

ON DECK FOR FRIDAY, OCTOBER 19

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest	
CA	10/19	08:30	CPI, All items (m/m)	Sep	0.0	0.1	-0.1	
CA	10/19	08:30	CPI, All items (y/y)	Sep	2.6	2.7	2.8	
CA	10/19	08:30	CPI, All items (index)	Sep	--	134.4	134.2	
CA	10/19	08:30	Core CPI - Common (y/y)	Sep	--	2.0	2.0	
CA	10/19	08:30	Core CPI - Median (y/y)	Sep	--	--	2.1	
CA	10/19	08:30	Core CPI - Trim (y/y)	Sep	--	--	2.2	
CA	10/19	08:30	Retail Sales (m/m)	Aug	0.4	0.3	0.3	
CA	10/19	08:30	Retail Sales ex. Autos (m/m)	Aug	0.2	0.1	0.9	
US	10/19	10:00	Existing Home Sales (mn a.r.)	Sep	5.3	5.3	5.3	
US	10/19	10:00	Existing Home Sales (m/m)	Sep	-0.8	-0.9	0.0	
US	10/19	12:00	Fed's Bostic Speaks on Economic Outlook					
US	10/19	12:45	Fed's Kaplan Speaks in New York					

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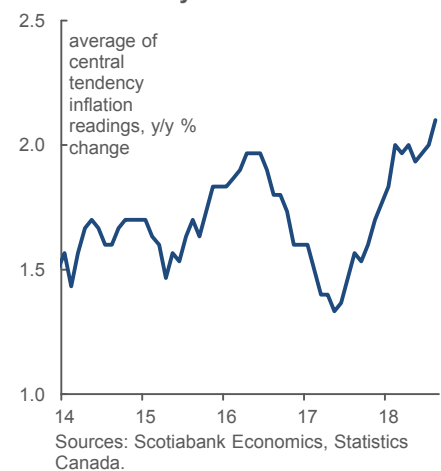
KEY POINTS:

- Europe's troubles are not fussing the North American open
- CDN CPI inflation expected to ease...
- ...but core CPI's upward trend is what matters
- CDN retail sales to further inform GDP expectations
- China GDP eases a touch...
- ...but stocks rally on regulatory jawboning...
- ...and Trump and Xi Jinping may meet after all
- Chile's central bank hikes against divided consensus
- Japanese core CPI still very soft
- US only faces home resales
- Earnings pose light risk

INTERNATIONAL

Global markets are focused upon developments in China and Europe that are driving a wedge in the global risk trade between an overnight equity rally in China and a positive futures tone ahead of the US open amidst selling in Europe. Canadian markets will be influenced by CPI and retail sales this morning. European markets are more focused upon how Italy may respond to Monday's deadline to respond to the EU review of its fiscal proposals and Tuesday's pending EU decision. I rather enjoyed how Austria's Chancellor put it when he said "We in Austria will certainly not pay for the debts of others and we will not pay for left-wing populist election promises." I can think of more than one jurisdiction that could stand to consider response from markets and across other related jurisdictions to big ticket social policies. Chinese GDP slightly decelerated, but this was offset by regulatory jaw boning that supported local stocks. Also note that it appears Trump and Xi Jinping have agreed to meet at the November 29th G20 Summit which may be constructive to trade tensions. Japanese CPI is weak, as usual. The US calendar is light with just resales today and little earnings risk.

- The USD is slightly depreciating on a DXY basis this morning. While a number of crosses are gaining on the greenback, the most heavily weighted ones like the euro, yen and pound sterling are little changed. The leaders of the pack this morning are the NZ\$, A\$, CAD, won and a few Scandies.
- Sovereign bond yields are little changed except for further mild spread widening in Italy over bunds. Treasuries and Canadas are marked by slight upward pressure upon yields, but obviously Canada's curve is vulnerable to this morning's CPI and retail updates as is CAD.

Transitory Canadian Inflation?


