

**ON DECK FOR WEDNESDAY, JUNE 17**

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	06/17	07:00	MBA Mortgage Applications (w/w)	Jun 12	--	--	8.0
CA	06/17	08:30	Core CPI - Common (y/y)	May	--	1.6	1.4
CA	06/17	08:30	Core CPI - Median (y/y)	May	--	1.9	1.9
CA	06/17	08:30	Core CPI - Trim (y/y)	May	--	1.7	1.7
CA	06/17	08:30	CPI, All items (m/m)	May	0.7	0.7	0.3
CA	06/17	08:30	CPI, All items (y/y)	May	0.0	0.0	-0.4
CA	06/17	08:30	CPI, All items (index)	May	--	136.6	136.1
CA	06/17	08:30	Teranet - National Bank HPI (y/y)	May	--	--	6.0
US	06/17	08:30	Building Permits (000s a.r.)	May	--	1245	1220
US	06/17	08:30	Housing Starts (000s a.r.)	May	1110	1100	974
US	06/17	08:30	Housing Starts (m/m)	May	24.6	23.5	4.3
US	06/17	12:00	Fed's Powell				
US	06/17	16:00	Fed's Mester Speaks on Covid-19 Response				

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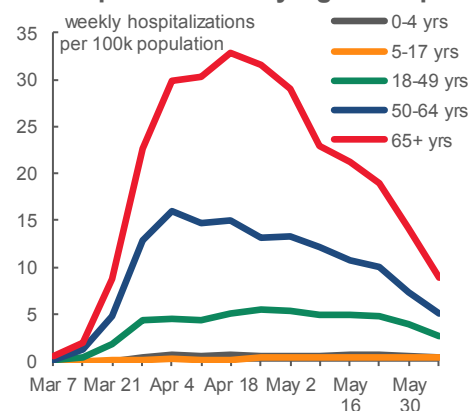
**KEY POINTS:**

- Stocks losing earlier momentum on virus tracking
- Second wave risks and markets; day traders versus strategy
- Sterling shakes off UK CPI...
- ...with an eye on tomorrow's BoE
- US mortgage purchase apps rise to 11+ year high
- US housing starts temporarily disappoint...
- ...as permits point to a stronger June rebound
- CDN core CPI softens...
- ...but largely ignored with new measures being created
- Powell round 2 poses low risk
- Canada sets July 8th Budget date
- Brazil's CB expected to cut...
- ...but forward guidance may be more important

**INTERNATIONAL**

Overnight developments were pretty light. Asset classes are generally little changed but stocks have slipped a touch as this note is being sent. Stocks seemed to react quickly to a headline on Texas virus hospitalizations rising 11% in one day and then an above trend gain in Florida's Covid-19 cases. We have a long way to go before the hospitalization rate nationwide gets anywhere close to the April peak (chart 1) with the caveat that the national data from the CDC lags by a little over a week. US housing data was mixed but generally disappointed expectations. Canada ignored CPI and markets are unlikely to pay much attention to round 2 of Fed Chair Powell's testimony. Brazil's central bank is expected to cut this afternoon but watch the guidance. Virus headlines may be in control absent anything else today but see below for why the threat to markets and the economy arguably should not be perceived to be as large this time even though we've long warned of a second wave or multiple waves.

- Stocks are losing momentum compared to earlier this morning, but not a lot. The S&P500, Nasdaq and DJIA are bouncing around either side of little changed. Ditto for the TSX. European exchanges range from slightly lower (Spain, Italy) to up ¾% in Paris with London and the Dax little changed.

**Chart 1**
**US COVID-19 Associated Hospitalizations by Age Group**


Sources: Scotiabank Economics, CDC.

**Chart 2**
**Canadian Core Inflation**


Sources: Scotiabank Economics, Statistics Canada.

