

ON DECK FOR WEDNESDAY, SEPTEMBER 1

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	09-01	07:00	MBA Mortgage Applications (w/w)	Aug 27	--	--	1.6
US	09-01	08:15	ADP Employment Report (000s m/m)	Aug	500	625	374
US	09-01	10:00	Construction Spending (m/m)	Jul	-0.3	0.2	0.3
US	09-01	10:00	ISM Manufacturing Index	Aug	58.6	58.5	59.9
US	09-01		Total Vehicle Sales (mn a.r.)	Aug	13.2	14.5	14.8
US	09-01	12:00	Fed's Bostic Discusses an Inclusive Economy				

KEY POINTS:

- Risk-on sentiment
- US ADP disappoints. So what.
- US ISM-manufacturing beats...
- ...and so does construction spending...
- ...but vehicle sales may face downside risk
- The US economy is in a soft patch, not a train derailment
- We have all we're going to get for a nonfarm call
- Light overnight releases
- CDN Libs unveil long-awaited election platform

Stocks are bid across N.A. futures and European cash markets. Sovereign bond curves are slightly flatter in the US, UK and Canada but there was some catch-up curve steepening in Australia and NZ with 10s up about 9bps as comments from ECB hawks continued to ripple through bond markets ahead of next week's meeting. The USD is depreciating while the yen and CHF havens are also soft versus rallies in commodity crosses like the A\$, rand and CAD. Ongoing speculation around a reserve ratio requirement cut from China is also in play alongside ECB headlines. Chile's currency is among the ones to beat this morning after the Chilean central bank shocked markets with a hike of 75bps late yesterday; the peso is up 2% to the dollar between yesterday and this morning.

Overnight releases were minor and included:

- China's Caixin manufacturing PMI fell by 1.1 points to 49.2 and hence mildly into contraction (50.1 consensus). This follows the contractionary readings in the prior day's state non-manufacturing/services PMI and the state manufacturing PMI that stalled out with no growth. The Caixin PMI is more skewed toward smaller export-oriented producers in coastal cities.
- Australia's economy mildly beat expectations for Q2 GDP growth, but who cares as growth from Q3 onward is the issue given the sharp rise in COVID-19 cases. Fwiw, growth landed at 0.7% q/q SA non-annualized (0.4% consensus). The A\$ ignored it and then rallied hours later.

The Bank of England announced that Huw Pill will be their new Chief Economist. Check him out [here](#).

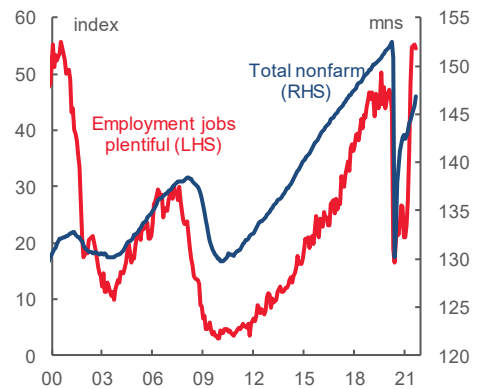
UNITED STATES

US ADP private payrolls came in soft again but so what. At 374k they missed consensus expectations for a gain of 625k and with a trivial revision to the prior

CONTACTS

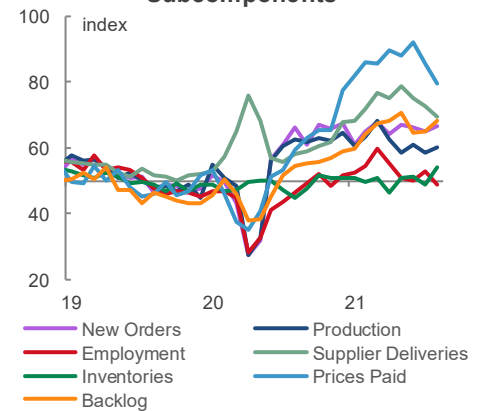
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Chart 1 Job Availability and Nonfarm



Sources: Scotiabank Economics, Conference Board, BLS

Chart 2 US ISM Manufacturing Subcomponents



Sources: Scotiabank Economics, ISM.

Chart 3 Changes in August ISM Manufacturing



Sources: Scotiabank Economics, ISM.

month (326k). Recall that ADP climbed by 943k in July despite ADP. ADP generally has a poor track record at predicting nonfarm payrolls and very few within consensus ever tend to revise nonfarm guesstimates on the back of ADP.

