

FIVE LITTLE MONKEYS

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Next Week's Risk Dashboard

- Will BoC's Macklem alter course?
- Banxico policy decision
- US recovery evidence
- European recovery evidence
- Will the PBOC ease?

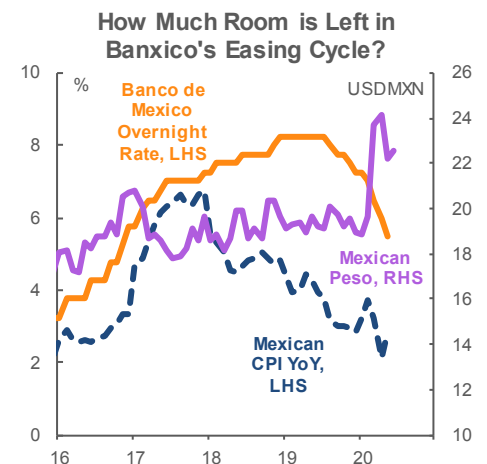
Chart of the Week


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

Five Little Monkeys

In celebration of the vernal equinox and hence the first day of summer in the northern hemisphere to kickstart the week, this edition of *The Global Week Ahead* will focus upon five main expected developments that offer the potential to impact markets. It also happens to be a relatively light week for calendar-based risks! Off-calendar risks will continue to focus upon COVID-19 tracking.

The week's fab-five include policy decisions by Banxico and the PBOC, potentially impactful monetary policy guidance from BoC Governor Macklem, US recovery evidence and European recovery evidence.

1. WILL THE NEW BoC GOVERNOR ALTER COURSE?

Bank of Canada Governor Macklem's first policy decision is not due until July 15th. At the same time, the central bank's first complete forecast round since January will be offered under his guidance. Nevertheless, he might disclose pertinent guidance on monetary policy matters that could be impactful to markets when he speaks on Monday.

Macklem's speech is titled "Monetary policy in the context of COVID" and it will be available at 11amET on Monday. There will be audience Q&A and a 12:20pmET press conference. Here is what I'm sure is an incomplete list of potential topics he may broach beyond just recapping what the BoC has done so far and beyond just stating the obvious that policy directions are uncertain because the outlook is uncertain.

a) Forward guidance: Macklem joined the BoC as Senior Deputy Governor at the tail end of former Governor Carney's conditional commitment in 2009 to keep the policy rate on hold until the end of the second quarter of 2010 subject to inflation remaining below target. The BoC ultimately hiked in June of that year. Will Macklem offer an updated version of hybrid time-based and conditional guidance to stay on hold for a set period of time? The BoC was a pioneer in this regard and could reclaim the forward guidance crown as other central banks mull over how to do this going forward.

b) New price measures: Macklem might disclose details or further general guidance regarding work that the BoC is doing on new price measures after StatsCan advised that it would 'soon' disclose results of efforts to explore with the BoC "ways to use current, ad hoc sources of expenditure data to estimate CPI basket weights that reflect shifting consumption patterns during the pandemic." Recall that Macklem has said that CPI "isn't currently giving an accurate picture of inflation for many Canadians." A better effort in this regard could give markets a more informed feel for what is happening to inflation than what is offered by official CPI figures that rely upon pre-COVID estimates of what people spend money upon and that involve imputed measures for missing prices. Look for a potential accompanying research note from the BoC.

c) Overall balance sheet guidance. It is doubtful we'll hear about this, but if the BoC takes a page from the Fed's years of experience with large-scale asset purchase programs, then it may be helpful to offer scenarios and ranges for matters like optimal balance sheet size and composition.

d) What does 'well underway' mean? Firmed up guidance on what it means to say the BoC will buy GoC bonds until the recovery is "well underway" would be helpful to bond investors. Right now, you could guess anything from, say, two quarters of growth to a nearly closed output gap. At a flow rate of over C\$5 billion per week, this vague guidance implies a massive range of estimates for the potential size of the overall program.

