ON DECK FOR THURSDAY, JUNE 11

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	06/11	08:30	Initial Jobless Claims (000s)	Jun 6	1625	1550	1877
US	06/11	08:30	Continuing Claims (000s)	May 30	--	20000	21487
US	06/11	08:30	PPI (m/m)	May	0.1	0.1	-1.3
US	06/11	08:30	PPI ex. Food & Energy (m/m)	May	-0.1	-0.1	-0.3

KEY POINTS:

- **Strong risk-off tone continues the post-FOMC reaction**
- **Why the FOMC's communications are the main driver of risk-off**
- **Calling a second COVID-19 wave in the US is grossly premature**
- **US jobless claims continue to decline**

INTERNATIONAL

I think the dominant driver of risk off this morning is carry through from the FOMC, or rather, the FOMC's fear of commitment. Loose talk of second wave COVID-19 risk in the US is based more on data mining and cherry-picking anecdotes than any broad evidence. I'll return to both matters in the US section below after recapping this morning's market movements.

- US equities are getting pummelled. The S&P500 and DJIA opened about 2¾–3% lower, while the Nasdaq is off by 1¾%. The TSX is off by just over 2%. European equities are down by 3–4%. The post-FOMC selling yesterday afternoon continued in US equity futures last evening and then through the Asian overnight session and into this morning's European and North American markets.

- Sovereign bonds are picking up safe haven flows. The US Treasury curve is bull flattening with 10s down 6bps and 30s down 9bps with 2s up 1bp. Canada's curve is performing similarly except for mild richening at the front end and a little milder long-end rally. 10 year EGB and gilts benchmarks are all down by 6–8bps.

- Oil is down by about US$3/barrel across WTI and Brent contracts. The WTI futures curve is down by US$2–3 across maturities.

- The USD is gaining ground against most crosses except other classic safe havens like the yen and Swiss franc while the euro is flat.

UNITED STATES

Three things will be covered below: inconsequential data (yippee….), and then more substantive matters like whether we are seeing a second wave of US COVID-19 cases and a recap of why I think the Fed's communications yesterday explain the continued risk-off tone into this morning's markets.

Data doesn't matter, so let's quickly tick the box. **US weekly claims fell in line with consensus expectations to 1.54 million** (1.9 million prior, revised up by 20k). It has become a useless gauge for estimating nonfarm payrolls at least

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for now while bearing in mind the BLS's warnings on data quality surrounding estimates of the number of unemployed Americans. Producer prices fell by less than expected (-0.8% y/y , -1.2% consensus, -1.2% prior), and core producer prices excluding food and energy were little changed at 0.3% y/y (0.4% consensus, 0.6% prior).

Regarding US second wave risk, see the collection of charts 1–9 that plot the COVID-19 case counts by individual US state on a log scale to show the rate of change over time up to yesterday. Maybe there is nascent evidence of upward slope shifts in some of the 'A' states (Arkansas, Alaska, Arizona), but that hardly serves as a foundation for evidence-based upturns on a broad scale. In fact, when I read that 'many' states are trending up in some articles this morning I can't help but wonder what data these journalists have that the rest of us don't. I've warned of second wave risk following a decline in social distancing measures and acceptance, but I'd like to see hard evidence on a grander scale before news media outlets get all hysterical about it. In short, calling a second wave in the data requires more than just a sprinkling of regions and more than just a day or two of data. We need to see breadth and trends to make such a call and it's just flat out irresponsible to do so absent such evidence.

The far more dominant driver of the continuation of the post-FOMC risk-off tone that began to hit stocks yesterday afternoon has markets further digesting Fed communications. Please see my recap here that was sent yesterday. At issue are two matters. One is the strong emphasis upon evaluating what happens over coming months before deciding on any further steps as evidenced by comments like the following:

- "The next few months will be very important to understand what we'll see."
- The FOMC is "in learning mode" and will learn more "over the coming months."
- "Now we're just waiting."

Then pair this near-term emphasis with the Fed's fear of commitment that was expressed in terms of downplaying strengthened forward rate guidance, yield curve control and putting parameters to a QE program. Some had anticipated that the Fed would do all three yesterday and they did none which was more in line with my expectations, but I hadn't thought that the Fed would make it sound so conditional and almost binary in nature by way of how developments over the next few months could swing things. The broad takeaway to the suite of communications was that the Fed seemed like it was hemming and hawing about its next steps whereas the markets wanted to hear that their sugar daddy was standing firmly by their side.

