Scotiabank

GLOBAL ECONOMICS

DAILY POINTS

November 30, 2023 @ *7:35 EST*

Contributors

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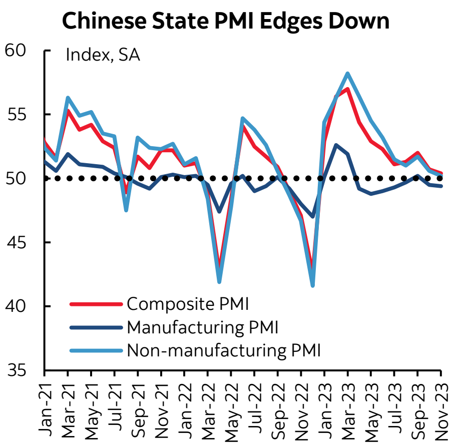
Chart 1



Sources: Scotiabank Economics, China Federation of Logistics & Purchasing.

On Deck for Thursday, November 30

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	11-30	08:30	Real GDP (m/m)	Sep	0.0	0.0	0.0
CA	11-30	08:30	Real GDP (q/q a.r.)	3Q	0.4	0.1	-0.2
US	11-30	08:30	PCE Deflator (m/m)	Oct	0.0	0.1	0.4
US	11-30	08:30	PCE Deflator (y/y)	Oct	3.0	3.0	3.4
US	11-30	08:30	PCE ex. Food & Energy (m/m)	Oct	0.1	0.2	0.3
US	11-30	08:30	PCE ex. Food & Energy (y/y)	Oct	3.4	3.5	3.7
US	11-30	08:30	Personal Spending (m/m)	Oct	0.2	0.2	0.7
US	11-30	08:30	Personal Income (m/m)	Oct	0.3	0.2	0.3
US	11-30	09:15	Fed's Williams Speaks on Innovations in Central Banking				
US	11-30	09:45	Chicago PMI	Nov	--	46.0	44.0
US	11-30	10:00	Pending Home Sales (m/m)	Oct	--	-2.0	1.1

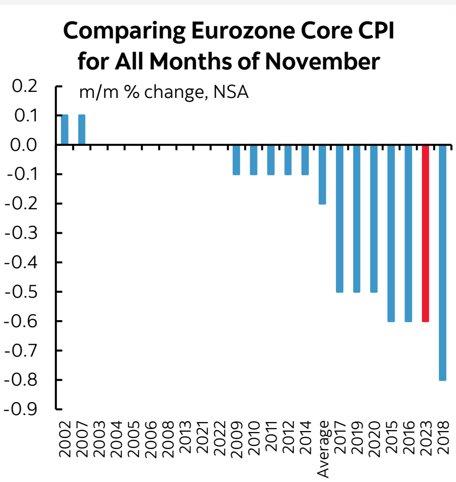
KEY POINTS:

- **Yields up as month-end consolidates bond gains**
- **Oil is up on OPEC+ cut speculation that may fan renewed inflation risk**
- **Canadian GDP is likely to be a weak set of figures…**
- **…but there's a high bar set against recession hype**
- **Fed's preferred inflation gauge could be weaker than CPI**
- **Eurozone CPI confirmed as softer than estimated..**
- **…as a weak core CPI trend takes root**
- **China's state PMIs continue to signal little momentum**
- **Canada's mixed bank earnings season**
- **Chile's economy performed a little better than expected**
- **India's economy also performed better than forecast**
- **Bank of Korea stays on hold as widely expected**
- **Japanese consumer spending soft, industrial output beat**

Month-end brings with it a panoply of key developments from whether OPEC+ will agree to deeper production cuts to top shelf global macro releases and a wave of Canadian bank earnings.

