

ON DECK FOR FRIDAY, AUGUST 28

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	08/28	08:30	Real GDP (m/m)	Jun	5.5	5.8	6.5
CA	08/28	08:30	Real GDP (q/q a.r.)	2Q	-40.0	-39.6	-38.7
US	08/28	08:30	PCE Deflator (m/m)	Jul	0.5	0.4	0.3
US	08/28	08:30	PCE Deflator (y/y)	Jul	1.1	1.0	1.0
US	08/28	08:30	PCE ex. Food & Energy (m/m)	Jul	0.5	0.5	0.3
US	08/28	08:30	PCE ex. Food & Energy (y/y)	Jul	1.2	1.2	1.3
US	08/28	08:30	Personal Spending (m/m)	Jul	1.5	1.6	1.9
US	08/28	08:30	Personal Income (m/m)	Jul	-0.5	-0.3	0.4
US	08/28	08:30	Wholesale Inventories (m/m)	Jul P	--	-0.9	-0.1
US	08/28	09:45	Chicago PMI	Aug	--	52.6	51.9
US	08/28	10:00	U. of Michigan Consumer Sentiment	Aug F	--	72.8	72.8

KEY POINTS:

- USD tumbles post-Fed's reflation efforts
- Many stars are aligned against the USD...
- ...but will foreign central banks simply go along with it?
- Abe's resignation has little effect on markets
- Sterling, gilts unmoved by BoE's Bailey policy jawboning
- Canada's economy may be rebounding even faster than expected into Q3
- Canadian GDP is quickly recovering the pandemic hit...
- ...which cautions against the policy narrative that years of pain lie ahead
- US spending, incomes and inflation all surprise higher

INTERNATIONAL

Strong North American macro data is encouraging, but it is having little influence upon the dominant market development this morning which is broad weakness in the USD (see below). Everything else takes a back seat by way of the data wiggles and tape bombs. Overnight developments were limited. Shinzo Abe's planned resignation due to health concerns carried little incremental effect upon markets perhaps because of long running health issues and rumours of his resignation leading up to today. The limited effect may also be because of limited success in translating his agenda into macroeconomic outcomes and because BoJ policy is unlikely to be affected. Canada's Q3 rebound is so far tracking perhaps more impressively than expected while US evidence on consumption, incomes and inflation all surprised somewhat higher. BoE Governor Bailey further jawboned policy options including negative rates, but sterling and gilts barely reacted as they've heard it before.

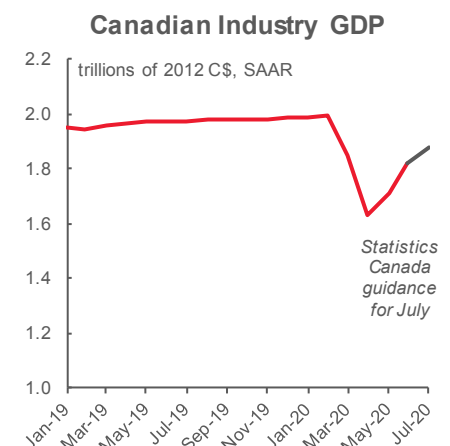
- There isn't much follow through in bonds this morning (so far) on the Fed's reflation attempt that boosted inflation break evens and nominal yields while lifting bank stocks on steepeners. In fact, US Treasury yields are under mild downward pressure of 2–3bps. Ditto for Canada and the UK where the front-end of the gilts curve is marginally outperforming. Curves elsewhere are relatively little changed with the mild exception of some spread widening in Italy.

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Chart 1


Sources: Scotiabank Economics, Statistics Canada.

Chart 2


Sources: Scotiabank Economics, Statistics Canada.

