

ON DECK FOR TUESDAY, AUGUST 22

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	08/22	08:30	Retail Sales (m/m)	Jun	0.4	0.2	0.6
CA	08/22	08:30	Retail Sales ex. Autos (m/m)	Jun	0.3	0.1	-0.1
US	08/22	10:00	Richmond Fed Manufacturing Index	Aug	--	10.0	14.0

KEY POINTS:

- Eurozone risks are back
- CDN retail sales: softer ending to a solid quarter?
- US quiet; just Richmond Fed and FHFA house prices on tap
- Eurozone investor confidence slips for a third month
- ECB's Constancio to speak; unlikely to scoop Draghi
- Bank Indonesia cuts; sees less capital flight risk on Fed outlook
- Blame Italy again for rising Eurozone risks
- Washington's rudimentary understanding of trade deficits

INTERNATIONAL

There is again little truly new information for global markets to digest this morning and the signals from across the asset classes reflect a lack of consistency in the direction of the risk trade that may be more governed by thin late-August volumes. The Eurozone is the market to watch this morning as the risk of resurrecting past missteps is rising once again (more below). Equities are firmer, global sovereign bonds are mixed, commodities are flat and the USD is stronger.

- The USD is appreciating against most currencies this morning except for the won. Pound sterling, the euro and A\$/NZ\$ are depreciating the most. CAD is weaker ahead of retail sales but is middle of the pack along with the peso.
- European stocks are up by ½ - ¾% across indices except for Milan. Asian stocks were mixed overnight with a rally in Seoul (+½%) and HK (+0.9%) while Tokyo was flat. US and Canadian equity futures are indicating a small 0.1% rise at the cash market open.
- Commodities are little changed with WTI oil flat at US\$47 ½ and gold down \$5 to US\$1286.
- Sovereign bond spreads are slightly widening in terms of US over UK and core eurozone spreads as the whole Treasuries curve cheapens by about 2bps while gilts rally slightly at the front-end and are little changed across the rest of the curve. French and German bonds are little changed toward the front-ends of their curves but about 1-2bps cheaper in 10s. Italian and peripheral yields are under upward pressure with Italian 10 year yields up 8bps.

The driver to widening Eurozone peripheral spreads (and falling Italian stocks) is that former Italian premier Silvio Berlusconi's political party and coalition partners are polling strongly enough to win an election that is pending in early 2018 and he has suggested bringing a dual currency to Italy. On its own that is not news as he has said that previously including back in March and also three years ago but the fact that Berlusconi's party is polling reasonably well as the elections are drawing nearer is disconcerting by way of potentially reintroducing Eurozone instability – and with that, geopolitical risks back to the Fed outlook.

Eurozone investor confidence is still high but it slipped in the August ZEW reading. It fell from 35.6 to 29.3 which was the second consecutive decline from

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a two year peak. **In Germany, investor confidence fell** because of the forward-looking expectations component that has fallen for three consecutive months back to February levels. A stronger euro and global political risk may be among the considerations.

ECB Vice President Vitor Constancio speaks at 8amET but the topic is “inequality and the distributional impact of macroeconomic policies” and so hardly the stuff of central banking 101 or finance unless he strays ahead of President Draghi’s remarks at Jackson Hole this Friday.

Bank Indonesia cut its 7 day reverse repo rate by 25bps this morning. Consensus had expected no change but it was largely dated before Governor Agus Martawardojo stated late last week that “if all indicators support it, we see an easing potential” and that he is “pretty happy” with inflation readings. Bank Indonesia indicated it was less concerned about capital flight impacting the rupiah in part because it sees less policy rate risk out of the Federal Reserve.

CANADA

Canada updates retail sales for the month of June this morning (8:30amET). Little change is expected following a 0.6% m/m rise in the dollar value of sales in May as sales volumes rose by 1.1% m/m and prices fell by 0.5%. Prices shouldn’t be a drag this month but with a flat seasonally adjusted CPI report for June and only a 0.2% rise in CPI ex-food and energy I wouldn’t expect a big lift from price effects on the dollar value of sales. The volume gain in May will be a tough act to follow which probably nets out to downside risks notwithstanding the fact that many portions of this notoriously volatile report are unobservable going in.

This will be the last indicator to use in firming up expectations for June GDP that is to be released next Thursday. My tracking for June GDP growth that incorporates information up to yesterday’s wholesale trade report but pending retail sales leans toward very little if any growth to end the quarter and hand-off to Q3 which would mean a much softer baked-in growth profile for Q3 may be in store after four quarters that have averaged a strong 3 ½% pace of GDP growth in inflation-adjusted terms. On retail sales in particular, if June’s volumes come in flat and barring revisions, then retail sales volumes go from about a 5% q/q seasonally adjusted and annualized gain in Q2 to around a 1% rise baked in on hand-off math before actual Q3 data begins to arrive.

