

**KEY POINTS:**

- NYC shutdown talk sinks stocks
- What to watch for in BoC Gov Macklem’s talk
- Why BoC parallels to the RBA’s token cut are off base
- Canadians are highly receptive to vaccines
- Canadian housing, manufacturing readings due out
- US industrial readings, UK jobs, China readings on tap
- Weekly global COVID-19 charts

**TODAY’S NORTH AMERICAN MARKETS**

After getting off to a solid start on Brexit and US stimulus speculation, US stocks began to turn south the minute NYC Mayor Bill De Blasio said that “if we do not change the trajectory, we could very well be headed to shut down” and that “The likelihood of more restrictions soon is high.” What may have also contributed to the soured market tone was growing realization of the magnitude of a cyber attack on US government agencies and companies with speculation that Russian hackers were involved. Outgoing President Trump spent the day tweeting about election conspiracies which may indicate that the hostile act will confront incoming President Biden.

- The S&P500 ended about ½% lower on the day after early gains reversed with the index falling 1.4% from the morning peak. The TSX also shed about 1%. European cash markets closed mixed with London down ¼% but most of the rest of Europe’s main exchanges ending up by between ¼% and 1%.
- Gilts led cheapening across major bond markets with yields up 3–5bps in a mild steepener move on continued optimism that Brexit talks remain alive. US Treasuries ended little changed along with Canada’s curve except for small cheapening at the long end.
- Oil prices ended up about three dimes across WTI and Brent.
- The USD slipped and did so primarily versus European crosses. CAD and the A\$ were little changed and the Mexican peso depreciated.

**OVERNIGHT MARKETS**

Overnight releases are not expected to be terribly impactful.

**UK jobs and wages during October and jobless claims during November arrive at 2amET.** The government furlough scheme was only extended at the end of October—which was originally set to expire at the end of the month. With firms anticipating the end of the subsidy at the end of the month, the 3-month unemployment rate is expected to rise from 4.8% to 5.1% and employment to fall by 250k over the same period.

**Chinese releases for industrial production and retail sales will be released tonight (9pmET).** These indicators are expected to show the Chinese economy continuing to gain traction. Retail sales were hit harder by the original shutdown

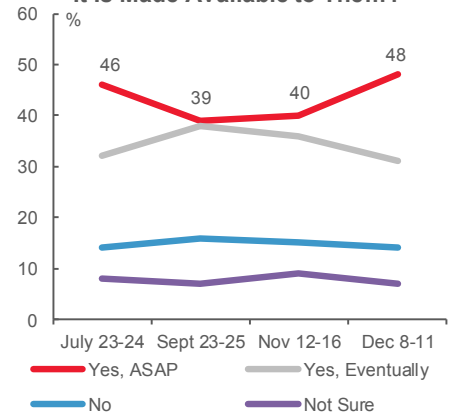
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Chart 1

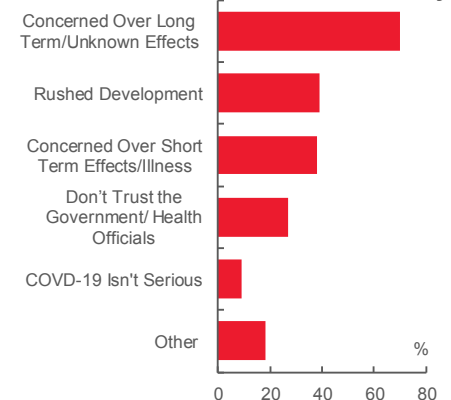
**Will Canadians Get Vaccinated if It Is Made Available to Them?**



Sources: Scotiabank Economics, Angus Reid Institute.

Chart 2

**Reasons for Skepticism From Those Who Won't Get Vaccinated Immediately**



Note: Survey sample of 831.  
Sources: Scotiabank Economics, Angus Reid Institute.

measures relative to the manufacturing sectors. Compared to last year between January and October, retail sales are down -5.9% while industrial production sits 2.3% higher. Due to relatively quick containment and a robust economic recovery, China is the one of the few countries that is expected to register growth in 2020.