- Sovereign bonds are catching a slight bid mostly toward the longer ends of the US and Canadian curves but the moves are generally small everywhere.
- Oil prices are off by about 1–2% or so in terms of WTI and Brent. Gold is flat.
- The USD is gaining a little ground this morning. It's stronger versus the euro, sterling (ahead of the BoE tomorrow), CAD, and won. It's weaker versus the Mexican peso, rand, real, and Swiss franc.

**UK core CPI came in slightly lower than expected at 1.2% y/y (1.3% consensus) with headline CPI on the mark at 0.5% y/y.**

Data quality remains spotty. The ONS flagged that 14.2% of the CPIH basket was not available to consumers in May. Imputed prices were relied upon again. Sterling's reaction was muted. The focus remains on the BoE tomorrow morning with spotty May CPI playing little to no role and Gov Bailey having committed the central bank to action. As per the Global Week Ahead, the asset purchase program is expected to be increased by at least £100 billion to £745B. If avoiding disappointment is the prime goal, then overshooting consensus may be logical but a caveat to this view is mounting evidence of a global rebound. Out of 42 forecasters, 3 expect the APP to be increased by £200B to £845B, 1 expects £800B, four are at £795B, two are at £770B and 27 are at £745B while a minority of four expect no change and would seem to be offside.

**Brazil's central bank is expected to cut by another 75bps to 2.25% (5pmET).** Inflation at 1.9% y/y is well below the central bank's target range of 2.5–5.5%. Guidance in the last statement indicated this cut today would "complete the change to the policy rate" but also left the door open to further evaluation of the balance of risks. Thus, key will be any alteration to forward guidance perhaps more so than whether they cut by 75bps or some other amount today.

**US macro releases were focused upon housing and mixed.** Mortgage purchase applications climbed again last week and are at their highest volumes since January 2009. I wouldn't extrapolate the magnitude of this strength through summer as the release of pent-up demand from shutdowns and a temporary rate reaction are driving volumes higher.

**US housing starts disappointed expectations by rising less than expected.** They were up by 4.3% m/m in May (+23.5% consensus). An upward revision to the prior month only explained a little of the miss as absent that revision to April starts would have been up by about 9% m/m and still well shy of expectations. Single family starts were flat which was the biggest surprise, while multifamily starts were up 15% m/m. I would push expectations for higher starts into June as it's possible that the reopenings occurred in staggered late fashion during May, builders took some time to regroup and so did permit issuing offices. One indication that supports this bias is that permits were up by 14.4% m/m and in line with expectations.

As you can see from this morning's stock markets, virus counts can have a swift and immediate impact upon risk sentiment. Day traders and headline chasers appear to be in control but that doesn't amount to market strategy. The fundamental question at hand is whether markets should be as concerned about second wave risk this time. Caution abounds, but here are some plausible explanations.

- Markets may not believe that a second round of global shutdowns will occur this time and that consumers and businesses can adapt in one fashion or another to the virus. Shutdowns may occur in select regions, but the bar is set high against a widespread repeat because of more uncertainty over the risk-reward trade-offs, because governments are more fiscally constrained in terms of their ability to take the economy on balance sheet for some unknown period until the virus may go away and because it's less clear whether people will abide by shutdown orders to the same extent this time and with a US election looming.
- The market safety net is much more developed with ample liquidity and supported by fiscal and monetary policy actions.
- the evidence on global second-wave case tracking is modest, at a nascent phase, mixed and regionalized. So far this isn't March when everywhere was exploding. For example, see the collection of charts for US states on page 5. Some states are trending up, some continue to flatten, the overall national totals are flattening.

- Markets may have greater confidence in the speed of reaction by health professionals and the transparency of case tracking this time around. They are acting more quickly when clusters emerge.
- Markets may be conditioned to recognizing that episodes like holidays and events that result in large crowds can at least temporarily drive regionalized spikes versus global waves. This may be something to get used to and for behaviour to gradually alter in response.
- Markets could be optimistic that treatment options are improving (e.g. dexamethasone) and that a vaccine might arrive within a year.
- Markets might have come to realize that testing frequency has shot higher and resulted in higher case counts. Paired with contact tracing, health infrastructure is in better shape now than it was months ago.
- I still think that more of the market concern since one week ago was centered upon the Fed. Monday's corporate bond buying announcement and yesterday's communications from Powell and Clarida that didn't repeat the emphasis upon nearer term conditionality and emphasized how they're in for the long haul with stimulus may have helped the market tone.

