December 5, 2019 @ *8:20 EST*

ON DECK FOR THURSDAY, DECEMBER 5

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	12/05	08:30	Merchandise Trade Balance (C$ bn)	Oct	-1.5	-1.5	-1.0
US	12/05	08:30	Trade Balance (US$ bn)	Oct	-47.2	-48.5	-52.5
US	12/05	10:00	Factory Orders (m/m)	Oct	0.4	0.3	-0.6

KEY POINTS:

- **Risk-on tone as US, China still talking**
- **Watch for fiscal policy hints in Canada today**
- **US & Canadian trade figures on tap**
- **German factory orders retrench**
- **RBI shocks markets with a hold…**
- **…but keeps the door open for future easing…**
- **…by guiding that inflation forces will be transient**
- **Philippine peso spikes on higher inflation…**
- **…driving expectations the central bank will hold next week**
- **There is little reason to revise nonfarm payroll expectations…**
- **…after this week's data and given technical distortions**
- **Oil rallies on OPEC speculation**
- **BoC's Lane offers no surprises**

INTERNATIONAL

A broad risk-on tone is sweeping through global asset classes this morning. Indications from China and the US that they are in close contact on trade negotiations is enough to do it. We'll see how it turns out ahead of the December 15th tariff deadline. Japan's fiscal stimulus package was bigger than expected but likely offering a replay of the transitory lifts to growth that have plagued repeated efforts to offer fiscal stimulus over the past three decades. Germany factory orders fell but were largely ignored and Asia offered a few surprises for central bank watchers. Canada will focus upon the BoC, potential fiscal stimulus guidance and trade figures. The US faces a light calendar but I write about nonfarm expectations below ahead of tomorrow's release.

- The USD is mixed this morning. It is up against the A$, rand, real, and NZ$, flat to the yen and Swiss franc safehaven alternates, but losing ground to the euro, C$, pound sterling and Mexican peso.

- The US Treasuries curve is generally little changed. Canada's curve is flat at the front end but cheaper at the longer end. Gilts and EGB curves are slightly cheapening but more so toward the longer ends.

- Oil prices are catching another bid as OPEC meeting headlines are monitored. WTI is up 20 cents and Brent is up 50 cents so far.

- US equity futures are up by between ¼% and ½%. TSX futures are up by less. European cash markets are mixed with London down ¼%, the Dax flat, and the rest of the bourses generally higher by around ½%. Asian equities generally rallied overnight outside of Seoul.

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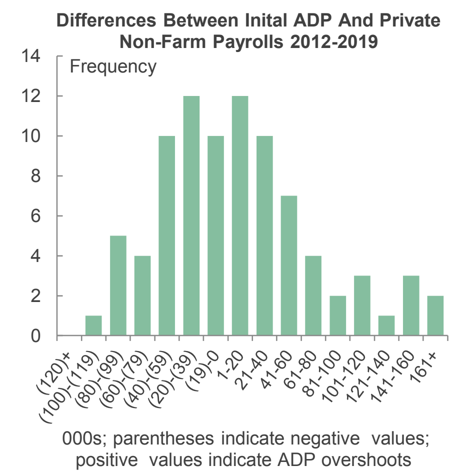
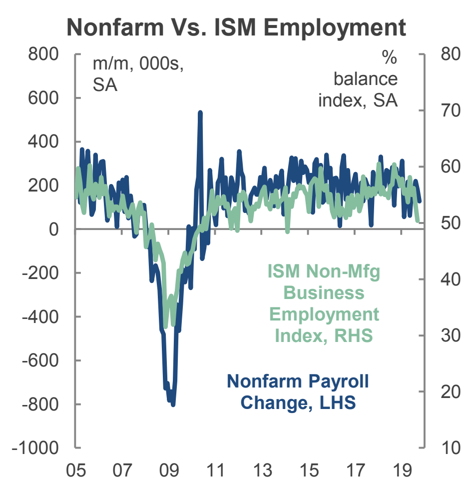


Sources: Scotiabank Economics, BLS, ADP.



Sources: Scotiabank Economics, ISM, BLS.

German factory orders unexpectedly fell by 0.4% m/m in October (+0.4% consensus) and a modest upward revision to the prior month (+1.5% from 1.3% previously) explains only some of the October miss. Weakness was focused upon capital goods orders (-1.1% m/m) and manufacturing orders (-0.4%) as orders for consumer goods rose for a second month.

