ON DECK FOR WEDNESDAY, OCTOBER 30

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	10/30	07:00	MBA Mortgage Applications (w/w)	Oct 25	--	--	0.5
US	10/30	08:15	ADP Employment Report (000s m/m)	Oct	125	110.0	134.9
US	10/30	08:30	GDP (q/q a.r.)	3Q A	1.8	1.6	2.0
US	10/30	08:30	GDP Deflator (q/q a.r.)	3Q A	--	1.9	2.4
CA	**10/30**	**10:00**	**BoC Interest Rate Announcement (%)**	**Oct 30**	**1.75**	**1.75**	**1.75**
CA	10/30	11:15	Governor Poloz Speaks at Press Conference				
US	**10/30**	**14:00**	**FOMC Interest Rate Meeting (%)**	**Oct 30**	**1.75**	**1.75**	**2.00**
US	10/30	14:30	FOMC Press Conference				

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KEY POINTS:

- Global asset classes little changed ahead of the Fed
- Fed: Cut and leave the door open…
- …while learning from Powell’s multiple bias changes over the past year
- BoC: relative to market pricing, the risk may be toward more dovish
- A$ shakes off CPI
- Yen ignores consumer stockpiling ahead of sales tax hike
- German inflation eases across most states
- Spanish inflation holds near zero
- BCB expected to cut again this afternoon

INTERNATIONAL

It’s game day for two out of three North American central banks. **A Fed cut with open-ended guidance and a continued BoC pause with open-ended guidance are probably the most prudent courses to follow today.** There are a number of other global macro developments under consideration that are briefly summarized below, but the Fed is the main risk to global markets. Not surprisingly, global asset classes are rather guarded ahead of the central banks.

- The USD is little changed on balance, including a flat yen, Euro and CAD. Sterling is slightly appreciating in the wake of the election call for December 12th.

- Sovereign bond yields are slightly lower across major markets, with 10s down by 1–2bps in the US, Canada, UK and most EGBs except for Italy.

- Oil prices are little changed in the wake of yesterday’s API report showing a 1.2 million barrel increase in US crude inventories ahead of this morning’s government estimates (10:30amET).

- US and Canadian equity futures are flat ahead of central banks. European cash markets are mostly little changed with earnings carrying differential effects including a 1.3% drop in Madrid versus a ¼% rise in Paris and flatness elsewhere. Asian equities sold off by about ½% in Tokyo, Seoul, HK and across mainland China’s exchanges.

Here is a quick run-down of other macro developments before turning to the Fed and BoC:

- The A$ largely shook off Q3 CPI that showed headline inflation up a tick to 1.7% y/y, trimmed mean unchanged at 1.6% and weighted median CPI down a tick to 1.2% from the upwardly revised estimate for the prior quarter.
- The yen shook off retail sales that popped 7.1% m/m higher (3.5% consensus) as consumers stocked up before the October 1st jump in the sales tax from 8% to 10%; expect retrenchment in October.
- The euro ignored some Eurozone macro data. French GDP landed at 0.3% q/q, (0.2% consensus) but French consumption ended the quarter on a soft note in September (-0.4% m/m, 0% consensus). Slightly softer inflation from individual German states is consistent with an expected softening in the national add-up (9amET), while Spanish inflation was unchanged at 0.2% y/y. There was a modest rise in German unemployment (+6k) but the unemployment rate was unchanged at 5.0%.
- Brazil's central bank is expected to cut by 50bps late this afternoon (5pmET). Inflation at 2.9% y/y is running below the bottom end of the 3–6% inflation target range and falling. In fact, September's month-ago change was the weakest for that month in over two decades. The Copom's last statement on September 18th (here) guided further future easing ("…should permit additional adjustment of the degree of stimulus") conditional upon data ("…continue to depend on the evolution of economic activity, the balance of risks, and on inflation projections and expectations.")

UNITED STATES

The dominant focus will clearly be upon the Fed's communications, but a pair of releases may spice things up a bit beforehand.