- US equity futures are up by as much as ½% in the case of the Nasdaq benchmark and so are TSX futures. European stocks are mostly in the red by as much as ¾% in Milan but with London up and Frankfurt holding steady. China had the best performing stock market to be found anywhere across the major markets to end the week. Soothing words of support and vague promises by China's vice premier and the head of the China Securities Regulatory Commission helped the local market tone as apparently officials had a well-rehearsed set of communications to accompany the GDP figures. The Shanghai composite climbed by 2 ½% and so did the smaller cap and less SOE-dominated Shenzhen exchange. Continued emphasis of officials upon stimulus efforts offset a lagging GDP report that fit the already established theme of at least a minor slow down.
- Oil prices are up by under a buck in terms of WTI and Brent.

China's GDP growth rate eased to 6.5% y/y (6.7% prior) and 1.6% q/q (1.8% prior). I guess that qualifies as slowing, but it doesn't merit the over reactions in some of the headlines and in any event local stocks had other things to consider. For example, headlines are screaming out about the weakest growth rate since 2009Q1; technically that's true, but it's hardly the end of the world for growth to be coming in a few tenths lower than the multi-year pattern. Chinese GDP growth has been 6.5-7% for each quarter since the start of 2015. Chinese GDP is never revised, gets released faster than any other major economy's figures after the quarter end has arrived, and is remarkably stable compared to any other major economy's figures and so they are always best taken with a dose of salt. Anyway, lagging GDP figures usually reflect what markets already anticipate and policy has already been acting to get in front of the US tariffs that escalated last month and that face the risk of rising again in January. Regulatory authorities pledged various forms of support to local firms this morning.

Chinese retail sales growth increased a touch to 9.2% y/y (9.0 prior) and industrial production growth eased a touch to 5.8% y/y (6.1% prior).

Japanese CPI inflation was roughly in line with expectations. Headline eased a tick to 1.2% y/y but core ex-fresh food rose a tick to 1% y/y as consensus expected. CPI excluding both fresh food and energy was unchanged at just 0.4% y/y. There remains very little inflationary pressure in Japan's economy.

Late yesterday, Banco Central de Chile hiked its policy rate by 25bps as expected by Scotia's Santiago-based economist Benjamin Sierra. Consensus had been divided with 12 expecting a hike and 11 expecting no change. That is the first hike since December 2015, and the central bank guided that there is more to come along a path that is hoped to reach the neutral rate by 2020.

CANADA

Canada updates inflation (September) and retail sales (August) at 8:30amET this morning and they are the last major reports before the BoC issues its decision and guidance next Wednesday.

I figure that CPI in month-ago seasonally unadjusted terms will come in at 0% m/m with the risk of a slightly firmer +0.1% reading. That would knock the year-ago headline rate down to 2.6% (if 0% m/m NSA) or 2.7% (if 0.1% m/m) from 2.8% the prior month. I've gone with 2.6% y/y, consensus is a tick higher. Either way, it would be a further mild deceleration in year-ago terms with little month-ago change. The drivers to the call include a) base-effect shifts that would knock two-tenths off the year-ago rate, b) gasoline prices that reinforce the cooler year-ago headline inflation but that were flat in m/m terms, and c) the fact that September usually displays little seasonal price pressure in either direction both in terms of headline inflation and CPI ex-food and energy. As for special considerations, I don't think that pass-through from tariffs is material to the overall basket and it occurs with lags anyway as inventories adjust and tax incidence effects unfold. On the average of the core measures, I'm going unchanged at 2.1% y/y. The forecast trend for the average of the central tendency measures is pointed higher on a combination of output gap, unit labour cost, exchange rate and food price drivers within an augmented Phillips curve model that our René Lalonde created and that outperforms a classic Phillips curve model. At the heart of the inflation issue is that Governor Poloz has been dismissive toward the rise of headline CPI earlier this year and viewed it as a transitory acceleration—which he should—but that doesn't matter compared to the bigger issue which is that core inflation is not proving to be transitory (see chart).

As for retail sales, we only ever really know auto sales and gas prices into the report and so the scope for surprise in either direction is always very high. Most expect little change overall. The volume of retail sales is tentatively tracking a 2.1% q/q SAAR rise in Q3 based solely upon the Q2 hand-off and one month of Q3 data so far. The issue of late has been that a large 2.2% m/m advance in May has been a tough act to follow with minor changes over the next two months. The August report this morning will be used to firm up August GDP expectations with only wholesale trade figures still to be released on Monday.

