ON DECK FOR THURSDAY, NOVEMBER 7

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	11/07	08:30	Initial Jobless Claims (000s)	Nov 2	215	215	212
US	11/07	08:30	Continuing Claims (000s)	Oct 26	1680	1660	1682
US	11/07	13:05	Dallas Fed's Kaplan Speaks in Dallas				
US	11/07	15:00	Consumer Credit (US$ bn m/m)	Sep	--	15.0	17.9
US	11/07	19:10	Fed's Bostic Speaks in NYC on Monetary Policy				

KEY POINTS:

- **Tariff guidance drives risk-on sentiment**
- **What exactly was the point of Trump's trade wars?**
- **Words speak louder than actions…**
- **...as the BoE throws a curve ball at gilts, sterling…**
- **…with dovish guidance and dissenters…**
- **…and is so doing, flexed its pre-election independence**
- **Consensus is divided on Peru's CB**
- **German industrial output falls again**
- **Mexican core CPI edges slightly lower**
- **US quiet today**
- **Quebec Fall statement today**

INTERNATIONAL

Risk on sentiment is again sweeping through global markets this morning. Further tariff guidance from China is the main driver (see below). The Bank of England's guidance combined with the global bond selloff to steepen the gilts curve more than most while driving sterling a little weaker. Peru's central bank faces a divided consensus this evening. German factory data was weak. Canadian provincial bond investors will focus upon Quebec's Fall statement today. Please see the recap of Ontario's Fall statement by Rebekah Young and Marc Desormeaux here.

- Equities are up almost everywhere. US and Canadian cash markets are rallying by about ½%. Ditto for Germany, Spain and Italy with Paris slightly underperforming along with London where BoE dovishness is informing a mixed trade of potentially lower rates but greater concern over the economy. Almost all Asian exchanges nudged higher overnight.

- Sovereign bond yields are under upward pressure everywhere. US Treasury yields are up by 5–7bps from 2s through 10s. Canada's curve is up by 3–7 bps. Gilts are richer at the front end with 2s down about 2bps but the 10 year yield is up 5bps. EGB curves are bear steepening. JGBs pushed up by 1–2bps across maturities and the 10 year yield of -8bps is at its highest since the end of May.

- The USD is a bit firmer against major crosses like sterling, the yen and euro. More commodity related crosses like the Norwegian krone, A$ and CAD are slightly higher especially the krone.

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- Oil prices are jumping on the bandwagon. WTI and Brent are both up by about a buck. Gold is a touch cheaper at US$1484.

China jawboned progress in trade negotiations with the US overnight. The Ministry of Finance noted that negotiations were "constructive" and that both countries agreed to remove tariffs in phases as progress is made toward agreement. China stipulated that tariffs rollbacks must be in proportion to each other's moves The US has not confirmed this (and specifically President Trump). Up to now, Trump and others in his administration have stated that tariffs would remain in place even well after agreement and during an enforcement and monitoring period China rightly said no to that. Has Trump changed his mind, having met his match and with an eye on November 2020? That's unclear. Exactly what may be agreed upon in a 'phase one' deal also isn't clear. If all that winds up happening is that tariffs were applied first by the US and then rolled back, China cut its US agricultural purchases and then restored them, and something like a toothless currency pledge is agreed upon, then what on earth was the point of it all? Trump damaged the world economy for little to no reason while abandoning progress toward a grander step in the TPP. Just like NAFTA 2.0 and just like KORUS, the pot was stirred to a boil and then cooled to no net effect. It all seems rather farcical to me to take credit for reversing a problem of one's own creation.

Words speak louder than actions in the UK this morning. The Bank of England threw a curve ball at gilts and sterling with more dovish than expected communications. It's the only market where short-term yields are (slightly) rallying today while longer dated gilts are cheapening by less than elsewhere. There were no tangible policy actions taken, as the Bank rate was left unchanged at 0.75%. But the way the 'old lady of Threadneedle Street' spoke before an election on December 12th was a refreshing reminder that even in this day and age a central bank can offer views and provide guidance that is independent. Others take note! In fact, it struck a more cautious and dovish tone before—just to repeat—an election and not after one. Here is where the surprises came from:

Most were not expecting dissenters, but the vote came down to 7–2 in favour of leaving the policy rate unchanged but with the dissenters (Saunders and Haskel) preferring a 25bps cut now. That's the first vote that wasn't unanimous since June of last year.

Governor Carney sounded pretty downbeat when he observed that risks to updated forecasts are "skewed to the downside." The forecasts now incorporate a 'leave' assumption versus a murky set of scenarios that took into account multiple possible outcomes.

Being 'Super Thursday', the statement (here) and press conference were accompanied by the full Monetary Policy Report (here) and its forecasts along with the publication of meeting minutes (here). The minutes stated "if global growth fails to stabilize, or if Brexit uncertainty remains entrenched, monetary policy may need to reinforce the expected recovery in UK GDP and inflation."

