

ON DECK FOR WEDNESDAY, SEPTEMBER 29

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	09-29	07:00	MBA Mortgage Applications (w/w)	Sep 24	--	--	4.9
CA	09-29	08:30	IPPI (m/m)	Aug	--	-0.3	-0.4
CA	09-29	08:30	Raw Materials Price Index (m/m)	Aug	--	-1.5	2.2
CA	09-29	09:00	Fed's Harker Discusses Economic Outlook				
US	09-29	10:00	Pending Home Sales (m/m)	Aug	--	1.3	-1.8
US	09-29	11:45	Powell Takes Part in ECB Forum on Central Banking				
US	09-29	13:00	Fed's Daly Gives Speech to UCLA				
US	09-29	14:00	Fed's Bostic Gives Remarks at Chicago Fed Payments				

KEY POINTS:

- **Bond sell-off eases**
- **US Congress may aim for stopgap CR today**
- **PBOC injects small amount of liquidity**
- **Is the Fed's o/n RRP helping or hindering?**
- **Powell and the Phillips curve**
- **Was Spanish inflation a warning shot ahead of Friday?**
- **A celebrity CB panel won't offer any pivots**
- **Canadian bond holiday tomorrow**

Stocks and bonds are both a bit richer this morning in at least partial reversals of yesterday's moves. The US 10 year is down by about 3bps with Canada performing similarly and outperforming European yields in a nearly full reversal of yesterday's move which still leaves the US 10 year yield up about 5–6bps on the week so far. US equity futures are up by ½% – ¾% with TSX futures close behind and European cash markets up by either side of 1%. Mainland China's stocks fell by about 2% overnight. The dollar is a tad firmer but mixed across the majors.

The PBOC injected more liquidity but term repo rates continued to rise overnight. A gross amount of 100 billion yuan was injected through 14-day reverse repo. Net of maturities that worked out to just 40 billion yuan. The overnight repo rate fell by 43bps to 1.49% which is indeed the lowest since May, but the 7-day repo rate climbed 36bps to its highest since late June while the 14-day climbed 9bps to its highest since then as well (chart 1). As usual, some is seasonal demand around quarter-end, some is due to Evergrande and ahead of China's week-long holiday. Evergrande got downgraded by Fitch overnight in a classic example of how ratings agencies lag developments. Today's USD bond coupon payment is unlikely to be delivered and sets in motion the same 30-day grace period for monitoring default after missing the prior dollar bond payment last week.

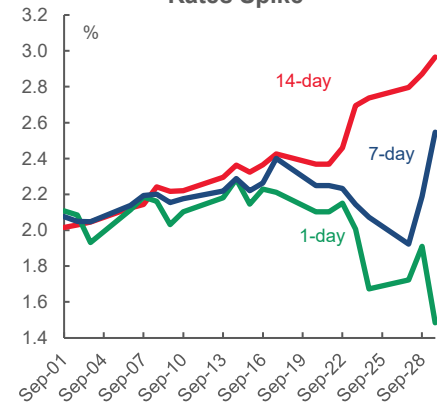
Spain's inflation rate for September got Eurozone inflation tracking off to a rough start ahead of the add-up on Friday. Spanish CPI was up 1.1% m/m on an EU-harmonized basis (0.9% consensus) and 4% y/y (3.6% consensus). France, Italy and Germany release tomorrow.

Calendar-based risk is very light. There was nothing material out overnight and this morning's calendars will be equally light. The CBs panel today ([here](#)) is

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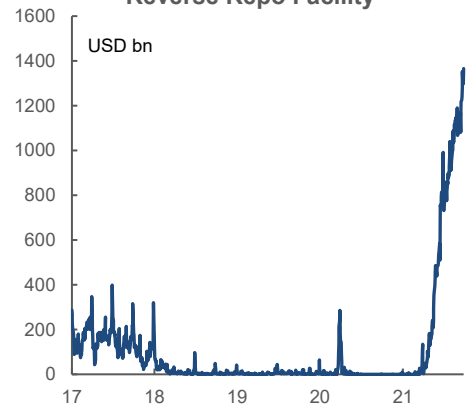
Derek Holt, VP & Head of Capital Markets Economics
416.863.7707
Scotiabank Economics
derek.holt@scotiabank.com

