

**ON DECK FOR FRIDAY, OCTOBER 26**

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	10/26	08:30	GDP (q/q a.r.)	3Q A	3.2	3.3	4.2
US	10/26	08:30	GDP Deflator (q/q a.r.)	3Q A	--	2.1	3.0
US	10/26	10:00	U. of Michigan Consumer Sentiment	Oct F	--	99.0	99.0

**KEY POINTS:**

- Risk-off on US tech revenues
- US Q3 GDP on tap...
- ...as peak growth has probably already passed...
- ...but recession talk is off base
- S&P to rate Italian debt today
- Japanese inflation still tame
- Russia's hawkish hold
- BanRep expected to hold
- Earnings should be quiet today
- Canada quiet
- CDN tax incentives on November 21st?
- CDN jobs: what goes up...goes up again?

**INTERNATIONAL**

It's risk-off again in global markets this morning and negative US revenue misses and revenue guidance in the tech sector is the catalyst (Amazon, Alphabet). Incremental market risk may be derived from US GDP and S&P's pending Italian debt rating today.

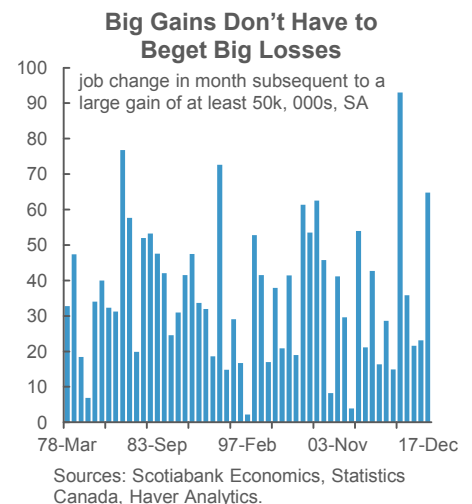
- US equity futures are down by between ¾% (Dow) and 2% (Nasdaq). TSX futures are down 1%. European cash markets are selling off by between 1% and 1½% across the exchanges. Asian equities were a sea of red.
- Sovereign bonds are picking up the safe haven demand. US Treasury yields are down by 3-4bps across the curve and Canadian yields are down by slightly less. European bond yields are rallying except for spread widening in Italy pending S&P's decision.
- The USD is also picking up safe haven flows along with the yen as both currencies are appreciating against everyone else's.
- Oil prices are down about 75 cents in terms of both WTI and Brent. Gold is reacting very little.

**Italian debt spreads over bunds are widening again ahead of S&P's debt rating that is expected later today.** Moody's previously downgraded Italian debt but kept it a notch above a junk rating and did not deliver a negative outlook which implies ratings stability for now. Whether S&P follows suit is uncertain but the stakes are high in terms of the ability of Italian bonds to remain within global bond indices.

**Russia's central bank left its policy rate at 7.5% as widely anticipated.** Its statement ([here](#)) clearly enunciated the reasoning behind taking a pause after hiking at the previous meeting while nevertheless maintaining a hawkish bias pointing to future rate hikes:

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“The domestic financial market has stabilised in the time since the previous Board meeting. However, pro-inflationary risks remain elevated, especially over a short-term horizon. The uncertainty over future external conditions persists. The Bank of Russia forecasts annual inflation to be 5-5.5% in 2019 and return to 4% in 2020. The Bank of Russia will consider the necessity of further increases in the key rate, taking into account inflation and economic dynamics against the forecast, as well as risks posed by external conditions and the reaction of financial markets.”

**BanRep is expected to remain on hold at an overnight lending rate of 4.25% later today.** Colombia's core CPI inflation rate continues to drift lower; it hit 3.7% y/y in September which is well under the 6.3% peak in mid-2016 and back to the weakest inflation rate since mid-2015. Inflation is within Banrep's 2–4% inflation target range (chart 7). Governor Echavarria recently remarked that markets have been overpricing the rate outlook over the coming year. He did, however, add a caveat in that this depends upon whether the Colombian peso remains stable; it has depreciated by about 15% versus the USD since April in the environment of broad USD strength.

**A leading indicator of Japanese inflation is still going nowhere.** The Tokyo CPI print climbed to 1.5% y/y (1.3% prior), but the ex-fresh food core reading was unchanged at 1% y/y and excluding both fresh food and energy it ticked lower to 0.6% y/y. The reading for October arrives three and a half weeks ahead of the national reading.

### UNITED STATES

**US GDP growth in Q3 (8:30amET) will be the only calendar-based source of incremental market risk today.** Bloomberg consensus sits at 3.3%, similar to Scotia's 3.2% estimate. Most estimates lie within a range from about 3% to just over 3½%. The Atlanta Fed's nowcast is at the upper end of this range at 3.6%. If any of these estimates turns out to be correct, then the US has already witnessed peak growth after expanding at a rate of 4.2% in Q2. Scotia Economics forecasts growth to rapidly wane from here to about 2½% in Q4 and then to 1.5-2% annualized quarterly rates next year and into 2020. The removal of fiscal policy contributions to incremental growth does not beget recession; it removes the acceleration that juiced growth especially when it was combined with deferred activity from Q1 into Q2 and restores growth back to something more aligned with its longer run potential. The tired act of tossing out stimulus ahead of an election as the TCJA and February spending bill did will soon entirely shake out of the growth figures. As for recession risk driven by Fed overtightening, give me a break; the real policy rate of about zippo right now contrasts with a real policy rate over 300bps in the lead up to the GFC. Further, US households have never been paying a lower share of their after-tax incomes than at present and broader evidence of economic imbalances is muted,

**Incremental earnings risk should be light today** with 11 S&P500 firms on tap but none of them likely to impact the broad market tone. No TSX firms release in Canada today.

