

ON DECK FOR FRIDAY, OCTOBER 15

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	10-15	08:30	Wholesale Trade (m/m)	Aug	0.5	0.5	-2.1
US	10-15	08:30	Empire State Manufacturing Index	Oct	--	25.0	34.3
US	10-15	08:30	Export Prices (m/m)	Sep	--	0.7	0.4
US	10-15	08:30	Import Prices (m/m)	Sep	--	0.6	-0.3
US	10-15	08:30	Retail Sales (m/m)	Sep	-0.3	-0.2	0.7
US	10-15	08:30	Retail Sales ex. Autos (m/m)	Sep	0.5	0.5	1.8
CA	10-15	09:00	Existing Home Sales (m/m)	Sep	--	--	-0.5
US	10-15	10:00	Business Inventories (m/m)	Aug	--	0.6	0.5
US	10-15	10:00	U. of Michigan Consumer Sentiment	Oct P	73.0	73.1	72.8
US	10-15	11:45	Fed's Bullard Discusses Optimal Monetary Policy				
US	10-15	12:20	Fed's Williams Takes Part in Monetary Policy Panel				

KEY POINTS:

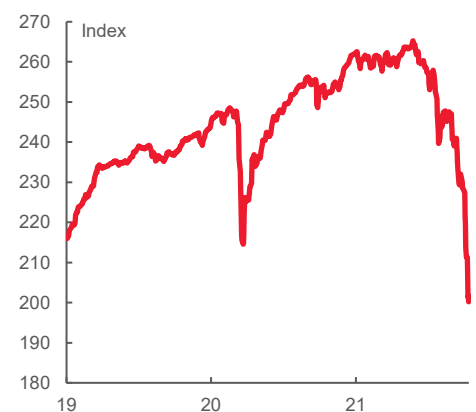
- **Constructive market tone awaits US retail, bank earnings**
- **Canada's curve underperforms the US...**
- **...perhaps as the most direct question wasn't even asked...**
- **...despite Macklem's tone that leaned against early hikes**
- **China jawbones confidence in property developer risks...**
- **...but China's junk bond market is weaker than when the pandemic first struck...**
- **...while Evergrande is approaching grace periods and further coupon due dates**
- **US retail sales probably dipped in September**
- **Will Canadian home sales stabilize?**
- **US Empire, UofM and Fed-speak on tap**

It's pretty much all about the US to end the week as overnight developments were very light. Curves are generally steeper this morning with 10-year yields up 2–3bps across Europe and the US following curve steepening across key Asia-Pacific markets overnight. Gilts are a modest exception with a parallel upward shift of about 3–4bps through most of the curve and 5bps at the longer end. Stocks are moving higher with most benchmarks up by ~ ¼% to ½% across NA futures and European cash.

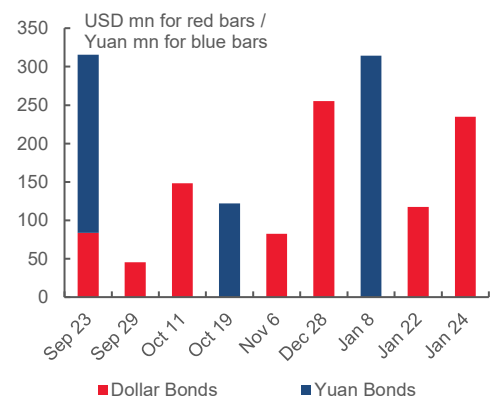
The PBOC jawboned confidence in Chinese property developers saying Evergrande's risks were manageable and China has intensified efforts to approve mortgage flows, but no further tangible measures were offered. Nor were there any hints of policy easing in the nearer term, though we'll see around Q3 GDP early in the week. I couldn't tell how firmly their fingers (and probably toes...) were crossed while they spoke! Such verbiage is largely useless imo and markets would appear to agree. Chart 1 shows still plunging prices for China's junk bonds that have fallen below levels around when pandemic fears peaked. Chart 2 offers a reminder of the coupon payments owing by Evergrande; it includes payments that have been missed to date and with approaching 30 day grace periods as well as the additional payments that are forthcoming including one next week. Of course this is just one among many property developers facing challenges.

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Chart 1
China High Yield USD Index


Sources: Scotiabank Economics, Bloomberg.

Chart 2
Evergrande's Coupon Repayment Deadlines


Sources: Scotiabank Economics, Bloomberg.

BoC Governor Macklem's remarks last evening are motivating bond markets to drive Canadian yields higher this morning with the 2 year yield particularly underperforming the US. Why? I think it's a positioning argument as the yield fell yesterday afternoon in anticipation of Macklem's remarks when news struck that he would hold a media roundtable and speculation built that he could use it to lean against aggressive market pricing for the start of rate hikes. To my disappointment, he didn't do so explicitly, or maybe they need some economists in the room to ask the most pertinent questions! Not doing so was apparently taken by market participants as a signal to reverse the rally that occurred yesterday afternoon.

Regardless, any astute observer of the BoC would have read between the lines and arrived at the conclusion that he's in no big rush to hike despite pricing in early OIS and BAX futures contracts. Macklem chose the tickle and tease approach to the front-end rather than smacking it with a hammer. It appears there are no plans to release a full transcript of his remarks which is disappointing as a more methodical approach to releasing the comments should be led by the BoC in my view. Piecing together scattered coverage across media outlets that had some wonky differential timing over the 7–8pmET window last evening nevertheless revealed nothing that was terribly unexpected. I took the tone of his remarks on slack, jobs and inflation to confirm that the BoC would be in zero rush to hike relative to what had become aggressive contract pricing in OIS and BAX futures. His remarks seemed to be dovish *relative to* how soon markets think hike risk may enter the picture.