Asian central bank dynamics got a little spicier overnight! First up was the shock from the Reserve Bank of India, a central bank that likes to shock markets every now and then. Almost everyone had expected the RBI to cut its repo rate by 25bps to 4.9% but it instead held at 5.15% and the decision was unanimous. Inflation was 4.6% y/y in October and it has been on the rise since January, prompting the RBI statement (here) to note that "inflation has indeed risen sharply." The RBI targets inflation at 4% +/-2%. Governor Das maintained a dovish bias by noting that "There is space available for further monetary policy action" while reducing its GDP forecast for the current fiscal year that ends in March to 5% y/y (6.1% previously). Potentially offsetting this was an upward revision to the inflation forecast that now sits at a range of 4.7–5.1% y/y for the fiscal year, but the RBI emphasized that "the forces driving up inflation appear to be transient" and specifically cited unseasonal rains that drove food staple prices higher.

The Philippine peso is leading the most global currency pairings to the USD on the back of a bit firmer than expected rise in inflation. CPI climbed half a point to 1.3% y/y (1.2% consensus). Core inflation was stable at 2.6% y/y and has been little changed for the past three months. Bangko Sentral ng Pilipinas targets inflation at 3% y/y +/- 1%. Governor Diokno remarked that the rise "accords with outlook of a gradual pick up to target midpoint" over the next two years and that the central bank had expected inflation to have bottomed in October. The next policy decision will be one week from today and it will probably hold its overnight repo rate at 4% after 75bps of cuts since March.

CANADA

Canadian market watchers will have an eye on three developments today.

First up is the Economic Progress Report from the Bank of Canada that Deputy Governor Tim Lane delivered this morning. His remarks are available here and they generally carried no surprises relative to yesterday's prematurely upbeat statement. Lane's speech attempts to argue that the BoC is fully independent of the Fed which markets and many economists typically view with considerable doubt. Lane will host a press conference at 9:20amET. A recap of yesterday's BoC statement is here. The number one question to be posed to Lane and candidates for Governor Poloz's job should be the degree to which the symmetry of the inflation target is viewed as sacrosanct. The BoC has failed to deliver on its inflation target throughout the entire post-GFC period despite perennially guiding that the country was moving toward it. We happen to be on target at the moment and the pom poms are out in full force at the BoC in such fashion as to portray 2% as a ceiling at which point the Governing Council starts to get dizzy. My personal belief is also that the BoC is viewing risks to household finances incorrectly. A stock-to-flow concept like household debt to income is of little use and there are superior measures of household finances that in my opinion are in need of a stimulus boost. When the BoC cut in 2015 there was more evidence of gas in the tank across household finances with a materially higher saving rate and materially lower debt service burden. Now households are strained with the distinct possibility that wage growth will collapse back in on itself next year as an offset to potentially modest tax relief at least for some households.

Second up will be **trade figures for October** (8:30amET) that are expected to show a wider deficit.

Last, Parliament reconvenes today after the election break. Governor General Julie Payette will begin to read the **Speech from the Throne** at 3:45pmET just before the market close. The Liberal minority government will use the speech that is written by the Prime Minister's Office to guided priorities for the upcoming session. **Watch for guidance on fiscal stimulus prospects** particularly in an effort to woo support from the left leaning NDP. Among the examples could include further reference to middle- and lower-income tax cuts. Also begin to watch for guidance on when to expect a Fall fiscal statement to be announced that would flesh out further stimulus details before the holiday season.

UNITED STATES

US markets face a light agenda this morning. Claims (8:30amET) are expected to remain range bound. The trade balance is expected to narrow (8:30amET) because we already know the advance merchandise component and the services surplus is usually fairly stable. Factory orders are expected to follow the already known durables report higher (10amET).

Is there cause for revising expectations for nonfarm payrolls ahead of tomorrow's release and in the wake of readings like ADP's disappointment (+67k) and the rise in the employment component to ISM-services? In a word, no. I'm still at 200k but it's never with terribly high conviction unless there is a stand-out technical factor to consider. Just over one-quarter of estimates are at 200k or higher and my main reason for a solid rebound was due to an expected reversal of the prior month's temporary distortions. Here are several supporting points to consider.

1. The 90% confidence interval on a nonfarm estimate is +/-110,000. Statistical noise is usually the dominant factor.

2. Going by historical spreads, it would be very rare for nonfarm to come in so strongly above ADP. There has been only once since ADP revised its methodology when private nonfarm payrolls have exceeded ADP by 100k or more. That on its own would point to material downside risk to nonfarm post-ADP, but it's the only factor pointing in this direction. See chart 1 for the historical range of spreads between initial ADP and initial private nonfarm payroll expectations. It's the left tail that matters here in that it shows how rare it is for nonfarm to be 100k or more above ADP.

