

ON DECK FOR FRIDAY, NOVEMBER 22

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	11/22	08:30	Retail Sales (m/m)	Sep	0.3	-0.3	-0.1
CA	11/22	08:30	Retail Sales ex. Autos (m/m)	Sep	0.4	-0.1	-0.2
US	11/22	10:00	U. of Michigan Consumer Sentiment	Nov F	--	95.7	95.7

KEY POINTS:

- Sovereign bonds rally along with equities...
- ...as bad news in PMIs may be good news for central bank expectations
- UK PMIs continue to signal a stumbling economy
- Eurozone PMIs indicate little GDP growth
- German Q3 GDP details were better than the headline
- Checking in on the health of Canadian consumers
- US Markit PMIs to further inform mixed signals compared to ISM
- Real appreciates as Brazilian inflation stabilizes
- Updated Bank of Canada forecast

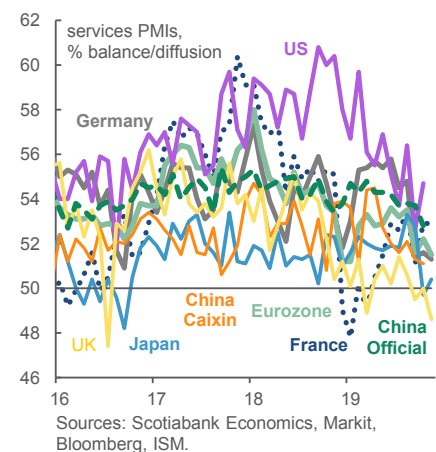
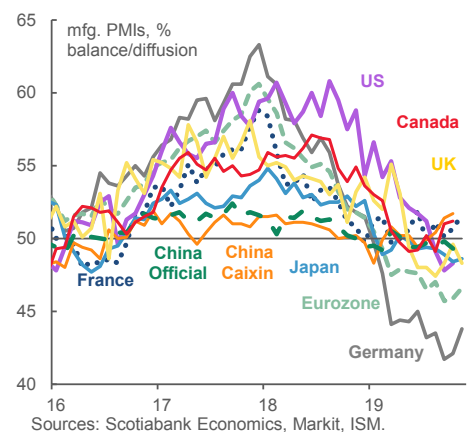
INTERNATIONAL

Sovereign bonds are rallying and so are equities. What squares things up in terms of coincident safe haven seeking and rallying stock markets? **It's possible equities are taking a bad news is good news approach to global macro data in that it translates into keeping alive bets for further easing by major central banks including the ECB and BoE and perhaps by extension the Fed through the carry implications for the curve and USD.** By corollary, if they ease, one could advance the narrative that the currency pushback on the USD could keep alive Fed easing bets. Purchasing managers indices are the bad news, as both the Eurozone and UK measures came in quite soft this morning (see below). As soon as they hit, the two year and 10 year US Treasury yield fell. Global markets will also be attuned to headline risk related to US-China trade negotiations and the Hong Kong bill that is sitting on President Trump's desk awaiting his signature. Note that Trump speaks shortly after publication of this note. Please also see this note that updates our Bank of Canada forecast that expects quarter point hikes in 2020Q1 and 2020Q2 ([here](#)).

- Sovereign bond yields are rallying except for Asia-Pacific notes that got the European data after Asian markets shut. US Treasury yields are down by 1–3bps in a slight bull flattener across 2s10s. Canadian yields are also marginally lower. Yields on gilts fell post-PMIs with the curve down by 4–6bps across maturities this morning. JGBs bear steepened overnight, but again, that was before European PMIs.

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Global Services PMIs

Global Manufacturing


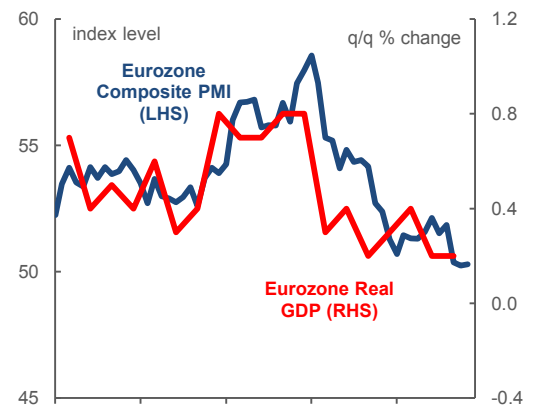
- Oil prices are little changed with a slightly negative bias. Gold is slightly higher at US\$1471.
- US equity futures are up by about ¼% along with Toronto's stock market. European cash markets are up by between about ¼% (Frankfurt, Paris, Milan) and 1¼% (London). Asian equities were mixed with mainland China down by between ¾% and 1½%. The Hang Seng was up ½%, the Kospi was up ¼% and Tokyo rallied by about ¼%.
- Currencies are mixed. The USD is little changed to the euro, CAD, A\$, yen and Mexican peso. Sterling is leading decliners across the majors on PMIs. The real (after IBCA-15 inflation held at 2.7% y/y) and NZ\$ are leading appreciating crosses.

