

ON DECK FOR THURSDAY, DECEMBER 10

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	12/10	08:30	CPI (m/m)	Nov	0.1	0.1	0.2
US	12/10	08:30	CPI (y/y)	Nov	1.1	1.1	1.2
US	12/10	08:30	CPI (index)	Nov	--	260.1	260.2
US	12/10	08:30	CPI ex. Food & Energy (m/m)	Nov	0.2	0.1	0.2
US	12/10	08:30	CPI ex. Food & Energy (y/y)	Nov	1.6	1.5	1.6
US	12/10	08:30	Initial Jobless Claims (000s)	Dec 5	700	725	853
US	12/10	08:30	Continuing Claims (000s)	Nov 28	5800	5210	5757
US	12/10	14:00	Treasury Budget (US\$ bn)	Nov	--	-198.5	-208.8

KEY POINTS

- ECB does a lot, but still underwhelms markets
- ECB adds to liquidity tools but falls short on bond flows
- Short-term ECB disappointment might work out over time
- US claims spike, but drivers uncertain
- US inflation lands a touch firmer than expected
- BoC's Beaudry to speak on QE

INTERNATIONAL

Relative to what was priced in advance, the ECB came across as a tad underwhelming this morning. That is contributing to a slightly stronger euro, cheapening across the EGBs landscape and a mild negative ton in equities. At issue is the difficult balancing act between the ECB's effort to try to limit the policy overshoot if conditions improve in future versus doing less than their own hype had driven markets to expect in the short-term (see below). US jobless claims spiked higher but resist premature judgement over what caused it, while core inflation held firm last month.

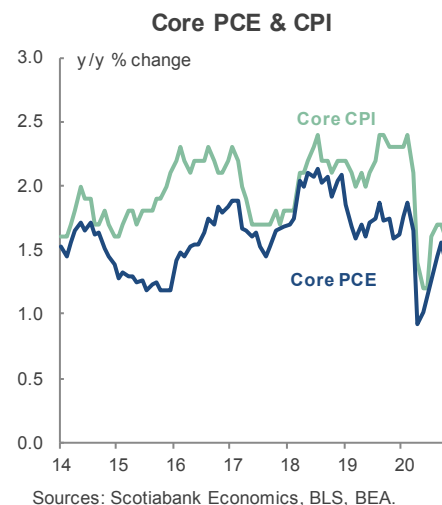
- US and Canadian equities are down by about ½%. European cash markets are down by ½% to 1%. Only London is bucking the trend a touch with a tiny gain that reflects the ongoing depreciation in sterling that has shed 1.3% of its value to the USD over the past week.
- Oil is up by almost 3% while gold is flat.
- Sovereign bonds are outperforming across the gilts curve, little changed but slightly dearer in North America and somewhat cheaper across EGBs.
- The currency space is trading off appreciating crosses to the USD including the A\$, CAD and euro versus a sharp drop in sterling as well as losses in the Mexican peso and yen.

The ECB's policy statement ([here](#)) and President Lagarde's press conference were somewhat of a disappointment to today's markets relative to what had been priced after all the hype, but it may well work out over time for them. Liquidity programs like the TLTROs and PELTROs were generously expanded, but the key disappointment was that while adding €500 billion to the Pandemic Emergency Purchase Program to take it to €1.85 trillion

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Chart 1



met consensus expectations, doing so over nine months instead of the expected six months meant a somewhat slower flow into bonds. Further, Lagarde said in her press conference that the expanded PEPP might not be fully utilized:

“If favourable financing conditions can be maintained with purchase flows that do not exhaust the envelope over the net purchase horizon of the PEPP, the envelope need not be used in full. Equally, the envelope can be recalibrated if required to maintain favourable financing conditions to help counter the negative pandemic shock to the path of inflation.”

That’s a clear disappointment in the short-run relative to what was priced. It might have cost little for the ECB to extend the PEPP for 9–12 months and hike the size of the program at an implied steady flow rate and to leave it more implicit that they stood ready to adjust the program in either direction as conditions warrant.

