ON DECK FOR TUESDAY, JANUARY 7

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	01/07	08:30	Merchandise Trade Balance (C$ bn)	Nov	-1.0	-1.2	-1.1
US	01/07	08:30	Trade Balance (US$ bn)	Nov	-42.4	-43.7	-47
US	01/07	10:00	Durable Goods Orders (m/m)	Nov F	--	-2.0	-2
US	01/07	10:00	Durable Goods Orders ex. Trans. (m/m)	Nov F	--	--	0.0
US	01/07	10:00	Factory Orders (m/m)	Nov	-1.0	-0.8	0.3
US	01/07	10:00	ISM Non-Manufacturing Composite	Dec	54.0	54.5	53.9

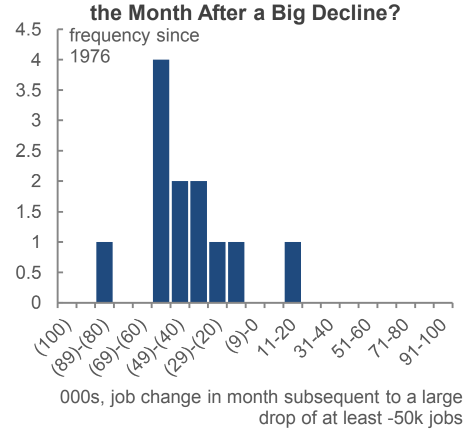
CONTACTS

Derek Holt, VP & Head of Capital Markets Economics
416.863.7707
Scotiabank Economics
derek.holt@scotiabank.com

KEY POINTS:

- **Are global asset classes right to back off Iran risks?**
- **Is Iran 'just another assassination' to markets?**
- **Eurozone inflation lands on the screws**
- **Philippines CPI spikes to target with breadth**
- **US ISM non-manufacturing, factory orders, trade**
- **Canadian trade will update how bad Q4 GDP is tracking…**
- **…as the art show effect shakes out**
- **Is consensus too dismissive toward downside risk on Canadian jobs?**

What Happens to Job Growth the Month After a Big Decline?



Sources: Scotiabank Economics, StatsCan.

INTERNATIONAL

Relative calm hangs over global markets this morning. I'm not sure one should seek much comfort in that if one accepts that markets have limited ability to see through the full implications of a highly uncertain round of next steps in geopolitical tensions centered upon Iran.

Perhaps the outcome will be along the lines of this piece's relatively sanguine assessment of the risks. In it, Stanford's Niall Ferguson cites this study that assessed the impact of assassinations from 1875 to 2004 and concluded that they either spawn small-scale conflicts that blow over or constructive movements toward democracy, excluding of course the one that started WWI. The crux of the argument is that, unlike that WWI episode, we're not dealing with equally balanced powers in conflict now which is true given the might of the US military. Then again, we are dealing with two 'leaders' whose demonstrated actions aren't necessarily rooted in rational behaviour, both of whom are seeking to distract from threats to their regime's leadership. We're also dealing with a potentially much bigger share of the world's population outside Iran plus countless others (philistines and Kellyanne Conway excluded) who abhor the notion of attacking cultural sites as a definite red line not to cross after the red line not to assassinate public officials was just crossed whatsoever may be the merits.

Incremental information was very light overnight. Clearly we're in an environment in which off-calendar risk could dominate. The only releases included Eurozone inflation that was on target and offered no surprises upon incorporation of Italy's estimates, and a stronger surge in Philippines inflation with considerable breadth that may risk future easing. Canada updates trade figures after wildly distorted numbers for the prior month and the main US release to focus upon will be ISM non-manufacturing.

