

ON DECK FOR TUESDAY, JULY 14

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	07/14	08:30	CPI (m/m)	Jun	0.5	0.5	0.6
US	07/14	08:30	CPI (y/y)	Jun	0.6	0.6	0.6
US	07/14	08:30	CPI (index)	Jun	--	257.7	257.8
US	07/14	08:30	CPI ex. Food & Energy (m/m)	Jun	0.1	0.1	0.2
US	07/14	08:30	CPI ex. Food & Energy (y/y)	Jun	1.1	1.1	1.2
US	07/14	14:00	Fed's Brainard Speaks on Economy & Mon Pol				
US	07/14	14:30	Fed's Bullard Speaks on Economy & Mon Pol				
US	07/14	15:30	Fed's Harker Discusses Small Businesses				

KEY POINTS:

- Volatile US equities search for fresh direction...
- ...but continue to hang onto a rebound
- BoC's expanded bond buying is working as anticipated
- US earnings season is off to a better than forecast start
- Alarmist covid-19 headlines remain unhelpful
- Restaurants and hospitality as % of GDP and jobs by US state
- Chinese trade figures beat expectations
- UK data disappoints
- US CPI lands close to guesstimates

INTERNATIONAL

US equity futures markets are volatile into the North American cash market open. They had been up by ½% or so as selling in Europe and Asia lagged yesterday afternoon's US selloff. Then US earnings hit and all continued to be well before momentum soured. The main US exchanges are now little changed with a slight negative bias on balance and I don't have a great explanation for why earnings optimism suddenly dropped out of the picture. There were no new covid headlines and no material data or public policy remarks. We'll see how the market fares into the cash market open.

That said, alarmist covid-19 headlines lack the perspective that is offered below. Overnight releases emphasized solid Chinese trade figures as a global market consideration versus disappointment in UK releases. US CPI inflation was generally in the ballpark of guesstimates this morning; regardless, June readings matter little to the Fed that acted with forward looking dual mandate concerns.

- Curve flattening in gilts is outperforming other markets with 10s and 30s down 3–4bps. A slight bid to US and Canadian curves continues. Canada's long bond has now reversed about half of the 10bps sell-off that followed in the wake of last Wednesday's surprising fiscal update that blew out estimates for the deficit and issuance. The reined-in market response is at least partly attributable to more frequent BoC buyback operations (see yesterday's 2pmET announcement [here](#)). This is in keeping with my expectations right after the budget update that the BoC could act more aggressively to counter upward pressure on yields.
- US equities are volatile this morning and searching for direction. As chart 1 shows, the S&P500 retains its post-covid shutdown rebound. As at the point

CONTACTS

Derek Holt, VP & Head of Capital Markets Economics
416.863.7707
Scotiabank Economics
derek.holt@scotiabank.com

Chart 1

S&P 500 Holding Onto Recovery


Sources: Scotiabank Economics, Bloomberg.

of publishing, the Nasdaq is off

by over 1%, the S&P500 is down by ¼% and the DJIA is up by ¼% along with the TSX. European cash markets are off by between about ½% (London) and 2% (Madrid).

- Oil prices are little changed.
- The USD is little changed as slight gains in the euro and other European crosses offset depreciation in sterling and others with the yen, CAD and A\$ flat.

Alarmist covid-19 headlines remain unhelpful, but don't thwart recovery tracking and it's this perspective that is missing in much of the rolling market commentary. For example, even financial news outlets are sounding more like TMZ with shrill cries of a recovery thwarted after California moved to reverse some reopening measures including shutting inside dining and bars. It's an important sector, but chart 2 shows the accommodation and food services share of GDP by US state; Nevada's outlier status should surprise few, but most states are in the very low single digits including California at just under 3%. Chart 3 does likewise for

