

ON DECK FOR THURSDAY, OCTOBER 24

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	10/24	08:30	Durable Goods Orders (m/m)	Sep P	-0.5	-0.7	0.2
US	10/24	08:30	Durable Goods Orders ex. Trans. (m/m)	Sep P	0.0	-0.2	0.5
US	10/24	08:30	Initial Jobless Claims (000s)	Oct 12	215	215	210
US	10/24	08:30	Continuing Claims (000s)	Oct 5	1680	1675	1684
US	10/24	10:00	New Home Sales (000s a.r.)	Sep	698	701	713

KEY POINTS:

- Markets digest six CBs with only regional market effects
- ECB leaves policy unchanged...
- ...ahead of Draghi's press conference
- Draghi's mixed legacy
- Turkey slashes policy rate, lira tumbles
- Riksbank sets course to abandon negative rates
- Norges Bank leaves policy & guidance unchanged
- Chile cuts, cautiously leaves door open to more easing
- Bank Indonesia cuts
- Eurozone PMIs unchanged...
- ...thus avoiding a deeper downturn...
- ...but also weighing against the fantasy of a near-term upturn
- US new home sales and durables expected to be soft

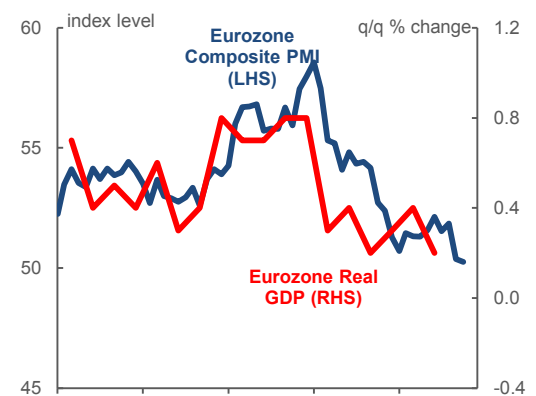
INTERNATIONAL

Global markets are digesting the aftermath of six central bank decisions and Eurozone PMIs ahead of limited US macro data in the context of ongoing earnings releases. The net effect is de minimis on global markets, but with some significant local market effects. Of these, the most significant CB is Mario Draghi's final act as President. Other than getting all sentimental, this one should come and go with little fanfare (see below). Across the remaining CBs, three cut including Turkey by much more than expected, while Chile and Bank Indonesia cut as expected. The Riksbank is the lone outlier guiding a hike in December just to eliminate the negative rate experiment, while Norges left policy and guidance unchanged.

- Sovereign bond yields are generally little changed across markets. US Treasuries and Canadas are roughly flat, so are gilts, while EGB 10s are very slightly cheaper except in Italy.
- US equity futures are very slightly higher and so are TSX futures. European cash markets are up more convincingly with gains of between ½% across the Eurozone and 1% in London. Asian equities were mixed as HK rallied by almost 1%, the Nikkei was up by ½%, Seoul was up ¼% and mainland China was little changed.

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Eurozone GDP Growth and PMIs


Sources: Scotiabank Economics, IHS Markit, Haver Analytics, Bloomberg.

- The USD is generally little changed but there are sizeable movements in some individual crosses. CAD, the euro, yen and Mexican peso are flat. The A\$/NZ\$ is depreciating a touch. The Chilean peso is among the strongest crosses following an expected rate cut and cautious guidance, whereas the Turkish lira is among the weakest after a much more aggressive than expected cut.
- Oil prices are flat in terms of both WTI and Brent.

The ECB left all of its policy rates unchanged as expected this morning. The accompanying statement ([here](#)) offered no surprises. President Draghi hosts his final press conference at 8:30amET. He will probably be asked about implementation details surrounding the stimulus that was added at the September 12th meeting, but expectations are set fairly low for whether he offers anything versus leaving that to his successor, Christine Lagarde.

Was he a good President? On balance, yes, but ‘Super’ Mario might be going a bit too far. To his credit, he reversed the unwise policy tightening of his predecessor, Jean-Claude Trichet when Draghi quickly reversed rate hikes in late 2011. His famous declaration on July 26th 2012 that the ECB will do ‘whatever it takes to preserve the euro’ accompanied by the bold declaration “And believe me, it will be enough” was just the confidence boost that was needed to stem the Eurozone crisis. That is what Draghi will best be remembered for and it was his shining moment amidst dysfunction across European capitals. It was a rejection of the Anglo-American economists’ view that the Euro project was destined to fail, which has now turned into US President Trump’s ongoing efforts to destabilize the Eurozone on the twisted belief this would be good for America and the world. I quite admire the man (Draghi, not Trump...) for his boldness, vision, leadership and communication style at the helm of a divided central bank in a fragmented Eurozone economy and market. I’m more worried about what a non-economist without Draghi’s stripes and with zero experience in central banking might do especially put in the context of a highly divided ECB, but we’ll see.

