

ON DECK FOR WEDNESDAY, JANUARY 8

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	01/08	07:00	MBA Mortgage Applications (w/w)	JAN 3	--	--	-5.3
US	01/08	08:15	ADP Employment Report (000s m/m)	Dec	175	160.0	66.9
US	01/08	15:00	Consumer Credit (US\$ bn m/m)	Nov	--	15.8	18.9

KEY POINTS:

- Markets express tentative relief after limited Iranian retaliation
- Markets await Trump's statement
- German factory orders fall again
- US ADP payrolls beat expectations including revisions...
- ...but not by enough to change the nonfarm estimate
- World Bank to update forecasts into the close

INTERNATIONAL

That's it? That's all ya got? Pfff. Fingers crossed. Global asset classes are generally little changed this morning but showing tentative relief that Iran's retaliation may have been minor and over. We'll see but that may be too optimistic especially given erratic regimes across Iran, its proxies and the US. There is still no path forward to calm US-Iranian tensions. President Trump speaks at 11amET. There are also lingering doubts about the cause of a plane crash in Tehran that spread Americans but killed a number of Canadians and multiple other nationalities. Otherwise, markets enter a bit of a dead zone ahead of Friday's nonfarm payrolls, and the Canadian jobs numbers. BoC Governor Poloz speaks tomorrow alongside Fed-speak including a discussion on the outlook by Vice Chair Clarida. German factory orders disappointed again. US ADP payrolls beat expectations but not by enough to alter nonfarm payroll expectations. The Washington based World Bank will update a forecast into the North America close.

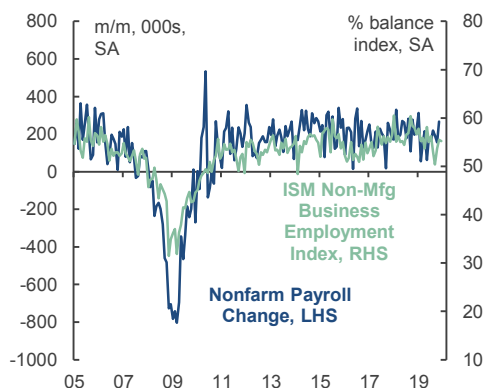
- US equity futures are little changed with TSX futures slightly firmer. European cash markets are roughly flat on average and Asia sold off overnight likely before indications from Iran's Foreign Minister that the country is satisfied with its "proportional" retaliation.
- Oil prices are lower with WTI down by over a buck and Brent down by slightly less. Gold is little changed.
- US Treasury and Canadian bond yields are flat with mild cheapening in EGBs.
- The USD is slightly firmer on balance. The won, Euro and yen are depreciating while the rand, Mexican peso and real are leading the appreciating crosses with CAD little changed.

German factory orders unexpectedly fell by 1.3% m/m (consensus +0.2%).

The prior month was revised to be a little better with a gain of 0.2% from an initially estimated drop of 0.4% so the 0.6% revision explains a portion of the disappointing November figure but not all. Orders for capital goods fell 2.1% m/m and have declined in four of the past five months. Total factory orders have now fallen by a cumulative 11% since the end of 2017 with no tangible evidence of recovery.

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Nonfarm Payrolls Vs. ISM Non-Manufacturing Employment


Sources: Scotiabank Economics, ISM, BLS.

The World Bank updates its global forecasts into today's close. Sometimes they get some attention.

UNITED STATES

US ADP payrolls beat expectations but not by enough to materially alter expectations for Friday's nonfarm payrolls report.

ADP registered a gain of 202,000 private payroll jobs in December (consensus 160k, Scotia 175k) and the prior month was revised up to 124k from 67k. Compared to the consensus guess and including revisions, that makes for a net beat of 99k.

Only big ADP outlier movements ever matter by way of informing nonfarm expectations. The absolute value of the difference between initial ADP and private nonfarm payrolls estimates averages out to about 50k since ADP revised its methodology to more closely follow nonfarm and with some much bigger differences at times. The probability of nonfarm following ADP rises markedly only when ADP is a big shock in either direction.

