

ON DECK FOR MONDAY, OCTOBER 16

| Country | Date | Time | Indicator | Period | BNS | Consensus | Latest |
|---------|-------|-------|--|--------|-----|-----------|--------|
| CA | 10/16 | 08:30 | International Securities Transactions (C\$ bn) | Aug | -- | -- | 24.0 |
| US | 10/16 | 08:30 | Empire State Manufacturing Index | Oct | -- | 20.5 | 24.4 |
| CA | 10/16 | 09:00 | Existing Home Sales (m/m) | Sep | -- | -- | 2.1 |
| CA | 10/16 | 10:30 | BoC Senior Loan Officer Survey | 3Q | -- | -- | 2.1 |
| CA | 10/16 | 10:30 | Business Outlook Future Sales | 3Q | -- | -- | 31.0 |

KEY POINTS:

- Poloz drives weaker C\$ and lower rates
- BoC's Poloz reaffirms he's in watch mode...
- ...particularly on NAFTA risks
- BoC's twin surveys due this morning
- Yellen reaffirmed hike plans this weekend
- Escalating tensions in Spain
- Pound sterling rallies as PM May attempts to revive Brexit talks
- Don't read much into China's CPI slow down
- US markets only face Empire, light earnings today

Please see the Global Week Ahead [here](#). Key risks on tap include the following:

- China's 19th Party Congress
- China's Q3 GDP, CPI, other macro
- Yellen, Zhou, Carney, Poloz, Constancio...
- ...Draghi, Kuroda, Weidmann, Carstens, Patel, Cohn
- End of 4th NAFTA round
- CDN CPI, retail, manufacturing
- BoC Surveys
- US earnings
- Eurozone 'supercore' CPI
- UK CPI
- EU Leaders Summit
- Australian jobs
- CBs: Chile, BoK, BI
- US housing, industrial data

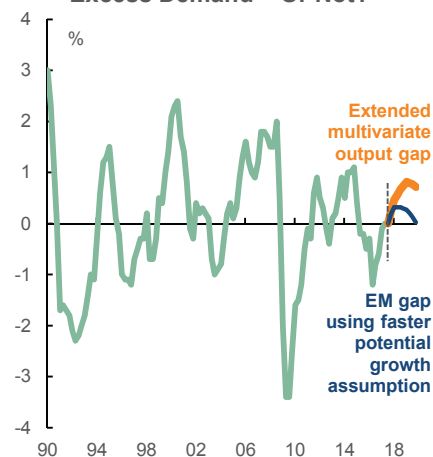
INTERNATIONAL

This morning is mostly about regional developments with little by way of fresh catalysts to global market directions. Cautious remarks by BoC Governor Poloz, continued hawkish signals from Fed Chair Yellen, escalating tensions in Spain, softer Chinese CPI that should be looked through and a pair of BoC surveys are the focal points.

- Stumbling blocks in NAFTA negotiations are taking over as the main driver of rate, FX and monetary policy directions in Canada of late. The peso and CAD are the two weakest performing crosses versus the USD this morning. Pound sterling is up for a change against the USD on news that PM May is in Brussels today to attempt to break the stalemate in exit negotiations that is centered upon the UK's unwillingness to pay exit penalties.
- Sovereign bond yields are under downward pressure across the Canada curve as the biggest mover globally following weekend remarks by BoC Governor Poloz. By contrast, there is mild upward pressure in the US of about 1bps across the curve. UK and Eurozone yields are generally down by the same magnitude.

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Excess Demand – Or Not?


Source: Scotiabank Economics.

- Oil prices are up again this morning with WTI gaining 70 cents to US\$52.15. The rumour du jour is that tensions in Iraq might impact oil flows.
- US and Canadian equity futures are very slightly higher so far. European stocks are little changed except for a modest sell-off in Spain. That's because Catalan President Puigdemont turned down a deadline set for today that was imposed by Spain to clearly declare his intention to separate or not. Instead, Puigdemont sent a letter to Spanish PM Rajoy emphasizing discussions over the next two months and a mandate to separate. Rajoy responded with a new ultimatum of this Thursday at 10am and expectations are that Spain would act to impose a caretaker government after that point unless Puigdemont alters his stance.

China's CPI reading for September eased off to 1.6% y/y from 1.8% the prior month but a) was expected, b) was primarily driven by a softer comparison to year-ago food prices, and c) masked underlying momentum in prices ex-food. Excluding food, CPI was up 2.4% y/y and has been gently rising over the past couple of months. Ditto for ex-food and energy at 2.3% y/y.