## TOMORROW'S NORTH AMERICAN MARKETS

The main focus into tomorrow's North American session may be BoC Governor Macklem's traditional pre-holiday Governor's speech. He might find reason for optimism in survey results that were released today that show **just shy of 80% of Canadians expect to go for COVID-19 vaccinations**, though the minority who say they won't might take a long time to possibly change their views (charts 1–2). Macklem's topic will be "Trading for a sustainable recovery." The speech will be released at 2:30pmET and a virtual press conference will be held at 3:45pmET.

The addition of a press conference leaves the field wide open for potential considerations, but here are four suggestions for things to watch out for in the Governor's speech:

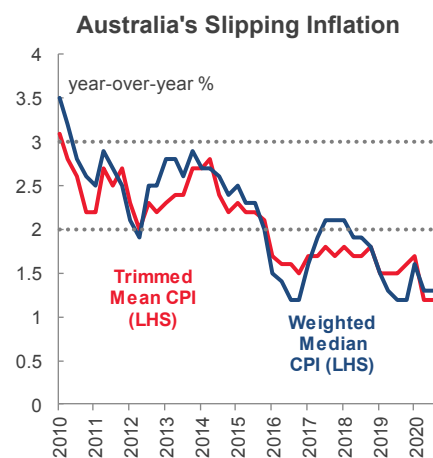
- comments on the effective lower bound and cut risk. See below for elaboration of my thoughts on the topic.
- Possible hints at the direction of forecast risks being considered. Beaudry's recent speech appeared to indicate a fairly neutral bias with upside and downside risks being evaluated while distancing the BoC from the October MPR projections. Recall Beaudry said "We have not yet done a full analysis of all new information to shift that assessment." I would expect Macklem to say the usual thing about not pre-judging outcomes, but any straying from that tendency could be informative.
- Comments on the global trade picture going forward. I would expect a cautious tone and one that perhaps notes that a global rebound in trade is feasible going forward but that a sustained rise in global trade will be more challenging to accomplish given damage to globalization.
- Remarks on Canada's competitiveness. Expect the Governor to probably emphasize how firm destruction could damage the export cycle going forward while magnifying competitiveness challenges that existed before the pandemic.
- Related to the prior bullet, what does the Governor think of CAD's appreciation in terms of its drivers, merits and risks posed to the outlook?

The BoC raised market interest in the possibility of a token cut to its overnight rate following comments that Governor Macklem made in his parliamentary testimony on November 26th and comments made last Thursday by Deputy Governor Beaudry.

**Overall, I'm unconvinced that the BoC is preparing the way ahead for such a move and even less convinced of the merits to doing so.**

- First, nothing sounds imminent and it appears as though much harsher downside risks would be required to go there. Recall that Beaudry said "it's not something that's at the forefront yet. It's just a possibility among the different tools that we have" and that it is among the options "Should things take a more persistent turn for the worse" versus the other upside scenario.
- Parallels to the RBA's move to cut by 25bps on November 2<sup>nd</sup> are likely off-base for a few reasons.
  - For one, average Australian core inflation (1¼% y/y) is further beneath the RBA's higher headline inflation target of 2–3% (chart 3) than is the case for the BoC where average core inflation sits at 1.8% and just tenths from the headline inflation target of 2%.
  - The RBA's cut pre-dated vaccine optimism that represents a material positive development.

Chart 3



Sources: Scotiabank Economics, RBA, Bloomberg.

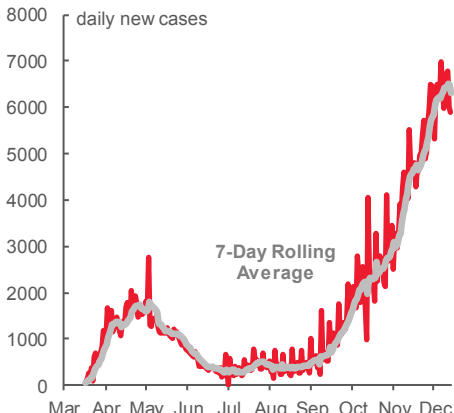
- If a side goal of the RBA cut was to weaken the A\$ then it didn't work. The A\$ has continued to appreciate by almost 7% to the USD since the cut. That's a caution against the BoC doing likewise.
- The BoC may be under rising pressure to further taper bond purchases as 2021 unfolds.
- The BoC has been challenged enough when it comes to communicating what it thinks the effective lower bound is. The signal sent to markets is that the ELB is totally arbitrary. They were fine with the ELB being defined at -0.5% from late 2015 until the pandemic struck and then all of a sudden switched to 0.25%. I've written previously that this may have been because back in March they were not prepared to be pushed toward going negative, but its framework on the ELB and negative rates has been deeply inconsistent.
- Canada is likely to witness greater fiscal stimulus when the Federal winter budget is delivered and has already extended pandemic stimulus measures well into next year.

