

ON DECK FOR FRIDAY, SEPTEMBER 11

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	09/11	08:30	Capacity Utilization (%)	2Q	--	70.7	70.3
US	09/11	08:30	CPI (m/m)	Aug	0.4	0.3	0.4
US	09/11	08:30	CPI (y/y)	Aug	1.4	1.2	1.3
US	09/11	08:30	CPI (index)	Aug	--	259.6	259.9
US	09/11	08:30	CPI ex. Food & Energy (m/m)	Aug	0.4	0.2	0.4
US	09/11	08:30	CPI ex. Food & Energy (y/y)	Aug	1.7	1.6	1.7
US	09/11	14:00	Treasury Budget (US\$ bn)	Aug	--	--	-63.0

KEY POINTS:

- Diverging markets face Brexit, US-China tensions
- Is the pandemic narrative wrong about US inflation risk?
- UK's Johnson to address party following EU ultimatum
- Chinese financing exceeds expectations
- Markets ignore solid UK economy readings

INTERNATIONAL

There is a bit of a divergence between North American asset classes and Europe this morning as Brexit risks and US-China tensions hang in the air. Overnight releases offered little effect ahead of US CPI figures this morning.

- US equities are up by between ½% (snps) and 1% (DJIA) with the TSX up by just over ½%. European markets are more mixed with the Dax and Milan flat, Paris and London up by ¼% and ½% respectively and Spain down ¾%.
- Sovereign curves are outperforming in Europe. US Treasury yields are generally little changed with a slight bid through the belly. Canada is slightly outperforming Treasuries at the longer end. Yields on gilts are down by 2–6bps in a Boris flattener. EGB curves are performing similarly with yields down 2–5bps in bull flatteners.
- Oil prices are up by 30–60 cents with gold flat.
- The USD is little changed overall but this masks wide deviations across individual crosses. Sterling is leading depreciating majors. Most other major and semi-major and also-rans are higher to the USD with other exceptions being the yen and won.

UK PM Johnson will address his party at 12:30pmET with no deal risk brought forward and amplified by his tactics that are seeking to unilaterally alter the Brexit agreement's provisions for Ireland that have drawn a stern rebuke from party members at home and from the EU. The EU delivered a month-end ultimatum to back down.

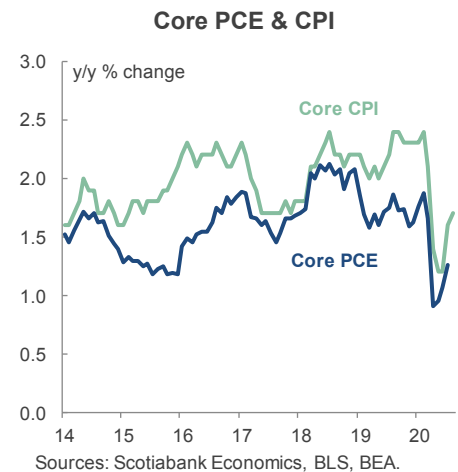
China is taking retaliatory measures against US diplomats on the mainland and in HK following US actions but the exact actions are unclear.

China released financing figures for August that exceeded expectations. 3.58 trillion yuan of aggregate financing was extended (consensus 2.585T) which is

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Chart 1



the strongest tally since March and more than double the prior month's flow. Most of the pick-up came through government bonds and yuan denominated loans.

The UK economy registered solid readings in July but markets looked the other way given more pressing Brexit developments. Industrial output was up 5.2% m/m (4.1% consensus) as manufacturing output grew by 6.3% (5% consensus). The monthly services index was up 6.1% (consensus 7.0%). Monthly GDP grew by 6.6% which was in line with expectations. The trade deficit in goods widened as imports were up by 5.8% m/m while exports were up 0.9% while the services surplus shrank.

Spain followed Italy with a stronger bounce in industrial output than Germany or France during July. Output was up 9.3% m/m which nearly tripled consensus expectations for the third strong monthly gain.

