Global Views

Weekly commentary on economic and financial market developments

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This Week’s Featured Charts

Still Slack Left in U.S. Labour Markets?

Shaded areas denote U.S. recessionary periods.
Source: Scotiabank Economics, BLS, NBER.

U.S. Employment Cost Index

Source: Scotiabank Economics, BLS.

Please see the Global Forecast Update, September 30, 2015, for our latest economic, interest and exchange rate and commodity price forecasts and the Foreign Exchange Outlook, October 2015, for more detailed currency forecasts and commentary.

Global Views is available on scotiabank.com, Bloomberg at SCOT and Reuters at SM1C
China Turning?

- Please see our full indicator, central bank, auction and event calendars on pp. A3-A9.

Asia — Is Chinese Data About To Face Upsides?

There will be four main focal points in Asian markets next week, but only one of them of potential global significance beyond regional market implications. It is possible that distortions present in prior readings could give way to upside risk to China’s purchasing manager indices (PMIs) and this could signal a turning point on China sentiment compared to recent data.

The first point on China’s PMIs is that the release schedule has changed this time. Gone is the mid-month ‘flash’ version of the private PMI for the manufacturing sector. That was based on the majority of the sample and subject to revision on the more complete sample later in the month. The private source has opted to end the ‘flash’ PMI and go with just the final version starting this month. So one implication is that instead of a two week drawn-out market focus on Chinese PMIs, the China-PMI trade will be more concentrated this time around. The state versions of the manufacturing and non-manufacturing PMIs arrive when ghouls and goblins are traipsing across North American roads. Into the Monday Asia market open, we’ll then get the private version of the manufacturing PMI. Two days later the private services PMI and the private composite PMI will be released. Thus, the China-PMI trade will be primarily focused on the Monday market open in Asia and handed off by the time European and North American markets wake up.

The second point on China’s PMIs entails recalling two things that our resident China crackerjack Frances Donald emphasizes. The lesser of the two is that China held its military parades the first week of September and it’s unclear whether this suspended enough activity to distort the PMIs; China has only held this parade in 1959, 1984, 1999, 2009 and this year. The far bigger point entails recalling that the massive explosions at the port of Tianjin occurred on August 13th. The China Earthquake Networks Centre noted that the two explosions combined were equivalent to 24 tonnes of TNT going off (pics here). That’s about three times more powerful than the Texas fertilizer plant explosion in 2013, half the explosive power of Russia’s “father of all bombs,” and twice as powerful as the US “Massive Ordinance Air Blast Bomb.” Tianjin is a city of 15 million people and a major port that is ranked 10th largest in the world and 4th largest in China which has seven of the top ten world ports and all but one of the top ten in Asia (here). The explosions wiped out goods waiting to be shipped, and ground port activity to a halt. Hydrogen cyanide gas leaked into the environment including water supplies. Various chemicals were being stored at the port without a license and stored together in unsafe fashion. This port is known as a major conduit for trading metals, and several companies reported negative effects on their operations including Toyota which shut factories near Tianjin temporarily. The point for the PMI is that as port activity was

Chart 1

Tianjin Explosions Hit A Large Port

Source: Scotiabank Economics, World Shipping Council.
CN=China, SK=South Korea, NE=Netherlands, MY=Malaysia, DE=Germany, BE=Belgium.
gradually restored, it could lead to upside risk to the PMIs following disruptive influences in August and September. If so, then at least some of the recent China sentiment that has been in part data-dependent has been excessively bearish — a point we’ve emphasized repeatedly in our bias that the late-summer risk-off trade was exaggerated.

Across the rest of Asia, the next focus is likely to be on Australia. It will be impacted by Chinese data into the Monday open, but also faces its own domestic sources of market risk over the week. An RBA decision is uncertain with 17 of 29 economists expecting a hold but the other dozen expecting a rate cut. An upside surprise to China’s PMI could be instructive in this regard. Australia also releases trade and retail sales.

Other central banks of more regional consequence will issue rate decisions including Bank Negara Malaysia and the Bank of Thailand, both of which are expected to hold their policy rates. Informing the policy bias across the region will be CPI inflation prints from Indonesia, Philippines, South Korea, and Thailand. Additional regional macro releases will include New Zealand jobs and South Korean trade.

**Canada — Steve & Jobs**

A pair of reports will advance the dialogue on the Bank of Canada’s outlook, while earnings releases will accelerate.

Friday’s Labour Force Survey will advance the dialogue over whether Canadian job markets are resilient in the face of ongoing softness in the resource sector and improved growth across non-resource sectors of the economy. On a year-to-date basis Canada has created 127,000 new positions and 207,000 jobs since commodity prices — particularly oil — peaked over a year ago. That said, job market surveys have been rather conflicted very recently. The less-watched and lagging Survey of Employment, Payrolls and Hours indicated that Canada lost 58,600 payroll positions in August. The more widely followed and timely Labour Force Survey — a household survey — had recorded a headline job gain of 12k in August driven by +54k full time jobs and -42k part-time jobs. The LFS includes the self-employed, but the SEPH does not because it’s a payroll survey, yet this difference doesn't explain the discrepancy. According to the LFS for August there were 33,500 more payroll positions and 21,600 fewer self-employed, versus the SEPH's -58,600 loss of payroll spots. That gives a spread between what the two measures estimate as payroll growth equal to a rather large 92,100 jobs. To put that in equivalent terms for a US audience, that's like about a one million difference between what the US household survey would say in a particular month versus what the nonfarm report says. Over time the two surveys tend to converge on a trend basis, but significant departures in the short-term can cause unease over which is providing the more accurate picture.

The second main macro debate of the week is whether export growth will remain resilient not only for the month of September but also for the whole quarter. Chart 2 shows that with figures available up to August, the third quarter was tracking a rapid annualized gain in exports and with diverse advances across aircraft, autos, industrial equipment and other non-resource categories. At the global level, sentiment toward export growth is excessively bearish. In the depths of the global financial crisis, world export growth summed up across all...
THE WEEK AHEAD

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nations was plummeting both in terms of values and more importantly the volume of exports. Today, all of the plunge in world exports has been driven by lower prices and principally lower commodity values; export volumes themselves are still in positive growth territory. See chart 3.

Earnings season ramps up again with 72 firms listed on Toronto’s TSX reporting including well known names like Brookfield, SNC-Lavalin, Magna, Great-West Lifeco, Telus, Enbridge, Air Canada, BCE, Sun Life, Home Capital, and Linamar.

Canada conducts a 5 year auction on Wednesday.

United States — Will Nonfarm Support A 2015 Rate Hike?

First tier macro data — especially nonfarm payrolls, heavy Fed speak and earnings could post global market risk next week.

Will the abrupt slowing of jobs gains in August and September stand up to revisions, and will job growth rebound in next Friday’s October print? If not, and a third disappointment is in store, then it could dampen expectations for a 2015 rate hike as one of many factors that could influence the FOMC debate on December 16th. Consensus is following the latest trend in driving about a 180k expectation for the October report. One concern of ours is that job growth may have decelerated and perhaps may not have bottomed given a bloated inventory cycle and a fairly coincident relationship with jobs gains (chart 4). For more, we recently issued this report titled “Proceed Carefully Forecasting Fed Hikes.”

