

## CAPITAL MARKETS RESEARCH

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# Daily Points

— Tracking the Numbers

## On Deck for Thursday, July 26

| Country | Date  | Time  | Indicator                             | Period | BNS  | Consensus | Latest |
|---------|-------|-------|---------------------------------------|--------|------|-----------|--------|
| US      | 07/26 | 08:30 | Continuing Claims (000s)              | JUL 14 | 3300 | 3300.0    | 3314.0 |
| US      | 07/26 | 08:30 | Initial Jobless Claims (000s)         | JUL 21 | 385  | 380.0     | 386.0  |
| US      | 07/26 | 08:30 | Durable Goods Orders (m/m)            | Jun    | 0.0  | 0.3       | 1.3    |
| US      | 07/26 | 08:30 | Durable Goods Orders ex. Trans. (m/m) | Jun    | -0.3 | 0.1       | 0.7    |
| US      | 07/26 | 10:00 | Pending Home Sales (m/m)              | Jun    | 0.0  | 0.3       | 5.9    |

## BoC Events

### BoC Overnight Lending Rate

**Current Rate:** 1.0%

**Next Move:** September 5 @ 1.0%

**Bias:** Neutral

## Fed Events

### Fed Funds Target Rate

**Current Rate:** 0-0.25%

**Next Move:** August 1 @ 0-0.25%

**Bias:** Dovish

## Key International Events

### BoJ

**Current Rate:** 0.10%

**Next Move:** August 9 @ 0.10%

**Bias:** Dovish

### BoE

**Current Rate:** 0.50%

**Next Move:** August 2 @ 0.50%

**Bias:** Dovish

### ECB

**Current Rate:** 0.75%

**Next Move:** August 2 @ 0.75%

**Bias:** Neutral

## KEY POINTS:

- Markets rejoice on comments by ECB's Draghi
- Draghi tries to talk markets off the ledge...
- ...perhaps as a policy tip-off to next week's meeting...
- ...as Italy runs a successful auction
- BoC's Carney resurfaces as a rumoured BoE Governor candidate
- US durables report to offer last minute risk to tomorrow's Q2 GDP call
- US pending home sales could reinforce waning momentum in US housing recovery
- US jobless claims will advance the debate over temporary auto-sector distortions
- Biggest day for U.S. earnings releases thus far
- RBNZ stands pat...
- ...while the Philippines cuts rates
- South Korean businesses retrench in Q2, GDP suffers
- Italian retail sales continue to slide
- US to auction 7s today

## CANADA

**BoC Governor Mark Carney** is back in the spotlight again regarding his potential candidacy for Governor of the Bank of England. He has previously denied being approached for the job and there are no indications he has been approached of late; at issue is a Bloomberg story this morning that states the case for his candidacy largely thanks to the problems plaguing most other candidates including in the wake of the Libor scandal and problems with UK bank stewardship. The uncertainty associated with the matter comes at an unfortunate moment for the Canadian economy that faces the potential migration toward an entirely different set of risks going forward.

**53 Canadian companies release Q2 earnings today.** The banks that drive much of the credit space are not on tap for a while yet as they close the books on Q3 ending July 31<sup>st</sup>, but today's release calendar include a number of gold and mining firms including Barrick Gold and Potash Corp. Of 33 firms on the TSX that have released thus far, about 58% have beaten analysts' earnings expectations. Only 37% of firms having released thus far have beaten analysts revenue expectations, implying that relative to analyst expectations the earnings beat has occurred through more aggressive than anticipated gains in operating leverage. That said, apart from analyst expectations, aggregate Canadian earnings are down 18% and revenues are down by 5%.

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## UNITED STATES

US markets face elevated data and earnings risk today through a combination of three significant data releases and the biggest earnings release schedule of the Q2 season.

Big ticket **durable goods orders** for the month of June (8:30amET) will be helpful as a last minute cause for reassessing tomorrow's Q2 GDP report. We'll cut straight to the shipments of non-defense ex-aircraft capital goods as a driver of business investment in capital goods albeit not price-deflated. Q2 has not been kind to this metric thus far with a decline of 1.5% m/m in April and a modest rise of 0.4% in May. As for the top line figures that flash across your screens, total durable goods orders are expected to be relatively flat (+0.3% m/m) after the 1.1% rise in May, and so are core durable goods orders ex transportation.

**Initial jobless claims** (8:30amET) will also be important given recent volatility in the data likely owing to fewer and shorter than usual shut downs for retooling in the auto sector. We're expecting another elevated reading after the brief drop at the start of the month such that pressure will remain upon the Fed's full employment half of its dual mandate.

Lastly, **pending home sales** (10amET) are expected to come in soft following a fairly large 5.9% m/m rise in May

This is the **single biggest day for U.S. earnings releases** in the current season, with about 350 companies on tap including 62 on the S&P500 index. 134 of the releases are slated for before the 9:30amET market open and the rest will be released after 4pm today.

