

### DAILY POINTS

November 9, 2022 @ 7:40 EST

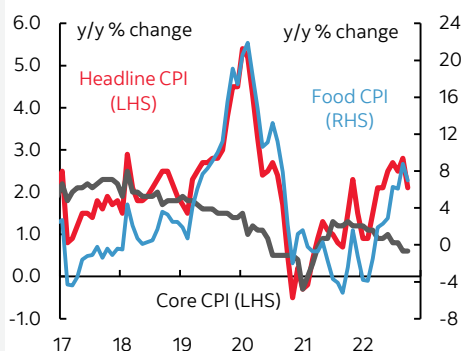
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Chart 4

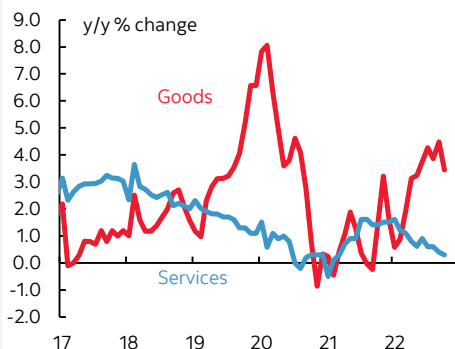
#### Chinese CPI Showing Weak Underlying Demand



Sources: Scotiabank Economics, China National Bureau of Statistics.

Chart 5

#### Chinese Goods Inflation Moderating, Services Prices Continue to Ease



Sources: Scotiabank Economics, China National Bureau of Statistics.

### On Deck for Wednesday, November 9

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	11-09	03:00	Fed's Williams Discusses Risk and Uncertainty				
US	11-09	07:00	MBA Mortgage Applications (w/w)	Nov 4	--	--	-0.5
US	11-09	10:00	Wholesale Inventories (m/m)	Sep F	--	0.8	0.8
US	11-09	11:00	Fed's Barkin Discusses Economic Outlook				
US	11-09	20:00	Fed's Kashkari Discusses Inflation and the Economy				

### KEY POINTS:

- **Mild risk-off sentiment likely driven by China's covid developments**
- **Chinese covid 19 cases on the rise**
- **Six takeaways from the tentative US midterm results so far**
- **Chinese inflation weakens more than expected**
- **US tech sector's November layoffs are already matching all of October's tally**
- **Mexican CPI unlikely to impact Banxico's decision tomorrow**
- **Fed speakers likely to stay out of the political fray**

Very mild risk-off sentiment is marked by flat to slightly lower US and Canadian equity futures, mild declines across European exchanges except Italy and Spain, and declines in China and Japan. The USD is a little firmer on a DXY basis and mostly versus European and Antipodean crosses. Sovereign yields are a smidge higher in the US front-end with longer-dated EGBs and Canadas outperforming Treasuries and gilts. Oil is down over a buck.

The mild moves are probably being driven by worsening Covid developments in China and perceived inflationary effects through supply chains even as the country's own CPI inflation reading softened. I'll come back to that after midterm comments.

US midterm results have not been decided and it could take a long time to get there, but so far, it's looking like we can draw several tentative conclusions:

- The Democrats didn't suffer any worse than normal outcome in the midterms compared to prior incumbent governments and might even do better than average as shown in charts 1, 2 and 3 on the next page with tentative tracking results for this election that are likely to change when final results become known.
- the GOP wave is hardly overpowering. They may take the House and are ahead so far, but the Senate remains a toss up and a close race in Georgia might be at risk of going to a run-off on December 6<sup>th</sup> given that so far neither candidate (Warnock and Walker) have the requisite 50% of the vote. That could add weeks to determining who won the Senate.
- Such checks and balances are probably to be welcomed given market sensitivity toward giving either side much power at this point of a unique and highly inflationary cycle.
- The case for Ron DeSantis to go up against Trump in pursuit of the GOP nomination for the 2024 Presidential race got a major boost by his performance in Florida and the shortcomings of Trump-backed candidates in the results so far.
- The case for Gavin Newsom to seek the Democratic Party nomination for 2024 also strengthened with his performance.
- DeSantis versus Newsom in 2024? In my personal view, that would be a welcome turning of the tide as America would put two divisive Presidents with a tonne of baggage into the rearview mirror.

