ON DECK FOR WEDNESDAY, DECEMBER 23

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	12/23	07:00	MBA Mortgage Applications (w/w)	Dec 18	--	--	0.8
CA	12/23	08:30	Real GDP (m/m)	Oct	0.2	0.3	0.4
US	12/23	08:30	Durable Goods Orders (m/m)	Nov P	0.5	0.5	0.9
US	12/23	08:30	Durable Goods Orders ex. Trans. (m/m)	Nov P	0.5	0.6	0.4
US	12/23	08:30	PCE Deflator (m/m)	Nov	0.1	0.1	0.0
US	12/23	08:30	PCE Deflator (y/y)	Nov	1.2	1.2	1.1
US	12/23	08:30	PCE ex. Food & Energy (m/m)	Nov	0.1	0.1	0.0
US	12/23	08:30	PCE ex. Food & Energy (y/y)	Nov	1.4	1.4	1.4
US	12/23	08:30	Personal Spending (m/m)	Nov	-0.3	-0.2	-0.4
US	12/23	08:30	Personal Income (m/m)	Nov	-0.3	-0.3	-1.1
US	12/23	10:00	New Home Sales (000s a.r.)	Nov	995	995	841
US	12/23	10:00	U. of Michigan Consumer Sentiment	Dec F	--	81.1	80.7

KEY POINTS:

- **Risk-on sentiment cherry-picks developments**
- **Brexit deal done for Christmas?**
- **Canada posts solid growth in October and November…**
- **…which gives a running start into renewed lockdowns…**
- **…ahead of vaccine effects…**
- **…with the BoC's output gap still forecast to shut in 2022**
- **US jobless claims decline…**
- **…but consumers spent and earned less last month…**
- **…reinforcing stimulus requirements...**
- **…while Trump diverts attention from pardons…**
- **…by throwing the stimulus and funding bill into doubt**
- **US investment continues to rise strongly…**
- **…as housing slips**

INTERNATIONAL

Risk-on sentiment is guiding markets so far today and it appears to be weighted more toward possible optimism toward a Brexit deal and the cherry-picked parts of US releases, rather than Trump's reckless antics over signing the stimulus and funding bill as well as the weaker parts of the US macro releases. Bonds are getting hammered by the Brexit developments that may be striking a deal once and for all today, but with appropriate caution remaining. US releases favoured jobless claims and business investment over consumer spending and incomes as well as softer home sales. Canada's economy beat expectations… again; see below for what it may mean to the BoC.

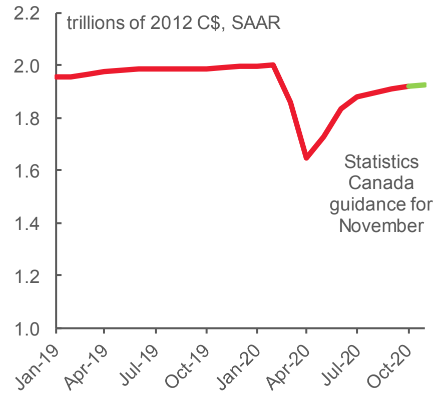
- Stocks are broadly higher. The S&P500 is up by around ½% along with the TSX's slightly milder performance. European exchanges are up by between ½% and 1¾%.

- Sovereign bond prices are sharply cheaper. The yields on 10s are up by about 3–5bps across the US, Canada and across EGBs while the 10 year gilts yield is up 11bps and the 30 year UK bond yield is up 13bps. Brexit optimism is proving to be a major catalyst for a potentially violent bond move.

CONTACTS

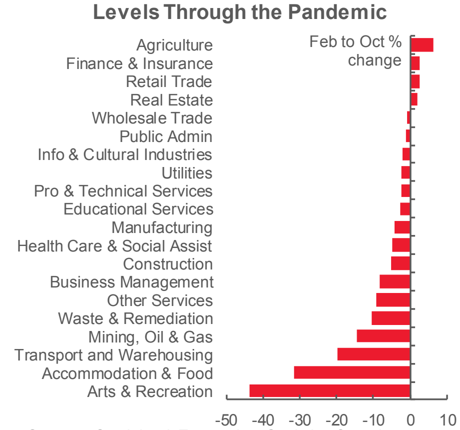
Derek Holt, VP & Head of Capital Markets Economics
416.863.7707
Scotiabank Economics
derek.holt@scotiabank.com

Chart 1 Canadian Industry GDP



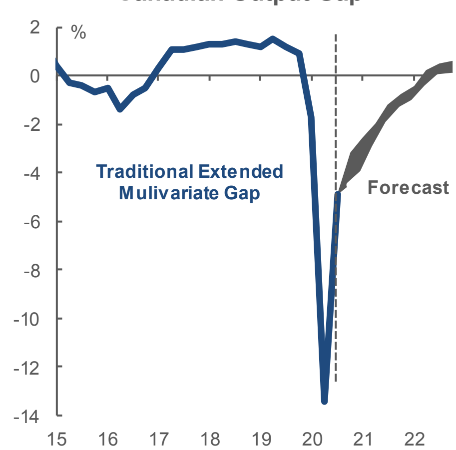
Sources: Scotiabank Economics, Statistics Canada.