e) Short-term paper buying: Short-term market participants may wish to hear firmed up guidance on how long the BoC will buy bills and provincial short-term paper at the elevated 40% rate.

f) Asset buying motives: With markets functioning well, will Macklem put similar/weaker/stronger emphasis upon other reasons for asset buying that will inform perspectives on the longevity of programs to buy Canada, provincial, mortgage and corporate bonds? Will he deny this is QE per se as his predecessor did, or embrace the concept which may inform transitory versus longer-lived perspectives on the duration of the programs.

g) Exit guidance. It's probably highly premature to offer this, but a distant future order of operations mapping isn't impossible. The Fed laid one out ages in advance of actual exits and so work on exit strategies for a QE novice like the BoC would be helpful to inform debate.

2. BANXICO POLICY DECISION

Our Mexican economics team led by Mario Correa expects Banxico to cut its overnight rate by 50bps to 5% on Thursday. It may leave the door open to considering further reductions. With headline inflation at 2.84% y/y and core inflation at 3.64% y/y compared to a target range of 2–4%, easing and guidance would rely in part upon the expected evolution of price pressures.

Policy guidance from the central bank since the last time it cut on May 14th has been rather mixed. Minutes to that meeting indicated only one member supporting a stronger signal toward further easing ([here](#), page 9). Banxico board member Jonathan Heath remarked on May 20th that “In my personal opinion, we will still see reductions in the monetary policy rate. I think we didn’t reach the end of this easing cycle.” When Deputy Governor Javier Guzmán Calafell delivered [this](#) presentation, however, he noted that “A more aggressive monetary response to try to stimulate economic activity would be accompanied by high risks in exchange for, at best, a modest impact on growth for well-known and documented reasons.” He also noted that inflation is expected to rise above target over 2020H2–2021H1 but return toward target over 2021H2 given spare capacity considerations but with bi-directional risks. The Banxico Board has not provided a clear bias to the balance of risks for inflation of late.

3. US RECOVERY EVIDENCE

The week’s calendar-based risks will emphasize further evidence of recovery, but with a bit of a twist. Housing, consumer and business conditions will all be covered by the recovery tracking evidence.

Housing will figure prominently over the course of the week. While the readings may remain mixed, put the emphasis upon the freshest and most timely gauges. Home resales are probably not yet at a turning point, as May’s reading (Monday) will likely continue to follow pending home sales lower given 30–90 day closing periods. For fresher evidence, follow new home sales for the same month the next day; closing periods are much shorter than for resales and so the sharp rise in mortgage purchase applications (chart 1) should show up here first, but beware the potential for notoriously large revisions.

Consumer sector gauges should see the resumption of progress toward falling weekly jobless claims (Thursday) and a rebound in personal spending in light of the already known 18% m/m jump in retail sales (Friday). **The rub lies in the fact that personal income is likely to fall** after the temporary 10.5% stimulus-fed gain in April that had been driven by expanded unemployment insurance and pandemic cheques. Also watch for a potentially further softening of core PCE inflation also on Friday.

Business conditions could see multiple readings point toward improvement. Markit’s purchasing managers’ indices are generally less widely followed than the ISM gauges, but their release on Tuesday should show marked improvement back toward nearly even odds between expansion and contraction and further away from contraction. The same day’s Richmond Fed manufacturing gauge is likely to follow other regional measures higher like the already known sharp gains in the Empire and Philly Fed readings. Durable goods orders during May probably increased as business activity improved especially in terms of the transportation sector, but the trend in core cap-ex activity is likely to be soft for quite a while given spare capacity considerations. Finally, we could see the advance goods trade deficit slightly narrow as activity picked up in May.

4. EUROPEAN RECOVERY EVIDENCE

One acronym will be most of what you will need to know about Europe next week: P.M.I.

