

A TRICK OR TREAT FROM THE FED?

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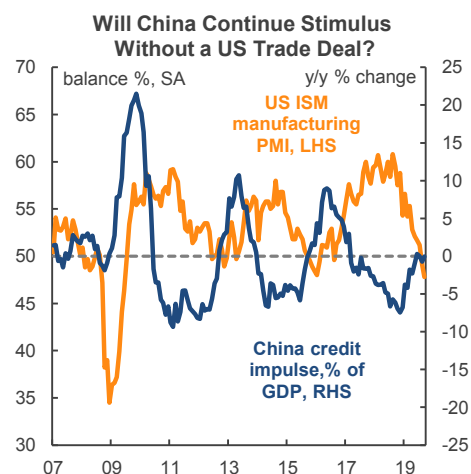
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Next Week's Risk Dashboard

- CBs: Fed, BoJ, BoC, BanRep, BCB
- GDP: US, Eurozone, Canada, Mexico, HK
- Inflation: US, Eurozone, Australia...
- ...Peru, Indonesia, Tokyo, Thailand, SK
- US nonfarm
- PMIs: China, US, UK
- Argentina's election
- UK election vote?
- Other US, European, Asian macro
- Earnings

Chart of the Week



Sources: Scotiabank Economics, ISM, Bloomberg.

Chart of the Week: Prepared by: Evan Andrade, Research Analyst.

A Trick or Treat From the Fed?

CANADA—THE BoC UNPLUGGED

The Bank of Canada's post-election meeting and associated communications will be the main market risk factor over the coming week. Light macro data will operate in the background alongside earnings reports.

Wednesday's BoC meeting will offer a full suite of communications including the policy rate decision (10amET), updated forecasts and discussion of risks in the Monetary Policy Report (10amET), and the press conference hosted by Governor Poloz and Senior Deputy Governor Wilkins (11:15amET). No policy rate change is forecast by Scotia or by consensus and OIS markets assign no material probability of a rate change until easing gets partially priced in well into 2020. Hiking in this environment is out of the question and so the obvious risk to market pricing is skewed toward more dovish guidance than markets anticipate. The closest hint at a policy bias for now is likely to involve retaining the concluding paragraph's guidance that includes three main points:

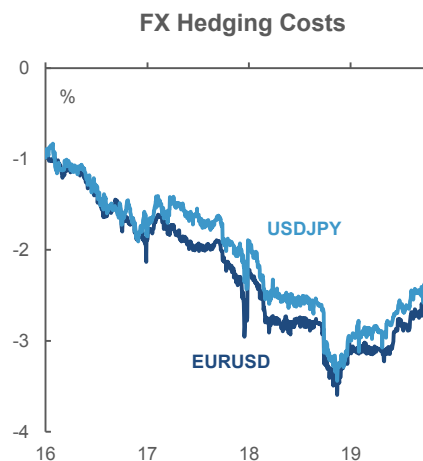
- "Canada's economy is operating close to potential and inflation is on target."
- "the current degree of monetary policy stimulus remains appropriate", and
- the conditional data dependency expressed by stating the Bank "will pay particular attention to global developments and their impact on the outlook for Canadian growth and inflation."

The BoC might not change its forecasts a great deal. Global growth forecasts may be downgraded somewhat. Recall that in its July MPR, the BoC forecast world GDP to grow by 3.2% in 2020 and 3.3% in 2021. The September statement noted that world trade and investment "is weighing more heavily on global economic momentum than the Bank had projected" in July. That said, the BoC is not really out of line with what most are forecasting for world growth. See the accompanying table for a comparison of current IMF, Bloomberg Consensus and Scotia Economics' forecasts to what the Federal Reserve forecast in September and what the BoC last forecast way back in July. The BoC's July forecasts for inflation are broadly in line with consensus views next year, although Scotia is toward the upper end into 2021.

	2019	2020	2021
Global Real GDP (%)			
International Monetary Fund	3.0	3.4	--
Bank of Canada	3.0	3.2	3.3
Bloomberg Consensus	3.1	3.1	3.1
Scotiabank Economics	2.9	3.1	3.3
Canadian Real GDP (%)			
Bank of Canada	1.3	1.9	2.0
Bloomberg Consensus	1.5	1.6	1.7
Scotiabank Economics	1.6	1.8	1.9
Canadian CPI Inflation (%)			
Bank of Canada	1.8	1.9	2.0
Bloomberg Consensus	2.0	2.0	1.9
Scotiabank Economics	1.9	2.0	2.2
US Real GDP (%)			
Federal Reserve	2.2	2.0	1.9
Bloomberg Consensus	2.1	1.7	1.8
Scotiabank Economics	2.0	1.5	1.9
US Core PCE Inflation (%)			
Federal Reserve	1.8	1.9	2.0
Bloomberg Consensus	1.8	2.0	2.0
Scotiabank Economics	1.8	1.9	2.0

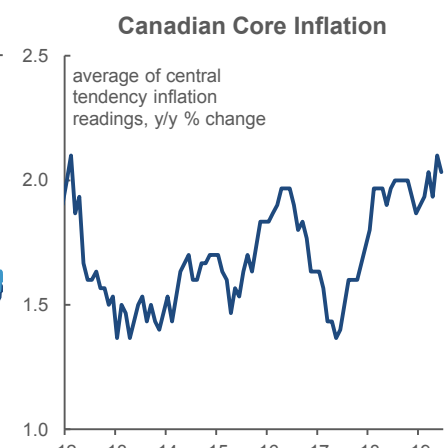
Note: Forecasts as of October 23rd, 2019
Sources: Scotiabank Economics, IMF, Bank of Canada, Federal Reserve, Bloomberg.

Chart 1



Sources: Scotiabank Economics, Bloomberg.

Chart 2



Sources: Scotiabank Economics, Statistics Canada.

During the press conference, the risk may lie in terms of emphasizing uncertainties hanging over the outlook that may inform possible criteria for easing policy. There is no shortage of reasons for being cautious toward the outlook, in keeping with our continued forecast for a return to easing as soon as the December meeting.

For one thing, **the list of major forward-looking uncertainties surrounding geopolitical and policy-related events remains very long and we have a guarded bias toward them.** Brexit, US-EU auto tariffs, US-China trade negotiations, the November 21st expiration of the Continuing Resolution to fund the US government, and impeachment proceedings are among the considerations.

Second, **forward-looking market risks remain high.** We think short-term funding market pressures will return by quarter-end and pressure the apparatus the Fed has been putting in place to address the strains. They may be manageable with greater infrastructure now in place through overnight and term repos plus the possible introduction of a Standing Repo Facility with a rate just above a 'normal' repo rate. The fourth quarter is also typically a time when dollar funding demands spike and take up currency hedging costs and currency basis within a covered interest rate parity framework (chart 1). The effects can be destabilizing to bond and currency markets with spillover effects into equities as we've often seen toward year-end in a more balance sheet constrained world that prevents full arbitrage of strains between spot versus forward exchange rates and cross border interest rate differentials. These risks could unfold in the context of relatively high equity valuations.