- The USD, however, is under pressure and is depreciating against all major crosses with many up by either side of 1%. Stronger than expected US macro data this morning only marginally offset this depreciation. Following years of forecasts that the USD would weaken, are we finally seeing a sustained turning point? Since the end of May, the USD has depreciated by almost 8% on a DXY basis. Large and rising twin deficits don't help. A dovish central bank that is dropping its guard somewhat toward future inflation risk doesn't help. Neither does endless political risk. Any other country would have seen its currency sink long ago as the US is doing its utmost to abuse its reserve currency status—and it may finally be working. The key question, however, may be the extent to which foreign central banks allow their own currencies to continue to march higher. For that matter, how content would the Fed be if the magnitude of the USD's decline, say, doubles from here? Since the end of May, the euro and sterling have gained almost 10% to the USD, the A\$ is up 12% and CAD is up 7%. The yen has relatively underperformed and is up by only 2%. We're not there yet, but when I hear straight line forecasts for a further abrupt collapse of the dollar, they seem to go against the past tendency for this to ignite concern toward overly abrupt movements in currency markets that bring out coordinated movements against it. This narrative between the dollar, the rates complex and the actions of foreign central banks may be a dominant theme into the Fall (with apologies to southern hemisphere readers!). Disorderly, large currency movements are rarely welcomed by policy makers and markets.
- US equity futures are up by ¼% to ½% with a smaller gain in the Nasdaq. TSX futures are up by ¼%. European cash markets are little changed outside of modest rallies in Italy and Spain. The Nikkei 225 fell by 1.4% overnight which was relatively modest underperformance to gains in HK, Seoul and mainland China.
- Oil prices are roughly flat. Volatile gold is up US\$30/oz.

Bank of England Governor Bailey's speech at Jackson Hole this morning ([here](#)) further jawboned policy options like negative rates. This is news per se, as the BoE has been keeping the option of negative rates alive for some time. Pound sterling is so far largely ignoring the speech. So are gilts that, while rallying this morning, were doing so before Bailey's remarks.

CANADA

A separate stand alone recap will follow with greater detail, but for now, Canadian GDP growth landed as follows. The economy grew by 6.5% m/m in June and posted further growth of 3% in July according to StatsCan's preliminary estimate. The Q2 contraction of -38.7% compares favourably to expectations (consensus -39.6%, Scotia August 3rd print -40%, Scotia nowcast -38.7% (!!!)) but is less than the initial flash guidance that StatsCan provided on July 31st (-12% q/q non-annualized). The Q2 figure is also the least relevant figure of the bunch from a market standpoint.

That's because markets care about rebound evidence and its tracking and that's where the releases were strong. So strong, in fact, that they suggest preliminary tracking of a 41% annualized rebound in Q3 GDP (chart 1) with important caveats like how it's based solely on July GDP and Q2 while assuming flat readings in August and September. This tracking is also using monthly GDP from a production side perspective whereas quarterly GDP based upon expenditure readings can differ and at times materially so. Still, 41% growth in Q3—if it sticks with further data and upon converting to expenditure concepts—exceeds our expectations for a Q3 growth rate of 33% (consensus +35%).

Equally important is how GDP tracking informs the common narrative that it will take years to recover lost output from the pandemic. Maybe not (chart 2). Monthly GDP is already up by 15% from the April low. It's also just 6% lower than the pre-pandemic reading in February. Years? Not at this pace folks, albeit with plenty of forward looking risks. The speed of the rebound seems out of sync with the confidence exuded by policymakers that it couldn't happen this fast. It is, but stay tuned....

Canadian GDP, June (m/m) / Q2 (q/q annualized), % change:

Actual: 6.5 / -38.7

Scotia: +5.5 / -40

Consensus: 5.8 / -39.6

Prior: 4.5 / -8.2

StatsCan's July GDP guidance: +3% m/m

UNITED STATES

The US releases consumer spending, personal incomes and the Fed's preferred inflation gauges for the month of July generally all exceeded expectations. Instead of falling, incomes grew marginally with a slight upward revision. Consumer spending grew faster than expected and was aided by upward revisions to June. Core inflation is materially stronger than anticipated due to upward revisions and a slight beat to July's expectations. Still, core PCE inflation at 1.25% y/y remains materially lower than the pre-pandemic rate of 1.9% in February.