ADP private payrolls (8:15amET) are expected to rise by 110k (Scotia 125k). A challenge with today's and Friday's nonfarm payroll releases involves estimating the GM strike effect. Regardless, the usual cautions apply to ADP in that it very often throws head fakes in terms of informing nonfarm payroll expectations. It takes a big outlier movement for one to say with decent statistical confidence that nonfarm will follow ADP. Otherwise, ADP over/under estimates private nonfarm payrolls by an average of about 50k using the absolute values of the spreads between initial prints.

The first estimate at US GDP growth for Q3 arrives at 8:30amET. Growth is expected to land at 1.6% q/q (Scotia 1.8%) at a seasonally adjusted and annualized rate. Most estimates are between 1.4–1.8%. There is a decent chance that growth could land somewhat below the Fed's estimated 1.9% longer run potential growth rate. Consumption growth is expected to remain strong with tracking at about 2.35% pending September figures that this morning's quarterly tally will fill in. That would be a softer pace of consumption growth than the 4.6% growth rate in Q2. The Fed's statement could downgrade the reference to consumption growth as "solid" instead of "rising at a strong pace" or they might wish to see more data, as "solid" would be a slightly more dovish signal. Business investment is likely to remain weak so the Fed statement could continue to say so.

Within the GDP accounts, **also keep an eye on core PCE inflation**. The quarter-ago annualized growth rate in core consumer prices probably picked up to 2.1%–2.2% (1.9% prior). This would show progress toward the Fed's 2% inflation target, but little overshoot in terms of symmetry arguments while measures of inflation expectations remain low.

Then it's Fed time. As a reminder, a preview is available here. It's a statement only outcome at 2pmET followed by Chair Powell's press conference at 2:30pmET which usually runs for around an hour, plus or minus a bit. Scotia is with the 80% of consensus forecasting a cut that takes the Fed funds target range down to 1.5%–1.75%, while OIS markets are pricing 94% odds of a cut today. Disappointing markets when the Fed is still putting out fires in the short-term funding space probably wouldn't be terribly wise and the Fed would be ridiculed for not prepping markets.

The bigger issue is the bias. **I think they avoid rocking the boat by pre-committing to much of anything one way or the other,** and so look for repeats of catch phrases in the statement and presser like "act as appropriate" and data dependent language in the concluding statement paragraph while reiterating that policy is not on a "preset path." The Fed preview gave six reasons why I think the Fed will avoid explicitly signaling an end to the easing cycle.

What I'd add to this is a reminder that **Chair Powell has hopefully learned his lesson on providing overly strident guidance and then having to flip around subsequently. That's not meant to be unfair, rather than a statement of reality in a world that has been tossed upside down by inept US trade policy.** Recall the following examples:

- **October 3rd 2018:** When the Fed funds target range was 1.75–2%, Powell stated "Interest rates are still accommodative, but we're gradually moving to a place where they will be neutral. We may go past neutral, but we're a long way from neutral at this point, probably." Bond markets abruptly sold off in response.

- **January 31st 2019:** After hiking once more in December, Powell stated ""I would want to see a need for further rate increases, and for me, a big part of that would be inflation."

- **March 8th 2019:** "The committee has adopted a patient, wait-and-see approach."

- **July 31 2019:** At the meeting that brought the first rate cut, Powell said " We're thinking of it essentially as a midcycle adjustment to policy. That refers back to other times when the FOMC has cut rates in the middle of a cycle and I'm contrasting it there with the beginning of a lengthy cutting cycle. That is not what we're seeing now, that's not our perspective now."

Powell has not repeated "midcycle" since then, possibly having watched the bond market reaction that day and subsequent developments in trade policy.

CANADA

Four hours before the Fed, the BoC will weigh in with its own statement and Monetary Policy Report (10amET) followed by a press conference at 11:15amET hosted by Governor Poloz and SDG Wilkins. A full preview is available here and it goes over the **multiple external and domestic arguments for how the BoC may perhaps reluctantly drift toward easing**. Since this is an MPR meeting, expect a full statement re-write such that parsing changes in statement language between today and the last one in September is of little use. The exception to this point is of course the concluding paragraph's guidance that I would expect to keep

- "Canada's economy is operating close to potential and inflation is on target."