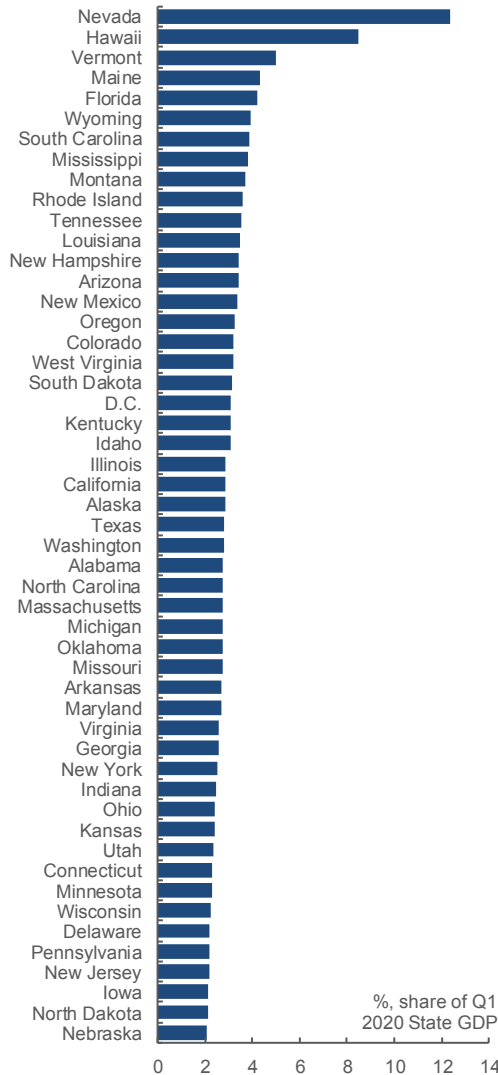
employment shares by state which are higher than the GDP shares given the sector is not capital intensive with limited labour productivity. If more states take such steps than the limited number so far, then employment within a politically influential sector could be materially impacted, unless offset by other sectors—and yet the impact on GDP recovery tracking would be modest. The vast majority of the economic recovery remains on track.

Overnight releases of global significance were skewed to Chinese trade figures for June that beat consensus estimates particularly on the import side of the picture. Chinese imports were up 2.7% y/y (-9.0% consensus) in USD terms and imports were up 6.2% y/y (-4.7% consensus) in yuan terms. Exports were up 0.5% y/y (-2.0% consensus) in USD and 4.3% (+3.5% consensus) in yuan terms.

UK macro releases generally disappointed expectations for GDP growth, industrial output and the services index. Singapore's economy shrank more than expected (-41% q/q annualized in Q2). German ZEW investor sentiment slipped a touch on both the expectations and current conditions components, but the expectations component nevertheless retained a full rebound from the covid-19 shock—and then some. Survey-based growth evidence will pivot toward the greater importance of next week's European PMIs.

Chart 2

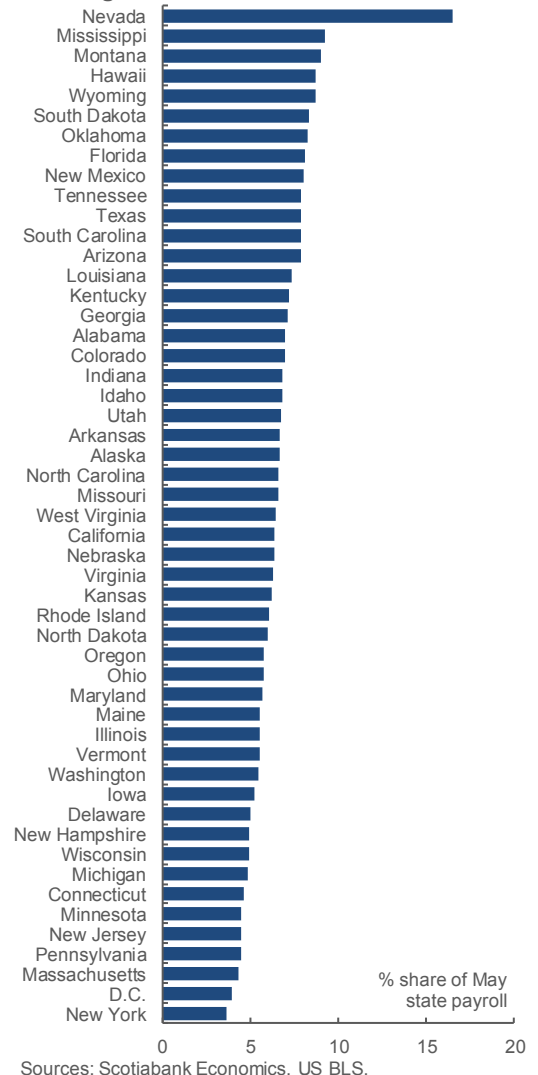
Accommodation & Food Services Share of US State GDP



Sources: Scotiabank Economics, US BEA.