- For one, he emphasized his view that inflation is being narrowly driven by one-offs, supply disruptions and transitory factors that will persist for longer than expected but that will still fade. That's highly debatable in my view and I'll expand on that in the Global Week Ahead later today.
- He also indicated that there continues to be significant slack in the overall economy and the job market. On the job market, he said that recovering lost jobs "is an important milestone, but it's not the destination." That reinforces the scattershot approach across a suite of labour market readings in the recent discussion paper by BoC staffers. Here too the signal is debatable as I don't think it should be the role of monetary policy to aim for perfection across all labour market outcomes and this could just be hyperbole anyway.
- On growth, Macklem said "We're still expecting a good rebound. It may be not quite as fast as we had" in the July MPR. That's a clear (and expected) signal that a more muted rebound after negative GDP revisions especially in Q2 will reveal wider than expected slack in the economy. The BoC has to sharply downgrade its Q3 GDP growth expectations.
- His remarks on potential GDP growth were interesting in that he didn't take sides on the direction of potential changes, saying that there are upside and downside arguments to further revisions which implies no great conviction toward how alterations may affect the BoC's beloved output gap framework.
- So, if inflation is a headfake, there is still slack in the economy and job markets, and the BoC (and others...) doesn't really know what potential GDP growth will be then hike as soon as 6 months from here? Not likely imo when the Governor has said all along he won't hike until spare capacity has been exhausted.

US retail sales (8:30amET) and Goldman earnings (consensus US\$9.92 EPS, 8:30amET) will dominate attention into the end of the week, plus a couple of lesser updates. If the rest of them can beat as has been the case so far, then I'm pretty sure GS will find a way to make more money than estimated.

US retail sales will probably dip at least in terms of headline sales given that we already know new vehicle sales fell by 6.7% m/m in volume terms and only some of this was offset by higher auto prices. Key is whether sales ex-autos can post another gain after the 1.8% lift the prior month. The retail sales control group that feeds into total consumption likely faces downside risk tomorrow.

Miscellaneous updates will include Canada's update on home sales during September which will shoot for the first gain in six months (9amET). The US also updates the US Empire manufacturing gauge that kicks off another round of regional reports on the path to the next ISM-manufacturing print, as well as UoM consumer sentiment for October (10amET) with limited Fed-speak on the docket (Bullard 11:45amET, Williams 12:20pmET).

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		
	0.36	0.36	0.32	1.07	1.05	1.06	1.54	1.51	1.61	2.05	2.02	2.17	Canada - BoC	0.25
	0.76	0.72	0.68	1.23	1.18	1.21	1.58	1.53	1.62	2.01	1.97	2.08	US - Fed	0.25
	-0.68	-0.69	-0.69	-0.53	-0.54	-0.53	-0.18	-0.19	-0.15	0.28	0.24	0.33	England - BoE	0.10
	-0.11	-0.11	-0.10	-0.07	-0.08	-0.08	0.08	0.08	0.09	0.69	0.69	0.70		
	0.55	0.51	0.54	0.73	0.70	0.77	1.08	1.04	1.16	1.35	1.29	1.50		
	Spreads vs. U.S. (bps):													
	40	36	36	17	13	14	4	2	1	-3	-5	-8	Euro zone - ECB	0.00
	-104	-105	-101	-160	-159	-159	-171	-170	-176	-176	-178	-184	Japan - BoJ	-0.10
-47	-47	-42	-114	-113	-114	-146	-143	-153	-135	-133	-147			
19	15	22	-33	-35	-29	-46	-47	-46	-70	-73	-67	Mexico - Banxico	4.75	
Equities	Level						% change:							
	Last			Change			1 Day	1-wk	1-mo	1-yr				
S&P/TSX	20820			201.5			1.0	2.0	0.6	26.2			Australia - RBA	0.10
Dow 30	34913			534.8			1.6	0.5	0.3	22.5			New Zealand - RBNZ	0.50
S&P 500	4438			74.5			1.7	0.9	-0.9	27.4				
Nasdaq	14823			251.8			1.7	1.2	-2.2	26.5				
DAX	15514			50.8			0.3	2.0	-0.7	22.1				
FTSE	7224			16.6			0.2	1.8	3.0	23.9				
Nikkei	29069			517.7			1.8	3.6	-4.7	24.2			Canada - BoC	Oct 27, 2021
Hang Seng	25331			368.4			1.5	5.7	1.6	3.9			US - Fed	Nov 03, 2021
CAC	6714			29.0			0.4	2.4	2.0	38.8			England - BoE	Nov 04, 2021
Commodities	Level						% change:							
WTI Crude	82.08			0.77			0.9	3.4	13.0	100.4			Euro zone - ECB	Oct 28, 2021
Natural Gas	5.67			-0.02			-0.4	1.8	3.8	104.2			Japan - BoJ	Oct 28, 2021
Gold	1778.32			-17.55			-1.0	1.2	-0.9	-6.8			Mexico - Banxico	Nov 11, 2021
Silver	23.34			0.46			2.0	2.9	-1.1	-3.5			Australia - RBA	Nov 01, 2021
CRB Index	238.13			2.43			1.0	2.5	5.6	56.9			New Zealand - RBNZ	Nov 23, 2021
Currencies	Level						% change:							
USDCAD	1.2354			-0.0016			-0.1	-0.9	-2.2	-6.6				
EURUSD	1.1604			0.0007			0.1	0.3	-1.8	-0.9				
USDJPY	114.32			0.6400			0.6	1.9	4.5	8.4				
AUDUSD	0.7420			0.0004			0.1	1.5	1.2	4.6				
GBPUSD	1.3751			0.0078			0.6	1.0	-0.6	6.5				
USDCHF	0.9244			0.0010			0.1	-0.3	0.5	1.1				

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