On that note, Fed Chair Powell delivers round 2 of gruelling testimony today. This time it will be delivered virtually before the House committee at 12pmET. Low market risk is expected in what is likely to be mostly a repeat of yesterday's testimony.

## CANADA

Canadian PM Trudeau announced this morning that July 8th will be the date of the Federal Budget.

CPI core inflation slipped a tick lower to 1.7% y/y in May as headline inflation was generally softer than expected. The tables below show the figures.

### Canada, CPI (m/m % NSA ; y/y % NSA), May:

Actual: 0.3 / -0.4

Scotia: 0.0 / +0.7

Consensus: 0.0 / +0.7

Prior: Unrevised from -0.2 / -0.7

### Canada, Core Inflation, y/y %, May:

Average: 1.7 (prior 1.8)

Weighted Median: 1.9 (prior 2.0)

Common Component: 1.4 (prior 1.6)

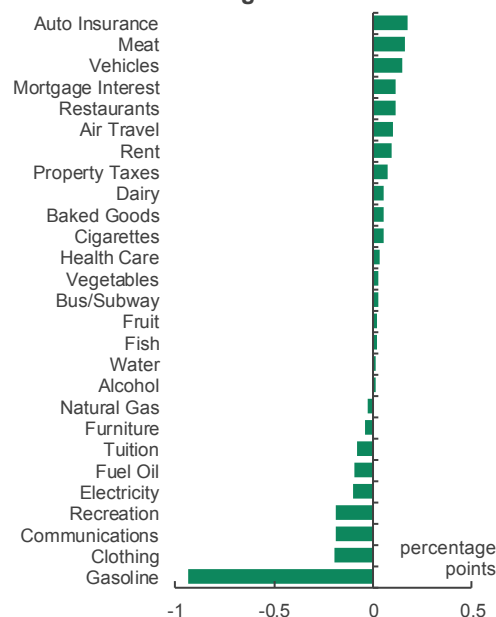
Trimmed Mean: 1.7 (prior 1.8)

Before turning to a few details, markets shook it off. Why?

- the figures are backward looking
- most of the inflation adjustment probably still lies ahead especially in terms of core measures
- the BoC has already acted aggressively and isn't hanging on each inflation or growth signal

Chart 3

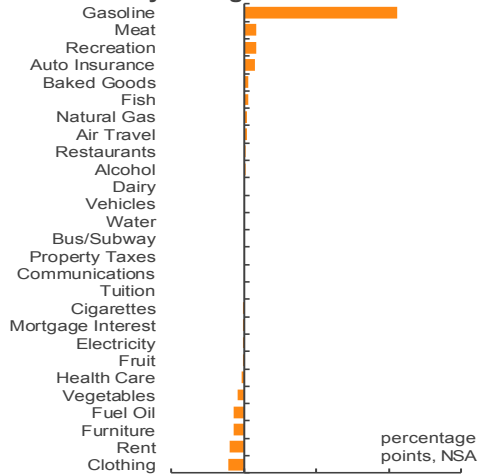
### Weighted Contributions to May's 12-Month Change in Headline CPI



Source: Scotiabank Economics, Statistics Canada.

Chart 4

### Weighted Contributions to May's Monthly Change in Headline CPI



Source: Scotiabank Economics, Statistics Canada.

- A significant portion of the basket continues to rely upon imputed methods to fill in the gaps for missing data either due to unavailable products or store closings. StatsCan estimated that 13% of products were out of stock in May and another 2.4% of the basket was affected by store closings.
- the BoC doesn't believe the figures anyway, as per Governor Macklem's guidance yesterday that the BoC and StatsCan are working together to improve the inflation measures during the pandemic.

