

**ON DECK FOR WEDNESDAY, DECEMBER 11**

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	12/11	07:00	MBA Mortgage Applications (w/w)	DEC 6	--	--	1.5
CA	12/11	08:30	Capacity Utilization (%)	3Q	--	82.1	83.3
US	12/11	08:30	CPI (m/m)	Nov	0.2	0.2	0.4
US	12/11	08:30	CPI (y/y)	Nov	1.9	2.0	1.8
US	12/11	08:30	CPI (index)	Nov	--	257	257
US	12/11	08:30	CPI ex. Food & Energy (m/m)	Nov	0.2	0.2	0.2
US	12/11	08:30	CPI ex. Food & Energy (y/y)	Nov	2.3	2.3	2.3
<b>US</b>	<b>12/11</b>	<b>14:00</b>	<b>FOMC Interest Rate Meeting (%)</b>	<b>Dec 11</b>	<b>1.75</b>	<b>1.75</b>	<b>1.75</b>
US	12/11	14:00	Treasury Budget (US\$ bn)	Nov	--	-206.2	-134.5

**KEY POINTS:**

- Global markets brace for escalated risk into the back half of the week
- FOMC probably won't rock the boat either way...
- ...despite solid payrolls...
- ...absent a "material" deviation from the base case...
- ...while its preferred inflation gauge remains low...
- ...and ahead of the UK election, possible tariffs
- Still, the case for the Fed to cut again in 2020 outweighs the hike case
- Navarro guides that tariffs are going up
- US core CPI was probably steady last month...
- ...indicating that core PCE remains well below the Fed's target
- Sterling softens on a fresh UK poll
- Swedish inflation pops higher...
- ...supporting a Riksbank hike next week...
- ...in a quest to move past negative rates
- Brazil's central bank expected to cut

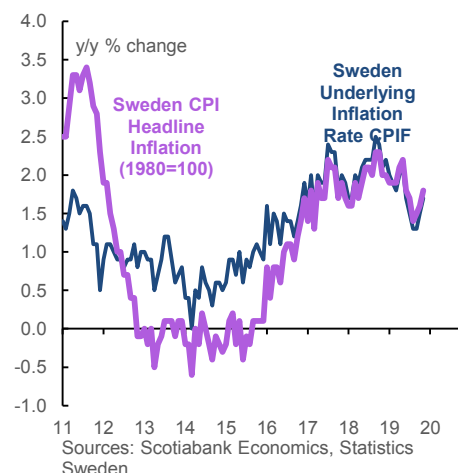
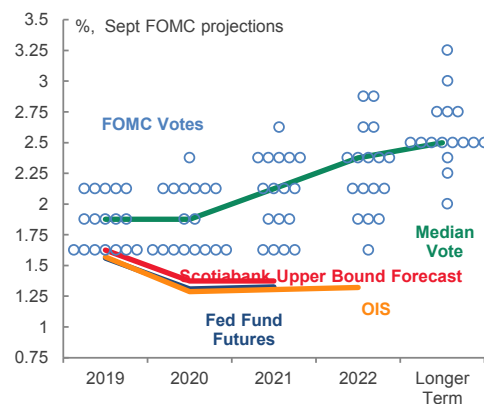
**INTERNATIONAL**

It's Fed day, with the tariff threat lurking in the background and the UK election tomorrow. Understandably, global asset classes are little changed on balance. See below for a look ahead to the Fed communications and US CPI. Peter Navarro delivered an interview last night that guided toward staying on course with a planned tariff hike against Chinese imports this Sunday. Swedish inflation and an expected rate cut in Brazil round out calendar risk alongside an update on Canadian capacity utilization.

- Currency markets are driving little change in the USD ahead of the Fed. The euro is slightly depreciating and so is the won. Sterling took it on the chin following another UK poll that not only lowered the projected size of the Conservative majority but also raised the prospect of a hung parliament after taking into account the margin of polling error. The Swedish krona is among the outperformers on inflation (see below).

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**Swedish Inflation**

**FOMC Federal Funds Target Rates**


- US Treasury yields are catching a small bid as are 10s across Europe and Canada.
- Oil prices are edging lower by 25–35 cents as WTI trades around US\$59 and Brent around US\$64.
- US equity futures are little changed as are European cash markets except for small rallies in the Dax and Madrid.

