

ON DECK FOR MONDAY, NOVEMBER 18

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>	<u>Period</u>	<u>BNS</u>	<u>Consensus</u>	<u>Latest</u>
US	11/18	10:00	NAHB Housing Market Index	Nov	--	72.0	71.0
US	11/18	16:00	Total Net TIC Flows (US\$ bn)	Sep	--	--	70.5
US	11/18	16:00	Net Long-term TIC Flows (US\$ bn)	Sep	--	--	-41.1

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KEY POINTS:

- Markets guarded toward HK, trade talks
- China warns US Congress again on HK interference...
- ...that could throw a wrench into US-China trade talks
- PBOC cut another short-term rate...
- ...and sparked a Chinese bond rally...
- ...even though it shouldn't have surprised
- Chilean peso keeps appreciating...
- ...in the aftermath of reforms...
- ...and assisted by details behind GDP growth
- China FDI growth accelerates
- Thai GDP disappoints on revisions
- Global Week Ahead

Please see the Global Week Ahead [here](#). Key risks this week will include:

- US HK human rights bill...
- ...and China's reaction
- US auto tariff decision
- CBs: PBoC, BI
- OECD forecasts
- Eurozone PMIs
- US PMIs, housing, Philly
- FOMC minutes
- BoC's Poloz, Wilkins
- CPI: Canada, HK, Japan, Malaysia
- CDN retail, mfrg, ADP
- ECB's Lagarde
- Chilean reforms
- GDP: Peru, Chile, Thailand
- RBA minutes

INTERNATIONAL

Global markets are starting the week off with a fairly guarded tone. Part of the reason is the lack of major global calendar-based risk. US-China trade negotiations registered no real tangible progress. China's rhetorical warnings intensified against the US Congress interfering in Hong Kong's protests (see below). The PBOC cut another short-term rate that shouldn't really surprise but

**China Has Converged
Onshore & Offshore Markets**


Source: Scotiabank Economics, Bloomberg.

that motivated another rally in Chinese bonds. Chile's peso is appreciating after reforms and GDP. Impeachment proceedings pick up again tomorrow. An ABC News/Ipsos poll indicated 70% of Americans view Trump's request for Ukraine to investigate the Bidens was wrong and 51% think he should be impeached because of that.

- Stocks are mixed. US equity futures are up by about ¼% across the exchanges. TSX futures are marginally positive. European cash markets are little changed for the most part except for a mild ¼% rally in London. Asian equities saw the Nikkei 225 jump to ½%, Hong Kong rally by 1.4% and mainland China's exchanges appreciate by about ¾% while Seoul was flat.
- Sovereign bond yields are slightly higher in the US, Canada, Germany and France, gilts are underperforming other markets, while **China's bonds rallied** (see below) and Italy's are dearer.
- Oil prices are little changed. Gold is off another US\$11 and is down by about US\$18 since Thursday's intraday high.
- The USD is mixed as the yen, Mexican peso, rand and krone depreciate while sterling is leading the pack alongside milder gains to little changed movements across the euro, CAD and others. The onshore and offshore yuan's movements are shown in the accompanying chart. **The Chilean peso is the stand-out performer and is doubling sterling's appreciation to the dollar.**

China's rhetoric against efforts in the US Congress to review Hong Kong's special status heated up overnight. China's Foreign Ministry is deflecting criticism by rather boldly saying that the protests are all the fault of the US, despite President Trump's unwillingness to even talk about the issue but ahead of the US Senate's expected passage of the Hong Kong Human Rights and Democracy Act as soon as sometime this week and as explained in the Global Week Ahead. This issue could carry negative spillover effects into US-China trade talks that registered no apparent tangible progress during a reported call between negotiators on Saturday. A ministry rep stated overnight that a congressional report that called for the US to suspend Hong Kong's special economic status if China's military intervened:

“...laid bare the evil intention of anti-China forces. We again urge the relevant American politicians to immediately stop meddling in Hong Kong affairs. China's territory is not somewhere foreign forces can run wild. The report has provided more solid evidence that the anti-China forces in the US are exactly the black hand behind the chaos in Hong Kong, who have been caught on the spot.”

Recall that the protests started when Hong Kong's Chief Executive Carrie Lam introduced the Fugitive Offenders amendment bill that would allow for extraditions to mainland China. The bill was then suspended on June 15th before being withdrawn on September 4th. **Protesters' demands include** amnesty for arrested protesters, universal suffrage, an inquiry into policy brutality, for protests not to be called riots, and Carrie Lam's resignation.

