

ON DECK FOR WEDNESDAY, DECEMBER 4

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	12/04	07:00	MBA Mortgage Applications (w/w)	NOV 29	--	--	1.5
US	12/04	08:15	ADP Employment Report (000s m/m)	Nov	--	135.0	125.0
CA	12/04	08:30	Productivity (q/q a.r.)	3Q	--	0.2	0.2
US	12/04	08:30	Initial Jobless Claims (000s)	NOV 29	--	215	213
US	12/04	08:30	Continuing Claims (000s)	NOV 22	--	1660	1640
CA	12/04	10:00	BoC Interest Rate Announcement (%)	Dec 4	--	1.75	1.75
US	12/04	10:00	ISM Non-Manufacturing Composite	Nov	--	54.5	54.7

KEY POINTS:

- **US equity futures take back half of yesterday's sell-off on trade headlines**
- **More market manipulation by public officials...**
- **...as anonymous US officials talk up a trade agreement...**
- **...after Trump pushed back on expectations**
- **BoC expected to hold and sound neutral today...**
- **...but the door remains open for a bias shift into 2020**
- **Concerns about BoC easing and household debt are being exaggerated**
- **US Xianjing bill passes House...**
- **...inching toward another bill signing by Trump...**
- **...with China's "unreliable entities" list waiting in the wings**
- **Why US nonfarm may not follow ADP's disappointment this time**
- **US ISM-services on tap**
- **US vehicle sales rebound post-strike, but range bound**
- **Consensus is divided on what Chile's central bank might do today**
- **A\$ slipped post-GDP**
- **China's private services PMI picks up**

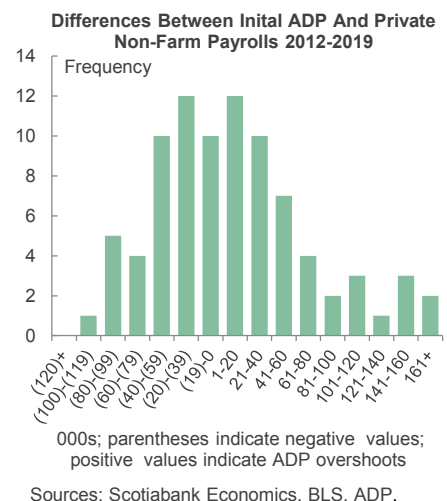
INTERNATIONAL

US stock futures are reversing half of yesterday's sell off as volatile trade headlines have swung the other way. Today's headline seems to offer thinner gruel for markets than yesterday's guidance from Trump (see below).

- US equity futures are up by just under 1/2% across the exchanges. TSX futures are up by just over 0.1%. European cash markets are up by about 1% across all exchanges except for a flat FTSE100 that is dealing with strength in pound sterling and foreign currency translation effects on earnings. Asian equities got this morning's fresher headlines late and followed yesterday's western market selloff.
- Treasury yields are up by about 1bps through most of the curve and a little more at the longer end. Canada's curve is slightly bear steepening. The gilts curve is cheaper by about 4–5bps across maturities. EGBs are slightly cheaper toward longer maturities except for Italy.

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- Oil prices are up by about US\$1 in terms of WTI and Brent.
- Currency markets are divided. The USD is weaker against pound sterling, the rand, real, CAD, NZ\$, Mexican peso and some Scandies, but the USD is stronger against the won and A\$ and fairly flat to the yen and Swiss franc.

China's private PMIs picked up overnight. The Caixin services PMI increased by 2.4 points to 53.5 and the composite PMI increased by 1.2 points to 53.2. Recall that the Caixin manufacturing PMI was flat on Sunday evening but the state's PMIs were higher across the board. The state's manufacturing PMI, however, picked up on domestic orders and so it wasn't a sign of improvement in the global economy. The fact that the Caixin manufacturing PMI was also flat supports this interpretation, given that it is skewed more toward smaller producers in more export-oriented coastal cities.

The A\$ depreciated somewhat overnight in the wake of a small disappointment to GDP growth. The economy grew by 0.4% q/q in Q3 (consensus 0.5%), but that was offset by a one-tick upward revision to the prior quarter's growth that is now 0.6%. Markets might have been positioned for more of a beat. Plus, the details were mixed as consumption advanced by just 0.2% (0.7% prior), inventories added 0.1% to growth and investment was a mild drag.

Chile's central bank is expected to cut its overnight rate target by another 25bps to 1.5% this afternoon (4pmET). Consensus is, however, somewhat divided with 10 expecting a cut and 8 expecting a hold.

UNITED STATES

Trade headlines and macro releases will influence the tone of US asset classes today.