Chart 1 Chinese Interbank Funding Rates Spike



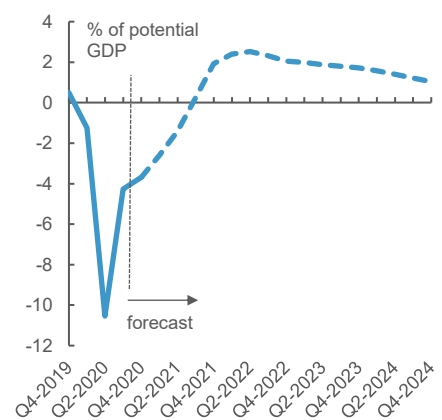
Sources: Scotiabank Economics, Bloomberg.

Chart 2 Demand for Fed's Overnight Reverse Repo Facility



Sources: Scotiabank Economics, Bloomberg.

Chart 3 US Output Gap Forecast



Sources: Scotiabank Economics, CBO.

likely to be of little consequence as little if anything useful ever really materializes when you give 5 folks including a moderator an hour to speak. If they wanted to pivot on anything then this is not the place to do it, but maybe they'll sign your ball caps.

There is no early close in Canada's bond market today ahead of tomorrow's federal holiday when stocks will be open.

UNITED STATES

Only pending home sales for August is on tap (10amET).

We may see a voting process begin today on a continuing resolution to fund the US government until December 3rd as a stop gap measure. This would be absent any ability to achieve something grander on the multiple issues facing Congress and it keeps the other issues alive.

Tied up in all of this mess in Congress is the bipartisan infrastructure bill as the euphemistically termed "progressive" Dems in the House say they won't support it in a likely vote on Thursday unless the broader \$3.5T Build Back Better Act that emphasizes social spending and targeted tax measures also advances. Some Dems—like Manchin's pivotal vote—think the US\$3.5T price tag is too high and won't support it. In order to agree on some sort of BBBA they'd have to raise or suspend the debt ceiling with 2.5 weeks to go until Yellen's X-date, which also first requires acting to keep government open past Thursday. The GOP continues to say they won't have anything to do with any of that and the Dems—preferring to avoid having the Dems take credit for any economic effects and preferring to advance a mid-term campaign against waste—and the White House say they require a bipartisan agreement. Given the 50–50 +1 VP tiebreaker in the Senate the Dems don't have the required unity on all of this even within their own party to go it alone.

Easy peasy. Where's David Beers when you need him....

A baseline view remains that default is highly improbable, but a partial shutdown and tiering/prioritization of obligations is an ongoing risk (which may resurrect the issue of how ratings agencies view prioritization that still winds up at least temporarily stiffing some obligations...). Too many people have to blink too many times in order to quickly get a sudden series of deals. That makes this quite different from past debt ceiling and funding episodes that didn't tend to involve ~US\$4.5T in stimulus hanging in the balance with a razor thin majority that can't even lose a single vote!

Through it all the safehaven being sought is the Fed's Overnight Reverse Repo Facility (chart 2). It is serving the purpose of draining liquidity in order to steer the short-term rates complex toward target goals. Also recall that one concern to setting up such a facility was always that it could aggravate periods of instability by diverting funds to zero risk at the Fed versus low risk in money market instruments like bills. Another US\$68B got parked in the RRP facility today which has gone vertical since mid-month by adding about US\$300B into it. Short-dated bill yields spiked today. A guaranteed 5bps from the Fed may well be the best spot to hang out for a time.

Fed Chair Powell missed his chance to elaborate upon inflation drivers going forward in his testimony yesterday. In response to a question about the Phillips curve driving current inflation, he simply said that the inflation we're getting now is not a product of the Phillips curve. That's a bit too strong of a statement. Recall the deflationary fears at the start of the pandemic and yet we've avoided that because of a rapid rebound that is shutting spare capacity (chart 3). As slack has rapidly diminished, it could have driven less deflationary/disinflationary pressure and going forward a move into excess demand conditions could represent the next wave of inflationary pressure over 2022–23 that could well coincide with supply chain bottlenecks. Powell should have perhaps emphasized how there are lagging relationships involved in all of this and that it's feasible that even with a flatter Phillips curve we'll get the next leg of inflation being derived from the closure of spare capacity on top of persistent supply chain issues.

