

**ON DECK FOR WEDNESDAY, SEPTEMBER 27**

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest	
US	09/27	07:00	MBA Mortgage Applications (w/w)	SEP 22	--	--	-9.7	
US	09/27	08:30	Durable Goods Orders (m/m)	Aug P	0.5	1.0	-6.8	
US	09/27	08:30	Durable Goods Orders ex. Trans. (m/m)	Aug P	0.3	0.2	0.6	
US	09/27	09:15	<b>Fed's Kashkari Speaks at Higher Education Event</b>					
US	09/27	10:00	Pending Home Sales (m/m)	Aug	--	-0.5	-0.8	
CA	09/27	11:45	<b>Speech - Stephen S. Poloz, Governor</b>					
CA	09/27	12:55	<b>Press Conference -- Bank of Canada Governor Stephen Poloz</b>					
US	09/27	13:30	<b>Fed's Bullard Speaks on Economy and Monetary Policy</b>					
US	09/27	14:00	<b>Fed's Brainard Speaks at Minority Banker Forum</b>					
US	09/27	19:00	<b>Fed's Rosengren to Speak to Money Marketeers in New York</b>					

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**KEY POINTS:**

- USD and Treasury yields higher on Yellen and tax details
- Poloz to discuss rate hike scorecard
- Tax details pending today from the 'Big Six' and Trump
- US investment comes in strong for a second month
- US also faces pending home sales and more Fed-speak
- Galling US trade hypocrisy
- China profit growth accelerates, eases corporate leverage fears
- BoT stays on hold, resists government pressure
- RBNZ to hold, amid leadership uncertainty

**INTERNATIONAL**

The aftermath of yesterday's comments by Fed Chair Yellen and anticipation of tax reform details today are combining to continue driving USD strength and higher bond yields.

- The USD is broadly strongest against all major crosses this morning with the weakest performers including the rand, peso and yen while the C\$, pound sterling, real and NZ\$ are outperforming several other major currencies. The US tariff on Bombardier is having no appreciable effect on the currency perhaps with the bigger focus upon Poloz today (see below).
- Sovereign bond yields are under upward pressure globally including a rise of 4-6bps in 10 year yields in the US, Canada, UK and core Eurozone with curves generally steepening across most markets.
- Oil prices are unchanged so far with WTI at US\$51.8.
- US and Canadian equity futures are very slightly positive at this point while European cash markets are up by 0.25-0.5% and more in Spain and Italy in the wake of a mixed Asian session that saw stocks fall in Tokyo, flat in Seoul and up in HK.
- Ahead of Poloz's speech today (see below), OIS markets are pricing almost even odds of a hike on October 25<sup>th</sup> and about 75% odds of a hike by December.

**Chinese industrial profit growth accelerated** in August to 24% y/y (16.5% prior). That's about a four year high by the narrowest of margins and profit growth has been on a firming trend for the past couple of years. Strong profit growth has been one reason why concerns over excessive corporate leverage have eased.

**Bank of Thailand left its policy rate unchanged** at 1.5% as expected and despite political pressure from the Finance ministry to ease. The BoT avoided

cutting because of financial stability concerns.

**The Reserve Bank of New Zealand is universally expected to keep its official cash rate on hold** at 1.75% this afternoon (4pmET) in the wake of the uncertain election outcome and as Governor Wheeler heads off into retirement with his successor to be named later.

## CANADA

Bank of Canada Governor Stephen Poloz speaks in St. John's, Newfoundland today. His comments will be released at 11:45amET and he will hold a full press conference at 12:55pmET. The title of the speech lends intrigue ("The Meaning Of "Data Dependence": An Economic Progress Report") in that it suggests he will lay out the criteria for judging the economy to be progressing enough to merit further tightening. His audience will be sitting in the only provincial economy that is still contracting in the wake of the collapse of commodity prices and so if know-your-audience applies then it may merit caution. That said, I would expect Poloz to continue along the path of leaving the door wide open for further rate hikes.