Chinese stocks fell with mainland exchanges down by about ½% while the Hang Seng was 1.2% lower. A modest number of new cases in Beijing was nevertheless the highest tally since May. The largest outbreak in the country is in Guangdong province and its cases also climbed to the highest since last April. The Foxconn “iPhone City” plant remains under lockdown conditions. Stocks can do whatever in China, but as near as I can tell the downside risks to the economy are still acute and include ongoing property market challenges, souring growth prospects across key export markets, Covid Zero that seems to be broadly intact regardless of speculation at the margins, and the fact that the PBoC’s hands are significantly tied with the yuan’s tumble this year to 7.2 on the Fed-PBoC spread driver that they probably don’t want to worsen given the stability considerations. A tumbling currency isn’t quite the same shock absorber that it is in other economies given the massive glut of savings tied up in Chinese banks.

Chinese inflation weakened by more than expected (charts 4, 5). Headline CPI decelerated to 2.1% y/y (2.8% prior, 2.4% consensus). It was up by only 0.1% m/m in seasonally unadjusted terms which is about average for the month. Core CPI held at 0.6% y/y which is about half of the peak that was set late last year and early this year. The yuan weakened a bit and rates shook it off.

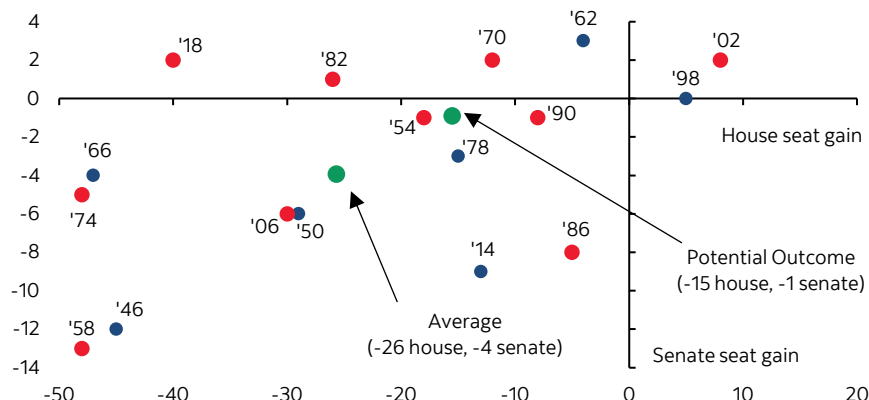
Chinese producer prices fell by 1.3% y/y which was in line with expectations for continued descent from a peak of 13.5% y/y last October (chart 6). Headlines shout deflation which this isn’t, at least not in the classic economist’s definition as a sustained economy-wide decline in many prices that changes behaviour by motivating consumers to postpone purchases into a cheaper future environment. That’s very difficult to turn around. Think Great Depression. This deceleration is principally driven by lost y/y momentum in oil prices.

Meta Platforms’ share price is up sharply this morning as it announced 11,000 job cuts that will take the US tech sector’s layoff tally up to about 20k in the nine days of this young month. That almost matches the acceleration to 22k tech layoffs in all of October.

Mexico’s inflation update was met with the big shrug as the results landed on the screws (chart 7). Headline and core CPI were both up by 0.6% m/m, matching expectations. The results were unlikely to impact tomorrow’s Banxico decision anyway amid widespread expectations that it will follow the Fed’s recent 75bps hike. I’m not sure the results would even impact the bias, since Banxico may not be 100% wedded to following the Fed but is pretty closely aligned toward its path.

