

KEY POINTS:

- Stocks sink late into the North American session
- Trump Organization must submit financial records to NY A.G. before election
- Canada's throne speech shaken off by markets
- Will Banxico continue to ease?
- Norges, SNB and Turkey expected to hold
- German business confidence faces downside risk
- US claims, new home sales on tap

TODAY'S NORTH AMERICAN MARKETS

Stocks turned sour late into the North American session. A specific catalyst is unclear. One candidate is that the NY Attorney General succeeded in having Eric Trump testify under oath by October 7th on matters concerning the finances of his family's business. That will require the Trump organization to submit financial records just ahead of the election as part of a civil fraud investigation.

Canada's throne speech was shaken off by financial markets which is probably the appropriate response at least for now (see below).

- Stocks fell in North America after European cash indices closed higher. The US S&P500 fell 2.4% with the Nasdaq off 3% while the TSX fell by 2%. All sectors on the S&P were lower with tech and energy leading.
- Sovereign bond yields were little changed across most major markets. The Canada 10 year bond's relative performance into the throne speech and coming out of it was similar to the US 10 year yield.
- The USD appreciated on the day against almost all major currencies except for little change in sterling. CAD depreciated against the USD but was a middle of the pack performer and performed similarly to, say, the euro into and out of the throne speech.
- Oil prices fell by under ¼% and gold fell by about US\$35/oz.

Pending PM Trudeau's press conference at approximately 6:30pmET, a tentative overall impression of the throne speech (text [here](#)) is that it shouldn't fuss the markets. Scotia's Rebekah Young will offer a full note this evening. For now, I think it implicitly emphasized near-term fiscal flexibility which may be needed given the threat of a surge in covid-19 cases that could drive a deterioration in finances. Such a potential deterioration could sharply raise incremental issuance requirements alongside the rollover of existing debt given the debt maturity profile of the Federal government compared to the provinces (chart 1). In that sense, the speech is about buying time.

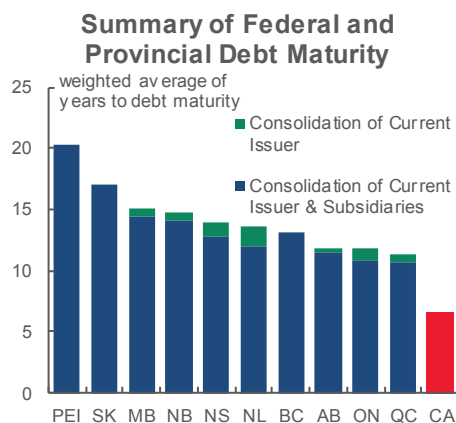
It did this in two main respects. One relates to what is not in the speech that could have been very costly. Two is that there were few specifics surrounding actual pledges and deferred actions that, while not uncommon in a throne speech, lessens any sense of immediacy on the path to the uncertain date of a

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Chart 1



Note: if there is no green bar, weighted average maturities are the same

Sources: Scotiabank Economics, Bloomberg.

Fall budget update. The net outcome seems to be consistent with a deliberate attempt to see what second wave risk does to Ottawa's finances over the weeks and months ahead without committing to pre-spending on costly initiatives at this point. For now, the concern over incremental debt issuance is postponed and we're back to monitoring the spread of covid-19 and what actually shows up in the Fall statement. PM Trudeau's press conference and the risk of additional announcements may further inform this view.

What was not in the speech included zero reference to basic income or living wage concepts, nothing material for climate change, no increase in health transfers and no extension of CERB payments. Several other potentially big-ticket items were deferred or subject to further study such as a national pharmacare program and a task force to address ways to help more women get into the workforce including an unclear plan to make "a significant, long-term, sustained investment to create a Canada-wide early learning and childcare system." An extension of the Canada Emergency Wage Subsidy for around another half year could add up to C\$40 billion. Details are needed to evaluate other proposals such as a vague pledge to create one million jobs "using a range of tools," enhanced Canada Emergency Business Account (aka 'rent relief'), enhanced First-Time Home Buyer Incentive, a boost to Old Age Security and CPP survivor's benefit, a Disability Inclusion Plan and what revenues may be recouped from socking it to the 'wealthy' and digital companies.

The NDP's support is critical, but Jagmeet Singh's pledge to "study before deciding support" coupled with reference to the throne speech being "just words on paper and this PM has shown us that his actions don't match his empty words" will require monitoring to evaluate whether there is more than just tough talk here by way of support and probably low election risk. The Conservatives and BQ already said they would not support the speech in a vote to be scheduled at some point over the coming weeks.

OVERNIGHT MARKETS

Three central bank decisions are unlikely to materially change policy and are even more unlikely to impact global markets while there is only one macro release on tap.

- SNB (3:30amET): no change expected
- Norges Bank (4amET): no change expected
- German IFO Sept (4amET): German business confidence might face downside risk if it follows PMIs.
- Turkey's CB (7amET): no change is expected with the small (given Erdogan...) risk of a hike on lira weakness.