ADP payrolls disappointed expectations by registering a gain of just 67k for last month (consensus 135k). Nonfarm payrolls may not follow this downside disappointment. Two competing influences must be considered:

- Based on chart 1, there has only been one time since 2012 when ADP revised its methodology that ADP was exceeded by private nonfarm payrolls by 100k or more. That spread is what would be required to hit around the consensus estimates for private nonfarm payrolls to land at +178k and headline payrolls to rise by 190k. In other words, there are slim statistical odds that nonfarm expectations will be met.
- The wild cards, however, are that ADP did not capture the same GM strike effect that private nonfarm payrolls did and of course private ADP payrolls did not capture the Census effect on headline nonfarm payrolls in October. Combining the Census and strike reversals equals about 70k jobs that could lift total headline nonfarm payrolls above private ADP payrolls as the two census and strike effects shake out of the numbers.

ISM-services for November (10amET) will inform momentum in the bulk of the US economy that lies outside of manufacturing. Services growth has abruptly cooled so far this year as the ISM reading peaked at about 60.8 in September of last year and was 54.7 in October of this year.

Vehicle sales were released late yesterday for November and showed a rise of about a half million units at an annualized rate to 17.09 million vehicles sold during November. That's probably just a reversal of the strike-depressed tally in October and it keeps sales range bound. Rebekah Young will have a note on the US figures this morning.

Now back to volatile trade headlines. First, recall Trump's remarks yesterday and probably place a higher weight upon them than this morning's remarks, given Trump along with Xi Jinping are the final arbiters of any potential agreement. Some anonymous official(s) is/are talking up stocks by saying that Trump was speaking off the cuff yesterday when he indicated no rush toward a trade deal that might not come until after the US election and that so far the terms were not up to his demands. Commerce Secretary Ross followed that up by stating that the US was still on track to hike tariffs again on December 15th. China followed that up overnight with comments by a foreign ministry spokesperson that China is not focused upon any deadline either.

Let's for a moment continue to ignore how outrageous it continues to be that markets are manipulated by public officials in ways that would land any representative of a company in serious trouble with regulators and how regulators are either powerless or turn a blind eye when it's government representatives who are involved in such untoward behaviour. There. Swept under the rug.

This morning's headline chasing market focus is upon how said anonymous official told Bloomberg that an agreement toward rolling back some tariffs remains on track. Maybe Trump was just using a negotiating tactic yesterday, but a) he was previously sounding very upbeat about being "very close" to an agreement, and b) this assumes one believes in the total nonsense of the "art of the deal".

Lost in the background is that the US House of Representatives passed the so-called "Xinjiang bill" (aka S. 178) that sanctions Chinese officials for human rights violations against Muslims that have suddenly become friends to US politicians. This is a modified version of the bill that passed the Senate. Like the Hong Kong bill, this one will again move to President Trump's desk for his signature within ten days of landing there.

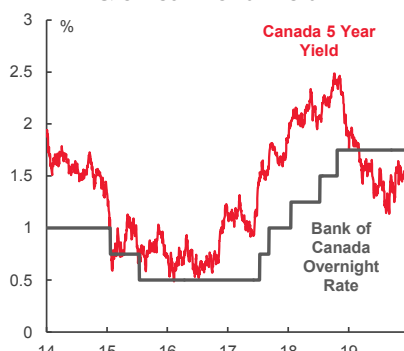
Also lost in the background is that we still await potential publication of the list of "unreliable entities" by China's government that is expected to target US firms. That itself could wind up being timed for when the latest bill passes Trump's desk.

CANADA

The BoC is widely expected to hold its policy rate at 1.75% this morning (10amET) in a statement-only affair to be followed by an Economic Progress Report that Deputy Governor Lane will deliver tomorrow morning. The BoC should, in my view, adopt the Fed's practice of holding press conferences hosted by the Governor immediately after all statements but developments in its communications lag behind developments at other central banks.

Our expectations for the BoC outlook into this meeting and beyond were explained in [this](#) note back on November 21st, the day that Governor Poloz more blatantly spilled the beans on a hold today. His references to "we're neutral" and "we think we have

Bank of Canada Overnight Rate & 5 Year Bond Yield



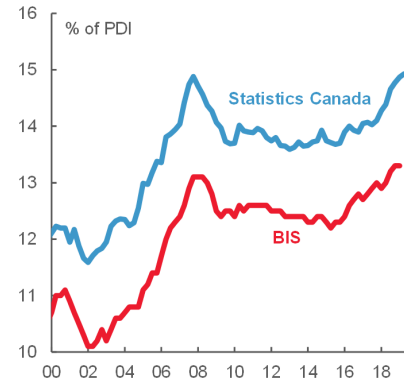
Sources: Scotiabank Economics, Bank of Canada, Bloomberg.