Third, **Canadian core inflation is on target at the mid-point of the 1–3% policy target range, but it has spent 90% of the time since 2012 running beneath this target (chart 2).** Years of undershooting its prime objective and forward-looking uncertainties may counsel a prolonged period of allowing inflation to rise above 2% and thus working the range. At issue is the credibility of the policy framework not when judged in the context of the experience since the 1990s but more rooted in the post-crisis period during which global inflation has been under downward pressure virtually everywhere across major markets.

Indeed, the Fed is conducting a thorough review of its policy apparatus that is likely to culminate in a shift toward targeting average inflation of 2% over a period of time in order to demonstrate the symmetry of the target. If doing so means further Fed easing—we forecast two more rate cuts—then such an emphasis could more significantly restore the connection between the C\$ and the Canada-US short-term rate differential (chart 3). As the Fed cuts on top of the BoC and perhaps below, hot money flows may be more incentivized toward the C\$. The BoC does not target the currency, but appreciating from 1.36 on a USDCAD basis at the start of the year toward something in the 1.20s could impose an unwanted deterioration of trade competitiveness for a country that competes heavily on price. **This would frustrate the BoC's desired rotation of the sources of growth toward trade and investment, potentially dampen overall growth, and put at least temporary downside pressure on its inflation target.**

Inflation expectations are below target. These are by no means perfect measures—especially in Canada—but market-based inflation breakevens derived from real return bonds are around 1¼%, while the BoC's Business Outlook Survey indicates that two-thirds of businesses expect inflation to run in the lower half of the BoC's 1–3% policy target range. As chart 4 demonstrates, business expectations derived from this survey arguably do a better job at nailing turning points in actual inflation than the BoC's inflation forecasts drawn from MPRs over the years (chart 5). **If expectations are becoming unmoored, then this should be of concern to the BoC and yet, to date, there has been no dialogue that has broached the topic**

Chart 3

CAD Parts Company With Short-Term Rate Differential

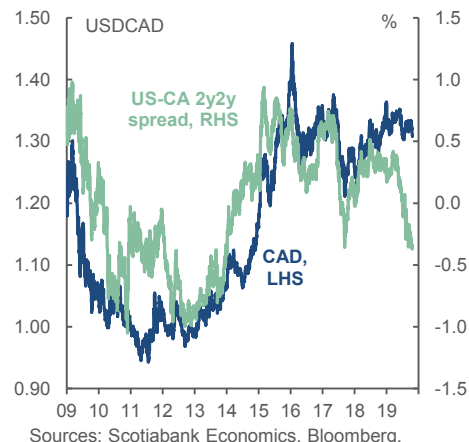


Chart 4

Business Outlook Survey Inflation Expectations Compared to Actual Inflation

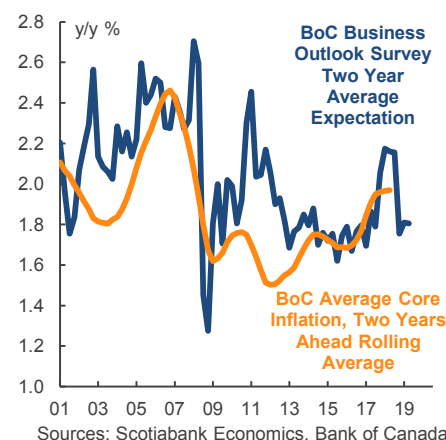
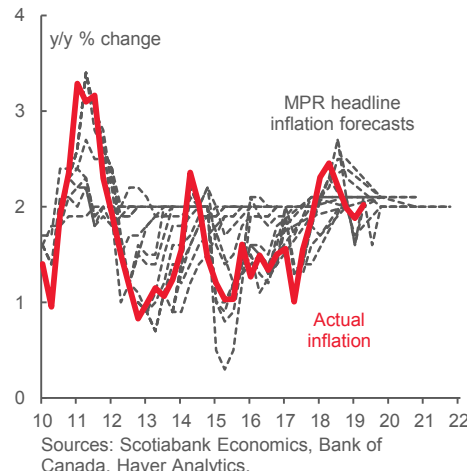


Chart 5

BoC Inflation Forecasts



the Federal Reserve views as key to its own policy bias. To repeat the earlier point, it's feasible that the BoC gets dragged along by the Fed to explicitly or implicitly hold its own dialogue regarding the importance of a symmetrical inflation target (tolerating upsides as much as downsides over time that average out) and the role of expectations.

Fiscal stimulus is unlikely to be a substitute for monetary stimulus and the BoC probably wouldn't incorporate any such effects until they became more highly anticipated. A post-election budget could implement the Liberal platform and introduce stimulus, but by the time a new budget is passed and impacts the economy it might be next Spring/Summer. Further, the amount of stimulus is likely to be small and in the low tenths of percentage points of GDP, while the effects on growth (not levels) are likely to prove transitory.

Canada's bloated upstream manufacturing and wholesale inventories may portend downside risk to employment and production going forward (chart 6). Perhaps a very strong year for job growth was all brought forward because of a) over-production that went into inventories, b) companies not investing in machinery and equipment versus addressing capacity constraints by adding employees, and c) productivity growth being sacrificed. On the latter point, the acceleration of real wage growth is not rooted in what has to be the long-run driver which is productivity.

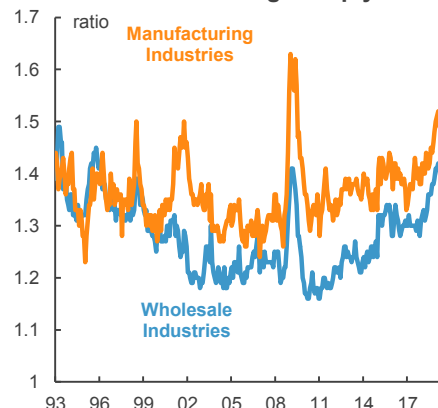
On the concern that easing could reignite housing market imbalances, I think that's misplaced. That's partly because the bond market has already taken mortgage rates there and not due to BoC easing bets as Canada imported a positive external bond market shock. Over roughly the past year, the yield on the 5 year Government of Canada bond has fallen from about 2 ½% to a low of 1.13% in early September before drifting back up to 1 ½% now. The catalyst has been rising concern about the global economy and foreign central bank easing, particularly by the Fed and the ECB. This bond rally moved through fixed rate mortgages and ignited some borrowing and housing market activity. OIS markets only have a fraction of a quarter point rate cut priced into 2020 and so the bond rally has not been driven by BoC easing bets so much as it has been driven by carry into higher-yielding Canadian bonds compared to many other markets. Easing probably wouldn't cause enough incentive to go variable relative to fixed in this environment. By not easing monetary policy, however, the BoC is arguably forcing an inverted curve and hoping for such bond market conditions to go away which is doubtful. By corollary, not easing and thus maintaining pressure on short-term rates is contributing to the currency appreciation since earlier this summer and to greater pressure on short-term financing of working capital financing requirements across businesses. Not easing while the Fed potentially continues to ease and dives on top or beneath the BoC's policy rate could well drive added currency strength.