Another wave of global purchasing managers' indices is not exactly turning up roses. Eurozone and UK readings were soft ahead of one set of US PMIs later this morning. Charts 1 and 2 demonstrate the messy but generally decelerating trends across global services and manufacturing PMIs thanks to Trump's trade war.

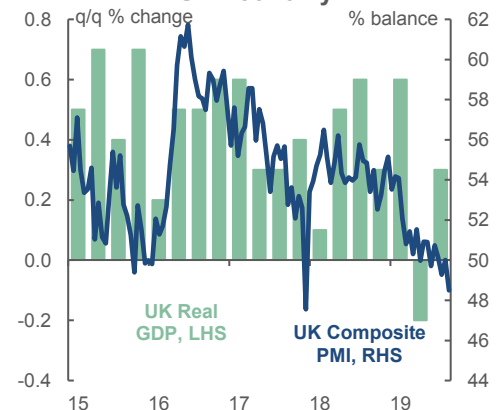
UK PMIs disappointed across the board. The manufacturing PMI fell (48.3, 49.6 prior). The services PMI fell (48.6, 50 prior). The result was that the composite PMI fell (48.5, 50.0 prior). The connection with UK GDP growth over time is shown in chart 3. The fit each quarter isn't perfect, but the continued downward trend in the PMIs suggests further downside to UK GDP growth.

Eurozone PMIs also disappointed and, like the UK, that indicates continued broad weakness in the Eurozone economy (chart 4). The composite Eurozone PMI landed at 50.3 (50.6 prior) which isn't statistically heartbreaking, but it's a micro step closer to the 50 line that divides expansion from contraction and on balance signals no growth. The services PMI fell to 51.5 (52.2 prior) but this was partly offset by the rise in the manufacturing PMI (46.6, 45.9 prior) that nevertheless signals continued contraction. Composite new orders remained weak at 49.7, up by only a tick. Within the mix, France's economy is faring better than Germany's according to the PMIs. The composite French PMI was 52.7 (up a tick) and in mild expansion territory while the German composite PMI increased to 49.2 (48.9 prior) but remains in slight contraction.

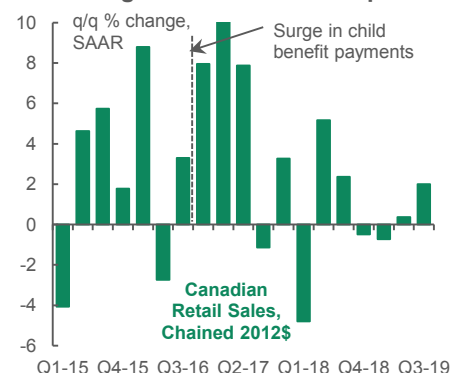
Speaking of Germany's economy, Q3 GDP revisions and details also came out. We already knew the headline reading of 0.1% q/q that indicates very little non-annualized but seasonally adjusted growth. The figure was not revised, but **the details were slightly better.** That's because inventory depletion knocked 0.7 points off of GDP growth in weighted contribution to growth terms. Net exports added 0.5 points, private consumption added 0.2 points and government spending added 0.2 points. Investment, however, was weak as it is globally. Total investment was flat while machinery and equipment spending dragged two-tenths off of GDP growth.

Eurozone GDP Growth and PMIs


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

PMIs Signal a Weakening UK Economy


Sources: Scotiabank Economics, Markit, Bloomberg.

Retail Sales Weakness After Surge in Child Benefits Spent


Sources: Scotiabank Economics, Statistics Canada.

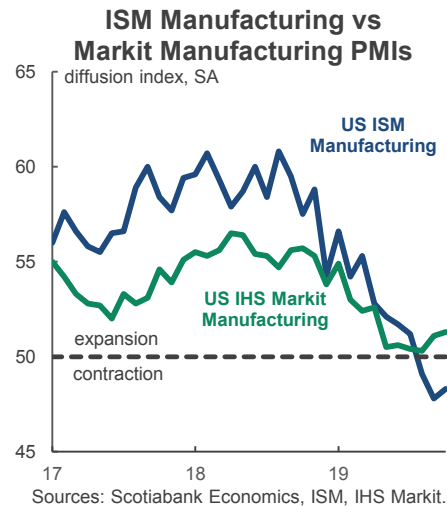
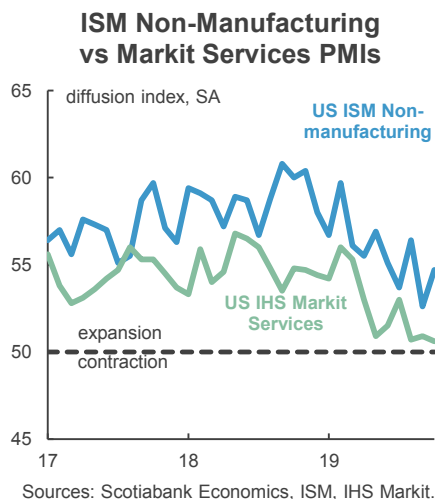
CANADA

Canada updates retail sales for September this morning (8:30amET). They will provide a refreshed glance at the state of the Canadian consumer. Consensus expects -0.3% m/m for the total value of sales and -0.1% for sales ex-autos. I've gone a little higher than consensus for headline sales on autos and a core sales rebound from prior weakness. Prices could weigh on the reading given the decline in month-ago SA CPI (-0.1% m/m) before they rebounded in October and so quickly turn to volumes.