Chart 1

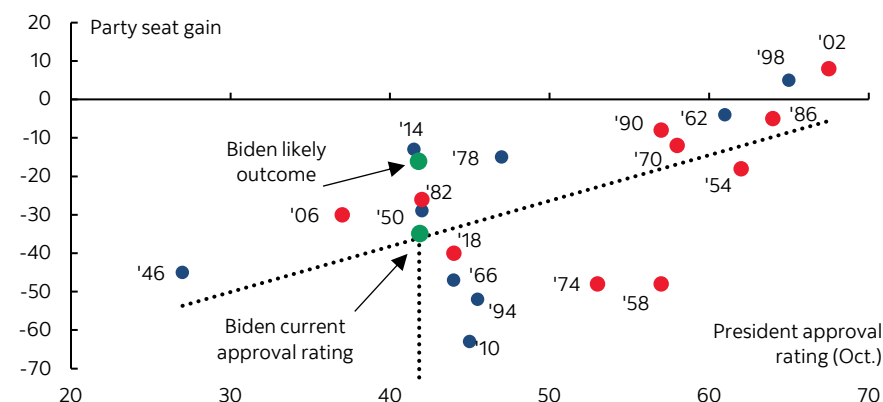
### What Midterm Results Could Look Like Relative to History



Sources: Scotiabank Economics, Project 538, The American Presidency Project.

Chart 2

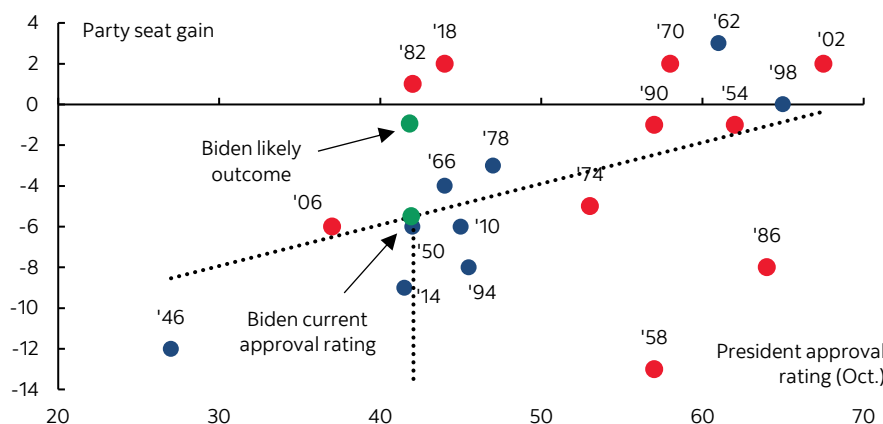
### Presidential Approval and House Seats Gained or Lost



Sources: Scotiabank Economics, Various Poll Tracking Sources, The American Presidency Project.

Chart 3

### Presidential Approval and Senate Seats Gained or Lost



Sources: Scotiabank Economics, Various Poll Tracking Sources, The American Presidency Project.

Continue to watch Fed-speak for guidance on the diversity of opinion around how to adjust terminal rate projections in next month’s updated SEP and dot plot given Chair Powell’s guidance last week. They wisely stayed out of the fray on election day and might keep playing it safe today. Richmond’s Barkin (11amET) and Minneapolis President Kashkari (8pmET) are both on tap.

Chart 6  
Chinese Producer Prices

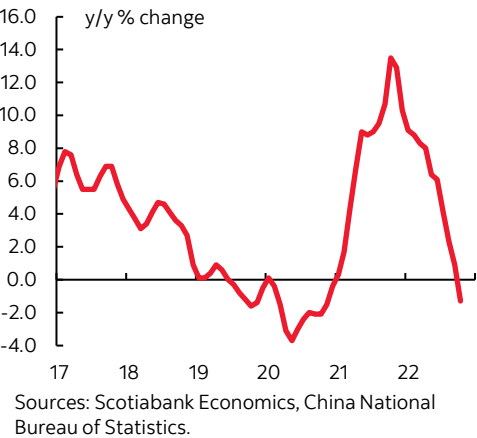
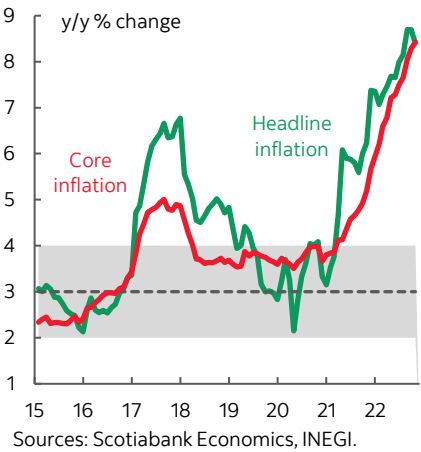


