

ON DECK FOR FRIDAY, FEBRUARY 7

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	02/07	08:30	Employment (000s m/m)	Jan	10	17.5	27.3
CA	02/07	08:30	Unemployment Rate (%)	Jan	5.7	5.7	5.6
US	02/07	08:30	Average Hourly Earnings (m/m)	Jan	0.3	0.3	0.1
US	02/07	08:30	Average Hourly Earnings (y/y)	Jan	3.1	3.0	2.9
US	02/07	08:30	Average Weekly Hours	Jan	--	34.3	34.3
US	02/07	08:30	Nonfarm Employment Report (000s m/m)	Jan	220	162.0	145.0
US	02/07	08:30	Unemployment Rate (%)	Jan	3.5	3.5	3.5
US	02/07	15:00	Consumer Credit (US\$ bn m/m)	Dec	--	15.0	12.5

KEY POINTS:

- Risk-off sentiment sweeps markets ahead of nonfarm...
- ...and due to poor global data, coronavirus concerns...
- ...and probably position covering after this week
- US nonfarm: upside risk to payrolls and wages?
- What to watch in this morning's Canadian jobs report
- German industrial output shrinks by fastest since 2009
- German exports flat, imports contract
- French industrial output shrinks
- China waves the white flag on data collection
- Japanese household spending still reeling after sales tax hike
- Banxico still expected to cut next week despite higher inflation

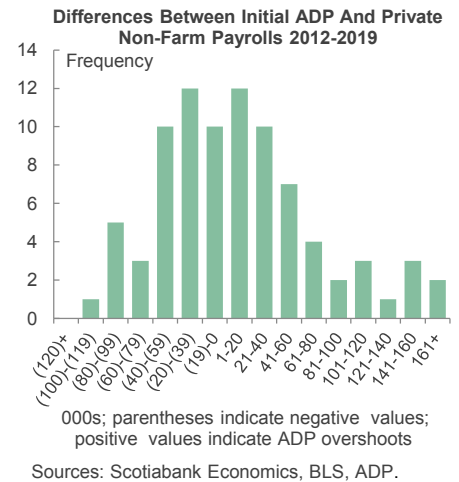
INTERNATIONAL

Global asset classes are in moderate risk-off mode ahead of the key US nonfarm payrolls report. Weak global macroeconomic data out of Europe and Japan isn't helping. Nor is China's postponement of export figures until the next round when they will be combined with February's because of understandably serious data collection issues. Russia's central bank cut. Banxico is expected to cut next week despite a rise in Mexican inflation. Canada updates another jobs report that may influence the Bank of Canada's risk assessments.

- US equity futures are down by between ¼% and ½% across the indices. TSX futures are down ¼%. European cash markets are cheaper by between ¼% and ¾% with London leading decliners presumably because Saint Donald lost it on someone again and this time PM Johnson was the target. Asian equities were mixed as mainland China rallied by up to ½% but Tokyo fell by almost ¼%, Seoul was down ¾% and HK fell by just over ¼%.
- Sovereign bonds are feeling a bit of the love a week early and after a miserable week. US Treasury yields are down by 2–3bps across maturities. Canada's curve is performing similarly. Gilts are relatively little changed. Ten year EGBs are very slightly richer on average. The 10 year JGB yield fell 2bps to -5bps.

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Average Hourly Wage Growth By Sector



- Oil prices are down by 30–40 cents. Gold is flat at US\$1566.
- The USD is broadly stronger. Again. And Again. Only the yen is slightly outperforming the dollar. The A\$ is the worst performing major currency pair to the USD and only partly after comments from RBA Governor Lowe but with general risk-off the bigger driver. Lowe indicated that following rate cuts thus far, the risks to easing further outweigh the benefits, but “that could turn, particularly if the unemployment rate deteriorates” while flagging coronavirus concerns.

Germany’s economy is getting trounced. It wasn’t bad enough for factory orders to drop by 2.1% m/m and by the largest margin since February when that report came out yesterday. Overnight releases added to the misery. **Industrial production fell by 3.5% m/m for the largest single-month decline since January 2009.** Output of capital goods fell 3.5% m/m, consumer goods 2.0% m/m, construction sector output sank by 8.7% m/m and intermediate goods fell by 2.6%.

Also note that German imports fell by 0.7% m/m (consensus +0.3%) for the second consecutive decline as less of a pull effect from the domestic economy was exerted. **Exports were little changed** (+0.1% m/m) after the prior month’s large 2.2% decline and so there really wasn’t any hoped-for rebound.

