

ON DECK FOR THURSDAY, SEPTEMBER 3

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	09/03	08:30	Merchandise Trade Balance (C\$ bn)	Jul	-4.0	-2.5	-2.4
US	09/03	08:30	Initial Jobless Claims (000s)	Aug 29	950	950	881
US	09/03	08:30	Continuing Claims (000s)	Aug 22	--	14000	1325
US	09/03	08:30	Productivity (q/q a.r.)	2Q F	--	7.5	7.3
US	09/03	08:30	Trade Balance (US\$ bn)	Jul	-57.8	-58.0	-63.6
US	09/03	08:30	Unit Labor Costs (q/q a.r.)	2Q F	--	12.0	9.0
US	09/03	10:00	ISM Non-Manufacturing Composite	Aug	57.5	57.0	56.9
US	09/03	21:30	Fed's Evans Discusses the Economy & Policy				

KEY POINTS:

- Markets passing time ahead of nonfarm
- An evaluation of Trump's polling
- US claims drop again...
- ...and a methodological change likely doesn't explain it away
- US ISM-services slipped a touch
- Canadian exports and imports go 'V'
- US trade deficit widens more than expected...
- ...as services surpluses are revised lower

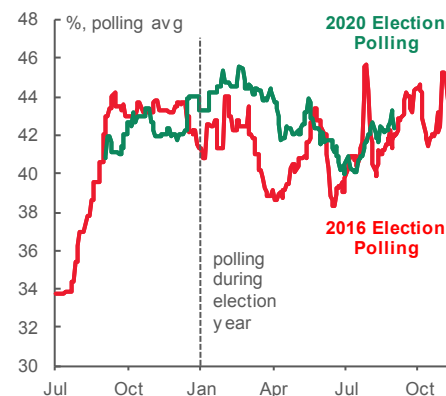
INTERNATIONAL

Risk-on sentiment is mostly focused upon European equities and driven by a) catch-up to yesterday afternoon's US rally on suspect CDC headlines, b) growing speculation the ECB may add to stimulus ahead of next week's meeting, and c) France added stimulus measures that were anticipated for some time including some tax cuts and wage subsidies plus spending on the environment. US equity futures are less impressed as they consolidate yesterday's gain and have an eye on some data teasers today ahead of nonfarm tomorrow. Bouncing around in the background are virus vaccine headlines with very rushed clinical trial results from around the world about to flood the markets over the weeks and months ahead. You first, I say. Nothing personal and I'm certainly no anti-vaxxer type. It's just that I fully intend to go out of this world with the same number of limbs that I had coming into it, no more and no less.

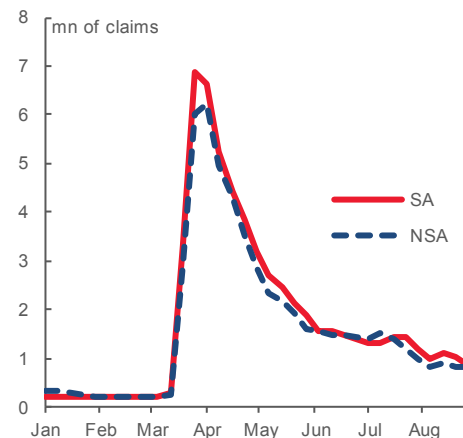
- European equities are up by between ¼% (London, Milan) and 1% – 1½% (Paris, Madrid). Asian equities were mixed as Tokyo rallied 1% and Seoul was up by 1.3%, but HK fell ½% and mainland China was off by ½% to ¾%. US equities are slipping with the S&P500 down by over 1% so far after yesterday's gain and the TSX is only a hair's width lower. Recall that a driver was the fishy headline that the CDC is asking states to be ready to roll-out vaccines by November 1st but that's just a logistical preparatory step in advance of hypothetically delivering vaccinations.
- Sovereign bond curves shifted to mild flatteners after US data this morning. US 10s and 30s are down by about 1bp with Canada performing similarly. Gilts are flat but EGB 10s and 30s are rallying by 1–3bps.

