ON DECK FOR TUESDAY, DECEMBER 10

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	12/10	08:30	Productivity (q/q a.r.)	3Q F	--	-0.1	-0.2
US	12/10	08:30	Unit Labor Costs (q/q a.r.)	3Q F	--	3.4	2.5

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KEY POINTS:

- **Risk assets rally after headline on deferred tariff hike**
- **US, China negotiators trying to delay tariffs and keep talking…**
- **…but will Trump be satisfied…**
- **…after he has guided that absent a deal, he'd raise tariffs?**
- **The best case for US-China talks seems to be no tariff, no deal yet**
- **One year later, the CUSMA/USMCA deal could be sewn up today…**
- **…clearing a hurdle to advance in the US Congress**
- **US inflation signal revised lower**
- **China's core inflation hits a nearly four year low…**
- **...as headline inflation was driven by pork prices…**
- **…explaining why it is waving tariffs on hogs and feed**
- **Chinese credit growth isn't really responding to stimulus**
- **Volatile German investor expectations rebound**
- **UK macro readings come in soft ahead of the election**
- **Norway's krone falls on business survey…**
- **…as a dip in underlying inflation was ignored**
- **Canada's tax cut will offer small and transitory effects**
- **The WTO will be crippled as of midnight**

Sources: Scotiabank Economics, National Bureau of Statistics of China, Bloomberg.

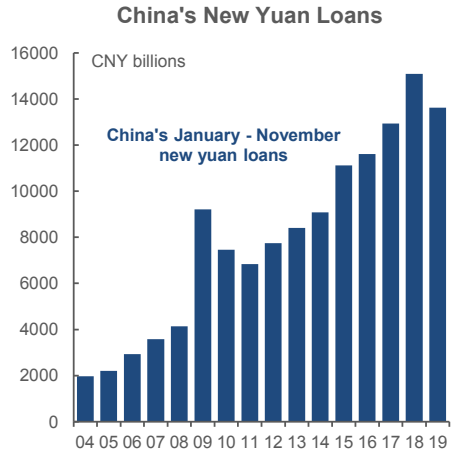
INTERNATIONAL

Global asset classes are doing about what one might expect ahead of the Fed tomorrow, the ECB on Thursday, Thursday's UK general election and the approaching US deadline to impose more tariffs on China this Sunday amidst round the clock negotiations. This piece in this morning's WSJ indicates that negotiators are trying to agree on deferring Sunday's US tariff deadline while the parties keep talking. The key remains whether the negotiators will convince Trump to delay tariffs given that Trump has indicated he would raise tariffs if no deal was achieved. Based upon this guidance, the best case scenario appears to be for no tariff and no deal at this point.

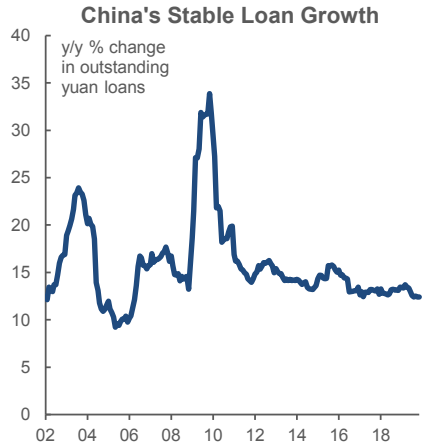
Much of any broader upside ahead of key developments is likely priced around the view that the Fed and ECB do little, the UK Conservatives win a majority and push through the Brexit vote to commence negotiations toward a UK-EU trade deal by the end of 2020, and some half-baked US-China trade 'deal' gets agreed upon. Markets are vulnerable to disappointing any of these expectations relative to what's priced. We might see the CUSMA/USMCA deal advance through a meeting between top negotiators from all three countries in Mexico City at 11amET. Chinese core inflation fell and credit stimulus is having little effect. UK macro releases were generally soft. German survey-based sentiment

data improved. Eurozone macro reports were otherwise mixed. Both Canada and the US face light calendars.