UNITED STATES

It's probably premature to have great confidence in this, but has inflation risk been fundamentally misjudged by global central banks? Or is there a further and bigger disinflationary shoe to drop still lurking ahead? Markets are not so much caring about this debate today as other headlines dominate in driving rallies across sovereign debt markets. Nevertheless, this morning's US CPI figures add further reason to question the whole narrative that the pandemic is a deflationary or at least sharply and sustainably disinflationary shock. It also gives pause for strategists and traders to continue to re-evaluate the deflation trade they drove in the early stages of the pandemic.

Core CPI landed on my guesstimates at a little above consensus expectations which matters to no one, but hey, take it where you can in this biz. Core CPI inflation has picked up by half a percentage point in just two months in year-ago terms (chart 1). The month-ago seasonally adjusted rise was strong as reopening effects and stimulus combined to result in greater pricing power. Three months of decline in seasonally adjusted core inflation in month-ago terms has since given way to three months of gains averaging 0.4% per month. Annualized, that means core inflation is running at about a 5% clip over this three month trend period.

US CPI m/m % / y/y %, August :

Actual: 0.4 / 1.3

Scotia: 0.4 / 1.4

Consensus: 0.3 / 1.2

Prior: 0.6 / 1.0

US core CPI m/m % / y/y %, August :

Actual: 0.4 / 1.7

Scotia: 0.4 / 1.7

Consensus: 0.2 / 1.6

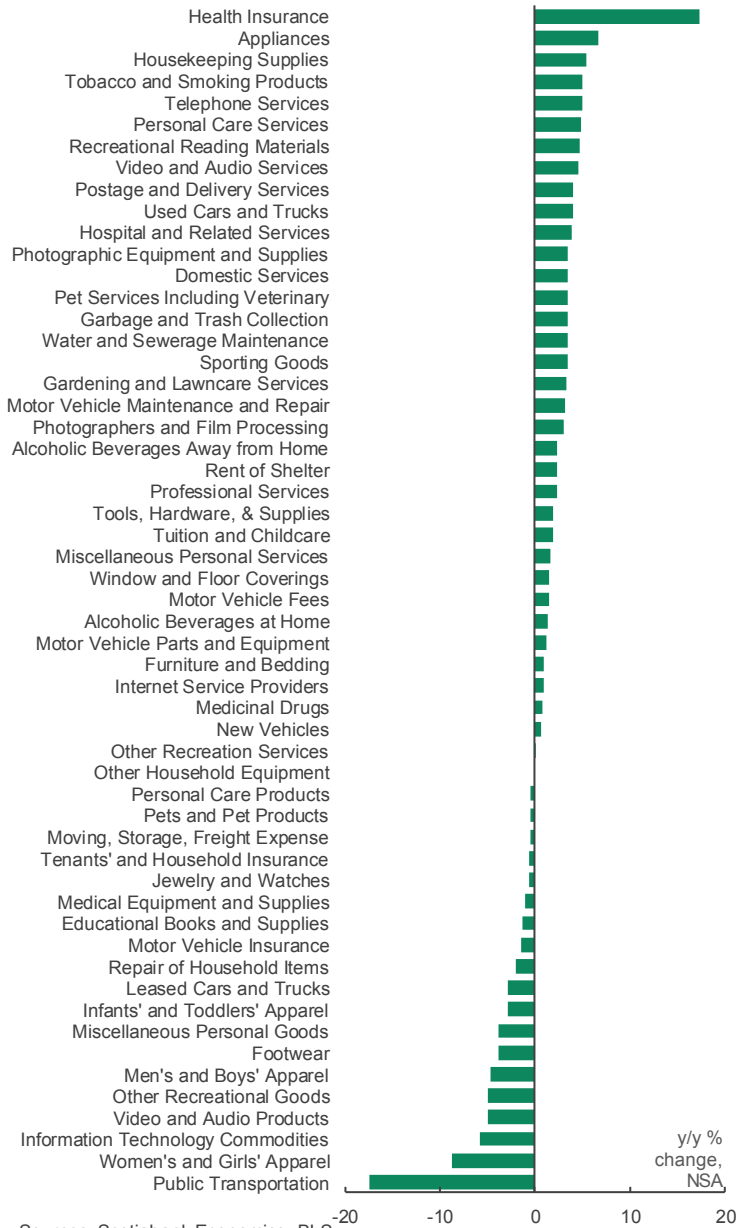
Prior: 0.6 / 1.6

The CPI figures still suggest that core PCE inflation is likely around 1.4% y/y and well below the Fed's target. Even that, however, takes us up from 0.9% y/y in April to around 1.4% in August pending the PCE figures on October 1st.