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Chart 1
Trump Polling Identically to Early September 2016


Sources: Scotiabank Economics, Real Clear Politics.

Chart 2
US Weekly Initial Jobless Claims


Sources: Scotiabank Economics, US Dept of Labor.

- Oil prices are off by about 1 ½% and gold is down by under ½%.
- The USD is picking up some steam again. Most major and semi-major currency pairs are depreciating except for the Mexican peso, rand and Swiss franc that are gaining. The weakest tend to be the commodity oriented ones, but the euro and sterling are also down.

Overnight releases had little to offer and were mixed with the focus being upon PMIs that favoured China.

China's private PMI composite improved to 55.1 (54.5 prior) to signal slight acceleration in growth after the state's composite PMI climbed by less (54.5 from 54.1) at the start of the week. The private PMI is more skewed toward smaller producers in coastal export-oriented areas whereas the state's is more skewed to SOEs.

The UK composite PMI was revised in the other direction and fell by over a point (59.1, 60.3 prior) as the services PMI was revised lower by 1.3 points. The revision still leaves intact a gain compared to the prior month and is higher than before the pandemic struck, but less so than originally estimated.

The composite Eurozone PMI was revised up to 51.9 from 51.6 as the services PMI was revised higher. Unlike the UK, the Eurozone composite PMI slipped in August compared to the prior month. Why? Germany's gain was offset by weaker PMIs out of Spain and Italy that fell back into contraction. With France's composite PMI still signalling marginal growth.

UNITED STATES

As fresh polls arrive daily, it may be worth noting two things. One is that individual polls are volatile so look at averages instead. Chart 1 shows that the average poll is resulting in identical results for Trump now as it indicated to the exact same point in the 2016 campaign.

Polling the share of the popular vote is meaningless in the US, however, given its Electoral College system. As a reminder, Nate Silver's site ([here](https://www.fivethirtyeight.com/)) is running daily US election simulations again. Yes I know they got it wrong in 2016. Still, if you're going to follow guesses at who will win, then this approach is superior to the polling results we're getting by the day because 538's scenarios weight the projections to electoral college votes and run repeated simulations. 70 times out of 100 in repeated sampling they get a Biden win fwiw. It might be too early for Bill Clinton to be doing victory laps with sandbag jokes mind you and given the 2016 failure of both methodologies using popular vote shares and weighted projections.