Nevertheless, judged by the ‘close to, but below, 2% within its projection horizon’ inflation mandate, the ECB failed to hit its inflation target under President Draghi’s term since November 1st 2011. That’s eight years of opportunity to hit the target and it didn’t even happen in fleeting fashion. In fact, core inflation was running at 1.6% y/y when Draghi assumed the office, and he’s leaving with it at 1.0%. Furthermore, as he beseeches Eurozone governments to apply fiscal stimulus and take some of the pressure off of central banks, it may be that Draghi’s policies are responsible for having discouraged such action. If decisive policy often comes out of periods of duress and crisis, then constantly standing willing to throw a security blanket over market concerns may have relieved pressure upon governments to step forward with their own fiscal and regulatory solutions to growth. Given how dysfunctional the Eurozone can be, maybe that’s wishful thinking, but we’ll never know the alternate state of the world and so by default that limits the extent to which one should blindly heap unlimited praise upon Draghi. Perhaps he had no choice, but the spillover effects and unintended consequences paired with moral hazard issues restrain one’s impression of overall policy success. It’s also not just fiscal policy that is the issue. Many of Europe’s banks remain in a zombie like trance to this day perhaps in part as a consequence to ECB actions. The catch-22 to all of this is that the ECB has to respect and act upon its price stability mandate and behave accordingly, but the net benefits or costs to such actions aren’t quite as clear as the ‘Super’ label might imply.

Other central banks that weighed in overnight included the following:

Riksbank: As expected, it left its repo rate unchanged at -0.25%, but the krona is among the outperforming currency pairs to the USD because of the central bank’s policy guidance (statement [here](#)). The Riksbank guided that its repo rate “will most probably be raised in December to zero percent” but will then be “unchanged for a prolonged period.” In fact, the central bank’s explicit policy rate forecasts don’t show another hike until the end of 2022. The implied policy bias is to abandon the negative rate experiment as something the central bank says did its job but that is now at a transition point where the net benefits may turn to costs. Personally I find it to be an awkward point in the outlook at which to hike.

Norges Bank: As expected, the deposit rate was left unchanged at 1.5%. The Norwegian krone was unchanged to the dollar overnight as forward policy guidance was unchanged. After raising the deposit rate by 100bps over the year up to this past September, the short statement ([here](#)) repeated its guidance that the policy rate would be unchanged “in the coming period.” Rate guidance that was provided in September’s Monetary Policy Report (chart 1a, page 7 [here](#)) pointed toward a wide range of future potential policy outcomes at varying levels of statistical confidence.

Turkey: The central bank slashed its one-week repo rate by much more than expected. The policy rate was reduced to 14% (16.5% prior, 15.5% consensus) which is lower than anyone within consensus anticipated. Not surprisingly, the lira depreciated following the decision. The policy statement ([here](#)) gallingly claimed that “keeping the disinflation process in track with the targeted path requires the continuation of a cautious monetary policy stance.” Inflation stands at 9.3% y/y with core CPI at 7½% albeit falling sharply from the nosebleed territory of 24% set about a year ago.

Chile: In a unanimous decision, Banco Central de Chile cut its overnight rate target by 25bps last night as widely expected. The accompanying statement ([here](#)) left the door open to further easing by signaling that it will have a more thorough forecast assessment that incorporates the effects of recent developments in the December report, and concluded by noting the following:

“The Board’s decision assumes that for inflation to converge to the target a further monetary boost is needed, which will be assessed in the light of the macroeconomic scenario, especially after the events of recent days.”

Bank Indonesia: The seven day reverse repo rate was cut by 25bps to 5% as widely anticipated. That brings cumulative reductions to an even 100bps since July. The policy statement ([here](#)) left the door open to possible further easing by stating the central bank “will monitor domestic and global economic development in using its room to implement an accommodative policy mix.”

As for macro data, **Eurozone purchasing managers indices were essentially unchanged** especially considering statistical error surrounding sentiment surveys. They neither deteriorated in favour of deepening recession worries, nor signaled any hope of an upturn (see chart). The composite PMI landed at 50.2 in October (50.1 prior) as the manufacturing PMI was unchanged at 45.7 and the services PMI was 51.8 (51.6 prior). Only Germany and France release individual country figures at this point. France’s composite PMI moved higher to 52.6 (50.8 prior) mostly because its services PMI increased to 52.9 (51.1 prior) but the manufacturing PMI edged a little upward to 50.5 (50.1 prior). Germany was a different story. Its composite PMI was unchanged (48.6, 48.5 prior) and so were the components as the services PMI landed at 51.2 (51.4 prior) and the manufacturing PMI was 41.9 (41.7 prior).

