

ON DECK FOR THURSDAY, OCTOBER 8

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	10/08	08:15	Housing Starts (000s a.r.)	Sep	240	240.0	209.0
US	10/08	08:30	Initial Jobless Claims (000s)	Oct 3	810	820	840
US	10/08	08:30	Continuing Claims (000s)	Sep 26	--	11400	10976
US	10/08	09:15	Fed's George to Speak on Economic & Policy Outlook				
US	10/08	12:10	Fed's Rosengren to Speak on Economic Recovery				
US	10/08	14:00	Fed's Bostic Takes Part in Panel Discussion				
CA	10/08	08:30	BoC's Macklem Speaks to Global Risk Institute				

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KEY POINTS:

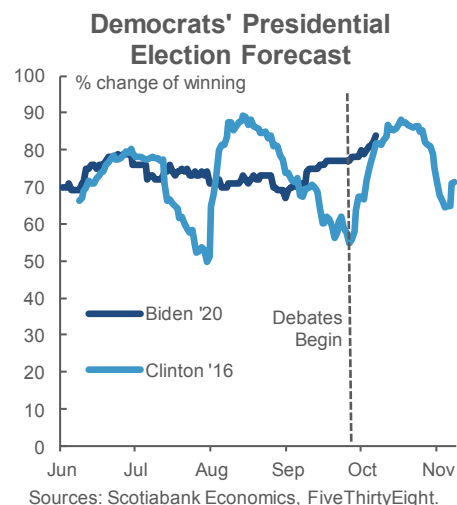
- **Stocks lose some ground as Pelosi rejects partial stimulus...**
- **...and continues to seek a 'crush it' larger bill**
- **Fed expectations may be setting a floor for equities while boosting bonds**
- **BoC's Macklem puts negative rates back on the table**
- **Don't count out Trump...**
- **...as Biden's chances are tracking identically to Clinton's in 2016**
- **German exports beat expectations**
- **Trump threatens more China tariffs if he wins**
- **Canadian housing starts fall from a 13 year high**

INTERNATIONAL

Markets were rather volatile throughout the North American market morning as contradictory headlines surrounding prospects for US fiscal stimulus were to blame. Market participants focused upon the US and Canada spent much of their mornings watching speeches, interviews and press conferences. US President Trump started the day saying that broader US fiscal stimulus talks were back on after he himself pulled the plug the other day. Pelosi would have nothing to do with a limited approach (see below) which pulled stocks off their earlier highs. I think expectations for Fed stimulus helped to set a floor to how low equities would slip and added some heat to sovereign bonds. BoC Governor Macklem continued to further himself from his predecessor's downplaying of negative rate prospects earlier this year.

- US equities started the day in the black but shed their gains after Pelosi spoke.
- Sovereign debt yields are marginally lower by about 2–3bps across N.A. (slightly more in Mexico) and Europe. Why are sovereigns richer alongside stocks? One possibility is speculation the Fed could alter stimulus plans as discussed in last evening's Closing Points on the back of the FOMC minutes notwithstanding the how this view is debatable ([here](#)).
- Oil is up by almost 2%.
- The USD is little changed on balance as the yen, euro and Swiss franc are all pretty much dead flat but higher beta crosses and particularly commodity-driven ones are higher.

Chart 1



German exports grew faster than expected in August (+2.4% m/m, consensus 1.5%). They have recovered about two-thirds of the pandemic hit so far.

BoE Governor Bailey said nothing new on his panel this morning and just repeated that the BoE can apply more stimulus as needed in second or further covid-19 waves.

Mexican headline and core CPI for September were basically unchanged at 4% y/y as expected. This at least temporarily halts an upward climb after core CPI increased by a half point since April to 4% y/y. Inflation is running at the top end of Banxico's 3% +/-1% target range.

CANADA

Bank of Canada Governor Macklem intensified reference to how a negative policy rate is possible in Canada but not imminently. Today he said:

"We have a wide range of tools. Canadians have already seen that in purchase programs and rate cuts and forward guidance. Depending on what form new problems emerge, these programs can be scaled up, or scaled down if things go better. Other tools include funding for lending, negative rates. Never say never. It's in the toolkit."

This is a partial pivot compared to May 1st during Macklem's introductory press conference when he threw it out there but reaffirmed that ¼% was the effective lower bound in the "current situation":

"With respect to the effective lower bound at 0.25%, the Bank of Canada has elaborated a framework with unconventional monetary instruments, the possibility of using negative interest rates is included in that list. I think the reason it hasn't been deployed is that, well, let me put it this way, there are some disruptive effects of going negative. It's hard to explain to depositors why their deposits are shrinking in their account when they're not taking any money out. And when you've already got a disrupted financial system, you may want to be hesitant about introducing a new source of disruption. So, when you look at the current situation, yes, I'm quite comfortable with the effective lower bound where it is."

This contradicted his predecessor's guidance in March that "We don't like the idea" while downplaying what Poloz had said about negative rates in 2015. Recall that in December 2015 at the conclusion of the review of strategic options, Poloz said:

"The bank is now confident that Canadian financial markets could also function in a negative interest rate environment. Why would anyone ever accept a negative nominal return when they could always simply hold cash and earn a zero return? A big part of the answer is that there are costs to holding currency, particularly in large quantities, and these costs affect the lower bound. Because of the costs, which include storage, insurance and security, central banks can charge negative rates on commercial bank deposits without seeing a surge in demand for bank notes. Interest rates don't go below zero for savers. We would expect the same sort of behaviour here. We now believe that the effective lower bound for Canada's policy rate is around minus 0.5 per cent, but it could be a little higher or lower."