Chart 5

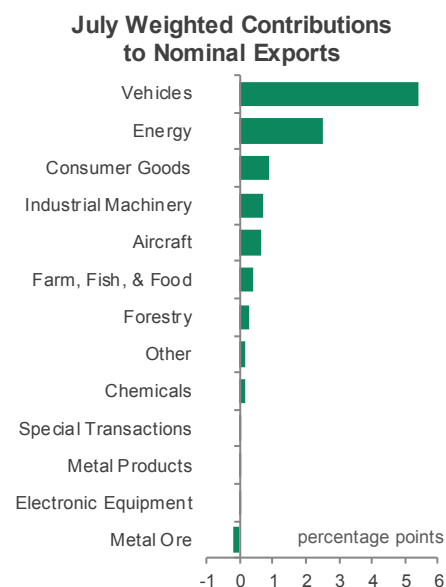


Chart 3 Canadian Export Volumes

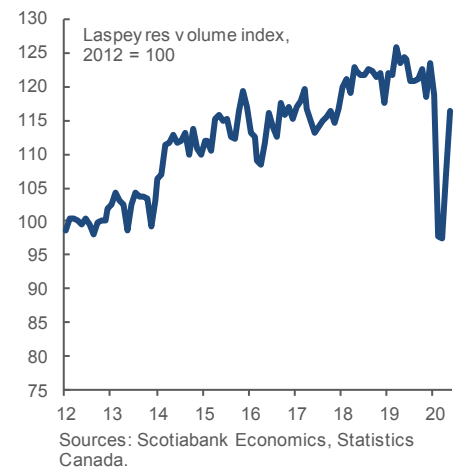


Chart 4 Canadian Import Volumes

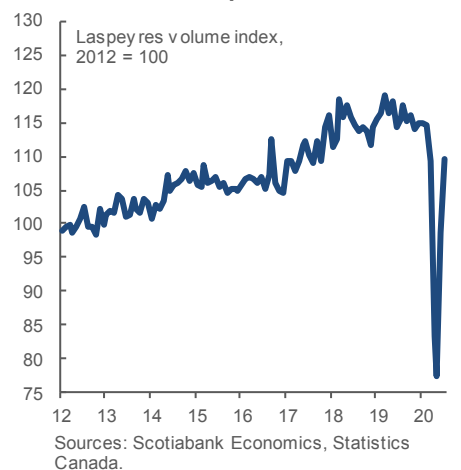
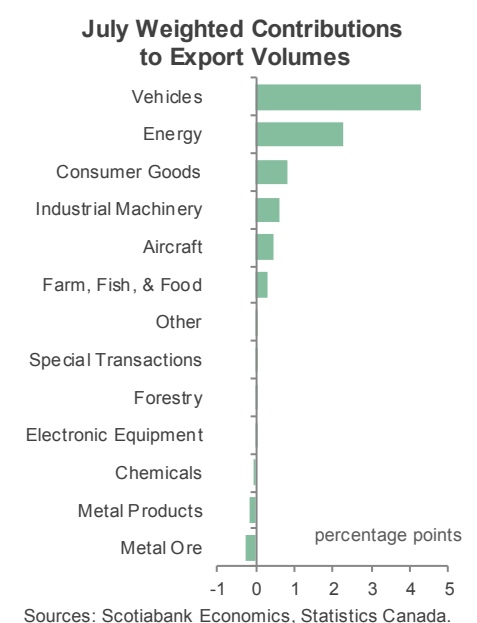


Chart 6



US jobless claims fell to 881k (1.011 million prior, consensus 950k) but a change to the seasonal adjustment methodology clouds the interpretation of its significance by creating a break in the series. I'm not sure how significant that is, mind you, given that seasonally unadjusted claims have generally tracked adjusted claims and they too were running at 833k last week. It may be that the SA adjustments are just designed to narrow some of the modest deviations between the SA and NSA figures compared to history (chart 2). Regardless, we're outside of the reference period for tomorrow's nonfarm payrolls report so it doesn't matter for the call. As for the next nonfarm report (September's, one month from now), claims are only one driver and not a very useful one at that.

US ISM services slipped in line with consensus expectations from 58.1 to 56.9 in August (57.0 consensus). Recall that the ISM headline is a straight arithmetic average of new orders, production, employment and supplier deliveries. So, what drove the headline slippage was softer business activity/production (62.4 from 67.2) and softer new orders (56.8 from 67.7) but offsetting these in part were gains in employment (47.9 from 42.1) and supplier deliveries (60.5 from 55.2).

The US all-in trade deficit widened by more than expected to -US\$63.6 billion in July (-\$58B consensus). It wasn't a surprise to revisions for the advance estimate of the goods balance that drove this as the goods balance was revised to be only slightly wider at -US\$80.9 billion compared to last week's advance figure of -US\$79.3 billion. Instead, the normally fairly stable services surplus landed lower than expected and was revised lower stretching back throughout the pandemic. Instead of a services surplus of US\$21.5 billion in June, for example, it's now a surplus of US\$18.2 billion. That services surplus fell by almost another billion in July.

CANADA

Canada's trade deficit improved through a combination of revisions and a July tally that was in line with the consensus estimate despite the fact that the starting point was revised to be so different. Instead of a monthly deficit of C\$3.2 billion in June, the revision chopped that number in half.

