December 12, 2019 @ *9:20 EST*

ON DECK FOR THURSDAY, DECEMBER 12

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	12/12	08:30	New Housing Price Index (m/m)	Oct	--	0.1	0.2
US	12/12	08:30	Initial Jobless Claims (000s)	Dec 7	210	212	213
US	12/12	08:30	Continuing Claims (000s)	Nov 30	1685	1677	1640
US	12/12	08:30	PPI (m/m)	Nov	0.2	0.2	0.4
US	12/12	08:30	PPI ex. Food & Energy (m/m)	Nov	0.2	0.2	0.3

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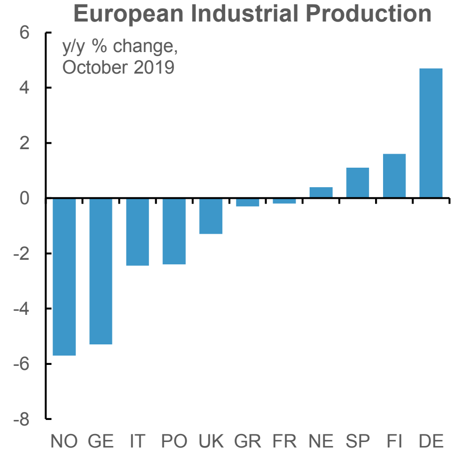
KEY POINTS:

- **Markets await UK election, tariff guidance**
- **Trump hints at getting close to a deal with China…**
- **...as he meets with advisers on next steps toward China today**
- **UK election results will be released tonight…**
- **…as the Conservatives lose polling momentum**
- **ECB stays on hold with no change in guidance**
- **SNB stays on hold**
- **BoC's Poloz to give a 2020 look ahead**
- **A more complete list of things for Canada bulls to simply ignore**
- **US jobless claims spike probably on seasonal distortions**
- **US producer prices turn more disinflationary**
- **Fed's 'flow of funds' accounts on tap**
- **Eurozone industrial output is still reeling…**
- **….with output down in seven of the ten months this year**
- **Peru's central bank expected to hold**
- **Philippines central bank stays on hold**
- **Indian inflation is going through a food-led transitory bump**

European Industrial Production



Source: Scotiabank Economics, Bloomberg.

INTERNATIONAL

The UK general election and President Lagarde's first ECB decisions and press conference will dominate market attention with the continued presence of US tariff risk. President Trump is to meet with his advisers today at an uncertain time about what to do by way of next steps in the US-China trade dialogue and whether to proceed with Sunday's tariff hike. As this note is being sent, Trump just remarked that the US is getting "very close" to a "big deal" with China and that prompted a market reaction pending details. Perhaps keep a close eye on your Twitter feed! The ECB takes a back seat to the election as the risk of market dysfunction is monitored and after no material statement changes this morning. Amidst all of this, there is little to no follow through from yesterday's Fed communications (recap here including a detailed press conference transcript).

- Sovereign bond yields were generally lower across multiple markets before Trump's trade remark. US Treasury yields are bear steepening and so is Canada's curve. Gilts were bull flattening but the Trump remark is drawing them to being little changed. EGBs are watching Italian debt slightly outperform bunds that are a little cheaper. Japan's curve also rallied overnight with the 10 year JGB yield down slightly.

- Oil prices are up a little with WTI under US$59 and Brent under US$64.
- US equity futures are little changed but had a slight negative bias before Trump's remark. European cash markets are mixed with London up by about 0.3% but Paris and Frankfurt down by about ¼% but turning positive after Trump's remark.
- Currency markets are seeing some of the higher beta crosses rally to the USD, like the won, A$, some Scandies and the rand. The Euro, Mexican peso, yen and CAD are all little changed. Sterling is depreciating on the back of yesterday's soft poll, hence equities are slightly higher. The Swiss franc and yen are slightly depreciating.