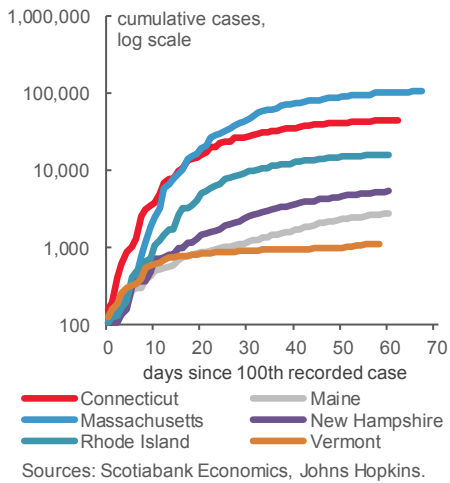
On this latter point, Statistics Canada provided further colour in its inflation write-up by noting the following:

"In partnership with the Bank of Canada, Statistics Canada is exploring ways to use current, ad hoc sources of expenditure data to estimate CPI basket weights that reflect shifting consumption patterns during the pandemic. These data cover several CPI product categories and provide an estimate of expenditure weights during the pandemic. Weight estimates, updated to reflect expenditures during the COVID-19 pandemic and the concurrent period of physical distancing, can provide insight into whether major shifts in consumption patterns result in statistically significant changes to the headline CPI. The results of this work will be released soon."

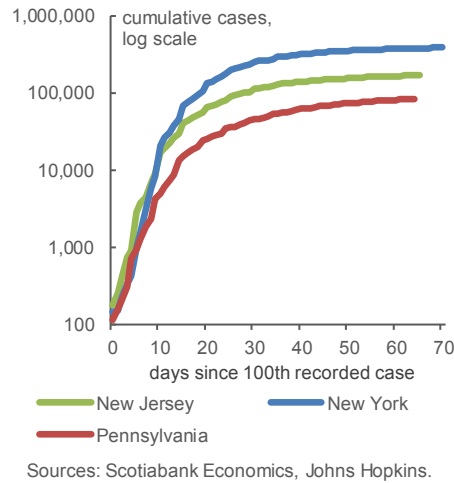
That will be helpful, but new readings will still spawn debate over whether the basket has permanently shifted and if so which parts. For example, will food spending always remain as high? Probably not. At some point folks run out of storage closets for their hoarded toilet paper! But nobody knows what forms of consumer demand will return and what ones may be permanently gone and over what time periods. Low conviction in price data is likely to persist even with new gauges.

Chart 2 on the front cover shows falling core inflation using the average of the three 'core' measures. Charts 3 and 4 show what drove year-over-year and month-over-month changes in CPI in terms of weighted contributions by component.