Regardless, it's the v-shaped recovery in exports and imports that is the focus here (charts 3, 4). Export volumes were up by 8.6% m/m and import volumes were up by 11.2% m/m. Quarterly tracking of export volumes is pointing toward a 64% annualized jump in Q3 after a 51% annualized drop in Q2. Quarterly tracking of import volumes is pointing toward a 169% annualized increase in Q3 after a 66% annualized plunge in Q2. The drivers of the monthly change in export and import volumes are broken down in weighted terms in charts 5 and 6.

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			
	0.13	0.13	0.16	0.24	0.25	0.31	0.63	0.65	0.75	1.36	1.38	1.51	Canada - BoC	0.25	
	0.26	0.26	0.29	0.34	0.35	0.44	0.53	0.55	0.66	1.05	1.06	1.19	US - Fed	0.25	
	-0.70	-0.70	-0.66	-0.71	-0.70	-0.64	-0.50	-0.47	-0.41	-0.06	-0.02	0.06	England - BoE	0.10	
	-0.11	-0.11	-0.11	-0.08	-0.08	-0.08	0.04	0.04	0.04	0.61	0.62	0.60			
	-0.11	-0.11	-0.02	-0.06	-0.07	0.03	0.23	0.23	0.34	0.81	0.82	0.93			
	Spreads vs. U.S. (bps):														
	14	13	14	10	10	12	-10	-10	-9	-31	-32	-32	Euro zone - ECB	0.00	
	-83	-83	-82	-95	-95	-95	-112	-112	-116	-142	-140	-145	Japan - BoJ	-0.10	
-24	-24	-27	-32	-33	-39	-59	-61	-71	-75	-76	-91				
-23	-25	-17	-30	-32	-29	-40	-42	-42	-54	-56	-58				
Equities	Level						% change:						Mexico - Banxico		4.50
	Last			Change			1 Day	1-wk	1-mo	1-yr					
S&P/TSX	16619			-78.6			-0.5	-0.7	2.8	1.3			Australia - RBA	0.25	
Dow 30	28862			-238.5			-0.8	1.3	8.2	10.5			New Zealand - RBNZ	0.25	
S&P 500	3525			-55.7			-1.6	1.2	7.0	21.3					
Nasdaq	11662			-394.8			-3.3	0.3	7.0	48.1					
DAX	13233			-10.3			-0.1	1.0	4.6	11.1					
FTSE	5936			-5.1			-0.1	-1.8	-1.6	-18.3					
Nikkei	23466			218.4			0.9	1.1	5.7	13.8			Canada - BoC	Sep 09, 2020	
Hang Seng	25008			-112.5			-0.4	-1.1	2.2	-2.0			US - Fed	Sep 16, 2020	
CAC	5076			44.3			0.9	1.2	4.1	-7.1					
Commodities	Level						% change:								
WTI Crude	40.97			-0.54			-1.3	-4.8	-0.1	-24.0			England - BoE	Sep 17, 2020	
Natural Gas	2.52			0.04			1.5	-2.1	20.1	7.0					
Gold	1938.51			-4.40			-0.2	0.5	-1.9	25.3			Euro zone - ECB	Sep 10, 2020	
Silver	27.71			-1.18			-4.1	5.0	15.1	51.0					
CRB Index	150.34			-1.09			-0.7	-1.5	2.4	-11.1			Japan - BoJ	Sep 17, 2020	
Currencies	Level						% change:								
USDCAD	1.3094			0.0049			0.4	-0.3	-2.2	-1.8			Mexico - Banxico	Sep 24, 2020	
EURUSD	1.1845			-0.0010			-0.1	0.2	0.7	7.9					
USDJPY	106.27			0.0900			0.1	-0.3	0.3	0.3			Australia - RBA	Oct 05, 2020	
AUDUSD	0.7298			-0.0040			-0.5	0.5	2.4	8.0					
GBPUSD	1.3284			-0.0066			-0.5	0.6	1.6	10.0			New Zealand - RBNZ	Sep 22, 2020	
USDCHF	0.9087			-0.0020			-0.2	-0.0	-1.0	-7.9					

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