- "The current degree of monetary policy stimulus remains appropriate", and

- the conditional data dependency expressed by stating the Bank "will pay particular attention to global developments and their impact on the outlook for Canadian growth and inflation."

Relative to market pricing, the risks in the statement, MPR and press conference are more skewed toward dovish outcomes. OIS markets are only assigning about one-in-four odds of a cut over Q1 and about 15% odds of a cut in December.

Fixed Income	Government Yield Curves (%):											
	2-YEAR			5-YEAR			10-YEAR			30-YEAR		
	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk
U.S.	1.63	1.65	1.59	1.65	1.66	1.59	1.82	1.84	1.77	2.32	2.34	2.25
CANADA	1.70	1.70	1.62	1.61	1.62	1.54	1.59	1.60	1.52	1.73	1.74	1.62
GERMANY	-0.63	-0.63	-0.66	-0.58	-0.58	-0.62	-0.36	-0.35	-0.39	0.16	0.18	0.11
JAPAN	-0.21	-0.20	-0.24	-0.24	-0.23	-0.27	-0.11	-0.10	-0.14	0.42	0.43	0.41
U.K.	0.53	0.54	0.53	0.49	0.50	0.48	0.69	0.71	0.69	1.22	1.24	1.19
	Spreads vs. U.S. (bps):											
CANADA	6	6	3	-4	-4	-6	-24	-24	-25	-59	-60	-63
GERMANY	-227	-228	-224	-224	-224	-221	-219	-219	-216	-216	-216	-214
JAPAN	-185	-185	-183	-189	-189	-186	-193	-194	-190	-190	-190	-184
U.K.	-111	-111	-106	-116	-117	-111	-113	-113	-108	-110	-110	-107

Equities	Level		% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	16418	30.6	0.2	0.2	-1.4	10.2
Dow 30	27071	-19.3	-0.1	1.1	0.6	8.8
S&P 500	3037	-2.5	-0.1	1.4	2.0	13.2
Nasdaq	8277	-49.1	-0.6	2.1	3.5	15.6
DAX	12925	-14.6	-0.1	1.0	4.0	14.5
FTSE	7310	4.0	0.1	0.7	-1.3	3.9
Nikkei	22843	-131.0	-0.6	1.0	5.0	6.5
Hang Seng	26668	-119.0	-0.4	0.4	2.2	8.5
CAC	5755	14.5	0.3	1.8	1.4	15.6
Commodities	Level		% change:			
WTI Crude	55.53	-0.01	-0.0	-0.8	2.7	-16.1
Natural Gas	2.65	0.01	0.4	16.1	13.7	-16.8
Gold	1492.98	5.35	0.4	0.1	1.4	22.1
Silver	17.66	-0.40	-2.2	0.2	0.8	20.5
CRB Index	178.50	0.13	0.1	0.7	2.6	-6.9
Currencies	Level		% change:			
USDCAD	1.3084	-0.0003	-0.0	0.1	-1.2	-0.2
EURUSD	1.1113	0.0001	0.0	-0.2	2.0	-2.0
USDJPY	108.85	-0.0400	-0.0	0.1	0.7	-3.8
AUDUSD	0.6861	-0.0004	-0.1	0.1	1.6	-3.4
GBPUSD	1.2890	0.0028	0.2	-0.2	4.9	1.4
USDCHF	0.9922	-0.0018	-0.2	0.2	-0.6	-1.3

Central Banks	
Current Rate	
Canada - BoC	1.75
US - Fed	2.00
England - BoE	0.75
Euro zone - ECB	0.00
Japan - BoJ	-0.10
Mexico - Banxico	7.75
Australia - RBA	0.75
New Zealand - RBNZ	1.00
Next Meeting Date	
Canada - BoC	Oct 30, 2019
US - Fed	Oct 30, 2019
England - BoE	Nov 07, 2019
Euro zone - ECB	Dec 12, 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.