

ON DECK FOR TUESDAY, DECEMBER 7

Country	Date	Time	Event	Period	BNS	Consensus	Latest
CA	12-07	08:30	Merchandise Trade Balance (C\$ bn)	Oct	1.75	--	1.9
US	12-07	08:30	Productivity (q/q a.r.)	3Q F	--	-4.9	-5.0
US	12-07	08:30	Trade Balance (US\$ bn)	Oct	-65.7	-67.0	-80.9
US	12-07	08:30	Unit Labor Costs (q/q a.r.)	3Q F	--	8.3	8.3
US	12-07	15:00	Consumer Credit (US\$ bn m/m)	Oct	--	25.5	29.9

KEY POINTS:

- **Omicron speculation drives risk-on, pending evidence!**
- **The RBA didn't put up its dukes against bond markets**
- **Light overnight releases from China, Germany**
- **Canadian trade may inform Q4 growth tracking**
- **Canada's Ivey PMI might inform CPI inflation expectations**

As far as I can tell, the main driver of this morning's risk-on sentiment is speculation that Omicron will be a manageable risk. There isn't much to go by other than Glaxo's study on its antibody treatment and a very lagging new entrant in the vaccine field, as markets will be more sensitive to when the first of hundreds of Omicron studies begin to be released at any moment from now through next week. Stocks continue to rally. US and Canadian futures as well as European cash markets are up by about 1–2% across the exchanges. Sovereign bonds are a touch cheaper across major markets with cheapening led by 'down under'. Several commodity crosses are leading FX gainers against the USD and led by those most exposed to another \$2 gain in oil prices, plus the A\$/NZ\$.

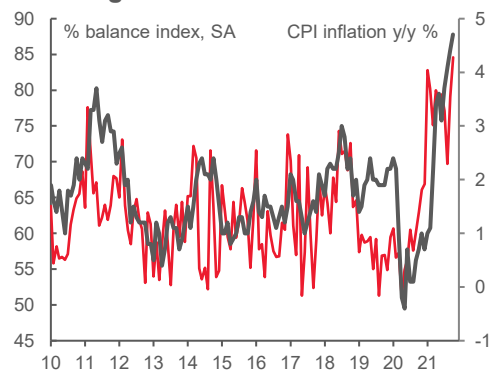
The main overnight moves saw cheapening in the Aussie/kiwi curves and strength in their currencies on the back of the RBA communications. It's the first central bank to weigh in after the discovery of the Omicron variant and with the BoC up next tomorrow. The RBA didn't put up its dukes against market expectations for rate hikes as much as markets may have anticipated. They repeated the criteria for reassessing bond purchases at the planned review in February that remain a) First, progress toward full employment and the inflation target, b) "the actions of other central banks," which offers little intrigue over who they are referring to, and c) the functioning of the Australian bond market. So if the Fed shuts down purchases sooner than mid-2022 as they are expected to do next week and if evidence on liquidity effects from owning so much of the Aussie bond market continues to mount, then we're left with tracking inflation, jobs and the broader growth drivers of each. On that, the RBA indicated Omicron is a new uncertainty "but it is not expected to derail the recovery," though that sets a pretty low bar to get excited about. Still, they went on to look through the variant in saying "The economy is expected to return to its pre-Delta path in the first half of 2022" while emphasizing "a strong recovery in the labour market" and an expected "further pick-up in wages growth..."

German industrial output was stronger than expected in October (2.8% m/m, consensus 1%) and with a slight upward revision. Germany ZEW investor expectations were relatively little changed in the December survey and have been range-bound over the past four months. Chinese export growth eased broadly in line with expectations (22% y/y in USD terms, 27.1% prior) but

CONTACTS

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

Chart 1

Canada's Ivey PMI Might Shed Light on the Next CPI Print


Sources: Scotiabank Economics, Purchasing Management Association of Canada .

imports soared (31.7% y/y, 20.6% prior). That drove the balance lower following a string of improvements that had been in place since April. Chilean inflation landed at 6.7% y/y in November, up from 6% but in the realm of expectations.