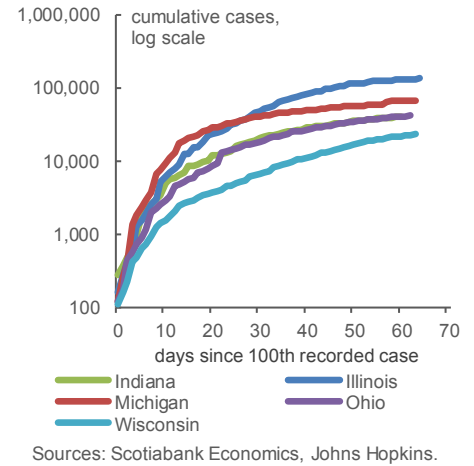
### US COVID-19 Cases — New England



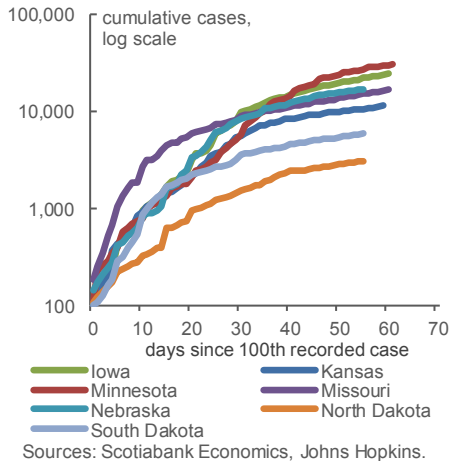
### US COVID-19 Cases — Middle Atlantic



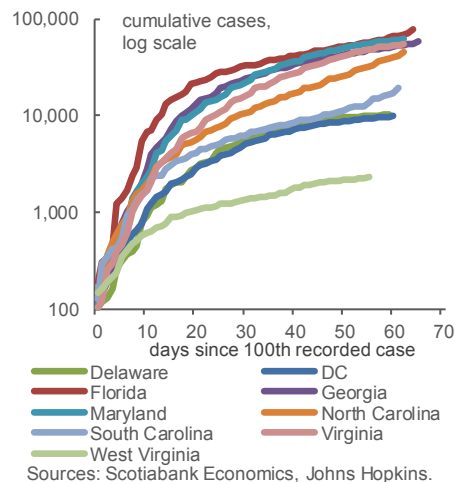
### US COVID-19 Cases — East North Central



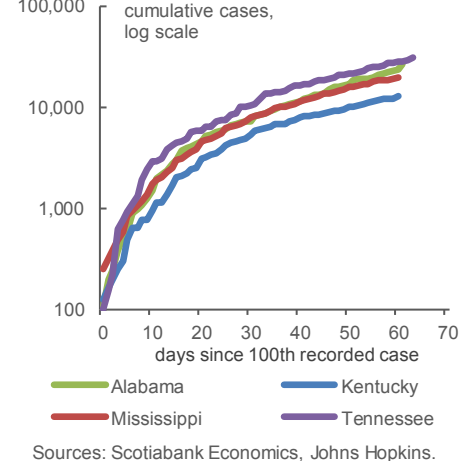
### US COVID-19 Cases — West North Central



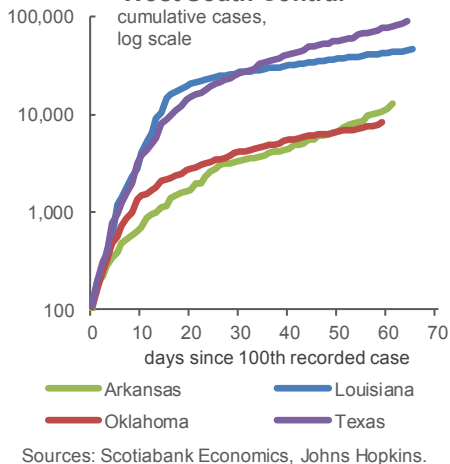
### US COVID-19 Cases — South Atlantic



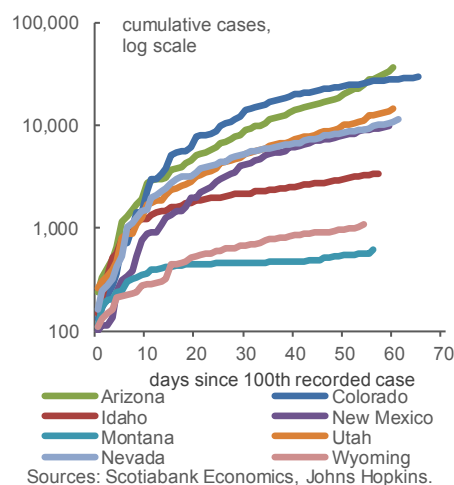
### US COVID-19 Cases — East South Central



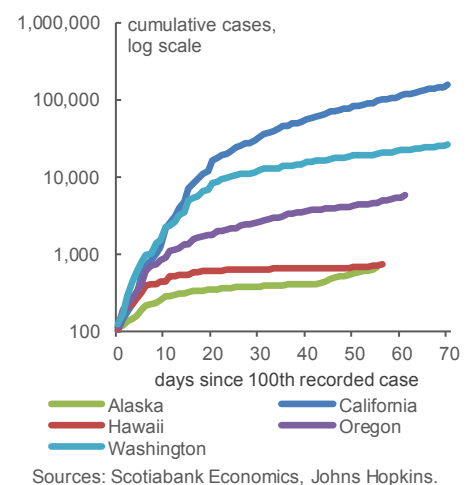
### US COVID-19 Cases — West South Central



