

**ON DECK FOR TUESDAY, SEPTEMBER 21**

Country	Date	Time	Event	Period	BNS	Consensus	Latest
US	09-21	08:30	Building Permits (000s a.r.)	Aug	--	1600.0	1630.0
US	09-21	08:30	Current Account (US\$ bn)	2Q	--	-190.8	-195.7
US	09-21	08:30	Housing Starts (000s a.r.)	Aug	1565	1550.0	1615.0
US	09-21	08:30	Housing Starts (m/m)	Aug	2.0	1.0	3.9
CA	09-21		Canadian Federal Election Results				

**KEY POINTS:**

- Canada votes, markets shrug
- Canada’s election yawner: What matters to markets & BoC?
- 2024 could present concentrated N.A. political risk...
- ...and like everywhere else, Canada is deeply divided
- A grab bag of election thoughts and observations
- Riksbank, Bank Indonesia unchanged
- US housing rebounds, OECD tweaks stale forecasts

A broad risk-on move is reversing some of yesterday’s moves but early momentum is softening. Canadian assets are generally following the tide with no clear evidence that the election results are driving differentiated performance. The market’s assessment of Canadian politics goes something like ‘yawn, as you were folks.’

The far bigger driver of global market sentiment this morning is that yesterday’s bandwagon market narrative that property markets would drag down the Chinese economy and financial system is giving way to more sensible thinking toward China’s blend of policy levers and measures of external finances that continue to make a broad crisis as unlikely as all the other years we’ve heard about it. Stocks are up across the board.

Canada’s federal election returned the same results we had going into it all with a virtually unchanged Liberal minority propped up by the NDP and an almost identical composition of other parties in Parliament. This time the seat projections pretty much nailed it after blowing it in 2015 and putting in a weak performance in 2019 (chart 1). The Libs ‘won’ a minority but lost the majority they sought and while the votes continue to be counted, the seat counts are virtually identical for the major parties to what we had going in. Egos in check. The Conservatives won the most votes (34%, Libs 32.2%) but the Libs picked up more of them where they counted. No party can claim to have support from more than one-in-three Canadians in a very divided electorate that doesn’t see any of the parties as worthy of majority support. That also suits my personal preference on the thinking that the government of whatever stripe that governs as best as possible faces some competition through checks and balances in Parliament especially when they all failed to really demonstrate to Canadians how different they were from one another and why on earth we had to go through this in the first place. Full results are [here](#) and will be refreshed by Elections Canada as they continue to roll in. 99% of polls have reported and about 16 million votes have been counted so far.

Markets are largely ignoring the status quo outcome in a very divided country. That’s just as it should be in markets with the Libs no more or less dependent on

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Chart 1

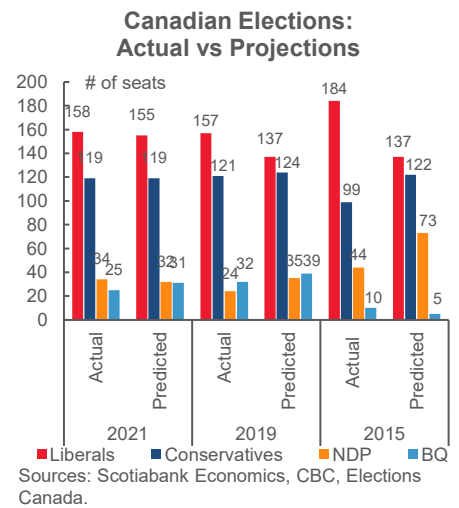
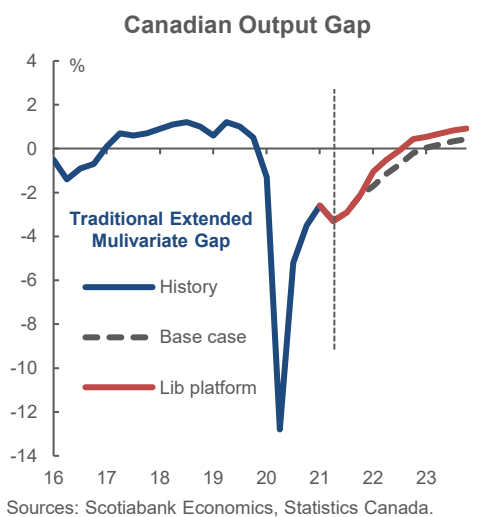


Chart 2



the NDP for support at every turn until the next early election (given the minority government pattern). CAD is among the leaders, but oil being up a bit explains more about the gains in the krone, CAD and MXN than anything else. Ditto for equity futures with Toronto up in lock step to US futures while European cash markets are all up by about double or more. Canada's curve is very slightly richer in keeping with the performance of US Treasuries and both are underperforming European curves.