It wasn’t just Germany either. **France registered a whopping 2.8% m/m drop in industrial output in December** (consensus -0.3%) and the prior month was revised from a 0.3% gain to 0%. That’s the worst decline since January last year. As previously argued, the Eurozone PMIs do not point to a material improvement in Eurozone GDP growth and may in fact overstate near-term growth as the region ended 2019 miserably and entered 2020 on weak foundations.

Japanese household spending fell 4.8% y/y (consensus -1.7%). It has been weak around such levels for a few months now and ever since the sales tax was bumped up by 2% to 10% on October 1st. This should be a transitory factor as spending was brought forward to before the tax hike and as the year progresses a new equilibrium will be achieved. Regardless, consensus was a bit hasty in anticipating improved data just yet.

Mexican inflation increased in line with expectations in January. CPI inflation rose from 2.8% y/y in December to 3.2% (consensus 3.3%). Core CPI inflation also ticked higher to 3.7% y/y from 3.6%. Banxico targets inflation between 2–4% and so inflation is approaching the upper limit. Growth is...well...there isn’t any. The economy has not posted any GDP growth over the past five quarters. **Consensus is nearly unanimous that Banxico will cut 25bps next Thursday and thus work the range on CPI in favour of growth risks.**

Russia’s central bank cut its key rate by 25bps as expected this morning. Consensus had been a little divided with 22 forecasters anticipating a cut (including Scotia) and 12 a hold. The accompanying statement ([here](#)) made it clear that further cuts may be ahead. The key is the third last paragraph:

“If the situation develops in line with the baseline forecast, the Bank of Russia holds open the prospect of further key rate reduction at its upcoming meetings. In its key rate decision-making, the Bank of Russia will take into account actual and expected inflation dynamics relative to the target and economic developments over the forecast horizon, as well as risks posed by domestic and external conditions and the reaction of financial markets.”

UNITED STATES

US (and global) markets will focus upon nonfarm payrolls, wages, and supporting details (8:30amET).

For nonfarm payrolls, **our house call is 220k.** I changed it from 180k after ADP private payrolls. It would be pretty unusual for nonfarm to land at just the consensus 165k and or for private payrolls to land at 155k by the consensus estimate after ADP’s 291k as previously written. Using the updated but still low consensus, ADP has beaten nonfarm/private by that much of a margin only about 7% of the time since Oct 2012 when ADP revised its methodology. Even to land below 200k today stands only about a 12–13% chance. See chart 1 that shows the frequency of differences between ADP minus private nonfarm payrolls since ADP revised its methodology in 2012.

The other feature is that **wage growth should rebound** somewhat on a combination of base effects, seasonals and judgement. Almost everyone expects an acceleration to 3.0% y/y or 3.1% with most at 3.0%. In other words, there is upside to nonfarm and upside to wage growth that would be a fitting cap to the week that started with ISM-manufacturing's positive beat.

CANADA

The first edition of Canada's Labour Force Survey for 2020 arrives at 8:30amET. Here is what to watch for and also see last Friday's Global Week Ahead for more including charts ([here](#)).

Consensus expects +17.5k after the prior 27.3k rise (revised down from the initial 35k estimate).

My guesstimate is 10k. There is so much noise around this report that—barring technical factors—one rarely has much confidence in the estimate. The 95% confidence interval is +/- 54k on any one month's job change. The US household survey is also very wide as household surveys are much noisier than payroll readings, yet in Canada, timeliness is one reason the BoC watches LFS closely.

One shouldn't expect any coronavirus hiring confidence effect. The reference period is the calendar week including the 15th of the month (so Jan 12th–18th in this case). Concerns were lighter then and especially given lags in hiring decisions.

Watch industry breadth given how poor it was behind the prior month's 27k rise. Only two sectors drove the 35k rise in December (construction possibly due to weather effects and the accommodation and food services sector.). Take them out and jobs fell 7k so the details were weak.

Also watch for signs of regional breadth or lack thereof. Regional breadth was also weak in December as Quebec's restaurant sector distorted the prior job gain that masked softness elsewhere.

Keep an eye on hours worked. They haven't grown a smidge over 2019H2 and they were flat in December which is a negative for GDP growth that month and quarter. This will be our first major clue for January GDP expectations given that GDP is hours worked times labour productivity.