US income / spending, m/m % change, July, SA:

Actual: 0.4 / 1.9

Scotia: -0.5 / 1.5

Consensus: -0.2 / 1.6

Prior: -1.0 / 6.2 (revised from -1.1 / 5.6)

US pce/core inflation, y/y % change, July, SA:

Actual: 1.0 / 1.3

Scotia: 1.1 / 1.2

Consensus: 1.0 / 1.2

Prior: 0.9 / 1.1 (revised from 0.8 / 0.9)

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	Canada - BoC	0.25			
	0.13	0.16	0.14	0.28	0.31	0.27	0.72	0.75	0.63	1.49	1.51	1.34					
	0.28	0.29	0.28	0.41	0.44	0.36	0.63	0.66	0.54	1.18	1.19	1.06	US - Fed	0.25			
	-0.67	-0.66	-0.68	-0.66	-0.64	-0.70	-0.42	-0.41	-0.51	0.06	0.06	-0.08					
	-0.11	-0.11	-0.11	-0.07	-0.08	-0.08	0.06	0.04	0.03	0.62	0.60	0.62	England - BoE	0.10			
	-0.06	-0.02	-0.05	-0.01	0.03	-0.05	0.31	0.34	0.21	0.89	0.93	0.78					
	Spreads vs. U.S. (bps):													Euro zone - ECB	0.00		
	15	14	14	13	12	10	-9	-9	-9	-30	-32	-28					
	-80	-82	-83	-93	-95	-96	-114	-116	-114	-143	-145	-142	Japan - BoJ			-0.10	
-24	-27	-25	-34	-39	-35	-66	-71	-60	-86	-91	-72						
-19	-17	-19	-29	-29	-31	-41	-42	-42	-60	-58	-56	Mexico - Banxico	4.50				
Equities	Level						% change:										
	Last	Change				1 Day	1-wk	1-mo	1-yr					Australia - RBA	0.25		
S&P/TSX	16731	-58.5				-0.3	1.3	3.8	2.8								
Dow 30	28536	43.3				0.2	2.2	8.2	9.6							New Zealand - RBNZ	0.25
S&P 500	3485	5.8				0.2	2.6	8.3	20.7								
Nasdaq	11689	63.4				0.5	3.3	12.4	48.8								
DAX	13071	-25.2				-0.2	2.4	1.8	11.7								
FTSE	6006	6.1				0.1	0.1	-2.0	-15.6							Next Meeting Date	
Nikkei	22883	-326.2				-1.4	-0.2	1.0	11.7							Canada - BoC	Sep 09, 2020
Hang Seng	25422	140.9				0.6	1.2	2.6	-0.8			US - Fed	Sep 16, 2020				
CAC	5018	1.7				0.0	2.5	1.8	-6.5								
Commodities	Level						% change:						England - BoE	Sep 17, 2020			
WTI Crude	43.07	0.03				0.1	1.7	4.9	-22.8								
Natural Gas	2.68	-0.03				-1.0	9.6	49.1	19.2			Euro zone - ECB			Sep 10, 2020		
Gold	1958.89	29.35				1.5	0.9	0.0	27.3								
Silver	27.25	0.85				3.2	1.2	11.8	53.7			Japan - BoJ			Sep 17, 2020		
CRB Index	153.45	0.75				0.5	2.3	7.0	-10.4								
Currencies	Level						% change:						Mexico - Banxico	Sep 24, 2020			
USDCAD	1.3082	-0.0046				-0.4	-0.7	-2.2	-1.7								
EURUSD	1.1891	0.0069				0.6	0.8	1.5	7.3			Australia - RBA			Sep 01, 2020		
USDJPY	105.42	-1.1500				-1.1	-0.4	0.3	-0.7								
AUDUSD	0.7342	0.0083				1.1	2.5	2.6	9.0			New Zealand - RBNZ			Sep 22, 2020		
GBPUSD	1.3294	0.0093				0.7	1.6	2.8	8.9								
USDCHF	0.9054	-0.0036				-0.4	-0.7	-1.4	-7.8								

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