In the longer run, however, vaccines plus fiscal stimulus being delivered today or tomorrow plus further monetary policy stimulus plus pent-up demand plus easy financial conditions represent a significant chance at seeing a policy overshoot. Indeed, Lagarde’s press conference noted that immunity may be achieved by the end of next year and delivered forecasts to reflect this. While 2021 GDP growth was downgraded to 3.9% from 5%, that was likely due to the distorting effect on the annual math stemming from the hand-off of weaker 2020Q4 growth into 2021Q1 before a presumed acceleration thereafter. That acceleration is forecast to persist into 2022 when the ECB anticipates growth will rise to 4.2% (from 3.2% previously). **This has the overall look and feel of a central bank’s final stimulus act with significant risk it won’t all be implemented.**

UNITED STATES

US jobless claims came in higher than expected but I’m not inclined to over-react on the basis of a one week spike with debatable drivers. Initial claims increased to 853k from 716k the prior week and continuing claims also increased to 5.757 million from 5.527 million for the week before last. While logically it makes sense to expect tightening restrictions to impact claims, it’s not clear that’s what drove last week’s spike. Instead, it could have been the case that initial claims filed two weeks ago were artificially low during the Thanksgiving week if behaviour was out of the norm compared to typical seasonal adjustments. If so, pent-up claims may have been filed last week instead. One would expect claims to probably come back down in the next week or two if that is the case.

US headline CPI inflation nevertheless surprised to the upside of expectations (consensus and mine), but only by a tick in terms of the year-ago and month-ago rates. **Core inflation met my expectations but was firmer than consensus expected which might suggest the Fed’s preferred core PCE gauge will also move sideways when it gets updated (chart 1).** The main upsides came from clothing and recreation prices while pricing power in terms of month-ago price changes was generally weak elsewhere. Chart 2 shows the breakdown of the basket in y/y terms while chart 3 does so in weighted contribution terms. Charts 4 and 5 do the same things for the month-ago changes. Also see the summary table below.

US CPI m/m % / y/y %, November:

Actual: 0.2 / 1.2

Scotia: 0.1 / 1.1

Consensus: 0.1 / 1.1

Prior: 0.0 / 1.2

US core CPI m/m % / y/y %, November:

Actual: 0.2 / 1.6

Scotia: 0.2 / 1.6

Consensus: 0.1 / 1.5

Prior: 0.0 / 1.6

CANADA

Bank of Canada Deputy Governor Beaudry speaks on what’s ‘under the hood’ in terms of the central bank’s QE program (1:30pmET). No market effect is anticipated.