Federal Reserve officials will drive an active calendar of post-FOMC meeting speeches — but most of it arrives before nonfarm payrolls which poses the risk that markets might come to treat the communications as stale by the end of the week. Chair Yellen addresses a House Financial Services Committee session on regulatory matters on Wednesday. That same day, New York Fed President William Dudley speaks about the economy, and Vice Chair Stanley Fischer speaks to a group of economists which suggests an outlook orientation and policy focus. Dudley and Fischer then speak at a conference on banking culture the next day. Fed Governor Lael Brainard will be on an IMF panel on “Policy Lessons And The Future Of Unconventional Monetary Policy” and will be the only voting policy member to speak post-nonfarm. Atlanta Fed President Dennis Lockhart (voting) and St. Louis Fed President James Bullard (alternate) also speak with the latter commenting post-nonfarm. Philly Fed President Patrick Harker has kept quiet and has the luxury of being able to do so given he doesn’t get a formal policy vote until 2017. He delivers welcoming remarks at two conferences that carry low risk, but his views on monetary policy matters would be welcome.

While nonfarm payrolls will dominate market attention, several other macro releases could be influential to markets. ISM manufacturing may fall below the 50 mark and signal mild contraction in the manufacturing sector. That’s not a certainty, however, in that a number of regional manufacturing surveys either stabilized or improved marginally on the month. Vehicle sales may have slipped off the highest level since a brief period in 2005 but the trend remains astounding as sales are 100% higher than the lows of 2009. Factory orders (Tuesday) will probably follow the already-announced durable goods orders report lower with the new information primarily being what happened to about half of the report that is comprised of nondurable goods. ADP private payrolls (Wednesday) usually offer little assistance as a guide to private nonfarm payrolls in the more important overall nonfarm report. The ISM services print is likely to continue to portray a fairly decent pace of growth in the two-thirds of the economy represented by services. Last, a 3% rise in WTI oil prices
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during September over August is expected to be among the factors driving a marginal narrowing of the US trade deficit (Wednesday) just after it had posted the second-worst monthly result of the year.

One of the few things longer than the US Presidential election campaign is US earnings season. It continues next week with 104 firms releasing including names like Visa, Loews, Berkshire Hathaway, Walt Disney, Facebook, Time Warner, CBS, and Kellogg.

**Europe — Higher Or Lower BoE Inflation Signals?**

The primary focus in European markets will be upon a Bank of England meeting, ECB speak, and second tier European data.

Our London-based Bank of England guru Alan Clarke is going to be busy again next Thursday as he deals with what he dubs “Super Thursday” at the BoE. No, it’s not an American football reference. It refers to the fairly recent changed practice of firing off all of the guns on Threadneedle Street at once through the release of the rate decision, minutes of the monetary policy committee’s meeting, and the BoE’s quarterly inflation report. It is much like what the Bank of Canada has done for years but that Carney brought with him to the BoE. Clarke thinks that compared to the August Inflation Report, the change in oil prices, the exchange rate and market rates give cause for revising up the BoE’s medium-term inflation projection from what was already a 2.09% y/y projection in August. Offsetting this in part has been the tone of BoE communications and UK growth data. This is a more aggressive view than consensus that is more reserved in its call for how the BoE might change inflation guidance and it informs Scotia’s forecast for a first hike by February of next year compared to later next year according to market pricing. Having tracked and forecast BoE Governor Carney’s moves when he was at the helm of the Bank of Canada, I can see similarities to the guidance he provided then and what he is saying now: “There’s no certainty that they [ed. rate hikes] will happen, but it is a better position to be in if households expect what we think is likely to happen, and to some extent are prepared for it.” For some time in the latter half of his BoC mandate Governor Carney warned Canadian households of the need to brace for higher rates.

Also note that ECB President Mario Draghi speaks on Tuesday and, in light of the slightly firmer-than-expected recent inflation figures, could address whether this impacts his recent comments that hinted at further policy accommodation at the December meeting.

**European data risk will be primarily comprised of second tier hits** like industrial production out of Germany and the UK, trade figures from the UK and France, German factory orders and the EC retail sales add-up. Also note that the European Commission releases forecasts on Thursday.
An Update On Japan’s “Deflationary Mindset”

- The Japanese wage outlook is slowly improving, but there’s a long way to go.

Earlier this year, we wrote here about how important it is for the success of Abenomics that wages rise, but that the country faces large structural hurdles to achieving rising incomes. The majority of those challenges remain, but we have noticed some improvement in key data worth flagging, particularly following the BoJ’s decision to hold off from further easing.

First, base wages have risen for three consecutive months (chart 1). While total wages (base wages plus bonuses) are often referenced, longer-term consumer decisions are more likely to be made off of base wages and are thus instrumental in dislodging the deflationary mindset. Second, real wages have now risen for two months, in part because of rising nominal wages but also low inflation. However, should base wages continue to grow at less than 1%, and inflation rise towards the 2% target, real wage growth will come under pressure. In conjunction with the BoJ’s 2% inflation target, a further acceleration in base wage growth is needed.

Has the mild wage growth been enough to change expectations?
Several surveys give us further insight into household thinking and generally tell the same story: the outlook for wages (and thus spending) is gradually improving, but underlying structural pessimism has yet to be broken. The Bank of Japan’s Household Survey finds that only 8% of households expect to earn more next year (chart 3), an improvement but still muted. The income growth subindex of Consumer Confidence has improved over the past year but remains firmly below 50, signifying the balance of households continue to expect conditions to worsen (chart 4). The underlying problem may be that the outlook for prices is unchanged over the past year, and it’s difficult to say that expectations are only temporarily being pushed down by falling oil prices as the five year expectation is even weaker than the one-year expectation (chart 5).
The Trans-Pacific Partnership To Benefit Member Countries

- The Trans-Pacific Partnership (TPP) will provide considerable benefits for the 12 member countries by promoting manufacturing and services activity, boosting investment, and helping members reduce their reliance on Chinese demand.

- For these benefits to be realized, a legal review and ratification of the agreement by each member country is required.

The TPP is the largest trade agreement in history. Participating countries have a total population of more than 800 million and account for roughly 40% of global GDP, a quarter of the world’s merchandise trade, and close to 30% of global inbound foreign direct investment. The TPP is also a “modern” trade agreement. In addition to promoting economic growth through trade and investment liberalization, it would establish a new standard for economic integration and regulatory harmonization. While reducing tariffs as well as non-tariff and technical barriers to trade, the agreement simultaneously aims to streamline frameworks for investment flows and governance, including such areas as e-commerce, intellectual property, dispute settlement, government procurement, labour practices, environmental protection, and the role of state-owned enterprises.