Canada will also release housing and manufacturing updates. Housing starts for November and existing home sales for the same month will arrive at 8:15amET and 9amET respectively. Manufacturing shipments are expected to post a modest additional gain previously guided by StatsCan to be in the vicinity of a 0.6% m/m lift (8:30amET).

US releases are unlikely to be terribly influential upon broad risk appetite with the focus mostly upon industrial readings. The Empire manufacturing gauge for December (8:30amET) will kick off tracking provided by regional surveys on the path to the next ISM-manufacturing report in early January. Industrial output during November probably faced little to no growth (9:15amET).

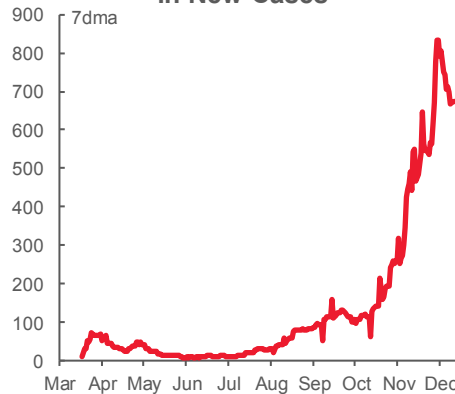
Also see the accompanying charts depicting global COVID-19 case trends as the usual Monday update.

**Chart 4**  
**Canadian Trend in New Cases**



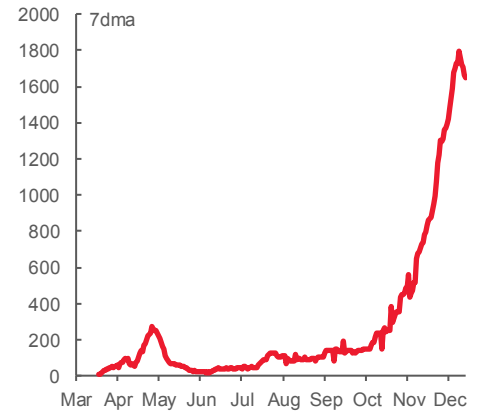
Sources: Scotiabank Economics, Government of Canada.

**Chart 5**  
**British Columbia Trend in New Cases**



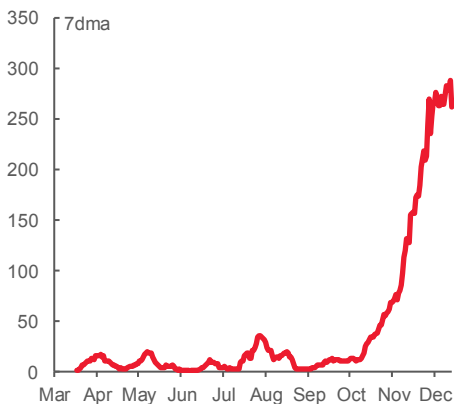
Sources: Scotiabank Economics, Government of Canada.

**Chart 6**  
**Alberta Trend in New Cases**



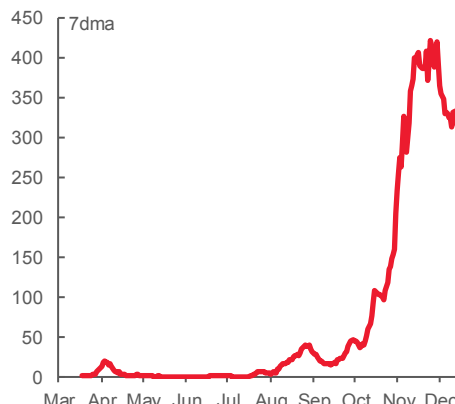
Sources: Scotiabank Economics, Government of Canada.

