

ON DECK FOR THURSDAY, DECEMBER 6

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest	
CA	12/06	08:30	Merchandise Trade Balance (C\$ bn)	Oct	-0.3	-0.7	-0.4	
CA	12/06	08:35	Bank of Canada's Poloz Gives Economic Progress Report					
US	12/06	08:30	Initial Jobless Claims (000s)	DEC 1	220	225	234	
US	12/06	08:30	Continuing Claims (000s)	NOV 24	1700	1690	1710	
US	12/06	08:30	Trade Balance (US\$ bn)	Oct	-53.8	-55.0	-54.0	
US	12/06	10:00	Durable Goods Orders (m/m)	Oct F	--	-2.4	-4.4	
US	12/06	10:00	Durable Goods Orders ex. Trans. (m/m)	Oct F	--	0.1	0.1	
US	12/06	10:00	Factory Orders (m/m)	Oct	-2.5	-2.0	0.7	
US	12/06	12:15	Fed's Bostic Speaks on the U.S. Economic Outlook					
US	12/06	18:30	Fed's Williams Holds Discussion With Mervyn King in NY					
US	12/06	18:45	Powell Gives Brief Welcome Remarks at Housing Conference					

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KEY POINTS:

- Global markets focus on trade tensions
- OPEC's dysfunctions derailing oil; decision expected today
- US oil inventories could show a mild draw
- Poloz speech likely no longer matters to markets...
- ... but may shed further light on energy impact and slack
- Brexit: 2.5 years later and it could be back to square one
- CDN trade to start off Q4 tracking
- US trade, ADP, ISM services, factory orders on tap
- Fed's Williams, Powell, Bostic
- US Q3 financial accounts to update household & business finances
- German factory orders unexpectedly rise again; markets ignore

INTERNATIONAL

Well it's a fine mess this morning and I wish I had better things to say but the option to say nothing simply doesn't exist in this business. **A broad risk-off market tone is sweeping through global asset classes. The main catalyst is concern about global trade tensions** in the wake of Canada's arrest of Huawei's CFO in Vancouver on alleged violations of Iranian sanctions. That Canada has a legal system and is bound to an extradition treaty with an aggressive US administration and that the state doesn't tell the Canadian courts what to do isn't resonating terribly well at the moment. The move sparked official protest in Beijing and markets are assuming this is another down-leg in US-China trade tensions. A bail hearing is set for Friday and diplomatic efforts are in full swing. **Concern that OPEC may not achieve broad agreement today to cut output, or that the cuts may be inadequate, is driving oil and its related proxies lower.** UK markets are obsessed with **intense Brexit headline risk** ahead of Tuesday's vote that is pretty much universally expected to fail. **Poloz speaks again but his tone will probably matter little** given bigger developments and in the wake of yesterday's statement. The US macro calendar won't help today but is a distraction ahead of nonfarm tomorrow.

- **Oil prices are emphatically saying 'not enough' to OPEC this morning.** WTI and Brent are down by about US\$1.5 or about 2-3%. That basically takes oil close to the lows following the early October high of US\$76. Saudi Arabia's energy minister is saying there is no deal yet but that the Saudis are advocating a 'modest' cut that would be "adequate to balance the market" and leaned toward a cut of around 1 mbpd and driven by the goal that "certainly we don't want to shock the market."
- **The USD, yen and Swiss Franc are broadly stronger against all comers this morning as safe havens are being sought.** CAD is depreciating along with the rest but ahead of Poloz and OPEC. The

Mexican peso is similarly weaker. Pound sterling and the euro are outperforming (Brexit, see below).

- US equity futures are down by about 1.5-2.0% across the benchmarks with the Nasdaq leading the decline. TSX futures are down by about 1¼%. European cash markets are down by over 2% across the board with energy on the FTSE down 3½%. Asia's bourses were a sea of red with equities down by around 2% in Tokyo, HK, mainland China and slightly less in Seoul.
- **Sovereign bond yields are pushing lower** everywhere except for spread widening in Italy. The US Treasuries curve is slightly bull steepening with a very flat curve out to 5s but continuing to avoid inversion in 90s10s (the preferred slope for recession indicator purposes) or 2s10s. The 2s10s spread is just 13bps. Canada's curve is richer on a mild bull flattening. The gilts and bunds curves are also bull flattening.

Today's OPEC meeting in Vienna is so far failing to achieve agreement on cuts. There is general agreement to cut for the next six months but several countries are seeking exemptions including ones like Iran, Libya and Venezuela. The Saudis want a broad agreement with everyone sharing in the cuts.

Former UK PM Tony Blair is calling for a new Brexit referendum after stating the current Brexit deal is dead in parliament ahead of Tuesday's scheduled vote and that the odds of a general election being called are very low. Markets are also anticipating the **European Court of Justice's formal decision due on December 10th** – one day before the vote – on whether the UK can unilaterally cancel "Article 50" that started Brexit proceedings. An adviser to the ECJ recommended such a ruling and while the ECJ usually goes with such advice it is not assured. **PM May is attempting to improve the Irish 'backstop' feature** of the deal struck between the UK and EU in an effort to appease concerns about treatment of the Irish border.

German factory orders unexpectedly grew by 0.3% m/m (-0.4% consensus) in October for the third straight monthly gain. Markets ignored it given bigger concerns.

