

DAILY POINTS

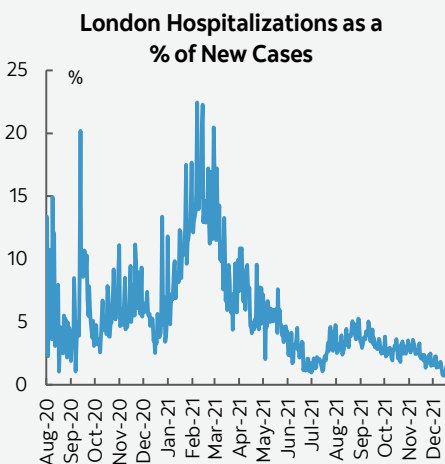
December 21, 2021

Contributors

Derek Holt

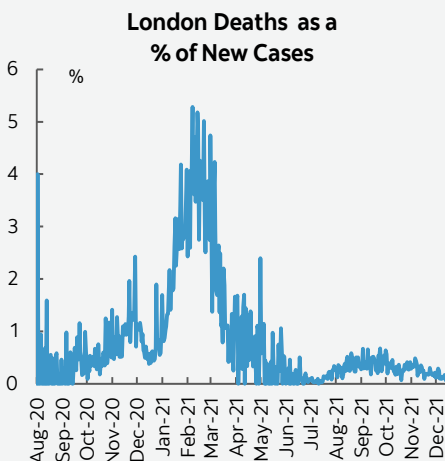
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Chart 1



Sources: Scotiabank Economics, NHS.

Chart 2



Sources: Scotiabank Economics, NHS.

On Deck for Tuesday, December 21

Country	Date	Time	Event	Period	BNS	Consensus	Latest
CA	12-21	08:30	Retail Sales (m/m)	Oct	1.0	1.0	1.6
CA	12-21	08:30	Retail Sales ex. Autos (m/m)	Oct	0.8	1.5	1.3
US	12-21	08:30	Current Account (US\$ bn)	3Q	--	-205.0	-214.8

KEY POINTS:

- **Lighter holiday trading is magnifying sentiment swings across markets**
- **COVID-19 evidence drawn from daily London data...**
- **...gives cause for tentative optimism against the waves of negativity**
- **Stale Canadian retail sales beat expectations...**
- **...with strong October and November results that pre-dated omicron effects**

Global markets are reversing yesterday's omicron-driven market moves. Calendar-based risk is non-existent. Erratic moves through the holiday period should be viewed with skepticism given holiday-interrupted trading volumes that magnify the swings.

US stock futures are up by about 1% with Toronto up ¾%. European benchmarks are up by ~1%. Asian exchanges rose by between about ½% and as much as 2% in Tokyo. Sovereign bonds are cheaper with most curves bear steepening and driven by 4–8bps increases in 10 year yields. Shorter term 2 year yields are also higher across most markets but by less than 10s except in Canada post retail sales. The USD is very slightly weaker. Oil is up by about 1%.

STALE—BUT BETTER THAN EXPECTED—CANADIAN RETAIL SALES

The only calendar-based global development is Canadian retail sales that don't even matter in the local market context given forward-looking uncertainties (8:30amET). The combined October reading and the better than expected initial flash print for November beat expectations all around. October's gain landed at 1.6% which was higher than StatsCan's initial 1.0% m/m guidance based upon a partial sample. The prior month's 0.6% m/m drop was revised to be a little better at -0.3%. But the big surprise—to me at least—was another 1.2% m/m rise in the value of sales in November despite a sharp drop in auto sales and despite BC flooding effects over the back half of the month. This leaves us tracking about a 5% q/q annualized lift in retail sales volumes during Q4 so far after a 6% q/q annualized gain in Q3. This also confirms expectations for strong GDP growth during October (Thursday) and another likely gain for November given the gains in hours worked, retail sales and housing starts. Still, back to the point about being stale, this is data that is obviously pre-omicron in nature and so I get the flat initial response in CAD, notwithstanding that bonds reacted by cheapening the 2-year note to the tune of about 2bps or so. Stale data is a nice segue into assessing evolving forward-looking risks.