Additional thoughts on the election including implications for the BoC are summarized below and see [this](#) recap of the results and the Liberal platform that was sent overnight by Rebekah.

- **Surprise! As cautioned, we did indeed get the results on election night** rather than entering a days long period of uncertainty. Over-hyped hail-in kits were of little consequence in the end as their numbers were far shy of the early expectations. About 850k kits were requested in total versus peak expectations there might have been toward 5 million kits requested and that could not have been counted until over a day after the election following validation of the kits. Why? I commonly heard folks remarking they didn't know how or where to get the kits (hint: Google!!).
- **Turnout appeared to have been rather poor.** The vote count would have to go up by about 2 million or more in order to get to prior election turnouts in the 18 million range. If that holds in the final tallies, then the **Liberal strategists botched it by calling an election in a fourth wave that might have disproportionately cost Liberals the support they wanted, but I guess we'll never know for sure.**
- **Now the focus shifts to timing a Fall fiscal update and then onto a Winter budget** and incorporation of some of the election promises. And Delta, and the Fed, global growth, the US debt ceiling, supply chains, inflationary pressures and oh a million other things that matter more to the outlook than the ambitions of Canadian politicians!
- **Fiscal policy likely faces no incremental pressure in either direction beyond the Liberals' platform.** They won't have to pivot further left toward the big spending NDP as the size of their minority changes nothing. The more 'progressive' wing within the Liberals may also be held in check.
- At the margin, **incorporation of those promises would close spare capacity a bit faster and add to BoC confidence to exit policy stimulus** (chart 2). On its own, however, **it won't be enough to prompt a big pivot at the BoC** as many other things count for far more to the outlook than any incremental fiscal impulses. A slim Liberal minority with a more influential NDP would have been the worst outcome for the bond market on increased spending and likely prompted faster BoC exits over time.
- The BoC will now wait to see a Fall economic and fiscal update that incorporates some of the platform promises and then a Winter budget **with the effects of both incorporated gradually in the January and April MPR forecasts.** Those effects might be mentioned in a paragraph or a box in a future MPR but the BoC has bigger risks to emphasize and so they might just move on.
- **Another early election is likely to occur.** Sorry, I know, too soon.... Trudeau had said at one point that a minority outcome would drive him to try again for a majority but it's unclear whether the signal of back-to-back minorities that could have easily ended up worse for the Libs will temper such guidance. 15 minority governments since Confederation have lasted between 9 months and about 3 years.
- **What's interesting this time around is that an early election in Canada could coincide with the US Presidential election in 2024 and the next Mexican general election in 2024. North American politics will likely create volatile policy conditions around that time frame assuming we get through the US mid-terms intact. Now all we need is for the lost Republicans to go with Trump again...**
- Clearly the electorate was not convinced that any of the main parties deserved a grip on power but it's unclear that substantive matters—at least those related to the economy—carried the day. The Liberals' approach of going after the Conservatives on gun control, the Conservatives' caginess on vaccinations within their own party instead of setting an example for all and the Conservatives' misstep to throw support to Alberta's failed pandemic management cost the Conservatives despite their attempt to pivot left. For that matter, maybe said pivot cost them some of their traditional base! If they ever want to govern then the Conservatives may need to pick what extra special interest baggage to throw under the campaign bus.

- I would think that Maxime Bernier's Peoples' Party of Canada has had its day. It was a protest movement consisting of people who've never been whacked upside the head by a science textbook and with deep-seated control issues that put selfish actions over the greater good. If they couldn't play a bigger role at the peak moment for dissatisfaction on their single-issue pandemic protest platform then it's hard to see how they do any better in future. Canada has 24 individual parties that ran in this election and all of them got some votes, but there is still high concentration with 84% of votes cast for the top three parties. Canadians think they have extremes, but they aren't anywhere close to what exists across other democracies and that's why within reason they all sounded pretty similar to one another in this election.
- Quebec Premier Legault's plea to vote Conservative was soundly rejected by voters in the province.

There was nothing else out overnight that mattered. Sweden's Riksbank projected a hold throughout its projection period until 2024Q3 and look through inflation pressures it expects to rise above 2% over 2022 before declining again. Bank Indonesia also held as expected.

