

ON DECK FOR THURSDAY, DECEMBER 24

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	12/24	08:30	Building Permits (m/m)	Nov	--	2.6	12.9

KEY POINTS:

- Mild risk-on sentiment helped by a Brexit deal
- The Christmas European divorce moves to ratification
- CBs: Turkey hikes, BoT holds
- Canada's homebuilders are still going strong
- An updated holiday week ahead...
- ...with a focus on US funding and stimulus options from here...
- ...Brexit ratification...
- ...year-end dollar funding...
- ... and global macro releases

INTERNATIONAL

Good morning Santa's helpers. You're doing well in driving mild risk-on sentiment this morning. Santa will treat you well as his sleigh is passing over Australia at the time of writing. Norad is tracking him [here](#). You see, I figure that since they **really have achieved a Brexit deal on Christmas Eve**, then perhaps we should all begin to believe in Santa once again. Indeed a Brexit deal has finally been struck with UK PM Johnson and EC President Von Der Leyen holding press conferences as this note is being sent. Now it must be ratified and the UK Labour Party has guided they will have a formal response "in due course."

Calendar-risk is basically zero as we only have three minor things to consider. One is that **Turkey's central bank hiked** by more than consensus expected by taking the policy one-week repo rate up 200bps to 17% this morning on inflation concerns and that drove lira appreciation. Second is that **the Bank of Thailand held** at 0.5% as universally expected. Third is a positive signal on Canadian housing markets given a **7.9% m/m surge in Canadian homebuilding permit volumes** during November that points to ongoing strength in housing starts (chart 1).

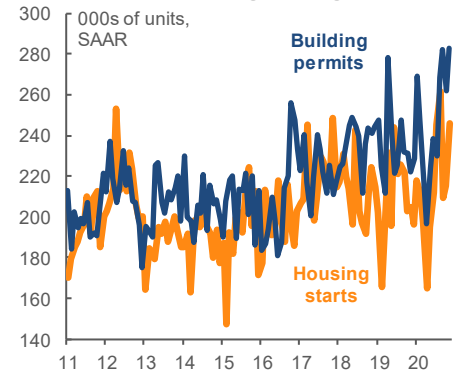
An updated global week ahead that covers expectations from now through to the new year is provided below.

The US bond market shuts at 2pmET and the stock market shuts at 1pmET. The Canadian bond and stock markets shut at 1pmET. Here is the state of markets at present:

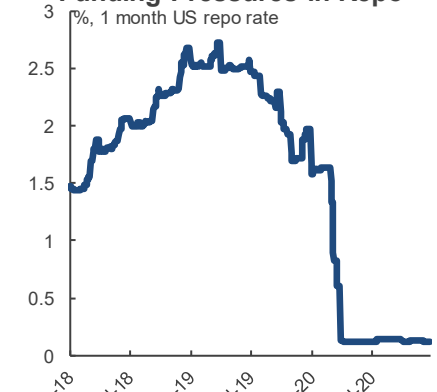
- Stocks are slightly bid as a Brexit deal was significantly anticipated and faces ratification. The S&P500 is up ¼% while the TSX is flat. European cash markets are now shut. Germany and Italy never opened, while stocks were up ½% in Spain and little changed in London and Par-eee!.

CONTACTS

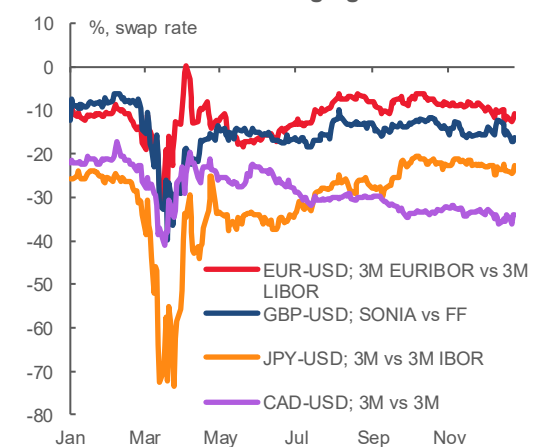
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Chart 1 Canada's Homebuilders Still Going Strong


Sources: Scotiabank Economics, CMHC, Statistics Canada.

Chart 2
No Evidence of Year-End Dollar Funding Pressures in Repo


Sources: Scotiabank Economics, Bloomberg.

Chart 3
Three Month 1-Year Hedging Costs into USD


Sources: Scotiabank Economics, Bloomberg.

- Sovereign bond yields outperformed in the UK before the holiday shut things down; if we really do have a Brexit deal then they're set up for cheapening upon return. EGBs are shut. US and Canadian bonds are very slightly bid toward the longer end.
- Oil is off by ¾% and gold is flat at US\$1878/oz.
- The USD is little changed on balance as safe havens like the yen and Swiss franc slightly depreciate while the euro is little changed. Sterling is among the leaders of the pack of appreciating currencies along with the Mexican peso.

