

**ON DECK FOR FRIDAY, DECEMBER 20**

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	12/20	08:30	New Housing Price Index (m/m)	Oct	--	0.1	0.2
CA	12/20	08:30	Retail Sales (m/m)	Oct	0.5	0.5	-0.1
CA	12/20	08:30	Retail Sales ex. Autos (m/m)	Oct	0.2	0.2	0.2
US	12/20	08:30	GDP (q/q a.r.)	3Q T	2.1	2.1	2.1
US	12/20	08:30	GDP Deflator (q/q a.r.)	3Q T	--	1.8	1.8
US	12/20	10:00	PCE Deflator (m/m)	Nov	0.2	0.2	0.2
US	12/20	10:00	PCE Deflator (y/y)	Nov	1.5	1.4	1.3
US	12/20	10:00	PCE ex. Food & Energy (m/m)	Nov	0.2	0.1	0.1
US	12/20	10:00	PCE ex. Food & Energy (y/y)	Nov	1.6	1.5	1.6
US	12/20	10:00	Personal Spending (m/m)	Nov	0.2	0.4	0.3
US	12/20	10:00	Personal Income (m/m)	Nov	0.3	0.3	0.0
US	12/20	10:00	U. of Michigan Consumer Sentir	Dec F	--	99.2	99.2

**KEY POINTS:**

- **Markets face a volatile transition to the holiday season**
- **Quadruple witching and stock index rebalancing...**
- **...will likely overwhelm fundamental market drivers today**
- **Will US core PCE follow core CPI?**
- **Will US consumption follows the soft retail sales control group?**
- **Canadian retail sales expected to post a firm rise...**
- **...against a soft multi-quarter trend...**
- **...despite solid labour markets...**
- **...that may be decelerating...**
- **...while consumer finances remain stretched**
- **PBOC unexpectedly holds**
- **BanRep expected to hold today**
- **French consumer spending remains flat**
- **Japanese core CPI slightly firms**

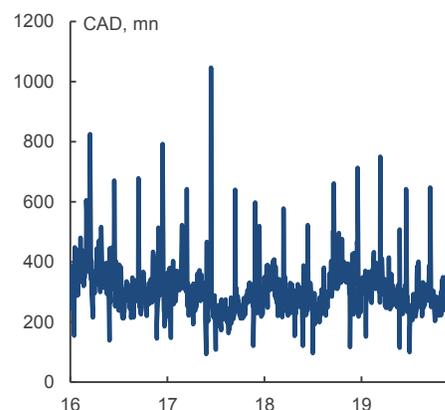
Please note that I will be on vacation after today and regular publishing will resume the week of January 6<sup>th</sup>. A two-week holiday version of the Global Week Ahead will be published later today.

**INTERNATIONAL**

The main focal points will be so-called 'quadruple witching' (see below for the English translation...) and updated November readings for the Fed's preferred inflation gauge, US consumer spending and broader income and saving dynamics. Canada updates lagging retail spending figures for back in October as the final input to Monday's monthly GDP figures that are at presently tracking around no growth. The PBOC surprised markets by holding firm on its one year Loan Prime Rate at 4.15% with an emphasis upon recently stabilizing domestic macro data and the (bogus) US-China trade deal. Other developments have been relatively trite including an expected modest rise in Japanese headline CPI (+0.5% y/y, 0.2% prior) and core CPI (0.5%, 0.4% prior). French consumer spending remains soft and only advanced by 0.1% m/m in November with no growth on a three-month moving average basis.

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**Daily TSX Trading Volumes**


Sources: Scotiabank Economics, Bloomberg.

- Currency markets are generally little changed so far. The Euro is leading decliners to the USD versus the appreciation in the won, A\$ and sterling.
- Sovereign bond yields are slightly higher but by 1bp or so across most markets and maturities.
- Oil prices are under slight downward pressure with WTI and Brent down about 20 cents.
- US equity futures are little changed so far ahead of massive volumes expected for today. Ditto for TSX volumes. European cash markets are firmer by up to 1/2% in Paris and Frankfurt.

**Options and futures on indexes and individual stocks expire in quarterly fashion today at the same time that as rebalancing of the S&P500 occurs ahead of thin holiday season trading over the next couple of weeks.** The combined effects usually drive a massive surge in trading volumes into the close as the market positioning swings into new contracts and weightings. The effects of this surge in volumes could well overwhelm the impact of other incremental information such as the US releases. Much of the coverage of this effect is focused upon the US markets, but **Canada is also subject to such spikes in trading activity** as witnessed by the spiky effect in TSX trading volumes on chart 1. This is purely a transitory, technical factor but the point here is not to over-interpret potential market moves as somehow driven by fundamental factors.

