

Contributors

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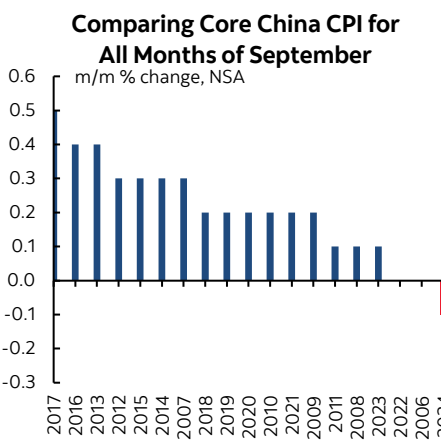
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Chart 1



Sources: Scotiabank Economics, National Bureau of Statistics of China.

Chart 2



Sources: Scotiabank Economics, China National Bureau of Statistics.

On Deck for Friday, October 18

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	10/18	08:30	Building Permits (000s a.r.)	Sep	--	1460.0	1470.0
US	10/18	08:30	Housing Starts (000s a.r.)	Sep	1460	1350.0	1356.0
US	10/18	08:30	Housing Starts (m/m)	Sep	-0.7	-0.4	9.6
US	10/18	09:30	Fed's Bostic Presents to High School Students				
US	10/18	10:00	Fed's Kashkari Moderates Panel Event				
US	10/18	12:10	Fed's Waller Speaks on Decentralized Finance				
US	10/18	12:30	Fed's Bostic Participates in Moderated Conversation				

KEY POINTS:

- **Manipulated Chinese stocks post gains...**
- **...despite slowing economy, further headwinds ahead...**
- **...as convincing homebuyers to catch a falling knife is an uphill battle**
- **Gilts underperform as UK retail sales beat estimates again**
- **Lagging Japanese CPI, BoJ guidance shaken off**
- **Light N.A. session on tap...**
- **...including just US housing starts, Fed-speak**

A fair amount of data out of China, the UK and Japan was released overnight, but it's having little to no effect across global asset classes. The UK data is prompting underperformance by gilts that are flat relative to rallying EGBs following yesterday's ECB communications. Lagging national Japanese CPI and anonymous BoJ guidance were shaken off by markets that still expect nothing from the central bank on Halloween. China data is covered below; don't rely on market signals about what the data says in a heavily manipulated stock market.

CHINA'S SLOWING ECONOMY FACES FURTHER HEADWINDS

China's economy has been sharply slowing over the past couple of quarters even though it might hit the government's 5% growth target for the year. I don't trust China-based analysts who fist-pumped the government's efforts as they are operating within a system that jails you for speaking candidly ([here](#)). I equally don't trust the stock market that gained about 3%+ overnight; state subsidized and directed buying needs fundamentals. Growth has markedly slowed. Efforts to arrest the disconcerting downward trend are driven by artificial supports in the face of the biggest ever challenge to China's exports as multiple regions impose punitive measures and the US election threatens to do more regardless of who wins but especially if Trump does. Those punitive foreign measures would intensify should China raise geopolitical risk around Taiwan.

Here's the run down of the figures:

- GDP was up by 3.6% q/q SAAR in Q3 following a lift of just 2% in Q2. The three quarters prior to those readings were in the 5–6% range. Chart 1.
- Growth beneath potential growth in the Chinese economy is creating disinflationary pressures. The earlier release of core CPI for the month of September recorded the biggest drop for like months of September in seasonally unadjusted fashion (as reported) on record since 2007 into the GFC (chart 2). August was the same result.
- Monthly figures suggest that the economy ended on a stronger note but take that with a grain of salt for two reasons. For one, government subsidies to buy appliances and cars drove retail sales to be up by 0.4% m/m SA in September for the strongest gain since May (chart 3); China needs growth driven by fundamentals, not fiscal supports, and it needs more than one month. China's industrial output was also

stronger at 0.6% m/m SA for its strongest gain since April (chart 4). Secondly, both sets of figures are volatile and for all we know they could crash back down again next month.