Chart 7  
Mexico: Headline & Core Inflation



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.	4.67	4.65	4.62	4.30	4.29	4.31	4.13	4.13	4.10	4.26	4.28	4.14	Canada - BoC	3.75
CANADA	4.15	4.15	3.94	3.65	3.67	3.49	3.44	3.48	3.33	3.48	3.52	3.34		
GERMANY	2.21	2.32	1.98	2.13	2.20	2.02	2.23	2.28	2.14	2.14	2.19	2.10	US - Fed	4.00
JAPAN	-0.05	-0.05	-0.04	0.07	0.10	0.08	0.25	0.25	0.25	1.51	1.61	1.54		
U.K.	3.28	3.25	3.06	3.50	3.50	3.36	3.53	3.55	3.40	3.66	3.74	3.57	England - BoE	3.00
	Spreads vs. U.S. (bps):													
CANADA	-52	-51	-68	-65	-63	-82	-68	-65	-77	-78	-76	-80	Euro zone - ECB	2.00
GERMANY	-246	-233	-264	-217	-210	-229	-190	-185	-196	-212	-209	-205		
JAPAN	-472	-470	-466	-423	-420	-423	-387	-387	-385	-275	-267	-261	Japan - BoJ	-0.10
U.K.	-138	-140	-156	-80	-79	-95	-60	-57	-70	-60	-54	-57		
Equities	Level						% change:						Mexico - Banxico	9.25
	Last			Change			1 Day	1-wk		1-mo		1-yr		
S&P/TSX	19660			114.4			0.6	2.0		5.8		-9.0	Australia - RBA	2.85
Dow 30	33161			333.8			1.0	1.6		13.2		-8.7		
S&P 500	3828			21.3			0.6	-0.7		5.2		-18.3	New Zealand - RBNZ	3.50
Nasdaq	10616			51.7			0.5	-2.5		-0.3		-33.2		
DAX	13608			-81.2			-0.6	2.6		10.9		-15.2		
FTSE	7279			-26.8			-0.4	1.9		4.1		0.1		
Nikkei	27716			-155.7			-0.6	0.1		2.2		-4.8	Canada - BoC	Dec 07, 2022
Hang Seng	16359			-198.8			-1.2	3.4		-5.0		-34.6		
CAC	6420			-21.6			-0.3	2.3		9.4		-8.9	US - Fed	Dec 14, 2022
Commodities	Level						% change:							
WTI Crude	87.22			-1.69			-1.9	-3.1		-5.9		3.6	England - BoE	Dec 15, 2022
Natural Gas	5.77			-0.37			-6.0	-7.9		-14.5		15.9		
Gold	1707.74			-4.68			-0.3	4.4		0.8		-6.8	Euro zone - ECB	Dec 15, 2022
Silver	20.75			0.08			0.4	3.8		0.6		-14.5		
CRB Index	284.05			-2.87			-1.0	2.8		-0.5		20.1	Japan - BoJ	Dec 20, 2022
Currencies	Level						% change:							
USDCAD	1.3451			0.0024			0.2	-1.9		-2.4		8.1	Mexico - Banxico	Nov 10, 2022
EURUSD	1.0043			-0.0031			-0.3	2.3		3.5		-13.4		
USDJPY	145.80			0.1200			0.1	-1.4		0.1		29.2	Australia - RBA	Dec 05, 2022
AUDUSD	0.6465			-0.0042			-0.6	1.8		2.6		-12.4		
GBPUSD	1.1445			-0.0099			-0.9	0.5		3.5		-15.6	New Zealand - RBNZ	Nov 22, 2022
USDCHF	0.9826			-0.0028			-0.3	-2.1		-1.7		7.8		

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