Other than ADP, we also know that the Conference Board's consumer confidence jobs plentiful reading slightly decreased in August and is roughly correlated with nonfarm (chart 1). Initial claims between nonfarm reference periods fell in August which is a mild plus. Growth in job postings peaked back in June and while it is still solid, growth has since waned. Further, NFIB small business hiring plans slipped a touch but were still solid back in July. Unfortunately, ISM-services-employment arrives on Friday after nonfarm payrolls which matters because it is also reasonably correlated with payrolls.

Nevertheless, the bigger issues when it comes to nonfarm may be that the low hanging fruit represented by getting back lower wage workers has been picked and many parents appear to have already gone back to work without waiting for the new school year. See the week ahead publication and accompanying deck for more on those two points.

US ISM-manufacturing beat expectations and slightly increased instead of the modest expected decline. That is despite all regional surveys weakening and ongoing production challenges in autos that are undersampled in regional surveys.

US ISM-mfrg index, SA, August:

Actual: 59.9

Scotia: 58.6

Consensus: 58.5

Prior: 59.5

The details were generally constructive. Prices paid eased a bit to 79.4 from 85.7, but so did jobs that decelerated to 49 from 52.9 although manufacturing is a small part of payrolls. New orders accelerated to 66.7 from 64.9, production was also up at 60 from 58.4 and the order backlog increased (68.2 from 65). Overall, the production pipeline is looking pretty decent. See chart 2 for the time trends across components and chart 3 for a breakdown of the component changes between July and August.

So what's that mean? The supply side is doing its best to catch up. Some of the softness in spending variables that we are seeing is because of shortages as the retail inventory:sales ratio is at a record low, auto dealer inventories are depleted, existing home months' supply is around a record low etc etc. This is the rotation argument, toward production variables with industrial output doing well for one, while spending variables have softened as product shortages are addressed and producers instead rely upon soaring prices to handle their rationing at the same time as exercising some pricing power.

As for construction spending, I suppose I was too negative. The gain of 0.3 m/m was led by residential spending that was up 0.5% m/m in July despite what I had gone with which was a plunge in housing starts at -7% in July and a downward revision to the month prior. Meh, who knew, spending was instead up.

Anyway, my narrative is still that we're in a soft patch, not a train derailment. Data in successive COVID waves with changes in the virus and the ways in which it is being handled that are hitting damaged supply chains is going to be choppy, not linear. Woo hoo it's a boom, awweee, woo hoo, awwweee.... Markets are behaving like the gasping crowd at an exciting tennis match that reacts to every shot. If so, then Treasuries and other havens are over bought especially with funding and ceiling issues to be resolved sometime if not this month then with worse consequences by next month when funding risks rise. Delta and supply side challenges should both gradually ease gradually. The other rotation will be toward services from the excessive reliance on goods through much of the recovery.

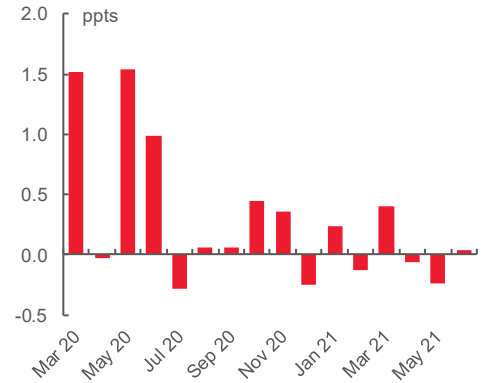
US vehicle sales for August will arrive by the end of the day following the release of individual company reports. Industry guidance has pointed toward a decline to the low 13-million range versus consensus that expects little change at 14.5 million (14.75 million the prior month).

CANADA

There are no material releases. Markit's manufacturing PMI increased a full point to 57.2 with decent details and adds to a general bias that the economy should fare somewhat better in August than July. Either that, or StatsCan's 'flash' guidance for a 0.4% drop in July GDP will be revised which wouldn't be out of the norm (chart 4).