Both Eurozone and UK measures of purchasing managers’ indices for the month of June will land on Tuesday. In each case, the readings are widely expected to show a

Chart 1

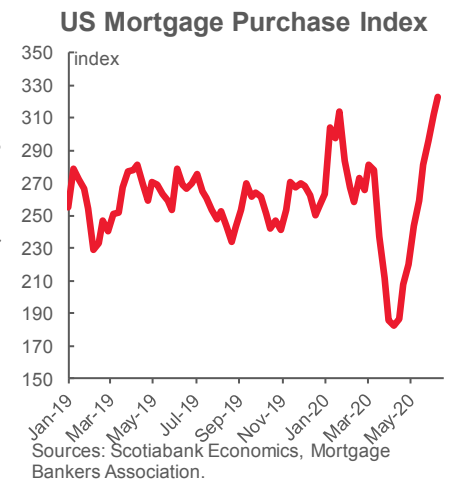
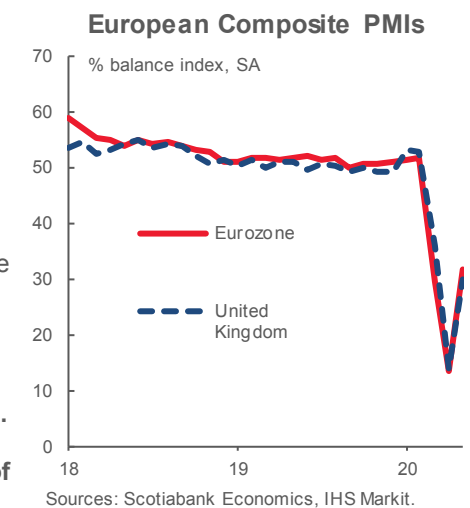


Chart 2



further slowing pace of contraction after preliminary evidence arrived to this effect in the May readings (chart 2). France kicks it off at 3:15amET Tuesday, followed by Germany fifteen minutes later and then the Eurozone aggregate at 4amET. The UK manufacturing, service and composite PMIs will arrive at 4:30amET. If US regional manufacturing readings like Philly and Empire offer a guide to what to think about global supply chains, then their return toward signalling renewed expansion could indicate upside risk to the European gauges. That said, what may have Europe lagging somewhat is that it only began to reopen intra-European borders by June 15th (Italy early June) and the UK only began to reopen nonessential retailers at that same time.

5. WILL THE PBOC EASE?

The People's Bank of China may lower its primary policy rates to kick off the Asian session on Monday morning (Sunday 9:30pmET). Slightly under half of consensus expects a cut of between 5–20bps in the one year Loan Prime Rate and a minority expect a 5–10bps cut in the five year Loan Prime Rate.

Instead of cutting, however, the central bank may rely upon credit easing.

Growth in social financing has already markedly accelerated of late (chart 3). PBOC Governor Yi Gang advised earlier this week that he wants new social financing credit growth of about 20% this year by targeting special-purpose bond issuance and higher bank loans. That would take the change in the stock of social financing—equity and bond issuance, paper, yuan and FX loans plus shadow financing products—to at least 30 trillion yuan which would be a new annual record (chart 4).

Regional markets will also have an eye upon central bank decisions in New Zealand (Tuesday) after guidance that government bond purchases would slow, Thailand where no change is expected (Wednesday) and Philippines where there is the risk of a further quarter point rate cut (Thursday).

Now, with any luck, none of these five monkeys will bounce off the bed and hurt markets.

Chart 3

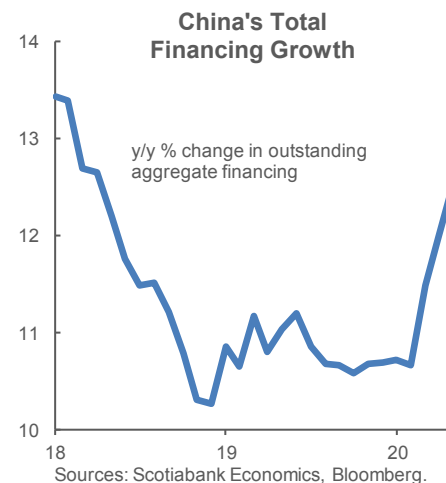
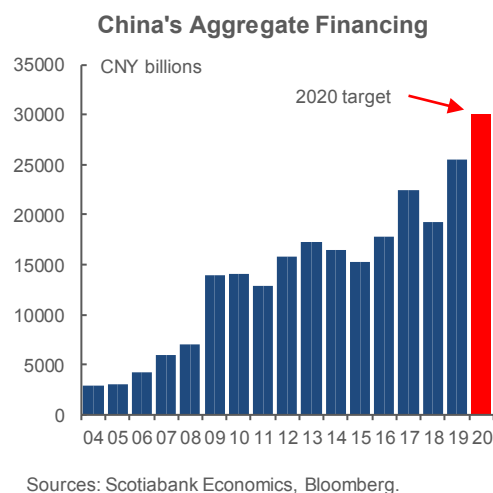