**Chart 7**  
**Saskatchewan Trend in New Cases**



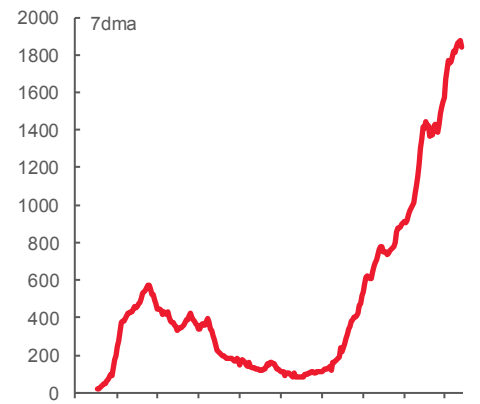
Sources: Scotiabank Economics, Government of Canada.

**Chart 8**  
**Manitoba Trend in New Cases**



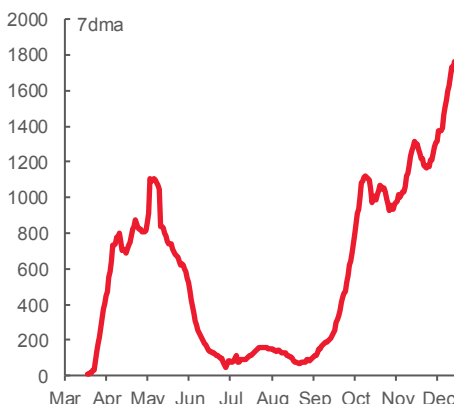
Sources: Scotiabank Economics, Government of Canada.

**Chart 9**  
**Ontario Trend in New Cases**



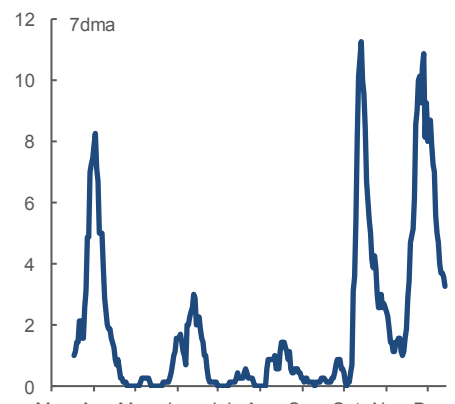
Sources: Scotiabank Economics, Government of Canada.

**Chart 10**  
**Quebec Trend in New Cases**



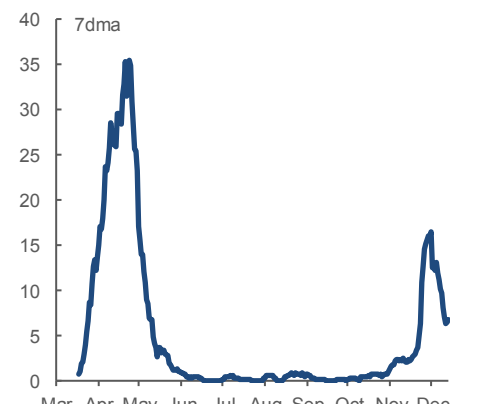
Sources: Scotiabank Economics, Government of Canada.

**Chart 11**  
**New Brunswick Trend in New Cases**



Sources: Scotiabank Economics, Government of Canada.

**Chart 12**  
**Nova Scotia Trend in New Cases**



Sources: Scotiabank Economics, Government of Canada.

