

Contributors

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On Deck for Monday, December 20

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	12-20	10:00	Leading Indicators (m/m)	Nov	--	0.9	0.9

KEY POINTS:

- **Markets start the week defensively positioned with lighter volumes**
- **New week, same COVID-19 uncertainties**
- **Manchin’s tactics may be deplorable...**
- **...but the US economy and markets can live without BBB**
- **The PBOC’s tiny rate cut: why bother?**
- **Chilean peso drops on election results**

A light week is starting off defensively with risk-off sentiment dominating. US equity futures are down by over 1% with TSX futures not far behind, while European markets are down by 1–2% across the exchanges. Sovereign curves are mixed with US Treasury yields bull steepening and led by a 2bps decline in 2-year yields. The USD is slightly softer on balance and oil is off by ~3–4%.

Lighter holiday trading may be a contributor; FTSE equity volumes are the lightest for this day in decades. COVID-19 developments are nevertheless dominating market sentiment with an assist from the fact it looks like additional US stimulus is either dead or faced with further curtailment, something I view as an eminently survivable outcome!

US Senator Manchin pulled support for the Biden administration’s US\$1.75 trillion “Build Back Better” fiscal stimulus package. There is a case for doing so, although his tactics are rather deplorable. The volatile senator had appeared to be supportive of the reduced price tag but then seemed to suddenly pull his support in grandstanding fashion on Republican-friendly Fox News TV without warning, while citing Republican estimates for the cost of the Biden package and while being unreachable by the White House. Um, whose team are you on?? One can perhaps understand why his colleagues among the Democrats are incensed. Manchin’s weak defence seemed to center around concern that additional debt would hamper the US ability to fight the omicron variant and address tensions with Russian and China.

Tactics aside, I think the US economy can do without additional fiscal stimulus at this point. I don’t personally disagree with several of the types of spending given evidence on longer run outcomes for kids with respect to things like preschool spending and childcare, although there is still a fair debate over the best means to achieve this—such as whether big government should be doing it—and how to pay for it. It’s just that further fiscal stimulus at this point in the cycle is tilted more toward higher risk than higher reward from an inflation and stability standpoint. The US economy recovered the pandemic hit by the end of the second quarter. By early 2022, the output gap will be shut. Thereafter, the US economy begins pushing into excess aggregate demand and a second leg of inflationary pressure arises when damaged supply chains are combined with Phillips curve arguments. Our forecast for 4.2% real GDP growth in 2022 and then 3.2% in 2023 is far above estimates of the noninflationary potential growth rate of the US economy and would only be modestly dented if BBB is dead, or perhaps to be scaled back. Now, as a forecaster aligned toward financial markets, you could choose to showboat for the press with headlines on the negative effects on growth—or point to how it may mean marginally less pressure on inflation and broader stability into 2022–23. I’d choose the latter.

In any event, some of this morning’s media headlines about a loss of Fed and fiscal support for the US economy are laughably extreme. The real policy rate by any yardstick is

December 20, 2021

more stimulative than ever before, the Fed will continue adding stimulus through to March and then only pivot toward a slow pace of mostly priced rate hikes that still leave the policy rate below most estimates of neutral. The Fed is anything but hawkish after having slept walk through the burst of inflation and much of what has been delivered through fiscal stimulus to date is still logjammed on household balance sheets via their massive increase in cash positions through the pandemic. So, add more? Keep spending?? I hear the argument that we have to think long-term and enact child friendly initiatives when they can be achieved, but I also see the argument on how the inflation tax harms the lower to lower-middle income households with young kids who are the very ones that could benefit the most from such spending.

China's 1-year Loan Prime Rate was cut 5bps to 3.8% overnight with the 5-year LPR unchanged at 4.65%. No joke. The best China can do for world growth is a thoroughly meaningless rate cut. The reduction was a surprise to markets because normally China cues up such a move through other measures in advance, such as a reduction to the 1-year Medium-Term Lending Facility Rate that it left unchanged on the 14<sup>th</sup>. I suppose the symbolism of the move matters a bit, given that authorities had long opposed additional monetary stimulus despite mounting downside risks to the economy, but 5bps cynically addresses this criticism absent any meaningful implications unless it starts a series of moves.