UPDATED GLOBAL WEEK AHEAD

I'll be on vacation after today through next week. Here are highlights of what to expect over this period that expands upon and updates what was covered in the two week version of the Global Week Ahead for this week and next (reminder link [here](#)). Most of the risk will be off-calendar in nature.

1. US defense bill: Congress is likely to come back next week with a bipartisan override on Trump's veto of the US\$740 billion defense spending bill. Trump vetoed it because he wants a defense bill to hit tech companies that he views as unfriendly to his administration and to do so through Section 230 provisions that would repeal online liability protections. He also vetoed the bill because he objects to renaming military bases that are presently named for Confederate leaders which is consistent with his behaviour to date on such matters. Trump called the Act a "gift to China and Russia"; others might think that holding up defense funding would be the gift to China and Russia.

2. US stimulus and funding bills: Trump is holding up the US\$900 billion stimulus package and US\$1.4 trillion agreement to fund the US government through to the September 30th 2021 fiscal year-end. He has not said he will veto the bill, but has said he is seeking bigger stimulus cheques than the means tested US\$600/person provision and wants to slash foreign aid as his definition of waste in the bill. It's also feasible that his real intent is to seek revenge on Republicans who acknowledged his defeat (albeit long after everyone else...) and on his pending defeat at the hands of Congress on the defense bill. It's also possible he's doing what everything feared and acting with extraordinary petulance by refusing to cooperate in clear defeat as he issues pardons for yet more unsavoury types. At this point I'm cautiously assuming he'll ultimately sign it and avoid the expiration of jobless benefit enhancements and eviction moratoriums, but it's hardly clear this will happen. Here are the options as I understand them.

- One option Trump has is to sign the bill by December 28th** when the Continuing Resolution to fund the US government expires and thus avert a shutdown before year-end. If he doesn't, however, then **Congress can still pass another continuing resolution** to fund government into the new year and avert a shutdown. Still, some jobless benefits begin to expire the day after Christmas.
- Another option is that he vetoes the bill and thereby requires Congress to schedule another vote with a hopefully veto-proof majority** like the original votes and the bill passes.
- A so-called "pocket veto" is another option** whereby he just doesn't do anything within the ten days he has to consider the bill. If he doesn't do anything within this period, then the bill would normally pass automatically, but **the problem is that the current session of Congress expires on January 3rd and hence before Trump's ten day period will be up**. Exactly when that ten day period expires depends on when the bill lands on his desk but at this point it is certain to expire after the current Congress wraps up. Congress would have had to get the bill to him by yesterday in order to avoid the scenario whereby Trump's period of consideration expires after Congress convenes. **So, if Trump does nothing by January 3rd then the bill will die and would have to be taken up in the new year by the new Congress** and presumably with retroactive features. Trump would be unable to use the pocket veto option in a new Congress because there would be no repeat of the deadline issue and so even if he vetoed the bill, the new Congress could come back with a veto override super majority and hand Trump another defeat. Thus, the worst case scenario is likely to be that the present stimulus just gets held up by a few weeks.
- A possibly better scenario for stimulus would be if the Dems took control of the Senate after the January 6th run-offs in Georgia**. If so, then we might see an interim measure followed by a much larger stimulus package after inauguration day on January 20th when Biden takes the keys.

e. Finally, Trump could align with Pelosi's Democrats in seeking higher stimulus cheques, but the GOP would likely revolt against the added cost of \$2k cheques person that would cost US\$500 billion instead of US\$160B for the \$600 cheques.

3. **Brexit:** With a deal having been struck to avert a hard Brexit on January 1st, it must now be ratified by both sides. This will require monitoring over the holiday period.

4. **Dollar funding:** Year-end for US companies normally brings with it demand for dollar funding in part to engage in some year-end window dressing of balance sheets. Sometimes it can spark upheavals in markets. So far there isn't really any evidence of anticipated pressures in repo markets (chart 2) or in FX hedging costs (chart 3). If risk appetite is shocked by Brexit or US stimulus developments or other random developments, then it's feasible that a surge in demand for dollar funding within more thinly traded holiday markets could be disruptive. The Fed's actions to extend dollar swap arrangements with foreign central bank counterparties probably mitigates this risk by continuing the option to spring the taps on dollar liquidity.