- US equity futures are little changed with a slightly positive bias in the tech-laden Nasdaq. TSX futures are up by under ¼%. European cash markets are up by as little as 0.2% in London to almost 1% for the Dax with diversified gains. Asian equities also caught a bid across the board with Tokyo leading the advance with a 1.6% rise.
- Oil's rally has stalled at least temporarily. WTI and Brent are both down by about half a buck. Gold is flat at US$1566. Dr. Copper is up a bit this morning but is generally down over the past week.
- Most currencies are generally a touch weaker to the USD. Exceptions include the won and yuan (trade optimism) as the impact of fires drag on the A$.
- Sovereign bond yields are mixed but generally little changed. US Treasuries and Canadas are slightly richer across the curve. 10 year EGBs are little changed but slightly cheaper in Italy and the periphery with most of the belly of the gilts curve a touch cheaper.

Eurozone core inflation held unchanged at 1.3% y/y as expected and the euro largely ignored the release. The release incorporated Italy's numbers that were on expectations at 0.5% y/y for headline inflation. That retains the increase from 0.9% in August toward 1.3% but some of that was driven by swings a year ago. Headline inflation was also at 1.3%. Higher food prices are the main upside driver with prices for food, alcohol and tobacco up 2% y/y and unprocessed food prices up by 2.1%. Energy prices are flat (+0.2% y/y) and non-energy industrial goods prices are little changed at 0.4%. Service prices are up 1.8%.

Philippine inflation increased by materially more than expected and with considerable breadth. That complicates Bangko Sentral ng Pilipinas' easing campaign. Headline inflation was 2.5% (consensus 2.0%) and core CPI inflation climbed by 3.1%, up a half point from the prior month. Several categories of price pressures accelerated including food and beverages (1.7% y/y from 0% the prior month), housing/utilities (1.9% y/y from 1.2%), transport (+2.2% from -2.4%) and furnishings and household equipment (3.1%, 2.8% prior). In month-ago terms, the increased pressure came from food and non-alcoholic beverages, transport, alcohol and tobacco and utilities. The central bank targets inflation between 2–4% and so it is presently seeing headline inflation back within the target range for the first time since July after sliding since October 2018 and core inflation has remained within the target range ever since October 2016.

CANADA

Canada updates trade figures for November this morning (8:30amET). Spin the wheel on this one! For one thing, recall that there was that bizarre distortion stemming from exports to an art show in NY in the prior month's numbers that posted a pick-up in exports. If the art exhibits were excluded from the numbers, then exports would have fallen in November but now the issue is that any unsold art work comes back as imports in December (see prior recap here). The fate of the nation's trade balance could thus rest upon the degree to which New York's haughty art scene said 'phooey, take it back!' The country produces autos, oil, planes, and much else but its trade figures were swung by an art show. Go figure. Then we get into the partial sampling of energy sector responses and otherwise random noise. This is definitely a report best left to the clean-up work afterward in tracking trade contributions to Q4 GDP growth.

After November's 71,200 job decline, what does December have in store for Canadian employment on Friday? Anything can happen with a Canadian jobs report, but consensus is too unanimously in favour of the simple 'what goes down sharply must spring back up sharply' narrative. There is no historical statistical support for such a view.

Consensus is at +25k for December's job change with almost all calls ranging from +20k to +43k and none are negative. I've gone under consensus at 0k and the historical odds favour another decline.

As the accompanying chart depicts, there have been 12 times since the inception of the modern day Labour Force Survey in 1976 when 50k or more jobs were lost in a single month and the next month was down 11 out of 12 times or 92% of the time. The one up month was in January 2018 with 14k jobs created. The eleven down months ranged between -18k and -81k. If it's January 2018 again then the smoothed trend is still negative and the risks are skewed toward a deepening negative trend.

Historically there have been only three times when jobs fell by 70k or more and the next month was another job loss each time of between -31k and -53k with two in 2008 and one in 1982.

I'm playing the statistical odds on what gets revealed about the labour force when a sudden sharp shock arises. I'm not saying an upside is impossible, but there is too much unanimity within consensus in favour of a big gain and there is nothing by way of historical odds or advance indicators to inform such a bias other than wishful thinking on a lark. Some of that upside risk is being conveyed rather stridently in some of the commentary that followed the last jobs report given the historical evidence goes against upside risk. A large sudden jobs shocker tends to reveal something about the economy's performance that shouldn't just be filtered out along with the tendency to filter out every other sign of weakness in the Canadian economy, perhaps especially given we're tracking basically no GDP growth in Q4.