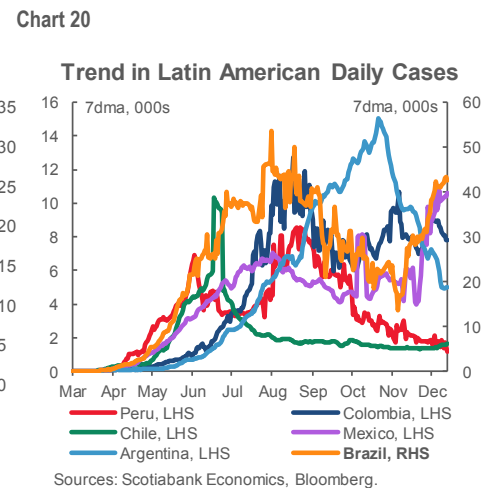
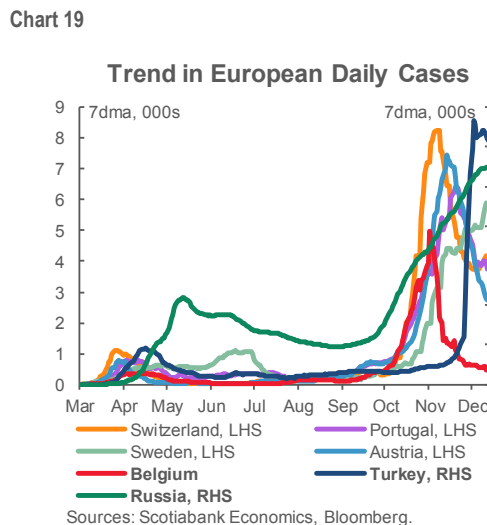
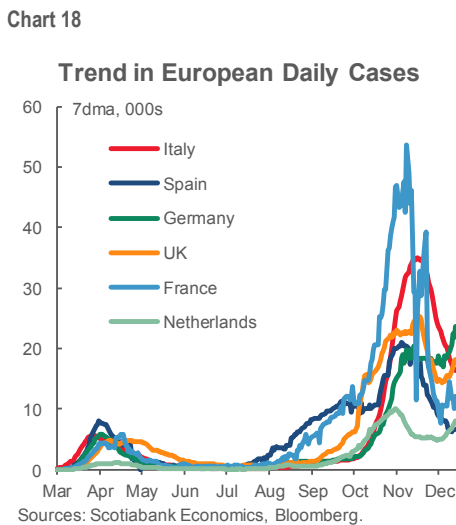
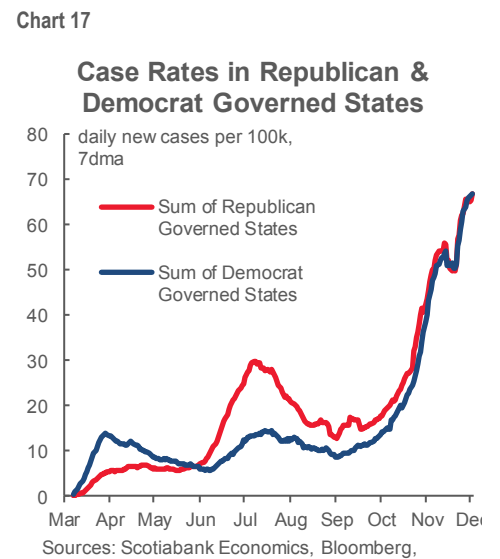
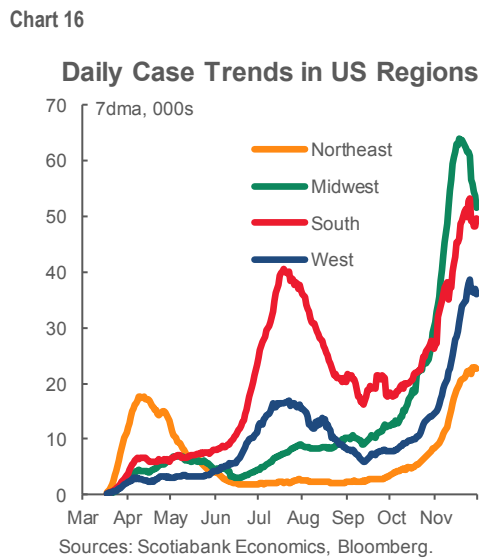