I love this quote on what's coming down the pipeline regarding the impact of high feed prices including corn: "Beef is simply going to be too expensive to eat. Pork is not going to be too far behind. Chicken is catching up fast," said Larry Pope who is CEO of Smithfield Foods. Right, well, it's either tofu or the sole of my shoe medium rare please. Food price inflation is in the market's sights, but I think the impact will be a replay of the ultimately disinflationary influences upon the broader consumer price index as tight household budget constraints spend more on what they have to (ie: food) even after adjusting for some substitution effects, and less on everything else in a manner that saps pricing power from the rest of the economy and constrains core CPI inflation.

## INTERNATIONAL

The first time I looked at my screens at 4:30 this morning it was looking like another case of Groundhog Day with equities trading lower, but comments by the ECB's Mario Draghi have abruptly turned around the market tone such that we're now staring at a much more pleasant day with equities up impressively. European benchmarks are up by between 1-3%, and Dow futures are poised for an over-100 point bounce higher at the market open. Currency markets are broadly selling the USD in favour of strong rallies across every major currency cross. Treasuries, Canadas, gilts and bunds are being dumped, and both Spanish and Italian debt is rallying hard with the yields on Spanish and Italian 10s both down by over 30bps.

**ECB President Mario Draghi** tried to talk markets off the ledge today by promising that "the ECB is ready to do whatever it takes to preserve the euro" with the important caveat "within our mandate." He then defined the ECB's mandate broadly by saying that high sovereign debt yields in Italy and Spain "hamper the functioning of the monetary policy transmission mechanism." There is a bit of a logical problem with this statement: high rates on government bond yields are not impeding the transmission of low central bank rates into increased private bank lending (the technical 'transmission mechanism' between central bank policy and the real economy). Rather, part of the reason that government bond yields are high is because some European banks risk posing an insurmountable fiscal burden on European sovereigns. Markets – and South European politicians – are clamouring for ECB intervention in government debt markets in the hope that an ECB summer shopping spree in Italy and Spain would lower borrowing costs (e.g. Italy paid 4.86% interest on €2.5bn of 2014 maturity zero coupon bonds that it issued today). In order for this plan to work for more than a short period, the cause of the crisis would have to be market inefficiency and failure as opposed to fundamental fiscal challenges. If markets are accurately pricing risks, however, it's not clear that the intervention would help in the long-term.

The key takeaway here is that this may be a policy tip-off in advance of next week's ECB statement.

**Retail sales fell in Italy** during May, declining by 0.2% m/m, the third consecutive decline and a particularly weak print after April's -1.72% contraction (which was amongst the deepest monthly declines on record). The decline was led by non-food items, as higher food prices boosted food sales.

**South Korea's GDP** came in at 0.4% q/q in Q2 (1.5% q/q SAAR), slightly lower than expectations for 0.5% growth and the second lowest GDP print dating back to the start of 2010. The fairly anaemic growth was dragged down by weak gross capital formation (-5.9% q/q SAAR) and lower exports of goods (-2.4% q/q SAAR). The bottom line is that South Korea's companies are fairly challenged by the weaker growth profile in the region and indeed globally, and therefore their investment and their export sales are cooling. The weak GDP number in part explains why the Bank of Korea cut its rate at its most recent meeting.

The **Bangko Sentral NG Pilipinas** followed Korea's suit, and surprised markets by cutting its key policy interest rates by 25bps to 3.75% for the overnight borrowing rate and to 5.75% for the overnight lending facility that it operates. This is the third rate cut this year. The monetary board cited weak global economic prospects and "strong global headwinds" as its rationale for the rate cut, and argued that a "benign inflation outlook" gives it breathing room. The short of it is that with the Chinese economy cooling and inflation in Southeast Asia fairly low, a rate cut cycle could well be starting.

Don't tell that to the **RBNZ**, which held its overnight cash rate at 2.5% for the 11<sup>th</sup> consecutive time dating back to March 2011, putting it in a position to rival the BoC which has held its overnight lending rate at 1% for 14 consecutive meetings (the BoC has been on hold since October 2010). Of course, neither central bank has been on hold for as long as the BoE, which last changed its rate in March 2009, or the Fed, which has been on hold since January 2009 and promises to be on hold for longer. However, unlike either of those two central banks, there have been reasonable expectations that the RBNZ could adjust rates in either direction over the past five quarters. Today's terse statement did not provide hints in either direction, implying only that the RBNZ could cut rates "if conditions in the Euro area deteriorate very significantly" which it views as a "limited risk". The RBNZ has avoided the interest rate volatility of other regional central banks, and it will be interesting to see if it holds to its guns this time around as the catalyst seems to be slower Chinese growth – which could materially impact commodity prices and therefore New Zealand's terms of trade.