- Sovereign bonds are mixed. US Treasury yields are outperforming most others with a slight rally across the curve. Gilts are underperforming most other curves especially toward the longer end. 10 year EGB yields are up by about 1bps. Canada's curve is little changed.
- US equity futures swung from being down by between ¼% and ½% to up by about ¼% after the WSJ story broke. TSX futures are little changed. European cash markets are selling off by about ½% or less for the most part after bigger earlier declines. Asian equities were mostly little changed overnight.
- Oil prices are little changed after the WSJ story following earlier declines this morning. WTI is, however, still holding around the highest range since September.
- Currency markets are divided. The rand is the weakest of the crosses to the USD with Norway's krone also losing ground (see below) alongside the A$/NZ$. Sterling is appreciating ahead of the vote on Thursday. CAD and the Mexican peso are flat on baked-in NAFTA developments.



Sources: Scotiabank Economics, Bloomberg.



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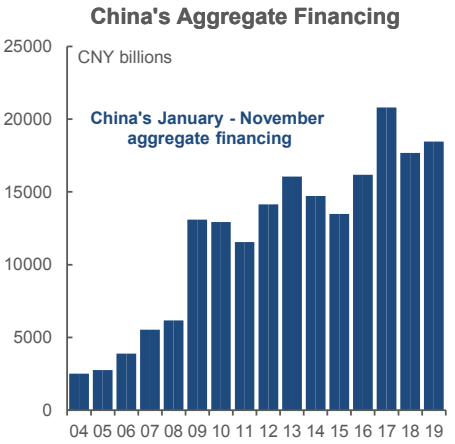

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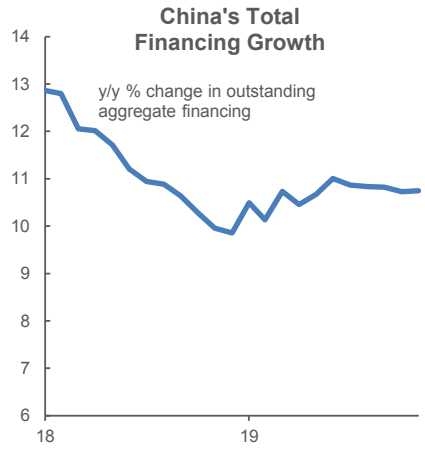

Sources: Scotiabank Economics, Bloomberg.

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Why is China waving retaliatory tariffs on hogs and their diet of soybeans? Because it has to as evidenced by the latest inflation readings, not because the gesture is a conciliatory move to appease US demands. Chinese headline inflation soared in line with expectations while core inflation edged lower. Headline inflation climbed to 4.5% y/y (4.3% consensus, 3.8% prior). That's the highest reading since early 2012. Core inflation that excludes food and energy slipped to 1.4% y/y which was down a tick from the prior month. That's the weakest core reading since February 2016 and only two-tenths higher than the post-2010 low that was set in 2015. Chart 1 shows the diverging trends in headline and core CPI. The driver of headline inflation has been a 19.1% y/y rise in food prices that was principally driven by soaring pork prices.

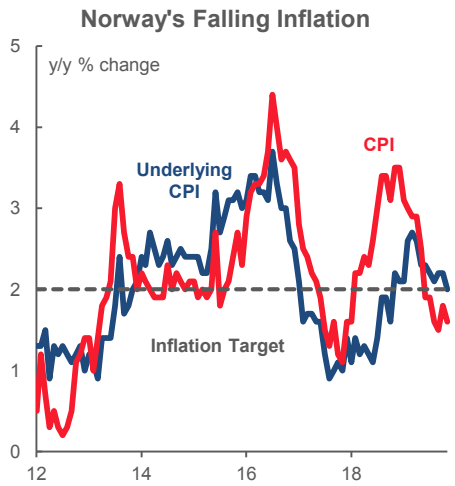
China updated financing figures for November this morning. While the monthly tallies for new total financing and new local currency loans accelerated, this was only because the prior reading for October is normally a seasonal low point for the year. Charts 2–5 show various measures of growth in financing. Year-to-date flows of new yuan loans are cooler (chart 2) and there has been a small deceleration in the year-over-year growth rate in the stock of such loans (chart 3). The flow of total financing this year is comparable to last year (chart 4) but the year-over-year growth rate remains little changed (chart 5).