Canadian housing starts fell back to 209k in September which was lower than the consensus guesstimate of 240k but not terribly surprising given the prior month's 261.5k was a thirteen year record.

UNITED STATES

President Trump remarked in a long interview this morning that stimulus talks were back on. Treasury Secretary Mnuchin is reportedly seeking a standalone airline bill and is trying to see if Trump would support a larger effort.

House Speaker Pelosi doused such talk. She rejected a standalone bill with remarks such as the following:

- "Nothing is agreed to until everything is agreed to."
- "Ain't gonna be no standalone bill unless it is part of a bigger deal."
- "There is no standalone bill without a bigger bill."

Even within the GOP there is opposition to a standalone airline bill. Senators Toomey and Lee reject aid to the airline industry absent “adequate protections for taxpayers and the opportunity to offer related amendments” and how airline problems “will not be resolved in the near future and continuing to force the entire payroll obligation onto the taxpayers is not sustainable.” There is opposition to cutting a blank cheque to an industry that may require permanent support if conditions never return to pre-pandemic levels and likely also a requirement to see other stakeholders share the burden.

US initial jobless claims were little changed last week at 840k (consensus 820k) while the prior week was revised up to 849k from 837k.

US President Trump promises trade wars will continue if he's re-elected. Joy. He said in an interview this morning that “I'm going to use tariffs on China” and repeated the wrong argument that they work because the proceeds flow into the Treasury, without mentioning that US consumers and businesses pay for them.

Nevertheless, despite all of this, if you've counted out Trump into the election because of efforts to measure Biden's chances of winning (like [here](#)) then keep in mind that notwithstanding methodological changes compared to 2016, Biden's probability of winning the election is about bang on where it stood for Hillary Clinton at this point in the 2016 campaign (chart 1).

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	0.13	0.33	0.34	0.27	0.77	0.79	0.68	1.56	1.59	1.46	Canada - BoC	0.25
CANADA	0.24	0.24	0.24	0.37	0.38	0.35	0.61	0.62	0.55	1.19	1.19	1.10	US - Fed	0.25
GERMANY	-0.71	-0.69	-0.71	-0.72	-0.69	-0.72	-0.52	-0.49	-0.54	-0.10	-0.06	-0.11	England - BoE	0.10
JAPAN	-0.11	-0.12	-0.12	-0.11	-0.09	-0.11	0.04	0.04	0.02	0.63	0.64	0.61		
U.K.	-0.02	-0.01	-0.04	-0.03	-0.02	-0.07	0.29	0.30	0.23	0.87	0.88	0.80		
	Spreads vs. U.S. (bps):													
CANADA	9	9	11	4	4	8	-16	-17	-13	-37	-39	-36	Euro zone - ECB	0.00
GERMANY	-86	-85	-84	-105	-103	-99	-129	-128	-122	-166	-165	-156	Japan - BoJ	-0.10
JAPAN	-25	-27	-25	-43	-43	-38	-73	-75	-66	-93	-95	-84		
U.K.	-17	-17	-17	-36	-36	-34	-48	-48	-45	-70	-71	-66	Mexico - Banxico	4.25
Equities	Level						% change:							
	Last			Change			1 Day	1-wk	1-mo	1-yr				
S&P/TSX	16501			72.5			0.4	2.0	2.5	1.3			Australia - RBA	0.25
Dow 30	28371			67.1			0.2	2.0	3.2	8.4			New Zealand - RBNZ	0.25
S&P 500	3433			13.9			0.4	1.6	3.0	18.7				
Nasdaq	11429			64.4			0.6	0.9	5.4	46.1				
DAX	13042			113.6			0.9	2.4	0.6	9.0				
FTSE	5978			31.8			0.5	1.7	0.8	-16.3				
Nikkei	23647			224.3			1.0	2.0	1.6	9.5			Canada - BoC	Oct 28, 2020
Hang Seng	24193			-49.5			-0.2	3.9	-1.8	-6.6			US - Fed	Nov 05, 2020
CAC	4912			29.9			0.6	1.8	-1.2	-10.0			England - BoE	Nov 05, 2020
Commodities	Level						% change:							
WTI Crude	40.85			0.90			2.3	5.5	11.1	-22.4			Euro zone - ECB	Oct 29, 2020
Natural Gas	2.57			-0.04			-1.4	1.7	7.1	12.3			Japan - BoJ	Oct 29, 2020
Gold	1889.58			2.16			0.1	-0.9	-2.2	25.5				
Silver	23.53			-0.77			-3.2	-0.8	-12.3	35.0				
CRB Index	150.65			1.09			0.7	3.1	3.2	-13.1				
Currencies	Level						% change:							
USDCAD	1.3218			-0.0038			-0.3	-0.5	-0.1	-0.8			Mexico - Banxico	Nov 12, 2020
EURUSD	1.1754			-0.0009			-0.1	0.1	-0.2	7.3			Australia - RBA	Nov 02, 2020
USDJPY	105.99			0.0100			0.0	0.4	-0.0	-1.0				
AUDUSD	0.7159			0.0020			0.3	-0.4	-0.8	6.4				
GBPUSD	1.2944			0.0025			0.2	0.4	-0.3	5.9			New Zealand - RBNZ	Nov 10, 2020
USDCHF	0.9175			0.0001			0.0	-0.2	-0.0	-7.6				

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