### CANADA

**Canada will continue its observer status in world markets today with an empty domestic calendar.** Ahead of next Friday's jobs report, does what go up necessarily crash back down? Not on 53 prior occasions in the history of the Labour Force Survey since 1976. Over that period, months when jobs rose by at least 50,000 were followed by additional gains the next month on 53 separate occasions (see chart). It's a volatile household survey and so anything can happen, but don't necessarily assume that correct market positioning into the report involves assuming a big drop especially with hiring intentions remaining strong.

**Canada's Fall Economic Statement** will be delivered by Canadian Finance Minister Bill Morneau the day before US Thanksgiving as announced this morning. Addressing the deterioration in Canada's relative competitiveness likely through modest tax incentives is expected to be a theme.

Fixed Income	Government Yield Curves (%):												Central Banks	
U.S. CANADA GERMANY JAPAN U.K.	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	Canada - BoC	1.75
	2.81	2.85	2.91	2.92	2.96	3.05	3.08	3.12	3.19	3.32	3.34	3.38		
	2.28	2.31	2.29	2.36	2.39	2.40	2.42	2.45	2.50	2.44	2.47	2.53		
	-0.64	-0.61	-0.58	-0.22	-0.18	-0.13	0.35	0.40	0.46	0.99	1.03	1.07		
	-0.12	-0.12	-0.12	-0.08	-0.08	-0.05	0.11	0.12	0.15	0.87	0.87	0.91		
CANADA GERMANY JAPAN U.K.	0.72	0.75	0.81	0.98	1.03	1.15	1.39	1.44	1.58	1.84	1.87	1.96	England - BoE	0.75
	Spreads vs. U.S. (bps):												Euro zone - ECB	0.00
	-53	-54	-61	-56	-57	-65	-67	-67	-70	-87	-87	-85		
	-345	-346	-349	-314	-314	-317	-273	-272	-273	-232	-231	-230		
	-293	-297	-302	-300	-304	-310	-297	-300	-304	-245	-248	-246		
	-209	-210	-210	-194	-193	-190	-169	-168	-162	-147	-148	-142		
Equities	Level						% change:						Mexico - Banxico	7.75
S&P/TSX Dow 30 S&P 500 Nasdaq DAX FTSE Nikkei Hang Seng CAC	Last	Change		1 Day		1-wk		1-mo		1-yr		Australia - RBA	1.50	
	14924	15.0		0.1		-3.1		-7.7		-6.1				
	24985	401.1		1.6		-1.6		-5.3		6.8				
	2706	49.5		1.9		-2.3		-6.9		5.7				
	7318	209.9		3.0		-2.2		-8.4		11.6				
	11138	-169.5		-1.5		-3.6		-10.1		-15.2				
	6928	-75.8		-1.1		-1.7		-7.8		-7.5				
	21185	-84.1		-0.4		-6.0		-11.9		-2.6				
	24718	-276.8		-1.1		-3.3		-11.1		-12.4				
	4937	-94.8		-1.9		-2.9		-10.4		-9.5				
Commodities	Level						% change:						New Zealand - RBNZ	1.75
WTI Crude Natural Gas Gold Silver CRB Index	66.52	-0.81		-1.2		-3.8		-7.1		26.4				
	3.14	-0.06		-1.9		-3.4		4.0		8.7				
	1235.07	2.88		0.2		0.7		3.4		-2.5				
	14.74	-0.01		-0.0		1.6		3.1		-12.7				
	193.90	-0.89		-0.5		-1.7		-0.0		4.3				
Currencies	Level						% change:						Japan - BoJ	Oct 31, 2018
USDCAD EURUSD USDJPY AUDUSD GBPUSD USDCHF	1.3143	0.0069		0.5		0.3		1.0		2.3				
	1.1341	-0.0034		-0.3		-1.5		-3.4		-2.7				
	112.06	-0.3600		-0.3		-0.4		-0.6		-1.7				
	0.7030	-0.0050		-0.7		-1.3		-3.1		-8.2				
	1.2785	-0.0032		-0.2		-2.2		-2.9		-2.9				
1.0022	0.0036		0.4		0.6		3.7		0.5					
Canada - BoC													US - Fed	Nov 08, 2018
England - BoE													Euro zone - ECB	Dec 13, 2018
Australia - RBA													Japan - BoJ	Oct 31, 2018
New Zealand - RBNZ													Mexico - Banxico	Nov 15, 2018
Australia - RBA													Australia - RBA	Nov 05, 2018
New Zealand - RBNZ													New Zealand - RBNZ	Nov 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.

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