**The Swedish krona is at the top of the class among currency pairings to the USD this morning. Blame inflation.** The November CPI update popped higher than expected on all measures. Headline inflation increased to 1.8% y/y (1.6% prior, 1.7% consensus). Underlying inflation excluding energy costs increased to 1.8% (1.7% prior and consensus). This maintains the generally upward trend in inflation over much of the past year (chart 1). The figures support the Riksbank's altered guidance at the September meeting and reinforced in the October statement ([here](#)) to expect rate a hike in the repo rate from -0.25% to 0% "most probably" at the December 19<sup>th</sup> meeting. **The central bank has guided that the motivation is to get away from negative rates because the net benefits may turn to costs, but not to hike further thereafter.**

**Banco Central do Brasil will offer another rate decision this afternoon (4:20pmET) and we expect a half point reduction in the Selic rate** that would take it down to 4.5% for a cumulative 200bps of easing since this past summer. At 3.3% y/y, headline inflation remains below the 4.25% mid-point of the central bank's 3.75–5.75% range thereby affording room for additional stimulus in order to nurture growth.

## UNITED STATES

A CPI inflation report will tease markets ahead of the grander show this afternoon when the FOMC rolls out a fresh policy statement and forecasts (2pmET) followed by Chair Powell's press conference (2:30pmET).

**Headline CPI inflation (8:30amET) is expected to land at 1.9% y/y in the November reading and 1.8% is feasible compared to 2.0% for consensus.** A shift in year-ago base effects would put upward pressure on inflation, but typical seasonal pressures are expected to restrain this effect at the same time as slightly lower gas prices act as a weight on inflation. **Core CPI inflation is expected to remain at 2.3% y/y (consensus and Scotia).** Core CPI inflation has averaged 0.7 percentage points higher than core PCE inflation over the past five years and the recent spread has been similar. By corollary, this suggests that a core CPI reading that remains unchanged around 2.3% would point to core PCE inflation that remains well below the Fed's 2% inflation target at around 1.6% y/y and certainly nowhere close to demonstrating that the target is symmetrical after years of undershooting. Job growth has come on strong and wage growth has accelerated a touch, but the Fed's price stability mandate remains a distant goal.

Which FOMC and particularly which Jay Powell will show up today? We've seen a few versions during mixed performances over the past year so it's a fair question surrounded by some uncertainty. One can tell points on both sides of either a hawkish or neutral-dovish surprise to markets. On balance, I think the press conference positions Powell to tamp down a slightly hawkish feel to the statement and revised forecasts which may counsel different market effects at 2pm and 2:30pm.

Why? On the hawkish side, recall that Powell recently said "the glass is more than half full" and that was before the nonfarm beat and positive revisions. Traction toward getting the USMCA deal through is an added positive since his remarks. He should sound quite upbeat toward the activity readings and further reinforce guidance that the US economy is in a good place. The statement may upgrade the job growth reference from "solid" to "strong" which they last used back in January. The dot plot will probably continue to guide toward a rate hike in 2021, as the September plot did (chart 2). A risk is that the guidance toward a hike is brought forward to 2020, but I doubt it in no small part being an election year and for that to matter would entail shaking off a fairly established record whereby markets significantly ignore the dots anyway. The dots are very unlikely to even remotely support FFF pricing for half a cut toward the middle of next year and probably signal a prolonged pause.

Five main points could hold back the FOMC and specifically Powell's presser from turning clearly more hawkish. For one, Powell has said it would take a material alteration to the base case outlook to tilt the balance either way from here. For another, the FOMC still faces sub target inflation on a core PCE basis. Third, wage growth is pretty stagnant around the 3.0–3.2% y/y range since March or just over 1% in real terms and generally in line with trend productivity growth which suggests a) there may still be slack in US job markets, and b) wage growth isn't inflationary. For another, there remains ongoing uncertainty over year-end

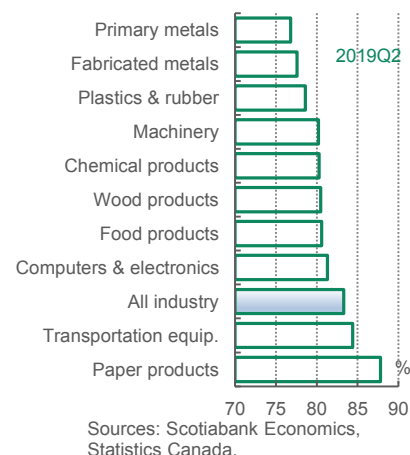
funding market pressures. Perhaps biggest of all is the ongoing uncertainty toward trade negotiations and Brexit. It would be pretty bad form to go out on a limb the day before the UK election and four days before the tariff deadline with the WTO crippled as of midnight tonight (essentially long ago...) by counting on the accuracy of UK pollsters and the stability of DJT's Twitter account.

