

KEY POINTS:

- **Markets cautiously optimistic as key deadlines near**
- **Brexit talks stuck on fish**
- **US stimulus talks face last minute snafus**
- **Will the BoJ extend stimulus supports overnight?**
- **Other CBs: BanRep, CBCT, Russia**
- **The BoC should keep ignoring small market deviations from its overnight target rate**
- **UK retail sales probably sank on lockdowns...**
- **...while lagging Canadian sales were probably flat**

TODAY'S NORTH AMERICAN SESSION

It will be a pretty light overnight session through tomorrow in terms of calendar-based risk. Brexit and US stimulus talks remain the dominant focus. Brexit still seems hung up on fisheries given the tone of comments by Johnson and van der Leyen following their call a short time ago.

The US needs at least a funding deal tomorrow before midnight or else government agencies start to shut down. In a pandemic. In 2020. With Christmas one week away. It's not impossible that we get at least a short technical shutdown this weekend, especially given the last minute snafus on disaster funding and ending Fed programs. One bone of contention is rising controversy surrounding whether Treasury Secretary Mnuchin really had to withdraw US\$455B in funding for Fed lending programs, or not. He reasoned that CARES Act legislation passed by Congress required that he respect the year-end expiration. Others stepped forward today to challenge this interpretation, suggesting he had the authority to extend funding for the Fed programs. If so, it not only seriously questions Mnuchin's intentions, but has also raised an important dispute in stimulus talks.

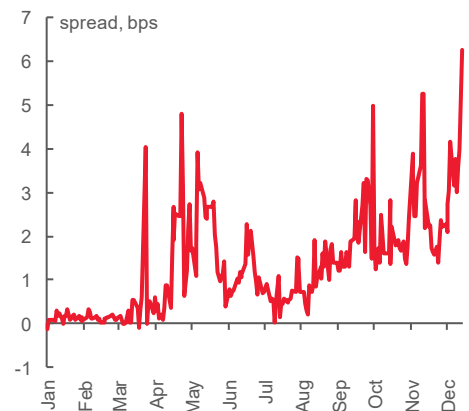
- Stocks ended higher with US and Canadian indices up by ½% to ¾%. London slipped on sterling strength, Paris closed flat and the rest of Europe was up as much as ¾% in Frankfurt.
- The USD slid against all major crosses, but once again, CAD underperformed.
- Sovereign curves bear steepened a bit with the US long-end leading the way as 30s cheapened by 2bps.
- Oil ended up about 1% across WTI and Brent.

As a market aside, see chart 1. It won't win any chart of the year prize, but it shows the spread between the BoC's overnight rate and the BoC's estimated overnight money market financing rate this year. It's worth noting that the BoC has looked through when the market rate has slipped 4–5bps beneath the o/n target on several occasions this year. The more recent episode is only a point or two lower than those prior episodes, and sparked by Governor Macklem's open speculation during his parliamentary testimony on November 26th. Macklem's comments were then followed up by Deputy Governor Beaudry's speech a week

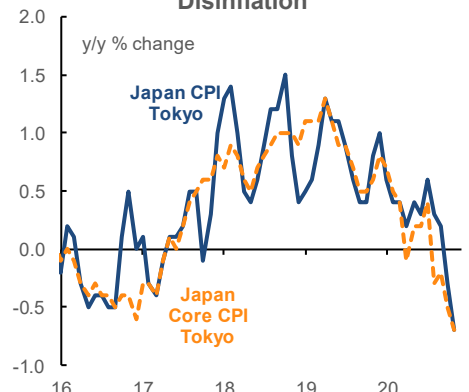
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Chart 1
Spread Between the BoC Overnight Rate and Money Market Financing Rate


Sources: Scotiabank Economics, Bank of Canada.

Chart 2
Japan's Renewed Disinflation


Sources: Scotiabank Economics, Ministry of Internal Affairs and Communications.

ago that stated that marginally redefining the effective lower bound is among the options for adding stimulus, but only if developments became *persistently* worse. Nothing we've heard from the BoC leans toward persistence and in fact goes the other direction in terms of cautious optimism.

I'm therefore still of the view that the risk exceeds the token reward to further fiddling with the effective lower bound. Markets have witnessed the BoC bounce around -0.5% to $+0.25\%$ with its definition of the ELB and by contrast to the RBA that never defined its ELB to be negative even before the pandemic. A token BoC cut could well result in markets pushing them negative whether they'd like it or not and it could risk being somewhat destabilizing at this juncture. Suggestion? Stop talking about negative rates and messing with the ELB until we're well past this pandemic mess. The BoC's communications have arguably been at the root of the small problem in short-term rates trading.

OVERNIGHT MARKETS

The main event overnight will likely be the Bank of Japan's decisions (est. 10pmET) and Governor Kuroda's press conference (est. 1:30amET). One option is to extend corporate bond and CP purchase programs beyond the March 31st expiration and perhaps by six months, while leaving other policy variables unchanged.