Beyond such arguments, the domestic economy offers a mixed picture. There has only been one decent quarter for growth in the past three that are in the books with Q3 tracking softly around 1½% after a temporarily distorted growth spurt in Q2. Average growth over the four quarters to 2019Q3 is running at the low end of the BoC's estimated potential growth range of 1.5–2.1% for 2019 and 1.3–2.1% for 2020. There are no assurances that actual growth will keep up with potential growth such that the durability of operating close to the closure of spare capacity is not assured. Trend growth in retail sales volumes has been weak. Wage growth has picked up, but lacks underlying productivity gains to ensure sustainability, with little in the tank by way of a saving rate of just over 1% and debt payments as a share of disposable income that is reaching cycle highs. Business investment in machinery and equipment has also been soft.

In all, final domestic demand that takes consumption, business investment, government spending and housing investment—and therefore strips out inventories and net trade from GDP—has posted very little trend growth for multiple quarters (chart 7). This is a

Chart 6

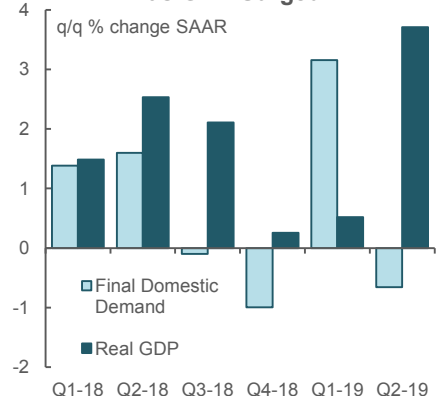
Canadian Total Inventory to Sales Ratios are Rising Sharply



Sources: Scotiabank Economics, Statistics Canada.

Chart 7

Final Domestic Demand Shrank as GDP Surged



Sources: Scotiabank Economics, Statistics Canada.

major reason why it's misleading to argue that the domestic data has been solid especially if bloated upstream inventories add downside risk and trade-related risks into a slowing US and global economy continue to mount. For more on our rates forecasts, go [here](#).

After the BoC, **Canada updates GDP growth in August (Thursday)**. Growth of 0.2% m/m with upside risk is feasible, but it may be a transitory gain in the context of a soft overall quarter. In August, hours worked soared by 0.7% m/m but then gave just under half of that back in September. Retail sales volumes advanced by 0.2% m/m in August, manufacturing shipment volumes were up by 0.6%, and housing starts were up by 2.2% but then fell again in September. The only blemish was a 1.3% drop in wholesale trade during August.

Fifty-eight TSX-listed firms release earnings next week with multiple sectors represented.

UNITED STATES—A HAWKISH CUT?

The Fed's latest policy decision and guidance will combine with top-shelf macroeconomic data and the continued earnings season to drive significant US-centric risk to domestic and global markets. **The largest potential risk surrounds the debate over whether the Fed may alter its guidance toward the possible future rate path in hawkish fashion that could tighten financial conditions.** Personally I'm not convinced.

The FOMC meeting culminates in a statement on Wednesday at 2pmET followed by Chair Powell's press conference at 2:30pmET. No forecasts will be issued this time after the economic projections including the 'dot plot' were updated at the September 18th meeting. Here is a round-up of expectations.

Fed funds

The target range is forecast to be reduced by 25bps to 1.5%–1.75% while the Interest on Excess Reserves rate will drop by 25bps and remain at an unchanged spread of -20bps to the upper end of the fed funds target range. The consensus of economists is somewhat divided on the call with some expecting a hold and they have some cover in the last dot plot that forecast no further easing. Fed funds futures and OIS markets are pricing 90% odds of a cut. I would think that it would be imprudent for the Fed to surprise markets in the present environment. It's not as if the Fed is just easing because markets have priced it. The path since the last meeting in mid-September has witnessed increased evidence of a synchronous deterioration in global growth prospects, ongoing short-term funding market pressures and continued uncertainty toward Brexit and trade policy developments with as yet nothing resolved.

Guidance

A noncommittal policy bias is likely to be retained. The statement is likely to repeat that the committee will "act as appropriate" in data-dependent fashion regarding dual mandate progress. The press conference is likely to reaffirm that policy is not on a preset path and that the economy is in a good place.

Some argue that the Fed might instead choose to signal a bit more patience this time even if it doesn't reintroduce the term itself to the statement. This would be in keeping with Powell's reference to a mid-cycle adjustment at the July FOMC press conference which signaled a handful of cuts at best versus a larger series of moves. **At the extreme, some think the Fed may more directly indicate that further easing is off the table.** Removing or weakening "act as appropriate" would be one such step in addition to press conference signals. There are several arguments against this possibility:

- a) There are too many unknowns in a deteriorating global economy to pre-commit to a particular course of action especially given sensitivities surrounding the Fed's policy reversals this year. Conditional "as appropriate" language keeps the door open to more if needed but doesn't commit to it.
- b) Fed funds futures markets have three cuts priced by the end of next year including next week's expected cut. While it's debatable that markets will believe a shift toward more hawkish Fed guidance, this is a chicken-and-egg game that risks blowing up the bond market.

c) In the current state of funding market pressures, heaping additional stress may be very poorly timed and at loggerheads with other efforts to heal funding strains. There remains high uncertainty regarding future potential bouts of funding pressures that would not be well served by dislocation effects stemming from a shift in market expectations toward future Fed policy actions.

d) When Powell referenced “mid-cycle adjustment” in July, he did so before evidence of a deteriorating global economy subsequently increased and trade policy developments soured. It’s too early to tell if a détente in US-China trade relations is unfolding or if this is another false promise built upon innuendo or downright lies.

e) Top of the house Fed officials have continued to reference “as appropriate” language including Clarida on October 18th, and Chair Powell’s speech on October 8th ([here](#)) that was likely titled “Data-Dependent Monetary Policy in an Evolving Economy” for a reason. In other words, if you communicate you are done, then how do you square that with still being data-dependent? I’m not sure the Fed is of the mindset to do a 180 on such guidance within the span of a few short weeks. Note that “midcycle” didn’t even appear in Powell’s speech and he generally hasn’t repeated the term since July.

Statement language

The description of current conditions in the opening paragraph is likely to be left intact or little changed. It remains fair to describe job gains as “solid”, the unemployment rate as “low”, and consumption growth offsetting soft trade and investment. Inflation language is likely to be left intact (“running below”) and measures of inflation expectations little changed and low.

Short-term funding markets

On this the issue is the debate over whether the Fed has done enough or needs to introduce longer-lived solutions. Pressures in short-term funding markets remain significant.

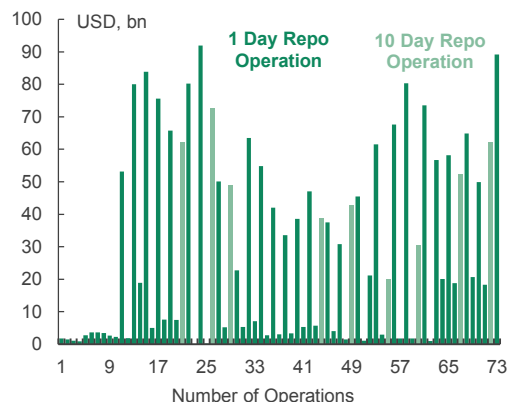
Thus far, they have been addressed through two primary policy instruments. One has been overnight and term repo auctions (charts 8, 9) that have been marked by high take-up rates. The October 11th inter-meeting announcement indicated that term repo operations would be held twice weekly starting at US\$35 billion per operation and this was recently raised to US\$45 billion per operation. The same statement announced daily overnight repo operations would be conducted at US\$75 billion or more per operation. Both sets of repo operations would continue at least through January.

