ON DECK FOR TUESDAY, NOVEMBER 5

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	11/05	08:30	Merchandise Trade Balance (C$ bn)	Sep	-0.6	-0.7	-1.0
US	11/05	08:30	Trade Balance (US$ bn)	Sep	-51.9	-52.4	-54.9
US	11/05	10:00	ISM Non-Manufacturing Composite	Oct	53.0	53.5	52.6
US	11/05	10:00	JOLTS Job Openings (000s)	Sep	--	7063	7051
US	11/05	12:40	Dallas Fed's Kaplan Speaks in Dallas				
US	11/05	18:00	Fed's Kashkari Speaks in Minneapolis				

KEY POINTS:

- **Risk-on global sentiment has three drivers…**
- **…including tariff headlines…**
- **…PBOC efforts to rein in China's bond sell-off…**
- **…and small improvements across global PMIs**
- **China is leveraging its upper hand…**
- **…as it demands tariff removals…**
- **…but Trump's support is unclear**
- **The US trade deficit likely narrowed…**
- **…but not for great reasons**
- **Canada's trade deficit to inform Q3/Q4 hand-off**
- **China's PMIs indicate SOEs performing worse than smaller firms**
- **UK PMIs slightly improved across the board**
- **Will US ISM-services add to improving sentiment?**
- **A$ leads the pack on a slightly more upbeat RBA, trade headlines**

INTERNATIONAL

There are three drivers of risk-on sentiment across global asset classes noted in order of importance. One is trade-related headlines (see below). Second is accumulating evidence of slightly better global purchasing managers' indices that at least points to a fragile stabilization in the world economy. Further, the PBoC tweaked monetary policy with a 5bps cut to its one-year loan rate that was enough to at least temporarily rein in a Chinese bond sell-off that had been in play for about two months.

US equity futures are up by another ¼%. TSX futures are flat. European cash markets range from little change in the DAX and Madrid to about ¼% rallies in London, Paris and Milan. Asian equities rallied including a 1 ¾% rise in the Nikkei as Japan came back from a holiday, a ½% rise across mainland China's equities and in HK and Seoul.

Sovereign bond yields are rising again and driving significant shifts in curves. US Treasuries continue to bear flatten a touch as the 2s10s slope has gone from -5bps in late August to +21bps now. US 10s are 4bps cheaper this morning. Canada's curve is also bear steepening a bit with 10s 5bps cheaper and the two year yield up by just under 3bps. Gilts are flat, 10 year EGBs are up by about 2bps on balance and 10 year JGBs are yielding 5bps higher to -14bps which continues a trend away from the low of -30bps in early September.

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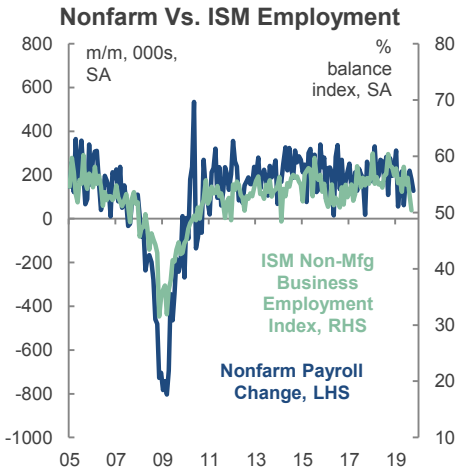

Sources: Scotiabank Economics, ISM, BLS.

Oil prices are up by about half a buck in terms of Brent and WTI. Canada is missing at least some of this rally except for the east coast projects that price at Brent, with Western Canada Select at US$34.40 yesterday ahead of this morning's updates. That's the lowest WCS level since the start of the year and about US$22 lower than the peak in April.

- The USD is little changed on balance but slightly appreciating because the euro is weaker and so are competing safe havens like the yen and Swiss franc. The A$ leads the pack (trade and RBA, see below) along with some other trade-related higher beta crosses like CAD, the won, Taiwan dollar and NZ$.

