September 14, 2020 @ 16:45 EST

**KEY POINTS:**

- **Equities rally on a quiet start to central bank week**
- **Covid-19 cases are back across Canada's biggest provinces**
- **Will Canada's pending retaliation spark renewed trade frictions?**
- **More Q3 rebound evidence due for Canada**
- **Overnight: China and UK in focus**
- **Minor US industrial releases on tap**

## TODAY'S NORTH AMERICAN MARKETS

For a week with eight central banks, Brexit risk and reports aplenty, today sure was a muted start. Sometimes that's a good thing for risk appetite. Developments will heat up somewhat overnight into the North American session with releases out of China, the UK and Germany. US releases will be light. Canada could spice things up a bit a trade policy risk resurfaces, lagging data arrives and daily covid-19 case counts are back in vogue.

- North American equities outperformed elsewhere over the day. European cash markets closed mixed with stocks little changed in Germany, the UK, Spain and Italy while Paris was up by just over ¼%. US equity indices rallied by between 1 ¼% and almost 2%. Canada's TSX was up by about ¾%.

- North American sovereign debt generally underperformed Europe ex-UK today. Gilts won the prize for cheapening through a mild bear flattener. EGB 10s saw mild spread compression over bunds. The US and Canadian curves experienced very slight cheapening.

- Oil prices were little changed; in fact, WTI was dead flat on the day at US$37.30. Gold moved up 1%.

- The USD depreciated from the start of the session onward. The Mexican peso and real outperformed while CAD sat at the back of the class staring out the window.

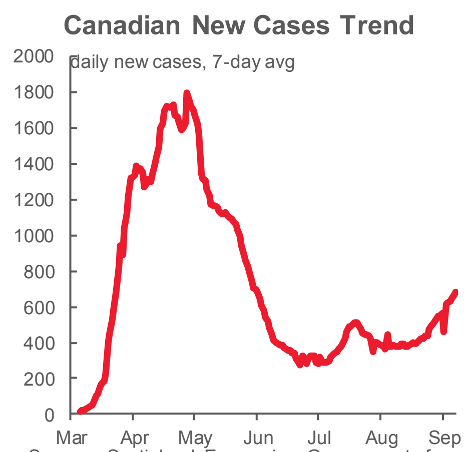
We're restarting fairly frequent charting of Canadian covid-19 cases in light of broad evidence that cases have been rising over the summer and as the school year has restarted. See the accompanying eleven charts for the price of one. The glass half full types among us would look to the east coast where cases remain low and to Manitoba where the case count has been falling again. If you don't wish to ruin your Monday weeellllll then my friend look no further. Pop on those fancy dang rose coloured glasses and look the other way now. Because *you* didn't, have a look at the rest of the country in the charts where the experience is generally much less encouraging including across the most populous provinces. It's early days and the data is volatile, but the fact that better weather drove cases higher over the summer and recent weeks is not a good start into the school year.

**CONTACTS**

**Derek Holt, VP & Head of Capital Markets Economics**
416.863.7707
Scotiabank Economics
derek.holt@scotiabank.com

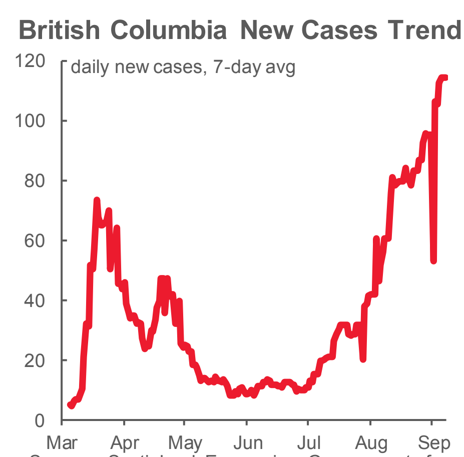
**Evan Andrade, Economic Analyst**
416.862.3080
Scotiabank Economics
evan.andrade@scotiabank.com

Chart 1




Sources: Scotiabank Economics, Government of Canada.

Chart 2




Sources: Scotiabank Economics, Government of Canada.