CANADA

BoC Governor Poloz's tone continues to shift toward a somewhat more patient stance on monetary policy that a) should fully eliminate the risk of an October hike that a minority of non-domestic shops anticipate as their base cases, and b) reduces the risk of a hike in December. He shared remarks at a Saturday press briefing following IMF meetings. There is no transcript of his remarks, and so we're dependent upon second-hand reporting from a limited group of outlets (Bloomberg, Reuters, CP and Maclean's attended). While I learned of the event last week through the press, the BoC only put out formal notice of the roundtable on Saturday morning ([here](#)) which doesn't quite tick the box for equal dissemination. That said, here are what I think were the two key points.

1) He's more worried about NAFTA risks, much like everyone else, and that will keep him cautious for as long as this uncertainty hangs over the economy. In response to a question on evaluating risks should the US withdraw from negotiations, Poloz remarked: **"We've got to wait and see what shock we're presented with. Trade is a really important driver for our economy."** He also noted that NAFTA risks and rate hikes and a **"source of angst."** That leans toward a very high bar to hike while NAFTA negotiations are underway, but also signals that the bias could change rapidly in either direction. In a sense, escalating NAFTA tensions are not terribly surprising as everyone expected things to get more confrontational by about now after an earlier focus upon less divisive issues in the early rounds of negotiations.

2) Poloz continues to prime markets for a likely upward revision to the economy's noninflationary speed limit and slightly greater slack estimates when they release the October 25th Monetary Policy Report. Recall from earlier writings that I don't think it would take much of a change to potential growth estimates to offset expectations that the Canadian economy slips into excess aggregate demand (see chart). In fact, it would only take a few tenths upward revision to potential GDP growth to lead to balanced aggregate demand and supply in the economy through much of the forecast horizon. Such a step by the BoC would be incrementally dovish in nature, but would also reverse what in my opinion was an overly pessimistic forecast bias the BoC had toward the economy's noninflationary speed limit and so be careful in distinguishing between the logic of revising potential upward on stronger investment versus simply reversing an undershoot in transitory fashion. The tone of Poloz's comments flagged momentum in business investment and hiring intentions that "push out" when full capacity and the inflation target are reached. Poloz noted Canada is at "the sweet part of the cycle, where you're actually creating new capacity which is permanent" where inflation is often over-estimated as the return of investment alters the dynamic.

So what is at risk in our Canadian market forecasts? At this stage I'd couch it mainly in terms of very short-dated yields likely being lower for longer with two and five year yields somewhat less at risk given our view that the fundamentals will ultimately remain supportive of hikes and that cooler heads will ultimately prevail in NAFTA talks not least of which through domestic pressure in the US on the Trump administration to make them work. The five cents appreciation in CAD by the end of this year forecast by the Economics and FX Strategy groups was previously neutral to spread considerations (three hikes from both the BoC and Fed between now and the end of next year) and to commodity influences with little forecast change. If, however, the Fed hikes in December (as Yellen continued to lean toward this weekend) and the BoC lags behind then CAD is vulnerable to depreciation. If neither central bank hikes then it's a wash on rate influences upon the currency. My view is that if the BoC doesn't hike in December then we'd only push that hike out to Q1 next year with what we know at this stage but it's early with two months until game day and a lot of data to be evaluated including CPI, retail and manufacturing figures this week plus constant monitoring of the NAFTA dialogue.

The BoC releases its twin surveys this morning (10:30amET). Bear in mind we're talking about a small sample of about 100 CEOs' opinions in a volatile survey with a limited track record when it comes to forecasting developments, but the Business

Outlook Survey may continue to reflect solid hiring and investment intentions based upon Poloz's comfort with referencing their strengths on Saturday and his advance knowledge of the results. Momentum in expectations for future sales and investment and hiring decisions may be reflecting NAFTA uncertainties if not in this round then in the next round of surveys. The other survey is the Senior Loan Officer Survey.

UNITED STATES

US markets will face very little new information scheduled for today. The Empire regional manufacturing gauge is due at 8:30amET covering New York state for the month of October. The regional surveys that matter more to ISM expectations include Thursday's Philly Fed metric and next Tuesday's Richmond gauge. Earnings are light today with only Netflix after the markets close and Charles Schwab in the pre-market. Tomorrow heats up with GS and Morgan Stanley.