Secondly, the same announcement introduced plans to purchase Treasury bills at an initial pace of US\$60 billion per month from mid-October to mid-November. In all of these cases, the Fed has used language describing the amounts and periods of operation that has connoted flexibility to do more if needed (“at least”) and so it’s possible that the Fed believes it has better and sufficient market infrastructure in place to address future month-end and quarter-end funding pressures or lumpy issuance and tax payment requirements for liquidity.

Notwithstanding this point, **there remains a solid case for introducing a standing fixed rate repo facility at this meeting.** Such a facility would swap Treasury securities for cash at an interest rate slightly above normal repo rates. The purpose would be to add an extra layer of insulation against funding market dysfunction in such fashion as to mitigate scope for abuse but at the same time set a firmer ceiling to short-term rates.

Chart 8

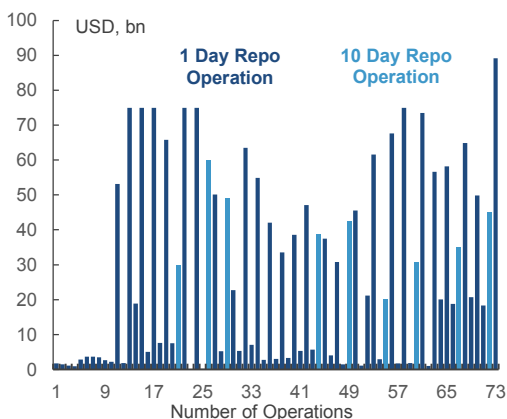
Submitted Bids for New York Fed Repo Operations



Sources: Scotiabank Economics, Federal Reserve of New York.

Chart 9

Accepted Bids for New York Fed Repo Operations



Sources: Scotiabank Economics, Federal Reserve of New York.

Press conference

In addition to discussing the above matters, what I'd like to hear Chair Powell address is fresher thinking from the Fed on the optimal size of excess reserves, by extension the optimal size of the balance sheet, and how they think it should grow in relation to the size of the economy going forward. These are complex issues with no right or wrong answer and Powell can't be specific. It may nevertheless be helpful to markets to suggest whether they will do what market conditions dictate or if they are brave enough to attach broad ranges to these variables. Expect Powell to nevertheless repeat this is not 'QE redux', as the focus is upon buying short-term securities rather than longer-dated notes.

Also watch for Vice Chair Clarida's speech before the Japan Society of New York on Friday ([here](#)). The natural temptation is to draw a link to whether the US truly faces the Japanese inflation experience.

Four main macro reports and a bunch of smaller releases will emphasize the following.

1. Nonfarm and wages (Friday): Be careful not to be potentially misled by a weak headline that may be transitory. We're playing it a bit safe on this one with an even 100k expected for the pace of job growth in October. That would be the softest month since May. It will be important to make adjustments for the impact of the GM strike that saw 45,000 employees walk out. As the BLS explains [here](#), strikes can reduce payroll counts during the reference week. There are direct and indirect effects and the BLS only provides advance guidance on the direct effects in its monthly summary of strike activity that is due out after this publication is being released. The estimated payroll gain of 100,000 assumes that the direct and indirect effects of strike activity will shave at least 60–70k off payroll growth.

Wage growth is forecast to rise back to 3.0% y/y after it had decelerated to 2.9% in September. A shift in year-ago base effects would on its own prompt a deceleration to 2.7% y/y. Typical seasonal monthly wage gains combined with an unusually soft prior month could be enough to boost wage growth by 0.3% m/m and 3.0% y/y.

2. ISM-manufacturing (Friday): It's feasible that the manufacturing sector improved a bit this month. This is a view informed by regional Fed surveys with the caution they don't fully capture transportation sector challenges such as the GM strike. Empire was little changed (4.0 from 2.0). The Philly Fed slipped (5.6 from 12.0) but the underlying details were healthier as the pace of growth in new orders increased a bit and employment advanced while shipments and prices held back the headline. The Richmond Fed's gauge rose (+8 from -9) and underlying details registered improvements in new orders and shipments.

3. PCE core inflation (Thursday): After core CPI held unchanged at 2.4% y/y, core PCE inflation may also remain unchanged at 1.8%. Personal spending for the same month of September might be buoyed by services after retail sales disappointed expectations partly on upward revisions. Income growth should remain healthy.

4. Q3 GDP (Wednesday): Growth is forecast at 1.8% q/q at a seasonally adjusted and annualized rate. If that estimate is on the mark, it would reinforce how the US economy is slowing from 3.1% growth in Q1 to 2.0% in Q2 and potentially sub-2% next week.

The US also releases the advance goods trade balance for September (Monday), the Conference Board's consumer confidence metrics for October (Tuesday), pending home sales for September (Tuesday), ADP private payrolls for October (Wednesday), the Q3 Employment Cost Index (Thursday), updates for construction spending during September and vehicle sales during October on Friday.

One hundred and fifty eight S&P500 firms release earnings throughout the course of next week. The season broadens out to include names like Facebook, Alphabet, Apple, Merck, Pfizer, GE, AT&T, T-Mobile, GM, Starbucks and Loews.

LATIN AMERICA—EM ASSETS WATCHING ARGENTINA'S ELECTION

Argentina's Presidential election may influence regional and broader emerging market assets ahead of a pair of central bank decisions and limited macro data.

Argentina holds the final round of presidential elections on Sunday and it could well mark another abrupt turn in economic policy at a highly fragile point for the economy. Given the fact that we've seen multiple occasions when

developments in one or a handful of emerging markets can ripple across other EMs, the election outcome and ensuing guidance could matter to the broader appetite for risk assets. This is a run-off between the top two candidates that emerged from the August 11th primary vote when Alberto Fernández beat President Mauricio Macri by sixteen points. Fernández and his vice presidential running mate and former President Cristina Fernández de Kirchner represent a potential turn back to the populist Peronistas versus Macri's efforts to reform the economy and markets that have languished for years. Whoever 'wins' will face inflation at 53.5% y/y, a 500% depreciation in the peso to the dollar in about the past four years with no end in sight, a central bank target rate of about 68%, high default risk, an economy that has been shrinking for the past five quarters, a rising unemployment rate at 10.6% and a plummeting labour force participation rate. Cry for Argentina indeed. With the ex-President strategically partnering with her onetime foe, markets are uncertain toward whether her past that included default, capital controls, populist policies, corruption probes and cessation of published inflation metrics will return either now or in future. Is this a fox waiting to pounce, or is it all under Alberto's control as he asserts?

Brazil's central bank is expected to cut its policy Selic rate by 50bps on Wednesday about three hours after the Fed's statement. That would mark the third easing step and bring the policy rate down by a cumulative 1.5 percentage points since easing began in late July. Inflation at 2.9% y/y is running below the bottom end of the 3–6% inflation target range and falling. In fact, September's month-ago change was the weakest for that month in over two decades. The Copom's last statement on September 18th ([here](#)) guided further future easing ("...should permit additional adjustment of the degree of stimulus") conditional upon data ("...continue to depend on the evolution of economic activity, the balance of risks, and on inflation projections and expectations.")