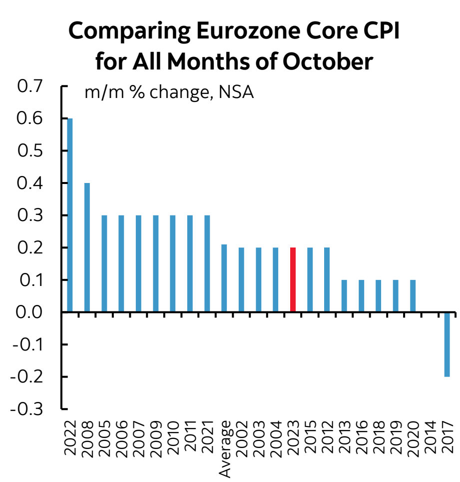
Sovereign yields are mostly pushing gently higher particularly across longer maturities. US 10s rallied big this month from 4.93% to about 4.30% now and so perhaps month-end

Chart 2



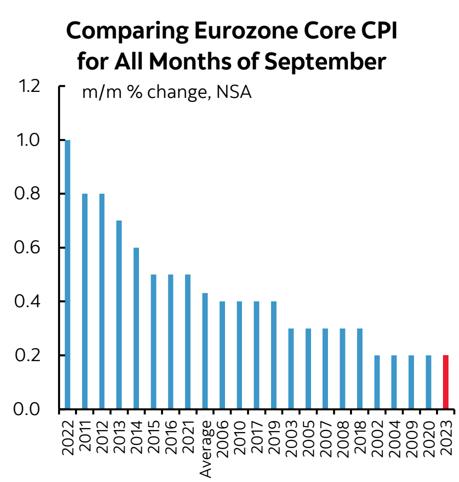
Sources: Scotiabank Economics, Eurostat.

Chart 3



Sources: Scotiabank Economics, Eurostat.

Chart 4



Sources: Scotiabank Economics, Eurostat.

rebalancing is taking some gains here. Equities are slightly bid across N.A. futures and European cash. The USD is a touch dearer on a DXY basis. Oil is up again on OPEC+ speculation (see below).

Let's get the generally dovish overnight stuff out of the way first before what matters into the North American session by way of Canadian and US macro risk.

China's state PMIs were fairly stable (chart 1). The November composite PMI landed at 50.4 (50.7 prior) as the non-manufacturing PMI slipped a touch to 50.2 from 50.6 and the manufacturing PMI was little changed at 494 (49.5 prior). The economy remains on a knife's edge between contraction and expansion and marginally tilted toward the latter.

Eurozone CPI landed softer than expected at -0.5% m/m (-0.2% consensus) and 2.4% y/y (2.7% consensus). Core also weakened by more than expected at 3.6% y/y (3.9% consensus). That was because the month-over-month core reading was another soft one, extending the streak to three consecutive months of below-average monthly core inflation readings (charts 2–4). Most of the fixed income shock was probably priced in after yesterday's German and Spanish figures that were reinforced by softer than expected readings from France and Italy this morning.

Japanese macro data was mixed. Retail sales unexpectedly fell by 1.6% m/m (+0.4% consensus) in October and only a part of that was explained by an upward revision to +0.4% m/m (from -0.1% m/m). Industrial output climbed 1% m/m (0.8% consensus).

The Bank of Korea left its base rate unchanged at 3.5% as widely expected. What mattered more to markets was weak data as industrial production fell 3.5% m/m SA in October (+0.4% consensus).

Chilean macro indicators were better than expected. Industrial output was up 1.1% y/y (0.7% consensus) led by manufacturing (+9.5% y/y, 2.6% consensus). Copper production increased. Retail sales fell by less than feared (-6.9% y/y, -8.7% consensus) but are still weak.

India's economy grew faster than expected and avoided a material slowdown that was expected. GDP was up 7.6% y/y (6.8% consensus) with the prior quarter left at 7.8%.

Here are the top things to focus upon in into the N.A. open in chronological order and see the Global Week Ahead for further elaborations.

