

**KEY POINTS:**

- Stock gains reinforced by vaccines, stimulus talks
- Fauci: most Americans vaccinated by Q2, herd immunity by Fall
- US stimulus talks resume
- Light overnight calendar risk
- ADP payrolls will have to be an outlier to matter to nonfarm bets
- CDN bank earnings to continue
- Powell round 2, Beige book ahead

**TODAY'S NORTH AMERICAN MARKETS**

Beyond this morning's influences, markets digested additional information that was generally constructive from the standpoint of building risk appetite. Anthony Fauci said he thinks "overwhelming majority" of Americans could be vaccinated by Q2 next year and that herd immunity could be achieved in the fall.

Mnuchin and Pelosi spoke about stimulus prospects as new US stimulus proposals have resurfaced but it's unclear whether they'll be more successful than past negotiations that underwhelmed the Democrats while being too rich for Republicans yet with a less engaged President now. One bipartisan group has advanced a US\$908 billion proposal, but only about one-third would be new spending with the remainder drawing on residual funds from the Paycheque Protection Program and Fed facilities. The proposal would include: about US\$300B to PPP funding; US\$240B for states and local governments; another US\$180B to extend unemployment benefits otherwise slated to expire at year-end; US\$45B in sector aid; and the rest scattered for other purposes.

- The S&P500 closed up by about 1.1%. The TSX had been up by over 1 ½% at the starting bell this morning but closed up 0.6%; tech, utilities, health care and communications services weighed on momentum. European cash markets closed up by between ¼% and 1¾%.
- Sovereign curves exploded by cheapening across all maturities but especially toward the longer end and especially in the US on global bear steepeners. The US 30 year yield was up by 10bps with 10s up 9bps. Canada's curve also cheapened but by a little less than stateside with 10s and 30s up 7bps. Gilts and EGBs cheapened by a little less than Canadas.
- The US 10 year TIPS breakeven inflation rate edged up to 1.825%, the highest since May 2019. Canada's breakevens have also risen but by slightly less (chart 1).
- Oil prices fell by another 50–75 cents a barrel with OPEC+ meetings slated to resume on Thursday.
- The USD depreciated against most major currencies but CAD and the A\$ underperformed others.

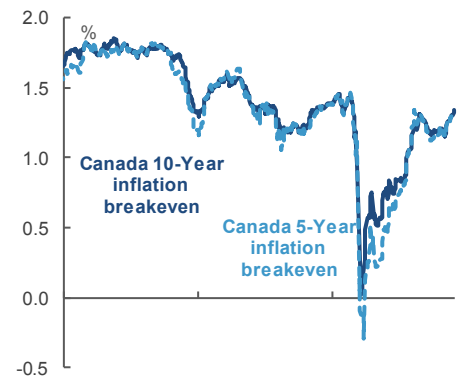
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Chart 1

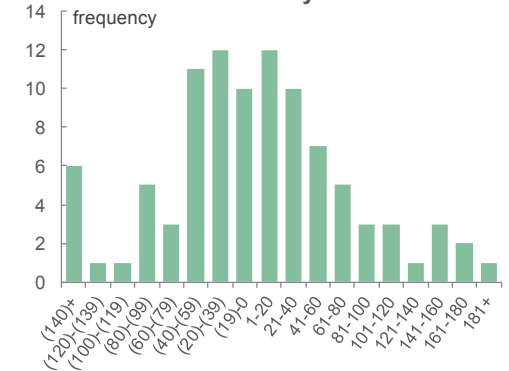
**Market-Derived Inflation Expectations**



Sources: Scotiabank Economics, Bloomberg.

Chart 2

**Differences Between Initial ADP and Private Non-Farm Payrolls 2012-2020**



000s; parentheses indicate negative values; positive values indicate ADP overshoots

Sources: Scotiabank Economics, BLS, ADP.

## OVERNIGHT MARKETS

Calendar risk quiets down temporarily overnight and through tomorrow. It will be a temporary respite ahead of the resumption of OPEC+ meetings on Thursday and then nonfarm & Canadian jobs on Friday. There may be random headline risk on Brexit and US stimulus talks. Nothing on overnight calendars will impact global market sentiment but may influence local markets.

**November South Korean CPI is released at 6pmET.** November inflation could improve from the 0.1% y/y print in October due to transitory effects. However, spare capacity and low energy prices should keep inflation from reaching the Bank of Korea's 2% inflation target for the foreseeable future.

**Q3 Australian GDP will be released at 7:30pmET this evening.** Australia won't see quite the same rebound in Q3 as some other developed economies as the lockdown in Melbourne weighted on the recovery. However, the modest quarterly growth is expected to be driven by a return to more normal consumption activity. Our Asia-Pacific economist estimates growth to register -5.3% y/y, compared to -6.3% y/y during the previous quarter. During yesterday's monetary policy meeting, the RBA stated that recent data has come in better than expected and that the recovery should continue in Q4.

