

**ON DECK FOR MONDAY, JULY 27**

Country	Date	Time	Event	Period	BNS	Consensus	Latest
US	07/27	08:30	Durable Goods Orders (m/m)	Jun P	10.0	7.0	7.3
US	07/27	08:30	Durable Goods Orders ex. Trans. (m/m)	Jun P	5.0	3.5	3.3
US	07/27	08:30	Capital Goods Orders Nondefense Ex. Aircraft (m/m)	Jun P	--	2.2	3.3
US	07/27	10:30	Dallas Fed. Manufacturing Activity	Jul	--	-5.0	-6.1

**KEY POINTS:**

- **Markets mixed to start the week**
- **US fiscal stimulus talks inching forward**
- **German business confidence has fully recovered**
- **US durables on a temporary upswing**
- **Gold, the USD and real rates**
- **Global Week Ahead ([here](#))**

**INTERNATIONAL**

Global asset classes are sending somewhat mixed signals to start the week. The eco-calendar is fairly light to start the week with nothing materially informing risk appetite. German business confidence has recovered while a rebound in US cap-ex orders is probably temporary. US stimulus talks are progressing with the outlines of the GOP's opening bid expected later today, albeit lacking broad support within the GOP, let alone among Democrats in the House.

- The USD is broadly lower again this morning with all major and semi-major crosses gaining except for the Swiss franc that is flat. CAD is also underperforming most other crosses.
- Gold is up again by about US\$35/oz (see below for more about drivers). Oil is down by 1½% across WTI and Brent.
- Sovereign bond curves are mildly flattening in 2s10s in core Europe. US and Canadian 10s are little changed. 10s in the UK, Germany and France are down 3–4bps which is driving spread widening in unchanged Italian and peripheral 10s.
- Equities are mixed. The Nasdaq is up by 1¼% to lead the way with gains in the S&P500, DJIA and TSX around ½% to ¾%. European cash markets are slightly negative on balance.

**German business confidence increased in the July IFO reading.** The overall climate gauge increased by over four points to 90.5. The current assessment increased by over three points to 84.5 and the expectations measure increased by over five points to 97. The forward-looking expectations component has now rebounded to the strongest since November 2018 (chart 1).

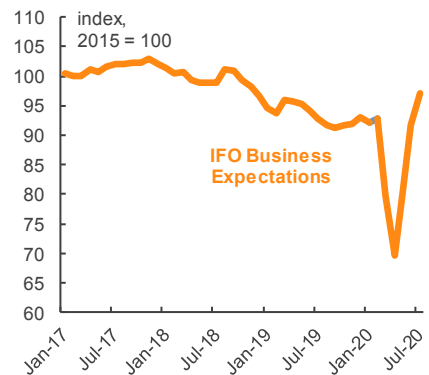
**UNITED STATES**

US markets will principally focus upon ongoing fiscal negotiations amidst evidence said stimulus talks remain in disarray. The GOP is expected to outline about a US\$1 trillion stimulus bill today with support questionable even within

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Chart 1

**German Business Sentiment has Fully Recovered**


Sources: Scotiabank Economics, IFO Institute

Chart 2

**US Non-Defence Capital Goods Ex. Aircraft**


Sources: Scotiabank Economics, US Census Bureau.

the party that is lined up between offering no further stimulus to the lower end of the range being tossed around in Washington. The jobless benefit enhancement of US\$600/week has expired with the Dems saying they won't approve a temporary extension in a single bill while wanting a much larger package than the divided GOP advocates. Timeline targets vary according to who is speaking and range from this week being the feasible target to after the August recess. Encouraging? Not really. The way Washington works? Yep. To get in front of things in unified fashion rather reacting in rancorous fashion is just the way things are in a divided political system.

**US durables goods orders, m/m % change headline/ex-transportation, SA, June:**

Actual: 7.3 / 3.3

Scotia: 10 / 5

Consensus: 6.9 / 3.6

Prior: 15.1 / 3.6 (revised from 15.7 / 3.7 )

**US durable goods orders were roughly in line with guesstimates.** Headline, ex-transportation and core orders ex-defence and air all posted gains (charts 2–4). The latter's 3.3% rise is the second consecutive pick-up after declines of 6.6% and 1.3% in March and April. This is probably a pent-up demand argument that is more likely to flatten earlier than consumption growth given the sheer amount of spare capacity that has opened in the US economy. With that, there should be little demand for investment in expanded capacity.

