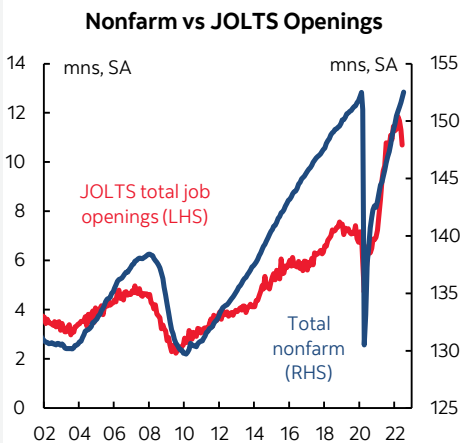


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Chart 1



Sources: Scotiabank Economics, BLS.

On Deck for Tuesday, August 30

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	08-30	08:00	Fed's Barkin Speaks on US Economic Outlook				
CA	08-30	08:30	Current Account (C\$ bn a.r.)	2Q	--	6.8	5.0
US	08-30	09:00	S&P/Case-Shiller Home Price Index (m/m)	Jun	--	0.9	1.3
US	08-30	09:00	S&P/Case-Shiller Home Price Index (y/y)	Jun	--	19.2	20.5
US	08-30	10:00	Consumer Confidence Index	Aug	97.0	98.0	95.7
US	08-30	10:00	JOLTS Job Openings (000s)	Jul	--	10,375	10,698
US	08-30	11:00	Fed's Williams Speaks on US Economic Outlook				

KEY POINTS:

- Possible drivers of risk-on sentiment
- German CPI likely to land on consensus
- Soft Spanish inflation matches consensus
- Higher yuan fix fizzles
- US consumer confidence might improve: watch jobs and inflation readings
- US JOLTS to further inform coming nonfarm softness
- Canada: business conditions survey, last of 'big five' earnings

Risk-on sentiment is being restored so far this morning while the rates complex settles down somewhat. There are multiple possible theories other than just late-August noise, but no clarity on which one(s) and possibly others may be on the mark.

- Maybe we're at the point at which markets realize that Jackson Hole is best treated as something to fade soon after its conclusion given the track record of guidance that we've heard from the event through the pandemic to date.
- And/or maybe sentiment is guided by preliminary Eurozone inflation readings that are at least no worse than expected (see below).
- Maybe lower oil prices are helping inflation sentiment and hence yields and equities. There is speculation around the margin on supply disruptions that is at least temporarily positive (Iraq, Libya). I would tend to think the pressures on oil prices are still pointed higher on net going forward.
- Or maybe it's the *relatively* dovish waffling by ECB Chief Economist Lane who prefers a slow and steady approach on rates in order to evaluate the effects of hikes. This follows comments from other more hawkish ECB officials over recent days. In my view, Lane's approach might have been more suitable 6–12 months ago. His stance may overly downplay the facts that inflation is running at multiples of the ECB's target and likely to move higher yet, the euro has been sliding which adds to some imported pressures, and the policy rate is still highly stimulative at a great distance beneath any estimate of the neutral rate range. If the ECB has an inflation target that its serious about then it arguably should already be at neutral but it seems to have the most laid back stance of any notable central bank.
- Also, China tried to lean against yuan weakness once again overnight which may be interpreted as an effort to stabilize local markets. Once again it didn't work out so well as the FX forces that are being fought are more powerful than can be handled by repeatedly adjusting the fix (see below).
- And lastly (for me at least) we're getting toward month-end rebalancing after a month that involved large moves across fixed income and so traders might be salivating toward more attractive entry points soon enough.

August 30, 2022

Whatever the driver(s), US equity futures are up by almost ¾% with TSX futures up by half of that and European cash markets mostly 1–2% higher. London is an exception with flat equities and a double digit rise in yields on gilts as it catches up from yesterday's holiday. Other sovereign yields are mildly lower with US Ts and Canadian GoCs slightly bull flattening in 2s10s and EGBs richer across the curves. Broad USD softness is occurring against most major crosses with a largely ineffective higher yuan fix being mostly shaken off. Oil is off by about three bucks.

Germany and Spain are reporting headline inflation figures that are close to consensus expectations.

Spanish CPI was in line with expectations on an EU-harmonized basis. CPI was up 0.1% m/m and 10.3% y/y. German CPI was up by 0.4% m/m which met expectations. Individual states had all landed at 0.3–0.4% earlier this morning in advance of the national add-up and so there is no incremental surprise. That's not to say that Germans will take inflation at 8.8% y/y lightly, but at least it's not an incremental shock today. France and Italy arrive on Thursday just ahead of the Eurozone add-up. Reasons to fade the numbers include probable coming upside risk to inflation readings given risks around Russian energy supply into winter and the impact of drought across Europe (and North America).