Chart 2

November 12-Month Changes in US Headline CPI Categories

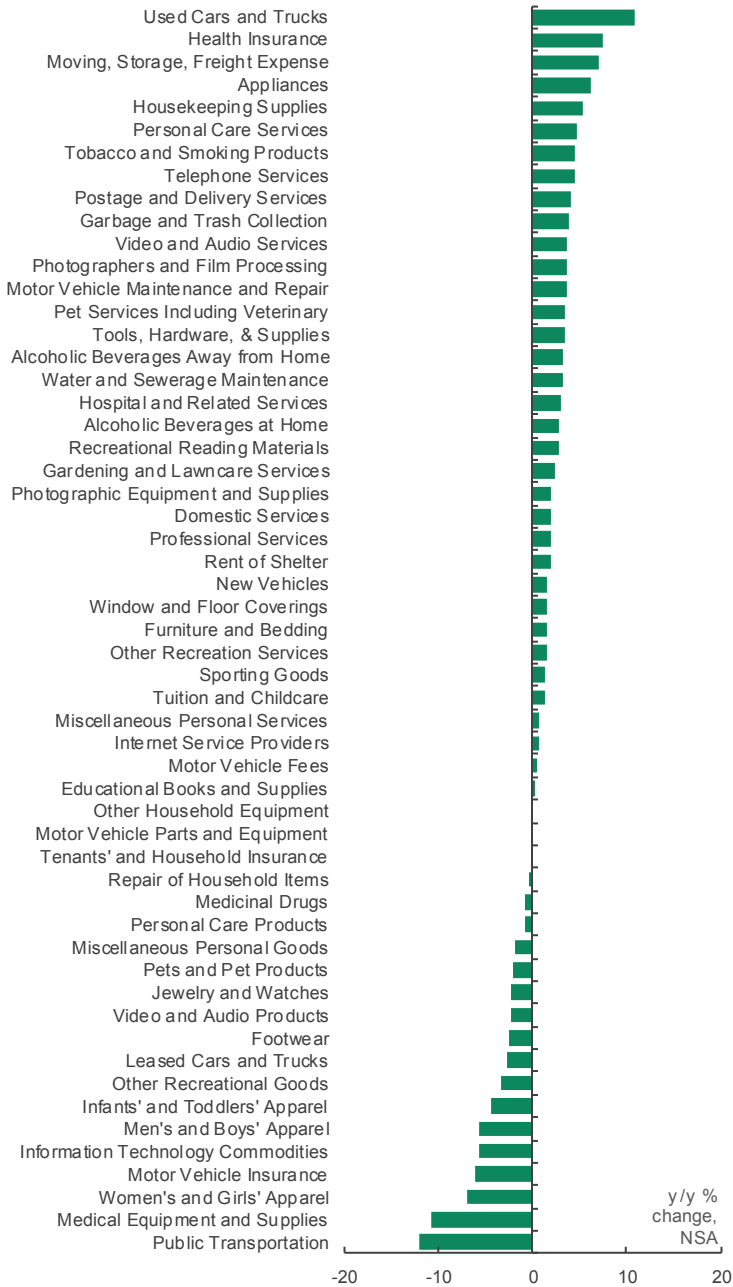


Chart 3

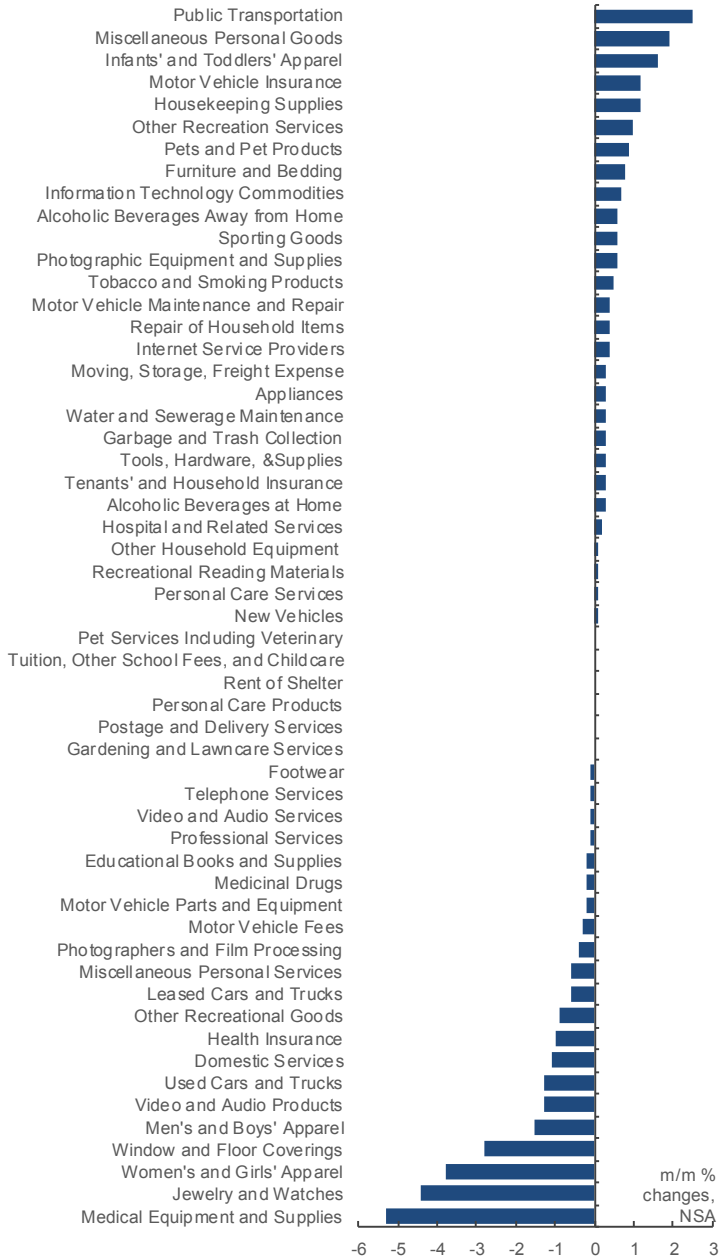
November Weighted Contributions to 12-Month Headline CPI Change