German investor expectations improved this month. The ZEW reading registered a rise in both the assessment of the current situation (-19.9, -24.7 prior) and the forward looking expectations component (+10.7, -2.1 prior). In fact, the forward-looking expectations reading has been rising pretty sharply since hitting a low point in August (chart 6). **Because investor sentiment is the most volatile of the survey based 'soft' data on the German economy, I wouldn't read too much into the improvement that can tend to chase markets.** The chart shows the wild swings in the ZEW expectations reading versus the composite German PMI and expectations component of the IFO business confidence metric.

The Eurozone economy offered otherwise mixed readings on industrial production. Italian output fell by 0.3% m/m in October following a 0.4% prior decline and for the sixth drop in ten months this year. French IP climbed by 0.4% for the second consecutive months after a large drop in August, but we'll see how the return of mass protests over pension reforms may disrupt business activity in future readings.

The krone ignored Norway's cooler inflation reading that was expected but depreciated when Norges Bank released its Regional Network report (here) that indicated weaker than expected growth prospects based upon the central bank's survey of businesses over October 25th to November 20th. Headline inflation eased to 1.6% y/y (1.8% prior, 1.7% consensus) with underlying inflation falling back to 2% y/y as expected from 2.2% previously. Underlying inflation has been falling ever since hitting a peak in March and now sits on the central bank's 2% inflation target (chart 7).

UK macro data for October deserves two seconds of treatment ahead of Thursday's general election with the general takeaway being that the economy remains weak and distorted by Brexit considerations. The trade deficit widened as imports soared by 8.2% m/m to offset a 1.8% rise in exports; stocking ahead of the October 31st Brexit deadline that was pushed out to January 31st was the main culprit. Industrial output ticked higher (+0.1%) m/m by half what was expected following two months of sizeable declines. The monthly reading on service sector activity expanded by 0.2% m/m which doubled consensus expectations after two months of no growth. Monthly GDP was flat after two consecutive contractions.



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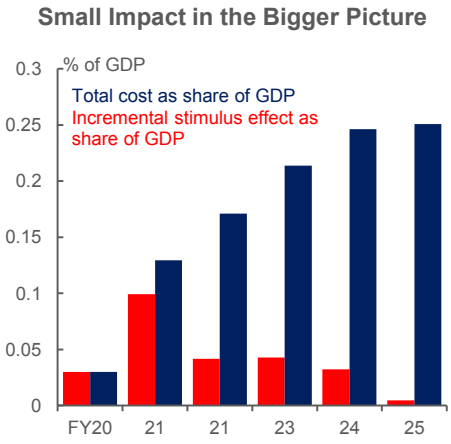

Sources: Scotiabank Economics, Finance Canada..

CANADA

There are no macro releases due out today.

Could it be? **Is a NAFTA signing in sight with the support of the Democrats and special interests?** We might learn more about this today as negotiators from all three countries will be in Mexico City to sign off on an addendum containing changes to the agreement over one year after it was first signed. The new CUSMA/USMCA agreement contains little to no meaningful changes of consequence to economic forecasts and its signing is likely already baked into markets.

Canada's tax cut via a small increase in the Basic Personal Allowance that will be phased in over four years will not carry a meaningful or lasting impact upon economic growth. In populist fashion, the cut applies to everyone other than those who face confiscatory rates of taxation, yet don't pay their share. Chart 8 shows the small effect as a share of GDP as it gets phased in. The blue bars show how the total cost of the tax cut gets phased in as a share of GDP over time and it peaks at one-quarter of one percentage point of GDP years from now. The incremental stimulus impact is shown by the red bars; there will be no noticeable effect on GDP in the first year, and the subsequent year will see the peak effect of 0.1% of GDP after which the stimulus fades. See Rebekah Young's piece here.