The Chilean peso is depreciating by about 3% so far in early trading and stocks will probably sharply decline after the left-wing candidate convincingly won yesterday's election. Gabriel Boric is the new President and draws upon his roots as a young leftist student protestor while emphasizing a more redistributive policy agenda. Boric's policies are generally unfriendly to markets including higher taxes on wealthy individuals and copper mining plus a fourth round of massive and untargeted pension withdrawals that are depleting the nation's private pension reserves. After an initial reaction, markets will shift toward assessing what he may reasonably accomplish in a highly divided Parliament.

There is nothing material on tap for release into the North American session.

COVID-19 developments are focused upon rapidly rising cases across more parts of the world, while Moderna's booster tests point toward as much success in countering omicron's hit to antibody levels as the earlier results for the Pfizer booster. We're still left with little evidence on severity of omicron cases at this stage. Early evidence on severity seems to be cautiously optimistic, but it's highly premature to draw overly strong conclusions in that regard given the recency of developments. We'll need to wait until into January before having more information on severity. The usual Monday round-up of global COVID-19 cases is provided in the collection of ensuing charts.

- Europe: Cases continue to climb in several major economies but may be ebbing in some of the smaller ones, although data quality is likely a strong caution across all of the charts in terms of the speed of developments, testing and reporting.
- US: Cases continue to climb especially in the Midwest and Northeast.
- Canada: Cases are rapidly rising. Quebec is leading the climb, but material increases are also occurring in Ontario, BC, Manitoba, New Brunswick and Nova Scotia.
- Latin America: Cases remain low across the main countries.
- Asia-Pacific: Cases keep falling Singapore from outlier levels and are generally well behaved across most regions except for mildly rising cases in South Korea.
- Middle East: Jordan and Lebanon continue to witness upward trends while others are seeing generally few cases.