Colombia's central bank also delivers a policy decision on Thursday and BanRep is expected to remain on hold with the repo rate remaining at 4¼%. By contrast to Brazil, Colombian inflation has been running toward the upper end of the 2–4% inflation target range. Headline CPI was up 3.8% y/y in September while core CPI stood at 3.4% y/y. Governor Juan Jose Echavarria has recently guided that peso depreciation has had a muted effect on inflation and is expected to remain a muted influence, while a temporary rise in inflation due to food prices should abate with inflation returning to 3% within the next year.

Mexico releases Q3 GDP growth on Wednesday. Little growth is expected for the fourth consecutive quarter. A recent consensus survey forecasts soft growth this year that gradually improves over the next two years (chart 10). As our Mexican economics team has argued ([here](#)), ratification of the TMEC/USMCA/CUSMA trade agreement in the US Congress could lift growth prospects, but fiscal restraint in the context of fairly rosy macroeconomic assumptions is unlikely to offer additional support.

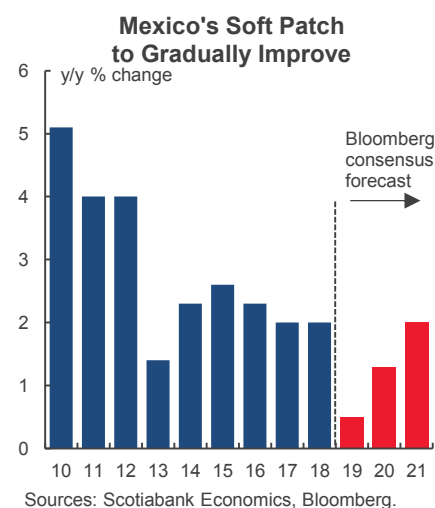
Peru's latest inflation reading arrives on Friday with October CPI expected to approach the mid-point of the central bank's 1–3% policy target range and reverse a slide that has been in place since about mid-year. Core inflation has ebbed from 2.6% y/y in April to about the 2.1–2.2% y/y range over recent months and motivated a ¼ point rate cut in August but has toed the line since then. President Velarde observed the expected improvement in growth readings at his October 10th press conference.

EUROPE—YOU KNOW YOU'RE NOT IN CONTROL WHEN...

Moribund growth and soft inflation. What more could holders of Eurozone debt want? Updates on GDP and CPI inflation across the Eurozone will be the dominant focus on the macro calendar. There may also be a vote on whether to hold a UK general election.

As this article goes to 'print', **UK Prime Minister Boris Johnson has indicated that a vote will be held on Monday on whether to have a general election on December 12th** in order to possibly break the Brexit impasse. Johnson would need two-thirds support from Parliament, but Labour's Corbyn – whose party holds about 38% of the seats in Parliament – has vowed not to support an election call until the hard Brexit option has been eradicated which partly depends upon whether the EU agrees to honour the request for an extension from October 31st to January 31st. PM Johnson's ambition to exit the EU is stymied and he can't even pull

Chart 10



the plug on his own government without the support of a dysfunctional Parliament. Recent polling results are shown in chart 11.

Judging by purchasing managers' indices, Eurozone GDP growth was very soft in Q3 (chart 12). We estimate that Thursday's growth reading will land at just 0.1% q/q at a non-annualized rate that would keep the economy barely on the plus side of the ledger after a similarly weak 0.2% q/q pace of growth in Q2. France will provide the first glimpse at third quarter growth on Wednesday followed by Italy and Spain on Thursday. Germany will lag behind and inform revisions to Eurozone growth when that country reports on November 14th.

Eurozone core CPI inflation is likely to remain close to 1.0% y/y when October's estimate is released on Thursday. Germany and Spain update inflation the day before followed by France and Italy on Thursday.

Other releases will include the October edition of the UK manufacturing PMI (Friday) that is expected to remain in contraction. Consumer readings will include Spanish retail sales on Tuesday, French spending (Wednesday) and German retail sales sometime by next weekend. German unemployment will be refreshed on Wednesday.

ASIA-PACIFIC—WILL TWIST GIVE WAY TO TURBO?

Whether or not the Bank of Japan adds more stimulus will combine with a fresh batch of Chinese purchasing managers' indices to potentially influence global risk assets. More regional developments will emphasize Australian inflation and assorted other releases.

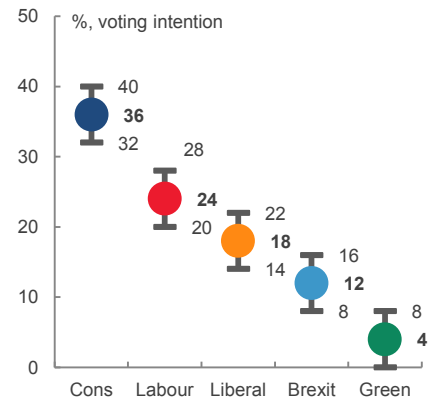
It wasn't that long ago that the Bank of Japan was thought to be considering ways to rein in falling negative bond yields. The plunge in the ten year Japanese government bond yield to a low of about -0.3% was raising concern across pensions, life insurers and other financial intermediaries. Markets were speculating on whether the BoJ would 'twist' the curve by possibly cutting the short-term policy balance rate more negatively and reducing longer-term bond purchases. The issue largely settled itself as the 10 year JGB yield climbed comfortably back inside the target range of around 0% +/- 20bps (chart 13; thank goodness Japan doesn't celebrate Halloween).

Fast forward to now and the BoJ debate is geared toward whether or not to add more stimulus in order to counter potentially additional downside risk to inflation goals. The sales tax hike to 10% from 8% on October 1st carries uncertain effects upon inflation. CPINow—a daily fintech inflation index—indicates that offsetting discounts provided by retailers as soon as the tax hike hit have resulted in softer tracking of inflation in October. In an attempt to offset some of the impact of the sales tax hike, the Japanese government offered a temporary reward points program to consumers who used cashless forms of payment in order to also help facilitate the move toward more modern payments systems. There is some debate on how effective the points system is given the older and rural parts of the population are less likely to use cashless means of payment. Also, food was exempt from the tax hike and is still subject to an 8% tax.

The BoJ may opt to hold off until the December meeting by which point it will have more evidence on how the economy and inflation are adapting to the sales tax hike. What good has easing to date really done anyway, one might add.

Chart 11

Support for UK Political Parties



Note: Projections as of October 21nd.
Sources: Scotiabank Economics, BBC.

