October 27, 2016

TRICKS AND TREATS

FEATURE ARTICLES

FORECASTS & DATA

CONTACTS

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Next Week's Risk Dashboard

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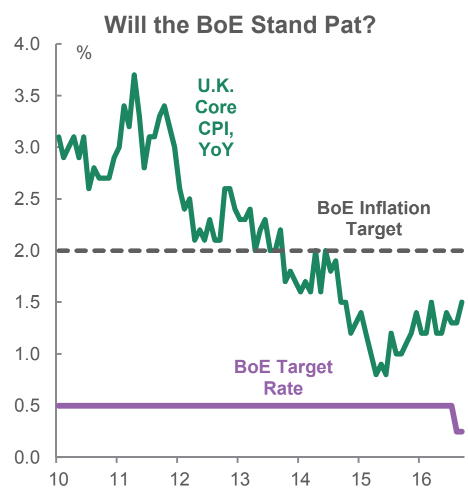
Chart of the Week



Source: Scotiabank Economics, Bloomberg.

Chart of the Week: Prepared by: Samantha Cameron, Research Assistant.

Tricks And Treats

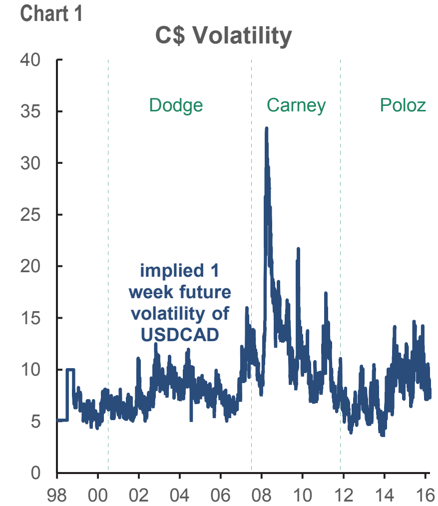
CANADA — VOLATILITY REDUX?

Canada has recently become, well, interesting to market participants again and next week is likely to continue said fascination. **Two more speaking appearances by BoC Governor Poloz, first tier data risk, earnings and a stimulus update from the federal government will intensify domestic influences upon the broad market tone over the coming week. The net implication is likely to be dovish for the currency and shorter-term rates.**

Volatility trades in CAD and shorter-term rates could get a boost around two more speaking events from BoC Governor Stephen Poloz on Tuesday and Thursday next week. CAD has depreciated by about three cents since just before the October 19th rate statement. Tuesday's appearance is likely to be a bigger deal as he delivers a speech in Vancouver and then hosts a press conference. The topic is "25 Years of Inflation Targets: Certainty For Uncertain Times". Poloz's remarks on Thursday will not be published and will be delivered at the world famous Oshawa Walk of Fame. Senior Deputy Governor Wilkins will offer unpublished remarks at an event on Wednesday with the Ontario Securities Commission. I'm going with the assumption that the bulk of the volatility in rates and the currency of late has passed in favour of a more consistently applied dovish bias.

Volatility in Canadian rates and the currency had taken off in the wake of remarks that easing was "actively" discussed at the October 19th BoC meeting and then followed by imperfect communications or imperfect interpretation (i.e., markets perhaps could've inferred Poloz was speaking to output gaps not an 18 month rate hold recently). The longer-run evidence on volatility under the past three central bank governors does not suggest that, say, CAD is any more volatile under Poloz than under his predecessors albeit that Carney's truncated mandate was dominated by the global financial crisis (chart 1). It is also fair to note that the comparison may be premature in that Poloz is also only three years into a seven year term, and the early going of new mandates is often dominated by easing into the role with the exception of Carney's first day on the job on February 1st 2008.

Chart 1



Source: Scotiabank Economics, Bloomberg.

After registering the strongest two-month average rate of growth in about five years, can the Canadian economy follow up with another rosy growth report? We'll find out when **August GDP** arrives on Tuesday. Probably the biggest challenge that adds downside risk to the report will be presented by the energy sector. The broad mining, oil and gas extraction sector GDP was up 3.9% m/m in July and single-handedly added 0.3 points in weighted terms to the half point GDP gain that month. The broad energy sector's GDP was up by 5% m/m after a 4.1% rise in June and a 6.3% decline in May. The effect of the Alberta wildfires into the start of the summer — which seems soooo long ago now — has been more than made up by now. In turn, that raises the issue of sustainability of the gains in resources and how a transitory lift effect on broad GDP growth may drop out in next week's report. Here is what else we know about how the economy performed during August which probably balances out in favour of a small 0.1% GDP gain:

- Manufacturing shipment volumes were up by 1.2%
- Export volumes were up by 0.4%
- Wholesalers registered a 0.8% gain in sales volumes
- Retail sales volumes fell 0.3%
- Housing starts fell 10.4% on both multis (-15.2%) and singles (-4.2%)
- Hours worked fell by 0.3%

Soon after the GDP figures, we'll start tracking how the economy performed in September when fresher **export and import figures** arrive for that month. Here too we might begin to see the waning or reversing effects of transitory influences upon export growth after export volumes were 4.2% higher in July and 0.4% higher in August.

And then there is everyone's favourite random number generator: the October version of the Labour Force Survey**. I wouldn't be the least surprised to see some significant mean reversion to the downside with Canada registering a drop in employment on the month**. Recall that Canada gained 67,200 jobs in September and that was the strongest pace of job creation since April 2012. The problem was the quality of the gain. The composition of the gain was heavily skewed toward the self-employed (+50,200). Those self-employed jobs were mostly focused upon part-time jobs, women, the over-55 age cohort, and mostly comprised of dentists, early childhood educators, financial auditors and accountants with a regional concentration upon Alberta and BC. It is always prudent to view such a spike in self-employment as potentially suffering from a self-reported over-estimation bias at a fragile point along a declining trend for job growth.

Canadian Finance Minister Bill Morneau delivers his economic and fiscal situation update on Tuesday and it is being heralded as a mini-budget of sorts and as such it is likely to include additional stimulus measures that may convince the Bank of Canada to hold off additional monetary policy easing. A higher deficit tally than the originally forecast C$29.4 billion Budget estimate for FY16-17 is likely. Guidance could also be offered on how much of the advisory council's recommendations may be adopted, including an infrastructure development bank, an agency specifically tasked with increasing foreign investment into Canada, and the 2017 immigration target. Morneau has built up speculation with his comment that Tuesday's communications are likely to be influenced "by the recommendations of the council, [and] show how we'll amplify those budget measures to have a greater economic impact."