Trade and investment liberalization does not only increase the potential market size for domestic companies but it should also raise productivity and innovation through enhanced access to technology and expertise. Moreover, efficiency gains would result from increased competition as domestic industries are aligned with each country’s comparative advantage. Trade liberalization generally benefits the smallest economies most, as well as those that have substantial existing trade barriers. As the chart demonstrates, economic openness and economic development correlate strongly.

Given that manufacturing accounts for around three-quarters of world merchandise trade, trade liberalization and increasing supply chain integration under the TPP would provide the member states’ manufacturing sectors with the largest nominal benefits, even though the sector’s import penetration is already significant. Meanwhile, the services sector should also benefit substantially, since the TPP focuses on services, which are often among the most protected sectors, and bearing that the agreement includes several rapidly growing developing economies and services tend to increase in importance as a country’s income rises.

The U.S. market will continue to play a dominant role in TPP trade and investment dynamics. However, the agreement should encourage larger flows between the Latin American and Asia-Pacific regions. Exports between TPP nations amounted to US$2.1 trillion in 2014 (up 24% since 2010). In contrast, the proportion of intra-TPP exports fell from 82% of total exports in 2010 to 48% in 2014 as China has become a major export partner for many countries. While the relative importance of the Latin American-Southeast Asian trade and investment relationship has waned over the past decade due to expanding trade linkages with China, this agreement serves as an opportunity to reestablish strategic commercial ties.

For analysis on country level benefits within Asia-Pacific and Latin America, please see our report “The Trans-Pacific Partnership To Benefit Asia-Pacific And Latin America”, published October 27th, at scotiabank.com/economics.
Proceed Carefully Forecasting Fed Hikes

Scotiabank Economics continues to forecast the mildest hiking cycle on record with the first increase in the Fed funds target rate coming in December of this year and ending next year around 1½%. Chart 1 compares past cycles starting with the first hike to the dashed black line that depicts our forecast for the current cycle through to the end of 2016.

With quarterly US growth averaging 2.3% from 2014Q1-2015Q3 and 3.3% if the mystery surrounding persistent Q1 disappointments is removed, it’s hardly apparent that growth is so much weaker than past cycles as to justify emergency levels of stimulus. That held true in Q3 because GDP growth excluding a constructive inventory drag would have been about 3% as consumer spending grew by over 3% for the second consecutive quarter. That emergency stimulus is not needed is further reinforced by this cycle’s unprecedented unconventional stimulus and the lowest starting point ever for the target rate. Further, we project headline and core inflation — using the Fed’s preferred measures — to rise to around the 1½% range y/y throughout next year and thus well above emergency era lows. As always, our rate call is significantly predicated on Fed guidance in addition to our views on how we expect the US and global economies, inflation and markets to evolve.

The main purpose of this note, however, is to emphasize recent developments as reasons for treading carefully in projecting rate hikes — especially in the near-term.

1. **Policy and markets may have already over-tightened**

The shadow fed funds rate that translates changes in unconventional policy such as forward guidance and ending asset purchases has already risen by quite a lot (chart 2). We wrote about this on page 10 here.

Further, the shadow rate doesn’t incorporate the USD that has come on stronger than forecast. There was a time when I was writing about how the appreciation in the USD wasn’t enough to truly matter but that was before the Fed’s broad dollar index climbed to its highest since 2003 (chart 3) and turned out to be much stronger than most had forecast. While the US economy is among the most closed in the world by way of its trade dependence as a share of GDP, the magnitude of the USD run-up can no longer be discounted as a knock on growth and inflation. The currency is doing the Fed’s work.

In addition, credit market conditions have tightened. High-yield debt spreads have widened markedly and sit at their widest since 2012 when, for example, European contagion risk was a global concern (chart 4). The Fed should be worried about aggravating tighter access to financing within the context of a moderate exit from crisis-era deleveraging.

2. **Bucking the herd**

Central bankers run in packs. We’ve seen that time and again. With the PBOC having eased and likely to continue doing so, the ECB and BoJ likely to ease in future, and with smaller central banks like the Riksbank, RBA and Bank of Canada having been engaged in easing cycles, it may prove difficult for the Fed to hike. This may show that these other central banks are getting their own houses in order and alleviating Fed worries about international risks, but lumped in with those international and market risks is the...
impact on the greenback. Hike while others are loading up on stimulus and you may well wind up with the strongest USD since at least the past couple of decades and thus rivalling the strength of the USD at the peak of the dot-com bubble.

The overwhelming bias across central banks around the world is to prefer a softer currency as a beggar-thy-neighbour approach to improving their trade competitiveness and punting disinflationary pressures to the Federal Reserve. This is a currency market straight jacket to the Fed and it punts the aftermath of the US-centric crisis right back to the US.

3. The US inventory cycle is bloated

The economy-wide inventory-to-sales ratio is at its highest since the depths of the crisis in 2009. Not as high, but moving in that direction as per chart 5. Optimism about the cycle resulted in a desired inventory build that, well, is not so desired now because it simply got carried away. Ergo, softness in industrial readings like industrial output and manufacturing surveys in order to work off this excess. A period of inventory disinvestment may be upon us and I’m not sure that’s something that should be looked through. The magnitude of the run-up bucks the trend that was in place until the crisis hit back when just-in-time-inventory management systems and technology were putting downward pressure on inventories. Note that in the Q3 GDP report, inventories continued to climb at an annualized pace of US$57 billion following large gains of about $113 billion in each of the prior two quarters. Inventory investment dragged about 1½ percentage points off of Q3 GDP growth because the rate of investment slowed, but they still continued to climb. Thus, as yet, there has been little to no progress toward bringing inventories back in line with sales as purchasing managers simply became too optimistic and overshot on their order books. I’ve often quipped that the worst thing that can happen to a forecast for a rebounding economy is that too many people actually believe it too strongly.

4. Uncertain job market outlook

A bloated inventory cycle could result in an extended period of weak job growth and that would provide added reason not to look through the inventory cycle. That has tended to be the pattern over time. It could well be a coincidence as other forces have influenced both the inventory and jobs cycles. But there is information in the correlation between the two (chart 6), and it suggests that a downdraft in employment growth that began over the past couple of months may have further legs to it on a trend basis. We need more information to assess the risks to employment growth before pulling the trigger. One might think that if job growth unexpectedly slowed and we don’t really have a firm handle on why in all honesty, then one should be concerned about possible future trend weakening and perhaps even harsher outcomes rather than to stubbornly look through the past two months of softer job gains.

5. Inflation in 2017

Headline inflation will rise into next year in terms of the Fed’s preferred measure which is the price deflator for personal consumption expenditures. That’s a function of shaking out the year-ago base effects of lower
U.S. MONETARY POLICY

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commodity prices. But then fast forward to 2017 — or the second half of next year for that matter — and it's unclear what happens to inflation and yet that's the time frame for lagging influences of monetary policy adjustments that could be entertained later this year or into early next year. Scotiabank Economics forecasts 2%+ headline inflation in 2017 with core PCE inflation just a few tenths behind and at a non-emergency rate, but as always the inflation forecast that far out is subject to a wide forecast range. A transitory upswing in the near-term inflation readings could prove as transitory as the downswing over the past year. How transitory various influences may be upon headline and core measures of inflation and over what time frame is being interpreted in varying ways by different global central banks and in the context of high uncertainty surrounding inflation projections at the best of times.