In addition to ADP not giving cause to revise nonfarm, the employment subcomponent to ISM-services also doesn't give cause to revise. The accompanying chart shows the monthly variations in the employment subcomponent and nonfarm payroll changes and how noisy the relationship can be. My nonfarm guess remains 180k and there is no reason to expect a material change to the consensus call for nonfarm to be 160k

Of course, it always bears repeating that nonfarm's 95% confidence interval is +/- 110,000 and so it's almost always the case that the range of consensus estimates fits within the noisy bands.

As for ADP versus nonfarm differences the prior month or two, recall that ADP private payrolls don't capture Census hiring swings or GM strike effects whereas total nonfarm payrolls do. Therefore, there is nothing to be made out of the ADP less nonfarm differences over the prior two months other than these two effects plus usual tracking differences.

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			
	1.54	1.54	1.57	1.61	1.61	1.69	1.81	1.82	1.92	2.30	2.31	2.39	Canada - BoC	1.75	
	1.63	1.64	1.69	1.57	1.58	1.68	1.57	1.58	1.70	1.69	1.69	1.76	US - Fed	1.75	
	-0.62	-0.62	-0.60	-0.54	-0.55	-0.47	-0.23	-0.29	-0.19	0.28	0.26	0.35	US - Fed	1.75	
	-0.12	-0.12	-0.13	-0.11	-0.11	-0.12	0.00	-0.01	-0.01	0.43	0.44	0.43			
	0.61	0.60	0.55	0.61	0.61	0.60	0.79	0.79	0.82	1.26	1.25	1.33	England - BoE	0.75	
	Spreads vs. U.S. (bps):														
	9	9	12	-4	-3	-1	-24	-24	-22	-61	-62	-63	Euro zone - ECB	0.00	
	-216	-217	-217	-215	-217	-216	-205	-210	-211	-201	-205	-204			
-166	-166	-170	-172	-172	-181	-182	-182	-193	-187	-187	-197	Japan - BoJ	-0.10		
-93	-94	-103	-100	-100	-109	-102	-103	-110	-104	-106	-106				
Equities	Level					% change:							Mexico - Banxico	7.25	
	Last	Change			1 Day	1-wk	1-mo	1-yr							
S&P/TSX	17168	62.6			0.4	0.4	1.0	17.5						Australia - RBA	0.75
Dow 30	28584	-119.7			-0.4	0.4	2.0	20.2							
S&P 500	3237	-9.1			-0.3	0.5	2.9	25.7						New Zealand - RBNZ	1.00
Nasdaq	9069	-2.9			-0.0	1.4	4.8	31.5						Next Meeting Date	
DAX	13259	32.3			0.2	0.1	0.7	22.7							
FTSE	7552	-22.3			-0.3	0.1	4.3	10.1							
Nikkei	23205	-371.0			-1.6	-3.0	-0.6	14.9						Canada - BoC	Jan 22, 2020
Hang Seng	28088	-234.1			-0.8	-0.4	6.0	8.6						US - Fed	Jan 29, 2020
CAC	6011	-1.6			-0.0	0.5	2.4	25.9						England - BoE	Jan 30, 2020
Commodities	Level					% change:							Euro zone - ECB	Jan 23, 2020	
WTI Crude	62.32	-0.38			-0.6	2.1	5.3	25.2						Japan - BoJ	Jan 21, 2020
Natural Gas	2.16	0.00			0.0	-1.2	-7.4	-27.1							
Gold	1576.74	2.37			0.2	3.9	8.0	22.7							
Silver	18.15	-0.30			-1.6	0.6	7.1	15.2							
CRB Index	186.13	-0.80			-0.4	0.2	2.7	5.8							
Currencies	Level					% change:									
USDCAD	1.3014	0.0010			0.1	0.2	-1.7	-2.0						Mexico - Banxico	Feb 13, 2020
EURUSD	1.1123	-0.0030			-0.3	-0.8	0.5	-2.8							
USDJPY	108.68	0.2400			0.2	-0.1	0.1	-0.1						Australia - RBA	Feb 03, 2020
AUDUSD	0.6864	-0.0006			-0.1	-2.2	0.6	-3.9							
GBPUSD	1.3123	-0.0003			-0.0	-1.0	-0.2	3.2						New Zealand - RBNZ	Feb 11, 2020
USDCHF	0.9702	0.0000			0.0	0.3	-1.8	-1.1							

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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