Chart 12

Eurozone GDP Growth and PMIs

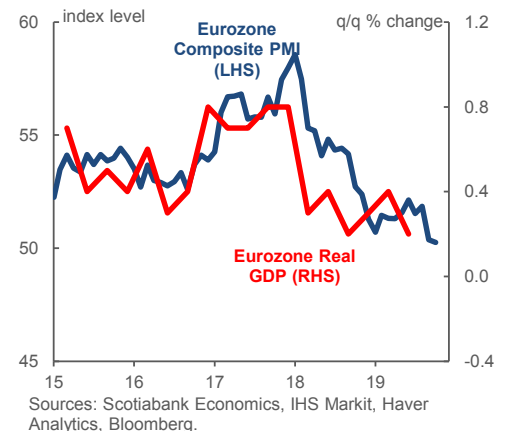
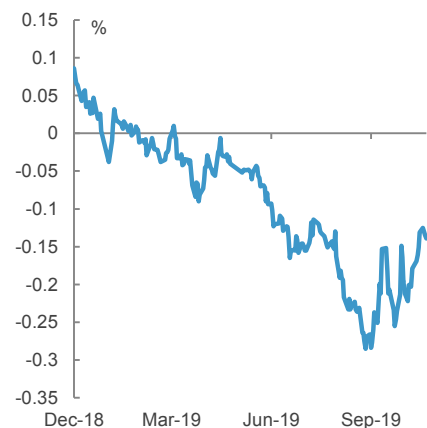


Chart 13

Japanese 10 Year Bond Yields



After building expectations for further easing when Governor Kuroda stated that a full review of the framework and forecasts would be offered at the October meeting, a possible compromise may be to slightly revise forecasts and strengthen conditional guidance upon near-term inflation readings such as Monday's Tokyo CPI reading and subsequent measures. Activity readings may also factor into last-minute assessments with retail sales, industrial output, housing starts and the jobless rate due out next week.

China updates purchasing managers' indices for October on Wednesday (state PMIs) and Thursday (private manufacturing PMI). Relative stability is expected with manufacturing remaining slightly in contraction but offset by moderate growth in the larger non-manufacturing and predominantly service-oriented sector of the economy.

Several countries update inflation readings over the coming week. Australia's third quarter inflation gauges are due on Tuesday night eastern time, and little change is expected from the prior readings of 1.6% y/y for headline, 1.6% for trimmed mean CPI and 1.2% for weighted median CPI. If expectations are met, then they may have little incremental impact upon the near-term RBA outlook. Governor Lowe's speech earlier that day will further inform expectations ahead of the November 5th decision.

Other releases will include CPI updates from South Korea, Indonesia and Thailand toward the end of the week. Hong Kong's protests are expected to exact a toll on Q3 GDP on Thursday morning.

Key Indicators for the week of October 28 – November 1

NORTH AMERICA

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
MX	10/28	08:00	Trade Balance (US\$ mn)	Sep	10	--	775
US	10/28	08:30	Wholesale Inventories (m/m)	Sep P	--	--	0.2
US	10/28	10:30	Dallas Fed. Manufacturing Activity	Oct	--	0.0	1.5
US	10/29	09:00	S&P/Case-Shiller Home Price Index (m/m)	Aug	0.0	-0.1	0.0
US	10/29	09:00	S&P/Case-Shiller Home Price Index (y/y)	Aug	1.9	--	2.0
US	10/29	10:00	Consumer Confidence Index	Oct	127	127.9	125.1
US	10/29	10:00	Pending Home Sales (m/m)	Sep	--	1.0	1.6
US	10/30	07:00	MBA Mortgage Applications (w/w)	Oct 25	--	--	0.5
MX	10/30	08:00	GDP (q/q)	3Q P	0.1	--	0.0
MX	10/30	08:00	GDP (y/y)	3Q P	-0.1	--	-0.8
US	10/30	08:15	ADP Employment Report (000s m/m)	Oct	125	132.0	134.9
US	10/30	08:30	GDP (q/q a.r.)	3Q A	1.8	1.6	2.0
US	10/30	08:30	GDP Deflator (q/q a.r.)	3Q A	--	1.8	2.4
CA	10/30	10:00	BoC Interest Rate Announcement (%)	Oct 30	1.75	1.75	1.75
US	10/30	14:00	FOMC Interest Rate Meeting (%)	Oct 30	1.75	2.00	2.00
CA	10/31	08:30	IPPI (m/m)	Sep	--	--	0.2
CA	10/31	08:30	Raw Materials Price Index (m/m)	Sep	--	--	-1.8
CA	10/31	08:30	Real GDP (m/m)	Aug	0.3	--	0.0
US	10/31	08:30	Employment Cost Index (q/q)	3Q	--	0.7	0.6
US	10/31	08:30	Initial Jobless Claims (000s)	Oct 26	215	215	214
US	10/31	08:30	Continuing Claims (000s)	Oct 19	1680	1678	1679
US	10/31	08:30	PCE Deflator (m/m)	Sep	0.0	0.0	0.0
US	10/31	08:30	PCE Deflator (y/y)	Sep	1.4	--	1.4
US	10/31	08:30	PCE ex. Food & Energy (m/m)	Sep	0.1	0.1	0.1
US	10/31	08:30	PCE ex. Food & Energy (y/y)	Sep	1.8	1.7	1.8
US	10/31	08:30	Personal Spending (m/m)	Sep	0.2	0.3	0.1
US	10/31	08:30	Personal Income (m/m)	Sep	0.3	0.3	0.4
US	10/31	09:45	Chicago PMI	Oct	--	49.0	47.1
US	11/01	08:30	Average Hourly Earnings (m/m)	Oct	0.3	0.3	0.0
US	11/01	08:30	Average Hourly Earnings (y/y)	Oct	3.0	3.0	2.9
US	11/01	08:30	Average Weekly Hours	Oct	--	34.4	34.4
US	11/01	08:30	Nonfarm Employment Report (000s m/m)	Oct	100	93.0	136.0
US	11/01	08:30	Unemployment Rate (%)	Oct	3.6	3.6	3.5
US	11/01	10:00	Construction Spending (m/m)	Sep	0.2	0.2	0.1
US	11/01	10:00	ISM Manufacturing Index	Oct	48.8	49.0	47.8
US	11/01	09:00	Total Vehicle Sales (mn a.r.)	Oct	17.1	17.0	17.2

EUROPE

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
GE	10/27	04:00	Retail Sales (m/m)	Sep	0.1	0.2	-0.1
UK	10/28	05:00	Nationwide House Prices (m/m)	Oct	--	--	-0.2
SP	10/29	04:00	Real Retail Sales (y/y)	Sep	--	--	3.2
UK	10/29	05:30	Net Consumer Credit (£ bn)	Sep	--	--	0.9
SP	10/29	08:00	Budget Balance YTD (€ mn)	Sep	--	--	-14937
FR	10/30	02:30	GDP (q/q)	3Q P	0.2	--	0.3
FR	10/30	03:45	Consumer Spending (m/m)	Sep	--	--	0.0
SP	10/30	04:00	CPI (m/m)	Oct P	--	--	0.0
SP	10/30	04:00	CPI (y/y)	Oct P	--	--	0.1
SP	10/30	04:00	CPI - EU Harmonized (m/m)	Oct P	--	--	0.4
SP	10/30	04:00	CPI - EU Harmonized (y/y)	Oct P	--	--	0.2
GE	10/30	04:55	Unemployment (000s)	Oct	-5	0.0	-10.0
GE	10/30	04:55	Unemployment Rate (%)	Oct	5.0	5.0	5.0
EC	10/30	06:00	Business Climate Indicator	Oct	--	--	-0.2
EC	10/30	06:00	Economic Confidence	Oct	--	--	101.7
EC	10/30	06:00	Industrial Confidence	Oct	--	--	-8.8
GE	10/30	09:00	CPI (m/m)	Oct P	--	--	0.0
GE	10/30	09:00	CPI (y/y)	Oct P	--	--	1.2
GE	10/30	09:00	CPI - EU Harmonized (m/m)	Oct P	--	0.1	-0.1
GE	10/30	09:00	CPI - EU Harmonized (y/y)	Oct P	--	0.9	0.9
UK	10/30	20:01	GfK Consumer Confidence Survey	Oct	--	--	-12.0

Forecasts at time of publication.
Source: Bloomberg, Scotiabank Economics.