Chart 3

Share of State Nonfarm Payroll Working in Accommodation & Food Service



Sources: Scotiabank Economics, US BLS.

UNITED STATES

JP Morgan beat expectations with EPS of US\$1.38 (\$1.0 consensus). Citigroup also beat expectations with earnings at US\$0.50 (consensus was US\$0.32). Wells Fargo's miss carried less of a surprise factor as it lost -US\$0.66 per share versus consensus at -US\$0.13. Goldman is up tomorrow.

US CPI inflation carried no real surprises (charts 4, 5). Core CPI was unchanged at 1.2% y/y (1.1% consensus) and was up 0.2% m/m (0.1% consensus). Headline was up by just 0.6% y/y (0.1% prior, 0.6% consensus) and 0.6% m/m (0.5% consensus). Since core PCE generally tracks beneath core CPI, the July 31st releases of the Fed's preferred inflation gauges are likely to slip under 1% y/y.

Fed Governor Brainard 2pmET and St. Louis Fed President Bullard (2:30pmET) will offer views on the economy and monetary policy.

Chart 4

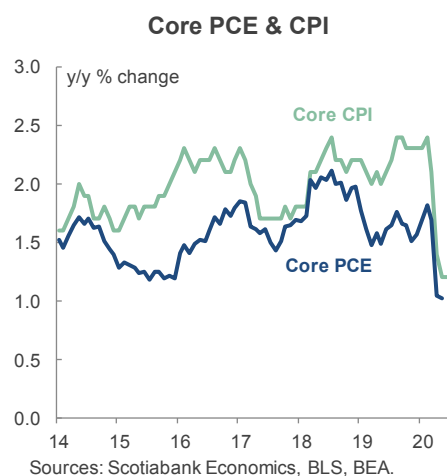
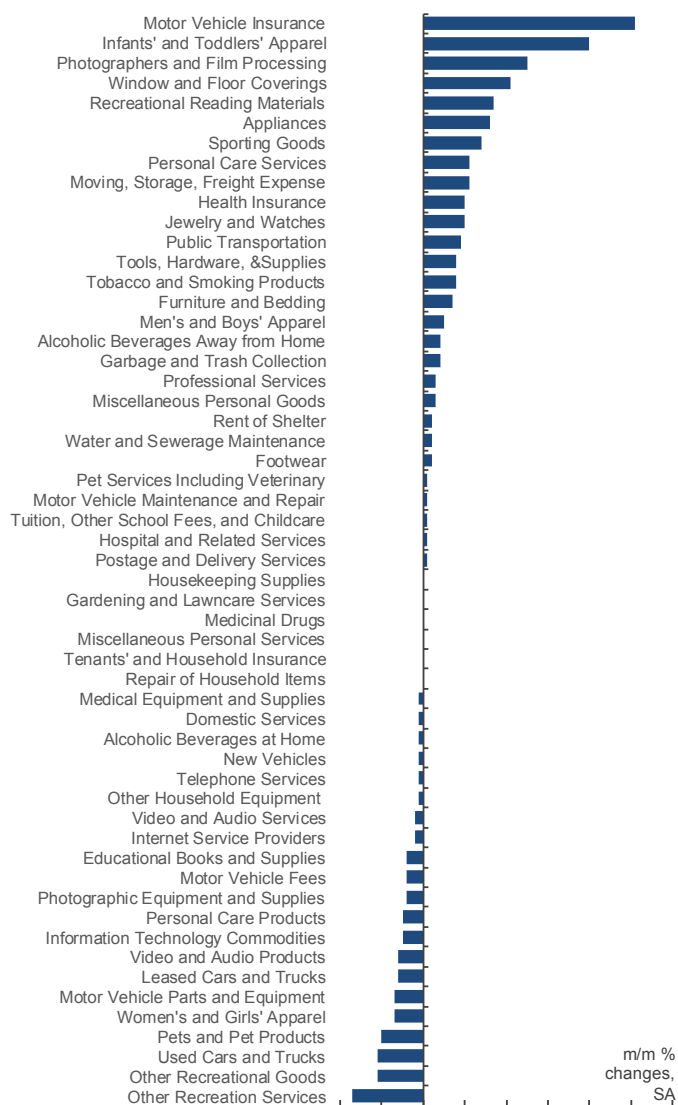


