

ON DECK FOR FRIDAY, JUNE 26

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	06/26	08:30	PCE Deflator (m/m)	May	0.0	0.0	0.1
US	06/26	08:30	PCE Deflator (y/y)	May	0.4	0.5	0.5
US	06/26	08:30	PCE ex. Food & Energy (m/m)	May	0.0	0.0	0.1
US	06/26	08:30	PCE ex. Food & Energy (y/y)	May	0.8	0.9	1.0
US	06/26	08:30	Personal Spending (m/m)	May	10.0	9.2	8.2
US	06/26	08:30	Personal Income (m/m)	May	-5.0	-6.0	-4.2
US	06/26	10:00	U. of Michigan Consumer Sentiment	Jun F	--	79.2	78.9

KEY POINTS:

- Global asset classes mixed into a holiday-laden week
- US consumption, incomes, inflation in line with expectations
- Stay alert for US-Canada trade tensions

INTERNATIONAL

It's a relatively quiet end to the week at least in terms of calendar-based risks to markets. Hence global markets lack a unifying theme. I'm sure Chief Day Trader Henny Penny will be flapping around the barn yard with each endless report on US virus counts and developments. Calendar-based risks have come and gone with scant effect as rebound evidence for the US consumer was broadly in line with expectations. We're monitoring potential USTR action on threatened tariffs against Canadian aluminum that could spark retaliation as in past rounds of disputes surrounding each countries' metals exports.

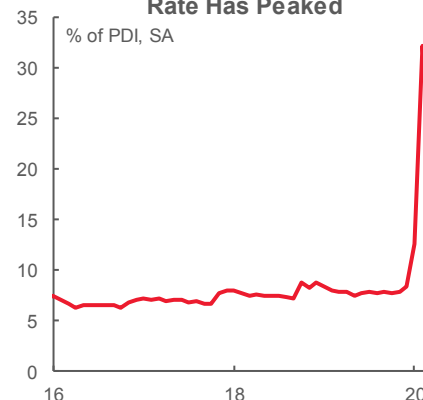
- US and Canadian equities are playing defence with declines on the order of ¼% to 1% across the exchanges. European stocks are up by between ¼% in Spain to 1¼% in London.
- Sovereign yields are mixed with the gilts curve cheapening by 1–4bps in a general bear steepener, 10 year EGBs witnessing mild spread compression over flat bunds across Italy and the peripheral countries, and with the US Treasuries curve bull flattening and outperforming Canada's curve toward the longer end. All moves are fairly modest.
- Oil prices are little changed with a slightly negative bias. WTI is running at US\$38½.
- The USD is dead flat with fairly modest variations across most major currencies as the won leads appreciating crosses while LatAm crosses like the real and Mexican peso are leading depreciating currencies.

UNITED STATES

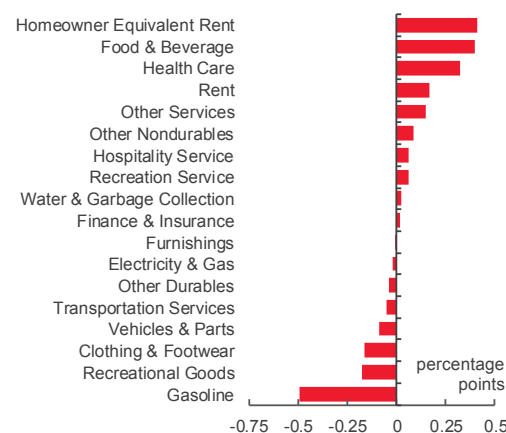
There were no material surprises in the US figures for consumption, incomes, inflation gauges and savings in May. The figures are shown in the tables below. Income supports dropped off in May absent another round of pandemic cheques and as the increased jobless benefits got rebased to the higher level. We already knew that consumption rebounded based upon retail sales. Core PCE inflation held at 1.0% y/y but the full adjustment to the demand shock still lies ahead.

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Chart 1
Soaring US Personal Saving Rate Has Peaked


Sources: Scotiabank Economics, Bureau of Economic Analysis.

Chart 2
Contributions to PCE Inflation


Sources: Scotiabank Economics, BEA.

For Q2 overall, inflation-adjusted disposable income is tracking a gain of about 40% q/q SAAR thanks to transfers while inflation-adjusted consumption is tracking a drop of 39% q/q SAAR. The personal saving rate peaked at 32.2% in April and fell by 9 points to 23.2% in May (chart 1). Within the income figures, it's encouraging that aggregate wages and salaries rose 2.5% m/m SA but this is after a roughly 10% slide over the prior two months. Proprietors' income was up 2.8% m/m, but after a roughly 20% slide over March–April.

