

ON DECK FOR TUESDAY, AUGUST 31

Country	Date	Time	Event	Period	BNS	Consensus	Latest
CA	08-31	08:30	Real GDP (m/m)	Jun	0.7	0.7	-0.3
CA	08-31	08:30	Real GDP (q/q a.r.)	2Q	2.5	2.5	5.6
US	08-31	09:00	S&P/Case-Shiller Home Price Index (m/m)	Jun	--	1.8	1.8
US	08-31	09:00	S&P/Case-Shiller Home Price Index (y/y)	Jun	--	18.6	17.0
US	08-31	09:45	Chicago PMI	Aug	--	68.0	73.4
US	08-31	10:00	Consumer Confidence Index	Aug	125	123.0	129.1

KEY POINTS:

- ECB taper in play?
- China's PMIs crater
- The case for looking through inflation base effects is strongest in the eurozone...
- ...but an ECB hawk lights up taper talk...
- ...and we may hear alternative ECB views shortly
- CDN GDP to inform fresh starting point for forecasts
- Will US CB confidence fall as much as UofM?
- Chile's CB expected to hike
- CDN elections: rates, FX and the TSX
- More auto price hikes coming

Well, global markets took the unexpected cratering of China's economy pretty well I'd say, perhaps viewing it as transitory like everything else these days. They are not taking ECB talk as well. Anyway we have most major currencies gaining over the USD and yen safe havens. The biggest moves in sovereign bond markets are in EGBs where curves steepened as they didn't take a spike in Eurozone inflation as transitory as perhaps they should have. There is less follow through into US Treasuries and Canadas. Stocks were doing alright with most exchanges in the black including mild gains in N.A. futures until **a known ECB hawk indicated support for reducing bond buying in Q4 (Holzmann) but we could hear a different perspective from another ECB official shortly.**

China's state PMIs fell by more than expected and the broad composite PMI slipped into contraction. The composite PMI fell to 48.9 (52.4 prior) as the non-manufacturing PMI plunged by 5.8 points to 47.5. The manufacturing sector stalled with its PMI at 50.1 (50.4 prior). A reading above 50 signals expansion, below 50 contraction. While domestic COVID-19 restrictions drove much of it, export orders also weakened in both sectors. The broad details were weak. Watch the private PMIs starting tonight and Thursday night as they are more focused upon smaller non-SOE producers particularly in coastal export-oriented centers.

Eurozone inflation spiked a little higher than expected but the euro initially ignored it based on the well understood drivers and has since gained somewhat on ECB headlines and in line with other crosses to the dollar. Core inflation climbed to 1.6% y/y from 0.7% the prior month but the base effect driver was largely anticipated. Prices fell a year ago in part due to Germany's sales tax cut. Base effects will keep inflation high until year-end when they turn the other way and so the ECB has made it clear they will look through the