As expected, another major central bank chose not to rock the boat ahead of key uncertainties. **The ECB left all of its policy variables unchanged. Its policy statement (here) was equally unchanged. President Lagarde's press conference has been monitored and nothing materially new has been divulged.** Mission accomplished, the euro is unchanged and there is no material reaction to the communications across the EGBs landscape. Lagarde gets a free pass on this one, but stay tuned. About the one thing that can be gleaned from the press conference is a further effort toward potentially expanding the mandate of central bankers by taking into account climate change in the framework review that Lagarde is leading. After having failed to deliver price stability for an extended period, the unelected officials at central banks are diversifying their efforts to embrace all manner of social and environmental policy ambitions.

Exit polls from the UK election will begin to be released by about 5pmET. Vote counts should conclude by around 9pmET. We should know the results shortly thereafter. Yet another poll – this one from the Telegraph – showed Labour gaining to 36% of support (+3%) versus the Conservatives at 41% (down 1%). This poll was done on Monday and Tuesday. Boris Johnson stepped on a land mine with an unfortunate response to a health policy matter and it's costing him in the closing days of the campaign.

Eurozone industrial output fell by 0.5% m/m and the prior month was revised down by two tenths to -0.1% m/m. The breadth of the weakness by region is high (see chart). **Output has fallen in seven of the ten months this year to date and four of the past five months with August the sole exception.** That hardly looks like evidence of a synchronous global rebound. A bright spot was production of consumer durables that climbed by 1.9% m/m (-0.5% prior), but everything else was pretty soft. Nondurable consumer goods output was up by just 0.4% m/m, intermediate goods output was up by 0.6%, but capital goods output was down by 2% and energy output was down by 0.7%.

Banco Central de Reserva del Peru will deliver its own rate decision this afternoon (6pmET). We expect the reference rate to be held constant at 2.25%. The central bank may wish to pause following two rate cuts since summer and with core inflation having come off the previous bottom to 2.3% y/y relative to the 1–3% inflation target range.

Indian inflation popped higher to 5.5% y/y (5.3% consensus, 4.6% prior) as food prices soared by 10% y/y due to weather effects with heavy rains impacting the prices of onions for instance. The RBI has guided it will ride out this period on the expectation that inflationary forces will be transitory. Clothing and footwear prices were up by just 1.3% y/y, housing was up 4.5%, and energy prices were down 1.9%. Overall, core inflation was better behaved at 3.5% y/y (3.4% prior).

CANADA

BoC Governor Poloz speaks in his last traditional year-end address and the speech title leans toward a full-on look ahead to 2020 as opposed to some of his past year-end speeches that spoke about topics like bitcoin and cybersecurity. Poloz's speech will be available at 12:40pmET. He will hold a press conference at about 2pmET.

One issue worth addressing is the assertion that Canada's only challenge is a bad jobs report. The bulls say to ignore it, it's only one month, and everything else is just peachy. They're not going far enough though. In the spirit of holiday giving, I figured I'd help them out with a list of other things to be ignored. Here's Santa's wish list of things to ignore for little See No Evil, charming Hear No Evil and cute little Speak No Evil.

- There has been little to no GDP growth in Canada during four of the last five quarters including 2019q4 tracking. Q2 was the sole exception when growth popped to 3 ½% based on eggshells, transitory factors and popsicle sticks. We're tracking GDP growth of 0.6% q/q at a seasonally adjusted and annualized rate in 2019Q4 which is so far half of what the BoC projected for Q4. This follows growth of 1.3% in Q3, the aforementioned 3.5% in Q2, 0.8% in Q1 and 1% in 2018Q4. Meh, didn't see all of that, just ignore it.

- GDP can be distorted by volatile swings in things like inventory and trade, so final domestic demand can be preferred as an indication of activity in the domestic economy and it adds up consumption, business investment, government spending and housing investment. Here too the trend has been weak over time. FDD posted annualized quarter-ago growth of around 1% or less in six of the eight quarters stretching through to tracking of 2019Q4 growth. Starting in 2018Q1, the figures have been 1.1%, 0.8%, 0.3%, -0.6%, 3.3%, 0.3% and 3.2% with 2019Q4 looking around 1% at best. On average, FDD has grown by about only 1% per quarter over the past two years. Meh, didn't see that either.