Another batch of five anonymous White House officials are indicating support for rolling back some of the US tariffs on China in response to China's demand for such action before agreeing to a phase 1 trade deal. This is not a goodwill gesture by the US; it is viewed as a necessary step in order to get China to the table on an agreement and involves a degree of capitulation by the Trump administration much like what happened in NAFTA 2.0 and KORUS negotiations. The story broke late last night in the FT (subscribers here). The officials indicate that the US administration is considering removing the 15% tariff on US$112 billion of imports from China that was introduced on September 1st as a partial gesture along with suspending the planned 25% tariff hike on a further US$156 billion of goods in mid-December. In exchange, China might agree to hold a signing ceremony on US soil that could backfire on the US administration, buying more farm products from the US amidst uncertainty over supply, and a toothless currency provision while possibly agreeing to uncertain measures to protect intellectual property. **The key is that it is unknown whether President Trump supports such tariff reversals** and it is important to acknowledge that he has gone against his advisors trade policy on multiple occasions. Unless China is prepared to offer much more than appears to be the case, then it's looking like trade peace of sorts would continue the pattern by which the US administration has caused great upheaval and uncertainty in the world economy only to settle for little substantive change as was the case with the USMCA/CUSMA and KORUS deals.

Notwithstanding these points, the public sector is setting an awful example for the private sector. If this were the private sector, then leaked guidance and market manipulation would land one in trouble with regulators. When public officials inject such information it's apparently routinely ok. Leaks that are favourable to markets also apparently don't draw the same scorn from the Trump administration that gets applied to unfavourable leaks. Imagine that. Do as I say, not as I do guides regs.

The A$ is among the leaders of the currency pack to the USD this morning through a combination of trade-related headlines that are boosting higher beta currencies and a pause signal from the Reserve Bank of Australia. The RBA left its cash rate unchanged at 0.75% as universally expected by the consensus of economists and market pricing. The November statement (here) changed wording of the prior October 1st statement by noting that "The central scenario is for the Australian economy to grow by around 2 ¼ per cent this year and then for growth gradually to pick up to around 3 per cent in 2021." It also altered reference to "further monetary easing" by global central banks by shifting to the past tense. Further, inflation guidance was changed from "Inflation pressures remain subdued and this is likely to be the case for some time yet" to "…the central scenario remains for inflation to pick up, but to do so only gradually." The concluding bias was left unchanged as by stating the RBA "is prepared to ease monetary policy further if needed."

China completed monthly updates of purchasing managers indices by filling in the missing estimates for the private services and composite PMIs. **The broad takeaway is that the state's version of the composite PMI fell in October (52.0, 53.1 prior) which slightly conflicts with the unchanged private composite PMI (52.0, 51.9 prior).** That may be due to compositional differences as the state PMIs are more skewed toward the SOEs versus the private PMIs that are more skewed toward smaller firms in more coastal export-oriented areas. In other words, the SOEs may be faring worse.

The UK PMIs improved a little in October. The composite PMI was updated this morning (50.0, 49.3 prior) because all three underlying PMI reports improved. We already knew that the manufacturing PMI picked up (49.6, 48.3 prior) and that the construction PMI improved (44.2, 43.3 prior). This morning's figures filled in the blank for the services sector that also registered a mild improvement (50.0, 49.5 prior).

UNITED STATES

US markets face a pair of macro reports to go alongside the influences of trade deadlines.

The main focus will be upon ISM services (10amET). A modest improvement is expected after the prior month fell to its weakest level since August 2016. One indication of such expectations is derived from the pick-up in hiring activity that was witnessed in Friday's nonfarm payrolls report after adjusting for strikes and including revision effects. Chart 1 shows the loose correlations over time between nonfarm payrolls and ISM services. If we see improvement, then it could back up ISM-manufacturing's improvement last Friday when it showed a slightly slower pace of contraction in the US manufacturing sector. That would be a positive signal of stabilization in the overall US economy. The Markit services PMI that was released on October 24th might nevertheless cast some doubt upon this expected improvement as it held unchanged (51.0, 50.9 prior). It's possible that different sample periods could favour a touch more upside to ISM-services as trade related headline risks gradually lessened.

The US trade deficit likely narrowed in September (8:30amET). We already know that the merchandise deficit narrowed to US$70.4 billion ($73.1B prior) but not for good reasons; imports simply fell at a faster rate of -2.3% m/m than exports that fell by 1.6% in September. The drop in exports was spread across autos, food and beverage products and industrial supplies. For this morning's all-in trade deficit, a rule of thumb is to take the advance merchandise deficit (barring revisions) and tack on a usually fairly stable services surplus which should translate into a total monthly deficit of about US$51.9 billion. A word of caution is not to fall into the trap of giving a nod to Trump's efforts to rein in the trade deficit; far from it, as a narrower deficit because imports are falling faster than exports is a pyrrhic victory.