Also watch wages. This is not the BoC's preferred wage measure (though it used to be...) but it is highly correlated with their preferred 'wage common' measure. There is some evidence that the year-over-year wage growth rate is peaking. I think there are very good odds that wage growth drops back down to below 2% around mid-year from 3.8% y/y in December. Wage growth has been looking topish over H2 but at relatively elevated rates.

As an aside, on average across Canada utilities are scoring the biggest wage hikes (December +11.3% y/y). The education sector the worst (+0.9% y/y). See chart 2.

Wage growth in the public sector is going to get smoked going forward. One million public sector workers in Ontario will now be capped at wage gains of 1% per year in 2020, 2021 and 2022. This bill passed in November. In real terms, public sector workers in Ontario will experience wage erosion as wage gains fail to keep up to the cost of living.

Lastly, is the labour force participation rate still falling? It peaked at 65.9% in April and dropped back to 65.5% by December.

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.	1.42	1.45	1.32	1.44	1.46	1.31	1.61	1.64	1.51	2.08	2.11	2.00	Canada - BoC	1.75
CANADA	1.47	1.49	1.43	1.34	1.37	1.27	1.33	1.37	1.27	1.45	1.48	1.43	US - Fed	1.75
GERMANY	-0.64	-0.63	-0.67	-0.60	-0.59	-0.64	-0.38	-0.37	-0.43	0.14	0.16	0.07	England - BoE	0.75
JAPAN	-0.15	-0.13	-0.14	-0.14	-0.12	-0.17	-0.04	-0.02	-0.07	0.40	0.42	0.38		
U.K.	0.48	0.49	0.50	0.42	0.43	0.41	0.58	0.58	0.52	1.09	1.09	1.04		
	Spreads vs. U.S. (bps):													
CANADA	5	4	11	-9	-9	-4	-28	-28	-24	-62	-63	-57	Euro zone - ECB	0.00
GERMANY	-206	-208	-199	-203	-205	-196	-200	-201	-194	-194	-195	-193	Japan - BoJ	-0.10
JAPAN	-157	-157	-146	-157	-159	-148	-165	-166	-157	-168	-169	-163		
U.K.	-94	-96	-81	-102	-104	-90	-104	-106	-98	-98	-102	-97	Mexico - Banxico	7.25
Equities	Level						% change:							
	Last		Change		1 Day		1-wk		1-mo		1-yr			
S&P/TSX	17757		105.9		0.6		1.5		3.4		13.1		Australia - RBA	
Dow 30	29380		88.9		0.3		1.8		2.8		16.7		New Zealand - RBNZ	
S&P 500	3346		11.1		0.3		1.9		3.4		23.6			
Nasdaq	9572		63.5		0.7		2.9		5.6		31.3			
DAX	13501		-73.8		-0.5		4.0		2.1		22.5			
FTSE	7459		-45.9		-0.6		2.4		-1.5		5.1			
Nikkei	23828		-45.6		-0.2		2.7		1.1		14.8		Canada - BoC	
Hang Seng	27404		-89.4		-0.3		4.1		-3.2		-2.1		US - Fed	
CAC	6019		-18.8		-0.3		3.7		0.1		20.7		England - BoE	
Commodities	Level						% change:							
WTI Crude	50.55		-0.40		-0.8		-2.0		-19.4		-4.0		Mar 04, 2020	
Natural Gas	1.85		-0.02		-0.8		0.3		-14.6		-27.6		Mar 18, 2020	
Gold	1566.13		-0.52		-0.0		-1.4		-0.5		19.5		Mar 26, 2020	
Silver	17.77		0.15		0.8		0.2		-3.7		12.9		Mar 12, 2020	
CRB Index	170.48		0.93		0.6		-0.4		-8.8		-4.3		Japan - BoJ	
Currencies	Level						% change:							
USDCAD	1.3316		0.0032		0.2		0.6		2.4		0.1		Mexico - Banxico	
EURUSD	1.0957		-0.0026		-0.2		-1.2		-1.8		-3.4		Feb 13, 2020	
USDJPY	109.84		-0.1500		-0.1		1.4		1.3		0.0		Australia - RBA	
AUDUSD	0.6685		-0.0045		-0.7		-0.1		-2.7		-5.9		Mar 02, 2020	
GBPUSD	1.2934		0.0003		0.0		-2.1		-1.5		-0.1		New Zealand - RBNZ	
USDCHF	0.9764		0.0016		0.2		1.3		0.6		-2.6		Feb 11, 2020	

Source: Bloomberg. All quotes reflect Bloomberg data as at the time of publishing. While this source is believed to be reliable, Scotiabank cannot guarantee its accuracy.

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