Canadian Household Saving Rate



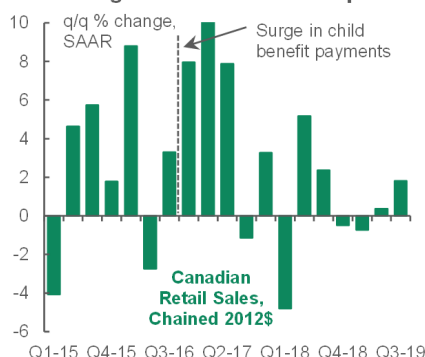
Sources: Scotiabank Economics, Statistics Canada.

Household Debt-Service Costs



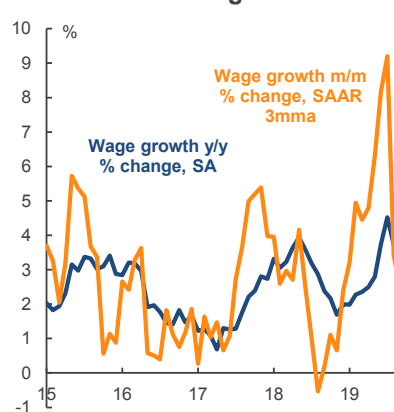
Sources: Scotiabank Economics, BIS, Statistics Canada.

Retail Sales Weakness After Surge in Child Benefits Spent



Sources: Scotiabank Economics, Statistics Canada.

Canadian Wage Growth



Sources: Scotiabank Economics, Statistics

monetary policy conditions about right” were placeholders for today that will need to be monitored and reassessed pending data and developments into the new year.

A fuller assessment of potential changes to the prior statement is probably inappropriate given that earlier statement was for an MPR meeting that updated forecasts and so this statement is likely to be mostly a full re-write, but the final paragraph’s key elements are likely to be retained. They included being “mindful that the resilience of Canada’s economy will be increasingly tested” and monitoring the spread of global slowdown evidence beyond manufacturing and investment. The BoC is likely to repeat that it has a particularly close eye on the household sector and fiscal policy.

One argument that I continue to reject is that the BoC should not ease this time out of fear for what it means for household debt growth. That was a more legitimate concern in 2015 than today, as the BoC rate cuts that year inflamed housing and mortgage markets.

That outcome in 2015, however, was driven by the fact that the unexpected cuts in January and July lowered the whole term structure of rates and flattened the yield curve in a made-in-Canada BoC-induced shock to borrowing costs. Three quarters of mortgages that are fixed rate were subsequently lit up by BoC easing.

Today’s curve is very different (chart 2). It is starting from an inverted position with the overnight rate at 1.75%, the two year yield at 1.57% this morning and the 5 year yield at 1.5%. A major driver of this has been that Canada imported a positive bond shock through the actions of foreign central banks and market participants. Like 2015, mortgage and housing markets heated up this year as the fixed mortgage rates fell, but a) this was externally driven by global bond markets, and b) it may be a transitory positive shock to borrowing costs in part as the Canada 5 year bond yield has already backed up by almost 40bps since the low in early September. Migrate this backing up through pricing decisions, mortgage rate guarantee periods and purchase decisions and we may have already seen the best conditions. Further, the housing rebound could be in part a dead cat bounce off the prior drag effect of the B20 adjustment in 2018. A cut or two that restores a more normal slope to the curve would be unlikely to motivate a large swing into variable rate mortgage products as the post-cut spread between variable and fixed rates would likely remain low.

Indeed, the only thing being achieved by *not* cutting the policy rate is a) to penalize companies’ working capital financing, and b) to do nothing to offset some of the mild four cent appreciation of the C\$ this year that was driven by the collapse of the Fed’s policy rate on top of the BoC’s and with major global trade policy risks hanging in the balance while dampening global growth. I don’t view it as having been appropriate to driven a deterioration in export competitiveness this year through a stronger C\$ alongside soft commodities.

Further, a case can be made for how household finances this time around perhaps need a bit of a boost, unlike in 2015 when rate cuts combined with the positive shock to cash flow for (most) households with kids under 17 when child benefit payments were ramped up by thousands of dollars and no strings attached (ie: they temporarily boosted consumption growth and the income lift was recorded on T4s and leveraged). Since then, trend growth in retail sales volumes has been at a moribund pace for multiple quarters. Unlike US households that are saving about 8% of paycheques and have a record low debt service burden, Canadian households have nothing left in the tank on saving rates (chart 3) and the debt service burden (chart 4). Chart 5 shows the deceleration in retail sales volume growth. Further, the oscillating pattern of wage growth is likely to collapse back upon soft wage gains into the new year. Wage growth was on the upswing this year in year-ago percentage terms, but the momentum is being lost in the month-ago seasonally adjusted figures (chart 6). The best approach to gauging wage growth is to smooth it over a fairly lengthy period that takes out the oscillating pattern and this approach is anchored by trend productivity growth that doesn’t merit sustained rapid wage gains. Wage growth that abruptly cools again into 2020 would remove a significant cash flow support for households this past year.