6. A seasonal soft patch may be looming

As chart 7 demonstrates and as we've written about over the years, we're now going into the funky period of growth disappointment and nobody really understands why. First quarter economic growth in the US economy has persistently disappointed expectations and began to do so long before the global financial crisis, so we’re not just talking about fleeting effects of factors like harsher-than-normal winter weather in some of those quarters. Some, like economists at the San Francisco Federal Reserve, think it’s a seasonal adjustment problem (here) and, if so, the Fed should look through such a distortion. They adjust for this by seasonally adjusting seasonally adjusted data. We feel your pain in reading that sentence. Others, like economists at the Board of Governors of the Federal Reserve itself (here) and the NY Fed (here) dispute this reasoning. That suggests the Fed is not likely to fully look through potential Q1 growth disappointment. The bottom line? There remains considerable uncertainty over why the first quarter tends to disappoint but facing this uncertainty should result in a cautious Fed policy bias.

7. What bubble?

There is no pressing overall urgency to act toward tightened policy now from the standpoint of asset price imbalances.

High-yield spreads are rich as previously alluded to. Sovereign bonds are richly priced but higher grade corporate spreads have also widened materially over the past year with Moody’s BAA corporate index yield up by about 100bps to 5.3% now. US stock markets are around the upper end of fair value by the eight valuation measures we use and, in our opinion, not close to the periods of extreme over-valuation like the dot-com era and 1987. Emerging markets have come well off their past excesses as evidenced by equities and currency moves (chart 8).

In conclusion, nothing about the Federal Reserve is forecast in a rates vacuum. A rates forecast is subject to its own risks, but is also heavily dependent upon forecasts for US and international growth and inflation, the USD and other currency market developments, commodity prices, and broader financial market developments. Each is subject to random shocks. It is this interdependence of forecast variables that makes the Fed’s job challenging — and along with that the jobs of those forecasting the Fed. Reasons cited in this note provide a case for caution and we feel that is adequately demonstrated in what amounts to projecting the slowest and most plodding path for rate hikes in modern times. In my opinion, the balance of risks as understood at this moment is skewed toward being more cautious in projecting the first few rate hikes and potentially more bearish than our longer term rate views.
Bank Of England Super Thursday — The Return

UK BoE Super Thursday

Will there be fireworks on Threadneedle Street on Bonfire Night, or will it be a damp squib? In order to address this, we believe that the best place to start is to ask what has changed in the last 3 months:

- **Effective Exchange Rate**

The market was taken by surprise at the August *Inflation Report* because it did not take sufficient account of the appreciation in the effective GBP exchange rate. At that time the effective GBP had risen by 3½% since the May *Inflation Report* — one of the biggest moves between inflation reports for at least 5 years (Chart 1). That pointed to downward pressure on inflation at the medium-term horizon.

Since the August *Inflation Report* we have seen the reverse. In terms of the 15-working day average that the BoE applies to its financial inputs into its projections, the effective GBP is just over 2% weaker than at the time of the August *Inflation Report*. Clearly that is much smaller than the appreciation leading up to the August *Inflation Report*. However there have only been 3 times since 2010 when there has been a bigger depreciation between *Inflation Reports*, so it is still a significant move.

The point is that this should apply upward pressure to the Bank’s medium-term inflation projection. We tend to apply a 10-1 rule for the exchange rate. In other words, a 10% appreciation in the exchange rate should subtract 1% from medium-term inflation (and vice versa). Hence the 2% depreciation since August *should* push up the medium-term inflation projection by as much as 20bp. An upward revision of that magnitude is never going to happen. But our point is that the exchange rate argues for at least some upward pressure on the medium-term inflation projection.

We don’t subscribe to the view that the movement in the exchange rate should be seen in the context of the prior appreciation. That should have been built into the previous forecast. If it wasn’t, why not? The new news since August is the 2% depreciation, and the projections should be adjusted to take account of that marginal news.

- **Market Interest Rate Expectations**

Last time around, the 2-year-ahead inflation projection was 2.09% y/y based on market interest rate expectations and 2.69% y/y on the basis of no interest rate hikes. The former was based on the first rate hike
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arriving in Q2-2016 and 100bp of rate hikes by end-2017. Right now, the market is only pricing the first rate hike by Q1-2017, with only 55bp of rate hikes by end-2017.

It is very appealing (but probably misleading) to conclude that the 100bp of rate hikes priced in back in August was worth a 60bp difference between the two BoE inflation projections. Further, since there is only half as much hiking priced in now compared with the August Inflation Report, the inflation projection based on unchanged rates should move up by 30bp. Again, that is never going to happen, but it makes the point that the Bank’s medium-term inflation projection should move upwards.

- Oil

The Bank’s assumption in the August Inflation Report was that Brent would move sideways at a level of USD57pb. Since then the price of oil has moved down by around USD10pb. Clearly that has a downward influence on the near-term inflation projection. The latest CPI reading for September was already 0.2% points below the Bank’s projection made in August. We would envisage that the near-term profile moves down by a bit more than this, probably by around 40bp over the first year of the profile. That would mean that CPI inflation now doesn’t get back above 1% y/y until Q4-2016 (6 months later than the August BoE projection assumed).

The key question is what influence the price of oil might have on the Bank’s medium-term inflation projection. The price of oil is 16% lower than the Bank’s assumption from August. That is a fairly chunky move, but not unusual. As an illustration, the 42% fall in the price of oil ahead of the February-15 QIR didn’t get in the way of a 7bp upward revision to the Bank’s medium-term projection. Similarly, when oil fell 19.4% a quarter earlier, the 2-year ahead inflation projection moved down by a mere 1bp.

The bottom line is that oil will definitely bear down on the Bank’s near-term inflation projection. However, it is far from clear whether it will have any impact on the medium-term projection.

Chart 2: Oil

- Other Issues

The culmination of the financial market inputs into the Bank’s projections therefore points to an upward revision to the Bank’s projection and hence a hawkish tone from the Inflation Report. However, this is somewhat at odds with the recent tone coming from Threadneedle Street. The latest MPC minutes had a dovish twist. Subsequently, Mark Carney made some comments in the Mail on Sunday. More specifically, he toned down his language regarding forward guidance. Previously he had said that gradual rate hikes were:
“an expectation, not a promise”.

However, that changed last weekend to:

“a possibility, not a promise”.

The lesson from the August Inflation Report was don’t read too much into MPC speeches. The market interpreted speeches and newspaper interviews from various MPC members as hawkish (even those from arch-Dove, David Miles) and that they pointed to a 7-2 or 6-3 split in the vote on interest rates. In the event the split was 8-1 and came as a dovish surprise.

Nonetheless, there is a risk of no smoke without fire. We suspect that placing the Governor’s comments in a high-circulation newspaper was a deliberate, tactical decision, to manage expectations ahead of the Inflation Report.