Chart 4



Key Indicators for week of June 22 – 26

NORTH AMERICA

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	06/22	10:00	Existing Home Sales (mn a.r.)	May	3.9	4.0	4.3
US	06/22	10:00	Existing Home Sales (m/m)	May	-10	-7.9	-17.8
US	06/23	10:00	New Home Sales (000s a.r.)	May	635	630	623
US	06/23	10:00	Richmond Fed Manufacturing Index	Jun	--	-11.0	-27.0
MX	06/24	07:00	Bi-Weekly Core CPI (% change)	Jun 15	0.2	0.1	-0.1
MX	06/24	07:00	Bi-Weekly CPI (% change)	Jun 15	0.3	0.2	0.0
US	06/24	07:00	MBA Mortgage Applications (w/w)	Jun 19	--	--	9.3
MX	06/25	07:00	Retail Sales (INEGI) (y/y)	Apr	--	--	-1.3
US	06/25	08:30	Durable Goods Orders (m/m)	May P	12.0	10.3	-17.7
US	06/25	08:30	Durable Goods Orders ex. Trans. (m/m)	May P	3.0	2.1	-7.7
US	06/25	08:30	GDP (q/q a.r.)	1Q T	-5.0	-5.0	-5.0
US	06/25	08:30	GDP Deflator (q/q a.r.)	1Q T	--	1.4	1.4
US	06/25	08:30	Initial Jobless Claims (000s)	Jun 20	1350	1300	1508
US	06/25	08:30	Continuing Claims (000s)	Jun 13	--	--	20544
US	06/25	08:30	Wholesale Inventories (m/m)	May P	--	0.4	0.3
MX	06/25	14:00	Overnight Rate (%)	Jun 25	5.00	5.00	5.50
MX	06/26	07:00	Global Economic Indicator IGAE (y/y)	Apr	-18.2	--	-2.3
MX	06/26	07:00	Trade Balance (US\$ mn)	May	1161	--	-3087
US	06/26	08:30	PCE Deflator (m/m)	May	0.0	0.0	-0.5
US	06/26	08:30	PCE Deflator (y/y)	May	0.4	0.5	0.5
US	06/26	08:30	PCE ex. Food & Energy (m/m)	May	0.0	0.0	-0.4
US	06/26	08:30	PCE ex. Food & Energy (y/y)	May	0.8	0.9	1.0
US	06/26	08:30	Personal Spending (m/m)	May	10.0	8.8	-13.6
US	06/26	08:30	Personal Income (m/m)	May	-5.0	-6.0	10.5
US	06/26	10:00	U. of Michigan Consumer Sentiment	Jun F	--	78.9	78.9

