

KEY POINTS:

- **US stimulus talks may get kickstarted into the Asian open**
- **ECB's Lane smacks dollar bears**
- **Draghi's sensible stimulus advice**
- **US ISM-mfrg beats as new orders hit 16+ year high**
- **Light overnight releases**
- **Tomorrow: US ADP, factory orders, Beige Book**

TODAY'S NORTH AMERICAN MARKETS

Three developments are sparking interest in markets. One concerns developments in US stimulus negotiations that may prove to be positive and worth monitoring this evening as a potential influence into the Asian market open. Second is that the ECB took a first step toward smacking down the euro. Three is that US macro data was generally positive today.

US Treasury Secretary Mnuchin and House Speaker Pelosi will speak at 5:30pmET about stimulus prospects, but the pattern to date has been more about finger pointing over substance.

Overnight releases are unlikely to influence global markets while tomorrow's US-focused calendar will just pass the time until nonfarm.

- US equities popped higher following ISM-manufacturing figures that beat expectations (see below). They might get a further lift pending stimulus developments. The S&P500 closed up ¾% with the Nasdaq leading gainers at +1.4%. Toronto was up ¾%.
- The USD slightly appreciated on a DXY basis over the course of the day and partly due to Lane's remarks. The euro, euro-related crosses and CAD were among the underperformers.
- Sovereign bonds rallied with a solid curve flattener in the US leading the way as the 30 year yield fell by 5bps. Canada's 30 year fell 6bps. Whether it's durable in the face of a potential US stimulus agreement requires monitoring into the overnight and tomorrow following Fed purchases in the 20–30 year section of the Treasury curve today. Further, as chart 1 shows, wide ranges in 10s yields can co-exist with aggressive bond buying and an elevated stock of holdings.

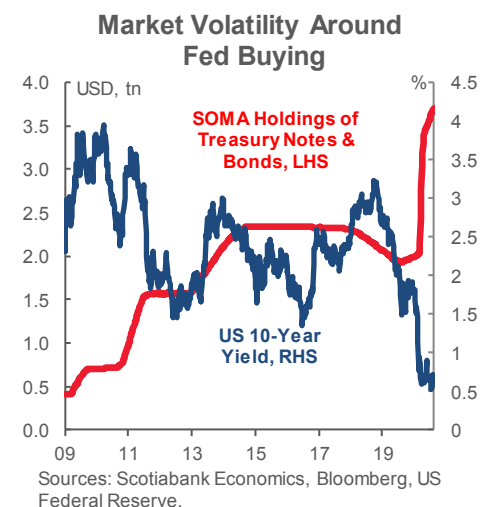
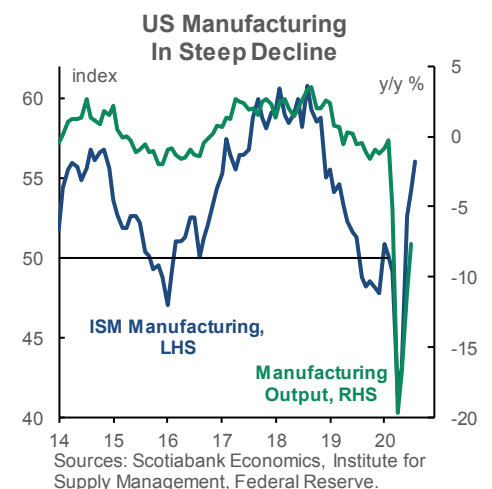
Commodities generally rallied with oil up by 1% (Brent) or a little less for WTI. Gold was little changed.

Dollar bears were given a sharp shove backward today as ECB Chief Economist Philip Lane gets the day's prize for market influence. His remarks knocked the euro down and took euro-related crosses with it. It's consistent with what I've written about how other central banks are not likely to take a prolonged unidirectional period of dollar weakness lying down ([here](#)). Lane's remarks were the first formal acknowledgement that dollar weakness is sparking some concern at the ECB with respect to the inflation target and the

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Chart 1

Chart 2


role played by the eurozone's high trade dependency. He said:

- “The euro-dollar rate does matter.”
- “We have an inflation mandate and we care about the overall performance of the European economy.”
- “We’ve seen a repricing in recent weeks.”
- “It will be important to recognize that the euro-dollar rate is also endogenous to monetary policy.”

US stimulus talks may be shifting into higher gear. US Treasury Secretary Mnuchin was sounding more conciliatory ahead of a 5:30pmET meeting with House Speaker Pelosi. He says he supports more funding for state/local governments and there will be an announcement on an eviction moratorium later today. Mnuchin also indicated that the Trump administration is now open to a US\$1.5T stimulus package and enhanced jobless benefits and tax incentives to hire while seeking approval from Congress on a tax deferral plan.

The prize for most sensible remarks goes to former ECB President Mario Draghi when he favoured a shift in stimulus toward new post-pandemic jobs over preserving old ones and indicated “subsidies have to go down but at the same time jobs will be created.” Advocating enhanced stimulus until we return to where things were in March risks making all of us sound like luddites. Amidst the upheaval and understandable anxiety associated with change, policy should arguably—at least in part—ease the adjustments, but view the pandemic as something that expedited changes that were already afoot if not creating entirely new ones. Economies that capitalize upon the shift rather than fighting it will be the most prosperous ones in future.