Earnings will be another major factor in driving the Canadian market tone over the coming week. Seventy-nine firms listed on the TSX will report including Thomson Reuters, Brookfield Property Partners, Home Capital Group, WestJet, Intact Financial, Linamar, Cogeco, Kinross Gold, Industrial Alliance, TransCanada, Shaw, Maple Leaf Foods, Canadian Natural Resources, Enbridge, Agrium, Open Text, BCE, Quebecor, Great-West Lifeco, Magna International, Encana, SNC-Lavalin, CI Financial, TransAlta, and Telus.

Canada auctions 2s on Thursday.

UNITED STATES — CLEARING THE DECKS BEFORE THE ELECTION

Wednesday's policy statement from the Federal Open Market Committee will likely be the show stealer on the week but that's not to say there won't be stiff competition from other developments. It will be a **heavy week for first tier data releases** as is typically the case at the start of each month, and another **big earnings week** while election bets are firmed up ahead of the following Tuesday's vote.

Please see page 8 for a fuller look at expectations ahead of Wednesday's Fed communications. **The core expectation is the possibility of a codified reference to a likely rate hike at the December 14th meeting**. Recall that last October's statement built further upon expectations for a hike at the following meeting in December of last year when it referenced dialogue on "...whether it will be appropriate to raise the target range at its next meeting…" Something quite similar is plausible next week with markets already pricing in over 70% odds of a December hike (and just under 20% odds of one next week). 59 out of 76 forecasters in Bloomberg's survey expect the Fed to hike before year-end, including ourselves. After Fed officials so strongly built expectations for a rate hike this year, failure to insert such a reference may be taken as an implicit nod to election sensitivities although the case for doing so has gone down as Hillary Clinton's polling numbers have gone up. After the statement and when the Fed slips out of black-out we'll hear from Vice Chair Stanley Fischer who speaks just after markets close on Friday, and Atlanta Fed President Lockhart (nonvoting, retiring) earlier in the day.

A heavy line-up of key data risks is summarized by day of the week as follows:

- **Monday: Consumer spending, incomes, and the Fed's preferred inflation gauge** will be released along with the Chicago purchasing managers' index and the Dallas Fed's regional manufacturing gauge. Given we already know that retail sales were up by a solid 0.6% on headline and by half that ex-autos and gasoline, a similarly solid gain in total consumer spending is expected. A slightly firmer headline inflation reading and stable core inflation should also lend itself toward the Fed's argument that it is getting closer to its policy goals.

- **Tuesday:** The **ISM manufacturing** print for October faces an uncertain outcome with consensus expecting an unchanged reading after the prior month's improvement. Recall that the Philly Fed and Empire regional gauges deteriorated while the Richmond Fed's metric improved a little. An alternative purchasing managers' index for the manufacturing sector produced by

Markit unexpectedly improved but it is often disconnected with the level and direction of the more widely followed ISM report. **Construction spending** in September is expected to rebound and **vehicle sales** are expected to slip and thus give back some of the prior month's rise.

- **Wednesday:** Only **ADP's private nonfarm payroll** report is due out on Fed day. It has tended to be more stable than the BLS' private nonfarm payrolls this year. The range on monthly private nonfarm payroll gains has been from 0 in May to 238k in June whereas ADP private payrolls have cruised within a steadier 150-200k zone. Regardless, nonfarm is the measure watched by the Fed.

- **Thursday:** **ISM services** will inform perspectives on how the service sector is growing. **Factory orders** will build upon the already-released durable goods report with new information on nondurable goods orders (i.e., goods with economic lives generally under a year). **Productivity growth** probably improved in Q3 with stronger GDP growth, while **unit labor costs** that inform the inflation debate likely grew at a substantially slower pace than Q2.

- **Friday:** The week ends with a bang as **nonfarm payrolls** and the household survey will update tracking of job growth, the unemployment rate and wage gains. It would take a large downside surprise to cast doubt upon a December Fed hike and probably for that to be accompanied by a sharp deceleration in wage growth from the 2.6% pace that was recorded in September. 170k is my call, with the usual massive 90% confidence interval of +/-115,000 surrounding the change.

The earnings season enters its second most active week with 132 firms listed on the S&P500 set to report after 176 firms this past week. Activity sharply wanes thereafter with 31, 20, 15, and 9 reports due out in each successive week. Among next week's key firms will be Facebook, Loews, Pfizer, Time Warner, Starbucks, CBS, Molson Coors, Kellogg, Pitney Bowes, and Metlife.

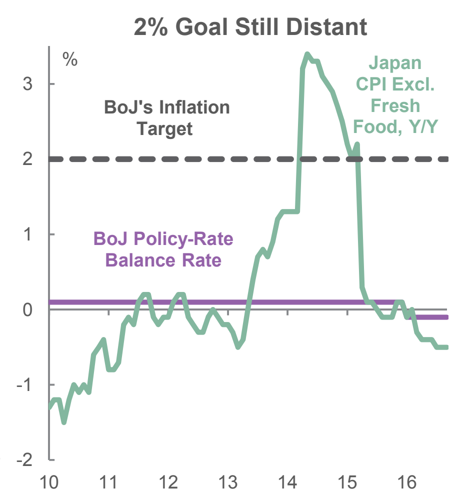
If there are any more scandalous or tantalizing developments left ahead of the November 8th election, then the last full week before the election may be the opportune moment. **This** widely followed site — so named for the number of electoral college votes — assigns 85% odds to a Clinton presidency. On its own, the site's forecast for Clinton to win Florida's 29 electoral college votes where Trump recently polled two points ahead of Clinton in the popular vote is not enough to make the difference even if it were to perfectly translate into the 29 out of 538 Electoral College votes. The polling would have to be way off in other regions like California and the Northeast and northern Midwest states. That is the key difference between how tight the Florida race is now versus, say, the infamous Florida recount that the Supreme Court halted in 2000. The result was to let stand the original count and thus hand George W. Bush 271 electoral college votes versus Gore's 266 and take the Oval office. It took over a month for the matter to be settled for then for Gore to concede defeat while stating "we put country before party."

ASIA — CARRY A BIG STICK, BUY LESS

Asian market developments could also chip into determining the global market tone over the coming week and beyond — principally by way of two main developments: fresh signals on the health of China's economy, and fresh policy guidance from the Bank of Japan. Significant regional market developments will also unfold across numerous Asia-Pacific markets.