Chart 1

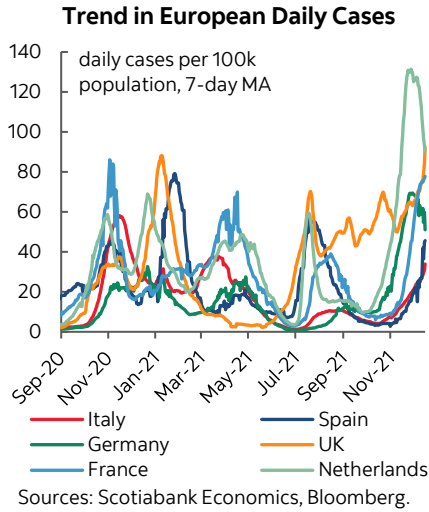


Chart 2

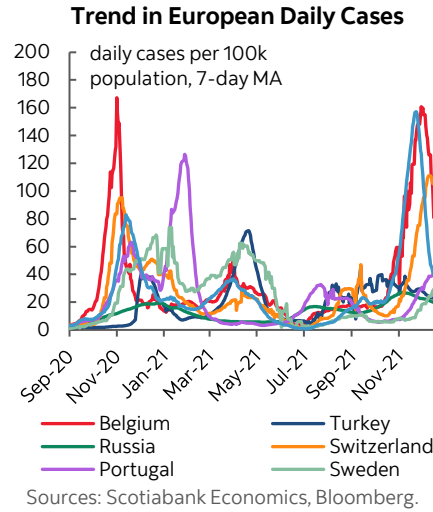


Chart 3

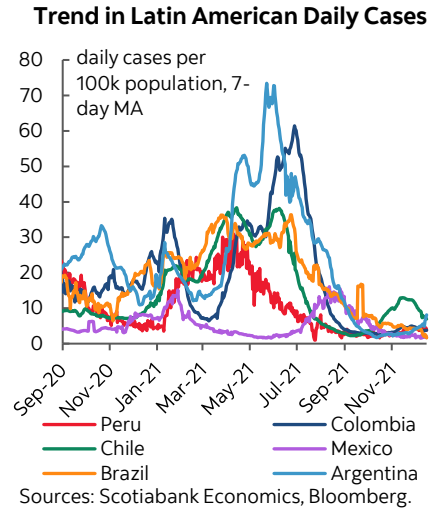


Chart 4

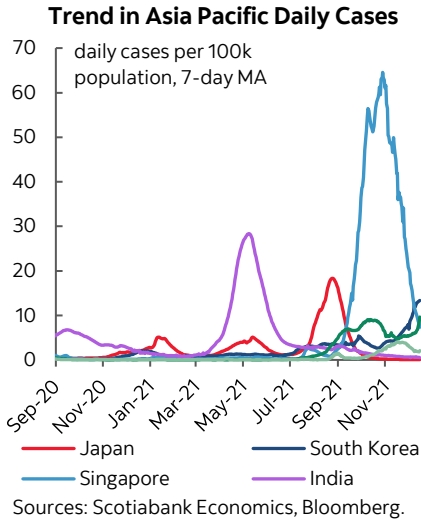


Chart 5

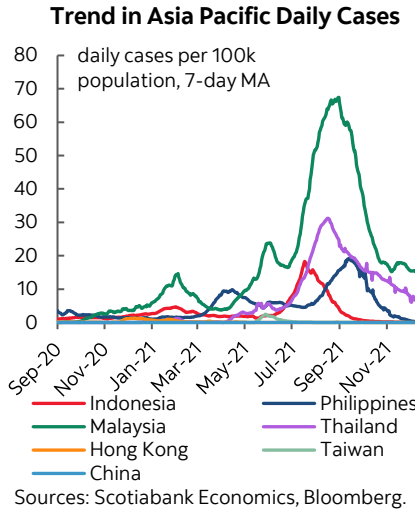


Chart 6

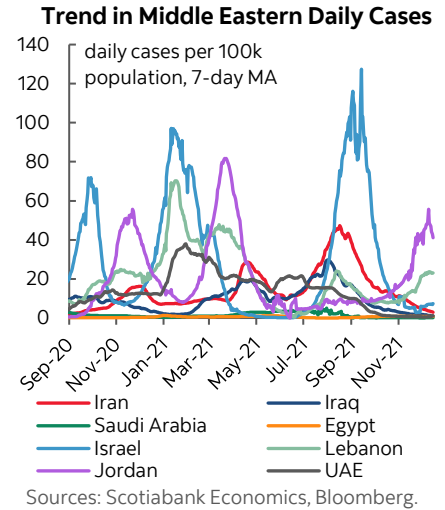


Chart 7

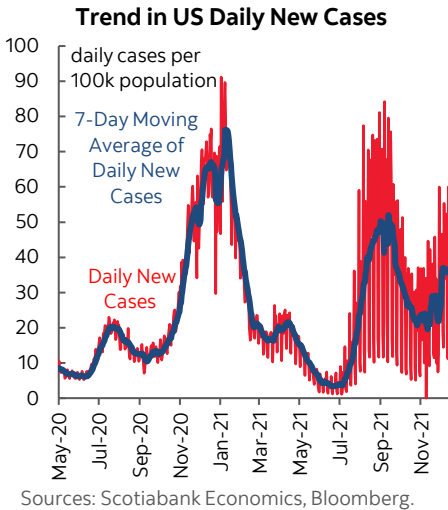


Chart 8

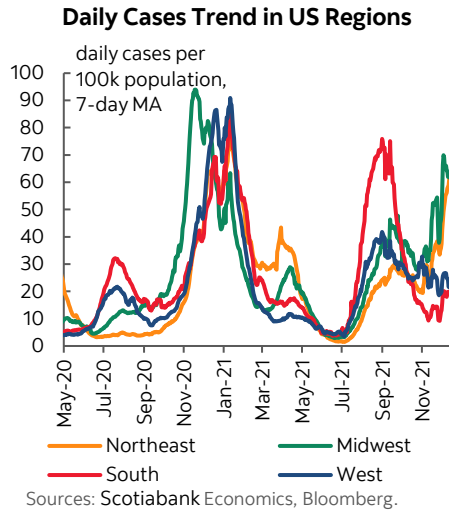


Chart 9

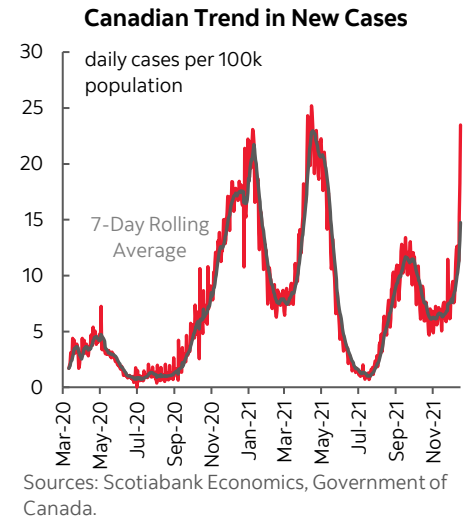
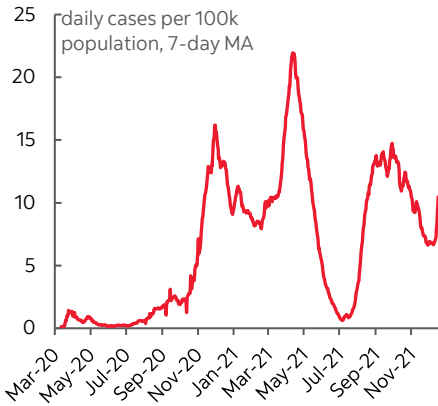