A pair of US releases saw one beat (ISM) and one miss (construction spending) but the beat counts for more in terms of forward-looking signals. The solid overshoot by ISM was backed by firm underlying details. New orders climbed to 67.6 (61.5 prior) which is the highest reading since January 2004. Employment improved to 46.4 from 44.3 which is good for a small share of Friday's nonfarm payrolls report, but the sub-50 contractionary reading has been against three months of manufacturing jobs gains to date so treat it accordingly. The improvement in ISM points toward another gain in manufacturing output (chart 2).

US ISM-mfrg, SA, August:

Actual: 56.0
Scotia: 55.0
Consensus: 54.8
Prior: 54.2

US construction spending, July, m/m % change, SA:

Actual: 0.1
Scotia: 1.1
Consensus: 1.0
Prior: -0.5 (revised from -0.7)

OVERNIGHT MARKETS

Light overnight releases may affect local markets but carry low risk to global asset classes. South Korean inflation in August (7pmET) is expected to be little changed from the prior month's 0.6% y/y core reading. Australian Q2 GDP (9:30pmET) will simply confirm the bleak round of figures many other countries have released by now; a non-annualized contraction of 6% q/q is expected with a consensus range around -5% to -8% for the most part.

How are European consumers faring? Germany will be the latest to answer this question with July retail sales figures (2amET). A rebound from the prior month's 1.6% drop is expected. This would follow a small gain in French consumer spending (0.5% m/m) during July after a large upwardly revised 10.3% gain in June.

TOMORROW'S NORTH AMERICAN MARKETS

Tomorrow's releases will be US-focused and just teasers ahead of payrolls on Friday.

ADP payrolls in August (8:15amET) may inform nonfarm expectations but it's doubtful. The 167k ADP rise in July was way off the 1.46 million rise in private nonfarm payroll positions.

US factory orders during July (10amET) should follow the already known 11.2% m/m rise in durable goods orders but in more modest fashion as nondurable goods orders are expected to rise more slowly.

The Fed's Beige Book of regional economic conditions will be released at 2pmET. Anecdotes on covid-19 effects and reopening efforts may garner some attention.

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.	0.13	0.13	0.15	0.25	0.27	0.29	0.67	0.71	0.68	1.42	1.48	1.39	Canada - BoC	0.25
CANADA	0.27	0.27	0.29	0.36	0.39	0.40	0.57	0.62	0.59	1.10	1.16	1.09	US - Fed	0.25
GERMANY	-0.68	-0.65	-0.66	-0.66	-0.63	-0.65	-0.42	-0.40	-0.43	0.04	0.06	0.01	England - BoE	0.10
JAPAN	-0.11	-0.11	-0.10	-0.07	-0.07	-0.08	0.05	0.05	0.04	0.62	0.62	0.59	Euro zone - ECB	0.00
U.K.	-0.10	-0.06	-0.02	-0.04	-0.01	0.00	0.30	0.31	0.26	0.88	0.89	0.84	Japan - BoJ	-0.10
	Spreads vs. U.S. (bps):													
CANADA	14	14	14	11	12	11	-9	-9	-9	-32	-31	-30	Mexico - Banxico	4.50
GERMANY	-81	-78	-81	-91	-90	-94	-109	-110	-112	-138	-141	-138	Australia - RBA	0.25
JAPAN	-24	-24	-26	-33	-34	-38	-62	-65	-65	-80	-86	-80	New Zealand - RBNZ	0.25
U.K.	-23	-19	-17	-29	-28	-30	-37	-39	-42	-54	-59	-55		
Equities	Level			Change			% change:				Next Meeting Date			
	Last						1 Day	1-wk	1-mo	1-yr				
S&P/TSX	16645			130.6			0.8	0.2	2.9	1.2			Canada - BoC	Sep 09, 2020
Dow 30	28646			215.6			0.8	1.4	8.4	8.5			US - Fed	Sep 16, 2020
S&P 500	3527			26.3			0.8	2.4	7.8	20.5			England - BoE	Sep 17, 2020
Nasdaq	11940			164.2			1.4	4.1	11.1	49.9			Euro zone - ECB	Sep 10, 2020
DAX	12974			28.9			0.2	-0.7	5.4	8.7			Japan - BoJ	Sep 17, 2020
FTSE	5862			-101.5			-1.7	-4.0	-0.6	-18.7			Mexico - Banxico	Sep 24, 2020
Nikkei	23138			-1.7			-0.0	-0.7	6.6	12.2			Australia - RBA	Oct 05, 2020
Hang Seng	25185			7.8			0.0	-1.2	2.4	-1.7			New Zealand - RBNZ	Sep 22, 2020
CAC	4938			-9.1			-0.2	-1.4	3.2	-9.9				
Commodities	Level			Change			% change:							
WTI Crude	43.00			0.39			0.9	-0.8	6.8	-22.0				
Natural Gas	2.52			-0.11			-4.3	1.1	39.9	10.2				
Gold	1970.38			0.20			0.0	0.8	-0.3	28.8				
Silver	27.35			0.11			0.4	1.9	16.2	48.9				
CRB Index	153.34			0.13			0.1	0.5	6.7	-10.0				
Currencies	Level			Change			% change:							
USDCAD	1.3063			-0.0001			-0.0	-0.6	-2.4	-2.0				
EURUSD	1.1917			0.0005			0.0	0.7	1.3	8.6				
USDJPY	105.95			-0.0100			-0.0	-0.0	0.0	-0.3				
AUDUSD	0.7376			0.0004			0.1	2.0	3.5	9.8				
GBPUSD	1.3391			0.0007			0.1	1.4	2.4	11.0				
USDCHF	0.9091			-0.0003			-0.0	0.1	-0.9	-8.2				

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