

ON DECK FOR THURSDAY, FEBRUARY 18

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	02-18	08:00	Fed's Brainard Speaks at IIF Climate Summit				
CA	02-18	08:30	Teranet - National Bank HPI (y/y)	Jan	--	--	9.6
US	02-18	08:30	Building Permits (000s a.r.)	Jan	--	1,668	1,881
US	02-18	08:30	Export Prices (m/m)	Jan	--	0.8	2.5
US	02-18	08:30	Housing Starts (000s a.r.)	Jan	1677	1,660	1,580
US	02-18	08:30	Housing Starts (m/m)	Jan	0.5	-0.5	-6.0
US	02-18	08:30	Import Prices (m/m)	Jan	--	1.0	1.4
US	02-18	08:30	Initial Jobless Claims (000s)	Feb 13	770.0	770.0	861.0
US	02-18	08:30	Continuing Claims (000s)	Feb 6	4,500	4,425	4,494
US	02-18	08:30	Philadelphia Fed Index	Feb	--	20.0	23.1
US	02/18	10:00	Fed's Bostic Discusses Educational Inequality				

KEY POINTS:

- **US Treasury yields spiking higher again despite soft equities**
- **Timing the Fed's taper**
- **Australia inches closer to a full job recovery**
- **Not great, but not terrible US macro readings**
- **BI cuts, Turkey holds, both as widely expected**
- **Canada's Ehhh!DP**

INTERNATIONAL

Slow moving central banks that seem wedded to their 2020 narratives are driving curve steepening in bond markets.

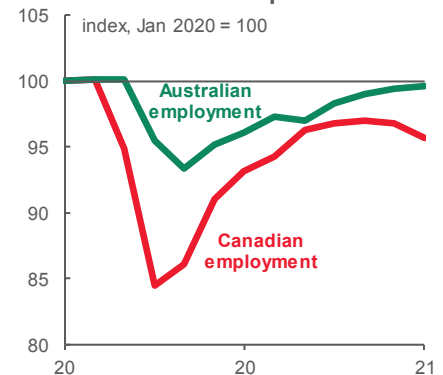
- Equities are softer again with generally mild declines across North American futures and most of Europe.
- Sovereign curves are back to bear steepening. US 10s are about 4bps cheaper and inching above 1.3% again. Canada's longer end yields are 4bps higher. The whole gilts curve is 2–7bps cheaper in a steepener move with 10-year EGB yields are 3–7bps higher.
- Oil is up by about ½% across WTI and Brent.
- The USD is broadly softer against all major currencies.

The A\$ appreciated post-jobs but reversed that before joining a broad USD-softening trade this morning. Australia gained 29,100 jobs last month (consensus 30k) and the composition included a robust 59k gain in full-time jobs to offset about a 30k drop in part-time work. The unemployment rate fell again to 6.4% (was 7.5% at the July peak). The participation rate edged a tick lower to 66.1% but is well above the low of 62.6% set in May and fully recovered to pre-pandemic levels. Australia had lost 878k jobs from February to May but has since regained all by 64k of them. It didn't experience anything close to the job losses in Canada against which it is often compared and is closer to a full recovery (chart 1). Still, headline inflation at 0.9% y/y and average core measures at 1.3% remain well below the RBA's 2–3% target range, for now.

CONTACTS

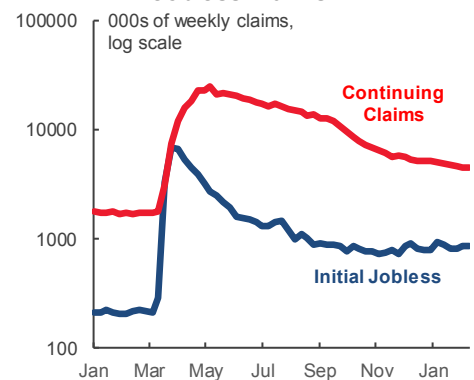
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Chart 1 Australian & Canadian Jobs Comparison



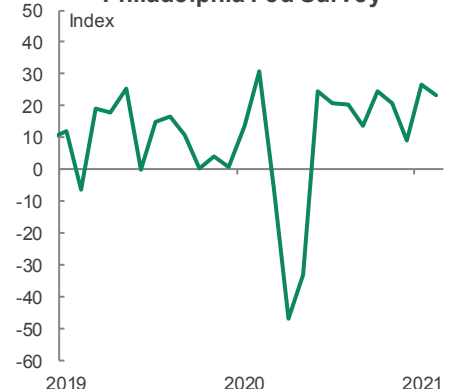
Sources: Scotiabank Economics, Statistics Canada, Australian Bureau of Statistics.

Chart 2 US Initial & Continuing Jobless Claims



Sources: Scotiabank Economics, US Dept of Labor.

