

**ON DECK FOR THURSDAY, OCTOBER 29**

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	10/29	08:30	GDP (q/q a.r.)	3Q A	30.0	32.0	-31.4
US	10/29	08:30	GDP Deflator (q/q a.r.)	3Q A	--	2.9	-1.8
US	10/29	08:30	Initial Jobless Claims (000s)	Oct 24	760	770	787
US	10/29	08:30	Continuing Claims (000s)	Oct 17	7900	7775	8373
CA	10/29	08:30	Building Permits (m/m)	Oct	--	--	1.7
US	10/29	10:00	Pending Home Sales (m/m)	Sep	2.0	3.0	8.8

**KEY POINTS:**

- Cautious optimism ahead of the ECB
- The right thing for the ECB to do versus the probable thing
- Early eurozone inflation readings decline again
- Markets likely to fade US Q3 GDP
- US initial claims: weakest reference period decline so far
- BoJ stands pat

**INTERNATIONAL**

Market sentiment is volatile ahead of the ECB. It's up to Lagarde whether she plays spoiler or not. On that note and as a warning, recall the September meeting when she managed to tighten financial conditions in part by saying they discussed the euro but the ECB doesn't wish to over-react to it which implied indifference at the time; the euro appreciated following her remarks back then. There is probably a greater sense of downside risk now than there was last month, so maybe the ECB will be more driven to toss a lifeline this time around.

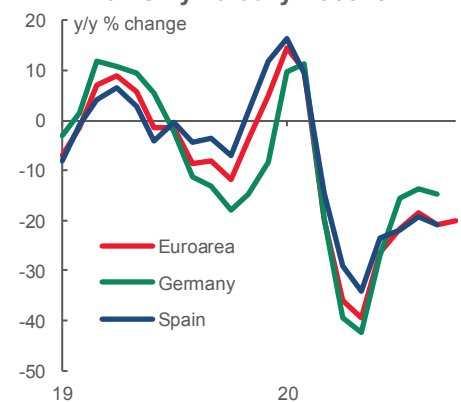
- So far, US equity futures are little changed on average. Ditto for the TSX. European cash markets off by between ½—1¼%.
- Sovereign curves are also little changed with Italian and peripheral spreads slightly narrowing over bunds.
- Oil is down another 4% .
- The USD is appreciating as a safe haven play with the euro and related crosses slightly depreciating ahead of the ECB.

**The main focal point will be the ECB's decisions.** As a very practical starting point, the statement arrives at 8:45amET followed by Lagarde's presser at 9:30amET. That's later than usual on this side of the pond until our clocks go back an hour this weekend.

**The macro backdrop merits doing more now.** PMIs point to the risk of a renewed dip in Q4 and that was before recent lockdowns. Core and trimmed CPI measures are tanking and more so than elsewhere. Covid-19 lockdowns are resurfacing. Waiting for European fiscal stimulus to respond is even more agonizing than watching political dysfunction in the US swamp. Enter Lagarde who has had a mixed performance so far; catching on to the pandemic kind of

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**Chart 1**
**European Gasoline Prices Excluding Tax Only Partially Recover**


Sources: Scotiabank Economics, European Commission.

late, subsequently catching up, and not quite having Draghi's general sense of timing or feel for the right thing to do at the right time but it's still relatively early in her mandate.

The right thing to do would be to act now. The probable thing to do would be to jawbone how they're getting ready to act at the next meeting on December 10<sup>th</sup>. If they do neither then risk appetite will likely stumble. **The most likely step remains an expansion and extension of the Pandemic Emergency Purchase Program** that presently stands at €617 billion with 46% of the €1.35 trillion program already utilized. Adding a few hundred billion and extending it to last toward at least the end of 2021 instead of at least next summer would be meaningful.

**I would downplay any likelihood of strong references to altering the inflation language and targeting overshoots** compared to their present statement-codified approach of targeting inflation "below, but close to, 2%." They are in the middle of their strategic review and holding ECB-listens events modelled after Fed-listens events. The conclusions are not expected until mid-2021. Maybe they'll be like the Fed which revised its statement of long-run goals before announcing the still-pending full review's conclusions, but the ECB probably isn't there yet. The ECB arguably has a more acute version of the same problem the BoC does; markets think 2% is a ceiling in large part because that's how both central banks communicate and operationalize their targets, so naturally expectations average out below that and they never hit their target.

**Ahead of the ECB, Eurozone inflation got off to a somewhat softer start in early tracking of the October readings** this morning which can't hurt the case for additional stimulus. The preliminary 'flash' reading for Spanish harmonized CPI fell to -1.0% y/y (-0.6% prior, -0.7% consensus). Spanish and overall Euro-area gasoline prices were little changed in a year-over-year sense compared to the prior month (chart 1) and so behind the flash estimate is likely softer core inflation.