That said, most headline coverage didn't capture the next sentence in the minutes that guided "Further ahead, provided these risks do not materialise and the economy recovers broadly in line with the MPC's latest projections, some modest tightening of policy, at a gradual pace and to a limited extent, may be needed to maintain inflation sustainably at the target. The MPC judges at this meeting that the existing stance of monetary policy is appropriate." Thus, the BoE is more skewed to the downside risks but cognizant that two tailed risks still remain.

German industrial production fell by 0.6% m/m in September but markets don't care about backward looking data this morning. That was a touch weaker than expected but partly because the prior month was revised up a little. It's the third decline in four months and suggests Q3 GDP will come in very softly. Declines were fairly widespread outside of construction and energy. Excluding construction's 1.8% rise, the rest of industrial output fell by 1.0%. It's too early to get excited by the upturn in yesterday's factory orders (+1.3% m/m) given they bounced back a little from prior weakness along a volatile trend.

Peru's central bank issues a rate decisions today (6pm) and it faces a somewhat split consensus. After previously cutting its reference rate by 25bps in August, consensus is divided between a hold and another ¼ point cut. Core inflation at 2.2% y/y is just above the mid-point of the 1–3% target range while headline inflation lies just below.

Mexico's core CPI inflation rate edged ever so slightly lower in October. From 3.75% y/y in September, the rate stood at 3.68% in October. Quoting inflation figures to the second decimal point is done in the market presumably to demonstrate a sense of humour, but it continues a very slight downward trend since June that continues to provide cover for Banxico to ease again next week.

CANADA

Quebec delivers its Fall statement today. Scotia's Rebekah Young and Marc Desormeaux now foresee a 2.4% expansion this year, in stark contrast to the 1.8% rise forecast by the Government in the March 2019 budget and a rate that should put Quebec at the top of the provincial growth table for the first time in recorded history. That economic growth helped lift own-source receipts 1.3% higher than year-earlier levels from April to June 2019—versus a rise of just 0.6% penciled in for FY20 as of March—and sets the stage for yet another revenue windfall.

Please see a recap of yesterday's Ontario's Fall statement here.

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.	1.66	1.61	1.53	1.72	1.63	1.52	1.91	1.83	1.69	2.39	2.32	2.18
CANADA	1.63	1.59	1.51	1.59	1.54	1.42	1.61	1.54	1.41	1.75	1.68	1.57
GERMANY	-0.61	-0.64	-0.66	-0.53	-0.58	-0.63	-0.26	-0.33	-0.41	0.28	0.20	0.11
JAPAN	-0.17	-0.19	-0.23	-0.18	-0.21	-0.26	-0.06	-0.08	-0.13	0.43	0.41	0.39
U.K.	0.52	0.54	0.50	0.50	0.50	0.44	0.75	0.72	0.63	1.28	1.23	1.14
	Spreads vs. U.S. (bps):											
CANADA	-4	-2	-1	-13	-10	-10	-29	-29	-28	-64	-63	-61
GERMANY	-228	-225	-219	-225	-221	-215	-217	-216	-210	-211	-212	-207
JAPAN	-184	-180	-176	-190	-184	-178	-197	-191	-182	-196	-191	-179
U.K.	-115	-107	-102	-121	-113	-108	-115	-111	-106	-111	-108	-105

Equities	Level		% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	16815	68.9	0.4	2.0	2.4	9.4
Dow 30	27723	230.8	0.8	2.5	4.7	5.9
S&P 500	3093	16.2	0.5	1.8	5.2	9.9
Nasdaq	8476	65.4	0.8	2.2	6.5	12.0
DAX	13285	104.8	0.8	3.2	9.8	14.7
FTSE	7413	16.8	0.2	2.3	3.0	4.2
Nikkei	23330	26.5	0.1	2.1	9.1	5.6
Hang Seng	27847	158.6	0.6	3.5	7.8	6.5
CAC	5890	23.5	0.4	2.8	6.7	14.6

Commodities	Level		% change:			
WTI Crude	56.97	0.62	1.1	5.1	8.0	-7.6
Natural Gas	2.87	0.04	1.5	9.0	24.6	-19.3
Gold	1474.56	-16.05	-1.1	-2.5	-1.3	20.2
Silver	17.54	-0.50	-2.8	-2.3	-0.4	19.3
CRB Index	180.94	0.43	0.2	2.3	4.5	-5.4

Currencies	Level		% change:			
USDCAD	1.3177	-0.0004	-0.0	0.1	-1.0	0.5
EURUSD	1.1049	-0.0017	-0.2	-0.9	0.7	-3.3
USDJPY	109.25	0.2700	0.2	1.1	1.9	-3.8
AUDUSD	0.6894	0.0010	0.1	0.0	2.4	-5.3
GBPUSD	1.2820	-0.0035	-0.3	-0.9	4.3	-2.3
USDCHF	0.9949	0.0021	0.2	0.9	0.0	-0.7

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	**Dec 02, 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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