Chart 10

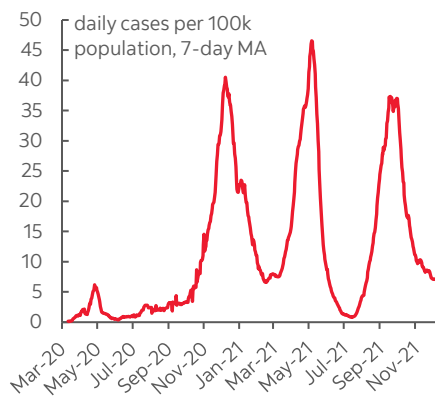
**British Columbia Trend in New Cases**



Sources: Scotiabank Economics, Government of Canada.

Chart 11

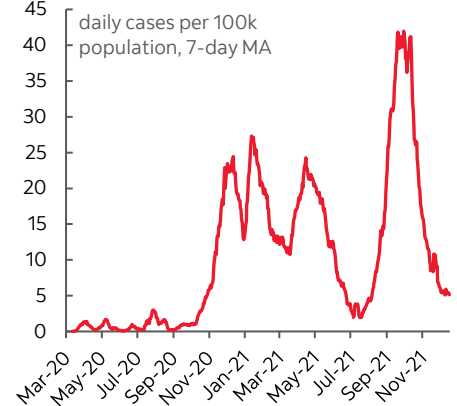
**Alberta Trend in New Cases**



Sources: Scotiabank Economics, Government of Canada.

Chart 12

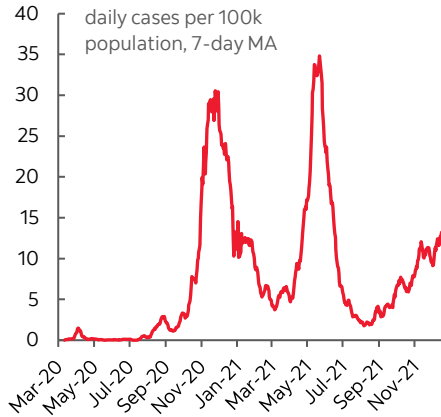
**Saskatchewan Trend in New Cases**



Sources: Scotiabank Economics, Government of Canada.

Chart 13

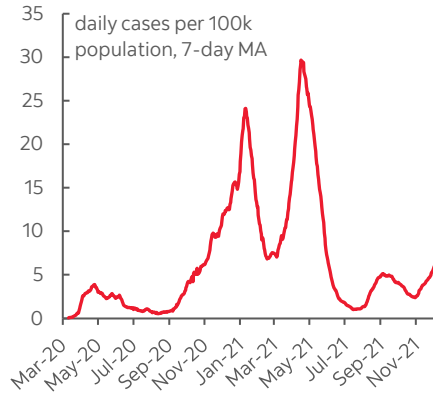
**Manitoba Trend in New Cases**



Sources: Scotiabank Economics, Government of Canada.

Chart 14

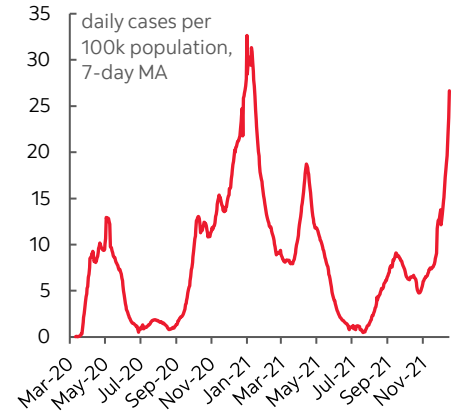
**Ontario Trend in New Cases**



Sources: Scotiabank Economics, Government of Canada.

Chart 15

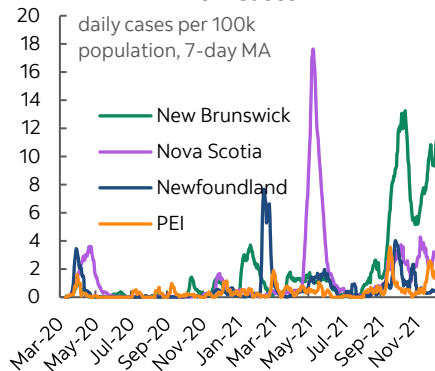
**Quebec Trend in New Cases**



Sources: Scotiabank Economics, Government of Canada.