Chart 2 Change in Canadian Industry GDP Levels Through the Pandemic



Sources: Scotiabank Economics, Statistics Canada.

Chart 3 Canadian Output Gap



Sources: Scotiabank Economics, Statistics Canada.

- Oil is up 3% across Brent and WTI.
- The USD is broadly weaker. Sterling is the strongest performer and is up by over 1% to the USD.

Trump sought to divert attention from pardoning sundry unsavoury types by suddenly showing interest in the stimulus negotiations. Good timing! Not. His protests risk tossing a lump of coal into American stockings. With the bill requiring his signature to fund the government and apply stimulus on his desk, he says he wants bigger stimulus cheques and less waste elsewhere in the bill. Everyone knows that waste is only good when it's your pals that benefit from it. He didn't explicitly guide whether he would veto the bill. Trump's proposal to seek $2k/person cheques instead of $600 would increase the cost from $160B to $500B. There is some merit to that as downside risks mount in the near-term before vaccines and the economic impact would likely see some of it being spent, but much of it horded such that the saving rate would spike again into the new year. Pelosi—never one to pass up an opportunity to spend more—supports it and said the House would seek a standalone measure. McConnell and the GOP haven't spoken out but I suspect they'd balk which is kind of funny because they've tended to previously think that steps like these pay for themselves…. Trump's motives are never pure, so this could simply be an effort to front-run additional stimulus plans under a Biden administration and take credit before he gets deleted from the search criteria behind my automated rolling headline feeds, or he could be trying to rock the boat in the January 6th Georgia Senate run-offs. All one can say is grab another coffee and stay tuned…

Brexit talks are ongoing and headline volatility has been rather extreme this morning. While headlines have oscillated back and forth between a deal has been struck and advising caution, it seems that at the point of publishing the headlines and guidance from officials lean toward a decent chance of striking a formal agreement today.

CANADA

Canada GDP, m/m % change, October, SA :
Actual: 0.4
Scotia: 0.2
Consensus: 0.3
Prior: 0.8
November guidance: 0.4

Canada's economy solidly beat expectations not only for the month of October but also in terms of preliminary guidance for November. There is obvious downside risk that is emerging from December through the winter months as lockdowns and restrictions bite once again, but it's important to acknowledge that a) the economy has continued to perform better than many had thought possible right up to November, and b) the earlier than expected arrival of vaccines should lend greater confidence toward expecting a more sustained expansion.

GDP grew by 0.4% m/m and that doubled StatsCan's initial guidance that had indicated an advance of 0.2% m/m. Preliminary guidance for November indicates the economy grew by another 0.4% m/m. We had advised that the tone of the data was looking solid on balance including hours worked as an offset to the late month lockdown in the Toronto area and restrictions elsewhere.

Current tracking for Q4 indicates GDP growth of 6.3% q/q at an annualized rate following 42% growth in Q3 using the monthly GDP figures. After contracting by 18% from February to April, the economy has now recovered 98% of the initial pandemic hit and it took just seven months to do so. We'll see weaker figures going forward through at least December and January, but put this in perspective by noting that the portion of consensus that believed this would be a deflationary depression that would take a decade to recover from while walloping stocks has been absolutely dead wrong to date. The economy has rebounded faster than anticipated and core inflation remains sticky and just a few tenths beneath the BoC's target.

Chart 1 shows the progress to date. Chart 2 shows where individual sectors of the economy now stand in relation to their output back in February in order to provide a depiction of the unevenness of the recovery. Some sectors like agriculture, finance, retail and real estate have more than recovered. Some barely remain in contraction like wholesale, public administration, info/culture, utilities, professional services and education. About a half dozen sectors are where the recovery still has a long way to go and particularly arts and recreation, accommodation and food services and transportation/warehousing.

So what does it mean to the BoC? On balance I still think Canada is on track to close spare capacity earlier than the BoC forecast in its October MPR as the tracking risks to their forecasts generally land on the more optimistic side of the picture on balance (chart 3).