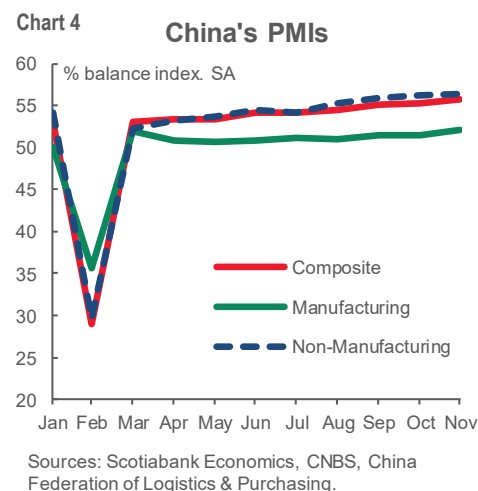
5. **China will release the state versions of its PMIs on Wednesday December 30th.**

As shown in chart 4, they've generally been more resilient than across its main export markets in Europe and the US partly because of restocking across western economies but also on domestic strengths in China's economy.

6. **US releases will be very light** with only weekly jobless claims due on December 31st which will fall outside of the nonfarm reference period, plus pending home sales for November the day before.

7. **European releases will also be very light** with just Spanish CPI for December on December 30th ahead of the rest of the Eurozone CPI reports the following week. German retail sales will also arrive at an uncertain time next week.

8. **Canadian and Latin American calendars will be dead quiet.** The next thing to watch out of Canada will be the December jobs report on January 8th.



And with that, I leave our clients, friends and colleagues with the very best wishes for as merry a Christmas as can be during such times and a better new year in 2021.

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.	0.12	0.12	0.12	0.37	0.37	0.38	0.93	0.94	0.93	1.67	1.68	1.68	Canada - BoC	0.25
CANADA	0.23	0.22	0.24	0.43	0.43	0.45	0.73	0.73	0.74	1.27	1.28	1.30	US - Fed	0.25
GERMANY	-0.70	-0.74	-0.73	-0.72	-0.76	-0.74	-0.55	-0.60	-0.57	-0.15	-0.20	-0.16	England - BoE	0.10
JAPAN	-0.12	-0.13	-0.12	-0.12	-0.12	-0.11	0.02	0.01	0.01	0.63	0.62	0.63	Euro zone - ECB	0.00
U.K.	-0.12	-0.12	-0.05	-0.05	-0.04	-0.01	0.26	0.29	0.29	0.83	0.86	0.85	Japan - BoJ	-0.10
	Spreads vs. U.S. (bps):													
CANADA	11	10	12	7	6	7	-21	-22	-19	-40	-41	-38	Mexico - Banxico	4.25
GERMANY	-82	-86	-85	-108	-113	-112	-148	-154	-150	-182	-188	-184	Australia - RBA	0.10
JAPAN	-24	-25	-24	-48	-49	-49	-92	-93	-92	-104	-106	-105	New Zealand - RBNZ	0.25
U.K.	-24	-24	-17	-41	-41	-38	-68	-66	-65	-84	-82	-83		
Equities	Level						% change:						Next Meeting Date	
	Last			Change	1 Day	1-wk	1-mo	1-yr						
S&P/TSX	17592			-1.2	-0.0	-0.3	1.8	2.4				Canada - BoC	Jan 20, 2021	
Dow 30	30176			46.3	0.2	-0.4	0.4	5.8				US - Fed	Jan 27, 2021	
S&P 500	3698			8.0	0.2	-0.7	1.7	14.7				England - BoE	Feb 04, 2021	
Nasdaq	12820			48.5	0.4	0.4	6.5	43.2				Euro zone - ECB	Jan 21, 2021	
DAX	13587			169.1	1.3	0.2	2.2	2.2				Japan - BoJ	Jan 21, 2021	
FTSE	6502			6.4	0.1	-0.7	1.1	-14.8						
Nikkei	26668			143.6	0.5	-0.5	1.9	11.9						
Hang Seng	26387			43.5	0.2	-1.1	-0.8	-5.3						
CAC	5522			-5.6	-0.1	-0.5	-0.7	-8.4						
Commodities	Level						% change:							
WTI Crude	47.85			-0.27	-0.6	-1.1	6.5	-21.7						
Natural Gas	2.61			-0.00	-0.1	-1.1	-6.1	20.0						
Gold	1877.19			4.30	0.2	-0.4	3.9	25.2						
Silver	25.32			-0.46	-1.8	0.7	5.9	45.7						
CRB Index	165.17			-0.12	-0.1	-0.2	3.4	-11.0						
Currencies	Level						% change:							
USDCAD	1.2831			-0.0017	-0.1	0.9	-1.3	-2.5						
EURUSD	1.2186			-0.0001	-0.0	-0.7	2.5	9.9						
USDJPY	103.73			0.1600	0.2	0.6	-0.7	-5.2						
AUDUSD	0.7596			0.0021	0.3	-0.3	3.2	9.7						
GBPUSD	1.3552			0.0059	0.4	-0.2	1.5	4.7						

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