Overall, my hunch is that the Fed wants to avoid rocking the boat. They don't want a replay of last December. This time it should be more about maintaining an even keel and revisiting everything at the January FOMC or through the next forecasts in March. Further jawboning about measures to address funding pressures is plausible such as added discussion of a standing repo facility. Overall, we still have a forecast rate cut next year in part because the outlook for core PCE inflation is likely to remain muted on dollar and real wage offsets to flatter Phillips curve dynamics while transitory distortions pass through the basket. The Fed is likely to fail at proving symmetry to the 2% inflation goal by not materially overshooting throughout the next couple of years and if it's serious at proving symmetry then it likely has to ease further and even that might not do it.

## CANADA

Canada only updates Q3 figures for capacity utilization rates this morning (8:30amET). Chart 3 shows the figures as at mid-year by industry. The overall rate of capacity utilization is relatively elevated at 83.3% in Q2. By industry, this is particularly lifted by the transportation sector in part due to soft investment while industries like primary metals, chemicals, wood and paper products, plastics and rubber and running below their long-run averages.

## Capacity Utilization Rates



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		
	1.64	1.65	1.58	1.68	1.69	1.60	1.83	1.84	1.77	2.25	2.27	2.23	Canada - BoC	1.75
	1.67	1.67	1.63	1.61	1.61	1.56	1.59	1.60	1.54	1.70	1.70	1.62		
	-0.64	-0.63	-0.63	-0.57	-0.56	-0.57	-0.32	-0.30	-0.32	0.21	0.23	0.21	US - Fed	1.75
	-0.12	-0.12	-0.16	-0.09	-0.10	-0.15	0.00	-0.01	-0.04	0.44	0.44	0.43		
	0.59	0.59	0.58	0.60	0.61	0.56	0.79	0.80	0.74	1.28	1.29	1.27	England - BoE	0.75
	Spreads vs. U.S. (bps):													
	2	1	6	-7	-8	-4	-23	-25	-24	-55	-56	-61	Euro zone - ECB	0.00
	-228	-229	-220	-225	-225	-217	-214	-214	-209	-204	-203	-202		
-176	-177	-173	-177	-179	-175	-182	-186	-181	-180	-183	-180	Japan - BoJ	-0.10	
-106	-106	-100	-108	-108	-104	-104	-104	-103	-96	-97	-95			
Equities	Level					% change:							Mexico - Banxico	7.50
	Last	Change			1 Day	1-wk	1-mo	1-yr						
S&P/TSX	16951	-0.1			-0.0	0.3	0.4	15.6				Australia - RBA	0.75	
Dow 30	27882	-27.9			-0.1	1.4	0.7	14.4						
S&P 500	3133	-3.4			-0.1	1.3	1.5	18.8				New Zealand - RBNZ	1.00	
Nasdaq	8616	-5.6			-0.1	1.1	1.8	22.5						
DAX	13127	56.5			0.4	-0.1	-0.5	21.8						
FTSE	7219	5.6			0.1	0.4	-1.5	6.1						
Nikkei	23392	-18.3			-0.1	1.1	0.3	10.6				Canada - BoC	Jan 22, 2020	
Hang Seng	26645	208.8			0.8	2.2	-1.0	3.4						
CAC	5851	2.7			0.0	0.9	-0.7	21.7				US - Fed	Dec 11, 2019	
Commodities	Level					% change:								
WTI Crude	59.07	-0.17			-0.3	1.1	3.9	14.4				England - BoE	Dec 19, 2019	
Natural Gas	2.28	0.02			0.8	-4.8	-13.4	-48.2						
Gold	1466.01	1.64			0.1	-0.6	0.7	17.9				Euro zone - ECB	Dec 12, 2019	
Silver	16.67	0.05			0.3	-2.0	-0.8	14.8						
CRB Index	182.00	-0.17			-0.1	1.4	0.4	0.1				Japan - BoJ	Dec 19, 2019	
Currencies	Level					% change:								
USDCAD	1.3235	0.0005			0.0	0.3	0.0	-1.2				Mexico - Banxico	Dec 19, 2019	
EURUSD	1.1074	-0.0018			-0.2	-0.0	0.4	-2.1						
USDJPY	108.74	0.0200			0.0	-0.1	-0.3	-4.1				Australia - RBA	Feb 03, 2020	
AUDUSD	0.6839	0.0030			0.4	-0.1	-0.2	-5.1						
GBPUSD	1.3146	-0.0010			-0.1	0.3	2.3	5.3				New Zealand - RBNZ	Feb 11, 2020	
USDCHF	0.9859	0.0015			0.2	-0.3	-0.8	-0.7						

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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