So while there is a case to push the medium-term inflation projection higher, the extent of the revisions is likely to be somewhat diluted. The rationale for this might be:

- The latest labour report showed downward revisions to the average earnings data…
- …despite the lower-than-expected unemployment rate.
- Hence the BoE could revise its assumption about the NAIRU or the degree of slack…
- …in turn holding down the medium-term inflation projection.
- The near-term inflation projection has persistently surprised on the downside. More specifically, the Bank’s 1 year-ahead inflation projection has been nudged lower in 9 of the last 10 Inflation Reports. Is it a time for a rethink on the assumption that inflation will mean-revert back to target?

**Conclusion**

On the basis of the movements in the price of oil, the exchange rate and market interest rates, there is a reasonable case for revising up the Bank’s medium-term inflation projection. Back in August the projection was 2.09% y/y, so an even higher projection would be screaming out ‘Hike! Hike! Hike!’. However, given the smoke signals from the Governor, the recent minutes and the disappointing tone of UK economic data of late, we suspect that the signals that we get are more restrained.

Reuters ran a poll of economists this week which showed that only 7 out 38 forecasters expect the Bank to push its medium-term inflation projection higher. Meanwhile 18 forecasters expect a downward revision and 13 expect no change.

So, while we doubt that the Bank will boot the door open to a rate hike any time soon, we think that the market is underestimating the risk of some hawk-friendly signals. Our current forecast is for the first BoE rate hike to arrive in February 2016. Thursday’s QIR will hopefully provide some clues about whether that is realistic any more. Even if it doesn’t, our assumption would be that the first move still comes later in H1 2016 and not a year from now as the market currently prices.
Key Data Preview

**CANADA**

Canadian jobs could potentially come in quite soft for October. We’re anticipating a +5k increase in Canadian jobs and more broadly are anticipating weak outcomes for the Labour Force Survey in general in the months ahead in the form of a lagged response to weak economic growth earlier this year. To the latter point, there has been an interesting disjunction this year between the Labour Force Survey, a telephone survey from which the unemployment rate is derived similar to the U.S. Household Survey, and the Survey of Employment, Payrolls, and Hours, which is more similar to the Establishment Survey in the U.S. So far in 2015, the LFS has posted strong results of 14k/jobs per month through September while the SEPH has been much softer at +3k/month through August. We expect that the two will mean revert over the tail end of the year with the LFS softening modestly and SEPH in turn strengthening. While this is our more structural view on the likely trajectory of Canadian jobs, it’s worth noting that while this relationship should hold true in general, there is no way to predict how things will develop in any particular month. In terms of some of the peculiarities of the September jobs number and its likely implications for October, recall that the economy lost 62k full-time jobs in September but added 74k part-time jobs. The extraordinary volatility in the jobs numbers in September was to some good extent attributable to difficulties in seasonally adjusting employment in the education sector. The point is that, even under normal circumstances, it’s difficult to forecast Canadian jobs outcomes due to the paucity of coincident indicators. Given the current peculiarities surrounding the jobs figures (discrepancies among differing labour metrics as well as seasonal adjustment volatility) it’s an even more difficult process than usual at present.

Trade figures for Canada could well rebound somewhat in September following a weak August outcome. We are anticipating a C$ -1.5bn deficit, down from more than C$ -2bn in August. The key factor should be that the decline in Western Canada Select oil prices in August reversed with a bounce higher in September as prices increased by close to 20%. Other leading indicators such as new orders of manufactured goods and U.S. vehicle sales (which tend to correlate with US vehicle assemblies and thus US demand for vehicles and parts from Canada) were also solid. Exports of metals, which fell in August by more than 6% in volume terms, could rebound as well. On the import side of the picture, the C$ weakened modestly (-1% vs. the USD) which should, all things being equal, widen the already existent trade deficit modestly.

**UNITED STATES**

We’re looking for U.S. jobs numbers to improve in October, and we’re forecasting a 190k print on nonfarm payrolls. Our logic is twofold: a) initial jobless claims have been extremely low — so low that they make a print below 180k quite unlikely; b) payrolls numbers have been soft for two consecutive months, reducing the odds of a further consecutive weak print unless the economy finds itself in a more meaningful soft patch than our base case (and plenty of coincident economic data) implies. This latter point brings up the downside risk to our forecast. Although initial jobless claims imply an improving labour market and Q3 consumer spending data imply a fairly confident consumer, other economic data, particularly from the manufacturing side of the economy, point to slowing momentum. The soft manufacturing sector outlook could represent a more general weakening of U.S. economic conditions – which in turn would explain the soft jobs numbers in August and September and could point to more to come. All in all, we therefore prefer a more neutral forecast that implies an improving labour market with a series of risks both to the upside and the downside.

We’re looking for meaningful improvement of the U.S. trade deficit in September on the back of solid figures on advance trade in goods released on October 28 that showed the deficit with respect to trade in goods narrowing to USD -58.6bn (vs. USD -67.2bn in August) on a census basis. After accounting for expected change in services spending, as well as other factors relating to the translation of the numbers from a census basis to a balance of payments basis, we expect the trade deficit to narrow to USD -43.5bn.
EUROPE

German factory orders and industrial production figures for September will be released on November 5th and 6th, respectively, which will help fine tune expectations for German real GDP in the third quarter. While German domestic demand continues to drive economic growth, supply side indicators have been on a weakening trajectory. However, after registering a sharp decline in August, German manufacturing orders and industrial production are forecast to rebound in September in line with the stronger-than-expected results in recent business surveys, such as PMIs and the Ifo survey. As such we expect both factory orders and industrial production to increase by 1.5% m/m in September, up from -1.8% and -1.2%, respectively, in the prior month.

LATIN AMERICA

Peru, Colombia, Brazil, and Chile will release inflation figures for the month of October on November 1st, 5th, 6th, and 6th, respectively. We expect Peruvian price growth to have ebbed somewhat to 3.7% y/y in October from 3.9% in September. The government has indicated that unlike many countries in the region, inflation is not a key concern in Peru. Colombian inflation is likely to accelerate further to 5.5% y/y in October, up from 5.4% in September, well above the central bank’s 2-4% target range and the highest pace of price growth since early 2009. It is increasingly likely that the central bank will hike interest rates in an effort to be seen as remaining committed to the stated anchor. Brazil’s July to September inflationary lull likely ended in October and we expect price growth to have continued its acceleration to 9.8% y/y, up from 9.5% in September. The severe weakening of the Brazilian real remains the primary source of inflationary pressure, and Brazil’s recent downgrade to below investment grade status by Standard and Poor’s in September lessens the potential for a turnaround in the coming months. Chile’s inflationary path likely eased further in October, coming down to 3.9% y/y from 4.6% the month prior. Inflation has remained above the central bank’s 2-4% target range for the past 18 months (the longest period since 2008). Chilean monetary authorities raised the benchmark interest rate by 25 basis points to 3.25% earlier this month in an effort to combat the inflationary tide.