UNITED STATES

US markets reopen for trading after being shut yesterday. The main focus will be upon headline risk out of China and the US that further informs trade tensions. Trump is quiet (!!) so far and President Xi Jinping has returned home from abroad. Markets await a pending OPEC decision that so far isn't looking constructive to prices.

The US macro calendar probably won't help the market tone one bit. It will focus upon US weekly crude stockpiles (11amET, modest draw expected), ADP private payrolls for November (8:15amET), a likely record trade deficit (8:30amET) that may fan the trade tensions and draw out more tweets, ISM-services (10amET) and US factory orders that should follow the already known big-ticket durables report lower (10amET).

CANADA

Canada updates export and import trade figures for October (8:30amET). Estimates are all over the map. Poloz may have an opportunity to reference them in the press conference in relation to the BoC's relatively upbeat expectations for the connections between investment and exports.

BoC Governor Poloz's Economic Progress report will result in highlights arriving at 8:35amET and followed by a press conference at 9:55amET. He speaks at about 8:50amET for this in attendance. Many of the main factors that the BoC's statement flagged as reasons to support a more dovish bias for now were known when Poloz last spoke on November 5th and sounded hawkish. Alberta's mandated and transitory oil production cuts are the main truly new and significant factor. He probably has to explain why that was enough to signal a pause, but the oil backdrop provides cover so far. He may address how quickly his bias might change if WTI rises and takes WCS with it. He may also address fresh estimates of the amount of slack in the economy given years of GDP revisions last Friday that tamped down previously estimated growth. This issue is important because the statement flagged the revisions as reason for why "there may be additional room for non-inflationary growth."

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.	2.76	2.80	2.81	2.76	2.79	2.85	2.89	2.91	3.03	3.15	3.17	3.33	Canada - BoC	1.75
CANADA	2.03	2.05	2.18	2.04	2.08	2.23	2.09	2.13	2.30	2.24	2.25	2.41	US - Fed	2.25
GERMANY	-0.61	-0.60	-0.60	-0.31	-0.29	-0.26	0.25	0.28	0.32	0.90	0.93	1.00	England - BoE	0.75
JAPAN	-0.14	-0.14	-0.14	-0.12	-0.11	-0.10	0.06	0.07	0.08	0.81	0.79	0.82		
U.K.	0.74	0.75	0.76	0.89	0.91	0.95	1.28	1.32	1.37	1.87	1.93	2.03		
	Spreads vs. U.S. (bps):													
CANADA	-73	-74	-62	-72	-71	-62	-80	-78	-73	-91	-92	-92	Euro zone - ECB	0.00
GERMANY	-338	-340	-341	-307	-308	-311	-264	-264	-271	-225	-225	-233	Japan - BoJ	-0.10
JAPAN	-290	-293	-295	-288	-290	-295	-283	-285	-295	-234	-238	-251		
U.K.	-202	-204	-205	-188	-188	-190	-161	-160	-166	-128	-125	-129	Mexico - Banxico	8.00
Equities	Level			Change			1 Day			% change:				
	Last						1 Day	1-wk	1-mo	1-yr				
S&P/TSX	15183			119.0			0.8	0.1	-0.7	-4.6			Australia - RBA	1.50
Dow 30	25027			-799.4			-3.1	1.1	-1.7	3.5			New Zealand - RBNZ	1.75
S&P 500	2700			-90.3			-3.2	0.7	-1.4	2.7				
Nasdaq	7158			-283.1			-3.8	1.1	-2.3	5.9				
DAX	10932			-268.6			-2.4	-3.2	-4.8	-15.9				
FTSE	6776			-145.8			-2.1	-3.7	-3.8	-7.8				
Nikkei	21502			-417.7			-1.9	-3.4	-2.9	-3.0			Canada - BoC	Jan 09, 2019
Hang Seng	26156			-663.3			-2.5	-1.1	0.1	-7.3			US - Fed	Dec 19, 2018
CAC	4834			-110.1			-2.2	-3.4	-4.7	-10.0				
Commodities	Level			Change			1 Day			% change:				
WTI Crude	51.55			-1.34			-2.5	0.2	-17.1	-7.9			England - BoE	Dec 20, 2018
Natural Gas	4.39			-0.08			-1.8	-5.5	23.5	50.2			Euro zone - ECB	Dec 13, 2018
Gold	1235.97			-1.29			-0.1	1.0	0.7	-2.2			Japan - BoJ	Dec 20, 2018
Silver	14.48			-0.07			-0.4	2.3	-1.7	-11.1				
CRB Index	181.64			-2.11			-1.1	-0.4	-5.0	-1.7				
Currencies	Level			Change			1 Day			% change:				
USDCAD	1.3421			0.0066			0.5	1.0	2.3	4.9			Mexico - Banxico	Dec 20, 2018
EURUSD	1.1347			0.0003			0.0	-0.4	-0.7	-3.8			Australia - RBA	Feb 04, 2019
USDJPY	112.82			-0.3700			-0.3	-0.6	-0.5	0.5				
AUDUSD	0.7201			-0.0067			-0.9	-1.6	-0.6	-4.8				
GBPUSD	1.2747			0.0013			0.1	-0.3	-2.7	-4.8			New Zealand - RBNZ	Feb 12, 2019
USDCHE	0.9964			-0.0013			-0.1	0.0	-0.6	0.7				

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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