

ON DECK FOR TUESDAY, DECEMBER 3

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	12/03	09:00	Total Vehicle Sales (mn a.r.)	Nov	--	16.9	16.6

KEY POINTS:

- **Tariff man torpedoes stocks**
- **In less than one full day, Trump pushed out guidance on a China deal...**
- **...that probably reflects China backing away from trade talks...**
- **...after picking a fight with Brazil and Argentina over metals tariffs...**
- **...and after announcing tariffs on French luxury imports...**
- **...indicating that economic uncertainty will remain elevated or worsen**
- **Tariffs & seasonal dollar funding pressures are not a good combination**
- **RBA stayed on hold with dovish bias before China headlines**
- **US vehicle sales expected to rebound post-strike**
- **Turkish core inflation increases in blow against central bank's easing**
- **South African rand depreciates after GDP unexpectedly falls**

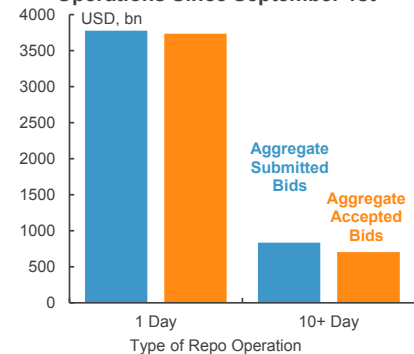
INTERNATIONAL

Global markets are in risk-off mode across asset classes and it's all on trade worries as calendar-based forms of risk are quite light. US-China trade negotiations look to be skidding into the ditch (see below) while US-France-EU rhetoric has heated up in the wake of US President Trump's tariff announcement on imports of French products yesterday afternoon (see below). All of this follows Trump's announcement of tariffs on imports of steel and aluminum from Brazil and Argentina yesterday morning. Clearly the US is back to agitating global trading relationships again; the repeated instances suggest a degree of pointlessness to negotiating with the erratic US administration. The RBA held its policy rate as unanimously expected. US vehicle sales for November should show a bit of a rebound after the conclusion of the GM strike. Canada only considers BMO's small Q4 earnings beat and full year earnings.

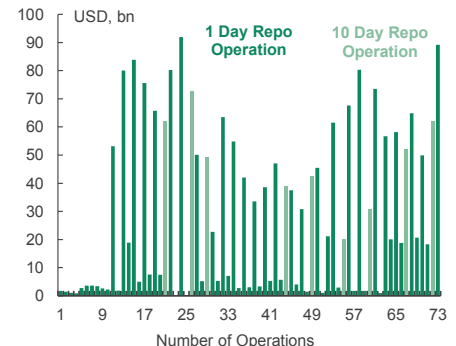
- Stocks are retreating globally. US equity futures are down by about ¼% to ½% across the exchanges. TSX futures are down by almost ½%. London is down by over 1%, Paris is down by just over ¼%, but Frankfurt and other European bourses are generally higher. Asian equities are lower by between ¼% and ½% outside of mainland China.
- Sovereign bond yields are under downward pressure across most markets. US Treasury yields are down by about 3–4bps. Canada's curve is down by 2–3bps across maturities. Gilts are little changed. Yields on bunds are down by 1–2bps and French bonds are performing similarly. Italian debt spreads are widening somewhat over bunds. Japan's curve received the trade news too late and cheapened up by 1–2bps across most maturities.
- Oil prices are slightly weaker this morning after rallying before the trade headlines hit.

CONTACTS

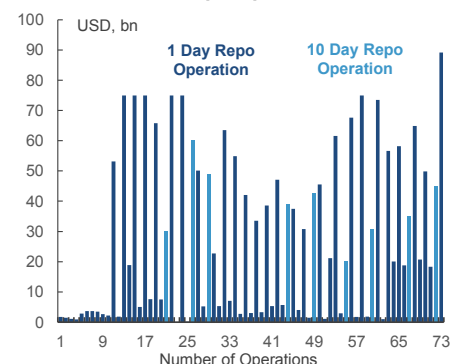
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Summary of New York Fed Repo Operations Since September 1st


Sources: Scotiabank Economics, New York Federal Reserve.

Submitted Bids for New York Fed Repo Operations


Sources: Scotiabank Economics, Federal Reserve of New York.

Accepted Bids for New York Fed Repo Operations


Sources: Scotiabank Economics, Federal Reserve of New York.

- The USD is little changed following the trade headlines. The USD is flat against the euro and related crosses and CAD, and slightly weaker against the yen, A\$, pound sterling, NZ\$, Mexican peso and Swiss franc.

The Reserve Bank of Australia left its cash rate target at 0.75% as widely anticipated. The accompanying statement ([here](#)) noted that the RBA was observing the “long and variable lags in the transmission of monetary policy” following prior rate cuts, and that “The Board is prepared to ease monetary policy further if needed.” The A\$ appreciated the instant the statement hit the markets as a stronger easing bias was avoided. The communications preceded overnight developments on US-China trade negotiations.

Turkish inflation delivered a blow to the central bank’s easing campaign. Core inflation edged up to 9.25% y/y (6.7% prior) for the most notable increase since September of last year. This follows ten percentage points of rate cuts since June of this year that brought the one week repo rate down to 14%.

The South African rand depreciated in the wake of a Q3 GDP estimate and is the weakest of the major or semi-major currency crosses to the USD this morning. GDP unexpectedly fell by 0.6% q/q (0% consensus). The economy has shrunk in two out of three quarters this year. Weakness was fairly widespread as mining shrank by 6.1%, agriculture fell by 3.6%, manufacturing contracted by 3.9% and the construction sector retreated by 2.7%. Overall, eight of thirteen sectors retreated.