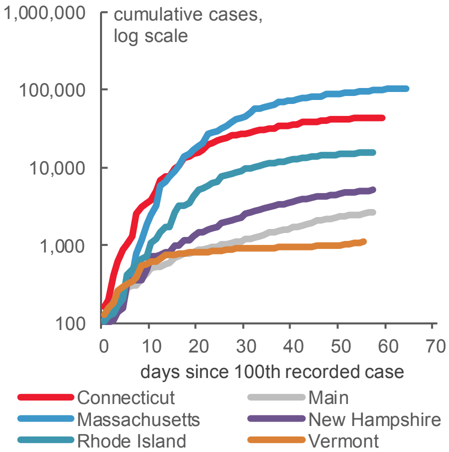
To be clear, it's not that the Fed is likely to raise rates any time soon or that we still won't see the balance sheet expand substantially into year-end and 2021 as they continue to implement the eleven facilities. But, we have to acknowledge that the commitment in the dot plot is one they've always downplayed such that if they truly believe there is a strong case not to touch the policy rate for years to come, then write it down folks. Making it sound like you're hemming and hawing and watching things over the next few months and maybe this will happen or maybe that will happen makes markets nervous.

Insofar as still only guiding that Treasury and agency MBS purchases will be conducted on a month-by-month basis with no parameters laid out in terms of a size or duration of an overall QE program also looks very much like the Fed isn't convinced it must commit to buying assets over the longer haul. If this is QE then it's the most mealy-mouthed form of QE introduced to date.

American readers may scoff at bringing in a reference to another central bank's guidance in this context, but I think it may be instructive to do so. I'm reminded of BoC ex-Governor Poloz's reticence to call their program QE per se versus just being focused upon how purchases are oriented toward restoring market conditions. Ditto for the RBA that pulled the plug not long after firing up its engines. Maybe that's not just a matter of semantics in terms of the Fed. Maybe the Fed is of the exact same view that its purchase program is simply transitory and we're in no need of another QE adrenalin shot this time. That would match former Fed Chair Bernanke's bias that this is more of a bad natural disaster than the stuff of depressions. It also seems to match Powell's bias when he downplayed long-term damage by saying "ultimately we do see a full recovery over time" and "we could see significant job growth over coming months."

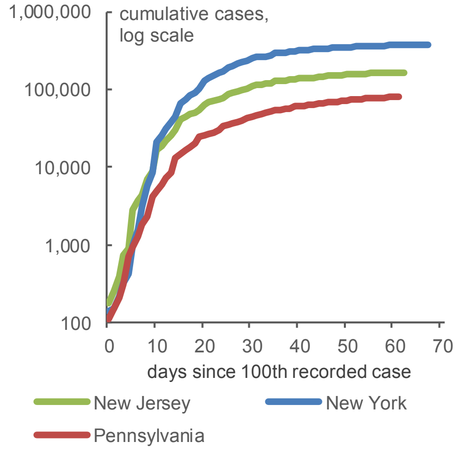
So for the risk trade, it's now game back on in monitoring high frequency readings versus the Fed's next steps. We'll hear from Powell twice more next week. Any material tightening of financial conditions and the impact upon the dual mandate might motivate a trace back. But if fundamentals track higher—like retail sales and Philly next week — and COVID-19 case curves remain generally under control, then an economic rebound translated into earnings might just do the trick. And if cases climb, shutting down the economy again seems like a remote chance into the November election when local, state and national politicians have their hides on the line.

US COVID-19 Cases — New England



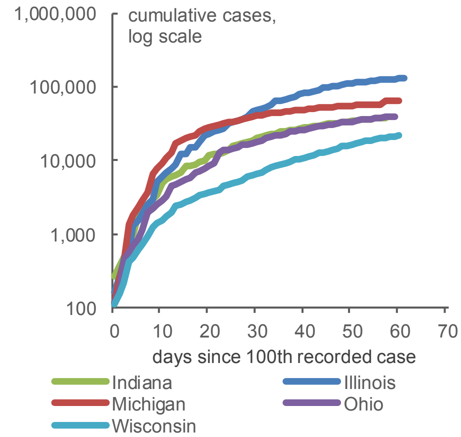
Sources: Scotiabank Economics, Johns Hopkins.