The Bank of Japan is unlikely to alter stimulus in the near-term but if it does then the most likely form would be a further cut to the policy rate but that's also unlikely at this juncture. More likely may be for the BoJ to alter its inflation outlook given how far off it is from target (chart 2). The significant shift in monetary policy occurred at the September 21st meeting when the BoJ de-emphasized JGB buying in favour of a 0% target for nominal 10 year yields and slightly altered the inflation target to be a floor. The 0% target is likely asymmetric in that it is more of a ceiling in nature, and at present is equals -7bps. While the BoJ at first denied this, the policy signal was to shift toward a threat to enforce the target if challenged by markets which introduces an option value on potential purchases that affords the prospect of diminished actual purchases. Walk softly but carry a big stick. In turn, this has set in motion the debate over tapering purchases that I wrote about on September 21st when they issued the decision. At the time I argued:

Chart 2



Source: Scotiabank Economics, Bloomberg.

- Because of the adoption of a 0% yield target on 10 year JGBs, the range around this level of asset purchases could be quite wide and is highly uncertain. If, say, the BoJ's yield target is viewed credibly by markets, then the mere threat of buying (or selling) 10 year JGBs to achieve this target could be enough to contain yields absent purchases. Yield targets imposed by central banks are akin to the nuclear arms policy of mutually assured destruction. The result could be a much lower pace of JGB purchases than contained within the prior ¥80 trillion target.

- In turn, that could mean Japanese money supply grows at a lessened pace than previously targeted as the threat of purchases carries greater weight than changes in its balance sheet. If that happens and nothing else adjusts, then the BoJ's balance sheet has turned more restrictive in terms of the pace at which money supply might grow in future. Does that make it even less likely that the BoJ will achieve its inflation target over time? Does a hard nominal 0% yield target accompanied by slower/no growth in money supply from JGB purchases in turn perhaps inappropriately raise real yield expectations over time? Or would the BoJ then alter the composition of the 'around' ¥80 trillion per year pace of asset purchases to favour other asset classes more than sovereign bonds if it didn't have to purchase as many sovereign bonds to enforce the target?

It will also be a heavy week for **Japanese macro data** including updates on industrial production, retail sales, housing starts and vehicle sales.

There is a larger risk that the **Reserve Bank of Australia** eases next week. 20 out of 27 economists expect the RBA to keep its cash target rate unchanged, but the vocal minority expect a 25bps cut. The rise in CPI inflation to 1.3% y/y in Q3 (1% prior) lessened the market odds of a rate cut in support of the majority of economists.

With improved sentiment toward China's economy and its growth, the market risk to next week's purchasing managers' indices may be greater if they disappoint than if they exceed expectations. Rising sovereign bond yields have also in part reflected less worry over China's economy at least for now. China releases the state versions of purchasing managers' indices for the manufacturing and service sectors on Monday night (eastern time) as well as the private manufacturing PMI, and then follows this up with the private services PMI on Wednesday evening (eastern time). That China's economy is performing better than was feared earlier in the year is confirmed by both traditional GDP and alternative measures based upon readings like electricity production and railcar loadings.

Earnings — like everywhere else — may also impact the regional market tone given a heavy line-up consisting of 80 firms listed on the Nikkei 225 set to release plus 77 on the Kospi, 46 in Taipei, 7 on India's Sensex (including parts of Tata's operations that are gripped by headlines over leadership turmoil) and 18 in Jakarta.

A wave of macro reports of mostly local market significance will include CPI updates from South Korea, Thailand, Philippines and Indonesia; New Zealand jobs in Q3; exports in Australia, South Korea, Thailand and Malaysia; retail sales in Australia; industrial output in South Korea, and purchasing managers' indices in India. Bank of Korea also releases minutes highlighting the discussion at its October 12th meeting.

EUROPE — KNOW WHEN TO HOLD THEM

Another policy decision by the Bank of England, material information to help further inform the ECB's potential policy bias, earnings and macro data risk will offer plenty for European market participants to digest over the coming week. The week may also offer another example of political rebellion.

Our London-based economist/strategist Alan Clarke offers his thoughts on the Bank of England on page 7. His core expectations include no change in the Bank Rate, an upward revision to inflation forecasts and perhaps also to the GDP growth forecast. Broadly speaking, the Bank of England could be perceived as being in a policy holding pattern absent clear evidence of a deteriorating economy post-Brexit while apprehensive toward future prospects that are significantly dependent upon how Article 50 negotiations proceed.

Risks to the ECB's policy bias will be evaluated when macro data arrives and ECB officials speak. Eurozone aggregate CPI for October and GDP for Q3 arrive on Monday and will be followed by various other forms of macro data risk over the course of the week including German retail sales (rebound expected) and unemployment; Spanish retail sales (continued solid gains near 5% y/y);

and purchasing managers' indices after German and French PMIs came in stronger than expected for both countries' manufacturing sectors and for German services.

Thoughts from the ECB's Governing Council will be in focus when two of the Executive Board Members travel to the United States to speak at two separate events. Benoît Coeuré speaks at Harvard University on Wednesday after markets close, and Vice-President Vitor Constâncio speaks just before Friday's North American market close at an event organized by the Chicago Fed.

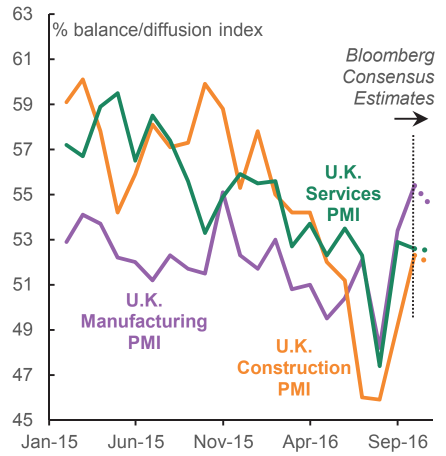
With banks at the forefront of concerns over Europe's outlook and after Deutsche Bank's upside surprise, **earnings reports will continue to be important** and will include Commerzbank, Societe Generale, Standard Chartered, BMW and Royal Dutch Shell.

Think your local politics is colourful? **Iceland holds a parliamentary election on Saturday** and the results could be another example of the global movement in favour of tossing out the so-called elites (which may be overly flattering…) and the old guard. It resulted from the scandal in April of this year when Prime Minister Sigmundur Davíð Gunnlaugsson and his wife popped up in the "Panama Papers". Oops. A highly fractured political system has twelve parties competing for 63 seats. The main Independence Party, Progressive Party (the former PM's), Social Democratic Alliance and Left-Green Movement are now competing with the Pirate Party (more about copyright law than nautical themes…) and the Bright Future (hence the shades, **here**). The Pirate Party is perceived to be a serious contender to head a governing alliance (**here** for more).