UNITED STATES

US markets face little of consequence on the calendar today. Only Q3 productivity revisions were released this morning. The original reading saw productivity defined as inflation-adjusted output per hour worked fall by 0.3% q/q following two strong quarters and it was revised up a touch to a –0.2% decline. **Unit labor costs climbed at their fastest pace in five and a half years during Q3 (+3.1% y/y) on first reading but the second reading took that down to a considerably more muted 2.5% rise.**

The cops leave town tonight! Trade cops that is. The WTO's Appellate Body loses two out of its three remaining members whose terms expire tonight at midnight and the Trump administration has been blocking their replacements for a while. Three is the minimum number of members necessary for the body to function. That means no check or balance against trade measures such that it's up to individual countries to defend themselves against one another given the vital role of the body that oversees appeals. **We'll see how the Trump administration potentially exploits that going forward, but it essentially cripples the WTO which has long been one of Trump's aims one way or the other.**

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.	1.62	1.62	1.54	1.66	1.66	1.54	1.82	1.82	1.72	2.24	2.25	2.16
CANADA	1.67	1.66	1.55	1.61	1.60	1.48	1.60	1.59	1.44	1.71	1.70	1.55
GERMANY	-0.63	-0.64	-0.63	-0.56	-0.57	-0.58	-0.30	-0.31	-0.35	0.23	0.22	0.16
JAPAN	-0.12	-0.12	-0.15	-0.10	-0.09	-0.14	-0.01	0.00	-0.02	0.44	0.45	0.45
U.K.	0.58	0.57	0.50	0.59	0.57	0.48	0.79	0.76	0.67	1.29	1.27	1.19
	Spreads vs. U.S. (bps):											
CANADA	5	5	1	-5	-6	-7	-22	-23	-27	-54	-56	-62
GERMANY	-226	-225	-217	-222	-222	-213	-212	-213	-206	-202	-203	-200
JAPAN	-174	-174	-169	-176	-175	-168	-183	-182	-174	-181	-180	-172
U.K.	-104	-104	-104	-107	-109	-106	-103	-106	-105	-95	-99	-97

Equities	Level		% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	16951	-46.1	-0.3	-0.2	0.4	15.1
Dow 30	27910	-105.5	-0.4	0.5	0.8	14.3
S&P 500	3136	-9.9	-0.3	0.7	1.4	18.9
Nasdaq	8622	-34.7	-0.4	0.6	1.7	22.8
DAX	12985	-120.7	-0.9	-0.0	-1.8	22.2
FTSE	7191	-42.6	-0.6	0.5	-2.3	7.0
Nikkei	23410	-20.5	-0.1	0.1	0.1	10.3
Hang Seng	26437	-58.1	-0.2	0.2	-4.4	2.7
CAC	5814	-23.2	-0.4	1.5	-1.3	22.6
Commodities	Level		% change:			
WTI Crude	58.91	-0.11	-0.2	5.0	2.9	15.5
Natural Gas	2.26	0.02	1.0	-7.6	-19.1	-50.4
Gold	1465.98	4.30	0.3	-0.8	0.5	17.8
Silver	16.62	-0.32	-1.9	-1.5	-1.1	14.7
CRB Index	181.10	-0.07	-0.0	2.0	-0.1	-0.3
Currencies	Level		% change:			
USDCAD	1.3234	-0.0005	-0.0	-0.5	0.0	-1.2
EURUSD	1.1078	0.0014	0.1	-0.0	0.4	-2.4
USDJPY	108.64	0.0800	0.1	0.0	-0.4	-4.1
AUDUSD	0.6814	-0.0009	-0.1	-0.5	-0.5	-5.2
GBPUSD	1.3177	0.0030	0.2	1.4	2.5	4.9
USDCHF	0.9864	-0.0017	-0.2	-0.1	-0.7	-0.4

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.