Brazil’s economy beat expectations but markets faded the release given grander drivers of global sentiment and following yesterday’s tariff announcements. GDP expanded by 0.6% q/q at a non-annualized rate in Q3 (0.4% consensus) and was revised up a tick to 0.5% q/q the prior quarter. Those are the strongest back-to-back quarters for growth since 2017Q2. Consumption grew by 0.8% q/q and investment expanded by 2% resulting in more imports being pulled in (+2.9%) while government spending fell by 0.4% and exports fell by 2.8%.

UNITED STATES

US President Trump remarked early this morning that a trade deal with China may have to wait until after the US Presidential election in November 2020 and that there is no deadline attached to the talks. He says that’s because he wants a deal on his terms which would appear to be at odds with his own recent guidance that a deal on his terms was “very close.” So what happened to toss that prior guidance out the window? The timing of this remark in the wake of the Hong Kong Bill and ahead of the next one that is being taken up in the House makes it more likely that China either stepped back from the negotiating table or walked away.

Secondly, an overnight tweet from China’s Global Times indicated that the country is expediting publication of a list of unreliable US entities that will further damage trade negotiations:

“Source told Global Times that China will release an “unreliable entity list” soon, which includes relevant US entities. US House is expected to pass a Xinjiang-related bill that will harm Chinese firms’ interests, prompting China to speed up the move.”

A combination of these two factors dampens market pricing of expected tariff rollbacks that were never clear to begin with. If a trade deal is unattainable until after the US election—if at all—then that’s a significantly negative risk-off development for stocks that are priced for less trade disharmony.

The combination of disappointing trade developments and seasonal dollar funding pressures is not a health development. Charts 1–3 show submitted and accepted bids for the New York Fed’s repo operations that have been oversubscribed of late. I’ll put out a deck later today that will include arguments for why the existing facilities are likely inadequate.

The US releases vehicle sales for November later today after individual companies release sales. A rebound is expected in the wake of the end to the forty day GM strike on October 25th. It may take some time for buyer confidence to return given that order backlogs have to work through the system.

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.	1.63	1.61	1.62	1.67	1.63	1.61	1.83	1.78	1.76	2.27	2.21	2.20	Canada - BoC	1.75
CANADA	1.61	1.58	1.58	1.55	1.49	1.49	1.54	1.46	1.46	1.62	1.55	1.57	US - Fed	1.75
GERMANY	-0.61	-0.63	-0.63	-0.54	-0.58	-0.58	-0.30	-0.36	-0.35	0.22	0.15	0.17	England - BoE	0.75
JAPAN	-0.16	-0.17	-0.18	-0.15	-0.17	-0.19	-0.05	-0.07	-0.08	0.44	0.42	0.45		
U.K.	0.56	0.54	0.52	0.55	0.51	0.49	0.74	0.70	0.70	1.26	1.21	1.26		
	Spreads vs. U.S. (bps):													
CANADA	-2	-3	-4	-12	-14	-12	-30	-32	-29	-65	-65	-63	Euro zone - ECB	0.00
GERMANY	-225	-224	-224	-220	-221	-219	-213	-214	-210	-206	-206	-203	Japan - BoJ	-0.10
JAPAN	-179	-178	-180	-182	-180	-180	-188	-185	-183	-184	-179	-176		
U.K.	-107	-107	-110	-112	-111	-112	-109	-108	-106	-102	-100	-94		
Equities	Level						% change:							
	Last			Change			1 Day	1-wk	1-mo	1-yr				
S&P/TSX	17040			-74.3			-0.4	0.5	2.7	12.1				
Dow 30	28051			-112.6			-0.4	1.0	2.6	9.8				
S&P 500	3141			-12.7			-0.4	1.2	2.4	13.8				
Nasdaq	8665			-39.7			-0.5	1.9	3.3	18.2				
DAX	13211			-25.3			-0.2	-0.3	1.9	17.4				
FTSE	7342			-4.1			-0.1	-0.7	0.5	5.2				
Nikkei	23530			235.6			1.0	1.0	3.0	5.3				
Hang Seng	26445			98.2			0.4	-2.0	-2.4	-0.2				
CAC	5884			-20.9			-0.4	-0.7	2.1	17.6				
Commodities	Level						% change:							
WTI Crude	56.45			1.28			2.3	-2.3	0.4	10.8				
Natural Gas	2.33			0.05			2.2	-12.5	-14.1	-49.4				
Gold	1457.89			-6.05			-0.4	0.2	-3.7	19.3				
Silver	16.97			0.02			0.1	-1.2	-3.9	18.9				
CRB Index	176.66			-3.69			-2.0	-2.3	-2.0	-2.8				
Currencies	Level						% change:							
USDCAD	1.3303			0.0021			0.2	0.0	1.2	0.8				
EURUSD	1.1011			-0.0007			-0.1	-0.0	-1.1	-3.0				
USDJPY	109.54			0.0500			0.0	0.6	0.9	-3.6				
AUDUSD	0.6785			0.0022			0.3	0.1	-1.4	-7.8				
GBPUSD	1.2921			-0.0004			-0.0	0.2	0.3	1.5				
USDCHF	0.9980			-0.0022			-0.2	0.2	1.0	0.1				
	Next Meeting Date													
													Canada - BoC	Dec 04, 2019
													US - Fed	Dec 11, 2019
													England - BoE	Dec 19, 2019
													Euro zone - ECB	Dec 12, 2019
													Japan - BoJ	Dec 19, 2019
													Mexico - Banxico	Dec 19, 2019
													Australia - RBA	Dec 02, 2019
													New Zealand - RBNZ	Feb 11, 2020

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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