The year over year drivers of CPI inflation are shown in chart 2 in terms of weighted contributions by source. The month-ago seasonally adjusted drivers are shown in chart 3, again in terms of weighted contributions.

Chart 2

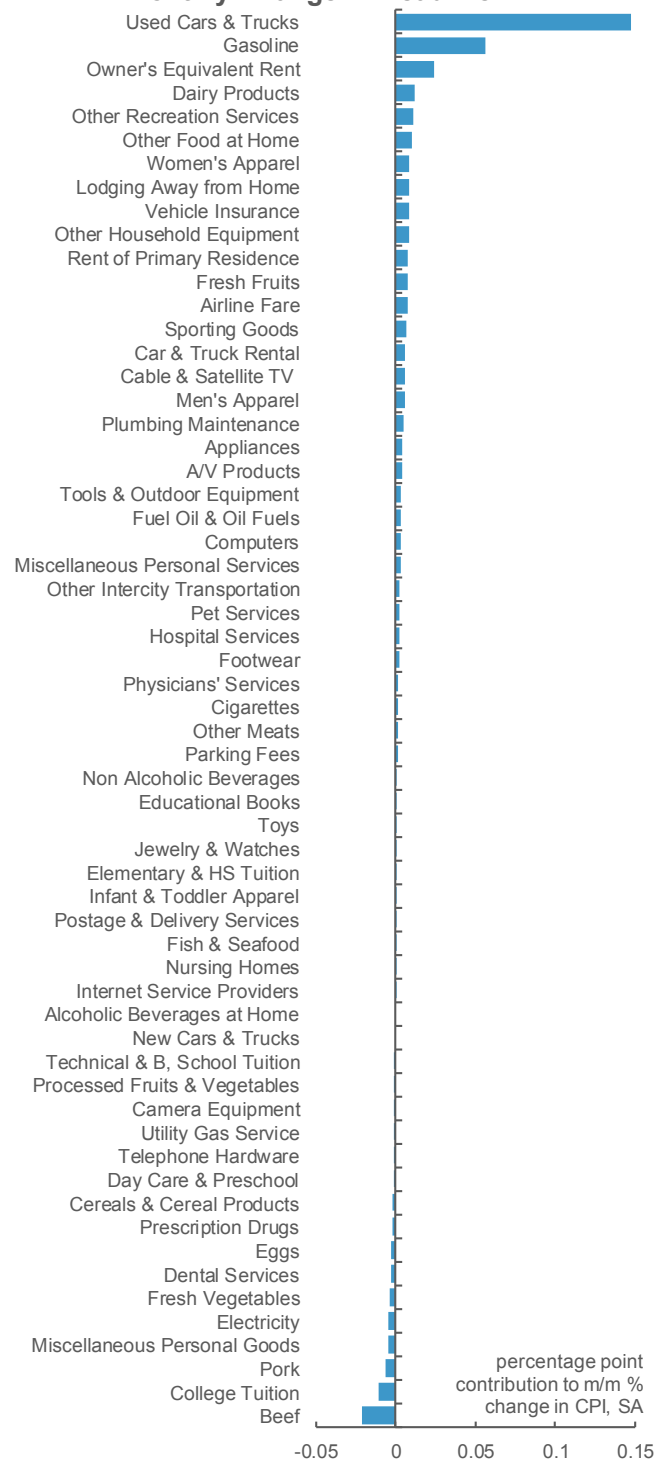
August 12-Month Changes in US Headline CPI Categories



Sources: Scotiabank Economics, BLS.