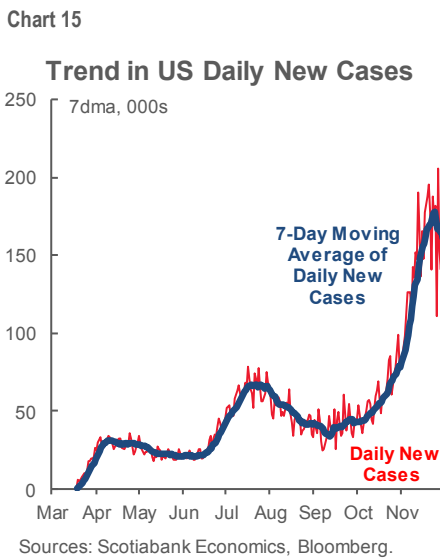
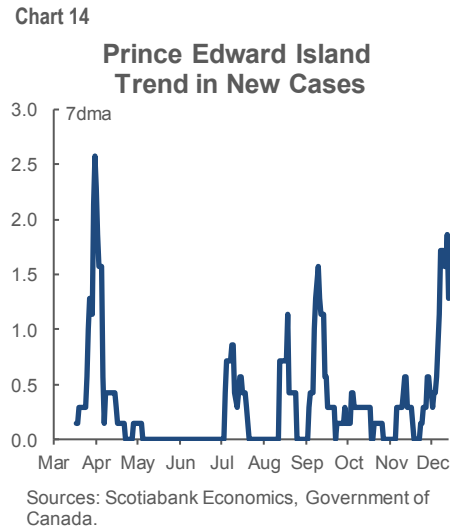
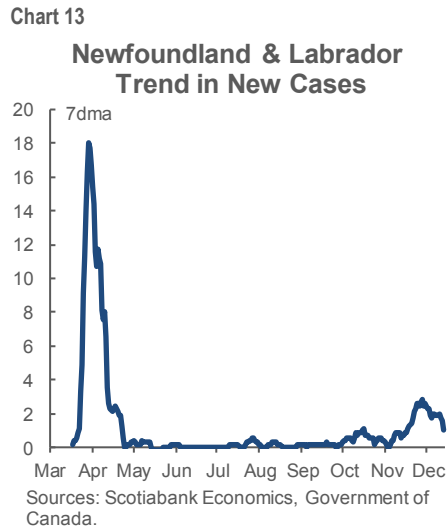
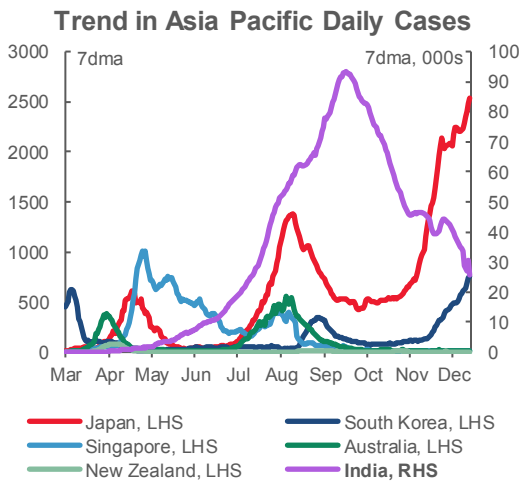
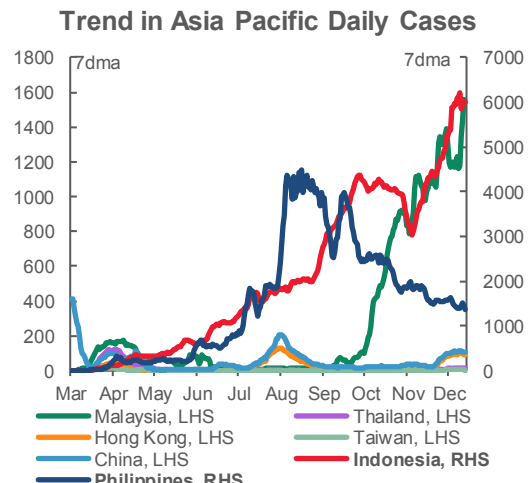