Chart 5

June Changes in US Headline CPI Categories



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			
	0.15	0.15	0.16	0.28	0.29	0.29	0.61	0.62	0.64	1.29	1.31	1.38	Canada - BoC	0.25	
	0.29	0.28	0.27	0.35	0.35	0.34	0.53	0.54	0.51	1.05	1.06	0.99	US - Fed	0.25	
	-0.66	-0.66	-0.67	-0.64	-0.62	-0.66	-0.44	-0.42	-0.43	-0.03	0.01	0.02	England - BoE	0.10	
	-0.13	-0.12	-0.12	-0.09	-0.09	-0.09	0.03	0.04	0.05	0.60	0.61	0.62			
	-0.11	-0.10	-0.07	-0.07	-0.05	-0.04	0.14	0.19	0.18	0.62	0.66	0.63			
	Spreads vs. U.S. (bps):														
	14	13	11	8	6	5	-8	-8	-13	-24	-25	-39	Euro zone - ECB	0.00	
	-81	-81	-83	-92	-91	-95	-105	-104	-107	-132	-130	-136	Japan - BoJ	-0.10	
-28	-28	-28	-37	-37	-37	-57	-58	-59	-69	-70	-75				
-26	-26	-23	-35	-34	-32	-46	-43	-46	-66	-65	-74	Mexico - Banxico	5.00		
Equities	Level						% change:								
	Last	Change			1 Day	1-wk	1-mo	1-yr							
S&P/TSX	15617	-22.0			-0.1	0.1	2.4	-5.3	Australia - RBA					0.25	
Dow 30	26165	78.9			0.3	1.1	2.2	-4.3	New Zealand - RBNZ					0.25	
S&P 500	3142	-13.2			-0.4	-0.1	3.3	4.3							
Nasdaq	10226	-164.5			-1.6	-1.1	6.6	24.0							
DAX	12625	-175.4			-1.4	0.1	5.7	2.4	Next Meeting Date						
FTSE	6160	-16.3			-0.3	-0.5	0.9	-17.9							
Nikkei	22587	-197.7			-0.9	-0.1	1.3	4.2	Canada - BoC					Jul 15, 2020	
Hang Seng	25478	-294.2			-1.1	-1.9	4.8	-10.5	US - Fed					Jul 29, 2020	
CAC	4985	-71.5			-1.4	-1.2	3.0	-10.6	England - BoE					Aug 06, 2020	
Commodities	Level						% change:								
WTI Crude	39.78	-0.32			-0.8	-2.1	9.7	-33.9	Euro zone - ECB					Jul 16, 2020	
Natural Gas	1.73	-0.01			-0.6	-7.8	-0.1	-29.5	Japan - BoJ					Jul 15, 2020	
Gold	1803.02	0.26			0.0	0.5	4.2	27.4	Mexico - Banxico					Aug 13, 2020	
Silver	19.09	0.32			1.7	4.6	8.3	26.1	Australia - RBA					Aug 04, 2020	
CRB Index	139.63	-1.04			-0.7	-1.4	4.0	-24.3	New Zealand - RBNZ					Aug 11, 2020	
Currencies	Level						% change:								
USDCAD	1.3607	-0.0002			-0.0	0.0	0.3	4.3							
EURUSD	1.1393	0.0049			0.4	1.1	0.6	1.2							
USDJPY	107.26	-0.0300			-0.0	-0.2	-0.1	-0.6							
AUDUSD	0.6958	0.0018			0.3	0.2	0.6	-1.2							
GBPUSD	1.2508	-0.0047			-0.4	-0.3	-0.8	-0.1							
USDCHF	0.9391	-0.0025			-0.3	-0.4	-1.1	-4.6							

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