For starters, Q4 is blowing the barn doors off the BoC's projection, so far. The BoC had forecast 1% annualized Q4 GDP growth on an expenditure basis and at this point tracking is pointing toward over 6% using the monthlies. There are various reasons why the two GDP concepts may not line up, but they still leave us tracking a material overshoot of the BoC's expectations.

Second, the arrival of renewed lockdowns will take at least some of that tracking for Q4 downward and set up a weaker start to Q1 which involves taking a step backward. What makes it more like 'lockdown lite' this time, however, include considerations like greater adoption of work-from-home practices, heavy tech investment, an accelerated shift to on-line sales and curbside pick-up alongside a vastly different stimulus backdrop both in terms of cheap financing and extended income supports.

Thereafter, however, the earlier than expected arrival of vaccines should buoy optimism as 2021 gradually unfolds. We obviously didn't have that during the initial lock downs. Overall, vaccines and better Q4 tracking generally offset the resumption of downside risk in between the two effects.

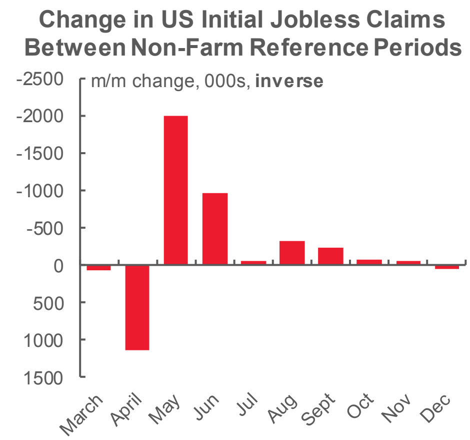
UNITED STATES

US macro data was a bit of a mixed bag this morning. The state of the job market was a bit better than expected, but that was offset by weaker than expected income and spending figures. Big ticket business investment remains robust.

Weekly jobless claims were better than expected. Last week's tally landed at 803k, down from a slightly upwardly revised 892k the prior week. Claims had risen for two consecutive weeks before reverting lower last week. Still, the pace of progress in initial jobless claims has definitely slowed between nonfarm reference periods which is the pay period including the 12th day of each month (chart 4). Even as jobless claims have seen flat lining trend performance, however, nonfarm payrolls have continued to expand.

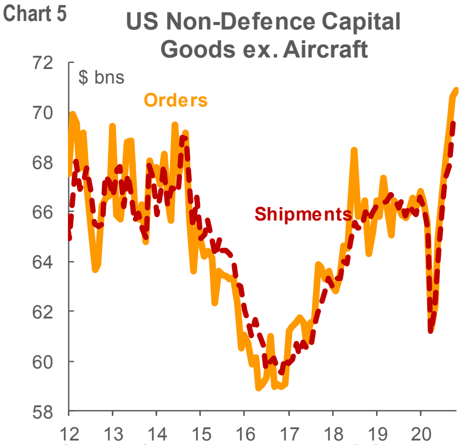
Big ticket durable goods orders also beat expectations last month. Core capital goods orders excluding defence and air are a proxy for broad investment in machinery and equipment and they were up another 0.4% m/m but more importantly the prior month's 0.8% m/m rise was doubled after revisions. Core capital goods orders have risen for seven straight months now (trend in chart 5). **The level of core orders (ex-defence and air) is at an all-time high as pent-up demand from trade wars and the pandemic is being unleashed (chart 6).**

Chart 4



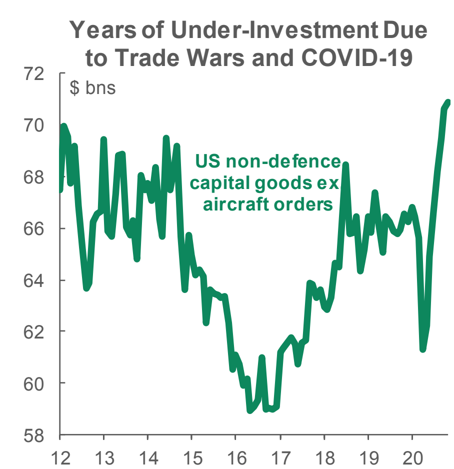
Note: Reference week defined as containing the 12th of each month.
Sources: Scotiabank Economics, US BLS.

Chart 5



Sources: Scotiabank Economics, US Census

Chart 6



Sources: Scotiabank Economics, US Census

Alright apparently that's enough of all this warm fuzzy holiday cheer, as it's time for some sobering perspectives on how the consumer sector disappointed. **November's tally for incomes fell 1.1% m/m (consensus -0.3%) and the prior month was little changed at -0.6% m/m (from -0.7% initially).** Incomes have fallen in three of the past four months as a portion of jobless benefit transfers ended in July. Dear Mr. President: Sign here. The impact on consumption was felt through a 0.4% m/m drop in November and downward revision to a 0.3% m/m rise in October (from 0.5%). In inflation adjusted terms, personal disposable income is tracking a 9% q/q annualized drop in Q4 while consumption is up 4¼%. The means the personal saving rate continues to decline from a peak of 33.7% in April to 12.9% last month.