## UNITED STATES

**Tax reforms, data risk and Fed-speak are all on tap for US markets today.**

**US tax reform proposals should be further outlined today by the so-called 'Big Six' tax reform negotiators and with President Trump scheduled to deliver a speech on tax reform in Indiana today.** The 'Big Six' include Mnuchin, Cohn, Ryan, McConnell, Brady and Hatch. Trump's speech is not open to the public but is at about 3pmET at the Indiana State Fairgrounds so I'm guessing 'not open to the public' is a mere suggestion... Anyway, the plan is expected to target a corporate tax rate of 20% but other details are more important. Funding tax cuts is the issue and it's unclear how much detail will be provided on that count today and yet assessing the fiscal math and implications for the economy depends critically upon matters like the future of various key tax credits (mortgage interest, state taxes etc). Obviously failure to negotiate a health agreement and associated foregone revenue savings are limiting optimism toward success on tax reforms.

**Durable goods orders that track investment activity beat expectations on the headline and underlying details.** Headline orders were up 1.7% m/m after a 6.8% decline the prior month. The bigger issue is that core orders excluding defense and air jumped by 0.9% m/m following a slight upward revision to a 1.1% rise the prior month. Core orders have risen in six of the eight months this year as trend growth indicates a mild investment recovery.

**The US also releases pending home sales** for August (10amET) which should serve as a fresher indicator of the effects of Hurricane Harvey and in next month's data it should illustrate the effects of Hurricane Irma.

**Fed-speak should be relatively muted** but it includes comments by Governor Brainard (2pmET) and regional Presidents Kashkari (9:15amET), Bullard (1:30pmET) and Rosengren (7pmET).

**U.S. Commerce Secretary Wilbur Ross and the Trump administration clearly wanted to escalate trade tensions as the backdrop to the third round of NAFTA negotiations underway in Ottawa when he granted a more punitive duty against a Canadian firm than requested by the complainant firm that doesn't even manufacture a directly competing product.** I won't comment on the details of the individual dispute at hand, but it's fair game to make a broader point. The decision was accompanied by the following comment from Ross:

"The U.S. values its relationships with Canada, but even our closest allies must play by the rules. The subsidization of goods by foreign governments is something that the Trump Administration takes very seriously, and we will continue to evaluate and verify the accuracy of this preliminary determination."

Oh really?! Note the irony to beseeching another country to play by the rules. This public web site tracks US\$157 billion in direct subsidies by US governments to firms headquartered in the United States. Have a look at the firm that tops the list of the top 100 companies receiving federal, state and local aid. This article is one among many that may be of further interest.

This tally of direct subsidies nevertheless underestimates the broader issue. In that broader sense, probably no other industrialized economy has subsidized its private industry more over the past decade than the U.S. With taxpayer assistance and trillions of dollars in help from the Federal Reserve, the U.S. bailed out much of its financial, automotive, housing and household sectors after the country sparked the global financial crisis. Over decades, it built its aerospace and defence industries with public money preferentially provided by US governments. It has spent a fortune subsidizing its agricultural sector. Its southern states spent billions siphoning off investments from jurisdictions like Canada via subsidies to global auto

and other manufacturers to locate assembly plants where they would probably not otherwise have taken hold. One can debate whether this is about putting “America First”, or “Taxpayers Last” as the merits to such efforts draw serious debate domestically, let alone internationally. Regardless, not playing by the same rules that it expects others to play by risks generating an uncooperative spirit abroad and that may well not serve U.S. business interests well over time.

Now I love the US and have many American friends and realize that no country is innocent when it comes to its own commercial and trade policies. But as an economist, I prefer a level, even playing field across countries on trade and broader commercial policies and believe firmly in rules-based multilateral institutions and independent tribunals to assess disputes that are designed to achieve such aims outside of the vagaries of political influences and lobbying efforts. The fear, however, is that saying and demanding one thing from others and doing something entirely different in one’s own back yard could prompt retribution in such fashion as to erode confidence in global trade for the long term. That would be a shame for everyone, but there would be a solid case for history to judge the seeds of protectionism as having been sown by decades of U.S. policy that doesn’t appear to be changing for the better either for US taxpayers and consumers - or the broader health of the global economy.