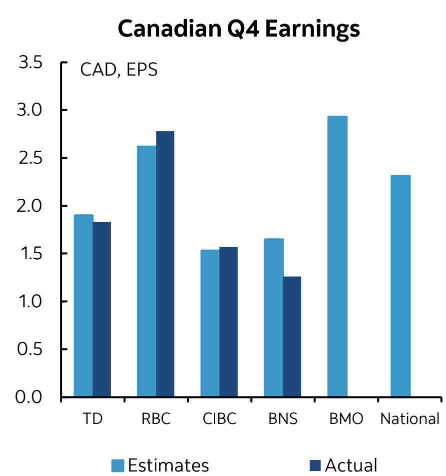
1. Canadian bank earnings. BMO will be the tie breaker tomorrow among the 'big five' banks (chart 5). RBC reported adjusted EPS of C$2.78 ($2.62 consensus). CIBC reported adjusted EPS of $1.57 ($1.53 consensus). TD whiffed by posting adjusted EPS of $1.832 ($1.9 consensus) but beating on revenues.

2. OPEC+ ministerial meeting: speculation is rampant toward deeper production cuts of 1 million bpd being delivered. That's helping to buoy oil prices this morning. The decision is expected some time after 9:30amET.

3. Canadian GDP (8:30amET): scroll back to comments shared here yesterday afternoon and in the week ahead. Weak, but not a recession even if we get back to back GDP dips.

4. US core PCE (8:30amET): I went a little lower than consensus (+0.2%) at +0.1% m/m because of PCE's lower weight on shelter than CPI after shelter came in strong last month. An uncertainty is how yesterday morning's downward revision affects the math since we don't know the monthly composition of the downtick to the Q3 estimate. Also watch US jobless claims (8:30amET) as well as mild expected gains in personal incomes and spending (8:30amET) and then pending home sales (10amET).

Chart 5



Sources: Scotiabank Economics. Bloomberg.

CANADIAN GDP COMMENT

Canadian GDP could offer sticker shock to markets (8:30amET). While not expecting one, I can't rule out the optics of a technical recession, even if calling it as such is probably nonsense. The economy shrank by a paltry 0.2% q/q SAAR in Q2. Most economists are between 0% and ½% q/q SAAR for Q3 except for a couple of shops that are not brave enough to slap a name on the estimates. My guesstimate was 0.4%.

If we get back-to-back contractions, then I think some of the hot/flighty money is going to pile into the front-end, kind of like what we saw with Sweden's GDP figures yesterday morning. Buy first, ask questions later.

Using the monthly GDP accounts to date and Statcan's preliminary guidance for September, we can convert the figures to tracking 0% q/q SAAR growth in Q3. This approach uses GDP on a production/income basis.

Quarterly accounts estimate growth on an expenditure basis which means, among other things, that they consider how higher/lower output was achieved including through inventory swings and net exports.

A downside to Q3 GDP on this basis is tracking for a negative inventory draw down although the data is incomplete. At least some of that inventory draw down may be offset by less of an import leakage effect which is a plus to GDP in an accounting sense.

But the questions are numerous. Is it a recession if we lost the most hours worked in Q3 due to strikes since the very start of the pandemic that was due to restrictions that shut the economy? I don't think so, yet folks on picket lines are not making goods and services which means GDP suffers. Many sectors saw strikes over Q2 and Q3 including port workers, civil servants, airline pilots, auto workers, education sector employees, even Montreal cemetery workers! This lost output has nothing to do with rate hikes and if anything is a price paid by not hiking earlier to prevent some of the inflation that sent workers out on picket lines.

Is it a recession if half the country is literally on fire? I don't think so, but the wildfires can't be ignored. They disrupted many key sectors including mining, petrochemicals, forestry, agriculture, and travel and tourism. Sorry BoC, can't claim that rate hikes sparked wildfires.

Is it a recession if inventories drag on growth for back-to-back quarters? That depends upon why. If companies are positioning themselves for a weak spot by running down inventories and with strikes not helping (eg autos), then it's disinvestment that curtails some of the risks later. It's acting prudently. Inventories knocked 0.85ppts off of q/q SAAR growth in Q2 and could well play a similar role in tomorrow's Q3 numbers.

On this latter point, that's one reason why we should turn to Final Domestic Demand and not just GDP. It nets out net exports and inventories and looks at just C+I+G with I including business and housing investment in an accounting sense to get a better gauge of the domestic economy's performance. FDD was up 1% q/q SAAR in Q2. We'll see what Q3 brings, but a genuine recession in my books would require FDD to contract and for reasons beyond the distortions cited above.