### US COVID-19 Cases — Mountain



### US COVID-19 Cases — Pacific



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		
	0.19	0.20	0.17	0.33	0.34	0.32	0.74	0.75	0.73	1.53	1.54	1.51	Canada - BoC	0.25
	0.29	0.29	0.29	0.38	0.38	0.39	0.54	0.55	0.57	1.04	1.06	1.12		
	-0.66	-0.65	-0.62	-0.65	-0.64	-0.57	-0.40	-0.43	-0.33	0.05	0.06	0.15	US - Fed	0.25
	-0.14	-0.14	-0.14	-0.10	-0.10	-0.10	0.02	0.02	0.03	0.57	0.56	0.55		
	-0.06	-0.04	-0.04	-0.02	0.00	0.03	0.19	0.21	0.27	0.58	0.61	0.66	England - BoE	0.10
	Spreads vs. U.S. (bps):													
	10	9	12	5	3	7	-20	-20	-16	-49	-48	-39	Euro zone - ECB	0.00
	-85	-85	-78	-98	-98	-88	-114	-118	-106	-149	-149	-136		
-33	-34	-31	-43	-44	-41	-72	-73	-70	-96	-99	-96	Japan - BoJ	-0.10	
-25	-24	-21	-35	-34	-29	-55	-55	-46	-95	-93	-85			
Equities	Level						% change:						Mexico - Banxico	5.50
	Last	Change		1 Day		1-wk	1-mo		1-yr					
S&P/TSX	15478	-38.3		-0.2		-1.4	5.7		-5.4		Australia - RBA	0.25		
Dow 30	26282	-8.2		-0.0		-2.6	11.0		0.6					
S&P 500	3121	-3.5		-0.1		-2.2	9.0		8.0		New Zealand - RBNZ	0.25		
Nasdaq	9944	48.3		0.5		-0.8	10.3		26.8					
DAX	12381	65.0		0.5		-1.2	18.3		2.4					
FTSE	6256	13.1		0.2		-1.2	7.9		-15.0					
Nikkei	22456	-126.5		-0.6		-2.9	12.1		6.3		Canada - BoC	Jul 15, 2020		
Hang Seng	24481	137.3		0.6		-2.3	2.9		-10.1		US - Fed	Jul 29, 2020		
CAC	4996	43.1		0.9		-1.1	16.8		-7.3					
Commodities	Level						% change:							
WTI Crude	37.92	-0.46		-1.2		-4.2	28.8		-27.0		England - BoE	Jun 18, 2020		
Natural Gas	1.64	0.02		1.3		-8.1	-0.7		-31.5					
Gold	1726.54	0.01		0.0		-0.7	-1.0		28.9		Euro zone - ECB	Jul 16, 2020		
Silver	17.41	0.33		1.9		-1.2	7.1		15.9					
CRB Index	136.11	-0.16		-0.1		-2.2	9.1		-22.0		Japan - BoJ	Jul 15, 2020		
Currencies	Level						% change:							
USDCAD	1.3556	0.0015		0.1		1.1	-2.7		1.1		Mexico - Banxico	Jun 25, 2020		
EURUSD	1.1220	-0.0044		-0.4		-1.4	2.8		0.0					
USDJPY	107.25	-0.0700		-0.1		0.1	-0.1		-1.2		Australia - RBA	Jul 07, 2020		
AUDUSD	0.6914	0.0025		0.4		-1.2	6.0		0.9					
GBPUSD	1.2541	-0.0032		-0.3		-1.6	2.8		0.1		New Zealand - RBNZ	Jun 23, 2020		
USDCHF	0.9528	0.0015		0.2		1.0	-1.9		-4.6					

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