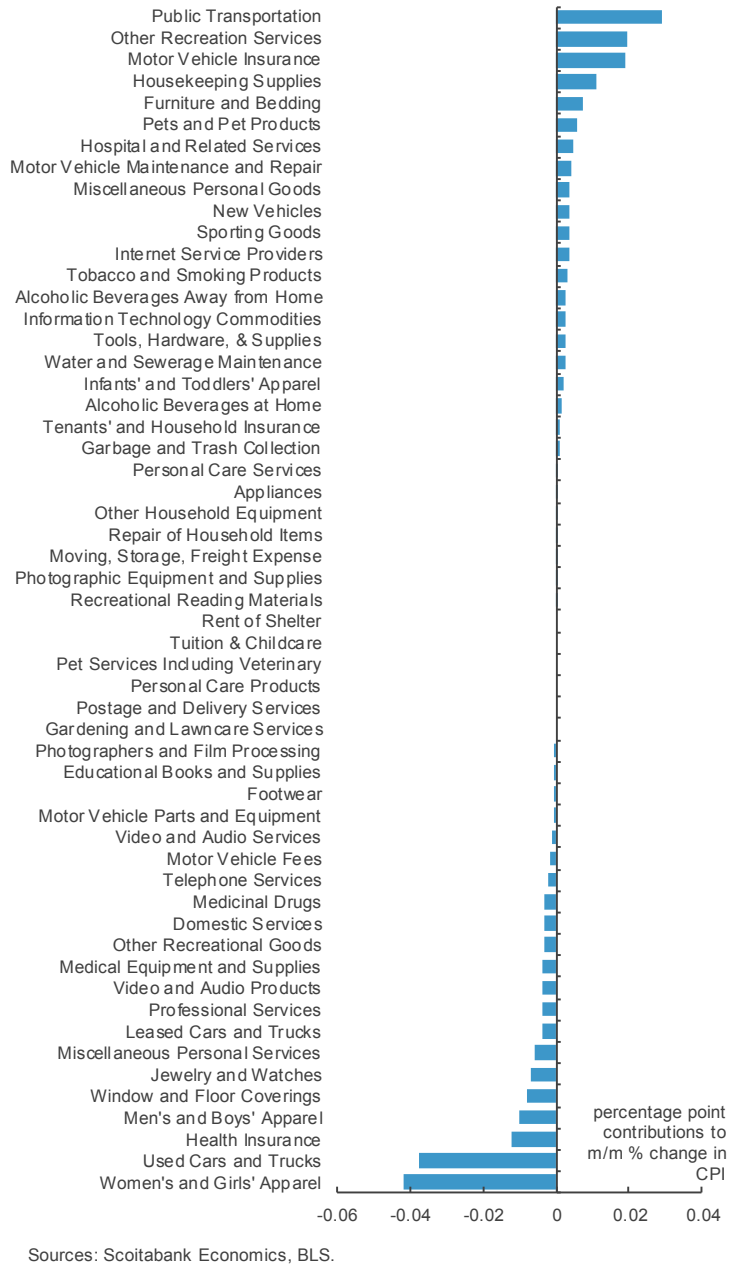
Chart 4

Chart 5

November Monthly Changes in US Headline CPI Categories



November Weighted Contributions to Monthly Headline CPI Change



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.	0.14	0.15	0.15	0.39	0.40	0.39	0.92	0.94	0.91	1.67	1.69	1.65	Canada - BoC	0.25
CANADA	0.27	0.27	0.26	0.47	0.47	0.46	0.75	0.75	0.74	1.29	1.30	1.26	US - Fed	0.25
GERMANY	-0.77	-0.77	-0.74	-0.79	-0.79	-0.75	-0.60	-0.61	-0.56	-0.18	-0.18	-0.14	England - BoE	0.10
JAPAN	-0.13	-0.12	-0.11	-0.12	-0.11	-0.10	0.02	0.02	0.03	0.62	0.63	0.65		
U.K.	-0.11	-0.08	-0.05	-0.08	-0.04	0.00	0.20	0.26	0.32	0.74	0.81	0.89		
Spreads vs. U.S. (bps):														
CANADA	13	12	11	8	7	7	-17	-19	-17	-37	-39	-39	Euro zone - ECB	0.00
GERMANY	-91	-92	-89	-118	-120	-114	-152	-154	-146	-185	-186	-179	Japan - BoJ	-0.10
JAPAN	-27	-27	-26	-51	-52	-49	-91	-91	-88	-105	-106	-101		
U.K.	-25	-23	-20	-47	-44	-39	-72	-68	-59	-92	-88	-76	Mexico - Banxico	4.25
Equities	Level						% change:							
	Last			Change			1 Day	1-wk	1-mo			1-yr		
S&P/TSX	17463			-96.5			-0.5	0.4	5.1			3.0	Australia - RBA	0.10
Dow 30	30041			-27.4			-0.1	0.2	2.1			7.7	New Zealand - RBNZ	0.25