CANADA

Canada updates its monthly trade figures for September this morning (8:30amET). One driver of a possibly narrower monthly trade deficit might be less import momentum after the big jump in import volumes the prior month. Another driver could be that energy projects on the east coast and in Alberta have been experiencing unusual maintenance shutdowns and perhaps we'll see the first signs of some improvement that would flow through to exports.

Nevertheless, if we see a narrower deficit then I wouldn't infer much from that. We've been dealing with significant trade distortions throughout the year that have more to do with idiosyncratic and transitory domestic drivers than anything to do with the US or global trade picture.

That said, a constant issue is the reliability of the first pass at the estimates. That's because StatsCan infers so much of the resource picture absent adequate survey response rates. Then they revise the next month when more complete survey responses come in. Therefore I always take the first pass at Canadian trade figures with a healthy degree of skepticism.

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.	1.61	1.58	1.64	1.62	1.59	1.66	1.82	1.78	1.84	2.31	2.26	2.34
CANADA	1.62	1.60	1.70	1.58	1.53	1.62	1.58	1.53	1.60	1.74	1.68	1.74
GERMANY	-0.64	-0.65	-0.63	-0.59	-0.60	-0.58	-0.33	-0.35	-0.35	0.22	0.19	0.18
JAPAN	-0.23	-0.26	-0.20	-0.26	-0.30	-0.23	-0.12	-0.18	-0.10	0.39	0.35	0.43
U.K.	0.54	0.55	0.54	0.50	0.50	0.50	0.72	0.73	0.71	1.24	1.23	1.24
	Spreads vs. U.S. (bps):											
CANADA	2	1	6	-5	-6	-4	-24	-25	-24	-57	-58	-60
GERMANY	-225	-223	-228	-221	-220	-224	-214	-213	-219	-209	-207	-216
JAPAN	-184	-185	-184	-188	-190	-189	-194	-195	-194	-192	-192	-190
U.K.	-107	-104	-110	-112	-109	-117	-109	-105	-113	-107	-104	-110

Equities	Level		% change:		
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	16670	75.7	0.5	1.7	1.3	9.5
Dow 30	27462	114.8	0.4	1.4	3.3	7.9
S&P 500	3078	11.4	0.4	1.3	4.3	12.4
Nasdaq	8433	46.8	0.6	1.3	5.6	15.1
DAX	13153	16.6	0.1	1.6	9.5	14.4
FTSE	7394	23.9	0.3	1.2	3.3	4.1
Nikkei	23252	401.2	1.8	1.7	8.6	4.5
Hang Seng	27683	136.1	0.5	3.3	7.2	6.7
CAC	5843	18.8	0.3	1.8	6.5	14.5
Commodities	Level		% change:			
WTI Crude	56.99	0.45	0.8	2.6	7.9	-9.7
Natural Gas	2.88	0.06	2.1	10.9	22.4	-19.3
Gold	1499.95	-9.81	-0.6	0.8	-0.3	21.8
Silver	18.19	0.07	0.4	0.7	3.3	22.7
CRB Index	181.73	0.64	0.4	1.9	4.7	-5.6
Currencies	Level		% change:			
USDCAD	1.3133	-0.0018	-0.1	0.4	-1.3	0.2
EURUSD	1.1111	-0.0017	-0.2	-0.0	1.3	-2.6
USDJPY	108.86	0.2800	0.3	-0.0	1.5	-3.8
AUDUSD	0.6910	0.0026	0.4	0.7	2.6	-4.2
GBPUSD	1.2896	0.0012	0.1	0.3	4.9	-1.1
USDCHF	0.9915	0.0036	0.4	-0.3	-0.3	-1.3

Central Banks	
Current Rate	
Canada - BoC	1.75
US - Fed	1.75
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	Dec 04, 2019
US - Fed	Dec 11, 2019
England - BoE	Nov 07, 2019
Euro zone - ECB	Dec 12, 2019
Japan - BoJ	Dec 19, 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.