Other overnight releases will include:

- Japan CPI inflation will be updated for November (6:30pmET). It could provide cover for the BoJ. Consensus expects further weakening with headline and core inching closer to -1% y/y that would bring inflation to a decade-long low. The fresher Tokyo gauge is already there (chart 2).
- CBCT decision (time TBC). Taiwan's central bank is expected to hold at 1.125%.
- UK retail sales for November (2amET). Consensus expects a 4% m/m drop in sales as COVID-19 lockdowns returned.
- German IFO business confidence will be updated with the December reading at 4amET. There may be upside risk if it follows the modest rise in purchasing managers' indices.
- Russia's central bank is expected to hold at 4.25% (5:30amET).

TOMORROW'S NORTH AMERICAN MARKETS

Most of the attention in tomorrow's markets will remain upon Brexit and US stimulus talks, plus spillover from the Bank of Japan if any.

Canada updates retail sales for October as the final reading on the path to next week's GDP estimate (8:30amET). StatsCan has already guided that sales were "relatively unchanged" based on 50% of survey responses.

Colombia's central bank is expected to hold at 1.75% (1pmET).

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	0.38	0.37	0.39	0.93	0.92	0.91	1.68	1.66	1.63	Canada - BoC	0.25
CANADA	0.25	0.24	0.26	0.46	0.44	0.46	0.74	0.73	0.73	1.30	1.30	1.27	US - Fed	0.25
GERMANY	-0.73	-0.73	-0.77	-0.75	-0.74	-0.79	-0.57	-0.57	-0.60	-0.16	-0.16	-0.19	England - BoE	0.10
JAPAN	-0.12	-0.12	-0.13	-0.11	-0.12	-0.12	0.01	0.01	0.02	0.63	0.63	0.62	Euro zone - ECB	0.00
U.K.	-0.05	-0.08	-0.12	-0.01	-0.03	-0.08	0.29	0.27	0.20	0.85	0.83	0.74	Japan - BoJ	-0.10
	Spreads vs. U.S. (bps):													
CANADA	13	13	12	8	8	7	-19	-19	-17	-38	-36	-36	Mexico - Banxico	4.25
GERMANY	-85	-84	-91	-112	-111	-117	-150	-148	-151	-184	-182	-181	Australia - RBA	0.10
JAPAN	-24	-24	-27	-49	-48	-50	-92	-91	-89	-105	-103	-101	New Zealand - RBNZ	0.25
U.K.	-17	-19	-25	-38	-40	-47	-65	-65	-71	-83	-82	-88		
Equities	Level						% change:						Next Meeting Date	
	Last			Change	1 Day	1-wk	1-mo	1-yr						
S&P/TSX	17653			85.5	0.5	0.3	4.2	3.4					Canada - BoC	Jan 20, 2021
Dow 30	30303			148.8	0.5	1.0	1.7	7.2					US - Fed	Jan 27, 2021
S&P 500	3722			21.3	0.6	1.5	3.1	16.6					England - BoE	Dec 17, 2020
Nasdaq	12765			106.6	0.8	2.9	7.3	44.7					Euro zone - ECB	Jan 21, 2021
DAX	13667			101.3	0.7	2.8	4.1	2.9					Japan - BoJ	Dec 18, 2020
FTSE	6551			-19.8	-0.3	-0.7	2.9	-12.9					Mexico - Banxico	Dec 17, 2020
Nikkei	26807			49.3	0.2	0.2	4.2	12.0					Australia - RBA	Feb 01, 2021
Hang Seng	26678			218.1	0.8	1.0	0.5	-4.3					New Zealand - RBNZ	Feb 23, 2021
CAC	5549			1.8	0.0	-0.0	1.2	-7.0						
Commodities	Level						% change:							
	Last			Change	1 Day	1-wk	1-mo	1-yr						
WTI Crude	48.37			0.55	1.2	3.4	16.8	-20.6					England - BoE	Dec 17, 2020
Natural Gas	2.66			-0.02	-0.6	4.2	-1.2	14.7					Euro zone - ECB	Jan 21, 2021
Gold	1885.55			0.13	0.0	2.5	0.7	27.8					Japan - BoJ	Dec 18, 2020
Silver	25.13			0.92	3.8	4.3	3.6	47.6					Mexico - Banxico	Dec 17, 2020
CRB Index	165.49			1.63	1.0	2.5	7.1	-10.7					Australia - RBA	Feb 01, 2021
Currencies	Level						% change:							
	Last			Change	1 Day	1-wk	1-mo	1-yr						
USDCAD	1.2722			0.0002	0.0	-0.4	-2.7	-3.0					New Zealand - RBNZ	Feb 23, 2021
EURUSD	1.2268			0.0000	0.0	1.3	3.5	10.4						
USDJPY	103.12			0.0100	0.0	-0.9	-0.7	-5.9						
AUDUSD	0.7626			0.0004	0.1	1.2	4.4	11.3						
GBPUSD	1.3586			0.0001	0.0	2.7	2.4	3.9						
USDCHF	0.8847			0.0000	0.0	-0.6	-2.9	-9.8						

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