WHAT LONDON HOSPITALS ARE REVEALING ABOUT COVID-19 TRENDS

What matters far more to markets is the answer to this question: How bad is the omicron variant? The stock answer is that we don't know yet, more studies are needed, they will take weeks to months to complete and so hang tight everyone. Put your lives on hold, hunker down, shut everything down until we have answers by, oh, maybe Springtime. Public health officials can't wait for those studies versus embracing an approach that shoots first and asks questions later. I understand that to a point, given that the risk-reward dynamic to getting it wrong counsels implementing at least some cautious restrictions, but there should be a very, very high bar set against widespread lockdowns this time especially as the effects hit hard anyone not on guaranteed incomes in the health and government sectors. What I would be watching is daily data out of London that

is a real world experiment that financial markets can learn from long before the formal studies come out. It's a better backdrop for evaluating outcomes than, say, South Africa's population that has a much higher share of immunocompromised individuals.

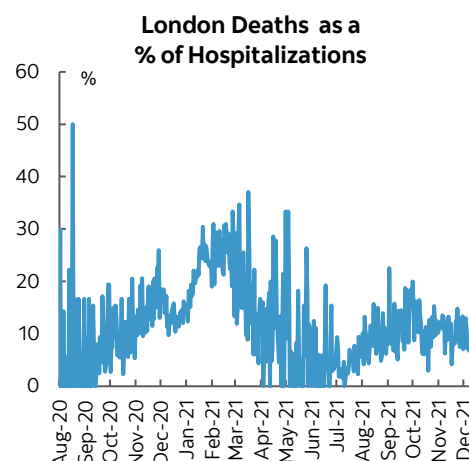
Here are some tentative observations drawn from London's daily data:

- Chart 1 shows that hospitalizations are around a record low share of new daily cases. Over one-in-five cases were being hospitalized at the peak last February but now this share is hovering around 1%. We are about a month or so into the discovery of the new omicron variant and cases have been accelerating for 2–3 weeks. There are lags between testing positive and then becoming hospitalized and I'm sure plenty of data quality issues the world over, but we're at the point now where it's reasonable to be ask with greater attentiveness why we aren't seeing a massive surge in hospital admissions.
- Chart 2 shows deaths as a percentage of new daily cases. The peak was just over 5% back in February and now it's less than one-tenth of one percent of new cases. Obviously deaths lag everything else but the point is that even under the previously dominant delta variant the death rate had been plummeting for many months.
- Chart 3 shows deaths as a percent of hospitalizations which gives us an idea of the worst outcome for those that already have it badly enough to require hospitalization. At the peak in late February through early March this figure was over one-third and now it's riding in the upper single digit percentages.
- Chart 4 shows the share of hospital admissions that are put on mechanical vents. At the peak last March that share was about one-in-four and today it is at about half that rate. One caution here is that there is a belief that too many patients were being put on vents in the past and this may have worsened their outcomes by forcing too much higher pressure oxygen into lungs and worsening inflammation. If true then doctors have perhaps developed a better understanding of appropriate treatment options for some.

Also, given evidence that one is probably well protected against omicron if you've either had COVID-19 and then been fully vaccinated or had three doses, it's worth taking a look at super-immunity readings across the global population (chart 5). The UK actually tops the list with the biggest combined share of the population that has had it, been fully vaccinated and boosted. It's a rough gauge since the categories are not additive in reality.

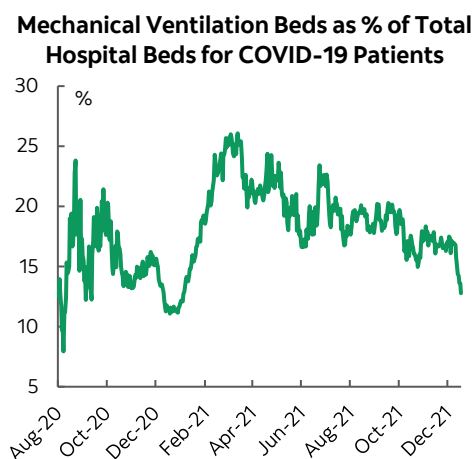
The advice that drops out of these observations isn't exactly to rush off to your local shopping mall and start licking the handrails or to breath deeply sans mask at a COVID-19 testing site. You still don't want to get any variant and need to be cautious, get vaccinated and boosted and follow proper precautions. The unvaccinated are still at high risk of paying a steep price for their choices. There are still many unknowns. The point, however, is that financial markets should continue to leave open the upside possibility that this might not turn out as badly as all the sour faced pundits on the evening news would have us believe. If omicron spreads much faster, infects a much bigger share of the population, has much less severe outcomes on balance and leaves behind much higher antibody protection across the general population, then perhaps this turns out to be a big leap forward in terms of immunity protections against future possible variants and case surges. That's a big maybe, but listen to all sides of the potential outcomes.