Sans pirates, **UK markets will also be focused upon data risk** that continues to surprise to the upside on balance. Purchasing managers' indices for the manufacturing, services and construction sectors will be the main focal points and all three are expected to level off after post-Brexit improvements (chart 3).

Chart 3

As Good As It Gets?



Source: Scotiabank Economics, Bloomberg.

LATIN AMERICA — INFLECTION POINTS?

Apart from the heavy potential global influences, domestic sources of risk to markets across Latin America could include **debates over potential future inflection points in the outlook for Colombian rates and Mexican growth.**

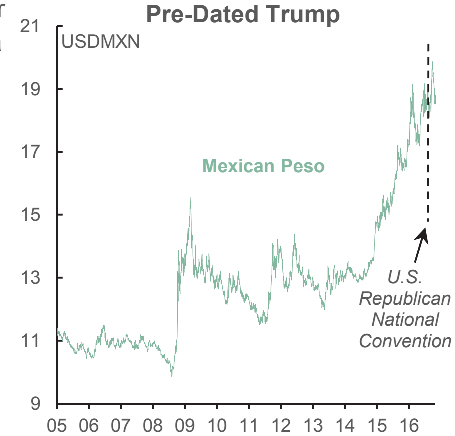
Colombia is expected to eventually cut rates, but not yet. Monday's policy decision by Banco Central de la Republica de Colombia is expected to hold the repo rate at 7.75% after the central bank hiked by 325bps between September of last year and July of this year. Inflation has tentatively begun to cool from the 9% peak in July, but at 7.3% it can hardly be labelled as cool per se. Further evidence of waning inflationary pressures is likely needed before an easing campaign sets in.

Mexico's economy is expected to register slower growth next week. A recent Bloomberg survey expected Q3 GDP to rise by 1.7% y/y which would be the softest growth since at least the second quarter of 2014 and perhaps the weakest since 2013. For more on the outlook for Mexico's economy, see the write-up by Scotiabank's Mario Correa on page 11-12 **here**. That **Mexico's challenges run deeper than just the US election** is vividly portrayed by the roughly 50% depreciation in the currency since a weakening trend set in later in 2014 and hence long before the beleaguered candidate became the GOP's choice this past summer (chart 4). Trump's waning poll results have recently driven peso appreciation and with potentially more to come in November but the currency's depreciation over the past couple of years may begin to operate more favourably upon growth into next year.

Brazil is expected to register a wider primary budget deficit when September's monthly figures arrive on Monday. A still-shrinking economy that is estimated to have contracted by 2.6% in Q3 is among the factors driving the deficit higher. Views on growth at the margin will be updated when industrial production and exports are released on Tuesday following the biggest plunge in industrial output in about 4½ years.

Chart 4

Mexican Peso's Challenges Long Pre-Dated Trump



Source: Scotiabank Economics, Bloomberg.

Feature Article

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UK Super Thursday Preview

At 12 noon (London time) on 'Super Thursday', we will get the triple whammy of the November MPC decision, the minutes of that meeting and the publication of the *Quarterly Inflation Report* (QIR). While there will be a lot to digest, we anticipate the key messages will be:

- No change in Bank Rate or any modification to the QE programme that is currently scheduled to end in February 2017;
- The Bank's inflation projection revised up to a peak of 3% y/y from 2.4% y/y previously;
- The Bank's GDP projection should be broadly unchanged at 0.7% y/y. If anything it could be revised up towards 1% y/y.

With regards to what monetary policy action the Bank announces, the latest Bloomberg consensus shows that more than half of forecasters still expect a rate cut. This attitude is likely to have been influenced by the statement from the last two MPC minutes that:

> *"If, in light of that full updated assessment, the outlook at that time was judged to be broadly consistent with the August Inflation Report projections, a majority of members expected to support a further cut in Bank Rate to its effective lower bound at one of the MPC's forthcoming meetings during the course of the year".*

Hence assessing what the BoE will do at the November MPC will depend on how things have evolved since August. So what has changed?

- Q3 GDP growth was stronger than expected at 0.5% q/q;
- The effective GBP exchange rate has weakened by a further 6¼%, implying additional upward pressure on the Bank's CPI inflation projection;
- The Brent oil price has risen by 15% in USD terms and 25% in GBP terms; and
- In general, there have been more upward surprises in UK economic data than downward surprises.

Perhaps the most striking development since the August *Quarterly Inflation Report* (QIR) has been that disaster has been averted. The initial dives in survey indicators such as the CIPS surveys and the GfK consumer confidence have been more than reversed. The economy has not dived into a recession. In fact, the majority of UK economic data releases have surprised on the upside.

Nonetheless, while the worst-case scenario for the economy has not materialised (at least not yet), the outlook for growth during 2017 is still pretty bleak. We expect GDP growth to halve, from 2.0% y/y on average during 2016, down to just 1% y/y next year. That would be below trend, pointing to a widening in spare capacity and hence downward pressure on inflation. Hence the dilemma for the Monetary Policy Committee will be both in relative terms (i.e., Phew — things are better than feared) but also absolute terms (i.e., 1% GDP growth is pretty lacklustre).

In terms of the specifics of the Bank's projections:

> **GDP Growth:** The BoE held its nerve in August and refrained from downgrading its growth projection too much. The Bank's 0.7% y/y growth projection for 2017 looks very reasonable and could easily remain unchanged. If there is a revision, we would expect it to be upwards rather than downwards.
>
> **Inflation:** We expect the peak in the Bank's inflation projection to be shifted up from 2.4% y/y to around 3% y/y — similar to our own forecast. In turn, the main reasons for the upgrade are likely to be the further weakening in the GBP exchange rate and the rise in the price of oil.
>
> **Policy:** We expect the Bank to leave Bank Rate unchanged at 0.25%; contrary to the latest Bloomberg survey that showed over half of forecasters still expect a rate cut. The Bank's QE programme is already hard coded to continue through to February 2017 (and for almost 18 months for corporate bond purchases) so 'doing nothing' in November would still be loosening.
>
> If the decision is on a knife-edge, one argument in favour of waiting would be the upcoming Autumn Budget Statement. The Bank will not take into account any fiscal policy changes until they are actually announced. Nonetheless, the MPC will be mindful that some fiscal policy tweaking is quite likely, hence it would make sense to wait until early 2017 to gauge what impact that will have.

