ON DECK FOR FRIDAY, DECEMBER 18

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	12/18	08:30	Retail Sales (m/m)	Oct	0.2	0.0	1.1
CA	12/18	08:30	Retail Sales ex. Autos (m/m)	Oct	0.1	0.1	1.0
US	12/18	08:30	Current Account (US$ bn)	3Q	--	-187.4	-170.5
US	12/18	10:00	Leading Indicators (m/m)	Nov	--	0.5	0.7
US	12/18	11:10	Fed's Brainard Speaks on Regulation				

KEY POINTS:

- **Mild risk-off on Brexit, US stimulus talks**
- **UK's Johnson fish slapped by Barnier**
- **Unbelievably, the US gov't is poised to shut down in a pandemic**
- **Russia's CB could be facing a repeat of 2014-16**
- **CDN retail sales keep climbing in Q4, for now…**
- **...but lockdowns and school closures will take a toll**
- **BanRep expected to hold**
- **All three German surveys posted improvements**
- **UK retail sales fall as expected**
- **Bank of Japan extends programs as expected**

INTERNATIONAL

Markets are in a bit of a cautious mood so far. Stalled Brexit talks and the likelihood that the US government starts shutting down at midnight tonight due to purely incompetent failure to strike a stimulus and funding agreement in time are the likely causes. Geopolitical risks are hard to assess, but may feed tensions into the new year if Russia's alleged act of cyberwar invites coordinated retaliation with the ruble continuing to slide. In all, commerce is paying the price for geopolitical risk. Question your leaders indeed!

Sterling depreciated after a Brexit ultimatum was delivered with talks still hung up on fish. British PM Johnson got fish slapped by EU negotiator Barnier who said accept limits on accessing the EU's single market if he won't bend on allowing EU access to UK fishing waters or split with no deal.

- Stocks are mildly lower by ¼% to ½% in the US and Canada. European exchanges range from down 1% to roughly flat.
- Gilts are outperforming all other curves with yields down by about 5bps across all maturities on Brexit risk. US Treasuries are mildly dearer with yields down about 1bps toward longer maturities. Ditto for Canada.
- The USD is appreciating against most currencies, especially sterling.
- Oil is up half a buck or so and gold is flat.

The BoJ did what was expected by most and extended its corporate credit support programs by six months to the end of September. This followed another decline in headline and core inflation as core hit a decade low of -0.9% y/y. The yen depreciated overnight along with a general strengthening bias in the USD.

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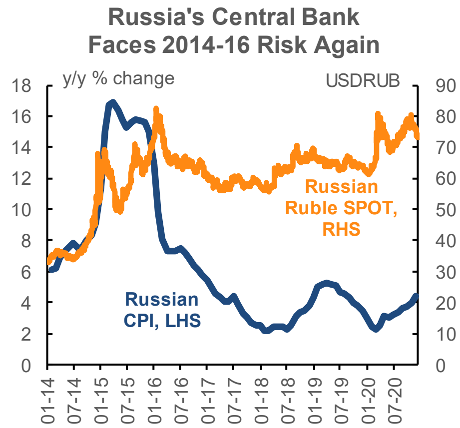
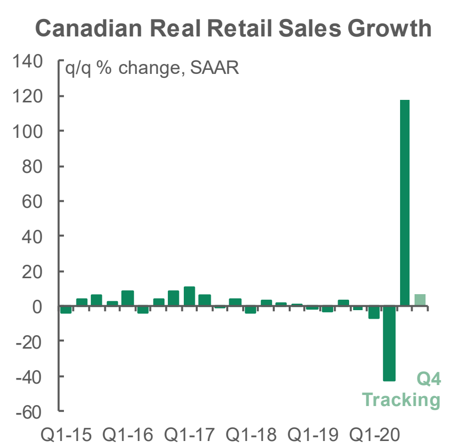
Chart 1



Source: Scotiabank Economics, Bloomberg, Russia Federal Service of State Statistics.

Chart 2



Sources: Scotiabank Economics, Statistics Canada.