That said, forecasting retail sales on a monthly basis is like bird hunting in pitch black conditions. Most of the insight on retail sales is therefore skewed toward the implications in the aftermath. The report will be used to refresh September and Q3 GDP expectations. It will also be used to update quarterly consumption tracking as input into the broader debate on the state of the Canadian consumer. Sales volumes have risen by three consecutive months, but mildly so such that retail volumes are tracking 2% growth during Q3 pending September's tally.

UNITED STATES

US markets will digest the first batch of PMI readings, this one from Markit ahead of the ISM PMIs on December 4th. **Markit updates manufacturing, services and composite PMIs** for November (9:45amET). Recall that the Markit and ISM readings have been offering different signals on the health of the US economy as indicated by charts 6 and 7. See [this](#) note for further explanation.



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		
	1.60	1.61	1.61	1.60	1.62	1.65	1.76	1.77	1.83	2.21	2.23	2.31	Canada - BoC	1.75
	1.55	1.56	1.54	1.48	1.49	1.48	1.46	1.48	1.48	1.58	1.58	1.62	US - Fed	1.75
	-0.63	-0.62	-0.63	-0.58	-0.56	-0.58	-0.36	-0.33	-0.33	0.16	0.19	0.19	England - BoE	0.75
	-0.18	-0.19	-0.19	-0.18	-0.20	-0.19	-0.07	-0.11	-0.07	0.43	0.40	0.46		
	0.53	0.58	0.55	0.50	0.55	0.51	0.70	0.75	0.73	1.25	1.31	1.26		
	Spreads vs. U.S. (bps):													
	-5	-5	-7	-12	-13	-17	-29	-30	-35	-63	-65	-68	Euro zone - ECB	0.00
	-223	-223	-224	-218	-218	-223	-211	-210	-217	-205	-204	-212	Japan - BoJ	-0.10
-178	-180	-181	-179	-182	-183	-183	-188	-190	-178	-183	-185			
-107	-103	-106	-111	-107	-114	-106	-102	-110	-96	-92	-104			
Equities	Level					% change:					Mexico - Banxico		7.50	
	Last	Change				1 Day	1-wk	1-mo	1-yr	Australia - RBA		0.75		
S&P/TSX	16999	-6.6				-0.0	0.2	3.7	12.6	New Zealand - RBNZ		1.00		
Dow 30	27766	-54.8				-0.2	-0.1	3.7	13.5					
S&P 500	3104	-4.9				-0.2	0.2	3.6	17.1					
Nasdaq	8506	-20.5				-0.2	0.3	5.0	22.0					
DAX	13164	26.6				0.2	-0.6	3.2	18.2					
FTSE	7327	88.6				1.2	0.3	1.6	5.3					
Nikkei	23113	74.3				0.3	-0.8	2.5	6.8					
Hang Seng	26595	128.2				0.5	1.0	-0.7	2.2					
CAC	5901	20.3				0.3	-0.6	4.3	19.5					
Commodities	Level					% change:					Next Meeting Date			
	Last	Change				1 Day	1-wk	1-mo	1-yr	Canada - BoC		Dec 04, 2019		
WTI Crude	58.46	-0.12				-0.2	1.3	7.9	7.0	US - Fed		Dec 11, 2019		
Natural Gas	2.58	0.01				0.5	-4.1	13.5	-42.1	England - BoE		Dec 19, 2019		
Gold	1469.95	5.60				0.4	0.1	-1.2	19.8	Euro zone - ECB		Dec 12, 2019		
Silver	17.09	-0.03				-0.1	0.3	-3.6	18.5	Japan - BoJ		Dec 19, 2019		
CRB Index	180.73	0.00				0.0	-0.1	3.0	-2.3					
Currencies	Level					% change:					Mexico - Banxico		Dec 19, 2019	
	Last	Change				1 Day	1-wk	1-mo	1-yr	Australia - RBA		Dec 02, 2019		
USDCAD	1.3278	-0.0007				-0.1	0.4	1.4	0.7	New Zealand - RBNZ		Feb 11, 2020		
EURUSD	1.1055	-0.0004				-0.0	0.0	-0.6	-3.1					
USDJPY	108.59	-0.0400				-0.0	-0.2	0.1	-3.9					
AUDUSD	0.6786	-0.0001				-0.0	-0.5	-1.0	-6.5					
GBPUSD	1.2852	-0.0062				-0.5	-0.3	-0.2	-0.2					
USDCHF	0.9945	0.0014				0.1	0.5	0.5	-0.1					

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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