

**ON DECK FOR WEDNESDAY, OCTOBER 23**

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	10/23	07:00	MBA Mortgage Applications (w/w)	Oct 18	--	--	-11.9
CA	10/23	08:30	Wholesale Trade (m/m)	Aug	0.3	0.4	1.7

**KEY POINTS:**

- Mild risk-off driven by soft earnings
- Earnings point to lower cap-ex, semiconductor demand
- Chile expected to cut today
- Brexit focused on timetable negotiations...
- ...as Labour warns its support hangs on amendments
- US mortgage applications fall by most in nearly two years...
- ...driven by refis, but purchase apps are also falling
- Will official US crude inventories follow API higher?
- CDN wholesale trade will firm up August GDP estimate
- Businesses are predicting lower Canadian inflation...
- ...and they often get the turning points

**INTERNATIONAL**

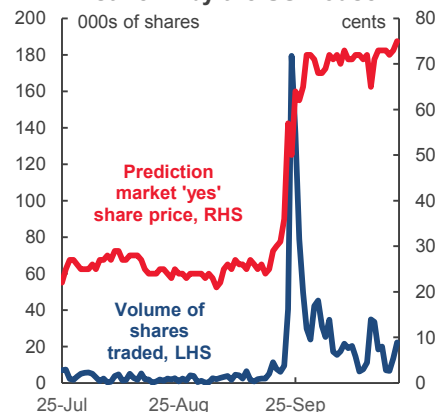
**Earnings are driving stocks a little lower this morning.** Caterpillar's negative guidance that is being driven by global weakness (slides [here](#)) took US equity futures lower after the comments hit, given that Caterpillar is a leading proxy for heavy equipment demand and overall capital expenditures. Boeing also disappointed expectations and its guidance was also negative. That follows negative guidance from Texas Instruments after yesterday's close that drove concern toward semiconductor stocks, again on global worries. A rise in the private industry estimate of US oil inventories is weighing on WTI ahead of whether the government report confirms this.

**US political risk isn't helping the market tone** after testimony by a US envoy to Ukraine. Market odds on Trump's impeachment by the House are running at about 76% (chart 1). A new Quinnipiac poll now shows 55% of Americans in support of the impeachment inquiry with 48% saying he should be impeached. The survey period includes Trump's handing over Syria to the Russians and Turks and earlier impeachment testimony but it doesn't include the Ukraine envoy's testimony.

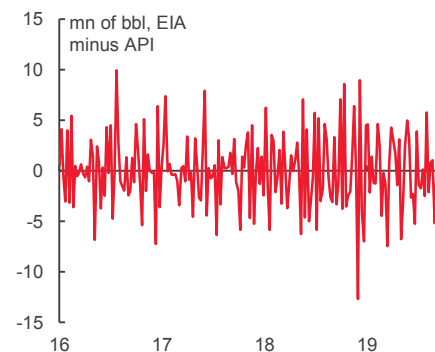
- US equity futures are down by between ¼% and ½% across the benchmarks. TSX futures are slightly lower. European cash markets are mixed with London up by about ¼%, the Dax flat, and other European bourses lower by around ½% to ¾%. Asian equities saw stocks drop by ½% to ¾% in HK and at mainland China's exchanges as well as Seoul. Tokyo closed higher by about 0.3%.
- Sovereign bond yields are pushing lower. US Treasury yields are down by about 2–3bps across the curve. Canadian yields are similarly lower. The

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**Will Trump be Impeached in His First Term by the US House?**


Sources: Scotiabank Economics, Predict It.

**Discrepancy Between Weekly EIA & API Estimates of Changes in US Crude Inventories**


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

gilts curve is down by 2–4bps in a mild bull flattener. EGB 10s range from little changed in Italy to down about 3bps elsewhere. Japan's 10 year is pushing lower again at -15bps partly on expectations for negative forecast revisions and possible stimulus guidance out of the BoJ's October 31<sup>st</sup> meeting.

- The USD is little changed across most major currencies with the only notable moves coming in terms of slight depreciation in the A\$, won, rand and some scandies.
- Oil prices are lower after the private source for US crude inventories showed a build of 4.45 million barrels last week ahead of the DOE figures this morning (10:30amET). Discrepancies between the two sources are not uncommon (chart 2).