Chart 3 Philadelphia Fed Survey



Sources: Scotiabank Economics, Bloomberg.

Bank Indonesia cut 25bps as most economists anticipated. Turkey's central bank held at 17% as expected.

UNITED STATES

US macro data wasn't bad, but also wasn't terribly impressive this morning.

- **Weekly jobless claims landed higher than expected** at 861k last week and were revised up to 848k the prior week from 793k. Chart 2 plots the trend. A caveat is that California registered the biggest seasonally unadjusted rise among the states and yet that state was flagged as estimated by the BLS (p.5 [here](#)). Still, initial claims are tracking slightly lower than into the prior month's nonfarm payrolls reference period.
- **The Philly Fed's regional business gauge slipped to 23.1** (26.5 prior) partly due to slower but still strong growth in the new order book. Chart 3 plots the headline gauge that continues to indicate a solid pace of expansion.
- **Housing starts fell by 6% m/m (consensus -0.5%) with part of that miss explained by an upward revision** that now shows December at an 8.2% m/m gain (from 5.8% previously). As chart 4 indicates, however, **the rise in building permits suggests that the softness in starts may be transitory**. Expect nearer term starts to be dealing with weather disruptions including colder than normal temperatures.

Minutes to yesterday's January 26th-27th FOMC meeting ([here](#)) didn't offer much to merit a standalone note, but two comments are somewhat worth flagging here. For one thing, the fact that we are getting the upside risk to how fiscal policy is evolving suggests the minutes were stale as per this passage:

"With regard to upside risks, some participants pointed to the possibility that fiscal policy could turn out to be more expansionary than anticipated, that households could display greater willingness to spend out of accumulated savings than expected, or that widespread vaccinations and easing of social distancing could result in a more rapid boost to spending and employment than anticipated. Participants generally viewed the risks to the outlook for inflation as having become more balanced than was the case over most of 2020, although most still viewed the risks as weighted to the downside."

Central banks are almost always slow to change the narrative and today seems like no exception. I generally find that ones like the Fed and BoC are speaking from last Fall's playbook before vaccine trials hit in November and fiscal policy became abruptly more expansionary.

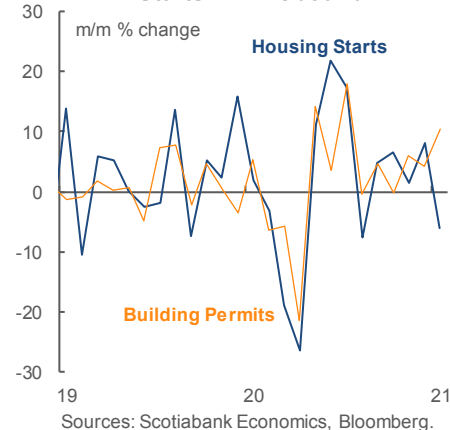
Second is the issue of how to time the Fed's first taper/reduction of its US\$80 billion per month of Treasuries purchases and US\$40B per month of MBS purchases. Key is what the FOMC means when they say it will be "some time" before which "substantial progress" toward dual mandate goals is achieved and by way of when they think they'll be at the point of tapering. Here is the relevant passage:

"The Committee's guidance for asset purchases indicated that asset purchases would continue at least at the current pace until substantial further progress toward its employment and inflation goals had been achieved. With the economy still far from those goals, participants judged that it was likely to take some time for substantial further progress to be achieved. Various participants noted the importance of the Committee clearly communicating its assessment of progress toward its longer-run goals well in advance of the time when it could be judged substantial enough to warrant a change in the pace of purchases."

So what does 'some time' mean? That's somewhat of a guessing game, but recall that when pressed, Vice Chair Clarida has said that "some time" in the context of the "moderately exceed 2 percent for some time" inflation language meant about a year cruising just above 2% in his view. It is by no means clear that the same definition of 'some time' applies in the taper dialogue, but it could.

Chart 4

US Permits Suggest Housing Starts Will Rebound



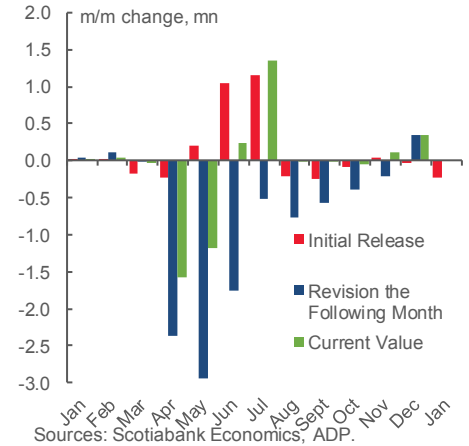
In fact, also recall what Clarida said on January 8th: "My economic outlook is consistent with us keeping the current pace of purchases throughout the remainder of the year." Maybe he's open to buying at the pace for longer, but that's not what he said. He went on to condition that on whether upsides to the economy emerge. This was said when some other regional Fed officials began openly speculating the conditions to taper could arrive before year-end. That, in turn, would be consistent with expectations for a taper to be delivered early next year, or about a year from now around Q1 if all goes well. In turn, communicating progress "well in advance" as the minutes reinforced would suggest they could begin doing so over 2021H2. Still, this is data dependent, but the point is that what we're hearing is consistent with an early 2022 taper, a potentially milder tantrum later this year, shutting down purchases by the end of 2022 and then we're left debating whether the reinvestment and hiking cycle will be similar or more compressed this time than in 2013–15 given the differences in this period compared to the experience back then.

