

ON DECK FOR THURSDAY, DECEMBER 14

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	12/14	08:30	New Housing Price Index (m/m)	Oct	--	0.2	0.2
US	12/14	08:30	Export Prices (m/m)	Nov	--	0.7	0.2
US	12/14	08:30	Import Prices (m/m)	Nov	--	0.7	0.2
US	12/14	08:30	Initial Jobless Claims (000s)	DEC 9	235	236	236
US	12/14	08:30	Continuing Claims (000s)	DEC 2	1900	1900	1908
US	12/14	08:30	Retail Sales (m/m)	Nov	0.2	0.3	0.2
US	12/14	08:30	Retail Sales ex. Autos (m/m)	Nov	0.5	0.6	0.1
US	12/14	10:00	Business Inventories (m/m)	Oct	--	-0.1	0.0
CA	12/14	12:25	Bank of Canada's Poloz Speech to Canadian Club of Toronto				

CONTACTS

Derek Holt, VP & Head of Capital Markets Economics
 416.863.7707
 Scotiabank Economics
derek.holt@scotiabank.com

KEY POINTS:

- Markets shrug shoulders at bullish global data and a wave of central banks
- Policy unchanged at the ECB, BoE, Norges, SNB...
- ...Bank Indonesia, Philippines and Turkey
- But LatAm central banks could spice it up...
- ...with Banxico expected to hike...
- ...while Peru and Colombia face cut risk and Chile probably holds
- Eurozone PMIs signal a march to 3% growth
- China's relaxed restrictions cause foreign investment to soar
- Chinese retail sales, industrial production in line with expectations
- Oil down again as IEA questions supply rebalancing in 2018
- Poloz speech likely to repeat a cautious risk-laden bias
- US retail sales to provide Black Friday assessment
- UK shoppers returned in November, but is it sustainable?
- A\$ spikes on a very strong Australian jobs report...
- ...as Australia is creating jobs in proportionate fashion to Canada
- CDN home resales tracking a better quarter?
- CDN 2s auction pre-Poloz

INTERNATIONAL

For all the new information hitting markets this morning on policy and data risks, asset classes are fairly indifferent on balance and marked by little average change with some regional twists. A wave of central bank decisions hit the tapes today alongside a bevy of top shelf macro data that is unambiguously bullish in China and Europe with US data ahead. The net effect is a cautious bias across asset markets notwithstanding strong growth signals for the world economy. Instead of presenting material risks to global markets, the central bank risk factors are likely to be more focused upon regional markets and particularly some Latin American economies where Mexico is expected to hike again and there is the possibility of further easing in Peru and Colombia. The Bank of England already met expectations for no policy change this morning and the ECB did likewise with President Draghi's press conference ahead at 8:30amET. Draghi is likely to just emphasize ongoing softness in inflation readings after extending purchases to next September and putting ECB policy largely on auto-pilot until next summer. Norges Bank, the Swiss National Bank, Turkey's central bank, Bangko Sentral ng Pilipinas and Bank Indonesia all left their policy rates unchanged as expected overnight into this morning. Ahead are decisions in Mexico, Chile, Peru and Colombia over the afternoon into this evening and a speech by BoC Governor Poloz. See the Global Week Ahead here for expectations.

- Currency markets are divided with the A\$ (jobs) leading gainers versus the USD along with some Scandies like Norway's krone following Norges Bank's brought-forward hike guidance and the NZ\$ and Mexican peso leading decliners.
- Sovereign yields are reversing some of yesterday's Fed-induced rally. US

Treasury yields are up by about 2-3bps across the curve. Gilts are rallying across the curve on yesterday's rebel Brexit vote and this morning's BoE decision. Eurozone markets are outperforming in part as they lagged the Treasury rally yesterday in cash markets. Canadas are outperforming Treasuries especially at the front-end and ahead of Governor Poloz.

- US equity futures are up by a little again while TSX futures are flat. European cash markets are down across the board by generally up to ½%. That followed a mostly negative Asian session that saw stocks drops in Tokyo, HK, mainland China and Seoul but by under ½% across the exchanges.
- Oil prices are down a little with WTI at about US\$56.35. The International Energy Agency issued a forecast stating that US shale drilling will rise by enough to offset OPEC production cuts and thwart efforts to tighten global supply.