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Chart 1

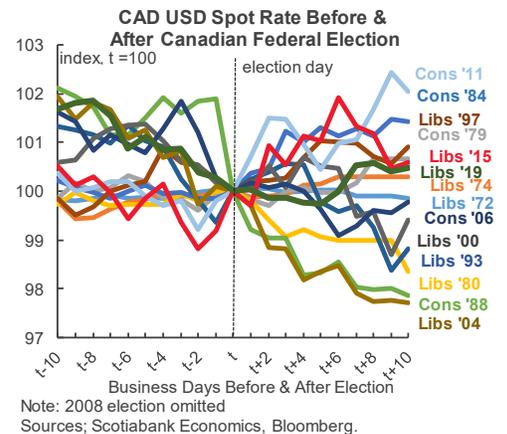


Chart 2

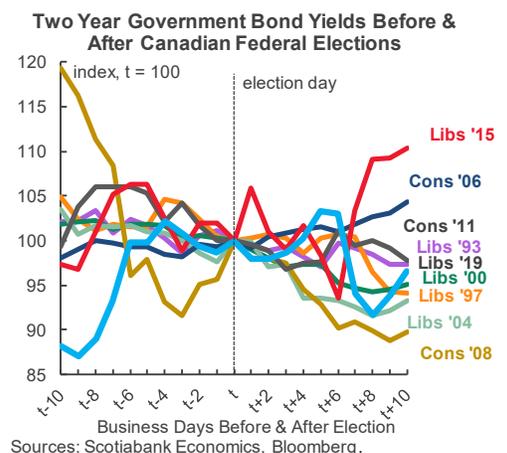
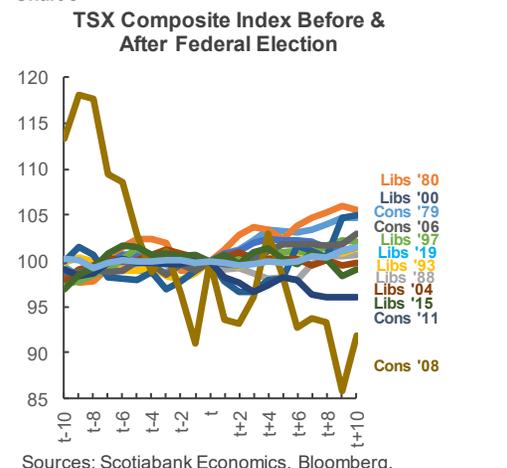


Chart 3



effects. ECB Chief Econ Lane speaks a little later (8:30amET) and is likely to reaffirm this point which could assuage any concern that the ECB is going to do anything other than bump up this year's inflation forecast in mark-to-market fashion. Headline climbed to 3% y/y (2.2% prior) partly for the same reason and with a 0.4% m/m assist (0.2% consensus).

Germany's labour market continues to improve. Unemployment claims fell by 53k in August (-40k consensus) for the fourth straight notable drop. There have been only two increases in claims dating back to a year ago.

French consumer spending plunged by 2.2% m/m in July (+0.2% consensus). All types of spending were weaker except energy.

Most (8 of 11 in consensus) expect Chile's central bank to hike by 50bps with 3 expecting 25bps including Scotia's Santiago-based economist (6pmET). Why? Inflation and with COVID-19 cases declining across LatAm. Inflation hit 4.5% y/y in July with core up to 3.6%, versus BCCh's inflation target set at 3% over two years.

If you'd like more signs that inflation isn't transitory and that supply chain problems are getting worse then check out headlines from Suzuki this morning. They are indicating that production is running at about 40% of normal due to semiconductor shortages and other challenges and that they are hiking prices across the board with the roll-out of new year models in September. We'll probably see multiple car cos doing likewise and driving greater price increases than is seasonally normal. And semiconductors are hardly the only supply chain challenge affecting auto companies.

UNITED STATES

After UnivofMich consumer sentiment tanked, will the Conference Board's measure follow suit (10amET)? I put in a decline and consensus is in the same ballpark but the decline could be much milder than the UofM measure. There are different drivers. CB is more driven by jobs. Watch the jobs plentiful reading for one of the advance nonfarm clues, plans to buy measures, and of course the inflation signal that is toward the high points of its history since 1987.

CANADA

Canada updates GDP figures this morning (8:30amET). They probably won't matter a whole lot to forward-looking markets, but they'll inform debates economists fret over like jumping off points for forecast revisions we are considering. A strong gain of 0.7% m/m was guided in the flash June estimate subject to revision and Q2 growth around 2½% is expected compared to the BoC's 2% revised Q2 forecast in the July MPR. Key will be July 'flash' guidance with hours worked up smartly (+1.3% m/m) and very few other readings that were generally soft like advance guidance for headline retail sales and existing home sales.

So you wanna trade the Canadian election do ya? Well, I take no responsibility whatsoever for anything that anyone sees in the Rorschach blots shown in charts 1–3. The charts follow up what I wrote in the Global Week Ahead on trading the Canadian election (hint: buy a lottery ticket instead). They show what happened to the Canadian dollar relative to the USD (falling is appreciating), Canada's 2 year yield and the TSX starting 10 days in advance of the election day and ending 10 days after in order to provide a reasonable depiction of the event play at hand. Basically it's a 50–50 chance whether these measures go up or down. A purist would say you have to control for a lot of other things going on each time, which is kind of the point in that a pure play on the election alone is tough to come by. This is likely truer now given relatively little substantive difference in terms of the macroeconomic, fiscal and monetary policy frameworks that would likely fall out of the election results. There may be a bit more sector differentiation, however, as party platforms surrounding the energy sector are deviating.

