5		-0.1	-1.0	-1.9	2.1				
Nikkei	22493				40.8		0.2	4.4	2.4	-0.7				
Hang Seng	26720				-128.9		-0.5	1.6	-0.1	5.0				
CAC	5650				-22.9		-0.4	-0.3	0.5	10.4				
Commodities														
	Level						% change:							
WTI Crude	54.43				0.50		0.9	-0.5	-6.3	-20.7				
Natural Gas	2.32				-0.00		-0.1	4.6	-12.2	-27.6				
Gold	1491.12				-0.80		-0.1	0.1	-0.2	21.6				
Silver	17.45				0.20		1.1	-1.7	-2.2	19.1				
CRB Index	176.17				0.64		0.4	1.5	-0.8	-10.4				
Currencies														
	Level						% change:							
USDCAD	1.3139				0.0002		0.0	-0.5	-1.1	0.4				
EURUSD	1.1146				0.0021		0.2	0.9	1.1	-2.7				
USDJPY	108.53				-0.1300		-0.1	0.2	0.1	-3.3				
AUDUSD	0.6846				0.0022		0.3	0.8	0.3	-3.6				
GBPUSD	1.2884				-0.0007		-0.1	1.7	3.3	-1.0				
USDCHF	0.9865				-0.0015		-0.2	-1.1	-1.1	-0.9				
Next Meeting Date														
Canada - BoC													Oct 30, 2019	
US - Fed													Oct 30, 2019	
England - BoE													Nov 07, 2019	
Euro zone - ECB													Oct 24, 2019	
Japan - BoJ													Oct 31, 2019	
Mexico - Banxico													Nov 14, 2019	
Australia - RBA													Nov 04, 2019	
New Zealand - RBNZ													Nov 12, 2019	

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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