More important than the PBOC's modest moves to raise short-term market interest rates is evidence that China's liberalization of investment constraints is already paying dividends. In fact, so much so, that you could easily say that China is doing a much better job of bringing home investment than the US which highlights the importance of China's control over policy tools in an effort to liberalize the economy in such way as to siphon off more foreign investment for itself and make it more difficult for the rest of the world to do so. Foreign direct investment soared by over 90% y/y in December from 5% y/y the prior month. Yes 90%. Both months had similar base effects from a year ago so we're not bouncing higher off of some distorted levels a year ago. Rather, it seems to be a combination of November's decision to relax foreign ownership limits in the financial sector alongside a large companion acceleration of foreign firms establishing operations in China and major capital projects. At a minimum, policy liberalization may help to arrest a two decade-long trend of waning net foreign direct investment inflows as a share of the economy from a peak of over 6% around the mid-1990s to about 1.5% in 2016. I believe one should still remain constructive toward China's economy independent of US trade irritants. Other monthly China updates were in line with expectations for retail sales growth (10.2% y/y) and industrial production (6.1% y/y).

Eurozone purchasing managers indices climbed again this month. December's manufacturing PMI climbed by a half point to 60.6 (59.7 expected) and the services PMI climbed to 56.5 (56 expected). The combined effects raised the composite PMI to 58 from 57.5 and higher than the 57.2 consensus estimate. Such readings are consistent with an acceleration to around 3% quarterly GDP growth. Composite readings suggest France's economy may be growing quicker than Germany's as France's composite PMI is at 60 but was knocked a touch lower as softer service sector growth offset a manufacturing acceleration. Germany's composite PMI rose by a full point to 58.7 thanks to gains in both manufacturing and service PMIs.

UK consumer spending rebounded quite nicely in November. Retail sales volumes grew by 1.2% m/m ex-gas, or triple expectations and the prior month was revised up to a 0.4% rise. That still leaves soft year-ago growth at 1.5% y/y. One month doesn't change everything especially given question marks over sustainability in the face of no real wage gains. Spending gains were spread across household goods stores (+2.9% m/m), clothing and footwear (+1.4%), non-store retailing (+2.6%) and gasoline (+0.3%).

Australia figured Canada can do it, so why not 'down under'?! **The A\$ appreciated on the back of fresh jobs data and is among the currency leaders versus the greenback this morning.** The country created 61,600 jobs in November which roughly tripled consensus expectations. Most of the jobs were full-time (+41.9k) and part-time jobs were up 19.7k. Because the labour force participation rate spiked up to 65.5%, the unemployment rate held flat at 5.4% (more jobs, but more people looking for jobs). Like Canada, where job growth began to accelerate after July of last year, Australian job growth began to accelerate after September 2016. Over the period since then, Australia has created about 440,000 new jobs. By comparison, Canada has created 535,000 new jobs since July 2016. In USD terms, Canada's economy is about one-quarter larger than Australia's so the two countries are creating new jobs in roughly proportionate fashion to one another.

UNITED STATES

A modest rise in US retail sales (8:30amET) is expected but that might be a tough target to defend. The report includes an assessment of the critical Thanksgiving/Black Friday/Cyber Monday week but it would take a strong reading for core sales to drive a robust headline print. Auto sales fell by about 4% m/m from 18 million at an annualized rate in October to 17.35 million in November. That's still elevated, but coming off the boil as post-hurricane replacement demand ebbs. Further, average regular unleaded gasoline prices rose by only 2% m/m and gas stations are about 8% of retail sales plus include gasoline volume effects and ancillary products and services.

CANADA

Governor Poloz's speech topic will be "Issues keeping the Governor awake at night." Highlights will hit the wires at about 12:25pmET after the 2s auction at noon. There will be a press conference at about 1:45pmET. **A dovish-neutral theme that**

lays out the base case but puts the emphasis upon negative risks is expected just by virtue of the title. Poloz has repeatedly stated that he has more concern about downside risks to the inflation target than upside risks and views his job as being about risk management. It's unclear how the Governor may shorten the long and at times varying list of uncertainties that has been utilized to present a 'cautious' bias but protectionism and household sector vulnerabilities could be among the top possibilities.