Chart 3



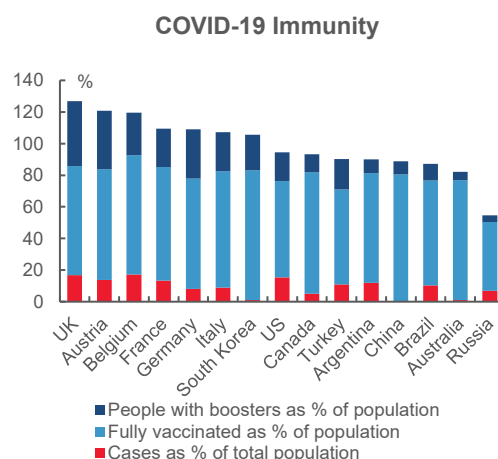
Sources: Scotiabank Economics, NHS.

Chart 4



Sources: Scotiabank Economics, Bloomberg.

Chart 5



Sources: Scotiabank Economics, Our World in Data, Johns Hopkins University.

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	Canada - BoC	0.25		
	0.65	0.63	0.66	1.20	1.17	1.24	1.46	1.43	1.44	1.89	1.85	1.83				
	0.99	0.93	0.94	1.29	1.23	1.28	1.44	1.39	1.43	1.77	1.74	1.79	US - Fed	0.25		
	-0.71	-0.73	-0.68	-0.59	-0.61	-0.59	-0.32	-0.37	-0.37	0.06	-0.01	-0.07				
	-0.10	-0.09	-0.11	-0.10	-0.10	-0.09	0.05	0.04	0.05	0.67	0.65	0.67	England - BoE	0.25		
	0.59	0.54	0.45	0.69	0.64	0.57	0.83	0.77	0.72	1.03	0.95	0.87				
	Spreads vs. U.S. (bps):													Euro zone - ECB	0.00	
	33	30	28	8	6	4	-2	-4	-1	-12	-11	-4				
	-137	-137	-134	-179	-178	-183	-178	-179	-181	-184	-186	-189	Japan - BoJ			-0.10
-75	-73	-76	-130	-127	-133	-141	-138	-139	-123	-120	-116					
-7	-9	-21	-51	-53	-67	-63	-65	-72	-86	-90	-96	Mexico - Banxico	5.50			
Equities	Level						% change:									
	Last	Change					1 Day	1-wk	1-mo	1-yr	Australia - RBA			0.10		
S&P/TSX	20538	-201.0					-1.0	-0.5	-4.7	17.4						
Dow 30	34932	-433.3					-1.2	-2.0	-1.9	15.6					New Zealand - RBNZ	0.75
S&P 500	4568	-52.6					-1.1	-2.2	-2.8	23.6						
Nasdaq	14981	-188.7					-1.2	-2.8	-6.7	17.6						
DAX	15418	178.3					1.2	-0.2	-4.6	16.4					Next Meeting Date	
FTSE	7271	72.6					1.0	0.7	0.7	13.3					Canada - BoC	Jan 26, 2022
Nikkei	28518	579.8					2.1	0.3	-4.2	7.9						
Hang Seng	22971	226.5					1.0	-2.8	-7.9	-12.1		US - Fed	Jan 26, 2022			
CAC	6947	76.5					1.1	0.7	-2.3	28.8						
Commodities	Level						% change:						England - BoE	Feb 03, 2022		
WTI Crude	69.68	1.07					1.6	-1.5	-8.4	46.0						
Natural Gas	3.88	0.04					1.1	3.5	-23.5	43.3	Euro zone - ECB	Feb 03, 2022				
Gold	1796.71	5.79					0.3	1.5	-2.7	-4.3						
Silver	22.30	-0.35					-1.5	0.3	-10.0	-13.6					Japan - BoJ	Jan 18, 2022
CRB Index	221.84	-3.30					-1.5	-1.1	-5.6	34.6						
Currencies	Level						% change:						Mexico - Banxico	Feb 10, 2022		
USDCAD	1.2930	-0.0010					-0.1	0.5	1.8	0.6						
EURUSD	1.1291	0.0012					0.1	0.3	0.5	-7.8	Australia - RBA	Jan 31, 2022				
USDJPY	113.77	0.1600					0.1	0.1	-1.0	10.1						
AUDUSD	0.7128	0.0016					0.2	0.3	-1.3	-6.0					New Zealand - RBNZ	Feb 22, 2022
GBPUSD	1.3253	0.0046					0.3	0.2	-1.1	-1.6						
USDCHF	0.9226	0.0015					0.2	-0.1	-1.1	4.2						

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