The OECD tweaked its global forecasts since the last time they published way back in May. There were no big changes to the growth projections and modest increases to inflation forecasts in all G7 ex-Japan markets this year and next.

US housing starts rebounded with a 3.9% m/m rise in August that exceeded the consensus guesstimate for a 1% rise. More important is that building permits were up 6% m/m in August after a prior 2.3% rise. Homebuilding is on the rebound.

Otherwise, the focus shifts to the Fed tomorrow amid more calls for disciplinary actions against the Presidents of the Boston and Dallas district banks around their stock trading activities which Powell is likely to be asked about in his presser.

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.	0.21	0.22	0.21	0.82	0.83	0.79	1.31	1.31	1.29	1.86	1.85	1.86	Canada - BoC	0.25
CANADA	0.45	0.44	0.40	0.86	0.86	0.79	1.22	1.22	1.17	1.76	1.76	1.74	US - Fed	0.25
GERMANY	-0.72	-0.72	-0.70	-0.65	-0.64	-0.64	-0.34	-0.32	-0.34	0.16	0.17	0.15	England - BoE	0.10
JAPAN	-0.13	-0.12	-0.12	-0.10	-0.09	-0.09	0.04	0.05	0.05	0.66	0.66	0.65		
U.K.	0.26	0.26	0.23	0.47	0.46	0.42	0.79	0.79	0.74	1.09	1.10	1.04		
	Spreads vs. U.S. (bps):													
CANADA	23	23	19	4	3	1	-9	-9	-11	-10	-8	-12	Euro zone - ECB	0.00
GERMANY	-93	-93	-91	-146	-146	-143	-165	-163	-163	-170	-168	-171	Japan - BoJ	-0.10
JAPAN	-34	-34	-33	-91	-92	-88	-127	-126	-123	-120	-119	-121		
U.K.	5	4	2	-35	-36	-37	-52	-52	-55	-77	-75	-82	Mexico - Banxico	4.50
Equities	Level						% change:							
	Last	Change		1 Day		1-wk		1-mo		1-yr				
S&P/TSX	20155	-335.8		-1.6		-1.9		-0.9		26.1		Australia - RBA	0.10	
Dow 30	33970	-614.4		-1.8		-2.6		-3.3		25.1		New Zealand - RBNZ	0.25	
S&P 500	4358	-75.3		-1.7		-2.5		-1.9		32.8				
Nasdaq	14714	-330.1		-2.2		-2.6		-0.0		36.5				
DAX	15348	216.0		1.4		-2.4		-2.9		22.4				
FTSE	6982	77.8		1.1		-0.7		-1.5		20.3				
Nikkei	29840	-660.3		-2.2		-2.0		10.5		27.7		Canada - BoC	Oct 27, 2021	
Hang Seng	24222	122.4		0.5		-5.0		-2.5		2.1		US - Fed	Sep 22, 2021	
CAC	6546	89.9		1.4		-1.6		-1.2		36.6				
Commodities	Level						% change:							
		Change		1 Day		1-wk		1-mo		1-yr				
WTI Crude	70.68	0.39		0.6		0.3		13.4		79.8		England - BoE	Sep 23, 2021	
Natural Gas	4.92	-0.07		-1.3		-6.5		27.7		168.0		Euro zone - ECB	Oct 28, 2021	
Gold	1771.76	7.61		0.4		-1.8		-0.5		-7.4				
Silver	22.40	-0.62		-2.7		-5.0		-3.5		-17.2		Japan - BoJ	Sep 22, 2021	
CRB Index	218.10	-4.01		-1.8		-1.5		5.4		47.5				
Currencies	Level						% change:							
		Change		1 Day		1-wk		1-mo		1-yr				
USDCAD	1.2795	-0.0027		-0.2		0.8		1.1		-3.9		Mexico - Banxico	Sep 30, 2021	
EURUSD	1.1735	0.0009		0.1		-0.6		-0.1		-0.3				
USDJPY	109.27	-0.1700		-0.2		-0.4		-0.4		4.4		Australia - RBA	Oct 04, 2021	
AUDUSD	0.7240	-0.0012		-0.2		-1.1		0.4		0.2				
GBPUSD	1.3663	0.0006		0.0		-1.1		-0.4		6.6		New Zealand - RBNZ	Oct 05, 2021	
USDCHE	0.9237	-0.0039		-0.4		0.4		1.2		1.0				

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