ASIA

Indonesia will release third quarter GDP data next week. We estimate that the country’s output grew by 4.8% y/y, a slight improvement from the 4.7% pace recorded in the first half of 2015. Household spending remains the key driver of economic momentum, supported by increasing disposable incomes. Meanwhile, net exports continue to contribute to growth as imports are contracting more than exports. In the third quarter, Indonesian imports (in US dollar terms) were down by 23.5% y/y while exports declined by 16.3% y/y. Unrealized government spending related to the planned implementation of several infrastructure projects limits fixed investment growth, yet public outlays will likely be stepped-up in the coming months. We estimate that Indonesia’s real GDP growth will average slightly below 5% in 2015.
Key Indicators for the week of November 2 – 6

### North America

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<th>Indicator</th>
<th>Period</th>
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<th>Consensus</th>
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### Europe

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Forecasts at time of publication.
Source: Bloomberg, Scotiabank Economics.
**Key Indicators for the week of November 2 – 6**

**Europe (continued from previous page)**

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<th>Indicator</th>
<th>Period</th>
<th>BNS</th>
<th>Consensus</th>
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<td>Industrial Production (m/m)</td>
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**Asia Pacific**

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Forecasts at time of publication.
Source: Bloomberg, Scotiabank Economics.
Key Indicators for the week of November 2 – 6

### Asia Pacific (continued from previous page)

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Forecasts at time of publication.

Source: Bloomberg, Scotiabank Economics.
Global Auctions for the week of November 2 – 6

### North America

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Source: Bloomberg, Scotiabank Economics.
Global Auctions for the week of November 2 – 6

**Asia Pacific**

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<td>20:20</td>
<td>Jiangsu to Sell CNY24.36 Bln 7-Yr General Bonds</td>
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<td>Jiangsu to Sell CNY16.24 Bln 10-Yr General Bonds</td>
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<td>Jiangsu to Sell CNY7.13212 Bln 3-Yr Special Bonds</td>
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<td>JN</td>
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<td>22:35</td>
<td>Japan to Sell 3-Month Bills</td>
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<td>Japan to Sell 10-Year Bonds</td>
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<td>AU</td>
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<td>Australia Plans to Sell AUD800 Mln 1.75% 2020 Bonds</td>
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<td>China to Sell CNY22 Bln 1-Year Bonds</td>
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<td>Japan to Sell 6-Month Bills</td>
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**Latin America**

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<thead>
<tr>
<th>Country</th>
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<td>BZ</td>
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<td>09:00</td>
<td>Brazil to Sell Bills LTN - 04/01/2016</td>
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<td>Brazil to Sell Bills LTN - 10/01/2017</td>
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<td>Brazil to Sell Bills LTN - 07/01/2019</td>
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<td>Brazil to Sell LFT - 09/01/2021</td>
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Source: Bloomberg, Scotiabank Economics.
Events for the week of November 2 – 6

North America

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>US</td>
<td>11/02</td>
<td>12:00</td>
<td>Fed's Williams Gives Welcome Remarks at SF Fed Conference</td>
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<td>05:30</td>
<td>Fed's Brainard Speaks on Financial Stability in Frankfurt</td>
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<td>US</td>
<td>11/04</td>
<td>08:00</td>
<td>Fed's Harker Gives Welcoming Remarks in Philadelphia</td>
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<td>10:00</td>
<td>Fed's Yellen Testifies on Bank Regulation Before House Panel</td>
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<td>10:00</td>
<td>Fed's Dudley Speaks on Economy in New York</td>
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<td>19:30</td>
<td>Fed Vice Chair Fischer Speaks to National Economists Club</td>
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<td>08:30</td>
<td>Fed's Harker Gives Welcoming Remarks at Energy Event</td>
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<td>Dudley, Lagarde, Fischer Speak on Banking Culture in New York</td>
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<td>US</td>
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<td>12:45</td>
<td>Fed's Tarullo Addresses International Banking Conference</td>
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<td>Fed's Lockhart Speaks on Central Banking in Switzerland</td>
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<td>US</td>
<td>11/06</td>
<td>09:00</td>
<td>Fed's Bullard Speaks on Economy and Policy in St. Louis</td>
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<td>US</td>
<td>11/06</td>
<td>16:15</td>
<td>Fed's Brainard Takes Part in IMF Panel on Monetary Policy</td>
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Europe

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<tbody>
<tr>
<td>EC</td>
<td>11/01</td>
<td>02:00</td>
<td>EU's Malmstroem Speaks on Capital Markets Union in Brussels</td>
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<td>SP</td>
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<td>Bank of Spain's Linde, Riksbank's Ingves Speak in Madrid</td>
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<td>ECB's Lautenschlaeger Speaks in Frankfurt</td>
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<tr>
<td>EC</td>
<td>11/03</td>
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<td>ECB's Draghi Speaks in Frankfurt</td>
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<td>EU's Moscovici Meets Greek Officials in Athens Nov. 3-4</td>
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<td>ECB Forum on Banking Supervision in Frankfurt</td>
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<td>EU's Hill Speaks at Capital Markets Conference in Brussels</td>
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<td>NO</td>
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<td>04:00</td>
<td>Deposit Rates</td>
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<tr>
<td>EC</td>
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<td>04:00</td>
<td>ECB Publishes Economic Bulletin</td>
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<td>ECB's Draghi Speaks in Milan</td>
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<td>UK</td>
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<td>07:00</td>
<td>BOE Asset Purchase Target</td>
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<td>07:00</td>
<td>Bank of England Bank Rate</td>
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<tr>
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<td>Bank of England Inflation Report</td>
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<td>02:30</td>
<td>Norway's Slyngstad Speaks In Oslo</td>
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<td>EC</td>
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<td>03:45</td>
<td>ECB's Praet Speaks in Frankfurt</td>
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<td>11/06</td>
<td>05:00</td>
<td>ECB's Mersch Speaks in Ljubljana</td>
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<td>11/06</td>
<td>06:00</td>
<td>ECB's Hansson to Speak on EU, Global Economy</td>
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<td>TU</td>
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<td>Turkey Sovereign Debt to Be Rated by S&amp;P</td>
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<tr>
<td>EC</td>
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<td></td>
<td>European Union Sovereign Debt May Be Published by Moody's</td>
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<tr>
<td>SZ</td>
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<td>Switzerland Sovereign Debt Rating May Be Published by Moody's</td>
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Asia Pacific