Of interest within Scotia's foot print will be **Chile's central bank decision** in the wake of destabilizing protests. Consensus expects a 25bps cut late today (5pmET). About half of consensus filed their estimates before the weekend protests that started with a four cent (yes cent) subway fare increase that was scrapped but grew into something much bigger. Like Hong Kong, Lebanon and Barcelona, a spark in a tinder box started something much bigger given years of repressed fear and anger toward economic, social and political policies. The central bank's best course of action is probably to ease for now and build confidence, but to be careful about going too far. Inflation at 2.1% y/y last month (2.3% core) has been trending just above the low-end of the 2–4% inflation target range. The nearly 2% drop in the Chilean peso to the dollar since last Friday is taking the currency back toward the weakest levels of the past two decades and it has now depreciated by about 11½% since February. That risks imported inflation and over-reacting on rates could fan more. Also note that growth has been rebounding with Q2 GDP at 0.8% q/q (non-annualized) and 3.6% y/y.

**Brexit developments are focused upon negotiations between PM Johnson and Labour leader Corbyn** to establish a new, more reasonable time table that affords opportunity to amend the Brexit agreement. This follows yesterday's mixed votes when the Withdrawal Agreement Bill passed second reading but the next vote rejected an aggressive timetable for the required legislation that was compressed into three days in order to meet the October 31<sup>st</sup> deadline. PM Johnson wanted a short period to stifle debate and minimize opportunity for amendments. Labour and others wanted more time precisely to contemplate possible amendments that could soften if not derail the exit plans. Hanging in the balance is Johnson's threat to spring an election to break the impasse. **There is an important caution with respect to the temptation to take the passage of the bill on second reading as indication of broad support in Parliament.** Labour MP Lisa Nandy—who was among nineteen of her Labour colleagues to support the bill—put it best:

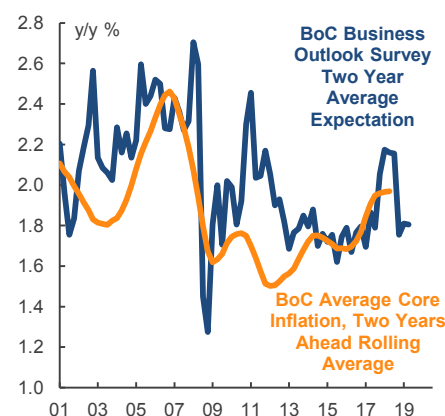
“Those of us who are seeking to engage in the detail do so not because we will support a Tory Brexit—our votes at Third Reading are by no means secure—but because we want to see if we can improve the deal and keep people's trust in our democracy.”

## UNITED STATES

**Forty S&P500 firms are releasing earnings reports today.** In the pre-market, they include names of interest to economists, like Caterpillar's disappointment as a proxy for heavy equipment demand (see above) and Boeing (sales guidance for plane orders & hence durables). In the after market, we'll hear from Ford, Microsoft and eBay. With about one-fifth of the S&P having reported, almost 84% have beaten analysts' expectations and two-thirds have beaten on revenues. All sectors are beating on earnings, while revenue beats are fairly common but not as large or as widespread.

**Is the surge in mortgage applications over?** If so, that suggests the pop in home sales that was driven by the decline in the thirty-year fixed mortgage rate may face downside risk. Total mortgage applications suffered their biggest week-over-week decline last week since late December 2016. Much of that came through a 17% w/w drop in refinancing applications, but purchase applications also fell by about 4% w/w for the second consecutive week. The 30 year fixed mortgage rate had been bouncing around bottom from mid-August through to early October at its lowest levels in about two years, but has slightly risen more recently.

**Business Outlook Survey Inflation Expectations Compared to Actual Inflation**



Sources: Scotiabank Economics, Bank of Canada.

## CANADA

Canada only updates **wholesale trade figures** for August (8:30amET). This is the last bit of information to incorporate before firming up GDP expectations and it is not expected to carry a material influence. The prior month's large 1.9% jump in wholesale sales volumes could pose too high of a base effect off of which to post further growth, although there have been several times when back to back strong gains have occurred.