The Fed's preferred inflation readings were also a touch softer than estimated at 0% m/m for headline PCE inflation and 0% m/m for core PCE. That dropped headline inflation to 1.1% y/y while core held steady at 1.4% y/y.

Despite the fact that model home foot traffic held up as COVID-19 cases climbed, **fewer than expected new home sales contracts were signed last month.** A caution is that new home sales are often heavily revised. Sales fell 11% m/m to 841,000 homes last month. The Midwest saw a drop of over 40% m/m, the west census region fell by about 17% m/m, the south fell 2% and the northeast fell 2%. Months' supply increased by half a month to 4.1 and has risen for a couple of months now off the lowest inventory position since 1998.

Fixed Income	Government Yield Curves (%):											
	2-YEAR			5-YEAR			10-YEAR			30-YEAR		
	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk
U.S.	0.12	0.12	0.12	0.37	0.36	0.37	0.95	0.92	0.92	1.70	1.65	1.66
CANADA	0.23	0.22	0.24	0.44	0.42	0.44	0.74	0.70	0.73	1.29	1.25	1.30
GERMANY	-0.70	-0.74	-0.73	-0.72	-0.76	-0.74	-0.55	-0.60	-0.57	-0.15	-0.20	-0.16
JAPAN	-0.13	-0.13	-0.12	-0.12	-0.12	-0.12	0.01	0.01	0.01	0.62	0.63	0.63
U.K.	-0.12	-0.13	-0.08	-0.03	-0.11	-0.03	0.29	0.18	0.27	0.87	0.73	0.83
	Spreads vs. U.S. (bps):											
CANADA	12	11	13	7	5	8	-21	-22	-19	-40	-40	-36
GERMANY	-82	-85	-84	-109	-113	-111	-150	-151	-148	-185	-185	-182
JAPAN	-24	-24	-24	-49	-48	-48	-94	-91	-91	-107	-102	-103
U.K.	-23	-25	-19	-41	-47	-40	-66	-74	-65	-83	-92	-82

Equities	Level		% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	17613	60.6	0.3	0.3	3.0	2.8
Dow 30	30223	207.6	0.7	0.2	2.1	5.9
S&P 500	3703	15.8	0.4	0.1	3.5	14.9
Nasdaq	12813	5.2	0.0	1.2	7.8	43.2
DAX	13587	169.1	1.3	0.2	3.5	2.2
FTSE	6496	42.6	0.7	-1.1	2.6	-14.8
Nikkei	26525	88.4	0.3	-0.9	3.9	11.3
Hang Seng	26343	223.8	0.9	-0.4	-0.5	-5.6
CAC	5528	60.7	1.1	-0.4	0.6	-8.3
Commodities	Level		% change:			
WTI Crude	48.42	1.40	3.0	1.3	12.4	-20.0
Natural Gas	2.69	-0.09	-3.4	0.3	-0.9	21.3
Gold	1874.30	13.46	0.7	0.5	2.0	26.1
Silver	25.77	-0.39	-1.5	6.4	6.6	51.3
CRB Index	165.55	1.94	1.2	1.0	5.2	-10.3
Currencies	Level		% change:			
USDCAD	1.2843	-0.0065	-0.5	0.8	-1.8	-2.3
EURUSD	1.2196	0.0033	0.3	-0.0	3.0	10.0
USDJPY	103.53	-0.1100	-0.1	0.1	-0.9	-5.4
AUDUSD	0.7586	0.0063	0.8	0.1	4.1	9.6
GBPUSD	1.3511	0.0150	1.1	0.0	1.4	4.4
USDCHF	0.8881	-0.0015	-0.2	0.3	-2.7	-9.6

Central Banks	
Current Rate	
Canada - BoC	0.25
US - Fed	0.25
England - BoE	0.10
Euro zone - ECB	0.00
Japan - BoJ	-0.10
Mexico - Banxico	4.25
Australia - RBA	0.10
New Zealand - RBNZ	0.25
Next Meeting Date	
Canada - BoC	Jan 20, 2021
US - Fed	Jan 27, 2021
England - BoE	Feb 04, 2021
Euro zone - ECB	Jan 21, 2021
Japan - BoJ	Jan 21, 2021
Mexico - Banxico	Feb 11, 2021
Australia - RBA	Feb 01, 2021
New Zealand - RBNZ	Feb 23, 2021