<table>
<thead>
<tr>
<th>Country</th>
<th>Date</th>
<th>Time</th>
<th>Event</th>
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<tbody>
<tr>
<td>AU</td>
<td>11/02</td>
<td>22:30</td>
<td>RBA Cash Rate Target</td>
</tr>
<tr>
<td>TH</td>
<td>11/04</td>
<td>02:30</td>
<td>BoT Benchmark Interest Rate</td>
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<td>AU</td>
<td>11/04</td>
<td>17:25</td>
<td>RBA Governor Stevens Speech at Conference in Melbourne</td>
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<tr>
<td>JN</td>
<td>11/04</td>
<td>18:50</td>
<td>BOJ Minutes for Oct. 6-7 Meeting</td>
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<td>AU</td>
<td>11/04</td>
<td>20:00</td>
<td>RBA's Lowe Appears in Panel Discussion in Sydney</td>
</tr>
<tr>
<td>MA</td>
<td>11/05</td>
<td>05:00</td>
<td>BNM Overnight Policy Rate</td>
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<tr>
<td>AU</td>
<td>11/05</td>
<td>19:30</td>
<td>RBA Statement on Monetary Policy</td>
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<tr>
<td>AU</td>
<td>11/05</td>
<td>20:00</td>
<td>RBA's Edey Speech at Conference on Gold Coast</td>
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<tr>
<td>JN</td>
<td>11/05</td>
<td>23:00</td>
<td>Kuroda will make a speech at Naigaijosei-chosakai in Tokyo.</td>
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</table>

Source: Bloomberg, Scotiabank Economics.
**Global Central Bank Watch**

### North America

<table>
<thead>
<tr>
<th>Rate</th>
<th>Current Rate</th>
<th>Next Meeting</th>
<th>Scotia's Forecasts</th>
<th>Consensus Forecasts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank of Canada – Overnight Target Rate</td>
<td>0.50</td>
<td>December 2, 2015</td>
<td>0.50</td>
<td>0.50</td>
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<tr>
<td>Federal Reserve – Federal Funds Target Rate</td>
<td>0.25</td>
<td>December 16, 2015</td>
<td>0.25</td>
<td>0.50</td>
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<tr>
<td>Banco de México – Overnight Rate</td>
<td>3.00</td>
<td>December 17, 2015</td>
<td>3.00</td>
<td>--</td>
</tr>
</tbody>
</table>

The U.S. will be mainly focused on Friday’s nonfarm payrolls, particularly following two very weak prior prints and the high likelihood that the October jobs number will influence the Fed’s December rate decision. The September trade balance, specifically the effect of the strong USD on trade, will also flow directly into the Fed’s decision-making function. Also due next week: ISM manufacturing (Monday), factory orders (Tuesday) and Wards Vehicle Sales (Tuesday) along with ISM non-manufacturing (Wednesday), ADP (Wednesday), and productivity and unit labor costs (Thursday). Fedspoke is rampant: Chair Yellen will testify before a House Committee but on regulation, so the key speech will likely be Fed Vice Chair Fischer on Wednesday evening. Fed officials Williams, Harker, Dudley, Tarullo, Lockhart, Bullard and Brainard are also speaking next week. In Canada, trade data on Wednesday will be closely watched in terms of energy vs non-energy components and volumes vs. values. Friday’s jobs numbers will also be relevant to the Bank of Canada, though we have no leading indicators that offer a preview into the figure. There is no Bank of Canada communication on tap.

### Europe

<table>
<thead>
<tr>
<th>Rate</th>
<th>Current Rate</th>
<th>Next Meeting</th>
<th>Scotia's Forecasts</th>
<th>Consensus Forecasts</th>
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<tbody>
<tr>
<td>European Central Bank – Refinancing Rate</td>
<td>0.05</td>
<td>December 3, 2015</td>
<td>0.05</td>
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<tr>
<td>Bank of England – Bank Rate</td>
<td>0.50</td>
<td>November 5, 2015</td>
<td>0.50</td>
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<tr>
<td>Swiss National Bank – Libor Target Rate</td>
<td>-0.75</td>
<td>December 10, 2015</td>
<td>-0.75</td>
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<tr>
<td>Central Bank of Russia – One-Week Auction Rate</td>
<td>11.00</td>
<td>December 11, 2015</td>
<td>11.00</td>
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<tr>
<td>Central Bank of the Republic of Turkey – 1 Wk Repo Rate</td>
<td>7.50</td>
<td>November 24, 2015</td>
<td>7.50</td>
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<tr>
<td>Sweden Riksbank – Repo Rate</td>
<td>-0.35</td>
<td>December 15, 2015</td>
<td>-0.35</td>
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<tr>
<td>Norges Bank – Deposit Rate</td>
<td>0.75</td>
<td>November 5, 2015</td>
<td>0.75</td>
<td>0.75</td>
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</table>

Monetary policymakers at the Bank of England (BoE) and the Norges Bank will hold policy meetings on Thursday, November 5th. We do not forecast any changes to benchmark interest rates to come out of either meeting, with the Norges Bank maintaining its key deposit rate at 0.75% and the BoE’s bank rate holding at 0.5%. We expect the first BoE rate hike will be delivered sometime during the first half of 2016. That is much earlier than currently implied by markets, which are pricing the first hike during Q4 of next year. Next week’s November MPC minutes and inflation report could shed additional light on the situation. For further insights regarding our view, please refer to Alan Clarke’s article in this publication.

### Asia Pacific

<table>
<thead>
<tr>
<th>Rate</th>
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<th>Consensus Forecasts</th>
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<td>Reserve Bank of Australia – Cash Target Rate</td>
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<td>Reserve Bank of New Zealand – Cash Rate</td>
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<td>December 9, 2015</td>
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<td>People’s Bank of China – Lending Rate</td>
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<tr>
<td>Reserve Bank of India – Repo Rate</td>
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<td>December 1, 2015</td>
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<tr>
<td>Bank of Korea – Bank Rate</td>
<td>1.50</td>
<td>November 12, 2015</td>
<td>1.50</td>
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<tr>
<td>Bank of Thailand – Repo Rate</td>
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<td>1.50</td>
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<td>Bank Indonesia – Reference Interest Rate</td>
<td>7.50</td>
<td>November 17, 2015</td>
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We expect the Reserve Bank of Australia (RBA) to cut its benchmark cash rate by 25 basis points to the record low level of 1.75% when monetary authorities meet next week. The RBA’s most recent minutes, following the October 4th monetary policy meeting, highlight that downside risks to the domestic growth outlook have increased with policymakers raising concerns around China’s economic growth deceleration and weaker momentum in East Asia more generally. Persistent deflationary pressures in Thailand, as well as the adverse economic impact of the recent bombings will likely cause monetary authorities to implement further monetary stimulus before the end of the year. Further easing will be largely data-dependent and the high level of household debt may act as a deterrent. We assess that the Bank of Thailand will hold the benchmark interest rate at 1.50% following next week’s monetary policy meeting and potentially set the stage for a cut in December.

### Latin America

<table>
<thead>
<tr>
<th>Rate</th>
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<th>Next Meeting</th>
<th>Scotia's Forecasts</th>
<th>Consensus Forecasts</th>
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<td>Banco Central de Chile – Overnight Rate</td>
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<td>Banco Central de Reserva del Perú – Reference Rate</td>
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### Africa

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<td>South African Reserve Bank – Repo Rate</td>
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<td>November 19, 2015</td>
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Forecasts at time of publication.
Source: Bloomberg, Scotiabank Economics.
# Economic Statistics

## North America

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<th>Latest</th>
<th>United States</th>
<th>2014</th>
<th>1Q1</th>
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<td>Industrial Production</td>
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<td>3.4</td>
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<td>Housing Starts (000s)</td>
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<td>175</td>
<td>193</td>
<td>232 (Sep)</td>
<td>Employment</td>
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<td>2.3</td>
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<td>1.9 (Sep)</td>
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<td>Employment</td>
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<td>Unemployment Rate (%)</td>
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<td>6.7</td>
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<td>7.1 (Sep)</td>
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<td>Retail Sales</td>
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<td>Auto Sales (millions)</td>
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## Mexico

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<th>CPI</th>
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## Europe

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All data expressed as year-over-year % change unless otherwise noted.