Chart 3

August Weighted Contributions to Monthly Change in Headline CPI



Sources: Scotiabank Economics, US BLS

Fixed Income	Government Yield Curves (%):												Central Banks	
	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		
U.S.	0.13	0.14	0.14	0.26	0.27	0.30	0.67	0.68	0.72	1.42	1.42	1.47	Canada - BoC	0.25
CANADA	0.26	0.26	0.27	0.36	0.36	0.38	0.55	0.57	0.59	1.06	1.08	1.10	US - Fed	0.25
GERMANY	-0.70	-0.67	-0.70	-0.69	-0.64	-0.69	-0.48	-0.43	-0.47	-0.04	0.01	-0.03	England - BoE	0.10
JAPAN	-0.12	-0.12	-0.12	-0.10	-0.09	-0.08	0.03	0.03	0.04	0.59	0.60	0.61		
U.K.	-0.13	-0.11	-0.08	-0.13	-0.09	-0.04	0.18	0.23	0.26	0.75	0.81	0.84		
Spreads vs. U.S. (bps):														
	Level			Level			% change:			% change:				
	Last	1-day	1-wk	Last	1-day	1-wk	1 Day	1-wk	1-mo	1-yr				
CANADA	13	12	13	10	9	8	-12	-11	-12	-35	-34	-37	Euro zone - ECB	0.00
GERMANY	-83	-81	-84	-95	-91	-99	-115	-111	-119	-146	-141	-150	Japan - BoJ	-0.10
JAPAN	-26	-26	-26	-35	-36	-38	-64	-65	-68	-83	-82	-86		
U.K.	-26	-25	-22	-38	-35	-33	-49	-45	-46	-67	-61	-64	Mexico - Banxico	4.50
Equities	Level			Level			% change:			% change:				
	Last	1-day	1-wk	Last	1-day	1-wk	1 Day	1-wk	1-mo	1-yr				
S&P/TSX	16299			113.6			0.7	-0.9	-1.2	-1.9			Australia - RBA	0.25
Dow 30	27702			167.2			0.6	-2.1	0.1	2.1			New Zealand - RBNZ	0.25
S&P 500	3357			17.8			0.5	-2.8	0.7	11.9				
Nasdaq	10910			-9.3			-0.1	-4.8	1.2	33.5				
DAX	13224			14.8			0.1	3.0	2.1	7.0				
FTSE	6050			46.3			0.8	4.3	-1.7	-17.6				
Nikkei	23406			171.0			0.7	0.9	2.9	8.4			Canada - BoC	Oct 28, 2020
Hang Seng	24503			189.8			0.8	-0.8	-1.6	-9.8			US - Fed	Sep 16, 2020
CAC	5044			19.8			0.4	1.6	0.3	-10.2			England - BoE	Sep 17, 2020
Commodities	Level			Level			% change:			% change:				
	Last	1-day	1-wk	Last	1-day	1-wk	1 Day	1-wk	1-mo	1-yr				
WTI Crude	37.48			0.18			0.5	-9.4	-9.9	-32.8			Euro zone - ECB	Oct 29, 2020
Natural Gas	2.27			-0.05			-2.2	-8.6	4.7	-10.9			Japan - BoJ	Sep 17, 2020
Gold	1949.22			3.13			0.2	0.8	2.0	30.2				
Silver	27.11			0.57			2.1	0.8	-4.1	50.7				
CRB Index	146.57			0.39			0.3	-2.6	-0.2	-15.6				
Currencies	Level			Level			% change:			% change:				
	Last	1-day	1-wk	Last	1-day	1-wk	1 Day	1-wk	1-mo	1-yr				
USDCAD	1.3186			-0.0006			-0.0	0.9	-0.9	-0.1			Mexico - Banxico	Sep 24, 2020
EURUSD	1.1831			0.0016			0.1	-0.1	0.8	7.5			Australia - RBA	Oct 05, 2020
USDJPY	106.20			0.0700			0.1	-0.0	-0.3	-1.5				
AUDUSD	0.7272			0.0014			0.2	-0.1	1.8	6.0				
GBPUSD	1.2781			-0.0024			-0.2	-3.8	-2.0	3.7			New Zealand - RBNZ	Sep 22, 2020
USDCHF	0.9091			-0.0015			-0.2	-0.5	-0.8	-8.4				

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