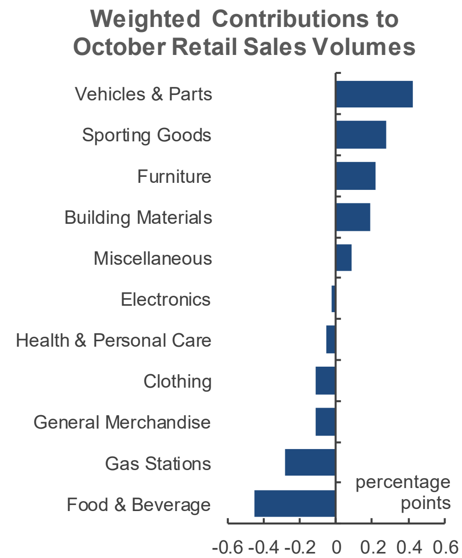
German IFO business confidence improved a bit both in terms of present and expected conditions. That completes the sweep of better survey-based readings for the German economy including PMIs, ZEW investor expectations and IFO.

UK retail sales fell sharply in November, though a touch less than expected. Sterling ignored it. Total sales were down 3.8% m/m (-4.2% consensus) while sales ex-fuel fell 2.6% m/m (-4.0% consensus).

Russia's central bank held at 4.25% as widely expected. Governor Nabiullina remarked that it's unclear if rate cuts remain possible. Ha! I have a feeling the central bank is going to be headed in the opposite direction in 2021 in order to manage another currency and inflation crisis. If we go from allegations to proof that it was Russian state-sponsored hackers that launched cyberwar against the west and particularly the US, then expect sweeping retaliatory measures early in Biden's administration. By extension, Nabiullina could well face a repeat of what happened in 2014–16 when the ruble tanked and inflation soared (chart 1).

BanRep is expected to hold at 1.75% this afternoon (1pmET).

Chart 3



Sources: Scotiabank Economics, Statistics Canada.

CANADA

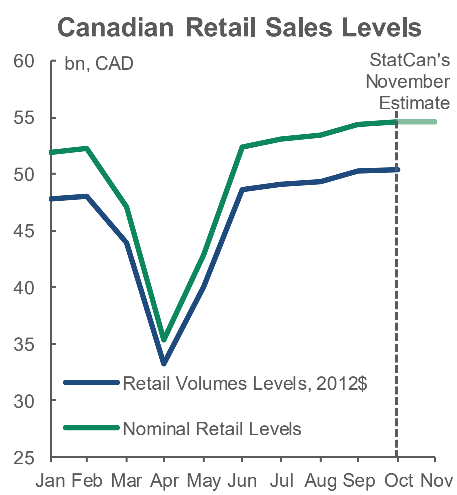
Canada continues its full retail sector recovery, for now.

Total retail sales beat StatsCan's earlier guidance by posting a 0.4% m/m nominal rise that was evenly split between higher volumes (+0.2% m/m) and higher prices. Excluding autos, the dollar value of sales was flat and volumes fell 0.3% m/m. Upward revisions to the prior month's sales tally largely explain this away. The dollar value of total retail sales was revised up to a gain of 1.9% m/m in September (from 1.1% initially) and ex-autos was revised up to a gain of 1.9% (from 1.0%). In volume terms, September posted a revised 1.8% rise in total sales and a 2% rise in sales ex-autos.

CDN retail sales, headline / ex-autos, m/m % change Oct, SA:
Actual: 0.4 / 0.0
Scotia: 0.2 / 0.1
Consensus: 0.0 / 0.1
Prior: 1.9 / 1.9 (revised from 1.1 / 1.0)
November guidance: "relatively unchanged"

Taking September revisions with October's reading therefore leads to an overall decent set of numbers but with preliminary guidance from StatsCan pointing to November being "relatively unchanged." That's based on responses from 55% of surveyed companies compared to a normal pandemic era response rate of about 88%. Take StatsCan's advance guidance with a grain of salt given that the number that ultimately gets released is often different and then material revisions set in. I have some sympathy for why this may be occurring given that filling out StatsCan surveys might not be priority #1 for retailers these days….plus estimating on-line might be trickier.

Chart 4



Sources: Scotiabank Economics, Statistics Canada.

Quarterly tracking is pointing to a Q4 rise of 6.8% q/q at a seasonally adjusted and annualized rate (SAAR) following a 121% recovery-fed gain in Q3 (chart 2). That indicates **sustained momentum on a quarterly tracking basis which benefits Q4 GDP growth** after adjustments to GDP concepts.

Chart 3 shows the breakdown of growth in sales volumes during October over September in terms of weighted contributions to overall sales growth. Autos, sporting goods, furniture and furnishings and building materials/reno activities led the way.