UNITED STATES

US markets will digest a pair of macro reports this morning and they are expected to be on the soft side.

Forty-six earnings reports from S&P500 companies are also being delivered today with 25 of them in the pre-market. Pre-market releases include Twitter’s disappointment while after-market releases will include Amazon, Intel and Visa.

Headline durable goods orders (8:30amET) face considerable uncertainty. Plane orders were up pretty sharply when Boeing and Airbus orders are combined, but less came from US airlines. The GM strike and sideways move in auto sales this year might dampen that sector’s order book. The greater focus will be upon core capital goods orders that were flat in July, shrank in August, and may face downside in September as trade uncertainties and a weakening global economy rose in prominence.

US new home sales (10amET) are likely to reverse at least some of the prior 7% m/m gain.

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			
	1.57	1.58	1.60	1.57	1.59	1.58	1.75	1.77	1.75	2.24	2.25	2.24	Canada - BoC	1.75	
	1.63	1.62	1.64	1.54	1.54	1.57	1.52	1.52	1.56	1.62	1.62	1.67	US - Fed	2.00	
	-0.66	-0.66	-0.67	-0.62	-0.62	-0.64	-0.39	-0.39	-0.41	0.13	0.11	0.12	England - BoE	0.75	
	-0.24	-0.24	-0.25	-0.27	-0.27	-0.27	-0.14	-0.14	-0.15	0.40	0.41	0.40			
	0.52	0.53	0.51	0.48	0.48	0.47	0.68	0.69	0.68	1.17	1.19	1.17			
	Spreads vs. U.S. (bps):														
	6	4	4	-4	-6	-1	-24	-25	-20	-62	-63	-57	Euro zone - ECB	0.00	
	-223	-224	-227	-219	-221	-222	-214	-216	-216	-211	-214	-212	Japan - BoJ	-0.10	
-181	-183	-185	-184	-186	-185	-189	-190	-190	-184	-184	-184				
-105	-105	-109	-110	-111	-111	-108	-108	-108	-107	-107	-107				
Equities	Level						% change:						Mexico - Banxico		7.75
	Last			Change			1 Day	1-wk	1-mo	1-yr					
S&P/TSX	16336			-55.6			-0.3	-0.6	-2.8	9.6			Australia - RBA	0.75	
Dow 30	26834			45.9			0.2	-0.6	0.1	9.2			New Zealand - RBNZ	1.00	
S&P 500	3005			8.5			0.3	0.5	1.3	13.1					
Nasdaq	8120			15.5			0.2	-0.1	1.6	14.2					
DAX	12857			58.8			0.5	1.6	4.5	14.9					
FTSE	7320			59.6			0.8	1.9	0.4	5.1					
Nikkei	22751			125.2			0.6	1.2	2.9	3.0			Canada - BoC	Oct 30, 2019	
Hang Seng	26798			231.2			0.9	-0.2	2.0	6.1			US - Fed	Oct 30, 2019	
CAC	5674			20.1			0.4	0.0	0.8	14.5			England - BoE	Nov 07, 2019	
Commodities	Level						% change:						Euro zone - ECB		Oct 24, 2019
WTI Crude	55.91			-0.06			-0.1	3.7	-2.4	-16.3			Japan - BoJ	Oct 31, 2019	
Natural Gas	2.32			0.03			1.4	-0.1	-7.5	-26.9					
Gold	1491.67			-0.47			-0.0	-0.0	-2.6	20.9					
Silver	17.54			-0.09			-0.5	1.6	-4.6	19.2					
CRB Index	177.65			0.35			0.2	1.2	0.3	-8.6					
Currencies	Level						% change:						Mexico - Banxico		Nov 14, 2019
USDCAD	1.3075			0.0003			0.0	-0.5	-1.3	0.1			Australia - RBA	Nov 04, 2019	
EURUSD	1.1125			-0.0005			-0.0	0.0	1.0	-2.3			New Zealand - RBNZ	Nov 12, 2019	
USDJPY	108.63			-0.0600			-0.1	-0.0	1.5	-3.2					
AUDUSD	0.6835			-0.0018			-0.3	0.2	0.5	-3.2					
GBPUSD	1.2895			-0.0017			-0.1	0.0	3.3	0.1					
USDCHF	0.9905			-0.0001			-0.0	0.3	0.5	-0.7					
Next Meeting Date															

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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