

ON DECK FOR THURSDAY, JUNE 18

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	06/18	08:30	Wholesale Trade (m/m)	Apr	--	-11.3	-21.6
US	06/18	08:30	Initial Jobless Claims (000s)	Jun 13	1290	1290	1508
US	06/18	08:30	Continuing Claims (000s)	Jun 6	--	19900	20544
US	06/18	08:30	Philadelphia Fed Index	Jun	--	-25.0	27.5
US	06/18	10:00	Leading Indicators (m/m)	May	--	2.4	-4.4

KEY POINTS:

- Risk-off sentiment amidst light calendar-based risk
- US manufacturing is rebounding faster than expected
- US Philly Fed soars
- US jobless claims disappoint, but nonfarm connection remains tenuous
- BoE falls short, drives borrowing costs higher
- CDN ADP jobs report is officially useless
- BI cuts as expected, guides there may be more to come
- Norges, SNB & CBCT hold
- Australian jobs sharply disappoint
- Fed- and BoC-speak on tap

INTERNATIONAL

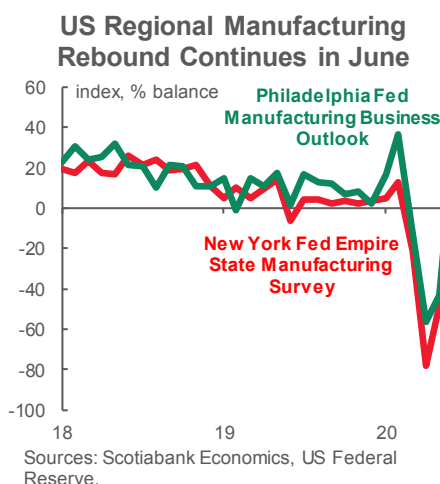
Global markets are in mild risk-off mode to start off the North American trading day. Most calendar-based risk is primarily consequential to regional markets. The biggest surprise came from less than expected stimulus out of the Bank of England that sparked a mild tightening in UK financial conditions. US manufacturing is solidly rebounding, for now, and the disappointment in jobless claims is hard to read given expanded eligibility and the broken link to nonfarm payrolls. A central bank round-up and wonky Canadian data round things out.

- Stocks are slipping with US equity futures down by as little as -¼% for the Nasdaq and about ¾% for the S&P and DJIA. TSX futures are down by about ½%. Stocks are about 1% (London, Italy) to just under 2% (Spain) lower in Europe. Asian equities were mixed as the Nikkei 225 fell ½%, Seoul fell by a little less, HK was flat but mainland China was up a touch after the PBOC guided that social financing growth would be accelerated over the duration of the year. That said, Chinese stocks didn't rally by much and it's uncertain whether that was because stimulus guidance wasn't enough or whether markets fear a replay of the consequences of a credit overshoot.
- Gilts are underperforming most other sovereign bond markets as BoE action fell short of expectations. Most of that underperformance is toward the longer end with 10 year gilts up 3bps and 30 year up 8bps. The US Treasury curve is bull flattening in 2s10s and 10s30s with the long bond down 5bps. Canada's curve has a bid to the longer end but is underperforming Treasuries.
- Oil prices are little changed and ditto for gold.

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Chart 1



- The USD is appreciating; on a DXY basis it has been firming for the past week. Post-BOE, sterling is depreciating by about 1% to the USD while the won and several European crosses except for the Norwegian krone also depreciate. CAD and the Mexican peso are leading appreciating currencies.