UNITED STATES

A trio of US macro reports will mostly focus upon ISM non-manufacturing (10amET) and most within consensus have gone with a modest improvement. Then again, that's what they thought about last week's disappointing ISM-manufacturing report! The employment subcomponent may offer a very loose guide to expectations for Friday's nonfarm payrolls release.

We already know that the advance merchandise trade deficit narrowed in November and so today's fuller update (8:30amET) just adds a usually pretty stable services surplus. I'd look for an all-in trade deficit of about US$42.4 billion for about a $3 billion decrease from the prior month.

US factory orders (10amET) in November should post a decline because we already know that durable goods orders that represent about half of the report fell by about 2% to which we will add nondurables alongside durables revision risk.

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.	1.53	1.55	1.57	1.59	1.61	1.69	1.79	1.81	1.92	2.27	2.29	2.39
CANADA	1.63	1.64	1.69	1.57	1.59	1.68	1.56	1.58	1.70	1.67	1.69	1.76
GERMANY	-0.62	-0.63	-0.60	-0.56	-0.56	-0.47	-0.29	-0.29	-0.19	0.25	0.25	0.35
JAPAN	-0.12	-0.15	-0.13	-0.11	-0.13	-0.12	-0.01	-0.02	-0.01	0.44	0.41	0.43
U.K.	0.60	0.59	0.55	0.60	0.59	0.60	0.78	0.77	0.82	1.22	1.24	1.33
	Spreads vs. U.S. (bps):											
CANADA	10	9	12	-2	-2	-1	-23	-23	-22	-61	-60	-63
GERMANY	-215	-217	-217	-215	-216	-216	-208	-210	-210	-203	-204	-204
JAPAN	-165	-169	-170	-170	-173	-181	-180	-183	-193	-183	-188	-197
U.K.	-93	-95	-103	-99	-102	-109	-102	-104	-110	-105	-104	-106

Equities	Level		% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	17105	39.4	0.2	-0.4	0.6	17.9
Dow 30	28703	68.5	0.2	0.2	2.5	22.0
S&P 500	3246	11.4	0.4	0.2	3.2	27.3
Nasdaq	9071	50.7	0.6	0.7	4.8	32.9
DAX	13233	106.0	0.8	-0.8	0.5	23.1
FTSE	7589	14.1	0.2	0.0	4.8	11.4
Nikkei	23576	370.9	1.6	-0.9	0.9	17.6
Hang Seng	28322	95.9	0.3	0.0	6.9	9.6
CAC	6033	19.4	0.3	0.8	2.7	27.8
Commodities	Level		% change:			
WTI Crude	62.72	-0.55	-0.9	1.7	5.9	29.3
Natural Gas	2.12	-0.02	-0.9	-3.2	-9.3	-28.1
Gold	1565.62	-0.12	-0.0	3.3	7.2	21.4
Silver	18.44	0.23	1.3	3.5	8.9	17.4
CRB Index	186.71	-0.68	-0.4	-0.1	3.0	6.9
Currencies	Level		% change:			
USDCAD	1.2989	0.0024	0.2	-0.0	-1.9	-2.3
EURUSD	1.1179	-0.0018	-0.2	-0.3	1.0	-2.6
USDJPY	108.41	0.0400	0.0	-0.2	-0.1	-0.3
AUDUSD	0.6880	-0.0060	-0.9	-2.0	0.8	-3.7
GBPUSD	1.3128	-0.0043	-0.3	-1.0	-0.1	2.7
USDCHF	0.9703	0.0019	0.2	0.4	-1.8	-1.0

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	7.25
Australia - RBA	0.75
New Zealand - RBNZ	1.00
Next Meeting Date	
Canada - BoC	Jan 22, 2020
US - Fed	Jan 29, 2020
England - BoE	Jan 30, 2020
Euro zone - ECB	Jan 23, 2020
Japan - BoJ	Jan 21, 2020
Mexico - Banxico	Feb 13, 2020
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.