So where do we stand now in the retail recovery? **Total sales volumes are now 5% higher than just before the pandemic hit and so the overall sector has more than recovered (chart 4).** Ex-autos sales volumes are up by 5.6% over February levels and ex-autos and ex-gas sales are up by almost 8% compared to pre-pandemic levels.

Put another way, the only sectors not to have fully recovered thus far (and then some!) include ones that probably won't surprise you (chart 5). Gas station volumes are 7% lower than pre-pandemic levels as our cars and trucks sit parked. Clothing is down 8% because we're all wearing pyjamas. Shoe sales are down 5% on similar work-from-home logic. Jewellery & luggage stores are down 2.5% because few are travelling or showing off their bling. Everything else is higher than pre-pandemic.

Now, about Canada-US comparisons. StatsCan's November guidance (flat) is still better than what happened in the US on Wednesday when preliminary numbers showed sales down 1.1% m/m and sales were revised down in October to a mild drop of –0.1% m/m. Is this a Canadian resilience narrative in play? Maybe, but then again, Canada's retail sector went down harder in the March–June period than was the case in the US (chart 6). Resilience is so far only really a one month preliminary assessment for November, whereas the two countries have been tracking virtually identically to one another for several months since June. That's despite the fact Canada arguably might have had more pent-up demand from a harsher initial hit, albeit that Canada also dealt with the added commodities punch.

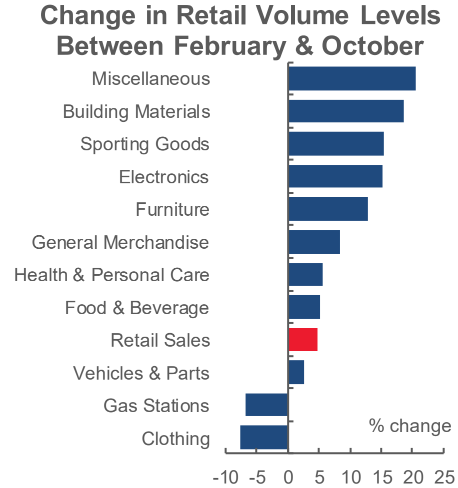
So where to from here? Rising COVID-19 cases and lockdowns are sure to dampen conditions from late November through December and very possibly through Q1. Shutting schools will tip this over.

On that note, recall that Ontario advised parents yesterday to prepare for renewed school closures in January which represents the risk of another serious shock to labour markets. Recall how long it took for employment of mothers to recover (chart 7) after they were hit particularly hard by school closures. Maybe the effects will be less severe this time because a) technology and work from home options are better developed, b) there is some lead time to prepare unlike the shock in March, and c) there are more income and job supports now than obviously at the start of the pandemic and Canada—unlike the US—has already extended those supports well into 2021.

Nevertheless, many jobs don't have the benefit of being able to do them on-line and from home while supervising their kids. Think front-line workers for one example who get hit by the double whammy of having to deliver care in person while their kids are sent home. It's a total shame that that the degree of preparedness is not even greater after having nine months to prepare for second and subsequent waves everyone knew would happen since the first wave broke out and shut everything down. Part of that is due to people not following guidelines such that their selfishness and ignorance costs everyone. Still, part of the problem is endemic to our health system that is advising policymakers to shut the whole economy down and put millions of jobs, thousands of businesses and countless despondent individuals at risk. We can make fancy phones by the millions in less time, but not lousy paper N95 masks or vents. China can erect hospitals overnight, the West continues to pay the price for years of cutting hospital beds. Hats off to our front-line workers. The blown opportunity to prepare for the second wave is what hurts everyone.

To end on a more upbeat note, the ultimate hope is that this round of shocks is much shorter-lived in an effort to mitigate holiday season after-effects and with vaccines gradually arriving.

Chart 5

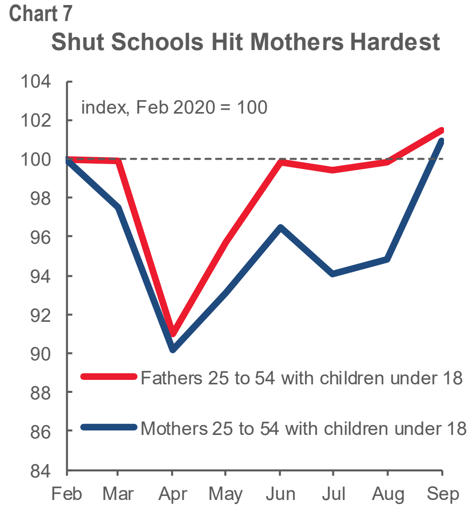


Sources: Scotiabank Economics, Statistics Canada.