For now, however, there was considerable breadth to the gain. Orders for vehicles and parts were up by about 86% m/m after a prior 29% gain which reverses the 54% drop in April and the 20% decline the month before that. This is consistent with the recovery in auto sales. Electrical equipment orders were up by 1.2%, computers/electronics were flat (+0.1%), machinery orders gained 2.7% and each of the primary (+3.6%) and fabricated (+4.5%) metals categories grew.

**As an add-on, what's driving gold?** As argued in the Global Week Ahead [here](#), I think it's mostly a USD play. The USD is down again this morning and the USD price of gold is up (chart 5).

On the role of real rates, I've seen charts that overstate the relationship that is sensitive to how we define real rates and the performance of the underlying inflation gauges.

Chart 6: shows gold along with the real rate defined as the nominal 10 year Treasury yield minus the current year-over-year CPI inflation rate. This relationship has broken down of late and doesn't seem to work as an explanation for gold's recent run-up.

Chart 7 takes that in a more forward looking sense by using a real rate that subtracts the one-year ahead rolling consensus CPI forecast. This one was working better than the backward looking CPI inflation measure, but has also weakened of late.

Charts 8 and 9 are the ones you may have seen in the financial press and from gold doomsayers who appear to have captured elements of the financial press. It shows a better connection between gold and the real rate using the measure of inflation expectations derived from the 10 year TIPS breakeven rate derived from real return TIPS, or the Fed's preferred 5y5y expectations measure. The usual big caveat with this approach to the real rate is that the inflation market a notoriously weak predictor of actual inflation that is often distorted by varying liquidity premia and central bank interventions. Nevertheless, what the ten year TIPS breakeven and the Fed measure suggest is that inflation will average 1.5%; that is neither runaway inflation as gold bugs suggest to be a gold driver, nor a runaway collapse of the economy and financial system as gold bugs also seem to curiously suggest despite the massive internal inconsistencies. Even stagflation—which has been rolled out incorrectly on countless occasions—can't have a collapsing economy and financial system.

There is another tempting explanation: gold bugs are building castles in the air.

Chart 3



Sources: Scotiabank Economics, US Census Bureau.

Chart 4



Sources: Scotiabank Economics, US Census Bureau.

Chart 5



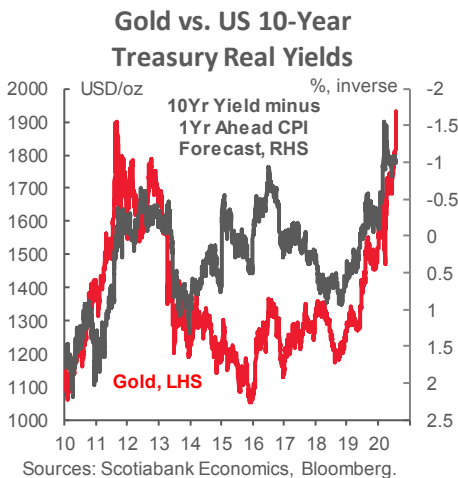
Sources: Scotiabank Economics, Bloomberg.

Chart 6



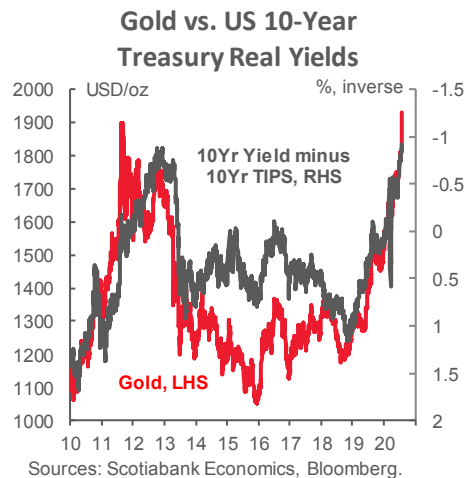
Sources: Scotiabank Economics, Bloomberg.