Individual German states are registering mixed inflation readings so far and ahead of the national add-up at 9amET. Three states registered slightly firmer inflation (headline, not harmonized) and two states registered slightly weaker inflation.

The Bank of Japan did nothing overnight. Governor Kuroda jawboned the prospect of doing more if needed, but they only tweaked forecasts for now.

## UNITED STATES

**US markets will probably look past Q3 GDP this morning (8:30amET) with consensus at 32%, Scotia's estimate being 30% and the Atlanta Fed's 'nowcast' set at 37%.** The focus is on forward-looking risks after equities priced a rebound ages ago. Frankly unless it's a big disappointment, then who cares about the exact percentage point which matters only to economists.

Weekly claims might get more attention after the prior week's drop into the nonfarm reference period for October (8:30amET).

**Still, the drop in claims between reference periods is under 100k which is the weakest change in the recovery to date.**

Reading claims is challenged by whether they are falling due to increased hiring or due to less incentive to file as payments fell by US\$2400/mth after the expiration of juiced CARES Act benefits at the end of July that Congress can't agree on extending in whole or in part. Onto nonfarm...

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.	0.14	0.15	0.15	0.33	0.33	0.38	0.77	0.77	0.86	1.55	1.56	1.68	Canada - BoC	0.25
CANADA	0.24	0.24	0.24	0.36	0.36	0.40	0.59	0.59	0.66	1.18	1.18	1.26	US - Fed	0.25
GERMANY	-0.80	-0.79	-0.77	-0.82	-0.81	-0.77	-0.64	-0.63	-0.57	-0.23	-0.22	-0.15	England - BoE	0.10
JAPAN	-0.12	-0.12	-0.13	-0.10	-0.10	-0.10	0.03	0.03	0.04	0.63	0.63	0.63	Euro zone - ECB	0.00
U.K.	-0.07	-0.06	-0.03	-0.08	-0.07	-0.03	0.20	0.21	0.28	0.74	0.75	0.85	Japan - BoJ	-0.10
Spreads vs. U.S. (bps):														
	10	9	8	3	3	2	-18	-18	-20	-38	-38	-42		
CANADA	-94	-94	-92	-115	-114	-115	-140	-140	-142	-178	-177	-182	Mexico - Banxico	4.25
GERMANY	-26	-27	-28	-44	-43	-47	-74	-75	-82	-92	-92	-105	Australia - RBA	0.25
JAPAN	-22	-21	-18	-42	-40	-40	-57	-56	-57	-81	-80	-82	New Zealand - RBNZ	0.25
U.K.													Next Meeting Date	
Equities	Level						% change:							
	Last				Change		1 Day	1-wk	1-mo	1-yr				
S&P/TSX	15587				-434.4		-2.7	-4.3	-3.9	-5.1			Canada - BoC	Dec 09, 2020
Dow 30	26520				-943.2		-3.4	-6.0	-3.4	-2.0			US - Fed	Nov 05, 2020
S&P 500	3271				-119.7		-3.5	-4.8	-1.9	7.7			England - BoE	Nov 05, 2020
Nasdaq	11005				-426.5		-3.7	-4.2	-0.7	33.0			Euro zone - ECB	Oct 29, 2020
DAX	11501				-59.3		-0.5	-8.3	-10.3	-11.1			Japan - BoJ	Oct 28, 2020
FTSE	5563				-19.9		-0.4	-3.9	-5.7	-23.9			Mexico - Banxico	Nov 12, 2020
Nikkei	23332				-86.6		-0.4	-0.6	-0.9	1.6			Australia - RBA	Nov 02, 2020
Hang Seng	24587				-122.2		-0.5	-0.7	5.6	-8.2			New Zealand - RBNZ	Nov 10, 2020
CAC	4525				-46.4		-1.0	-6.7	-6.4	-21.2				
Commodities	Level						% change:							
WTI Crude	35.80				-1.59		-4.3	-11.9	-8.9	-35.5				
Natural Gas	3.24				-0.05		-1.5	7.8	26.6	24.9				
Gold	1871.40				-5.78		-0.3	-1.7	-1.4	25.8				
Silver	23.93				-0.51		-2.1	-4.4	4.5	32.5				
CRB Index	144.40				-2.26		-1.5	-4.9	-1.6	-19.0				
Currencies	Level						% change:							
USDCAD	1.3361				0.0038		0.3	1.7	-0.2	2.1				
EURUSD	1.1702				-0.0044		-0.4	-1.0	-0.4	5.3				
USDJPY	104.27				-0.0500		-0.0	-0.6	-1.3	-4.2				
AUDUSD	0.7028				-0.0017		-0.2	-1.3	-1.4	2.4				
GBPUSD	1.2945				-0.0038		-0.3	-1.1	0.6	0.6				
USDCHE	0.9126				0.0021		0.2	0.6	-0.8	-8.2				

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