TOMORROW'S NORTH AMERICAN MARKETS

Tomorrow's developments will include the following:

- US initial jobless claims (8:30amET): A mild decline is expected with consensus and Scotia at 840k (860k prior).
- US new home sales (10amET): A small dip is expected in August's reading.
- ECB's Lane (9amET)
- BoE's Bailey (10amET)
- More Fed-speak tomorrow will include Fed Chair Powell along with Treasury Secretary Mnuchin for round 2 of CARES Act testimony that will likely be a repeat of round 1. Regional Presidents Kaplan, Bullard, Evans, Barkin (twice), Williams and Bostic will also speak, but the novelty of hearing regional Fed heads post-FOMC is wearing off.
- Banxico (2pmET): Most (17 of 23 forecasters) expect a smaller -25bps rate cut. One expects another -50bps cut. Four—including Scotiabank's Mexico City based economists—expect a surprise hold. The bias will also matter at least as much as the immediate action.

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	0.28	0.67	0.67	0.70	1.42	1.42	1.46	Canada - BoC	0.25		
CANADA	0.26	0.26	0.26	0.36	0.36	0.36	0.56	0.55	0.57	1.08	1.08	1.11	US - Fed	0.25		
GERMANY	-0.70	-0.71	-0.69	-0.71	-0.71	-0.68	-0.51	-0.51	-0.48	-0.05	-0.06	-0.04	England - BoE	0.10		
JAPAN	-0.15	-0.14	-0.13	-0.12	-0.11	-0.11	0.01	0.02	0.02	0.59	0.59	0.59				
U.K.	-0.05	-0.05	-0.06	-0.07	-0.08	-0.07	0.22	0.20	0.21	0.77	0.75	0.75				
Spreads vs. U.S. (bps):																
	Level			Level			Level			Level						
CANADA	12	12	12	9	9	8	-12	-12	-13	-34	-35	-35	Euro zone - ECB	0.00		
GERMANY	-84	-85	-83	-98	-98	-96	-118	-118	-118	-147	-148	-150	Japan - BoJ	-0.10		
JAPAN	-28	-27	-27	-39	-38	-39	-66	-66	-68	-83	-83	-87				
U.K.	-19	-19	-20	-34	-34	-35	-45	-47	-49	-64	-67	-71	Mexico - Banxico	4.50		
Equities	Level			Level			Level			Level						
	Last	Change		Level			1 Day	1-wk	1-mo	1-yr						
S&P/TSX	15817	-325.8		Level			-2.0	-2.9	-4.2	-6.2		Australia - RBA	0.25			
Dow 30	26763	-525.0		Level			-1.9	-4.5	-4.2	-0.7						
S&P 500	3237	-78.7		Level			-2.4	-4.4	-4.7	8.2		New Zealand - RBNZ	0.25			
Nasdaq	10633	-330.7		Level			-3.0	-3.8	-6.0	31.1						
DAX	12643	48.6		Level			0.4	-4.6	-3.2	2.7						
FTSE	5899	69.8		Level			1.2	-2.9	-3.4	-19.1						
Nikkei	23346	-13.8		Level			-0.1	-0.9	1.6	5.6		Canada - BoC	Oct 28, 2020			
Hang Seng	23743	25.7		Level			0.1	-4.0	-7.1	-9.7		US - Fed	Nov 05, 2020			
CAC	4802	29.4		Level			0.6	-5.4	-1.9	-14.7						
Commodities	Level			Level			Level			Level						
	Level			Level			Level			Level						
WTI Crude	39.93			0.13			0.3			-0.6			-5.7	-31.9	England - BoE	Nov 05, 2020
Natural Gas	2.13			0.29			15.9			-6.3			-13.2	-15.9	Euro zone - ECB	Oct 29, 2020
Gold	1864.55			1.21			0.1			-4.1			-3.3	21.7	Japan - BoJ	Oct 29, 2020
Silver	24.30			-2.06			-7.8			-11.8			-9.5	35.9		
CRB Index	147.74			0.22			0.1			-1.3			-1.5	-17.3		
Currencies	Level			Level			Level			Level						
	Level			Level			Level			Level						
USDCAD	1.3378			-0.0008			-0.1			1.6			1.2	1.0	Mexico - Banxico	Sep 24, 2020
EURUSD	1.1664			0.0004			0.0			-1.6			-1.1	5.8		
USDJPY	105.35			-0.0400			-0.0			0.6			-0.6	-1.6	Australia - RBA	Oct 05, 2020
AUDUSD	0.7078			0.0006			0.1			-3.2			-1.2	4.1		
GBPUSD	1.2727			0.0003			0.0			-1.9			-2.6	1.9	New Zealand - RBNZ	Nov 10, 2020
USDCHF	0.9238			-0.0002			-0.0			1.7			1.3	-6.3		

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