Feature Article

FOMC Preview

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The Federal Reserve's Federal Open Market Committee issues a policy statement on Wednesday at 2pmET. It will be a statement-only affair absent forecast updates or a press conference. **While it's unlikely that the Fed will raise the fed funds target rate at this meeting, it is possible that it provides a firmer cue to doing so at the next meeting** on December 14th when we expect a hike.

Recall that last October's statement built further upon expectations for a hike at the following meeting in December of last year when it referenced dialogue on "...whether it will be appropriate to raise the target range *at its next meeting*…" with emphasis added. Something quite similar is plausible next week with markets already pricing in over 70% odds of a December hike (and just under 20% odds of one next week). After Fed officials so strongly built expectations for a rate hike this year, failure to insert such a reference may be taken as an implicit nod to election sensitivities and tangible implications for growth and markets albeit that the case for doing so has gone down as Hillary Clinton's polling numbers have gone up. That's because — with one important caveat — most of the arguments for hiking this year are lining up well.

The Fed will go with the labor market information it already has as nonfarm payrolls for October arrive two days later. There is growing conviction at the Fed that **labor markets are approaching conditions of full employment** as evidenced by the normalization of the so-called U6 measure of combined unemployment and under-employment (chart 1). Backing this has been a rise in wage inflation to 2.6% y/y which is a so-far modest acceleration from the 2% range prior to 1-2 years ago.

The Fed will receive another inflation report on Monday and hence before the meeting, but it would take a large downside surprise — if even that — to alter conviction that the Fed is getting closer to its inflation goals. **Witness rising market-based inflation expectations (chart 2) that may merit a more hawkish reference in the statement.**

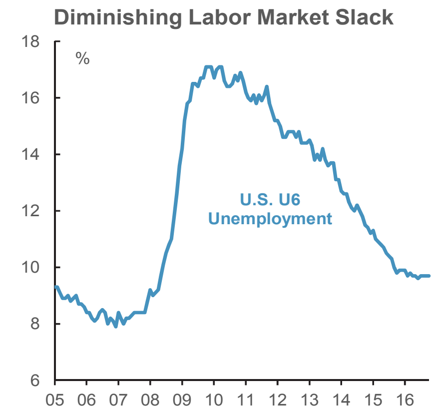
On fundamentals, Q3 growth is pending as this is written but is likely to register adequate growth and with a little more breadth. In particular, it is uncertain whether the FOMC will repeat that "business fixed investment has remained soft" because of the freshest dip in core capital goods orders or whether it will sound a more encouraging note by referencing a smoothed upward trend in orders since the summer.

Also possible is a reference to improved global conditions although past statements have found ways to make global references more likely only when they are a worry. Nevertheless, operating in the background of assumptions the FOMC is making will be the improved tone of global growth and inflation readings in such key markets as China, the Eurozone, and the UK post-Brexit.

A risk going forward is the extent to which **financial market conditions have already done the Fed's tightening for it.** The broad dollar index is at its highest since early March of this year although for very different reasons, 10 year Treasury yields are at their highest since May, and LIBOR-OIS spreads are at their highest since early 2012 on the back of changes to money market regulations (chart 3). This probably speaks more to caution after a December hike than something that would prevent one.

This will be the second last statement for voting hawks Mester, George and Rosengren who preferred a rate hike at the September FOMC as long noted. It is not clear, however, that their replacements do not support policy tightening in 2017. Chicago Fed President Evans, for instance, has gotten on board this year with a gradual pace of tightening.

Chart 1

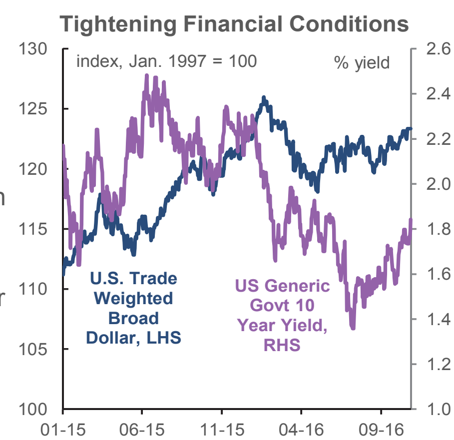


Source: Scotiabank Economics, U.S. Bureau of Labour Statistics.

Chart 2

Source: Scotiabank Economics, Bloomberg.

Chart 3



Source: Scotiabank Economics, U.S. Federal Reserve, Bloomberg.

Key Indicators for the week of October 31 – November 4

NORTH AMERICA

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	10/31	08:30	IPPI (m/m)	Sep	--	--	-0.5
CA	10/31	08:30	Raw Materials Price Index (m/m)	Sep	--	--	-0.7
US	10/31	08:30	PCE Deflator (m/m)	Sep	0.2	0.2	0.1
US	10/31	08:30	PCE Deflator (y/y)	Sep	1.2	1.2	1.0
US	10/31	08:30	PCE ex. Food & Energy (m/m)	Sep	0.1	0.1	0.2
US	10/31	08:30	PCE ex. Food & Energy (y/y)	Sep	1.7	1.7	1.7
US	10/31	08:30	Personal Spending (m/m)	Sep	0.4	0.4	0.0
US	10/31	08:30	Personal Income (m/m)	Sep	0.3	0.4	0.2
US	10/31	09:45	Chicago PMI	Oct	--	54.0	54.2
MX	10/31	10:00	GDP (q/q)	3Q P	--	--	-0.2
MX	10/31	10:00	GDP (y/y)	3Q P	2.2	--	2.5
US	10/31	10:30	Dallas Fed. Manufacturing Activity	Oct	--	1.8	-3.7
CA	11/01	08:30	Real GDP (m/m)	Aug	0.1	--	0.5
US	11/01	10:00	Construction Spending (m/m)	Sep	0.3	0.5	-0.7
US	11/01	10:00	ISM Manufacturing Index	Oct	51.7	51.7	51.5
US	11/01		Domestic Vehicle Sales (mn a.r.)	Oct	--	13.5	13.9
US	11/01		Total Vehicle Sales (mn a.r.)	Oct	17.4	17.3	17.7
US	11/02	07:00	MBA Mortgage Applications (w/w)	OCT 28	--	--	0.6
US	11/02	08:15	ADP Employment Report (000s m/m)	Oct	160	157.5	154.0
US	11/02	14:00	**FOMC Interest Rate Meeting (%)**	**Nov 2**	**0.50**	**0.50**	**0.50**
US	11/03	08:30	Initial Jobless Claims (000s)	OCT 29	260	255.0	260.0
US	11/03	08:30	Continuing Claims (000s)	OCT 22	2050	2052.0	2057.0
US	11/03	08:30	Productivity (q/q a.r.)	3Q P	1.5	1.6	-0.6
US	11/03	08:30	Unit Labor Costs (q/q a.r.)	3Q P	1.5	1.5	4.3
US	11/03	10:00	Factory Orders (m/m)	Sep	0.3	0.4	0.2
US	11/03	10:00	ISM Non-Manufacturing Composite	Oct	56.5	56.0	57.1
CA	11/04	08:30	Employment (000s m/m)	Oct	-10	--	67.2
CA	11/04	08:30	Merchandise Trade Balance (C$ bn)	Sep	-1.5	--	-1.9
CA	11/04	08:30	Unemployment Rate (%)	Oct	7.1	--	7.0
US	11/04	08:30	Average Hourly Earnings (m/m)	Oct	--	0.3	0.2
US	11/04	08:30	Average Weekly Hours	Oct	--	34.4	34.4
US	11/04	08:30	Nonfarm Employment Report (000s m/m)	Oct	170	169.0	156.0
US	11/04	08:30	Household Employment Report (000s m/m)	Oct	--	--	354.0
US	11/04	08:30	Trade Balance (US$ bn)	Sep	-41.5	-41.8	-40.7
US	11/04	08:30	Unemployment Rate (%)	Oct	5.0	4.9	5.0