3. The ISM services employment subgauge is loosely correlated over long periods to changes in nonfarm payrolls (chart 2). It's a smoothed directional guide, not something you'd hang an individual month's call upon. Therefore, the 1.8 point rise in the employment subgauge says little to nothing about nonfarm expectations that is statistically defensible. A chart of the two shows you could steer the Empire State building sideways down the middle of the average spread between ISM-employment and nonfarm changes.

4. ADP is not affected by strikes whereas nonfarm payrolls are. ADP counts all workers that companies report to be actively on payroll whether they're paid or not (ie: strikers and non-strikers). Nonfarm only captures employees who are getting paid and that's why the BLS publishes monthly strike counts as input into nonfarm estimates. Therefore ADP was not sensitive to the GM strike. Nonfarm payrolls were sensitive to the strike that removed about 50k workers from payrolls in October and that should add them back in November after the strike ended in late October and hence well ahead of the nonfarm reference period.

5. ADP only counts private payrolls. Headline nonfarm payrolls include government workers. Therefore headline nonfarm payrolls should see a reversal of the prior month's unwinding of Census workers that subtracted about 20k workers. By corollary, you won't get this Census downside repeating in nonfarm on Friday.

6. Other readings are of limited advance use. Claims capture job losses, not hiring, but in any event they increased only marginally from the 218 range in the prior month's nonfarm reference period to the 227–228k range in the November nonfarm reference period. Mass firings are only available to October but they've been generally range bound for a while.

7. Most economists get these points. As evidence, very few have bothered to revise post-ADP and post-nonfarm with only ten out of 70 within consensus changing their estimates today. That ten revised rather pointlessly since their average estimate is about 143k versus 182k for the full sample, though I removed a downside outlier from that revised sample.

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.	1.57	1.58	1.63	1.59	1.60	1.63	1.77	1.77	1.77	2.22	2.23	2.19
CANADA	1.64	1.63	1.59	1.58	1.56	1.50	1.56	1.54	1.47	1.64	1.62	1.57
GERMANY	-0.62	-0.63	-0.63	-0.56	-0.57	-0.59	-0.31	-0.32	-0.36	0.21	0.21	0.15
JAPAN	-0.15	-0.16	-0.18	-0.14	-0.15	-0.18	-0.03	-0.04	-0.08	0.43	0.43	0.41
U.K.	0.58	0.58	0.52	0.57	0.56	0.49	0.76	0.74	0.68	1.28	1.27	1.22
	Spreads vs. U.S. (bps):											
CANADA	7	6	-4	-2	-4	-13	-21	-24	-30	-59	-61	-62
GERMANY	-219	-220	-226	-215	-217	-222	-208	-209	-213	-202	-202	-204
JAPAN	-172	-173	-180	-173	-175	-181	-180	-181	-185	-179	-180	-178
U.K.	-99	-100	-111	-102	-104	-114	-101	-103	-109	-94	-95	-97

Equities	Level		% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	16897	5.2	0.0	-1.2	1.3	11.3
Dow 30	27650	147.0	0.5	-1.7	0.6	10.5
S&P 500	3113	19.6	0.6	-0.9	1.2	15.3
Nasdaq	8567	46.0	0.5	-0.9	1.6	19.7
DAX	13135	-5.1	-0.0	-0.8	-0.1	17.3
FTSE	7169	-19.4	-0.3	-3.3	-3.0	3.6
Nikkei	23300	164.9	0.7	-0.5	0.2	6.3
Hang Seng	26217	154.5	0.6	-2.5	-5.3	-2.2
CAC	5839	39.6	0.7	-1.2	-0.1	18.1
Commodities	Level		% change:			
WTI Crude	58.57	0.14	0.2	0.8	2.3	10.7
Natural Gas	2.44	0.04	1.5	-2.6	-14.9	-45.5
Gold	1478.03	3.41	0.2	1.5	-0.4	19.5
Silver	17.13	0.12	0.7	0.4	-5.8	17.8
CRB Index	180.15	0.74	0.4	-0.1	-1.1	-2.0
Currencies	Level		% change:			
USDCAD	1.3169	-0.0032	-0.2	-0.9	0.1	-1.4
EURUSD	1.1092	0.0014	0.1	0.8	0.2	-2.2
USDJPY	108.81	-0.0500	-0.0	-0.6	-0.3	-3.9
AUDUSD	0.6826	-0.0023	-0.3	0.8	-1.0	-6.1
GBPUSD	1.3130	0.0026	0.2	1.7	1.9	3.1
USDCHF	0.9884	-0.0001	-0.0	-1.0	-0.5	-0.9

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	7.50
Australia - RBA	0.75
New Zealand - RBNZ	1.00
Next Meeting Date	
Canada - BoC	Jan 22, 2020
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.