Source: Bloomberg, IHS Global, Scotiabank Economics.
## Economic Statistics

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### Latin America

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All data expressed as year-over-year % change unless otherwise noted.

Source: Bloomberg, IHS Global, Scotiabank Economics.
## Financial Statistics

### Interest Rates (% end of period)

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<td>332.3</td>
<td>332.3</td>
<td>(Sep)</td>
<td>FX Reserves (US$B)</td>
<td>110.7</td>
<td>118.9</td>
<td>118.9</td>
<td>(Sep)</td>
</tr>
<tr>
<td><strong>Japan</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>Australia</strong></td>
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<tr>
<td>Discount Rate</td>
<td>0.30</td>
<td>0.30</td>
<td>0.30</td>
<td>0.30</td>
<td>Cash Rate</td>
<td>2.00</td>
<td>2.00</td>
<td>2.00</td>
<td>2.00</td>
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<tr>
<td>3-mo. Libor</td>
<td>0.04</td>
<td>0.02</td>
<td>0.02</td>
<td>0.02</td>
<td>10-yr Gov't Bond</td>
<td>3.01</td>
<td>2.61</td>
<td>2.61</td>
<td>2.61</td>
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<tr>
<td>10-yr Gov't Bond</td>
<td>0.47</td>
<td>0.36</td>
<td>0.30</td>
<td>0.31</td>
<td>FX Reserves (US$B)</td>
<td>48.7</td>
<td>48.1</td>
<td>48.1</td>
<td>(Sep)</td>
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<tr>
<td>FX Reserves (US$B)</td>
<td>1214.1</td>
<td>1221.5</td>
<td>1221.5</td>
<td>(Sep)</td>
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### Exchange Rates (end of period)

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<tr>
<th>Currency Pair</th>
<th>1.25</th>
<th>1.33</th>
<th>1.32</th>
<th>1.32</th>
<th>¥/US$</th>
<th>122.50</th>
<th>119.88</th>
<th>121.47</th>
<th>120.43</th>
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<tbody>
<tr>
<td>USDCAD</td>
<td>0.80</td>
<td>0.75</td>
<td>0.76</td>
<td>0.76</td>
<td>US$/Australian$</td>
<td>0.77</td>
<td>0.70</td>
<td>0.72</td>
<td>0.71</td>
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<tr>
<td>GBPUSD</td>
<td>1.115</td>
<td>1.118</td>
<td>1.102</td>
<td>1.106</td>
<td>South Korean Won/US$</td>
<td>1115</td>
<td>1185</td>
<td>1125</td>
<td>1141</td>
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<tr>
<td>EURUSD</td>
<td>0.73</td>
<td>0.75</td>
<td>0.75</td>
<td>0.75</td>
<td>Mexican Peso/US$</td>
<td>15.739</td>
<td>16.918</td>
<td>16.592</td>
<td>16.554</td>
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<tr>
<td>JPY/USD</td>
<td>0.94</td>
<td>0.97</td>
<td>0.98</td>
<td>0.99</td>
<td>Brazilian Real/US$</td>
<td>3.103</td>
<td>3.948</td>
<td>3.876</td>
<td>3.840</td>
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### Equity Markets (index, end of period)

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<thead>
<tr>
<th>Country</th>
<th>17620</th>
<th>16285</th>
<th>17647</th>
<th>17750</th>
<th>U.K. (FT100)</th>
<th>6521</th>
<th>6062</th>
<th>6444</th>
<th>6356</th>
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<tbody>
<tr>
<td>United States (DJIA)</td>
<td>2063</td>
<td>1920</td>
<td>2075</td>
<td>2088</td>
<td>Germany (Dax)</td>
<td>10945</td>
<td>9660</td>
<td>10795</td>
<td>10811</td>
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<tr>
<td>United States (S&amp;P500)</td>
<td>14553</td>
<td>13307</td>
<td>13954</td>
<td>13693</td>
<td>France (CAC40)</td>
<td>4790</td>
<td>4455</td>
<td>4924</td>
<td>4881</td>
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<tr>
<td>Canada (S&amp;P/TSX)</td>
<td>45054</td>
<td>42633</td>
<td>45010</td>
<td>44469</td>
<td>Japan (Nikkei)</td>
<td>20236</td>
<td>17388</td>
<td>18825</td>
<td>19083</td>
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<tr>
<td>Mexico (IPC)</td>
<td>53081</td>
<td>45059</td>
<td>47597</td>
<td>45574</td>
<td>Hong Kong (Hang Seng)</td>
<td>26250</td>
<td>20846</td>
<td>23152</td>
<td>22640</td>
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<tr>
<td>Brazil (Bovespa)</td>
<td>1238</td>
<td>1179</td>
<td>1261</td>
<td>1247</td>
<td>South Korea (Composite)</td>
<td>2074</td>
<td>1963</td>
<td>2040</td>
<td>2029</td>
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### Commodity Prices (end of period)

<table>
<thead>
<tr>
<th>Commodity</th>
<th>980</th>
<th>960</th>
<th>960</th>
<th>960</th>
<th>Copper (US$/lb)</th>
<th>2.60</th>
<th>2.31</th>
<th>2.40</th>
<th>2.33</th>
</tr>
</thead>
<tbody>
<tr>
<td>Newsprint (US$/tonne)</td>
<td>540</td>
<td>510</td>
<td>510</td>
<td>510</td>
<td>Zinc (US$/lb)</td>
<td>0.90</td>
<td>0.75</td>
<td>0.79</td>
<td>0.76</td>
</tr>
<tr>
<td>Lumber (US$/mfbm)</td>
<td>300</td>
<td>242</td>
<td>272</td>
<td>272</td>
<td>Gold (US$/oz)</td>
<td>1171.00</td>
<td>1114.00</td>
<td>1161.25</td>
<td>1148.60</td>
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<tr>
<td>WTI Oil (US$/bbl)</td>
<td>59.47</td>
<td>45.09</td>
<td>44.60</td>
<td>45.74</td>
<td>Silver (US$/oz)</td>
<td>15.70</td>
<td>14.65</td>
<td>15.98</td>
<td>15.63</td>
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<tr>
<td>Natural Gas (US$/mmbtu)</td>
<td>2.83</td>
<td>2.52</td>
<td>2.29</td>
<td>2.25</td>
<td>CRB (index)</td>
<td>227.17</td>
<td>193.76</td>
<td>193.71</td>
<td>194.47</td>
</tr>
</tbody>
</table>

*Latest observation taken at time of writing.
Source: Bloomberg, Scotiabank Economics.