EUROPE

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
UK	10/30	20:01	GfK Consumer Confidence Survey	Oct	--	--	-1.0
SP	10/31	04:00	Real Retail Sales (y/y)	Sep	--	--	4.9
SP	10/31	05:00	Current Account (€ bn)	Aug	--	--	3.0
UK	10/31	05:30	Net Consumer Credit (£ bn)	Sep	--	--	1.6
EC	10/31	06:00	Euro zone CPI Estimate (y/y)	Oct	0.5	--	0.4
EC	10/31	06:00	Euro zone Core CPI Estimate (y/y)	Oct A	0.8	--	0.8
EC	10/31	06:00	GDP (q/q)	3Q A	0.3	--	0.3
IT	10/31	06:00	CPI (m/m)	Oct P	--	--	-0.2
IT	10/31	06:00	CPI (y/y)	Oct P	--	--	0.1
IT	10/31	06:00	CPI - EU Harmonized (m/m)	Oct P	0.4	--	1.9
IT	10/31	06:00	CPI - EU Harmonized (y/y)	Oct P	0.1	--	0.1
GE	OCT 31-NOV 03		Retail Sales (m/m)	Sep	--	0.2	-0.3
UK	OCT 31-NOV 03		Nationwide House Prices (m/m)	Oct	--	0.2	0.3
UK	11/01	05:30	Manufacturing PMI	Oct	--	--	55.4

Forecasts at time of publication.
Source: Bloomberg, Scotiabank Economics.

Key Indicators for the week October 31 – November 4

EUROPE *(continued from previous page)*

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
IT	11/02	04:45	Manufacturing PMI	Oct	51.5	--	51.0
FR	11/02	04:50	Manufacturing PMI	Oct F	51.3	--	51.3
GE	11/02	04:55	Manufacturing PMI	Oct F	55.1	--	55.1
GE	11/02	04:55	Unemployment (000s)	Oct	-10	--	1.0
GE	11/02	04:55	Unemployment Rate (%)	Oct	6.1	--	6.1
EC	11/02	05:00	Manufacturing PMI	Oct F	53.3	--	53.3
UK	11/02	05:30	PMI Construction	Oct	--	--	52.3
IT	11/02		Budget Balance (€ bn)	Oct	--	--	-15.3
IT	11/02		Budget Balance YTD (€ bn)	Oct	--	--	-45.5
UK	11/03	05:30	Official Reserves Changes (US$ bn)	Oct	--	--	722.0
UK	11/03	05:30	Services PMI	Oct	--	--	52.6
EC	11/03	06:00	Unemployment Rate (%)	Sep	10.1	--	10.1
UK	11/03	08:00	BoE Asset Purchase Target (£ bn)	Nov	--	--	435.0
UK	11/03	08:00	**BoE Policy Announcement (%)**	**Nov 3**	**--**	**--**	**0.25**
IT	11/04	04:45	Services PMI	Oct	51.5	--	50.7
FR	11/04	04:50	Services PMI	Oct F	52.1	--	52.1
GE	11/04	04:55	Services PMI	Oct F	54.1	--	54.1
EC	11/04	05:00	Composite PMI	Oct F	53.7	--	53.7
EC	11/04	05:00	Services PMI	Oct F	53.5	--	53.5
EC	11/04	06:00	PPI (m/m)	Sep	--	--	-0.2

ASIA-PACIFIC

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
SK	10/30	19:00	Industrial Production (y/y)	Sep	--	--	2.3
JN	10/30	19:50	Large Retailers' Sales (y/y)	Sep	--	--	-3.6
JN	10/30	19:50	Retail Trade (y/y)	Sep	--	--	-2.2
JN	10/30	19:50	Industrial Production (y/y)	Sep P	--	--	4.5
AU	10/30	20:30	Private Sector Credit (y/y)	Sep	--	--	5.8
TA	10/30	20:30	GDP (y/y)	3Q P	1.40	--	0.70
SK	10/30	22:00	Discount Store Sales (y/y)	Sep	--	--	-1.3
SK	10/30	22:00	Department Store Sales (y/y)	Sep	--	--	4.1
HK	OCT 30-31		Govt Monthly Budget Surp/Def (HKD bn)	Sep	--	--	-6.9
JN	10/31	00:00	Vehicle Production (y/y)	Sep	--	--	8.8
JN	10/31	01:00	Housing Starts (y/y)	Sep	--	--	2.5
JN	10/31	01:00	Construction Orders (y/y)	Sep	--	--	13.8
TH	10/31	03:30	Exports (y/y)	Sep	--	--	2.8
TH	10/31	03:30	Imports (y/y)	Sep	--	--	-0.1
TH	10/31	03:30	Trade Balance (US$ mn)	Sep	--	--	2736
TH	10/31	03:30	Current Account Balance (US$ mn)	Sep	--	--	3805
IN	10/31	07:00	Fiscal Deficit (INR Crore)	Sep	--	--	14333
NZ	10/31	19:00	QV House Prices (y/y)	Oct	--	--	14.3
SK	10/31	19:00	Current Account (US$ mn)	Sep	--	--	5513
SK	10/31	19:00	CPI (y/y)	Oct	1.10	--	1.20
SK	10/31	19:00	Core CPI (y/y)	Oct	--	--	1.3
SK	10/31	20:00	Exports (y/y)	Oct	--	--	-5.9
SK	10/31	20:00	Imports (y/y)	Oct	--	--	-2.3
SK	10/31	20:00	Trade Balance (US$ mn)	Oct	--	--	7105
JN	10/31	20:30	Markit/JMMA Manufacturing PMI	Oct F	--	--	51.7
CH	10/31	21:00	Manufacturing PMI	Oct	--	50.4	50.4
CH	10/31	21:00	Non-manufacturing PMI	Oct	--	--	53.7
CH	10/31	21:45	Caixin China Manufacturing PMI	Oct	--	50.1	50.1
AU	10/31	23:30	**RBA Cash Target Rate (%)**	**Nov 1**	**1.50**	**1.50**	**1.50**
ID	OCT 31-NOV 01		CPI (y/y)	Oct	3.30	--	3.07
ID	OCT 31-NOV 01		Core CPI (y/y)	Oct	--	--	3.2

Forecasts at time of publication.
Source: Bloomberg, Scotiabank Economics.