N.A. will only take down trade reports out of the US and Canada at 8:30amET. The US report is inconsequential as it just plugs in the services balance on top of the earlier preliminary estimate for the goods balance plus any revisions if necessary; a sharp improvement in the deficit is expected.

Canada's trade figures will inform Q4 GDP tracking, but supply distortions are likely to weigh heavily on the figures. BC's flooding that disrupted activity at Vancouver's port in the second half of November will show up in the next month's report. Last Friday's tracking of the gain in hours worked at over 9% q/q SAAR in Q4 remains the best indication of Q4 growth prospects so far.

Canada's Ivey PMI (10amET) and its prices subindex might marginally inform CPI risks ahead of next week's print for November (see chart).

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.	0.66	0.63	0.57	1.22	1.21	1.16	1.44	1.44	1.45	1.76	1.77	1.79	Canada - BoC	0.25	
CANADA	1.12	1.07	0.98	1.45	1.41	1.39	1.55	1.52	1.57	1.82	1.80	1.88	US - Fed	0.25	
GERMANY	-0.70	-0.73	-0.74	-0.61	-0.63	-0.62	-0.38	-0.39	-0.35	-0.10	-0.09	-0.06	England - BoE	0.10	
JAPAN	-0.11	-0.10	-0.12	-0.09	-0.10	-0.09	0.06	0.05	0.06	0.68	0.67	0.67	Euro zone - ECB	0.00	
U.K.	0.48	0.47	0.48	0.59	0.58	0.62	0.74	0.74	0.81	0.83	0.83	0.85	Japan - BoJ	-0.10	
Spreads vs. U.S. (bps):															
	CANADA			GERMANY			JAPAN			U.K.					
	46	43	41	23	20	23	11	9	12	5	2	9	Mexico - Banxico	5.00	
	-136	-136	-130	-182	-183	-178	-181	-182	-180	-186	-186	-185	Australia - RBA	0.10	
	-77	-73	-69	-131	-130	-125	-138	-139	-139	-109	-111	-113	New Zealand - RBNZ	0.75	
	-18	-17	-8	-63	-63	-54	-69	-70	-64	-94	-95	-94	Next Meeting Date		
Equities	Level			% change:			1 Day			1-mo			1-yr		
S&P/TSX	20861			227.8			1.1			1.0			-2.8		
Dow 30	35227			646.9			1.9			0.3			-3.0		
S&P 500	4592			53.2			1.2			-1.4			-2.3		
Nasdaq	15225			139.7			0.9			-3.5			-4.7		
DAX	15691			310.1			2.0			3.9			-2.3		
FTSE	7313			80.4			1.1			3.6			0.1		
Nikkei	28456			528.2			1.9			2.3			-3.6		
Hang Seng	23984			634.3			2.7			2.2			-3.2		
CAC	7020			154.6			2.3			4.5			-0.3		
Commodities	Level			% change:			1 Day			1-mo			1-yr		
WTI Crude	71.75			2.26			3.3			8.4			-11.7		
Natural Gas	3.73			0.08			2.1			-18.2			-32.3		
Gold	1782.24			3.57			0.2			0.4			-2.0		
Silver	22.34			-0.01			-0.0			-3.9			-6.2		
CRB Index	223.25			2.61			1.2			-1.1			-5.0		
Currencies	Level			% change:			1 Day			1-mo			1-yr		
USDCAD	1.2683			-0.0073			-0.6			-0.8			1.9		
EURUSD	1.1253			-0.0032			-0.3			-0.7			-2.9		
USDJPY	113.52			0.0400			0.0			0.3			0.3		
AUDUSD	0.7106			0.0056			0.8			-0.3			-4.3		
GBPUSD	1.3245			-0.0019			-0.1			-0.4			-2.3		
USDCHF	0.9254			0.0000			0.0			0.7			1.3		
													Mexico - Banxico	Dec 16, 2021	
													Australia - RBA	Dec 06, 2021	
													New Zealand - RBNZ	Feb 22, 2022	

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