As generally expected, the PBOC continued to cut shorter term lending rates. Late last evening, it cut the seven day repo agreement rate by 5bps to 2.5% and accompanied the step with about a US\$26B injection of cash into shorter term market operations. Recall that the PBOC cut its one-year lending facility rate by just 5bps on November 5th. It is expected to reduce the one-year Loan Prime Rate by 5bps on Wednesday. The LPR has become the new policy benchmark rate in China and it will be regularly set on the 20th calendar day of every month. The gestures are small, and by now they should be expected to bring the whole term structure slightly lower following the November 5th move. Nevertheless, the recent adoption of this rate setting paradigm may be slowly working its way through the financial system and so the symbolism attached to the latest move was once again enough to spark a rally in Chinese rates that outperformed all other significant bond markets globally to start off the week. China's 10 year yield fell by about 5bps overnight

Chile's economic growth accelerated in keeping with expectations but the details were solid enough such that the figures did not stand in the way of further appreciation of the peso. The main driver of peso appreciation this morning likely continues to be the steps taken by the central bank and government to address the social unrest as explained by our Chilean economist Jorge Selaive in the LatAm section of the Global Week Ahead ([here](#)). GDP growth in Q3 was 3.3% y/y which was on consensus and an acceleration from the prior quarter's 1.9% growth rate. The quarter-ago rate was also right on consensus at

0.7% q/q. Go [here](#) for various breakdowns of how the economy performed by sector. In weighted contribution to growth terms, consumption added 2.2 percentage points mostly due to services and non-durable goods as big ticket durables spending retrenched for the third straight quarter. Total investment added 1.3 percentage points of the 3.1% growth rate due primarily to construction with little assist from equipment spending. Inventories subtracted 1.4 points from growth and net trade added just 0.3%.

Thailand's economy underperformed expectations due to negative revisions. GDP growth in Q3 was just 0.1% q/q at a seasonally adjusted but non-annualized pace and that on consensus. The prior quarter's growth rate was revised down by two-tenths to 0.4%.

Chinese nonfinancial foreign direct investment grew by 7.4% y/y in October as reported by China's Ministry of Commerce. That's an acceleration from 3.8% the prior month. In October of this year over October of last year, the yuan depreciated by about 2% to the USD. FDI growth had slowed over August and September and if you believe the figures, then the message is that foreign firms retain significant appetite for investment in China.

Fixed Income	Government Yield Curves (%):											Central Banks		
	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		
U.S.	1.62	1.61	1.68	1.67	1.65	1.75	1.85	1.83	1.94	2.32	2.31	2.43	Canada - BoC	1.75
CANADA	1.55	1.54	1.58	1.50	1.48	1.55	1.51	1.48	1.58	1.65	1.62	1.73	US - Fed	1.75
GERMANY	-0.63	-0.63	-0.61	-0.58	-0.58	-0.52	-0.33	-0.33	-0.25	0.19	0.19	0.29	England - BoE	0.75
JAPAN	-0.20	-0.19	-0.19	-0.19	-0.19	-0.19	-0.08	-0.07	-0.06	0.45	0.46	0.45		
U.K.	0.58	0.55	0.57	0.54	0.51	0.56	0.76	0.73	0.81	1.29	1.26	1.32		
Spreads vs. U.S. (bps):														
CANADA	-7	-7	-10	-16	-17	-19	-34	-35	-36	-68	-68	-69	Euro zone - ECB	0.00
GERMANY	-225	-224	-229	-224	-223	-227	-217	-217	-219	-213	-212	-214	Japan - BoJ	-0.10
JAPAN	-183	-181	-187	-185	-183	-194	-193	-190	-201	-188	-185	-197		
U.K.	-105	-106	-111	-112	-114	-119	-109	-110	-113	-104	-104	-110	Mexico - Banxico	7.50
Equities	Level						% change:							
	Last			Change			1 Day	1-wk	1-mo			1-yr		
S&P/TSX	17028			56.3			0.3	0.9	4.0			12.4	Australia - RBA	0.75
Dow 30	28005			222.9			0.8	1.2	4.6			10.2	New Zealand - RBNZ	1.00
S&P 500	3120			23.8			0.8	0.9	4.5			14.0		
Nasdaq	8541			61.8			0.7	0.8	5.6			17.8		
DAX	13232			-9.8			-0.1	0.3	4.7			16.7		
FTSE	7334			31.4			0.4	0.1	2.6			4.6		
Nikkei	23417			113.4			0.5	0.4	4.1			8.0	Canada - BoC	Dec 04, 2019
Hang Seng	26681			354.4			1.3	-0.9	-0.1			1.9	US - Fed	Dec 11, 2019
CAC	5936			-3.6			-0.1	0.7	5.3			18.1	England - BoE	Dec 19, 2019
Commodities	Level						% change:							
WTI Crude	57.58			-0.14			-0.2	1.3	7.1			2.0	Euro zone - ECB	Dec 12, 2019
Natural Gas	2.59			-0.10			-3.8	-1.9	11.5			-39.4	Japan - BoJ	Dec 19, 2019
Gold	1458.51			-9.79			-0.7	0.2	-2.1			19.4		
Silver	16.87			-0.16			-1.0	0.4	-4.5			19.4		
CRB Index	180.30			-0.70			-0.4	-0.5	2.6			-3.7		
Currencies	Level						% change:							
USDCAD	1.3220			-0.0003			-0.0	-0.1	0.7			0.4	Mexico - Banxico	Dec 19, 2019
EURUSD	1.1059			0.0008			0.1	0.2	-1.0			-3.4	Australia - RBA	Dec 02, 2019
USDJPY	109.02			0.2200			0.2	-0.0	0.5			-3.1	New Zealand - RBNZ	Feb 11, 2020
AUDUSD	0.6810			-0.0007			-0.1	-0.6	-0.7			-6.6		
GBPUSD	1.2960			0.0063			0.5	0.8	-0.2			0.8		
USDCHF	0.9911			0.0011			0.1	-0.2	0.6			-0.2		

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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