Key Indicators for the week of October 31 – November 4

ASIA-PACIFIC *(continued from previous page)*

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
JN	OCT 31-NOV 01		**BoJ Policy Rate (%)**	**Nov 1**	**-0.15**	**--**	**-0.10**
JN	OCT 31-NOV 08		Official Reserve Assets (US$ bn)	Oct	--	--	1260
TH	OCT 31-NOV 01		CPI (y/y)	Oct	0.30	--	0.38
TH	OCT 31-NOV 01		Core CPI (y/y)	Oct	--	--	0.8
JN	11/01	01:00	Vehicle Sales (y/y)	Oct	--	--	3.7
TH	11/01	03:30	Business Sentiment Index	Oct	--	--	50.3
NZ	11/01	17:45	Unemployment Rate (%)	3Q	--	--	5.1
NZ	11/01	17:45	Employment Change (y/y)	3Q	--	--	4.5
JN	11/01	19:50	Monetary Base (y/y)	Oct	--	--	22.7
AU	11/01	20:30	Building Approvals (m/m)	Sep	--	--	-1.8
JN	11/02	01:00	Consumer Confidence	Oct	--	--	43.0
SI	11/02	09:00	Purchasing Managers Index	Oct	--	--	50.1
AU	11/02	20:30	Trade Balance (AUD mn)	Sep	--	--	-2010
HK	11/02	20:30	Purchasing Managers Index	Oct	--	--	49.3
CH	11/02	21:45	Caixin China Composite PMI	Oct	--	--	51.4
CH	11/02	21:45	Caixin China Services PMI	Oct	--	--	52.0
TH	11/02	23:30	Consumer Confidence Economic	Oct	--	--	63.4
HK	11/03	04:30	Retail Sales - Value (y/y)	Sep	--	--	-10.5
HK	11/03	04:30	Retail Sales - Volume (y/y)	Sep	--	--	-12.7
AU	11/03	20:30	Retail Sales (m/m)	Sep	--	--	0.4
PH	11/03	21:00	CPI (y/y)	Oct	2.30	--	2.30
PH	11/03	21:00	Core CPI (y/y)	Oct	--	--	2.3
MA	11/04	00:00	Exports (y/y)	Sep	--	--	1.5
MA	11/04	00:00	Imports (y/y)	Sep	--	--	4.9
MA	11/04	00:00	Trade Balance (MYR bn)	Sep	--	--	8.5
MA	11/04	03:00	Foreign Reserves (US$ bn)	Oct 28	--	--	97.8
ID	11/04		Consumer Confidence Index	Oct	--	--	110.0

LATIN AMERICA

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CO	10/31	11:00	Urban Unemployment Rate (%)	Sep	--	9.6	9.9
CO	10/31		**Overnight Lending Rate (%)**	**Oct 31**	**--**	**7.75**	**7.75**
PE	11/01	01:00	Consumer Price Index (m/m)	Oct	0.25	--	0.2
PE	11/01	01:00	Consumer Price Index (y/y)	Oct	3.25	--	3.1
BZ	11/01	07:00	Industrial Production SA (m/m)	Sep	--	--	-3.8
BZ	11/01	07:00	Industrial Production (y/y)	Sep	--	--	-5.2
BZ	11/01	13:00	Trade Balance (FOB) - Monthly (US$ mn)	Oct	--	--	3803
BZ	11/03	08:00	PMI Manufacturing Index	Oct	--	--	46.0
PE	11/04	01:00	Trade Balance	Sep	0.1	--	3.1

Forecasts at time of publication.
Source: Bloomberg, Scotiabank Economics.

Global Auctions for the week of October 31 – November 4

NORTH AMERICA

Country	Date	Time	Event
CA	11/03	12:00	Canada to Sell 2-Year Bonds

EUROPE

Country	Date	Time	Event
IR	10/31	06:10	Ireland Bond Auction Offering
NO	10/31	07:00	Norway Bond Auction Announcement
UK	11/01	06:30	U.K. to Sell GBP2.75 Bln 0.5% 2022 Bonds
DE	11/02	05:30	Denmark to Sell Bonds
SW	11/02	06:03	Sweden to Sell Bonds
NO	11/02	06:05	Norway to Sell Bonds
NO	11/02	06:05	Norway Bond Auction
GE	11/02	06:30	Germany to Sell EUR3 Bln 0% 2026 Bonds
FR	11/03	05:50	France to Sell Bonds
IR	11/03	06:15	Ireland Bond Auction
IR	11/03	06:30	Ireland to Sell Bonds
IC	11/04	07:30	Iceland to Sell Bonds

ASIA-PACIFIC

Country	Date	Time	Event
VN	10/30	05:30	BVDB To Sell VND1.35 Tln 3-Yr Bond
VN	10/30	05:30	BVDB To Sell VND2 Tln 5-Yr Bond
SK	10/30	21:30	Korea Central Bank to Sell KRW 1Tln 91-Days Bond
VN	10/31	05:30	VBSP To Sell VND500 Bln 10-Yr Bond
VN	10/31	05:30	VBSP To Sell VND574 Bln 15-Yr Bond
CH	11/01	23:00	China Plans to Sell 1-Year Bonds
CH	11/01	23:00	China Plans to Sell 10-Year Bonds
HK	11/01	23:30	Hong Kong to Sell HKD2.5Bln 2.46% 5-Yr Bonds
TA	11/03	00:30	Taiwan to Sell TWD160 Bln 364-Day NCD

LATIN AMERICA

Country	Date	Time	Event
BZ	11/03	10:00	Brazil to Sell Fixed Rate Bonds

Source: Bloomberg, Scotiabank Economics.