**BanRep is unanimously expected to stay on hold today at an unchanged overnight lending rate of 4.25%.** Core inflation of 3.4% is above the mid-point of the central bank's headline target range of 2–4%, but, unlike Mexico, the economy has been experiencing somewhat better growth and has rolled out some policy reforms to calm markets since the protests. In fact, the Colombian peso has appreciated by about 6% to the greenback so far this month and, among LatAm's generally strengthened currencies, outpaced only by the Chilean peso's 7.6% gain.

**UNITED STATES**

**The BEA takes a third swing at Q3 US GDP this morning and later on updates figures for the Fed's preferred inflation gauge, consumer spending, income growth and the saving rate.**

**The final revision for US Q3 GDP (8:30amET)** incorporates revisions to underlying inputs since the last Q3 GDP reading on November 27<sup>th</sup> as well as the Quarterly Services Survey from the Census Bureau ([here](#)) that offers the first full perspective on service sector activity to incorporate in the final GDP reading. Consensus and Scotia (#1 ranked on Bloomberg for US GDP) expects no change to the prior 2.1% headline reading.

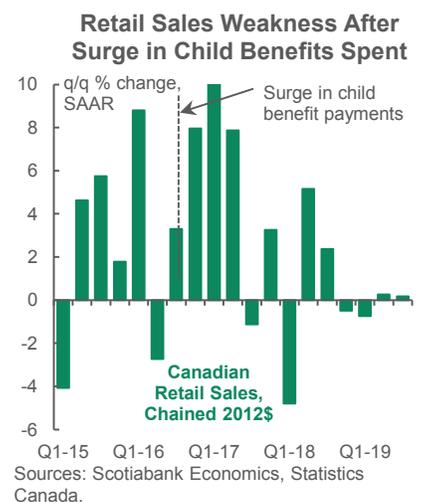
**On PCE and core PCE (10:00amET), the debate is the extent to which PCE follows the CPI gauges.** Recall that headline CPI increased three-tenths to 2.1%; consensus thinks PCE comes in only a tick higher and I'm part of the two-ticks higher sample. Core CPI came in flat at 2.3% y/y but consensus thinks it will decelerate a tick to 1.5% and I went flat at 1.6%.

**On US consumer spending (also 10:00amET), the issue is whether it follows the soft retail sales control group** that only grew by 0.1% m/m in nominal terms or whether the control group under samples other areas of spending strengths. Consensus is at 0.4%, Scotia 0.2%.

**CANADA**

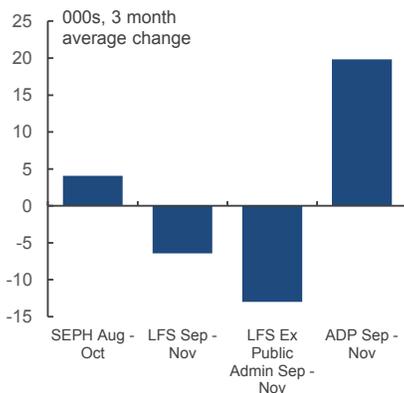
**On Canadian retail sales (8:30amET), higher auto sales, little change in gasoline prices within October CPI, and a small gain in sales ex-autos and gas are expected to drive a decent gain in the dollar value of retail sales.** It turns out I'm on consensus on this one at +0.5% m/m but that's a fluke known after everyone submits, and with the usual caution that retail is a notorious tough nut to crack.

A few charts are worth considering in terms of assessing the Canadian consumer dynamics. Chart 2 shows how growth in retail sales volumes has all but disappeared over the last several quarters. Why you ask? Very strong job growth earlier in the year and



accelerating wage growth should have provided a better outcome. The three month moving averages for job growth measures across all three surveys are not in full agreement but nevertheless point toward a material recent slowdown in the pace of hiring according to the Labour Force Survey including and excluding the temporary election hiring distortion, StatsCan's payrolls survey (SEPH) and the ADP payrolls survey (chart 3). Chart 4 shows that whereas Americans are saving about 8% of their paycheques, Canadians are saving just over 1% while at the same time paying cycle high shares of disposable income on debt payments (chart 5). The greater stability concern remains focused upon whether job market momentum is souring, whether wage growth will collapse again into 2020 as has happened during repeated bouts of past volatility, and whether there is nothing left in the tank to drive spending into 2020.