Why is this happening? You know why. You can see it as well as I can. I was in a supermarket on the weekend and the shy teenager tasked by her manager with the job of telling arrivals to put their masks on apparently wasn't doing such a good job as I counted three in the store walking around without a mask. Two more had masks pulled down below their noses because, you know, who ever exhales through their nostrils. Driving home I saw a UN convention had gathered around a BBQ in someone's backyard, probably solving world hunger one burger at a time. Bah, I couldn't have seen all of that. It was all a figment of my imagination because this is goody two shoes Canada we're talking about, where part of our indoctrination since childhood likes to have Canadians believe they're just better than the crazy folks in parts of the US. Phooey. Maybe it just took better weather with a lag to spark upturns north of the border. Folks, another upturn could wind up costing another twelve figures from Ottawa and the provinces to address through shutdowns, partial reversals or just decisions to stay home.

## OVERNIGHT MARKETS

Overnight releases will probably pose low risk.

**August Chinese industrial production, fixed assets, retail sales, & jobless rate (10pmET)**: These activity indicators are expected to improve as the global recovery progresses. Consensus expects industrial production to rise by about 5.0% y/y—similar to the 4.8% y/y growth seen in July. While North American retail sales levels have reached or surpassed pre-pandemic levels, Chinese retail sales remain 10% below December 2019 levels. While firmer sales are expected in august, the retail sector is expected to remain a suborn weak spot in the Chinese recovery. The surveyed jobless rate is expected to continue to edge down from its record high of 6.2% in February to 5.6% in August.

**July UK labour market statistics (2amET)**: The unemployment rate remained stable despite Q2 job losses equalling 220k, suggesting that many exited the labour force. Expectations are for job losses to equal about 120k in the three months to July and for the unemployment rate to rise two tenths to 4.1% over the same period. The UK government's furlough scheme has been effective at stemming massive job losses, but anxiety will begin to build as the scheme is planned to end October 31st with no extension and Brexit all consuming. Under this scenario, the unemployment rate would rise sharply through the fourth quarter.

**September German ZEW Investor Sentiment Index (5amET)**: The stark gap between future expectations and the current situation is expected to close somewhat, but it still points to significantly different pictures. The future expectations index hit a 16-year high last month while the current conditions index has seen marginal improvement since it's low in May.

## TOMORROW'S NORTH AMERICAN MARKETS

**Canada faces light data risk, trade policy risk and is increasingly on covid-19 watch as further stimulus is pondered.**

**Home resales during August will be updated at 9amET.** Further gains will increasingly call into question whether the explosive percentage gains over May–July are transitory and reflect the release of pent-up demand, or long lived as a reflection of low borrowing costs, 'nesting' during the pandemic and stimulus.

**Canada will also update manufacturing sales during July (8:30amET).** Judging by the export figures, it should be another strong gain in overall shipments.

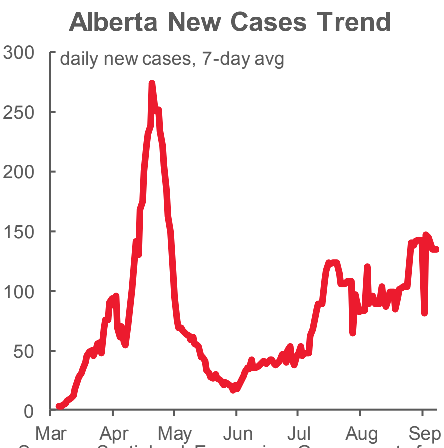
**Unconfirmed sources indicate that Canada may announce retaliatory tariffs against the US as soon as tomorrow or by mid-week.** They would be focused upon an estimated C$3.6 billion of aluminum related products and would retaliate against the provocative, unjustified and election-oriented US tariff on raw aluminum from Canada that were announced on August 6th and implemented on August 16th. Recall that Canada had announced some time ago that it would respond with retaliatory tariffs (here) and so that aspect is not new. New information would arise only if the US decided to escalate once again into the Presidential election instead of calling it even.

Two US releases are scheduled for the morning as the FOMC begins its two day meeting.