BoE actions resulted in higher yields on gilts this morning. On the back of its communications, sterling appreciated and the gilts curve cheapened especially toward longer end yields. Gilts were rallying into the announcement and got whipsawed in the other direction by the disappointment. At issue is that the MPC raised the asset purchase program target by less than what markets had anticipated and by the minimum amount that most economists had anticipated. It raised the target by only £100 billion to £745 billion with incremental purchases to be completed around year-end. It also indicated that the pace of purchases in the near-term would slow due to market improvements. Furthermore, the accompanying statement wasn't particularly dovish either. The emphasis upon how markets are improving and how Q2 GDP is unlikely to be as bad as previously anticipated amidst global evidence of a rebound was reasonable but Bailey had this information last Friday when he built expectations by saying "Do we stand ready to take action? We do." Some action. Even in his remarks to the press conference that just concluded as this note is being sent, Bailey indicated that no tools have been rejected but they didn't even discuss yield control or negative rates and the BoE will retain flexibility on the pace of asset purchases.

Australia bucked the trend of employment upsides (US, UK, Canada) and registered a worse than expected -228k drop in jobs with full-time jobs down 139k and part-time down 89k. A total of 835k jobs have been lost in two months, or 6½% of total jobs. The A\$ initially sank but has since regained the loss to the USD.

Bank Indonesia cut by 25bps as expected to a 7 day reverse repo rate of 4.25%. The accompanying statement ([here](#)) indicated a dovish bias by stating "Moving forward, Bank Indonesia still perceives space to lower interest rates in line with mild inflationary pressures, maintained external stability and the need to stimulate economic growth."

Norges Bank, the Swiss National Bank and the Central Bank of China Taiwan all held policy rates unchanged with only the latter being unexpected.

UNITED STATES

A pair of macro releases generally reinforced recovery tracking with advice to put greater weight upon the Philly gauge.

US manufacturing is coming back faster than anticipated. We already knew the Empire reading's jump but now add another shown in chart 1. The Philly Fed's business outlook gauge smashed expectations. The June reading jumped to +27.5 from -43.1 the prior month and sailed right on by the consensus estimate for a -21.4 reading. That's a 70.6 point jump that almost fully reverses the COVID-19 induced drop over March and April. Prices paid and received jumped. New orders climbed by 42 points back firmly into expansion territory. Shipments jumped by 55 points into expansion at the most rapid pace since February. Employment is still soft in that even though the pace of decline slowed, it still signalled a modest pace of decline.

US jobless claims disappointed expectations by declining only modestly to 1.51 million last week from a slightly upwardly revised 1.57 million the week before that. Consensus had anticipated a decline to under 1.3 million. Continuing claims also exceeded expectations at 20.54 million (19.85 million consensus). It's unclear whether this shows a slower pace of repair in labour markets or the impact of expanded eligibility that has broken the connection between job growth and claims as we saw in the last nonfarm payrolls report that registered a solid gain.

Three Fed speakers will include Cleveland's Mester (12:15pmET), St. Louis President Bullard (2pmET) and San Fran's Daly (7pmET). Mester already spilled the beans late today by ruling out negative rates, but noting that forward guidance and LSAPs are useful tools and that yield curve control needs more study.

CANADA

The ADP payrolls indicator did not exactly improve upon its reputation this morning. Payroll positions were up by 208,400 in April which was broadly in line with the Labour Force Survey's estimated job gain of 289,600 including 308,400 payroll jobs created and 18,800 fewer self-employed. So far that's not so bad in terms of cross-checking LFS. The problem is that ADP had

previously indicated that April's payroll jobs fell by 226.7k and now they have revised that to a 2.4 million drop in April. Whoops; must have misplaced a decimal point! To revise by a factor of 10 times the first estimate is unheard of. No explanation for the revision was provided by ADP in its release ([here](#)) which further erodes trust in this indicator.

Wholesale trade sales fell 21.6% m/m back in April in the depths of the shutdown, all through lower volumes. It's too lagging to markets that are focused upon recovery and so it was largely ignored.

On of the BoC's Deputy Governors, Larry Schembri, will speak this afternoon (1:30pmET) about 'Household behaviour in Canada at the time of COVID-19'. It may build further upon the BoC's comments in the Financial System Review and [this](#) note by BoC staffers. Go here for figures on mortgage and consumer loan deferrals ([here](#)). No monetary policy implications are expected with most of that emphasis likely to wait for Governor Macklem's speech on Monday that is titled "Monetary Policy in the Context of COVID."