EUROPE

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
EC	06/22	10:00	Consumer Confidence	Jun A	--	-15.0	-18.8
FR	06/23	03:15	Manufacturing PMI	Jun P	--	46.0	40.6
FR	06/23	03:15	Services PMI	Jun P	--	45.2	31.1
GE	06/23	03:30	Manufacturing PMI	Jun P	--	42.3	36.6
GE	06/23	03:30	Services PMI	Jun P	--	42.0	32.6
EC	06/23	04:00	Composite PMI	Jun P	--	41.7	31.9
EC	06/23	04:00	Manufacturing PMI	Jun P	--	44.5	39.4
EC	06/23	04:00	Services PMI	Jun P	--	41.1	30.5
UK	06/23	04:30	Manufacturing PMI	Jun P	--	45.0	40.7
UK	06/23	04:30	Services PMI	Jun P	--	39.0	29.0
GE	06/24	04:00	IFO Business Climate Survey	Jun	--	85.0	79.5
GE	06/24	04:00	IFO Current Assessment Survey	Jun	--	84.0	78.9
GE	06/24	04:00	IFO Expectations Survey	Jun	--	86.6	80.1
GE	06/25	02:00	GfK Consumer Confidence Survey	Jul	--	-12.0	-18.9
TU	06/25	07:00	Benchmark Repo Rate (%)	Jun 25	--	8.00	8.25
SP	06/26	03:00	Real Retail Sales (y/y)	May	--	-17.6	-31.5

Key Indicators for week of June 22 – 26
ASIA-PACIFIC

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
TA	06/20	04:00	Export Orders (y/y)	May	--	2.5	2.3
PH	06/21	21:00	Overseas Remittances (y/y)	Apr	--	--	-4.7
CH	06/21	21:30	China 1-Year Loan Prime Rate	Jun 22	3.80	3.85	3.85
TH	06/21	23:30	Customs Exports (y/y)	May	--	-6.4	2.1
TH	06/21	23:30	Customs Imports (y/y)	May	--	-16.0	-17.1
TH	06/21	23:30	Customs Trade Balance (US\$ mn)	May	--	2736	2462
TA	06/22	04:00	Unemployment Rate (%)	May	4.2	4.2	4.1
HK	06/22	04:30	CPI (y/y)	May	1.8	1.6	1.9
HK	06/22	04:30	BoP Current Account (HK\$ bns)	1Q	--	--	41.7
SK	06/22	17:00	PPI (y/y)	May	--	--	-1.5
JN	06/22	20:30	Markit/JMMA Manufacturing PMI	Jun P	--	--	38.4
PH	06/22	21:00	Budget Deficit/Surplus (PHP bn)	May	--	--	-274
JN	06/23	01:00	Supermarket Sales (y/y)	May	--	--	-4.5
SI	06/23	01:00	CPI (y/y)	May	-1.4	-0.9	-0.7
JN	06/23	01:30	Nationwide Department Store Sales (y/y)	May	--	--	-72.8
JN	06/23	02:00	Machine Tool Orders (y/y)	May F	--	--	-52.8
TA	06/23	04:00	Industrial Production (y/y)	May	--	2.5	3.5
NZ	06/23	22:00	RBNZ Official Cash Rate (%)	Jun 24	0.25	0.25	0.25
MA	06/24	00:00	CPI (y/y)	May	-3.0	-2.7	-2.9
JN	06/24	01:00	Coincident Index CI	Apr F	--	--	81.5
JN	06/24	01:00	Leading Index CI	Apr F	--	--	76.2
TH	06/24	03:05	BoT Repo Rate (%)	Jun 24	0.50	0.50	0.50
NZ	06/24	18:45	Trade Balance (NZD mn)	May	--	1279	1267
NZ	06/24	18:45	Exports (NZD bn)	May	--	5	5262
NZ	06/24	18:45	Imports (NZD bn)	May	--	4	3994
JN	06/25	00:30	All Industry Activity Index (m/m)	Apr	--	-6.6	-3.8
PH	06/25	04:00	Overnight Borrowing Rate (%)	Jun 25	2.75	2.63	2.75
SK	06/25	17:00	Consumer Confidence Index	Jun	--	--	77.6
NZ	06/25	18:00	ANZ Consumer Confidence Index	Jun	--	--	97.3
JN	06/25	19:30	Tokyo CPI (y/y)	Jun	--	0.3	0.4
SI	06/26	01:00	Industrial Production (y/y)	May	--	6.6	13.0