### Canada's Slowing Job Creation



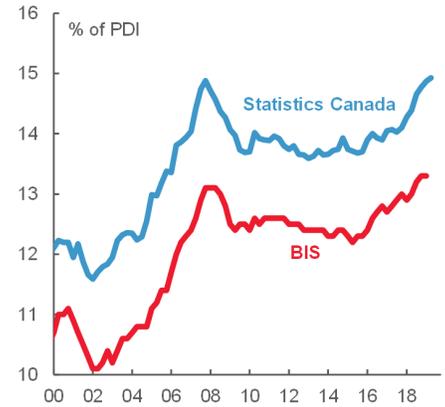
Sources: Scotiabank Economics, Statistics Canada, ADP.

### Canadian Household Saving Rate



Sources: Scotiabank Economics, Statistics Canada.

### Household Debt-Service Costs



Sources: Scotiabank Economics, BIS, Statistics Canada.

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.	1.64	1.63	1.61	1.74	1.73	1.65	1.93	1.92	1.82	2.36	2.35	2.25	Canada - BoC	1.75
CANADA	1.71	1.70	1.66	1.69	1.67	1.59	1.67	1.66	1.58	1.72	1.72	1.68	US - Fed	1.75
GERMANY	-0.63	-0.63	-0.62	-0.51	-0.51	-0.53	-0.23	-0.24	-0.29	0.29	0.29	0.23	England - BoE	0.75
JAPAN	-0.10	-0.11	-0.13	-0.08	-0.09	-0.12	0.01	0.00	-0.02	0.46	0.43	0.43		
U.K.	0.57	0.56	0.55	0.61	0.59	0.59	0.81	0.80	0.79	1.31	1.30	1.28		
	Spreads vs. U.S. (bps):													
CANADA	7	7	5	-6	-6	-6	-26	-26	-25	-64	-64	-57	Euro zone - ECB	0.00
GERMANY	-226	-226	-222	-225	-225	-219	-217	-216	-211	-207	-207	-202	Japan - BoJ	-0.10
JAPAN	-173	-173	-173	-182	-182	-178	-192	-192	-184	-191	-193	-182		
U.K.	-106	-107	-106	-114	-114	-107	-112	-112	-103	-106	-106	-97	Mexico - Banxico	7.25
Equities	Level						% change:							
	Last	Change			1 Day	1-wk	1-mo	1-yr						
S&P/TSX	17064	32.1			0.2	0.7	0.3	20.7					Australia - RBA	0.75
Dow 30	28377	137.7			0.5	0.9	2.0	24.1					New Zealand - RBNZ	1.00
S&P 500	3205	14.2			0.4	1.2	3.1	29.9						
Nasdaq	8887	59.5			0.7	1.9	4.2	36.1						
DAX	13279	67.5			0.5	-0.0	0.9	25.1						
FTSE	7589	15.3			0.2	3.2	4.5	13.1						
Nikkei	23817	-48.2			-0.2	-0.9	2.9	16.8					Canada - BoC	Jan 22, 2020
Hang Seng	27871	70.9			0.3	0.7	3.7	8.8					US - Fed	Jan 29, 2020
CAC	6004	31.3			0.5	1.4	1.9	27.9						
Commodities	Level						% change:							
WTI Crude	60.98	-0.20			-0.3	1.5	6.8	32.9					England - BoE	Jan 30, 2020
Natural Gas	2.32	0.05			2.1	1.1	-9.3	-35.2					Euro zone - ECB	Jan 23, 2020
Gold	1478.96	0.15			0.0	0.2	0.5	17.4					Japan - BoJ	Jan 21, 2020
Silver	16.94	-0.06			-0.3	0.4	-1.1	15.7						
CRB Index	185.16	0.03			0.0	0.7	3.5	7.2						
Currencies	Level						% change:							
USDCAD	1.3137	0.0012			0.1	-0.2	-1.3	-2.8					Mexico - Banxico	A Field Not Applica
EURUSD	1.1100	-0.0022			-0.2	-0.2	0.2	-3.0						
USDJPY	109.31	-0.0600			-0.1	-0.1	0.6	-1.8					Australia - RBA	Feb 03, 2020
AUDUSD	0.6897	0.0011			0.2	0.3	1.4	-3.0						
GBPUSD	1.3030	0.0021			0.2	-2.3	0.8	3.0					New Zealand - RBNZ	Feb 11, 2020
USDCHF	0.9804	0.0019			0.2	-0.4	-1.1	-0.8						

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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