UNITED STATES

US markets should face very little by way of new information today. Only the Richmond Fed regional manufacturing gauge is on tap (10amET) and along with the Philly Fed these are the two most useful regional surveys to use in forming expectations for the ISM-manufacturing report that is due for release on September 1st. The US also updates the less widely followed measure of house prices from the Federal Housing Finance Agency. Trump speaks again tonight at 10pmET after he took the US down the rabbit hole again in Afghanistan in last evening’s talk.

Domestic US opposition to the US government’s approach to NAFTA negotiations insofar as it impacts the auto sector is appearing more often in the US financial press including this morning’s WSJ ([here](#)). Most economists would agree that the US administration’s understanding of trade deficits (and the alt-right’s understanding [here](#)) in terms of what they mean and the drivers is seriously deficient and downright misinformed.

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.	1.32	1.30	1.35	1.78	1.75	1.83	2.21	2.18	2.27	2.78	2.76	2.85	Canada - BoC	0.75
CANADA	1.27	1.25	1.24	1.53	1.50	1.51	1.92	1.88	1.90	2.32	2.30	2.35	US - Fed	1.25
GERMANY	-0.72	-0.72	-0.71	-0.29	-0.28	-0.26	0.41	0.40	0.43	1.16	1.15	1.18	England - BoE	0.25
JAPAN	-0.13	-0.13	-0.11	-0.09	-0.10	-0.08	0.04	0.03	0.05	0.84	0.85	0.85	Euro zone - ECB	0.00
U.K.	0.22	0.22	0.23	0.49	0.49	0.49	1.09	1.07	1.08	1.74	1.73	1.74	Japan - BoJ	-0.10
	Spreads vs. U.S. (bps):												Mexico - Banxico	7.00
CANADA	-6	-6	-11	-24	-25	-32	-29	-30	-37	-46	-47	-50	Australia - RBA	1.50
GERMANY	-204	-202	-206	-206	-204	-208	-180	-178	-184	-162	-161	-167	New Zealand - RBNZ	1.75
JAPAN	-145	-144	-146	-187	-186	-190	-216	-215	-222	-194	-192	-200	Next Meeting Date	
U.K.	-110	-108	-112	-129	-126	-134	-112	-111	-119	-104	-104	-111	Canada - BoC	Sep 06, 2017
Equities	Level						% change:						US - Fed	Sep 20, 2017
	Last		Change		1 Day		1-wk		1-mo		1-yr		England - BoE	Sep 14, 2017
S&P/TSX	14952		-0.5		-0.0		-1.1		-1.5		1.4		Euro zone - ECB	Sep 07, 2017
Dow 30	21704		29.2		0.1		-1.3		0.6		17.1		Japan - BoJ	Sep 21, 2017
S&P 500	2428		2.8		0.1		-1.5		-1.8		11.3		Mexico - Banxico	Sep 28, 2017
Nasdaq	6213		-3.4		-0.1		-2.0		-2.7		18.5		Australia - RBA	Sep 05, 2017
DAX	12154		87.5		0.7		-0.2		-0.7		15.8		New Zealand - RBNZ	Sep 27, 2017
FTSE	7367		48.0		0.7		-0.2		-1.2		7.9			
Nikkei	19384		-9.3		-0.0		-1.9		-3.6		16.8			
Hang Seng	27402		247.0		0.9		0.8		2.6		19.1			
CAC	5113		25.1		0.5		-0.5		-0.1		16.5			
Commodities	Level						% change:							
WTI Crude	47.38		0.01		0.0		-0.4		3.5		0.7			
Natural Gas	2.98		0.02		0.5		1.5		0.3		11.2			
Gold	1286.08		-5.80		-0.4		1.1		2.5		-4.0			
Silver	17.02		-0.13		-0.8		0.3		3.6		-12.3			
CRB Index	176.55		-0.95		-0.5		0.1		-0.1		-5.6			
Currencies	Level						% change:							
USDCAD	1.2580		0.0022		0.2		-1.4		0.6		-2.8			
EURUSD	1.1768		-0.0047		-0.4		0.3		1.1		4.0			
USDJPY	109.38		0.4000		0.4		-1.2		-1.5		9.0			
AUDUSD	0.7903		-0.0036		-0.5		1.0		-0.3		3.6			
GBPUSD	1.2826		-0.0074		-0.6		-0.3		-1.6		-2.4			
USDCHF	0.9655		0.0036		0.4		-0.7		2.1		0.3			

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

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