| 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. | 1.51 | 1.49 | 1.51 | 1.91 | 1.90 | 1.96 | 2.28 | 2.27 | 2.36 | 2.81 | 2.81 | 2.89 | Canada - BoC | 1.00 |
| CANADA | 1.50 | 1.54 | 1.57 | 1.70 | 1.72 | 1.78 | 2.01 | 2.03 | 2.12 | 2.38 | 2.39 | 2.49 | US - Fed | 1.25 |
| GERMANY | -0.73 | -0.73 | -0.70 | -0.33 | -0.31 | -0.27 | 0.39 | 0.40 | 0.44 | 1.24 | 1.27 | 1.28 | England - BoE | 0.25 |
| JAPAN | -0.14 | -0.14 | -0.14 | -0.09 | -0.09 | -0.09 | 0.06 | 0.06 | 0.06 | 0.88 | 0.88 | 0.89 | | |
| U.K. | 0.46 | 0.47 | 0.43 | 0.80 | 0.81 | 0.76 | 1.36 | 1.37 | 1.36 | 1.91 | 1.92 | 1.95 | | |
| | Spreads vs. U.S. (bps): | | | | | | | | | | | | | |
| CANADA | -1 | 4 | 6 | -21 | -18 | -18 | -27 | -24 | -24 | -43 | -42 | -40 | Euro zone - ECB | 0.00 |
| GERMANY | -224 | -222 | -221 | -224 | -221 | -223 | -189 | -187 | -192 | -156 | -154 | -161 | Japan - BoJ | -0.10 |
| JAPAN | -165 | -164 | -164 | -199 | -199 | -205 | -221 | -221 | -230 | -193 | -193 | -201 | | |
| U.K. | -104 | -103 | -108 | -111 | -109 | -120 | -92 | -91 | -100 | -90 | -88 | -95 | Mexico - Banxico | 7.00 |
| Equities | Level | | | % change: | | | | | | | Next Meeting Date | | | |
| | Last | Change | | 1 Day | 1-wk | 1-mo | 1-yr | | | | | | | |
| S&P/TSX | 15807 | 65.0 | | 0.4 | 0.2 | 4.2 | 8.4 | | | | | | | |
| Dow 30 | 22872 | 30.7 | | 0.1 | 0.4 | 2.7 | 26.1 | | | | | | | |
| S&P 500 | 2553 | 2.2 | | 0.1 | 0.2 | 2.1 | 19.7 | | | | | | | |
| Nasdaq | 6606 | 14.3 | | 0.2 | 0.2 | 2.4 | 26.7 | | | | | | | |
| DAX | 13004 | 11.7 | | 0.1 | 0.2 | 3.9 | 22.9 | | | | | | | |
| FTSE | 7534 | -1.4 | | -0.0 | 0.3 | 4.4 | 7.4 | | | | | | | |
| Nikkei | 21256 | 100.4 | | 0.5 | 2.7 | 6.8 | 26.1 | | | | | | | |
| Hang Seng | 28693 | 216.4 | | 0.8 | 1.3 | 3.2 | 23.5 | | | | | | | |
| CAC | 5357 | 5.4 | | 0.1 | -0.2 | 2.7 | 19.8 | | | | | | | |
| Commodities | Level | | | % change: | | | | | | | | | | |
| WTI Crude | 52.12 | 0.67 | | 1.3 | 5.1 | 4.5 | 3.5 | | | | | | | |
| Natural Gas | 2.96 | -0.04 | | -1.5 | 4.3 | -2.3 | -10.0 | | | | | | | |
| Gold | 1305.79 | 1.21 | | 0.1 | 1.7 | -1.1 | 4.3 | | | | | | | |
| Silver | 17.41 | 0.21 | | 1.2 | 2.9 | -1.6 | -0.3 | | | | | | | |
| CRB Index | 184.83 | 1.55 | | 0.8 | 1.0 | 0.4 | -2.4 | | | | | | | |
| Currencies | Level | | | % change: | | | | | | | | | | |
| USDCAD | 1.2537 | 0.0069 | | 0.6 | -0.1 | 2.0 | -4.5 | | | | | | | |
| EURUSD | 1.1811 | -0.0009 | | -0.1 | 0.6 | -1.2 | 7.4 | | | | | | | |
| USDJPY | 111.74 | -0.0800 | | -0.1 | -0.8 | 0.2 | 7.6 | | | | | | | |
| AUDUSD | 0.7870 | -0.0017 | | -0.2 | 1.5 | -1.1 | 3.2 | | | | | | | |
| GBPUSD | 1.3296 | 0.0011 | | 0.1 | 1.2 | -1.5 | 9.1 | | | | | | | |
| USDCHF | 0.9750 | 0.0005 | | 0.1 | -0.5 | 1.4 | -1.4 | | | | | | | |

Source: Bloomberg. All quotes reflect Bloomberg data as at the time of publishing.
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