Key Indicators for the week of October 28 – November 1

EUROPE (continued from previous page)

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
FR	10/31	03:45	CPI (m/m)	Oct P	--	--	-0.3
FR	10/31	03:45	CPI (y/y)	Oct P	--	--	0.9
FR	10/31	03:45	CPI - EU Harmonized (m/m)	Oct P	--	--	-0.4
FR	10/31	03:45	CPI - EU Harmonized (y/y)	Oct P	--	--	1.1
SP	10/31	04:00	Real GDP (q/q)	3Q P	0.3	--	0.4
SP	10/31	05:00	Current Account (€ bn)	Aug	--	--	3.2
EC	10/31	06:00	CPI (m/m)	Oct P	--	--	0.2
EC	10/31	06:00	Euro zone CPI Estimate (y/y)	Oct	0.8	--	0.9
EC	10/31	06:00	Euro zone Core CPI Estimate (y/y)	Oct P	1.0	--	1.0
EC	10/31	06:00	GDP (q/q)	3Q A	0.1	--	0.2
EC	10/31	06:00	Unemployment Rate (%)	Sep	7.4	--	7.4
IT	10/31	06:00	CPI (m/m)	Oct P	--	--	-0.6
IT	10/31	06:00	CPI (y/y)	Oct P	--	--	0.3
IT	10/31	06:00	CPI - EU Harmonized (m/m)	Oct P	--	--	1.4
IT	10/31	06:00	CPI - EU Harmonized (y/y)	Oct P	--	--	0.2
IT	10/31	07:00	Real GDP (q/q)	3Q P	0.1	0.0	0.1
UK	11/01	05:30	Manufacturing PMI	Oct	48.4	--	48.3
IT	11/01	04:00	Budget Balance (€ bn)	Oct	--	--	-22.6
IT	11/01	04:00	Budget Balance YTD (€ bn)	Oct	--	--	-55.0

ASIA-PACIFIC

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CH	10/26	21:30	Industrial Profits YTD (y/y)	Sep	--	--	-2.0
SK	10/27	20:00	Department Store Sales (y/y)	Sep	--	--	5.7
SK	10/28	17:00	Business Survey- Manufacturing	Nov	--	--	73.0
SK	10/28	17:00	Business Survey- Non-Manufacturing	Nov	--	--	74.0
JN	10/28	19:30	Tokyo CPI (y/y)	Oct	--	0.8	0.4
JN	10/29	19:50	Large Retailers' Sales (y/y)	Sep	--	--	0.3
JN	10/29	19:50	Retail Trade (y/y)	Sep	--	5.4	1.8
AU	10/29	20:30	Consumer Prices (y/y)	3Q	1.7	1.7	1.6
JN	10/30	00:00	BoJ Policy Rate (%)	Oct 31	-0.1	--	-0.1
SK	10/30	19:00	Industrial Production (y/y)	Sep	--	-2.0	-3.0
SK	10/30	19:00	Cyclical Leading Index Change	Sep	--	--	-0.1
JN	10/30	19:50	Industrial Production (y/y)	Sep P	--	-0.3	-4.7
AU	10/30	20:30	Building Approvals (m/m)	Sep	--	0.0	-1.1
AU	10/30	20:30	Private Sector Credit (y/y)	Sep	--	2.7	2.9
HK	10/30	21:00	Govt Monthly Budget Surp/Def (HKD bn)	Sep	--	--	-14.8
PH	10/30	21:00	Bank Lending (y/y)	Sep	--	--	10.0
CH	10/30	21:00	Manufacturing PMI	Oct	49.8	49.7	49.8
CH	10/30	21:00	Non-manufacturing PMI	Oct	--	53.7	53.7
IN	10/30	23:30	Fiscal Deficit (INR Crore)	Sep	--	--	6235
JN	10/31	00:00	Vehicle Production (y/y)	Aug	--	--	11.8
JN	10/31	01:00	Consumer Confidence	Oct	--	--	35.6
JN	10/31	01:00	Housing Starts (y/y)	Sep	--	-6.7	-7.1
JN	10/31	01:00	Construction Orders (y/y)	Sep	--	--	-25.9
TH	10/31	03:30	Exports (y/y)	Sep	--	--	-2.1
TH	10/31	03:30	Imports (y/y)	Sep	--	--	-15.5
TH	10/31	03:30	Trade Balance (US\$ mn)	Sep	--	--	3583
TH	10/31	03:30	Current Account Balance (US\$ mn)	Sep	--	--	3990
TA	10/31	04:00	Real GDP (y/y)	3Q P	1.7	2.4	2.4
HK	10/31	04:30	Real GDP (y/y)	3Q A	--	-0.1	0.5
NZ	10/31	17:00	ANZ Consumer Confidence Index	Oct	--	--	113.9
SK	10/31	19:00	CPI (y/y)	Oct	-0.4	-0.3	-0.4
SK	10/31	19:00	Core CPI (y/y)	Oct	--	--	0.6
JN	10/31	19:30	Jobless Rate (%)	Sep	2.2	2.3	2.2
JN	10/31	20:00	Official Reserve Assets (US\$ bn)	Oct	--	--	1323

Forecasts at time of publication.
Source: Bloomberg, Scotiabank Economics.

Key Indicators for the week of October 28 – November 1

ASIA-PACIFIC (continued from previous page)

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
SK	10/31	20:00	Exports (y/y)	Oct	--	-13.8	-11.7
SK	10/31	20:00	Imports (y/y)	Oct	--	-12.5	-5.6
SK	10/31	20:00	Trade Balance (US\$ mn)	Oct	--	4600	5982
AU	10/31	20:30	Producer Price Index (y/y)	3Q	--	--	2.0
CH	10/31	21:45	Caixin Manufacturing PMI	Oct	51.0	51.0	51.4
ID	10/31	22:00	CPI (y/y)	Oct	3.2	--	3.4
ID	10/31	22:00	Core CPI (y/y)	Oct	--	--	3.3
TH	11/01	00:00	CPI (y/y)	Oct	0.3	--	0.3
TH	11/01	00:00	Core CPI (y/y)	Oct	--	--	0.4
JN	11/01	01:00	Vehicle Sales (y/y)	Oct	--	--	12.8
TH	11/01	03:30	Business Sentiment Index	Oct	--	--	47.9
HK	11/01	04:30	Retail Sales - Volume (y/y)	Sep	--	--	-25.3