Events for the week of October 31 – November 4

NORTH AMERICA

Country	Date	Time	Event
CA	11/01	11:45	Bank of Canada's Poloz speaks in Vancouver
US	11/02	09:00	The Federal Open Market Committee (FOMC) holds a closed meeting
CA	11/02	13:15	Bank of Canada's Wilkins Speaks on OSC Panel
US	11/02	14:00	**FOMC Rate Decision**
EC	11/03	17:00	ECB's Coeure speaks at Harvard University
CA	11/03	20:35	Bank of Canada's Poloz Speaks at Oshawa Walk of Fame
US	NOV 03-04		IMF Conference Macroeconomics after the Great Recession
US	11/04	09:40	Fed's Lockhart to Speak to Realtors in Orlando
EC	11/04	13:00	ECB's Constancio Speaks in Chicago
US	11/04	13:30	Fed's Kashkari Speaks in Eau Claire, Wisconsin
US	11/04	16:00	Fed's Fischer Speaks at IMF Event in Washington

EUROPE

Country	Date	Time	Event
IT	OCT 28-30		Italy Finance Minister Padoan Speaks at Bratislava Conference
AS	OCT 28-29		Russian Officials, OPEC Meet in Vienna to Discuss Oil Glut
SZ	10/31	02:30	Swiss National Bank Releases 3Q 2016 Currency Allocation
SW	11/02	10:30	Riksbank Governor Ingves Speaks in Helsinki
GE	11/02		German Council of Economic Advisers Presents Annual Report
SW	11/03	02:30	Riksbank's af Jochnick Speaks in Falun
EC	11/03	05:00	ECB Publishes Economic Bulletin
UK	11/03	08:00	**Bank of England Bank Rate**
UK	11/03	08:00	Bank of England Inflation Report
SW	11/03	09:20	Riksbank's Jansson Speaks in Geneva
PO	11/03	10:00	Bank of Portugal's Ferreira at Financial Literacy Conference
EC	11/03	17:00	ECB's Coeure speaks at Harvard University
IT	11/04	05:00	Istat Releases the Monthly Economic Note
EC	11/04		EU Sovereign Debt to Be Rated by Moody's
SZ	11/04		Switzerland Sovereign Debt to Be Rated by Moody's
TU	11/04		Turkey Sovereign Debt to Be Rated by S&P

ASIA-PACIFIC

Country	Date	Time	Event
JN	OCT 28-NOV 01		**BOJ Policy Rate**
JN	OCT 28-NOV 01		BOJ outlook report
AU	10/31	23:30	**RBA Cash Rate Target**
JN	11/01	02:30	BOJ governor press conference
SK	11/01	03:00	Bank of Korea Policy Meeting Minutes
NZ	11/03	17:00	N.Z. Government 3-Month Financial Statements
AU	11/03	20:30	RBA Statement on Monetary Policy

LATIN AMERICA

Country	Date	Time	Event
CO	10/31		**Overnight Lending Rate**

Source: Bloomberg, Scotiabank Economics.

Global Central Bank Watch

NORTH AMERICA

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Canada – Overnight Target Rate	0.50	December 7, 2016	0.50	0.50
Federal Reserve – Federal Funds Target Rate	0.50	November 2, 2016	0.50	0.50
Banco de México – Overnight Rate	4.75	November 17, 2016	4.75	--

Federal Reserve: The Fed issues a policy statement on Wednesday but with no forecasts or press conference. There is the risk of a codified reference to a hike at the next meeting on December 14th but we expect the Fed to stand pat for now.
Bank of Canada: Governor Poloz speaks twice in an intense week for Canadian market watchers that may see additional fiscal stimulus on Tuesday which could lessen market odds of a further BoC cut.

EUROPE

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
European Central Bank – Refinancing Rate	0.00	December 8, 2016	0.00	--
Bank of England – Bank Rate	0.25	November 3, 2016	0.25	0.25
Swiss National Bank – Libor Target Rate	-0.75	December 15, 2016	-0.75	--
Central Bank of Russia – One-Week Auction Rate	10.00	December 16, 2016	10.00	10.00
Sweden Riksbank – Repo Rate	-0.50	December 21, 2016	-0.50	--
Norges Bank – Deposit Rate	0.50	December 15, 2016	0.50	--

Bank of England: We expect the BoE to hold policy steady. Please see Alan Clarke's focus on the meeting in this edition of the Global Week Ahead.

ASIA PACIFIC

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Japan – Policy Rate	-0.10	November 1, 2016	-0.15	-0.10
Reserve Bank of Australia – Cash Target Rate	1.50	October 31, 2016	1.50	1.50
Reserve Bank of New Zealand – Cash Rate	2.00	November 9, 2016	1.75	1.75
People's Bank of China – Lending Rate	4.35	TBA	--	--
Reserve Bank of India – Repo Rate	6.25	December 7, 2016	6.25	--
Bank of Korea – Bank Rate	1.25	November 11, 2016	1.25	--
Bank of Thailand – Repo Rate	1.50	November 9, 2016	1.50	1.50
Bank Indonesia – 7-Day Reverse Repo Rate	4.75	November 16, 2016	4.75	--

The **Reserve Bank of Australia** (RBA) and the **Bank of Japan** (BoJ) will make monetary policy decisions next week. We expect the RBA to leave the benchmark interest rate unchanged at 1.50%; nevertheless, we believe that the central bank has policy room to lower the key rate one more time over the coming months, most likely in Q1 2017. Simultaneously to the monetary policy decision, the BoJ will publish the quarterly "Outlook for Economic Activity and Prices" report. With the policy decision being impacted by the broad economic assessment, it is highly possible that the BoJ will decide to lower the benchmark policy rate further into negative territory.

LATIN AMERICA

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Banco Central do Brasil – Selic Rate	14.00	November 30, 2016	14.25	--
Banco Central de Chile – Overnight Rate	3.50	November 17, 2016	3.50	--
Banco de la República de Colombia – Lending Rate	7.75	October 31, 2016	7.75	7.75
Banco Central de Reserva del Perú – Reference Rate	4.25	November 10, 2016	4.25	--

Banco de la Republica de Colombia is expected to leave its policy rate unchanged amid speculation over monetary policy easing next year once further evidence of cooling inflation is expected to arrive.

AFRICA

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
South African Reserve Bank – Repo Rate	7.00	November 24, 2016	7.00	--

Forecasts at time of publication.
Source: Bloomberg, Scotiabank Economics.

Fixed Income Strategy (London, Paris)

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