Fixed Income	Government Yield Curves (%):												Central Banks	
	2-YEAR			5-YEAR			10-YEAR			30-YEAR			Current Rate	
	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk		
U.S.	1.47	1.44	1.44	1.90	1.86	1.88	2.29	2.24	2.27	2.83	2.78	2.81	Canada - BoC	1.00
CANADA	1.63	1.61	1.57	1.86	1.81	1.80	2.17	2.11	2.10	2.50	2.45	2.45	US - Fed	1.25
GERMANY	-0.70	-0.72	-0.69	-0.27	-0.31	-0.28	0.46	0.41	0.44	1.30	1.25	1.23	England - BoE	0.25
JAPAN	-0.12	-0.12	-0.12	-0.09	-0.11	-0.10	0.06	0.03	0.03	0.86	0.83	0.84		
U.K.	0.46	0.45	0.45	0.81	0.76	0.75	1.38	1.33	1.34	1.95	1.90	1.93		
Spreads vs. U.S. (bps):														
CANADA	16	17	13	-4	-5	-8	-11	-13	-17	-32	-32	-36	Euro zone - ECB	0.00
GERMANY	-216	-216	-213	-216	-217	-215	-182	-183	-183	-152	-152	-158	Japan - BoJ	-0.10
JAPAN	-158	-156	-156	-198	-197	-198	-223	-220	-224	-197	-195	-197		
U.K.	-101	-99	-100	-109	-110	-112	-91	-91	-93	-88	-87	-88	Mexico - Banxico	7.00
Equities	Level						% change:							
	Last	Change		1 Day	1-wk	1-mo	1-yr							
S&P/TSX	15474	-42.1		-0.3	1.2	2.8	6.3							
Dow 30	22284	-11.8		-0.1	-0.4	2.2	22.3							
S&P 500	2497	0.2		0.0	-0.4	2.2	15.6							
Nasdaq	6380	9.6		0.2	-1.3	1.8	20.3							
DAX	12669	63.8		0.5	0.8	4.1	22.3							
FTSE	7312	25.9		0.4	0.5	-1.2	7.4							
Nikkei	20267	-63.1		-0.3	-0.2	4.2	21.5							
Hang Seng	27642	129.4		0.5	-1.7	-0.7	17.3							
CAC	5280	11.6		0.2	0.7	3.4	20.0							
Commodities	Level						% change:							
WTI Crude	51.90	0.02		0.0	3.0	8.4	16.2							
Natural Gas	2.94	0.02		0.7	-5.0	1.6	-1.9							
Gold	1287.30	-6.87		-0.5	-1.1	-0.3	-3.0							
Silver	16.89	-0.12		-0.7	-2.8	-0.8	-13.0							
CRB Index	183.24	-0.15		-0.1	-0.8	3.0	0.1							
Currencies	Level						% change:							
USDCAD	1.2405	0.0056		0.5	0.7	-0.8	-6.0							
EURUSD	1.1738	-0.0055		-0.5	-1.3	-2.0	4.7							
USDJPY	113.00	0.7600		0.7	0.7	3.4	12.5							
AUDUSD	0.7843	-0.0043		-0.5	-2.3	-1.5	2.3							
GBPUSD	1.3404	-0.0054		-0.4	-0.7	3.6	2.9							
USDCHF	0.9757	0.0070		0.7	0.6	2.1	0.5							
Next Meeting Date														
													Canada - BoC	Oct 25, 2017
													US - Fed	Nov 01, 2017
													England - BoE	Nov 02, 2017
													Euro zone - ECB	Oct 26, 2017
													Japan - BoJ	Oct 31, 2017
													Mexico - Banxico	Sep 28, 2017
													Australia - RBA	Oct 02, 2017
													New Zealand - RBNZ	Sep 27, 2017

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

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