Chart 7



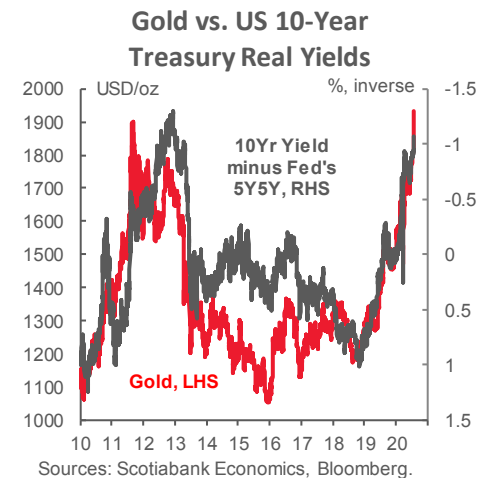
Sources: Scotiabank Economics, Bloomberg.

Chart 8



Sources: Scotiabank Economics, Bloomberg.

Chart 9



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.	0.15	0.15	0.15	0.27	0.28	0.28	0.59	0.59	0.61	1.23	1.23	1.31	Canada - BoC	0.25
CANADA	0.28	0.27	0.27	0.34	0.34	0.35	0.50	0.50	0.51	0.98	0.97	0.98	US - Fed	0.25
GERMANY	-0.67	-0.65	-0.67	-0.68	-0.64	-0.66	-0.49	-0.45	-0.46	-0.07	-0.03	-0.02	England - BoE	0.10
JAPAN	-0.11	-0.13	-0.13	-0.10	-0.11	-0.09	0.02	0.02	0.03	0.58	0.58	0.60	Euro zone - ECB	0.00
U.K.	-0.10	-0.09	-0.10	-0.12	-0.10	-0.08	0.12	0.14	0.15	0.63	0.66	0.67	Japan - BoJ	-0.10
Spreads vs. U.S. (bps):														
CANADA	13	12	12	7	7	7	-8	-9	-10	-26	-26	-33	Mexico - Banxico	5.00
GERMANY	-81	-80	-82	-95	-91	-94	-107	-104	-107	-130	-126	-134	Australia - RBA	0.25
JAPAN	-26	-28	-27	-37	-38	-37	-56	-57	-58	-65	-65	-71	New Zealand - RBNZ	0.25
U.K.	-24	-24	-25	-39	-38	-36	-47	-45	-46	-60	-57	-64	Next Meeting Date	
Equities	Level						% change:							
	Last			Change			1 Day	1-wk	1-mo	1-yr				
S&P/TSX	16112			114.8			0.7	-0.4	6.1	-2.5				
Dow 30	26581			111.5			0.4	-0.4	6.3	-2.2				
S&P 500	3234			18.0			0.6	-0.6	7.5	6.9				
Nasdaq	10469			106.0			1.0	-2.8	7.3	25.7				
DAX	12850			11.9			0.1	-1.5	6.3	3.5				
FTSE	6108			-16.3			-0.3	-2.5	-0.8	-19.1				
Nikkei	22716			-35.8			-0.2	-0.2	0.7	5.1				
Hang Seng	24603			-102.1			-0.4	-1.8	0.2	-13.4				
CAC	4937			-19.7			-0.4	-3.1	0.6	-12.0				
Commodities	Level						% change:							
WTI Crude	40.56			-0.73			-1.8	-0.6	5.4	-27.8				
Natural Gas	1.78			-0.03			-1.5	8.5	19.1	-17.9				
Gold	1937.00			34.98			1.8	6.6	9.4	36.5				
Silver	22.48			-0.39			-1.7	17.3	25.9	35.9				
CRB Index	143.32			0.28			0.2	1.9	6.6	-19.1				
Currencies	Level						% change:							
USDCAD	1.3398			-0.0017			-0.1	-1.0	-1.9	1.8				
EURUSD	1.1755			0.0099			0.8	2.7	4.6	5.5				
USDJPY	105.21			-0.9300			-0.9	-1.9	-2.2	-3.3				
AUDUSD	0.7142			0.0037			0.5	1.8	4.0	3.5				
GBPUSD	1.2869			0.0075			0.6	1.6	4.6	5.3				
USDCHF	0.9202			-0.0004			-0.0	-2.0	-3.3	-7.2				

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