Chart 21



Sources: Scotiabank Economics, Bloomberg.

Chart 22



Sources: Scotiabank Economics, Bloomberg.

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.	0.12	0.12	0.14	0.36	0.37	0.39	0.89	0.90	0.92	1.63	1.63	1.68	Canada - BoC	0.25	
CANADA	0.25	0.25	0.28	0.45	0.44	0.48	0.72	0.71	0.76	1.28	1.26	1.31	US - Fed	0.25	
GERMANY	-0.77	-0.78	-0.76	-0.80	-0.81	-0.78	-0.62	-0.64	-0.58	-0.21	-0.24	-0.16	England - BoE	0.10	
JAPAN	-0.13	-0.13	-0.13	-0.12	-0.12	-0.11	0.01	0.01	0.02	0.63	0.62	0.65	Euro zone - ECB	0.00	
U.K.	-0.09	-0.11	-0.08	-0.06	-0.10	-0.03	0.22	0.17	0.28	0.76	0.71	0.85	Japan - BoJ	-0.10	
Spreads vs. U.S. (bps):															
	Level			Level			% change:			% change:					
	Last	1-day	1-wk	Last	1-day	1-wk	1 Day	1-wk	1-mo	1-yr					
CANADA	14	13	13	9	7	10	-18	-19	-16	-35	-37	-37	Mexico - Banxico	4.25	
GERMANY	-89	-90	-90	-116	-118	-116	-151	-153	-151	-184	-187	-184	Australia - RBA	0.10	
JAPAN	-24	-25	-27	-48	-49	-49	-88	-88	-90	-100	-101	-103	New Zealand - RBNZ	0.25	
U.K.	-20	-23	-22	-42	-46	-42	-67	-73	-64	-87	-92	-83	Next Meeting Date		
Equities	Level						% change:								
	Last	Change		Change		Change		Change		Change					
S&P/TSX	17387	-161.5		-161.5		-0.9		-1.1		4.3		2.3		Canada - BoC	Jan 20, 2021
Dow 30	29862	-184.8		-184.8		-0.6		-0.7		1.3		6.1		US - Fed	Dec 16, 2020
S&P 500	3647	-16.0		-16.0		-0.4		-1.2		1.7		15.1		England - BoE	Dec 17, 2020
Nasdaq	12440	62.2		62.2		0.5		-0.6		5.2		42.4		Euro zone - ECB	Jan 21, 2021
DAX	13223	108.9		108.9		0.8		-0.4		1.1		-0.4		Japan - BoJ	Dec 18, 2020
FTSE	6532	-14.9		-14.9		-0.2		-0.4		3.4		-11.2		Mexico - Banxico	Dec 17, 2020
Nikkei	26732	79.9		79.9		0.3		0.7		5.3		11.3		Australia - RBA	Feb 01, 2021
Hang Seng	26390	-116.3		-116.3		-0.4		-0.4		0.9		-4.7		New Zealand - RBNZ	Feb 23, 2021
CAC	5528	20.3		20.3		0.4		-0.8		2.7		-6.6			
Commodities	Level						% change:								
	Last	Change		Change		Change		Change		Change					
WTI Crude	47.01	0.44		0.44		0.9		2.7		17.1		-21.7			
Natural Gas	2.66	0.07		0.07		2.8		10.7		-11.1		16.0			
Gold	1829.15	-10.70		-10.70		-0.6		-1.8		-3.2		23.9			
Silver	23.82	-0.07		-0.07		-0.3		-1.7		-1.6		42.9			
CRB Index	162.24	0.99		0.99		0.6		2.1		6.8		-11.7			
Currencies	Level						% change:								
	Last	Change		Change		Change		Change		Change					
USDCAD	1.2761	-0.0008		-0.0008		-0.1		-0.3		-2.4		-3.0			
EURUSD	1.2148	0.0036		0.0036		0.3		0.3		2.5		9.0			
USDJPY	104.00	-0.0400		-0.0400		-0.0		-0.0		-0.6		-5.1			
AUDUSD	0.7532	-0.0001		-0.0001		-0.0		1.5		2.9		9.4			
GBPUSD	1.3321	0.0097		0.0097		0.7		-0.4		0.9		-0.1			
USDCHF	0.8869	-0.0033		-0.0033		-0.4		-0.4		-2.8		-9.7			

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