Forward thinking on risks to household debt growth, wages and overall household finances is required. Debt growth is a lagging indicator that offers nothing useful by way of forward inferences. After markets have moved and households and lenders have reacted with mortgage pre-approvals that turn into decisions to buy homes, the decisions then show up in recorded debt growth. Anchoring forward looking policy decisions based upon these past decisions can lead policy astray.

Because of these perspectives on household debt markets and finances, I find the BoC should be placing more emphasis upon its nuts and bolts framework. Inflation may be at target now, but only after it persistently rode below target for many years. Inflation

expectations continue to point toward downside risks to the 2% target both in terms of markets and businesses. Spare capacity remains and may widen further as GDP growth is disappointing. In this context and alongside forward macro risks, the case for taking out insurance to preserve the inflation target remains solid. Evaluating that case will require continued monitoring of domestic data, global data, global policy developments, global market developments and future actions by major global central banks.

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.	1.53	1.60	1.58	1.53	1.64	1.60	1.71	1.82	1.74	2.15	2.27	2.18	Canada - BoC	1.75
CANADA	1.55	1.61	1.56	1.47	1.54	1.47	1.44	1.53	1.44	1.55	1.62	1.55	US - Fed	1.75
GERMANY	-0.63	-0.61	-0.64	-0.58	-0.53	-0.59	-0.35	-0.28	-0.37	0.16	0.24	0.15	England - BoE	0.75
JAPAN	-0.15	-0.16	-0.18	-0.14	-0.15	-0.19	-0.02	-0.05	-0.09	0.45	0.44	0.42		
U.K.	0.50	0.55	0.49	0.48	0.54	0.46	0.67	0.74	0.65	1.19	1.25	1.21		
	Spreads vs. U.S. (bps):													
CANADA	2	0	-2	-6	-10	-13	-26	-29	-31	-61	-65	-63	Euro zone - ECB	0.00
GERMANY	-216	-222	-222	-212	-217	-219	-205	-210	-211	-199	-203	-203	Japan - BoJ	-0.10
JAPAN	-168	-176	-177	-167	-179	-179	-173	-186	-183	-171	-183	-176		
U.K.	-103	-105	-109	-105	-110	-114	-104	-108	-109	-96	-102	-97	Mexico - Banxico	7.50
Equities	Level						% change:							
	Last			Change			1 Day	1-wk	1-mo	1-yr				
S&P/TSX	16888			-93.5			-0.6	-0.9	1.8	10.6			Australia - RBA	0.75
Dow 30	27454			-329.3			-1.2	-2.2	0.4	6.3			New Zealand - RBNZ	1.00
S&P 500	3086			-28.0			-0.9	-1.5	0.6	10.6				
Nasdaq	8497			-70.9			-0.8	-1.6	1.3	14.2				
DAX	12989			24.6			0.2	-1.9	0.2	13.3				
FTSE	7159			-127.2			-1.7	-3.3	-2.0	1.4				
Nikkei	23380			-149.7			-0.6	0.0	2.3	6.1				
Hang Seng	26391			-53.4			-0.2	-1.9	-4.2	-3.2				
CAC	5727			-59.5			-1.0	-3.4	-0.6	13.3				
Commodities	Level						% change:							
WTI Crude	56.28			0.32			0.6	-3.0	0.1	6.3				
Natural Gas	2.49			0.16			6.8	-1.7	-8.3	-42.7				
Gold	1478.69			16.24			1.1	1.2	-2.4	20.2				
Silver	16.88			-0.09			-0.5	0.0	-6.9	18.5				
CRB Index	178.03			0.90			0.5	-1.4	-1.2	-3.0				
Currencies	Level						% change:							
USDCAD	1.3297			-0.0011			-0.1	0.2	1.1	0.8				
EURUSD	1.1087			0.0008			0.1	0.6	-0.4	-2.4				
USDJPY	108.55			-0.4300			-0.4	-0.5	-0.0	-4.5				
AUDUSD	0.6844			0.0025			0.4	0.8	-0.6	-7.0				
GBPUSD	1.3004			0.0065			0.5	1.1	0.9	2.2				
USDCHF	0.9862			-0.0051			-0.5	-1.1	-0.2	-1.1				
	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	Feb 03, 2020
													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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