| Fixed Income | Government Yield Curves (%):  |       |       |        |       |      |         |       |      |         |       |      |
|--------------|-------------------------------|-------|-------|--------|-------|------|---------|-------|------|---------|-------|------|
|              | 2-YEAR                        |       |       | 5-YEAR |       |      | 10-YEAR |       |      | 30-YEAR |       |      |
|              | Last                          | 1-day | 1-wk  | Last   | 1-day | 1-wk | Last    | 1-day | 1-wk | Last    | 1-day | 1-wk |
| U.S.         | 0.22                          | 0.22  | 0.22  | 0.58   | 0.55  | 0.61 | 1.41    | 1.40  | 1.51 | 2.49    | 2.45  | 2.61 |
| CANADA       | 0.98                          | 0.96  | 0.98  | 1.18   | 1.15  | 1.19 | 1.62    | 1.59  | 1.65 | 2.25    | 2.22  | 2.27 |
| GERMANY      | -0.05                         | -0.06 | -0.05 | 0.36   | 0.33  | 0.28 | 1.32    | 1.26  | 1.22 | 2.20    | 2.17  | 2.09 |
| JAPAN        | 0.10                          | 0.10  | 0.10  | 0.19   | 0.18  | 0.18 | 0.74    | 0.73  | 0.74 | 1.77    | 1.78  | 1.72 |
| U.K.         | 0.10                          | 0.07  | 0.14  | 0.52   | 0.46  | 0.53 | 1.52    | 1.46  | 1.52 | 2.92    | 2.89  | 2.92 |
|              | Foreign - U.S. Spreads (bps): |       |       |        |       |      |         |       |      |         |       |      |
|              | 2-YEAR                        |       |       | 5-YEAR |       |      | 10-YEAR |       |      | 30-YEAR |       |      |
|              | Last                          | 1-day | 1-wk  | Last   | 1-day | 1-wk | Last    | 1-day | 1-wk | Last    | 1-day | 1-wk |
| CANADA       | 76                            | 74    | 76    | 60     | 60    | 58   | 21      | 19    | 15   | -24     | -23   | -34  |
| GERMANY      | -27                           | -28   | -27   | -22    | -23   | -33  | -9      | -14   | -29  | -29     | -28   | -52  |
| JAPAN        | -12                           | -12   | -11   | -40    | -37   | -43  | -67     | -67   | -77  | -72     | -68   | -89  |
| U.K.         | -12                           | -15   | -8    | -6     | -9    | -8   | 11      | 6     | 2    | 44      | 44    | 31   |

| Equities    | Last     | Change  | % change: |      |      |       |
|-------------|----------|---------|-----------|------|------|-------|
|             |          |         | 1 Day     | 1-wk | 1-mo | 1-yr  |
| S&P/TSX     | 11492.51 | 25.56   | 0.2       | -0.7 | 1.4  | -13.6 |
| Dow 30      | 12676.05 | 58.73   | 0.5       | -1.8 | 1.1  | 1.4   |
| S&P 500     | 1337.89  | -0.42   | -0.0      | -2.5 | 1.4  | 0.4   |
| Nasdaq      | 2854.24  | -8.75   | -0.3      | -3.0 | 0.0  | 0.5   |
| DAX         | 6487.32  | 80.80   | 1.3       | -4.0 | 5.7  | -11.7 |
| FTSE        | 5554.45  | 56.13   | 1.0       | -2.8 | 2.0  | -6.3  |
| Nikkei      | 8443.10  | 77.20   | 0.9       | -4.0 | -2.5 | -16.4 |
| Hang Seng   | 18892.79 | 15.46   | 0.1       | -3.4 | -0.5 | -16.3 |
| CAC         | 3149.50  | 67.76   | 2.2       | -3.5 | 4.5  | -16.9 |
| Commodities |          |         | % change: |      |      |       |
|             | Last     | Change  | 1 Day     | 1-wk | 1-mo | 1-yr  |
| WTI Crude   | 89.78    | 0.81    | 0.9       | -3.1 | 13.1 | -9.9  |
| Natural Gas | 3.08     | 0.01    | 0.2       | 2.6  | 11.2 | -29.6 |
| Gold        | 1601.00  | 17.75   | 1.1       | 1.6  | 2.0  | -0.8  |
| Silver      | 27.81    | 0.70    | 2.6       | 1.3  | 1.3  | -31.1 |
| CRB Index   | 297.24   | 0.87    | 0.3       | -0.6 | 9.0  | -14.8 |
| Currencies  |          |         | % change: |      |      |       |
|             | Last     | Change  | 1 Day     | 1-wk | 1-mo | 1-yr  |
| USDCAD      | 1.0079   | -0.0076 | -0.7      | 0.0  | -1.6 | 6.7   |
| EURUSD      | 1.2264   | 0.0106  | 0.9       | -0.1 | -1.8 | -15.5 |
| USDJPY      | 78.17    | 0.0100  | 0.0       | -0.5 | -1.7 | 0.4   |
| AUDUSD      | 1.0402   | 0.0095  | 0.9       | -0.2 | 3.4  | -5.1  |
| GBPUSD      | 1.5634   | 0.0136  | 0.9       | -0.6 | -0.1 | -4.7  |
| USDCHF      | 0.9793   | -0.0086 | -0.9      | 0.1  | 1.9  | 22.2  |

Source: Bloomberg. All quotes reflect Bloomberg data as at the time of publishing.  
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