LATIN AMERICA

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CL	10/30	08:00	Industrial Production (y/y)	Sep	--	--	-1.5
CL	10/30	08:00	Unemployment Rate (%)	Sep	--	--	7.2
CO	10/30	11:00	Urban Unemployment Rate (%)	Sep	--	--	11.4
BZ	10/30	17:00	SELIC Target Rate (%)	Oct 30	5.00	5.00	5.50
CO	10/31	10:00	Overnight Lending Rate (%)	Oct 31	4.25	4.25	4.25
PE	11/01	01:00	Consumer Price Index (m/m)	Oct	0.2	0.1	0.0
PE	11/01	01:00	Consumer Price Index (y/y)	Oct	2.0	2.0	1.9
BZ	11/01	08:00	Industrial Production SA (m/m)	Sep	--	--	0.8
BZ	11/01	08:00	Industrial Production (y/y)	Sep	--	--	-2.3
BZ	11/01	09:00	PMI Manufacturing Index	Oct	--	--	53.4
BZ	11/01	14:00	Trade Balance (FOB) - Monthly (US\$ mn)	Oct	--	--	2246

Global Auctions for the week of October 28 – November 1**NORTH AMERICA**

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
CA	10/31	12:00	Canada to Sell 2 Year Bonds

EUROPE

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
UK	10/29	06:30	U.K. to Sell 1.1 Billion Pounds of 0.125% 2028 Linkers
IT	10/30	06:00	Italy to Sell Bonds
GE	10/30	06:30	Germany to Sell 3 Billion Euros of 0% 5 Year Bonds

ASIA-PACIFIC

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
SK	10/27	21:30	Korea Central Bank to Sell 3 Month & 1 Year Bonds
JN	10/28	23:35	Japan to Sell 2-Year Bonds
SI	10/29	01:00	Singapore to Sell 7 Year Bonds
PH	10/29	01:00	Philippines to Sell 7 Year Bonds
ID	10/29	05:00	Indonesia to Sell 2, 4, 15, 30 Year Bonds
NZ	10/30	21:05	New Zealand To Sell NZD150 Mln 3% 2029 Bonds
MA	10/31	00:00	Malaysia to Sell 3, 10, & 20 Year Bonds
TA	11/01	00:30	Taiwan to Sell Bonds

Events for the week of October 28 – November 1

NORTH AMERICA

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
CA	10/30	10:00	Bank of Canada Rate Decision & Monetary Policy Report
CA	10/30	10:00	Governor Poloz Speaks at Press Conference
US	10/30	14:00	FOMC Rate Decision
US	10/30	14:00	FOMC Press Conference
US	11/01	13:00	Fed's Clarida Speaks in New York

EUROPE

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
SW	10/26		Riksbank Day
UK	10/28	13:00	BOE's Tenreyro speaks in London.
TU	10/30	07:00	Monthly Aggregate Banking Data
HU	10/30	09:00	National Bank of Hungary's Nagy Speaks at Banking Conference
FI	10/30	00:00	ECB's Rehn, Finland's Lintila Speak on Greener Finance
SZ	10/31	02:30	Swiss National Bank Releases 3Q 2018 Currency Allocation
TU	10/31	03:30	Central Bank Inflation Report
SZ	10/31	11:30	SNB's Jordan speaks about challenges for pension funds in Bern

ASIA-PACIFIC

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
AU	10/29	02:45	RBA Governor Lowe Gives Speech in Canberra
JN	10/30	00:00	BOJ Outlook Report
JN	10/30	00:00	BOJ Policy Balance Rate
JN	10/30	00:00	BOJ 10-Yr Yield Target

LATIN AMERICA

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
BZ	10/30	17:00	Selic Rate
CO	10/31	10:00	Overnight Lending Rate
CO	11/01	14:00	Colombia Monetary Policy Minutes

Source: Bloomberg, Scotiabank Economics.

Global Central Bank Watch

NORTH AMERICA

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
Bank of Canada – Overnight Target Rate	1.75	October 30, 2019	1.75	1.75
Federal Reserve – Federal Funds Target Rate	2.00	October 30, 2019	1.75	2.00
Banco de México – Overnight Rate	7.75	November 14, 2019	7.75	7.50

Federal Reserve: We expect another ¼ points rate cut with possibly further measures to address short-term funding market challenges. The debate centers upon whether it will be a hawkish cut through accompanying forward guidance. We're not convinced as argued in the US section.

Bank of Canada: No policy rate change is likely at this meeting but there remains a case for easing by year-end as explained in the Canada section.

EUROPE

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
European Central Bank – Refinancing Rate	0.00	December 12, 2019	0.00	0.00
European Central Bank – Marginal Lending Facility Rate	0.25	December 12, 2019	0.25	0.25
European Central Bank – Deposit Facility Rate	-0.50	December 12, 2019	-0.50	-0.50
Bank of England – Bank Rate	0.75	November 7, 2019	0.75	0.75
Swiss National Bank – Libor Target Rate	-0.75	TBA	-0.75	-0.75
Central Bank of Russia – One-Week Auction Rate	7.00	December 13, 2019	6.75	6.75
Sweden Riksbank – Repo Rate	-0.25	December 19, 2019	0.00	-0.25
Norges Bank – Deposit Rate	1.50	December 19, 2019	1.50	1.50
Central Bank of Turkey – Benchmark Repo Rate	14.00	December 12, 2019	14.00	14.00

ASIA PACIFIC

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
Bank of Japan – Policy Rate	-0.10	October 31, 2019	-0.10	-0.10
Reserve Bank of Australia – Cash Target Rate	0.75	November 4, 2019	0.75	0.75
Reserve Bank of New Zealand – Cash Rate	1.00	November 12, 2019	1.00	1.00
People's Bank of China – Loan Prime Rate	4.20	November 20, 2019	4.15	4.20
Reserve Bank of India – Repo Rate	5.15	December 5, 2019	4.90	5.15
Bank of Korea – Bank Rate	1.25	November 28, 2019	1.25	1.25
Bank of Thailand – Repo Rate	1.50	November 6, 2019	1.50	1.25
Bank Negara Malaysia – Overnight Policy Rate	3.00	November 5, 2019	3.00	2.75
Bank Indonesia – 7-Day Reverse Repo Rate	5.00	November 21, 2019	5.00	5.00
Central Bank of Philippines – Overnight Borrowing Rate	4.00	November 14, 2019	4.00	4.00

Bank of Japan (BoJ): Japanese monetary authorities will meet on October 31. The BoJ will likely discuss its policy options—e.g. lower short- and/or long-term policy rates, the asset purchase program, or alternative measures such as provision of funding to banks through the Loan Support Program with a negative interest rate—in great detail at the meeting. We assess that the BoJ will stand ready to unveil further stimulus at the December 19 policy meeting, should evidence emerge that the economy is weakening notably following the increase in the consumption tax rate on October 1.

LATIN AMERICA

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
Banco Central do Brasil – Selic Rate	5.50	October 30, 2019	5.00	5.00
Banco Central de Chile – Overnight Rate	1.75	December 6, 2019	1.75	1.75
Banco de la República de Colombia – Lending Rate	4.25	October 31, 2019	4.25	4.25
Banco Central de Reserva del Perú – Reference Rate	2.50	November 7, 2019	2.50	2.38

Banco Central do Brasil: We expect a 50bps rate cut on Wednesday about three hours after the Fed's statement. Inflation is running below the bottom end of the inflation target range and falling.

BanRep: No policy rate change is expected with inflation running toward the upper end of the 2-4% target range.

AFRICA

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
South African Reserve Bank – Repo Rate	6.50	November 21, 2019	6.50	6.50

Forecasts at time of publication.
Source: Bloomberg, Scotiabank Economics.

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