**September US New York Fed Empire manufacturing survey Index (8:30amET)**: The New York Fed released a special supplemental survey report with last month's survey results. The average revenue for manufacturing respondents showed a decline of 25% from a year ago. One-third of manufacturers surveyed said they would go insolvent at the current revenue levels with no additional fiscal support. Out of these respondents, the average expectation to remain solvent was ten months. This highlights the uneven recovery across manufacturing sectors in the region and the delicate situation employers find themselves in despite a strong recovery in some headline indicators. Consensus expects the Empire State index to improve from 3.7 to 6.8 in September. This is the first of five regional manufacturing surveys that help inform ISM manufacturing on October 1st.

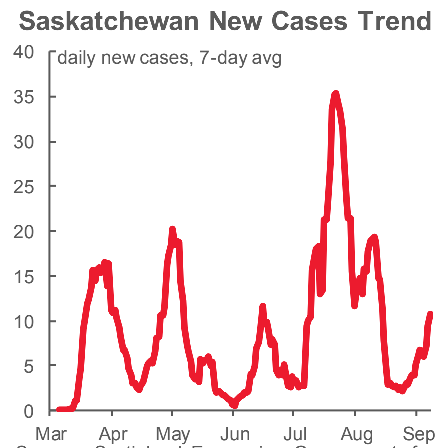
**August US industrial production (9:15amET):** We expect production growth to slow to a 0.8% m/m increase in August as we move away from the initial rebound. Industrial production remains 8.4% below February's pre-pandemic levels, suggesting we won't see a full recovery in production until next year. In the near term, industrial production will benefit from easing restrictions. Utilities may see a drag from rolling blackouts in California in the second half of the month.

**Chart 3**




Sources: Scotiabank Economics, Government of Canada.

**Chart 4**




Sources: Scotiabank Economics, Government of Canada.

**Chart 5**

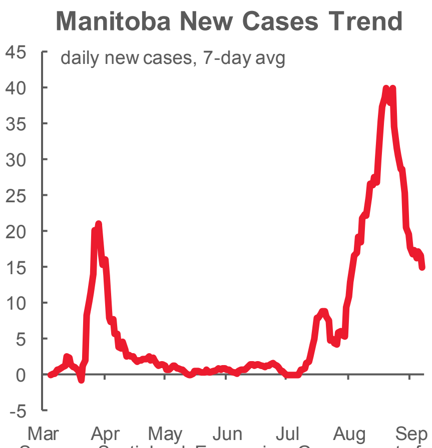



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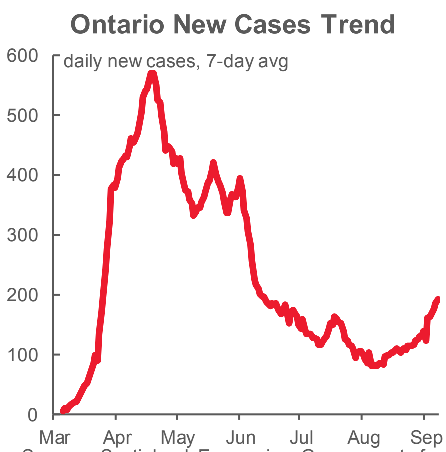
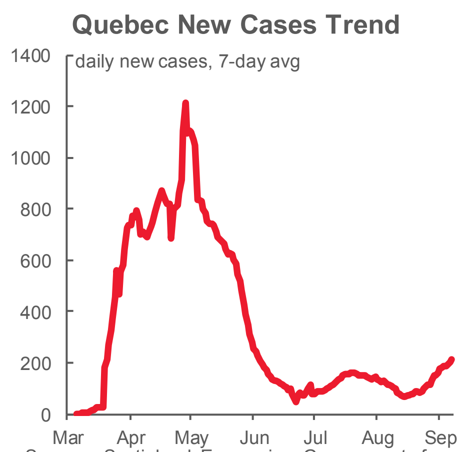
**Chart 6**




Sources: Scotiabank Economics, Government of Canada.

**Chart 7**




Sources: Scotiabank Economics, Government of Canada.