Chart 2 shows the breakdown of weighted contributions to inflation inflation in year-over-year terms. The leading drivers are perhaps not surprising: housing, groceries and health care. The weakest drivers are gas, recreational goods, clothing, autos and other big ticket items. Again, perhaps not so surprising.

US personal income/spending, m/m % change, May:

Actual: -4.2 / 8.2

Scotia: +10 / -5.0

Consensus: 9.3 / -6.0

Prior: 10.8 / -12.6 (revised from 10.5 / -13.6)

US PCE/core, m/m % change, May:

Actual: 0.1 / 0.1

Scotia: 0.0 / 0.0

Consensus: 0.0 / 0.0

Prior: -0.5 / -0.4

US PCE/core, y/y % change, May:

Actual: 0.5 / 1.0

Scotia: 0.4 / 0.8

Consensus: 0.5 / 0.9

Prior: 0.6 / 1.0 (revised from 0.5 / 1.0)

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
	0.17	0.19	0.19	0.31	0.33	0.33	0.66	0.69	0.70	1.40	1.44	1.46		
	0.30	0.30	0.30	0.38	0.37	0.38	0.53	0.53	0.53	1.03	1.02	1.00		
	-0.70	-0.69	-0.67	-0.71	-0.70	-0.65	-0.47	-0.47	-0.42	-0.03	-0.03	0.02		
JAPAN	-0.12	-0.12	-0.14	-0.10	-0.10	-0.10	0.01	0.02	0.02	0.58	0.58	0.57	US - Fed	0.25
U.K.	-0.06	-0.08	-0.04	-0.03	-0.05	0.01	0.18	0.15	0.24	0.63	0.59	0.71	England - BoE	0.10
Spreads vs. U.S. (bps):														
CANADA	13	11	11	6	4	5	-14	-16	-16	-38	-42	-46	Euro zone - ECB	0.00
GERMANY	-87	-88	-86	-102	-104	-98	-113	-115	-111	-143	-147	-144	Japan - BoJ	-0.10
JAPAN	-29	-31	-33	-42	-43	-43	-65	-67	-68	-82	-86	-89	Mexico - Banxico	5.00
U.K.	-24	-26	-23	-34	-38	-32	-48	-53	-46	-77	-85	-75		
Equities	Level						% change:							
	Last	Change					1 Day	1-wk	1-mo	1-yr				
S&P/TSX	15446	151.8					1.0	-0.2	2.0	-5.3	Australia - RBA		0.25	
Dow 30	25463	-282.4					-1.1	-1.6	1.9	-4.0	New Zealand - RBNZ		0.25	
S&P 500	3067	-16.9					-0.5	-1.0	2.5	5.3				
Nasdaq	9942	-75.2					-0.8	-0.0	6.4	25.7				
DAX	12235	57.4					0.5	-0.8	6.4	-0.1				
FTSE	6227	80.0					1.3	-1.0	2.6	-16.0				
Nikkei	22512	252.3					1.1	0.1	5.8	6.8				
Hang Seng	24550	-231.6					-0.9	0.3	7.0	-12.9				
CAC	4971	52.6					1.1	-0.2	7.9	-9.6				
Commodities	Level						% change:							
WTI Crude	38.55	-0.17					-0.4	-3.0	12.2	-35.1	Canada - BoC		Jul 15, 2020	
Natural Gas	1.46	-0.02					-1.6	-12.6	-18.6	-36.3	US - Fed		Jul 29, 2020	
Gold	1751.18	-12.61					-0.7	0.4	2.4	24.3	England - BoE		Aug 06, 2020	
Silver	17.53	-0.32					-1.8	-0.5	3.1	13.8	Euro zone - ECB		Jul 16, 2020	
CRB Index	134.50	-0.86					-0.6	-2.5	2.2	-26.2	Japan - BoJ		Jul 15, 2020	
Currencies	Level						% change:							
USDCAD	1.3684	0.0046					0.3	0.6	-0.7	4.2	Mexico - Banxico		Aug 13, 2020	
EURUSD	1.1215	-0.0003					-0.0	0.3	2.1	-1.4	Australia - RBA		Jul 07, 2020	
USDJPY	107.18	-0.0100					-0.0	0.3	-0.3	-0.6	New Zealand - RBNZ		Aug 11, 2020	
AUDUSD	0.6858	-0.0029					-0.4	0.3	3.1	-1.8				
GBPUSD	1.2361	-0.0058					-0.5	0.1	0.2	-2.6				
USDCHF	0.9480	-0.0005					-0.1	-0.5	-1.8	-3.1				

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