S&P 500	3665			-8.2			-0.2	-0.1	3.4			17.0		
Nasdaq	12353			14.2			0.1	-0.2	6.9			43.4		
DAX	13249			-91.3			-0.7	-0.0	0.7			1.4		
FTSE	6581			17.0			0.3	1.4	4.5			-8.8		
Nikkei	26756			-61.7			-0.2	-0.2	7.4			14.3	Canada - BoC	Jan 20, 2021
Hang Seng	26411			-92.3			-0.3	-1.2	0.4			-0.1	US - Fed	Dec 16, 2020
CAC	5534			-13.3			-0.2	-0.7	2.1			-5.4		
Commodities	Level						% change:							
WTI Crude	46.67				1.15		2.5		2.3		12.8		-21.2	
Natural Gas	2.48				0.04		1.5		-1.1		-15.9		9.5	
Gold	1848.35				8.81		0.5		0.4		-1.5		26.2	
Silver	24.09				-0.39		-1.6		0.4		-4.1		44.9	
CRB Index	161.02				2.10		1.3		1.1		4.9		-11.6	
Currencies	Level						% change:							
USDCAD	1.2720				-0.0096		-0.7		-1.1		-2.4		-3.9	
EURUSD	1.2145				0.0064		0.5		0.0		2.8		9.5	
USDJPY	104.28				0.0500		0.0		0.4		-1.0		-4.1	
AUDUSD	0.7509				0.0062		0.8		0.9		3.1		10.3	
GBPUSD	1.3303				-0.0096		-0.7		-1.1		0.2		1.1	
USDCHF	0.8862				-0.0031		-0.3		-0.6		-3.2		-10.0	
													Mexico - Banxico	Dec 17, 2020
													Australia - RBA	Feb 01, 2021
													New Zealand - RBNZ	Feb 23, 2021

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