US COVID-19 Cases — Middle Atlantic



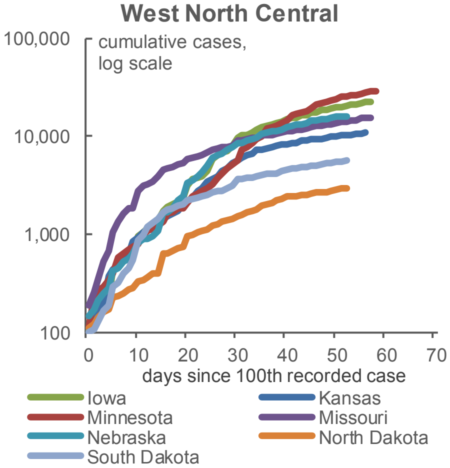
Sources: Scotiabank Economics, Johns Hopkins.

US COVID-19 Cases — East North Central



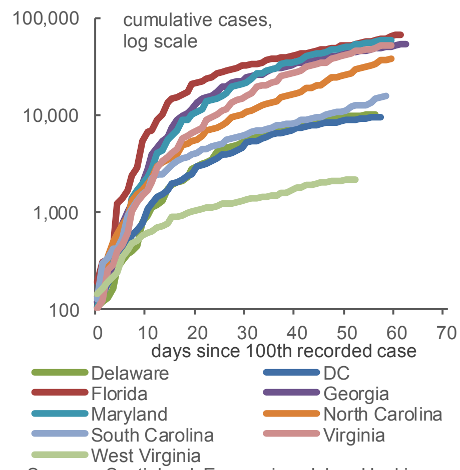
Sources: Scotiabank Economics, Johns Hopkins.

US COVID-19 Cases — West North Central



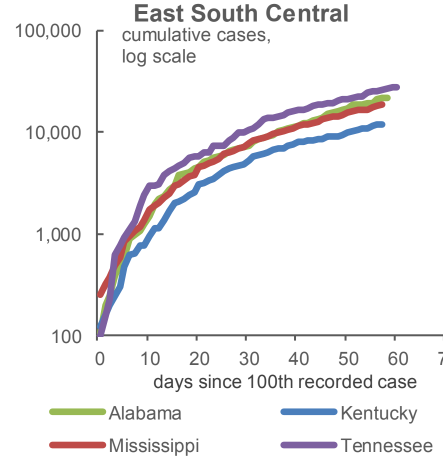
Sources: Scotiabank Economics, Johns Hopkins.

US COVID-19 Cases — South Atlantic



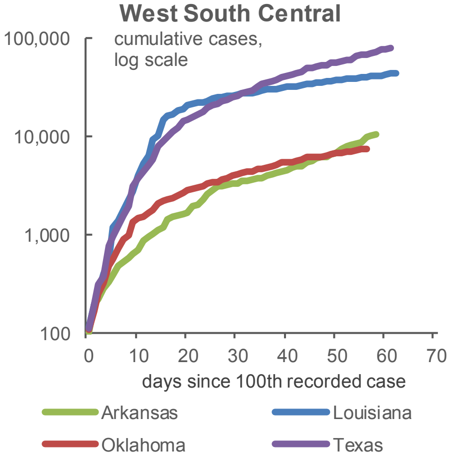
Sources: Scotiabank Economics, Johns Hopkins.

US COVID-19 Cases — East South Central



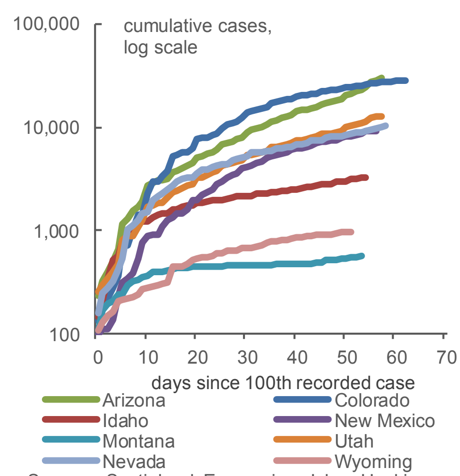
Sources: Scotiabank Economics, Johns Hopkins.