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.	0.20	0.20	0.22	0.78	0.77	0.80	1.29	1.28	1.30	1.90	1.90	1.92	Canada - BoC	0.25
CANADA	0.43	0.42	0.45	0.83	0.81	0.85	1.21	1.18	1.19	1.77	1.74	1.77	US - Fed	0.25
GERMANY	-0.72	-0.74	-0.74	-0.69	-0.72	-0.74	-0.40	-0.44	-0.48	0.07	0.03	-0.03	England - BoE	0.10
JAPAN	-0.13	-0.11	-0.11	-0.11	-0.11	-0.12	0.03	0.02	0.02	0.65	0.65	0.65		
U.K.	0.20	0.12	0.13	0.36	0.29	0.27	0.67	0.58	0.54	1.00	1.00	0.95		
	Spreads vs. U.S. (bps):													
CANADA	23	22	22	6	4	5	-8	-10	-11	-14	-16	-15	Euro zone - ECB	0.00
GERMANY	-92	-94	-97	-146	-149	-153	-169	-172	-177	-183	-187	-195	Japan - BoJ	-0.10
JAPAN	-33	-31	-33	-88	-88	-91	-126	-126	-128	-125	-125	-126		
U.K.	-1	-8	-10	-42	-48	-53	-62	-70	-76	-90	-90	-97	Mexico - Banxico	4.50
Equities	Level						% change:							
	Last			Change			1 Day	1-wk	1-mo	1-yr				
S&P/TSX	20595			-49.7			-0.2	0.2	1.5	24.7			Australia - RBA	0.10
Dow 30	35400			-56.0			-0.2	0.2	1.3	24.5			New Zealand - RBNZ	0.25
S&P 500	4529			19.4			0.4	1.1	3.0	29.4				
Nasdaq	15266			136.4			0.9	2.2	4.0	29.6				
DAX	15864			-22.9			-0.1	-0.3	2.1	22.5				
FTSE	7112			-35.9			-0.5	0.0	1.1	19.3				
Nikkei	28090			300.3			1.1	1.3	3.0	21.4			Canada - BoC	Sep 08, 2021
Hang Seng	25879			339.5			1.3	0.6	-0.3	2.8			US - Fed	Sep 22, 2021
CAC	6669			-18.2			-0.3	0.1	0.9	34.8				
Commodities	Level						% change:							
WTI Crude	68.57			-0.64			-0.9	1.5	-7.3	60.9			England - BoE	Sep 23, 2021
Natural Gas	4.26			-0.04			-1.0	9.4	8.9	62.1			Euro zone - ECB	Sep 09, 2021
Gold	1812.89			2.55			0.1	0.6	-0.1	-7.9			Japan - BoJ	Sep 22, 2021
Silver	23.61			-0.07			-0.3	1.7	-6.0	-13.3				
CRB Index	218.56			-0.96			-0.4	1.6	0.2	42.6				
Currencies	Level						% change:							
USDCAD	1.2578			-0.0028			-0.2	-0.1	0.5	-3.6			Mexico - Banxico	Sep 30, 2021
EURUSD	1.1840			0.0043			0.4	0.7	-0.3	-0.8			Australia - RBA	Sep 07, 2021
USDJPY	109.85			-0.0700			-0.1	0.2	0.5	3.7				
AUDUSD	0.7327			0.0031			0.4	1.0	-0.5	-0.7				
GBPUSD	1.3789			0.0029			0.2	0.4	-0.7	3.1			New Zealand - RBNZ	Oct 05, 2021
USDFX	0.9130			-0.0039			-0.4	0.0	0.8	1.0				

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