Canada also releases home resales at 9amET and pending the November tally, momentum is headed toward a decent quarterly gain in Q4 after two large quarterly declines in Q2 and Q3.

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.	1.80	1.78	1.80	2.13	2.11	2.14	2.37	2.34	2.36	2.74	2.73	2.76	Canada - BoC	1.00
CANADA	1.52	1.50	1.49	1.67	1.65	1.66	1.86	1.84	1.85	2.17	2.15	2.17	US - Fed	1.50
GERMANY	-0.72	-0.74	-0.76	-0.34	-0.36	-0.39	0.32	0.31	0.29	1.15	1.15	1.13	England - BoE	0.50
JAPAN	-0.15	-0.15	-0.14	-0.11	-0.11	-0.10	0.05	0.05	0.06	0.81	0.82	0.83		
U.K.	0.46	0.48	0.51	0.72	0.74	0.76	1.19	1.22	1.25	1.76	1.79	1.83		
	Spreads vs. U.S. (bps):													
CANADA	-28	-27	-31	-46	-45	-48	-50	-50	-51	-57	-57	-60	Euro zone - ECB	0.00
GERMANY	-252	-251	-256	-247	-246	-253	-205	-203	-207	-159	-157	-163	Japan - BoJ	-0.10
JAPAN	-195	-193	-194	-224	-222	-224	-232	-229	-231	-193	-190	-193		
U.K.	-134	-129	-129	-141	-136	-138	-118	-113	-111	-98	-94	-93	Mexico - Banxico	7.00
Equities	Level						% change:							
	Last			Change			1 Day	1-wk			1-mo	1-yr		
S&P/TSX	16137			22.6			0.1	1.4			1.4	6.2		
Dow 30	24585			80.6			0.3	1.8			5.0	24.2		
S&P 500	2663			-1.3			-0.0	1.3			3.3	18.2		
Nasdaq	6876			13.5			0.2	1.5			2.0	26.5		
DAX	13049			-77.0			-0.6	0.0			0.1	16.0		
FTSE	7487			-9.3			-0.1	2.3			1.0	7.7		
Nikkei	22694			-63.6			-0.3	0.9			1.4	17.9		
Hang Seng	29166			-55.7			-0.2	3.0			0.0	29.9		
CAC	5392			-7.1			-0.1	0.2			1.4	13.1		
Commodities	Level						% change:							
WTI Crude	56.35			-0.25			-0.4	-0.6			1.2	10.4		
Natural Gas	2.67			-0.05			-1.7	-3.4			-14.0	-24.6		
Gold	1258.04			2.44			0.2	0.9			-1.7	10.1		
Silver	16.01			0.31			1.9	0.6			-5.5	-6.4		
CRB Index	183.36			-0.05			-0.0	-0.7			-3.0	-4.4		
Currencies	Level						% change:							
USDCAD	1.2827			0.0010			0.1	-0.2			0.8	-3.4		
EURUSD	1.1833			0.0007			0.1	0.5			0.3	12.3		
USDJPY	112.63			0.0900			0.1	-0.4			-0.7	-3.8		
AUDUSD	0.7667			0.0030			0.4	2.1			0.5	3.5		
GBPUSD	1.3429			0.0009			0.1	-0.3			2.0	6.9		
USDCHF	0.9871			0.0017			0.2	-0.7			-0.2	-3.3		
													Next Meeting Date	
													Canada - BoC	Jan 17, 2018
													US - Fed	Jan 31, 2018
													England - BoE	Dec 14, 2017
													Euro zone - ECB	Dec 14, 2017
													Japan - BoJ	Dec 21, 2017
													Mexico - Banxico	Dec 14, 2017
													Australia - RBA	Feb 05, 2018
													New Zealand - RBNZ	Feb 07, 2018

Source: Bloomberg. All quotes reflect Bloomberg data as at the time of publishing.
While this source is believed to be reliable, Scotiabank cannot guarantee its accuracy.

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including, Scotiabanc Inc.; Citadel Hill Advisors L.L.C.; The Bank of Nova Scotia Trust Company of New York; Scotiabank Europe plc; Scotiabank (Ireland) Limited; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Scotia Inverlat Casa de Bolsa S.A. de C.V., Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorised by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorised by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., and Scotia Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.