As an aside, **do businesses perhaps actually know what they're talking about when providing guidance on their inflation expectations?** That's indeed possible and the accompanying chart helps to illustrate the point. It takes a two year lagged moving average of actual core inflation (orange line) and plots it along with a measure of two-year-ahead average inflation expectations drawn from the BoC's Business Outlook Survey. This expectations measure multiplies the mid-points of each of the surveyed ranges (under 1%, 1-2%, 2-3%, 3%+) against the proportion of respondents in each bucket. For the last 3%+ category that doesn't have a mid-point we use 3.5% which doesn't swing anything given the tiny proportion of businesses that think inflation will move above 3%. Business expectations are clearly much more volatile, but look carefully and the smoothed trend can often times presage a turn lower in actual inflation especially if the lags are treated with some flexibility given inflation expectations measure a two year average. **The recent decline in business expectations may well be pointing to downside risk to the BoC's inflation target.**

Seven TSX listed firms release earnings today. Pre-market names include Rogers (miss, EPS C\$1.30, consensus \$1.309, lowered cap-ex guidance), and after-market names include CP and some resource stocks. Canada's earnings season lags the US and is too young to assess the beats and misses.

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	Canada - BoC	1.75		
	1.56	1.60	1.59	1.56	1.59	1.56	1.74	1.76	1.74	2.23	2.25	2.23				
	1.60	1.62	1.64	1.51	1.53	1.56	1.49	1.52	1.55	1.60	1.63	1.67	US - Fed	2.00		
	-0.66	-0.66	-0.68	-0.63	-0.61	-0.64	-0.41	-0.37	-0.39	0.11	0.16	0.15				
	-0.24	-0.23	-0.26	-0.27	-0.26	-0.28	-0.14	-0.13	-0.16	0.41	0.43	0.39	England - BoE	0.75		
	0.50	0.52	0.56	0.46	0.50	0.50	0.67	0.71	0.71	1.19	1.23	1.19				
	Spreads vs. U.S. (bps):												Euro zone - ECB	0.00		
	4	2	5	-6	-6	-0	-24	-24	-19	-62	-63	-56				
	-222	-225	-226	-219	-219	-220	-214	-213	-213	-212	-209	-207			Japan - BoJ	-0.10
-180	-183	-185	-183	-184	-185	-187	-189	-190	-181	-182	-183					
-106	-107	-103	-110	-109	-106	-107	-105	-103	-103	-102	-104	Mexico - Banxico	7.75			
Level						% change:								Australia - RBA	0.75	
Last	Change					1 Day	1-wk	1-mo	1-yr	New Zealand - RBNZ	1.00					
S&P/TSX	16392	-26.9					-0.2	-0.2	-2.8							7.2
Dow 30	26788	-39.5					-0.1	-0.9	-0.6							6.3
S&P 500	2996	-10.7					-0.4	0.0	0.1							9.3
Nasdaq	8104	-58.7					-0.7	-0.5	-0.1							9.0
DAX	12751	-4.1					-0.0	0.6	3.3							13.1
FTSE	7229	16.6					0.2	0.9	-1.3							3.9
Nikkei	22625	76.5					0.3	1.9	2.5							0.0
Hang Seng	26567	-219.5					-0.8	-0.4	1.3			4.8				
CAC	5621	-36.4					-0.6	-1.3	-0.2			13.2	Next Meeting Date			
Commodities	Level						% change:						Canada - BoC	Oct 30, 2019		
WTI Crude	53.99						-0.49	-0.9	1.2	-7.9	-18.7	US - Fed	Oct 30, 2019			
Natural Gas	2.26						-0.01	-0.4	-1.7	-10.4	-29.5	England - BoE	Nov 07, 2019			
Gold	1492.95						5.30	0.4	0.2	-1.9	21.4	Euro zone - ECB	Oct 24, 2019			
Silver	17.63						-0.10	-0.6	-0.3	-1.4	20.5	Japan - BoJ	Oct 31, 2019			
CRB Index	174.77						-0.73	-0.4	-0.1	-2.2	-10.4	Mexico - Banxico	Nov 14, 2019			
Currencies	Level						% change:						Australia - RBA	Nov 04, 2019		
USDCAD	1.3098						0.0003	0.0	-0.8	-1.2	0.1	New Zealand - RBNZ	Nov 12, 2019			
EURUSD	1.1119						-0.0006	-0.1	0.4	1.1	-3.1					
USDJPY	108.45						-0.0400	-0.0	-0.3	0.8	-3.5					
AUDUSD	0.6842						-0.0013	-0.2	1.2	1.0	-3.4					
GBPUSD	1.2871						-0.0001	-0.0	0.3	3.6	-0.9					
USDCHF	0.9896						0.0001	0.0	-0.6	-0.0	-0.5					

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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