Chart 6

Sources: Scotiabank Economics, Statistics Canada, US Census Bureau.

Chart 7



Sources: Scotiabank Economics, Statistics Canada.

Fixed Income — Government Yield Curves (%):

	2-YEAR Last	2-YEAR 1-day	2-YEAR 1-wk	5-YEAR Last	5-YEAR 1-day	5-YEAR 1-wk	10-YEAR Last	10-YEAR 1-day	10-YEAR 1-wk	30-YEAR Last	30-YEAR 1-day	30-YEAR 1-wk
U.S.	0.12	0.12	0.12	0.37	0.38	0.37	0.92	0.93	0.90	1.67	1.68	1.63
CANADA	0.24	0.24	0.25	0.45	0.45	0.44	0.73	0.74	0.71	1.29	1.30	1.26
GERMANY	-0.73	-0.73	-0.78	-0.75	-0.75	-0.81	-0.58	-0.57	-0.64	-0.17	-0.16	-0.24
JAPAN	-0.12	-0.12	-0.13	-0.12	-0.11	-0.12	0.01	0.01	0.01	0.63	0.63	0.62
U.K.	-0.10	-0.05	-0.11	-0.05	-0.01	-0.10	0.24	0.29	0.17	0.79	0.85	0.71
	Spreads vs. U.S. (bps):											
CANADA	12	12	13	8	7	7	-19	-19	-19	-39	-38	-37
GERMANY	-85	-85	-90	-112	-112	-118	-150	-150	-153	-184	-184	-187
JAPAN	-24	-24	-25	-49	-49	-49	-91	-92	-88	-104	-105	-101
U.K.	-21	-17	-23	-42	-38	-46	-69	-65	-73	-88	-83	-92

Equities	Level: Last	Level: Change	% change: 1 Day	1-wk	1-mo	1-yr
S&P/TSX	17610	-42.9	-0.2	0.3	4.3	3.4
Dow 30	30207	-96.4	-0.3	0.5	2.6	7.0
S&P 500	3708	-14.8	-0.4	1.2	3.9	16.2
Nasdaq	12755	-9.5	-0.1	3.0	8.1	44.5
DAX	13670	2.7	0.0	4.2	3.5	3.4
FTSE	6542	-9.1	-0.1	-0.1	2.5	-13.2
Nikkei	26763	-43.3	-0.2	0.4	4.0	11.8
Hang Seng	26499	-179.8	-0.7	-0.0	-0.2	-5.0
CAC	5531	-18.6	-0.3	0.4	0.4	-7.2

Commodities	Level		% change:			
WTI Crude	48.75	0.39	0.8	4.7	16.6	-20.0
Natural Gas	2.70	0.06	2.4	4.1	-0.5	18.0
Gold	1884.45	-0.97	-0.1	2.4	0.7	27.7
Silver	25.74	0.61	2.4	7.8	4.5	50.9
CRB Index	165.85	0.36	0.2	2.9	6.5	-10.3

Currencies	Level		% change:			
USDCAD	1.2759	0.0039	0.3	-0.1	-2.5	-2.7
EURUSD	1.2243	-0.0025	-0.2	1.1	3.3	10.2
USDJPY	103.39	0.2800	0.3	-0.6	-0.4	-5.6
AUDUSD	0.7604	-0.0018	-0.2	0.9	4.1	11.0
GBPUSD	1.3481	-0.0104	-0.8	1.9	1.6	3.1
USDCHF	0.8859	0.0012	0.1	-0.5	-2.8	-9.6

Central Banks

Current Rate	
Canada - BoC	**0.25**
US - Fed	**0.25**
England - BoE	**0.10**
Euro zone - ECB	**0.00**
Japan - BoJ	**-0.10**
Mexico - Banxico	**4.25**
Australia - RBA	**0.10**
New Zealand - RBNZ	**0.25**

Next Meeting Date	
Canada - BoC	**Jan 20, 2021**
US - Fed	**Jan 27, 2021**
England - BoE	**Feb 04, 2021**
Euro zone - ECB	**Jan 21, 2021**
Japan - BoJ	**Jan 21, 2021**
Mexico - Banxico	**Feb 11, 2021**
Australia - RBA	**Feb 01, 2021**
New Zealand - RBNZ	**Feb 23, 2021**