LATIN AMERICA

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
BZ	06/24	08:30	Current Account (US\$ mn)	May	--	1100	3840
BZ	06/25	08:00	IBGE Inflation IPCA-15 (m/m)	Jun	--	-0.1	-0.6
BZ	06/25	08:00	IBGE Inflation IPCA-15 (y/y)	Jun	--	1.9	2.0

Global Auctions for week of June 22 – 26

NORTH AMERICA

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
US	06/23	11:30	U.S. to Sell 2-Year Notes
US	06/24	11:30	U.S. to Sell 2-Year FRN Reopening
US	06/24	13:00	U.S. to Sell 5-Year Notes
CA	06/25	12:00	5 Year Bond Auction
US	06/25	13:00	U.S. to Sell 7-Year Notes

EUROPE

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
NE	06/23	05:00	Netherlands to Sell Bonds
UK	06/23	05:00	U.K. to Sell 3.25 Billion Pounds of 0.125% 2026 Bonds
GE	06/23	05:30	Germany to Sell 5 Billion Euros of 0% 2022 Bonds
UK	06/23	06:30	U.K. to Sell 3 Billion Pounds of 0.375% 2030 Bonds
NO	06/24	05:00	Norway to Sell Bonds
UK	06/24	05:00	U.K. to Sell 2.75% 2024 Bonds
GE	06/24	05:30	Germany to Sell EUR 2.5 Bln of 0% 2035 Bond
UK	06/24	06:30	U.K. to Sell 1.625% 2054 Bonds
IT	06/25	05:00	Italy to Sell Bonds
UK	06/25	05:00	U.K. to Sell 0.125% 2029 Linkers

ASIA-PACIFIC

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
SK	06/21	22:30	Korea to Sell KRW 850Bln 20 Year Bond
CH	06/21	22:30	Heilongjiang to Sell 7, 10, 15, 20 & 30 Year Bonds
CH	06/22	04:00	Qingdao to Sell CNY840 Mln 9 Year Bonds
JN	06/22	23:35	Japan to Sell 5 Year Note
PH	06/23	01:00	Philippines to Sell PHP30 Bln 5Y Bonds
NZ	06/24	22:05	New Zealand To Sell 3, 9, & 17 Year Bonds
TH	06/24	23:00	Bk of Thailand to Sell THB35 Bln Bonds Due 2022
JN	06/24	23:35	Japan to Sell 20 Year Bonds

Events for week of June 22 – 26**NORTH AMERICA**

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
CA	06/22	11:00	Bank of Canada's Macklem Gives First Speech
US	06/24	12:30	Fed's Evans Takes Part in Virtual Discussion on Economy
US	06/24	15:00	Fed's Bullard Discusses the Economy and Covid-19
MX	06/25	14:00	Overnight Rate

EUROPE

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
TU	06/25	07:00	One-Week Repo Rate
UK	06/25	13:00	BOE's Haldane Speaks at TEDxGlasgow

ASIA-PACIFIC

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
AU	06/21	19:00	RBA's Lowe Participates in Panel
CH	06/21	21:30	China 1-Year Loan Prime Rate
JN	06/23	19:50	BOJ Summary of Opinions
NZ	06/23	22:00	RBNZ Official Cash Rate
TH	06/24	03:05	BoT Benchmark Interest Rate
PH	06/25	04:00	BSP Overnight Borrowing Rate

Global Central Bank Watch

NORTH AMERICA

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Canada – Overnight Target Rate	0.25	July 15, 2020	0.25	0.25
Federal Reserve – Federal Funds Target Rate	0.25	July 29, 2020	0.25	0.25
Banco de México – Overnight Rate	5.50	June 25, 2020	5.00	5.00

Banco de México (Banxico): Our Mexican economists believe Banxico will ease the Overnight rate by 50bps next Thursday, bringing it down to 5.0%. The bank has cut by 50 basis points in each of the last three meetings, including an off schedule cut in April. Recent statements regarding policy guidance have been mixed, so future guidance may depend on refreshed inflation expectations.