China set a higher fix for the yuan again overnight. Once again it didn't help much as the yuan rose slightly against the USD but is underperforming other crosses amid general dollar softness this morning. A combination of a hawkish Fed and China's multiple downside risks to growth continue to drive a weakening trend for the yuan that continues to trade just beneath the psychologically important 7-handle with about an 8% depreciation since April.

US job openings will also be updated with lagging July figures (10amET). Openings have pulled off the peak which tends to lead a decline in nonfarm payrolls so watch for any further erosion this morning (chart 1).

US consumer confidence will be updated at the same time (10amET) with an August set of estimates and is expected to improve given strong labour markets and lower gasoline prices. It also contains measures like job availability and 1-year ahead inflation expectations. There will also be some light Fed-speak with Barkin (8amET) and Williams (11amET) on the docket.

Statcan will update the Q3 edition of the Canadian Survey on Business Conditions this morning that assesses business sentiment across a variety of variables over the coming quarter.

BMO was the last of the 'big five' Canadian banks to report earnings this season and it disappointed expectations with adjusted EPS of C\$3.09 (consensus \$3.15). That makes for 3 misses and 2 beats across the individual banks' Q3 results for a generally soft overall tone.

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.	3.43	3.43	3.30	3.23	3.25	3.17	3.07	3.11	3.05	3.21	3.24	3.26	Canada - BoC	2.50
CANADA	3.58	3.59	3.48	3.22	3.25	3.16	3.05	3.08	3.04	2.98	3.02	3.02	US - Fed	2.50
GERMANY	1.08	1.10	0.85	1.28	1.31	1.10	1.48	1.50	1.32	1.60	1.60	1.49	England - BoE	1.75
JAPAN	-0.09	-0.07	-0.09	0.01	0.03	0.01	0.23	0.25	0.22	1.21	1.21	1.15		
U.K.	2.93	2.82	2.72	2.69	2.57	2.50	2.73	2.60	2.58	3.01	2.88	2.88		
	Spreads vs. U.S. (bps):													
CANADA	15	16	17	-1	-0	-0	-2	-2	-1	-23	-23	-24	Euro zone - ECB	0.50
GERMANY	-235	-233	-245	-195	-195	-206	-159	-160	-173	-161	-164	-177	Japan - BoJ	-0.10
JAPAN	-351	-350	-339	-321	-323	-316	-284	-286	-283	-201	-203	-211		
U.K.	-49	-61	-58	-54	-68	-67	-34	-50	-47	-20	-36	-37	Mexico - Banxico	8.50
Equities	Level						% change:							
	Last			Change	1 Day	1-wk	1-mo	1-yr						
S&P/TSX	19836			-37.2	-0.2	-0.7	0.7	-3.7					Australia - RBA	1.85
Dow 30	32099			-184.4	-0.6	-2.9	-2.3	-9.3					New Zealand - RBNZ	3.00
S&P 500	4031			-27.0	-0.7	-2.6	-2.4	-11.0						
Nasdaq	12018			-124.0	-1.0	-2.9	-3.0	-21.3						
DAX	13122			228.9	1.8	-0.5	-2.7	-17.4						
FTSE	7432			4.3	0.1	-1.4	0.1	4.0						
Nikkei	28196			316.6	1.1	-0.9	1.4	0.4					Canada - BoC	Sep 07, 2022
Hang Seng	19949			-74.2	-0.4	2.3	-1.0	-22.9					US - Fed	Sep 21, 2022
CAC	6287			65.0	1.0	-1.2	-2.5	-6.0						
Commodities	Level						% change:							
WTI Crude	94.21			-2.80	-2.9	0.5	-4.5	36.1					England - BoE	Sep 15, 2022
Natural Gas	9.13			-0.21	-2.2	-0.7	10.9	112.1						
Gold	1732.29			-4.80	-0.3	-0.9	-1.9	-4.3					Euro zone - ECB	Sep 08, 2022
Silver	19.22			-0.11	-0.6	-0.1	3.6	-18.8						
CRB Index	301.75			2.66	0.9	1.8	3.3	37.5					Japan - BoJ	Sep 22, 2022
Currencies	Level						% change:							
USDCAD	1.3005			-0.0006	-0.0	0.4	1.3	3.2					Mexico - Banxico	Sep 29, 2022
EURUSD	1.0034			0.0037	0.4	0.6	-2.2	-14.9						
USDJPY	138.26			-0.4600	-0.3	1.1	5.1	25.8					Australia - RBA	Sep 06, 2022
AUDUSD	0.6932			0.0029	0.4	0.0	-1.3	-5.0						
GBPUSD	1.1718			0.0009	0.1	-1.0	-4.3	-14.8					New Zealand - RBNZ	Oct 04, 2022
USDCHF	0.9706			0.0024	0.2	0.7	2.2	5.9						

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