**Chart 8**

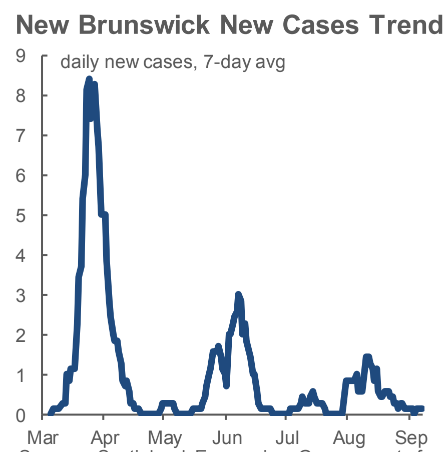



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**Chart 9**

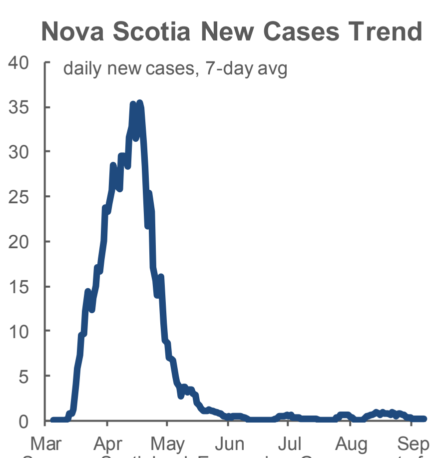


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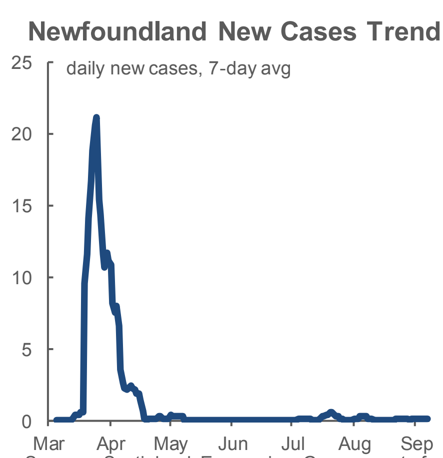
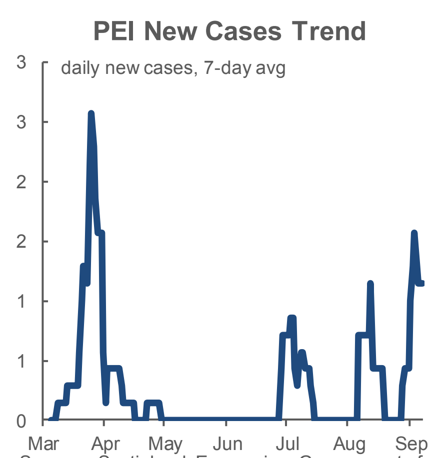
**Chart 10**




Sources: Scotiabank Economics, Government of Canada.

**Chart 11**




Sources: Scotiabank Economics, Government of Canada.

| Fixed Income | Government Yield Curves (%): | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2-YEAR | | | 5-YEAR | | | 10-YEAR | | | 30-YEAR | | |
| | Last | 1-day | 1-wk | Last | 1-day | 1-wk | Last | 1-day | 1-wk | Last | 1-day | 1-wk |
| U.S. | 0.14 | 0.13 | 0.14 | 0.26 | 0.25 | 0.30 | 0.67 | 0.67 | 0.72 | 1.41 | 1.41 | 1.47 |
| CANADA | 0.26 | 0.26 | 0.27 | 0.36 | 0.35 | 0.38 | 0.55 | 0.55 | 0.59 | 1.06 | 1.06 | 1.10 |
| GERMANY | -0.70 | -0.69 | -0.70 | -0.69 | -0.69 | -0.69 | -0.48 | -0.48 | -0.46 | -0.04 | -0.04 | -0.01 |
| JAPAN | -0.12 | -0.12 | -0.12 | -0.10 | -0.10 | -0.08 | 0.02 | 0.03 | 0.05 | 0.58 | 0.59 | 0.62 |
| U.K. | -0.10 | -0.13 | -0.09 | -0.10 | -0.12 | -0.06 | 0.19 | 0.18 | 0.25 | 0.75 | 0.75 | 0.82 |
| | Spreads vs. U.S. (bps): | | | | | | | | | | | |
| CANADA | 13 | 13 | 13 | 9 | 10 | 8 | -12 | -12 | -12 | -35 | -35 | -37 |
| GERMANY | -84 | -82 | -85 | -95 | -94 | -99 | -115 | -115 | -118 | -145 | -145 | -148 |
| JAPAN | -26 | -25 | -26 | -36 | -35 | -38 | -65 | -64 | -67 | -83 | -83 | -85 |
| U.K. | -23 | -25 | -24 | -36 | -38 | -36 | -48 | -48 | -47 | -66 | -66 | -65 |