Chart 16

**Atlantic Provinces Trend in New Cases**



Sources: Scotiabank Economics, Government of Canada.

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.	0.62	0.64	0.64	1.15	1.18	1.21	1.40	1.40	1.42	1.82	1.81	1.80	Canada - BoC	0.25
CANADA	0.89	0.91	0.92	1.16	1.18	1.24	1.32	1.32	1.39	1.67	1.67	1.74	US - Fed	0.25
GERMANY	-0.72	-0.72	-0.70	-0.60	-0.61	-0.60	-0.36	-0.38	-0.38	-0.01	-0.04	-0.08	England - BoE	0.25
JAPAN	-0.09	-0.11	-0.10	-0.10	-0.10	-0.09	0.04	0.05	0.05	0.65	0.66	0.67	Euro zone - ECB	0.00
U.K.	0.53	0.51	0.40	0.63	0.61	0.53	0.76	0.76	0.70	0.95	0.93	0.84	Japan - BoJ	-0.10
	Spreads vs. U.S. (bps):													
CANADA	27	27	28	1	0	3	-8	-8	-2	-15	-14	-6	Mexico - Banxico	5.50
GERMANY	-134	-136	-134	-175	-178	-181	-176	-178	-180	-183	-185	-188	Australia - RBA	0.10
JAPAN	-71	-75	-73	-126	-127	-129	-136	-135	-137	-117	-115	-114	New Zealand - RBNZ	0.75
U.K.	-9	-13	-23	-52	-56	-68	-64	-64	-72	-87	-88	-97		
Equities	Level						% change:						Next Meeting Date	
	Last			Change			1 Day	1-wk	1-mo	1-yr				
S&P/TSX	20739			-0.6			-0.0	-0.0	-3.8	18.3			Canada - BoC	Jan 26, 2022
Dow 30	35365			-532.2			-1.5	-1.7	-0.7	17.2			US - Fed	Jan 26, 2022
S&P 500	4621			-48.0			-1.0	-1.9	-1.6	24.6			England - BoE	Feb 03, 2022
Nasdaq	15170			-10.8			-0.1	-2.9	-5.5	18.9			Euro zone - ECB	Feb 03, 2022
DAX	15229			-302.2			-1.9	-2.5	-5.8	11.7			Japan - BoJ	Jan 18, 2022
FTSE	7194			-76.2			-1.0	-0.5	-0.4	10.2			Mexico - Banxico	Feb 10, 2022
Nikkei	27938			-607.9			-2.1	-2.5	-6.1	4.6			Australia - RBA	Jan 31, 2022
Hang Seng	22745			-447.8			-1.9	-5.1	-9.2	-13.5			New Zealand - RBNZ	Feb 22, 2022
CAC	6851			-76.1			-1.1	-1.3	-3.7	23.9				
Commodities	Level						% change:							
			Change			1 Day	1-wk	1-mo	1-yr					
WTI Crude	67.76		-3.10			-4.4	-5.0	-11.0	38.0			England - BoE	Feb 03, 2022	
Natural Gas	3.85		0.16			4.4	1.6	-23.9	42.7			Euro zone - ECB	Feb 03, 2022	
Gold	1797.45		-0.66			-0.0	0.6	-2.6	-4.5			Japan - BoJ	Jan 18, 2022	
Silver	22.65		0.47			2.1	3.4	-9.6	-12.0					
CRB Index	225.14		-2.10			-0.9	-0.1	-4.2	35.3					
Currencies	Level						% change:							
			Change			1 Day	1-wk	1-mo	1-yr					
USDCAD	1.2933		0.0044			0.3	1.0	1.8	0.6			Mexico - Banxico	Feb 10, 2022	
EURUSD	1.1292		0.0052			0.5	0.1	0.5	-7.8			Australia - RBA	Jan 31, 2022	
USDJPY	113.56		-0.0700			-0.1	0.0	-1.1	9.9			New Zealand - RBNZ	Feb 22, 2022	
AUDUSD	0.7124		-0.0001			-0.0	-0.1	-1.4	-6.1					
GBPUSD	1.3239		-0.0006			-0.0	0.2	-1.2	-1.7					
USDCHF	0.9221		-0.0013			-0.1	-0.1	-1.1	4.1					

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