Whatever happens, there is one thing Canadians can celebrate, sort of. Despite cost pressures, you could have it a lot worse. Toronto (and other Canadian cities) are relatively cheap places to live (**here**). I guess if you want a cheaper city to live in then be my guest and give Lagos, Nairobi or Tashkent a whirl! Good times await you, no doubt…

Fixed Income	Government Yield Curves (%):											
	2-YEAR			5-YEAR			10-YEAR			30-YEAR		
	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk
U.S.	4.65	4.65	4.90	4.24	4.21	4.43	4.30	4.26	4.41	4.47	4.44	4.54
CANADA	4.18	4.16	4.43	3.61	3.59	3.82	3.54	3.50	3.71	3.37	3.33	3.52
GERMANY	2.81	2.84	3.04	2.36	2.37	2.60	2.44	2.43	2.62	2.69	2.68	2.79
JAPAN	0.03	0.05	0.04	0.26	0.26	0.31	0.67	0.67	0.73	1.66	1.61	1.64
U.K.	4.56	4.57	4.72	4.13	4.10	4.31	4.14	4.10	4.26	4.65	4.60	4.72
	Spreads vs. U.S. (bps):											
CANADA	-47	-48	-47	-62	-62	-61	-75	-75	-70	-111	-111	-102
GERMANY	-184	-181	-186	-188	-184	-184	-186	-182	-179	-179	-176	-175
JAPAN	-462	-460	-486	-398	-395	-412	-362	-358	-368	-281	-283	-290
U.K.	-9	-8	-19	-10	-11	-12	-16	-16	-15	17	16	18

Equities	Level		% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	20116	79.4	0.4	0.0	6.6	-1.6
Dow 30	35430	13.4	0.0	1.0	7.2	2.4
S&P 500	4551	-4.3	-0.1	0.3	8.5	11.5
Nasdaq	14258	-23.3	-0.2	0.4	11.0	24.3
DAX	16242	75.8	0.5	1.5	9.7	12.8
FTSE	7473	49.1	0.7	-0.1	2.1	-1.3
Nikkei	33487	165.7	0.5	0.1	6.0	18.6
Hang Seng	17043	49.4	0.3	-4.8	-0.3	-9.0
CAC	7307	39.6	0.5	0.4	6.1	8.4
Commodities	Level		% change:			
WTI Crude	78.48	0.62	0.8	1.8	-3.1	-2.6
Natural Gas	2.84	0.04	1.4	-1.9	-20.5	-59.0
Gold	2038.03	-6.21	-0.3	2.3	2.7	15.2
Silver	24.97	0.32	1.3	4.7	9.7	16.8
CRB Index	275.44	1.77	0.6	-0.6	-2.0	-1.5
Currencies	Level		% change:			
USDCAD	1.3607	0.0018	0.1	-0.6	-1.9	1.5
EURUSD	1.0921	-0.0048	-0.4	0.1	3.3	4.9
USDJPY	147.60	0.3600	0.2	-1.3	-2.7	6.9
AUDUSD	0.6606	-0.0011	-0.2	0.7	4.2	-2.7
GBPUSD	1.2654	-0.0041	-0.3	1.0	4.1	4.9
USDCHF	0.8754	0.0015	0.2	-1.0	-3.8	-7.4

Central Banks	
Current Rate	
Canada - BoC	5.00
US - Fed	5.50
England - BoE	5.25
Euro zone - ECB	4.50
Japan - BoJ	-0.10
Mexico - Banxico	11.25
Australia - RBA	4.35
New Zealand - RBNZ	5.50
Next Meeting Date	
Canada - BoC	Dec 06, 2023
US - Fed	Dec 13, 2023
England - BoE	Dec 14, 2023
Euro zone - ECB	Dec 14, 2023
Japan - BoJ	Dec 19, 2023
Mexico - Banxico	Dec 14, 2023
Australia - RBA	Dec 04, 2023
New Zealand - RBNZ	Feb 27, 2024