- Slack still exists with a negative output gap that is likely in the process of slightly widening given weak current economic growth. Ignore that too.

- Manufacturers and wholesalers have the highest ratio of inventories to sales since the Global Financial Crisis. Inventories are costly to finance and store and so usually this spells softness in production and hiring as companies seek to burn off excess inventories. Didn't see that.

- The BoC has missed its inflation target 90% of the time over about the past decade. Oh well.

- Inflation expectations remain low by multiple measures such as implied breakevens from real return bonds and the BoC's Business Outlook Survey. Markets, businesses and households might get too accustomed to thinking the BoC's inflation target range is more like 1–2% with a 2% ceiling that pulls out the pompoms during those rare moments like now when it gets hit, rather than 1–3% with a symmetrical 2% mid-point. C'est la vie.

- There has been soft trend consumption growth for six of the past eight quarters including 2019Q4 tracking. Who cares? Consumption is only about 60% of the Canadian economy! Stimulating that sector shouldn't be a policy goal. After all, with where debt stands, let them all eat cake! It's better to watch things turn south as a matter of principle than to lend a helping hand.

- The yield curve is inverted with a policy rate of 1.75% that is above all other government of Canada bond yields over the rest of the curve. Big deal. Bond markets must be wrong, there cannot be external forces dragging Canada along for the ride and the BoC must be right to preserve a kink at the front-end. After all, what business wouldn't want to pay more for working capital financing requirements than longer term funds. Walk it off.

- There has been zero growth in business investment in machinery and equipment over the past two years. The quarterly figures have been volatile and have swung from large gains to large declines, but the level of equipment spending volumes has trended dead flat since 2017Q4 through to tracking for 2019Q4. Woo hoo! Who needs business investment to drive complementary future expansions in exports and hiring. That's clearly over rated. Rates can't help by stimulating demand anyway so it's better to just ride it all out.

- Global risks remain high. Bah, nonsense, everything's on the mend. The world economy is in Trump's good hands.

- Don't ignore just November's jobs report. Canada has lost over 90,000 jobs in two months excluding transitory election hiring in October. Ignore both of them because the economy created lots of jobs in the past and future risks are of course dictated by backward looking data. The next month is sure to rebound so instead of emphasizing the past two months put the emphasis upon what might happen next month that's sure to settle the debate about trends going forward. Dear hole in sand: have you met my head?

- Okun's law as a warning sign. It suggests that job growth overshot GDP growth in the past and that over time a tighter relationship has to be restored between the two. That may mean a softer job market is here to stay. Oh well, better to ignore the warning signs and wait for it to show up in data. Then react, and it'll only take 1–2 years for the policy reaction to turn things around.

- But wait, fiscal stimulus is coming! Manna from heaven from governments that everyone knows are in the business of creating wealth. Ignore that the tax and spending plans at the Federal level won't materially budge the needle on GDP growth and ignore provincial restraint as an offset. Just jump up and down and repeat with everyone else: fiscal stimulus is coming to the rescue!

- Since the end of 2017, the cumulative change in export volumes has been about 6% including tracking for 2019Q4. That averages to about ¾% in terms of average quarterly growth. So what, it's not as if any policy instruments can do anything about that so why bother trying. Just ride it all out and keep hoping for better conditions.

- Alberta. Oh and Saskatchewan. Maybe New Brunswick, and Nova Scotia, and Manitoba too. Heck, Ontario could be included given just 1.7% estimated and projected growth for this year and next. Monetary policy can't do anything about regional challenges. Just ignore them all. All of them.

- Household finances are more strained than the last time the BoC cut as evidenced by a cycle high in debt payments to incomes and a paltry saving rate of just over 1% that's one-eighth of what it is in the US. Serves them right. They were led along this path with prior BoC easing that arguably shouldn't have been pursued and we're determined to make them wear it because, you know, monetary policy is about righting past wrongs on the backs of today's debtors.