CANADA

ADP indicated that Canada lost 231,228 jobs last month. We already know that the Labour Force Survey showed a drop of 212,800, though ADP being a payroll measure is supposed to track StatsCan's lagging payroll survey that we don't have yet. Regardless, ADP's revisions have been nothing short of wild throughout the whole pandemic with no explanations ever really being offered, so markets tend not to pay heed (chart 5).

Chart 5

ADP Canada's Nonfarm Payroll Revisions Through the Pandemic



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			
	0.11	0.11	0.11	0.56	0.55	0.46	1.31	1.27	1.17	2.09	2.04	1.95	Canada - BoC	0.25	
	0.23	0.21	0.19	0.61	0.58	0.48	1.15	1.11	1.00	1.74	1.69	1.59	US - Fed	0.25	
	-0.69	-0.70	-0.72	-0.63	-0.65	-0.70	-0.34	-0.37	-0.46	0.17	0.14	0.03			
	-0.11	-0.11	-0.11	-0.08	-0.08	-0.09	0.10	0.10	0.08	0.68	0.69	0.67	England - BoE	0.10	
	-0.03	-0.04	-0.04	0.14	0.11	0.06	0.63	0.57	0.47	1.21	1.15	1.05			
	Spreads vs. U.S. (bps):														
	12	11	8	5	3	2	-15	-16	-17	-35	-35	-36	Euro zone - ECB	0.00	
	-79	-80	-83	-119	-120	-117	-164	-164	-162	-192	-190	-192	Japan - BoJ	-0.10	
-22	-21	-22	-65	-62	-56	-121	-117	-108	-141	-135	-128				
-14	-15	-15	-42	-44	-40	-67	-70	-70	-88	-88	-90				
Equities	Level						% change:						Mexico - Banxico	4.00	
S&P/TSX Dow 30 S&P 500 Nasdaq DAX FTSE Nikkei Hang Seng CAC	Last	Change		1 Day		1-wk	1-mo	1-yr							
	18375	-117.9		-0.6		-0.4	2.4	2.9	Australia - RBA						0.10
	31613	90.3		0.3		0.8	2.6	8.1	New Zealand - RBNZ						0.25
	3931	-1.3		-0.0		0.5	4.3	16.6							
	13966	-82.0		-0.6		-0.3	7.4	43.5							
	13901	-8.8		-0.1		-1.0	0.4	1.6							
	6615	-96.2		-1.4		1.3	-1.6	-10.4							
	30236	-56.1		-0.2		2.3	7.1	30.4							
	30595	-489.7		-1.6		3.8	6.0	11.1							
	5739	-26.9		-0.5		1.2	2.2	-5.2							
	Commodities	Level						% change:							
WTI Crude Natural Gas Gold Silver CRB Index	61.55	0.41		0.7		4.9	17.6	18.3							
	3.18	-0.04		-1.3		9.1	16.0	60.3							
	1782.65	6.52		0.4		-2.3	-3.2	11.3							
	27.12	-0.46		-1.7		-0.4	7.4	52.3							
	189.58	0.90		0.5		3.0	8.2	9.1							
Currencies	Level						% change:								
USDCAD EURUSD USDJPY AUDUSD GBPUSD USDCHF	1.2695	-0.0007		-0.1		-0.1	-0.5	-4.3							
	1.2079	0.0041		0.3		-0.4	0.0	11.9							
	105.71	-0.1600		-0.2		0.9	1.9	-3.8							
	0.7764	0.0013		0.2		0.2	1.1	16.1							
	1.3964	0.0107		0.8		1.1	2.8	7.4							
0.8964	-0.0025		-0.3		0.7	0.6	-8.8								
													Next Meeting Date		
													Canada - BoC	Mar 10, 2021	
													US - Fed	Mar 17, 2021	
													England - BoE	Mar 18, 2021	
													Euro zone - ECB	Mar 11, 2021	
													Japan - BoJ	Mar 19, 2021	
													Mexico - Banxico	Mar 25, 2021	
													Australia - RBA	Mar 01, 2021	
													New Zealand - RBNZ	Feb 23, 2021	

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