- More disconcerting is that the pace of decline in China's house prices is accelerating. New home prices were down by 6.1% y/y in September which is the biggest decline since 2015 when China was seeking to combat financial instability including currency outflows (chart 5). Seasonally unadjusted new home prices fell by 0.7% m/m NSA which is a considerably bigger decline than is seasonally normal; this measure has been falling at a similar rate for five months now. Existing home prices also fell by 0.9% m/m NSA and are down by 9% y/y which is the biggest drop on record dating back to at least the GFC. Efforts to stimulate housing range from improbable success as rates and credit terms ease in a catch-the-falling-knife scenario for home prices, to state-directed buying of unsold homes by local governments.
- China's year-to-date home sales were reported to have been down by 24% over the same nine-month period last year.
- Investment was a relatively bright spot. September's fixed assets investment grew by 0.65% m/m SA for the strongest gain since February. Still, on a ytd basis, this measure is up by just 3.4%.

GILTS UNDERPERFORM ON RETAIL SALES BEAT

UK consumers are outperforming the forecasters. Retail sales volumes were up by 0.3% m/m SA in September (-0.4% consensus). That surprised forecasters who thought that the prior month's 1% gain was going to be subject to some mean-reversion. Excluding gasoline sales volumes, sales were up 0.3% (consensus -0.3%). Sales have been posting solid gains for the past three months (chart 6).

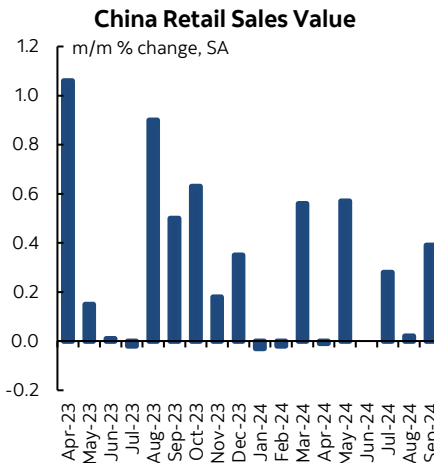
JAPANESE CPI AND BOJ GUIDANCE SHAKEN OFF

Japanese core inflation largely just confirmed the prior release of the Tokyo CPI gauge by posting a gain of 2.3% m/m SAAR. This follows the 5.8% rise in August (chart 7). Bloomberg reported that 'people familiar with the matter' say that the BoJ is not a rush to hike again at its next meeting on October 31st. That's a bit of a straw man, as markets were already pricing no move. Markets have most of a 10bps move priced for the December 19th meeting and retained as much post data.

A LIGHT N.A. SESSION

On tap into the North American session is light data and Fed-speak. US housing starts in September are expected to give back some of the prior month's 9.6% m/m SA gain (8:30amET). The Fed's Bostic (9:30amET and 12:30pmET), Kashkari (10amET), and Waller (12:10pmET) are on tap.

Chart 3



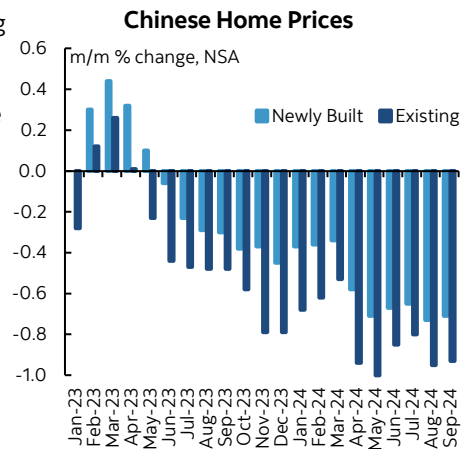
Sources: Scotiabank Economics, National Bureau of Statistics of China.

Chart 4



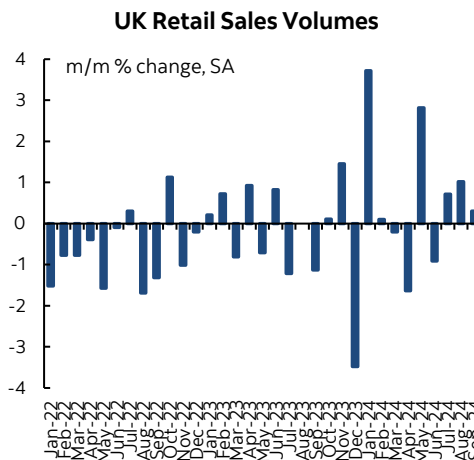
Sources: Scotiabank Economics, National Bureau of Statistics of China.