UNITED STATES

US markets only face the release of home resales at 10amET for the month of September. Little change is expected. Earnings risk should be light today with no major names capable of influencing the broad market tone.

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.	2.89	2.88	2.85	3.04	3.03	3.02	3.19	3.18	3.16	3.38	3.36	3.34	Canada - BoC	1.50	
CANADA	2.33	2.31	2.27	2.42	2.41	2.38	2.51	2.50	2.50	2.53	2.52	2.51	US - Fed	2.25	
GERMANY	-0.62	-0.62	-0.56	-0.17	-0.18	-0.10	0.42	0.42	0.50	1.05	1.06	1.12	England - BoE	0.75	
JAPAN	-0.12	-0.12	-0.11	-0.05	-0.05	-0.06	0.15	0.15	0.15	0.91	0.92	0.91			
U.K.	0.78	0.76	0.84	1.11	1.11	1.20	1.54	1.54	1.63	1.93	1.93	2.04			
Spreads vs. U.S. (bps):															
CANADA	-56	-56	-59	-61	-62	-63	-68	-68	-67	-84	-84	-82	Euro zone - ECB	0.00	
GERMANY	-350	-349	-341	-321	-321	-311	-277	-276	-266	-233	-230	-221	Japan - BoJ	-0.10	
JAPAN	-300	-299	-297	-309	-308	-308	-304	-303	-301	-246	-245	-242			
U.K.	-211	-211	-202	-192	-192	-182	-165	-164	-153	-144	-143	-130	Mexico - Banxico	7.75	
Equities	Level						% change:								
	Last	Change		1 Day	1-wk	1-mo	1-yr								
S&P/TSX	15404	-125.8		-0.8	0.6	-4.6	-2.6							Australia - RBA	1.50
Dow 30	25379	-327.2		-1.3	1.3	-3.9	9.6							New Zealand - RBNZ	1.75
S&P 500	2769	-40.4		-1.4	1.5	-4.8	8.1							Next Meeting Date	
Nasdaq	7485	-157.6		-2.1	2.1	-5.8	13.3							Canada - BoC	Oct 24, 2018
DAX	11592	3.2		0.0	0.6	-5.1	-10.8							US - Fed	Nov 08, 2018
FTSE	7068	41.3		0.6	1.0	-3.6	-6.0							England - BoE	Nov 01, 2018
Nikkei	22532	-126.1		-0.6	-0.7	-4.8	5.1							Euro zone - ECB	Oct 25, 2018
Hang Seng	25561	106.9		0.4	1.2	-6.7	-9.2							Japan - BoJ	Oct 31, 2018
CAC	5088	-28.8		-0.6	-0.2	-5.7	-5.2							Mexico - Banxico	Nov 15, 2018
Commodities	Level						% change:								
	Level		Change	1 Day	1-wk	1-mo	1-yr								
WTI Crude	69.27		0.62	0.9	-2.9	-2.6	35.1							Australia - RBA	Nov 05, 2018
Natural Gas	3.16		-0.03	-1.1	0.1	8.8	10.1							New Zealand - RBNZ	Nov 07, 2018
Gold	1228.14		2.34	0.2	0.8	2.0	-4.8								
Silver	14.52		-0.14	-0.9	0.8	2.1	-14.4								
CRB Index	197.31		0.67	0.3	-0.3	2.9	7.2								
Currencies	Level						% change:								
	Level		Change	1 Day	1-wk	1-mo	1-yr								
USDCAD	1.3037		-0.0048	-0.4	0.1	0.9	4.4							Canada - BoC	Oct 24, 2018
EURUSD	1.1465		0.0012	0.1	-0.8	-1.8	-3.3							US - Fed	Nov 08, 2018
USDJPY	112.48		0.2700	0.2	0.2	0.2	-0.1							England - BoE	Nov 01, 2018
AUDUSD	0.7136		0.0037	0.5	0.3	-1.7	-9.4							Euro zone - ECB	Oct 25, 2018
GBPUSD	1.3023		0.0005	0.0	-1.0	-0.9	-1.0							Japan - BoJ	Oct 31, 2018
USDCHF	0.9961		0.0004	0.0	0.3	3.0	2.0							Mexico - Banxico	Nov 15, 2018
														Australia - RBA	Nov 05, 2018
														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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