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.	0.30	0.30	0.24	0.99	1.02	0.85	1.50	1.54	1.30	2.06	2.09	1.81	Canada - BoC	0.25	
CANADA	0.50	0.50	0.45	1.07	1.09	0.92	1.46	1.50	1.26	1.94	1.97	1.75	US - Fed	0.25	
GERMANY	-0.69	-0.68	-0.71	-0.57	-0.55	-0.63	-0.22	-0.20	-0.32	0.24	0.26	0.17	England - BoE	0.10	
JAPAN	-0.12	-0.11	-0.12	-0.07	-0.08	-0.10	0.08	0.09	0.04	0.68	0.70	0.65			
U.K.	0.39	0.41	0.28	0.61	0.63	0.48	0.97	0.99	0.80	1.30	1.33	1.12			
	Spreads vs. U.S. (bps):														
CANADA	20	20	21	8	7	7	-4	-4	-4	-12	-11	-6	Euro zone - ECB	0.00	
GERMANY	-99	-99	-95	-156	-157	-149	-172	-174	-163	-181	-182	-164	Japan - BoJ	-0.10	
JAPAN	-42	-41	-36	-106	-110	-95	-143	-145	-126	-138	-139	-116	Mexico - Banxico	4.50	
U.K.	9	11	4	-39	-39	-37	-53	-55	-50	-75	-76	-69	Australia - RBA	0.10	
Equities	Level						% change:						New Zealand - RBNZ	0.25	
	Last		Change			1 Day		1-wk		1-mo		1-yr			
S&P/TSX	20174		-289.3			-1.4		-1.1		-2.3		24.4		Australia - RBA	0.10
Dow 30	34300		-569.4			-1.6		1.1		-3.3		24.9		New Zealand - RBNZ	0.25
S&P 500	4353		-90.5			-2.0		-0.0		-3.5		30.5			
Nasdaq	14547		-423.3			-2.8		-1.4		-3.9		31.2			
DAX	15394		145.6			1.0		-0.7		-2.9		20.0			
FTSE	7088		59.6			0.8		0.1		-0.8		20.2			
Nikkei	29544		-639.7			-2.1		-1.0		5.2		27.4		Canada - BoC	Oct 27, 2021
Hang Seng	24664		163.1			0.7		1.8		-4.7		5.1		US - Fed	Nov 03, 2021
CAC	6579		72.9			1.1		-0.9		-1.5		36.2		England - BoE	Nov 04, 2021
Commodities	Level						% change:						Euro zone - ECB	Oct 28, 2021	
WTI Crude	74.76		-0.53			-0.7		3.5		8.8		90.3			
Natural Gas	5.77		-0.11			-1.8		20.1		32.1		125.4			
Gold	1742.65		8.64			0.5		-1.4		-4.1		-8.2			
Silver	22.20		-0.36			-1.6		-1.6		-6.0		-3.0			
CRB Index	228.59		0.35			0.2		4.7		4.3		55.8		Japan - BoJ	Oct 28, 2021
Currencies	Level						% change:						Mexico - Banxico	Sep 30, 2021	
USDCAD	1.2701		0.0014			0.1		-0.6		0.8		-5.1			
EURUSD	1.1645		-0.0038			-0.3		-0.4		-1.3		-0.8			
USDJPY	111.45		-0.0500			-0.0		1.5		1.4		5.5		Australia - RBA	Oct 04, 2021
AUDUSD	0.7227		-0.0009			-0.1		-0.3		-0.9		1.4			
GBPUSD	1.3483		-0.0054			-0.4		-1.0		-2.0		4.8		New Zealand - RBNZ	Oct 05, 2021
USDCHF	0.9295		0.0000			0.0		0.4		1.4		1.1			

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