

**KEY POINTS:**

- CAD outperforms ahead of throne speech
- Eurozone, UK, US PMIs expected to plateau
- What markets need from the Canadian throne speech...
- ...and PM Trudeau's ensuing presser
- Ramp up issuance, BoC contingency scenarios
- Fed's Evans lights up the USD...
- ...and adds to Kashkari's mixed earlier message
- RBNZ, BoT expected to remain on hold
- More Fed-speak tomorrow

**TODAY'S NORTH AMERICAN MARKETS**

There will be an active calendar of global risks through the overnight session and tomorrow with a focus upon central banks, European and US PMIs and Canada's throne speech. No CB changes are expected and Fed-speak might be more of what we've already heard.

That could narrow the focus upon two things. One is that to global markets the risk may lie in a round of PMIs out of the Eurozone, UK and US. Little overall change is expected, but that could fan the plateauing perspective for growth rates after they've all gone 'v'. European second wave effects and Brexit missteps may weigh on sentiment with the direction of risk perhaps tilted downward on the readings. It would take material changes in the readings to inform risks, not statistically insignificant tenths in either direction; they are, after all, sentiment gauges so 'soft' data.

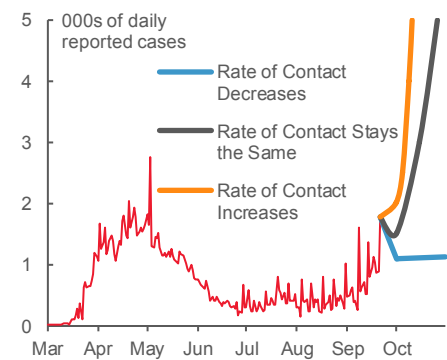
Two is Canada's throne speech that may be taking on a greater sense of market relevance (see below).

- Sovereign curves ended pretty much unchanged in the US and Canada. This morning's bear flattening in gilts continued into the close as did spread narrowing by Italian, Spanish and Portuguese debt over bunds.
- Oil prices closed up by about ¾%. Gold was little changed (-½%).
- Equities ended about 1% higher for the S&P500, 1 ¾% higher for the Nasdaq and 1% higher in Toronto. European markets closed higher in London, Frankfurt and Milan by ½% but slipped by a similar magnitude in Paris and Madrid.
- The USD strengthened a touch and did so against almost all currencies except CAD on the eve of the throne speech. Chicago Fed President Evans sparked a USD rally when he offset near-term dovishness (recession risk in the absence of fiscal supports) with a reference to how the FOMC might hike before it achieves an inflation overshoot which adds his voice against what had been the apparent Jackson Hole consensus. This adds to Kashkari's dissenting guidance that implied he'd hike once inflation reached 2% for a period of one year.

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**Chart 1**
**Public Health Agency of Canada's Latest Model Projections**


Note: Projections have wide confidence intervals  
 Sources: Scotiabank Economics, Government of Canada.

## OVERNIGHT MARKETS

Here is a rundown of the overnight calendar-based developments:

- RBNZ (10pmET): No policy changes are expected.
- German GfK consumer confidence (2amET)
- French PMIs (3:15amET): little change expected in September's readings.
- German PMIs (3:30amET): little change expected
- Eurozone PMIs (4amET): little change expected
- BoT (3:05amET): no policy changes expected.
- UK PMIs (4:30amET): Modest softening is expected in September's readings.
- Brazil mid-month inflation (8amET): another uptick is expected in September's reading off of the earlier year-over-year lows.

## TOMORROW'S NORTH AMERICAN MARKETS

Our main focus will be on Canada's throne speech in the afternoon (see below).

US markets will face modest risk from data and Fed-speak with the line-up as follows:

- US Markit PMIs (9:45amET): Little change is expected in September's readings.
- Cleveland Fed's Mester (9amET): speaks on payments systems during the pandemic.
- Chair Powell (10amET): speaks on the covid-19 pandemic before the House select committee.
- Chicago Fed's Evans (11amET): Speaks on the US economy and monetary policy.
- Boston Fed's Rosengren (12pmET): speaks on the US economy.
- Minneapolis Fed's Kashkari (1pmET): speaks on public health and the virus.
- Atlanta Fed's Bostic (1pmET): speaks on communities.
- Fed Governor Quarles (2pmET): speaks on the economic outlook.
- San Fran Fed's Daly (3pmET): speaks on labour force implications of covid-19.

**Canada's throne speech arrives at around 2pmET tomorrow. Prime Minister Trudeau will somewhat unusually hold a televised press conference at about 6:30pmET** to convey a greater sense of urgency and preparedness surrounding the covid-19 virus and we'll be on continued watch for specific policy announcements. That's a lot of communication around something that is \*ordinarily\* more about vague intentions and heavier on pomp and circumstance than action!

It is likely no coincidence that Canada's Chief Public Health Officer released forecasts today ahead of the speech that showed covid-19 cases going to the moon by November at over three times the Springtime peak if Canada maintains current contact points (chart 1). Forget about expedited reopening plans that would drive cases higher yet as the tide is going in the other direction. Go [here](#) for the full deck and have a close look at slides 10–12. Reducing contact points would see cases plateauing into October at higher levels than present and partial steps are being taken in some provinces.