EUROPE

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
European Central Bank – Refinancing Rate	0.00	July 16, 2020	0.00	0.00
European Central Bank – Marginal Lending Facility Rate	0.25	July 16, 2020	0.25	0.25
European Central Bank – Deposit Facility Rate	-0.50	July 16, 2020	-0.50	-0.50
Bank of England – Bank Rate	0.10	August 6, 2020	0.10	0.10
Swiss National Bank – Libor Target Rate	-0.75	TBA	-0.75	-0.75
Central Bank of Russia – One-Week Auction Rate	4.50	July 24, 2020	4.50	4.50
Sweden Riksbank – Repo Rate	0.00	July 1, 2020	0.00	0.00
Norges Bank – Deposit Rate	0.00	August 20, 2020	0.00	0.00
Central Bank of Turkey – Benchmark Repo Rate	8.25	June 25, 2020	8.00	8.25

Central Bank of Turkey: The central bank is expected to cut the Benchmark Repo rate by 25 basis points to 8.0%. This will be the 10th straight meeting since last July where the policy rate has been lowered.

ASIA PACIFIC

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Japan – Policy Rate	-0.10	July 15, 2020	-0.10	-0.10
Reserve Bank of Australia – Cash Target Rate	0.25	July 7, 2020	0.25	0.25
Reserve Bank of New Zealand – Cash Rate	0.25	June 23, 2020	0.25	0.25
People's Bank of China – 1-Year Loan Prime Rate	3.85	June 20, 2020	3.80	3.85
Reserve Bank of India – Repo Rate	4.00	August 6, 2020	3.75	4.00
Bank of Korea – Bank Rate	0.50	July 16, 2020	0.50	0.50
Bank of Thailand – Repo Rate	0.50	June 24, 2020	0.50	0.50
Bank Negara Malaysia – Overnight Policy Rate	2.00	July 7, 2020	2.00	2.00
Bank Indonesia – 7-Day Reverse Repo Rate	4.25	July 16, 2020	4.00	4.25
Central Bank of Philippines – Overnight Borrowing Rate	2.75	June 25, 2020	2.75	2.63

Reserve Bank of New Zealand (RBNZ): The RBNZ will hold a monetary policy meeting on June 24. We expect the RBNZ to leave the Official Cash Rate unchanged at 0.25% as it assesses the economy's recovery dynamics. While RBNZ Governor Adrian Orr has pointed out that another wave of COVID-19 infections could have severe economic consequences, he assesses that the central bank's QE program has been successful so far and sees that the RBNZ still has plenty of ammunition left if needed.

People's Bank of China (PBoC): China's Loan Prime Rates (LPR) will be set on June 20. We assess that the PBoC will continue to guide the LPR gradually lower in the near term. Additionally, we assess that the PBoC will cut the banks' reserve requirement ratio in the near term, most likely before the end of the month.

Bank of Thailand (BoT): The BoT will make a monetary policy announcement on June 24; we expect the central bank to leave the benchmark interest rate unchanged at 0.50% after it was lowered by 25 bps in May. Nevertheless, we assess that the BoT's easing cycle is not over yet; we foresee another 25 bps cut in Q3, reflecting the fact that deflationary pressures have intensified while the Thai economy is hit hard by the COVID-19 pandemic.

Bangko Sentral ng Pilipinas (BSP): We expect the BSP to leave the benchmark Overnight Borrowing Rate unchanged at 2.75% following the June 25 monetary policy meeting. BSP Governor Diokno has indicated that he is pleased with the current level of interest rates. He has also highlighted that the BSP is ready to provide additional monetary stimulus only if the economy's outlook weakens further.

LATIN AMERICA

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Banco Central do Brasil – Selic Rate	2.25	August 5, 2020	2.25	2.75
Banco Central de Chile – Overnight Rate	0.50	July 15, 2020	0.50	0.50
Banco de la República de Colombia – Lending Rate	2.75	June 30, 2020	2.75	2.25
Banco Central de Reserva del Perú – Reference Rate	0.25	July 9, 2020	0.25	0.25

AFRICA

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
South African Reserve Bank – Repo Rate	3.75	July 23, 2020	3.75	3.75

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

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