**October German retail sales arrives at 2amET.** While restrictions were reintroduced in the second half of the month, their more targeted nature should weigh less on economic activity than the restrictions during the first wave. The 1.2% m/m consensus expectation could reflect consumers front loading purchases prior to the restrictions being implemented.

## TOMORROW'S NORTH AMERICAN MARKETS

US ADP (8:15amET) will be the main event which speaks more to how the rest of the calendar will be pretty quiet. In order to influence nonfarm expectations, it takes a big miss in either direction for ADP to matter. Chart 2 demonstrates this point by noting the rarity of massive outsized changes in private nonfarm payrolls in relation to changes in ADP payrolls. Consensus guesstimates 430k with Scotia at 350k.

**Canadian Q4 bank earnings releases will continue** with RBC (6amET) and National (6:30amET) due out. This morning's BNS and BMO earnings helped pop banks 1.9% higher as a group.

**Fed Chair Powell delivers round two of CARES Act testimony** tomorrow before the House (10amET). The Fed's Beige Book of regional conditions will arrive at 2pmET.

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.	0.17	0.15	0.16	0.42	0.36	0.40	0.93	0.84	0.88	1.67	1.57	1.61	Canada - BoC	0.25
CANADA	0.27	0.25	0.27	0.47	0.43	0.45	0.74	0.67	0.72	1.24	1.16	1.23	US - Fed	0.25
GERMANY	-0.72	-0.74	-0.74	-0.72	-0.75	-0.75	-0.53	-0.57	-0.56	-0.12	-0.17	-0.15	England - BoE	0.10
JAPAN	-0.12	-0.12	-0.13	-0.11	-0.09	-0.11	0.02	0.03	0.03	0.65	0.65	0.65		
U.K.	-0.01	-0.02	-0.02	0.04	0.01	0.02	0.35	0.31	0.33	0.91	0.85	0.90		
	Spreads vs. U.S. (bps):													
CANADA	10	10	11	5	7	5	-19	-17	-17	-44	-40	-38	Euro zone - ECB	0.00
GERMANY	-88	-89	-91	-114	-111	-114	-146	-141	-144	-179	-173	-176	Japan - BoJ	-0.10
JAPAN	-29	-27	-29	-53	-46	-51	-91	-81	-86	-102	-92	-96		
U.K.	-18	-17	-18	-38	-35	-37	-58	-54	-55	-77	-72	-71	Mexico - Banxico	4.25
Equities	Level						% change:							
	Last			Change			1 Day	1-wk	1-mo	1-yr				
S&P/TSX	17297			106.7			0.6	0.1	11.0	1.5			Australia - RBA	0.10
Dow 30	29824			185.3			0.6	0.8	12.5	6.3			New Zealand - RBNZ	0.25
S&P 500	3662			40.8			1.1	2.4	12.0	16.6				
Nasdaq	12355			156.4			1.3	4.0	13.2	42.6				
DAX	13382			91.1			0.7	0.7	15.8	1.1				
FTSE	6385			118.5			1.9	-0.7	14.5	-13.1				
Nikkei	26788			353.9			1.3	2.4	15.0	13.8			Canada - BoC	Dec 09, 2020
Hang Seng	26568			226.2			0.9	-0.1	8.6	0.5			US - Fed	Dec 16, 2020
CAC	5582			63.1			1.1	0.4	21.5	-5.5			England - BoE	Dec 17, 2020
Commodities	Level						% change:							
WTI Crude	44.55			-0.79			-1.7	3.5	24.5	-19.2			Euro zone - ECB	Dec 10, 2020
Natural Gas	2.88			-0.00			-0.1	6.2	-14.2	26.2			Japan - BoJ	Dec 18, 2020
Gold	1814.70			37.75			2.1	0.4	-3.4	24.0				
Silver	22.15			-0.99			-4.3	-7.3	-6.2	30.6				
CRB Index	158.94			-1.12			-0.7	1.0	9.8	-10.0				
Currencies	Level						% change:							
USDCAD	1.2941			-0.0060			-0.5	-0.4	-2.1	-2.8			Mexico - Banxico	Dec 17, 2020
EURUSD	1.2071			0.0144			1.2	1.5	3.7	9.0			Australia - RBA	Feb 01, 2021
USDJPY	104.34			0.0300			0.0	-0.1	-0.4	-4.3				
AUDUSD	0.7370			0.0026			0.4	0.1	4.5	8.1				
GBPUSD	1.3424			0.0101			0.8	0.5	3.9	3.7			New Zealand - RBNZ	Feb 23, 2021
USDCHF	0.8999			-0.0090			-1.0	-1.3	-2.1	-9.2				

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