The Federal Liberal Party of Canada released their long awaited election platform this morning ([here](#)). I suppose you could choose to spend your upcoming long weekend reading all five platforms. Sticking to issuance and market considerations, their platform uses the PBO's mid-August baseline macro projections as input to their spending and revenue plan costing efforts. Compared to the PBO's baseline forecasts for cumulative deficits of C\$266 billion over five years, the Liberal plan would raise the cumulative deficit to \$336 billion with some COVID-19 risk prudence measures. That would be driven by \$78 billion in new spending that would be mostly deficit-financed and with some higher taxes. Their projected debt:gdp ratio would be little changed from 51.2% in FY21–22 to 49.2% by 2025–26, assuming neither a boom of greater magnitude than the PBO anticipates—or any adverse economic shocks over the next five years. The Libs' deficit would likely decline to just over 1% of nominal GDP in the outer years of their five-year projection period. All three parties appear to have similar plans for the deficit over an extended period which signals it is a low political priority counting on solid sustained growth.

Chart 4

Spread Between Actual Real GDP and Statistics Canada Flash Guidance


Sources: Scotiabank Economics, Statistics Canada.

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.	0.21	0.21	0.24	0.78	0.78	0.82	1.31	1.31	1.34	1.92	1.93	1.95	Canada - BoC	0.25
CANADA	0.42	0.42	0.45	0.82	0.83	0.87	1.20	1.21	1.25	1.76	1.77	1.81	US - Fed	0.25
GERMANY	-0.71	-0.71	-0.73	-0.68	-0.68	-0.70	-0.37	-0.38	-0.42	0.12	0.09	0.05	England - BoE	0.10
JAPAN	-0.12	-0.13	-0.12	-0.11	-0.11	-0.11	0.03	0.03	0.02	0.65	0.65	0.65	Euro zone - ECB	0.00
U.K.	0.20	0.22	0.15	0.37	0.38	0.30	0.69	0.71	0.60	1.03	1.06	1.02	Japan - BoJ	-0.10
	Spreads vs. U.S. (bps):													
CANADA	21	21	21	4	6	5	-11	-10	-10	-16	-16	-14	Mexico - Banxico	4.50
GERMANY	-92	-92	-97	-146	-146	-152	-168	-169	-176	-181	-184	-190	Australia - RBA	0.10
JAPAN	-33	-34	-36	-89	-89	-93	-128	-129	-132	-127	-128	-130	New Zealand - RBNZ	0.25
U.K.	-1	1	-9	-42	-39	-51	-61	-60	-74	-89	-88	-93		
Equities	Level			% change:									Next Meeting Date	
	Last	Change		1 Day	1-wk	1-mo	1-yr							
S&P/TSX	20701	118.0		0.6	0.6	2.0	24.4							
Dow 30	35375	13.9		0.0	-0.1	1.3	23.5							
S&P 500	4532	9.8		0.2	0.8	3.1	28.5							
Nasdaq	15367	107.6		0.7	2.2	4.7	28.7							
DAX	15824	-10.8		-0.1	-0.2	1.8	22.0							
FTSE	7150	30.1		0.4	0.3	1.7	22.0							
Nikkei	28451	361.5		1.3	2.6	2.4	22.4							
Hang Seng	26028	149.3		0.6	1.3	-0.8	3.6							
CAC	6759	78.5		1.2	1.2	2.2	36.9							
Commodities	Level			% change:										
	Last	Change		1 Day	1-wk	1-mo	1-yr							
WTI Crude	68.17	-0.33		-0.5	-0.3	-7.8	59.4							
Natural Gas	4.62	0.25		5.6	18.7	18.1	83.0							
Gold	1815.48	1.86		0.1	1.4	0.1	-7.9							
Silver	24.05	0.44		1.8	1.2	-5.7	-12.1							
CRB Index	218.17	-1.35		-0.6	0.7	0.0	42.3							
Currencies	Level			% change:										
	Last	Change		1 Day	1-wk	1-mo	1-yr							
USDCAD	1.2599	-0.0017		-0.1	0.1	0.7	-3.6							
EURUSD	1.1856	0.0047		0.4	0.7	-0.1	-0.5							
USDJPY	109.99	-0.0300		-0.0	-0.0	0.6	3.8							
AUDUSD	0.7383	0.0067		0.9	1.5	0.3	0.1							
GBPUSD	1.3793	0.0038		0.3	0.2	-0.6	3.1							
USDCHF	0.9140	-0.0011		-0.1	0.0	0.9	0.5							
								Mexico - Banxico	Sep 30, 2021					
								Australia - RBA	Sep 07, 2021					
								New Zealand - RBNZ	Oct 05, 2021					

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