- That the five year mortgage rate is above the variable rate that is linked to the policy overnight rate. Maybe cutting the policy rate a couple of times won't induce a wild swing back into variable rate products because of this starting point so just ignore the current starting point on the fixed minus variable spread that's driven by external bond market conditions and foreign central bank actions.

UNITED STATES

US markets faced a pair of soft macro reports but the main focus remains upon the UK election and possible tariff guidance as alluded to above.

Producer prices are turning more disinflationary and that reinforces the argument that the Fed faces a tough time turning pricing power around. Producer prices were soft with final demand prices up by just 1.1% y/y (1.1% prior, 1.3% consensus). Excluding food and energy, producer prices were up by just 1.3% y/y (1.6% prior, 1.7% consensus). In month ago terms, final demand producer prices were flat and excluding food and energy they were down by 0.2% m/m.

Jobless claims jumped to 252k (203k prior, 214k consensus). That's the highest since late September 2017. I wouldn't make much of one week's worth of data. A later than usual Thanksgiving holiday likely messed with seasonal adjustments. The next couple of weeks of figures may take on elevated significant as an anticipated decline is monitored.

The Federal Reserve will release the Q3 version of its quarterly financial accounts of the US economy (12pmET) that includes figures like the change in household net worth.

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.	1.60	1.62	1.59	1.64	1.64	1.63	1.81	1.79	1.81	2.25	2.23	2.26
CANADA	1.66	1.66	1.68	1.59	1.60	1.63	1.58	1.58	1.61	1.68	1.68	1.69
GERMANY	-0.64	-0.64	-0.62	-0.57	-0.58	-0.55	-0.32	-0.32	-0.29	0.21	0.21	0.22
JAPAN	-0.13	-0.12	-0.15	-0.12	-0.09	-0.14	-0.01	0.00	-0.03	0.45	0.44	0.43
U.K.	0.57	0.58	0.59	0.57	0.58	0.58	0.76	0.77	0.77	1.28	1.27	1.29
	Spreads vs. U.S. (bps):											
CANADA	5	4	8	-5	-4	-1	-23	-21	-20	-56	-55	-57
GERMANY	-224	-226	-222	-221	-221	-218	-212	-211	-211	-204	-202	-204
JAPAN	-173	-173	-175	-176	-173	-177	-182	-179	-184	-180	-178	-183
U.K.	-103	-104	-101	-107	-106	-106	-105	-102	-104	-97	-95	-97

Equities	Level		% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	16940	-11.1	-0.1	0.3	0.2	14.6
Dow 30	27911	29.6	0.1	0.9	0.8	13.8
S&P 500	3142	9.1	0.3	0.9	1.6	18.5
Nasdaq	8654	37.9	0.4	1.0	2.0	21.9
DAX	13121	-26.2	-0.2	0.5	-1.2	20.0
FTSE	7239	22.8	0.3	1.4	-1.7	5.2
Nikkei	23425	33.0	0.1	0.5	-0.4	8.4
Hang Seng	26994	348.7	1.3	3.0	-0.3	3.1
CAC	5850	-10.6	-0.2	0.8	-1.2	19.2
Commodities	Level		% change:			
WTI Crude	58.86	0.10	0.2	0.7	3.6	15.1
Natural Gas	2.28	0.04	1.6	-6.1	-13.0	-44.9
Gold	1484.70	9.96	0.7	0.6	1.9	19.2
Silver	16.66	-0.02	-0.1	-2.7	-1.3	13.8
CRB Index	181.68	0.19	0.1	0.9	1.0	0.3
Currencies	Level		% change:			
USDCAD	1.3189	0.0015	0.1	0.1	-0.3	-1.2
EURUSD	1.1140	0.0010	0.1	0.3	1.2	-2.0
USDJPY	108.62	0.0600	0.1	-0.1	-0.4	-4.1
AUDUSD	0.6892	0.0016	0.2	0.8	0.7	-4.5
GBPUSD	1.3170	-0.0026	-0.2	0.1	2.5	4.3
USDCHF	0.9822	-0.0011	-0.1	-0.5	-1.1	-1.1

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	Jan 29, 2020
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.