Chart 5



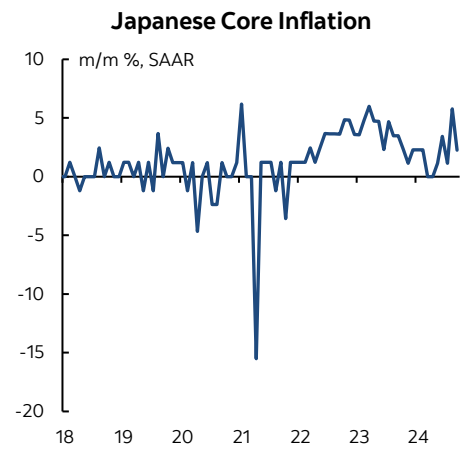
Sources: Scotiabank Economics, Bloomberg Intelligence.

Chart 6



Sources: Scotiabank Economics, UK ONS.

Chart 7



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

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.	3.98	3.97	3.96	3.91	3.90	3.90	4.11	4.09	4.10	4.41	4.39	4.41	Canada - BoC	4.25
CANADA	3.00	3.01	3.07	2.94	2.93	2.98	3.17	3.16	3.22	3.33	3.31	3.35	US - Fed	5.00
GERMANY	2.11	2.15	2.24	2.03	2.05	2.12	2.20	2.21	2.27	2.52	2.52	2.56	England - BoE	5.00
JAPAN	0.44	0.44	0.42	0.59	0.59	0.58	0.98	0.97	0.95	2.15	2.14	2.17		
U.K.	4.03	4.03	4.17	3.95	3.95	4.07	4.10	4.09	4.21	4.63	4.62	4.75		
	Spreads vs. U.S. (bps):													
CANADA	-97	-96	-88	-98	-97	-92	-94	-93	-88	-108	-108	-106	Euro zone - ECB	3.40
GERMANY	-187	-183	-172	-188	-185	-178	-191	-188	-184	-189	-187	-185	Japan - BoJ	-0.10
JAPAN	-354	-354	-354	-332	-331	-332	-313	-312	-315	-226	-225	-224		
U.K.	6	6	21	4	5	17	-1	-0	11	22	23	34	Mexico - Banxico	10.50
Equities	Level						% change:							
	Last		Change		1 Day		1-wk		1-mo		1-yr			
S&P/TSX	24690		129.3		0.5		1.9		4.7		26.9		Australia - RBA	4.35
Dow 30	43239		161.4		0.4		1.8		4.2		28.4		New Zealand - RBNZ	4.75
S&P 500	5841		-1.0		-0.0		1.1		4.0		35.4			
Nasdaq	18374		6.5		0.0		0.5		4.6		38.0			
DAX	19641		57.7		0.3		1.4		5.0		30.1			
FTSE	8364		-21.5		-0.3		1.3		1.3		10.2			
Nikkei	38982		70.6		0.2		-1.0		3.3		24.7		Canada - BoC	Oct 23, 2024
Hang Seng	20804		725.0		3.6		-2.1		13.9		21.2		US - Fed	Nov 07, 2024
CAC	7628		44.7		0.6		0.7		2.5		9.5			
Commodities	Level						% change:							
WTI Crude	70.43		-0.24		-0.3		-6.8		-0.7		-20.3		England - BoE	Nov 07, 2024
Natural Gas	2.35		0.00		0.0		-10.8		2.8		-23.2		Euro zone - ECB	Dec 12, 2024
Gold	2710.78		18.07		0.7		2.0		21.6		39.2		Japan - BoJ	June 14, 2024
Silver	31.81		0.02		0.0		3.7		3.7		40.3			
CRB Index	281.71		-0.06		-0.0		-1.5		0.7		-1.4			
Currencies	Level						% change:							
USDCAD	1.3792		-0.0003		-0.0		0.2		1.4		0.6		Mexico - Banxico	Nov 14, 2024
EURUSD	1.0848		0.0017		0.2		-0.8		-2.4		3.0			
USDJPY	150.00		-0.2100		-0.1		0.6		5.4		0.0		Australia - RBA	Nov 04, 2024
AUDUSD	0.6713		0.0017		0.3		-0.5		-0.8		6.0			
GBPUSD	1.3046		0.0035		0.3		-0.2		-1.3		7.5		New Zealand - RBNZ	Nov 26, 2024

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