If there is market risk from an issuance, funding, yield and currency standpoint, then it will depend upon what balance is struck in the speech and press conference between the following scenarios that all likely lead to the risk of considerably higher debt issuance. Markets will be left to judge these scenarios and the relative roles played by science versus politics.

- Will they pre-commit to spending a tonne on safety nets into a projected surge? Like much broader income and childcare supports plus health spending and transfers? That might leave little future flexibility at the same price.
- Or will they spend a little and maintain fiscal flexibility in the face of a potentially large spike that could drive widened deficits into the Fall to cover potentially much broader fiscal requirements?
- Or will momentum toward pre-emptive reversals/closures build further than the modest steps announced by Ontario and Quebec?

I would think that markets will be ok with limited spending but wish to see substantial flexibility being retained in the plans in light of how quickly the first covid-19 case wave drove a twelve-figured deficit and with large upside risk still ahead to funding. Canada's relative cost of borrowing in, say, the 10 year maturity bucket has risen to the US from about 90bps beneath in March 2019 to 11bps below now.

Pending issuance outcomes and associated liquidity drains, I would suggest expedited scenario building around Bank of Canada actions and broader funding scenarios. The next *scheduled* meeting of the BoC is October 28<sup>th</sup> and it will be a full forecast/MPR meeting. Among the possibilities remains yield caps across the shorter portions of the curve and potentially expanded bond buying depending upon pandemic and fiscal scenarios. These risks and the suitability of today's CAD outperformance may be further informed by tomorrow's developments.

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.	0.14	0.14	0.14	0.27	0.27	0.27	0.67	0.67	0.68	1.42	1.42	1.43	Canada - BoC	0.25
CANADA	0.26	0.26	0.26	0.36	0.35	0.36	0.56	0.55	0.55	1.08	1.07	1.08	US - Fed	0.25
GERMANY	-0.71	-0.73	-0.69	-0.71	-0.73	-0.68	-0.51	-0.53	-0.48	-0.06	-0.10	-0.03	England - BoE	0.10
JAPAN	-0.14	-0.14	-0.13	-0.11	-0.11	-0.10	0.02	0.02	0.02	0.59	0.59	0.59		
U.K.	-0.05	-0.12	-0.07	-0.08	-0.14	-0.07	0.20	0.16	0.22	0.75	0.72	0.77		
	Spreads vs. U.S. (bps):													
CANADA	12	12	12	9	8	8	-11	-12	-13	-34	-34	-36	Euro zone - ECB	0.00
GERMANY	-85	-86	-83	-98	-99	-95	-118	-120	-116	-148	-151	-146	Japan - BoJ	-0.10
JAPAN	-27	-28	-27	-38	-38	-37	-66	-65	-66	-83	-83	-85		
U.K.	-19	-26	-21	-34	-40	-34	-47	-51	-46	-67	-70	-66	Mexico - Banxico	4.50
Equities	Level			Level			% change:			% change:				
	Last			Change			1 Day	1-wk	1-mo			1-yr		
S&P/TSX	16143			161.1			1.0	-1.8	-2.3			-4.5	Australia - RBA	0.25
Dow 30	27288			140.5			0.5	-2.5	-2.3			1.3		
S&P 500	3316			34.5			1.1	-2.5	-2.4			10.8	New Zealand - RBNZ	0.25
Nasdaq	10964			184.8			1.7	-2.0	-3.1			35.1		
DAX	12594			51.9			0.4	-4.7	-1.3			1.0		
FTSE	5829			25.2			0.4	-4.5	-2.9			-20.6		
Nikkei	23360			40.9			0.2	-0.2	1.9			5.8	Canada - BoC	Oct 28, 2020
Hang Seng	23717			-233.8			-1.0	-4.1	-5.6			-9.6	US - Fed	Nov 05, 2020
CAC	4773			-19.2			-0.4	-5.8	-2.5			-16.1	England - BoE	Nov 05, 2020
Commodities	Level			Level			% change:			% change:				
WTI Crude	39.80			0.26			0.7	4.0	-6.0			-31.5	Euro zone - ECB	Oct 29, 2020
Natural Gas	1.83			-0.00			-0.1	-22.4	-25.1			-27.6	Japan - BoJ	Oct 29, 2020
Gold	1900.20			-0.01			-0.0	-3.0	-2.1			24.8		
Silver	26.36			-0.70			-2.6	-2.0	-1.8			47.4		
CRB Index	147.52			-0.31			-0.2	-0.2	-1.6			-16.8		
Currencies	Level			Level			% change:			% change:				
USDCAD	1.3304			0.0000			0.0	1.0	0.7			0.3	Mexico - Banxico	Sep 24, 2020
EURUSD	1.1706			-0.0002			-0.0	-0.9	-0.7			6.5		
USDJPY	104.93			0.0000			0.0	-0.0	-1.0			-2.4	Australia - RBA	Oct 05, 2020
AUDUSD	0.7168			-0.0003			-0.0	-1.9	0.1			5.8		
GBPUSD	1.2736			0.0003			0.0	-1.8	-2.5			2.5	New Zealand - RBNZ	Sep 22, 2020
USDCHF	0.9197			-0.0001			-0.0	1.1	0.9			-7.1		

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