US COVID-19 Cases — West South Central



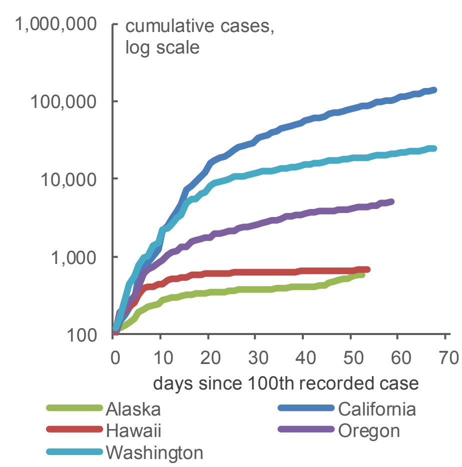
Sources: Scotiabank Economics, Johns Hopkins.

US COVID-19 Cases — Mountain



Sources: Scotiabank Economics, Johns Hopkins.

US COVID-19 Cases — Pacific



Sources: Scotiabank Economics, Johns Hopkins.

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.	0.18	0.17	0.20	0.30	0.32	0.41	0.67	0.73	0.83	1.42	1.51	1.63
CANADA	0.27	0.28	0.32	0.36	0.39	0.48	0.51	0.57	0.68	1.06	1.12	1.26
GERMANY	-0.66	-0.62	-0.61	-0.64	-0.57	-0.56	-0.42	-0.33	-0.32	0.05	0.15	0.20
JAPAN	-0.14	-0.14	-0.14	-0.11	-0.10	-0.10	0.01	0.03	0.04	0.53	0.55	0.56
U.K.	-0.06	-0.04	0.01	-0.02	0.03	0.07	0.19	0.27	0.31	0.59	0.66	0.74
	Spreads vs. U.S. (bps):											
CANADA	9	11	13	6	7	7	-15	-16	-15	-36	-39	-37
GERMANY	-83	-78	-80	-94	-88	-97	-109	-106	-115	-138	-136	-144
JAPAN	-32	-31	-34	-41	-41	-51	-66	-70	-79	-89	-96	-108
U.K.	-24	-21	-19	-32	-29	-34	-47	-46	-52	-84	-85	-90

Equities	Level		% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	15370	-331.2	-2.1	-1.0	1.8	-5.4
Dow 30	26152	-838.0	-3.1	-0.5	8.0	0.4
S&P 500	3109	-81.0	-2.5	-0.1	6.1	7.7
Nasdaq	9851	-169.6	-1.7	2.4	7.2	25.9
DAX	12157	-373.5	-3.0	-2.2	12.3	0.0
FTSE	6148	-180.8	-2.9	-3.0	3.5	-16.9
Nikkei	22473	-652.0	-2.8	-1.0	10.2	6.0
Hang Seng	24480	-569.6	-2.3	0.5	-0.5	-11.9
CAC	4888	-165.7	-3.3	-2.5	8.9	-9.6
Commodities	Level		% change:			
WTI Crude	37.07	-2.53	-6.4	-0.9	53.6	-30.4
Natural Gas	1.81	0.03	1.6	-0.7	-0.9	-24.6
Gold	1741.24	2.54	0.1	1.6	2.6	31.2
Silver	17.72	0.09	0.5	-0.8	18.3	20.1
CRB Index	135.83	-3.39	-2.4	0.1	10.7	-22.3
Currencies	Level		% change:			
USDCAD	1.3510	0.0098	0.7	0.1	-3.5	1.7
EURUSD	1.1400	0.0026	0.2	0.5	5.5	0.7
USDJPY	106.66	-0.4600	-0.4	-2.3	-0.9	-1.7
AUDUSD	0.6924	-0.0074	-1.1	-0.3	6.7	-0.5
GBPUSD	1.2679	-0.0068	-0.5	0.7	2.8	-0.4
USDCHF	0.9400	-0.0038	-0.4	-1.6	-3.4	-5.3

Central Banks	
Current Rate	
Canada - BoC	0.25
US - Fed	0.25
England - BoE	0.10
Euro zone - ECB	0.00
Japan - BoJ	-0.10
Mexico - Banxico	5.50
Australia - RBA	0.25
New Zealand - RBNZ	0.25
Next Meeting Date	
Canada - BoC	Jul 15, 2020
US - Fed	Jul 29, 2020
England - BoE	Jun 18, 2020
Euro zone - ECB	Jul 16, 2020
Japan - BoJ	Jun 16, 2020
Mexico - Banxico	Jun 25, 2020
Australia - RBA	Jul 07, 2020
New Zealand - RBNZ	Jun 23, 2020