| Equities | Level | | % change: | | | |
|---|---|---|---|---|---|---|
| | Last | Change | 1 Day | 1-wk | 1-mo | 1-yr |
| S&P/TSX | 16360 | 137.7 | 0.8 | 0.9 | -0.9 | -1.9 |
| Dow 30 | 27993 | 327.7 | 1.2 | -0.5 | 0.2 | 2.8 |
| S&P 500 | 3384 | 42.6 | 1.3 | -1.3 | 0.3 | 12.5 |
| Nasdaq | 11057 | 203.1 | 1.9 | -2.3 | 0.3 | 35.2 |
| DAX | 13194 | -9.2 | -0.1 | 0.7 | 2.3 | 5.8 |
| FTSE | 6026 | -5.8 | -0.1 | 1.5 | -1.0 | -18.2 |
| Nikkei | 23559 | 152.8 | 0.7 | 2.0 | 1.2 | 7.1 |
| Hang Seng | 24640 | 137.0 | 0.6 | 0.2 | -2.2 | -9.9 |
| CAC | 5052 | 17.7 | 0.4 | -0.0 | 1.8 | -10.7 |
| **Commodities** | Level | | % change: | | | |
| WTI Crude | 37.30 | -0.03 | -0.1 | -6.2 | -11.2 | -32.0 |
| Natural Gas | 2.31 | 0.04 | 1.7 | -10.8 | -2.0 | -11.7 |
| Gold | 1958.45 | 17.91 | 0.9 | 1.3 | 0.7 | 31.6 |
| Silver | 26.88 | -0.23 | -0.8 | 0.2 | -5.0 | 47.9 |
| CRB Index | 146.50 | 0.09 | 0.1 | -2.1 | -1.8 | -16.2 |
| **Currencies** | Level | | % change: | | | |
| USDCAD | 1.3181 | 0.0002 | 0.0 | 0.6 | -0.6 | -0.4 |
| EURUSD | 1.1862 | 0.0016 | 0.1 | 0.4 | 0.2 | 7.8 |
| USDJPY | 105.72 | -0.4400 | -0.4 | -0.5 | -0.8 | -2.2 |
| AUDUSD | 0.7288 | 0.0004 | 0.1 | 0.2 | 1.6 | 6.2 |
| GBPUSD | 1.2848 | 0.0052 | 0.4 | -2.4 | -1.8 | 3.4 |
| USDCHF | 0.9085 | -0.0004 | -0.0 | -0.8 | -0.1 | -8.5 |

| Central Banks | |
|---|---|
| **Current Rate** | |
| Canada - BoC | 0.25 |
| US - Fed | 0.25 |
| England - BoE | 0.10 |
| Euro zone - ECB | 0.00 |
| Japan - BoJ | -0.10 |
| Mexico - Banxico | 4.50 |
| Australia - RBA | 0.25 |
| New Zealand - RBNZ | 0.25 |
| **Next Meeting Date** | |
| Canada - BoC | Oct 28, 2020 |
| US - Fed | Sep 16, 2020 |
| England - BoE | Sep 17, 2020 |
| Euro zone - ECB | Oct 29, 2020 |
| Japan - BoJ | Sep 17, 2020 |
| Mexico - Banxico | Sep 24, 2020 |
| Australia - RBA | Oct 05, 2020 |
| New Zealand - RBNZ | Sep 22, 2020 |