Fixed Income	Government Yield Curves (%):												Central Banks			
U.S. 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	Canada - BoC	0.25		
	0.19	0.20	0.20	0.32	0.34	0.32	0.70	0.74	0.67	1.48	1.53	1.40				
	0.30	0.29	0.29	0.37	0.38	0.37	0.52	0.53	0.52	1.01	1.03	1.05				
	-0.66	-0.66	-0.65	-0.65	-0.64	-0.63	-0.41	-0.39	-0.41	0.02	0.06	0.06				
GERMANY JAPAN U.K.	-0.14	-0.14	-0.14	-0.11	-0.10	-0.11	0.02	0.02	0.01	0.57	0.57	0.53	US - Fed	0.25		
	-0.04	-0.06	-0.05	0.01	-0.01	-0.01	0.23	0.19	0.20	0.67	0.58	0.60				
	Spreads vs. U.S. (bps):														England - BoE	0.10
	11	10	9	5	3	4	-18	-21	-15	-47	-50	-35				
	-85	-85	-85	-97	-98	-96	-111	-113	-108	-146	-148	-134	Euro zone - ECB	0.00		
-33	-34	-34	-43	-45	-43	-68	-72	-66	-91	-96	-87					
-23	-25	-25	-32	-36	-33	-48	-55	-47	-81	-95	-81	Japan - BoJ			-0.10	
Equities													Mexico - Banxico	5.50		
Level						% change:										
	Last	Change		1 Day	1-wk	1-mo	1-yr	Australia - RBA	0.25							
S&P/TSX	15429	-87.1		-0.6	2.5	5.4	-6.5									
Dow 30	26120	-170.4		-0.6	-3.2	6.2	-1.3			New Zealand - RBNZ	0.25					
S&P 500	3113	-11.3		-0.4	-2.4	5.4	6.7									
Nasdaq	9911	14.7		0.1	-1.1	7.3	24.6									
DAX	12243	-138.8		-1.1	2.3	10.7	-0.7									
FTSE	6202	-51.1		-0.8	2.1	2.5	-16.7	Next Meeting Date								
Nikkei	22355	-100.3		-0.4	-0.5	11.0	6.6	Canada - BoC	Jul 15, 2020							
Hang Seng	24465	-16.5		-0.1	-0.1	2.2	-11.0	US - Fed	Jul 29, 2020							
CAC	4929	-67.3		-1.3	2.3	9.6	-10.5	England - BoE	Jun 18, 2020							
Commodities												Euro zone - ECB				
Level												% change:		Jul 16, 2020		
WTI Crude	37.96	0.00		0.0	4.5	19.3	-29.6	Japan - BoJ	Jul 15, 2020							
Natural Gas	1.62	-0.02		-1.3	-10.8	-9.3	-30.5	Next Meeting Date								
Gold	1724.41	-2.54		-0.1	-0.2	-0.5	28.1	Mexico - Banxico	Jun 25, 2020							
Silver	17.47	0.06		0.3	-1.4	7.5	18.2	Australia - RBA	Jul 07, 2020							
CRB Index	136.03	-0.35		-0.3	0.8	5.4	-22.8	New Zealand - RBNZ	Jun 23, 2020							
Currencies																
Level												% change:				
USDCAD	1.3577	0.0012		0.1	-0.4	-2.6	1.5									
EURUSD	1.1226	-0.0018		-0.2	-0.6	2.9	0.3									
USDJPY	106.83	-0.1800		-0.2	-0.0	-0.5	-1.5									
AUDUSD	0.6858	-0.0026		-0.4	0.0	5.1	-0.3									
GBPUSD	1.2437	-0.0118		-0.9	-1.3	2.0	-1.0									
USDCHF	0.9508	0.0021		0.2	0.7	-2.1	-5.0									

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