

KEY POINTS:

- North American session continued to embrace risk-on bias
- Coronavirus hopes, jawboning a US-EU trade agreement were drivers
- BoC's Poloz on tap this evening
- Tomorrow's US CPI: firmer headline, flat to softer core?
- Banxico expected to cut tomorrow...
- ...while Peru's CB is expected to hold
- Senate hearings on Fed nominations commence tomorrow morning

Markets charged out of the gates in risk-seeking fashion this morning and never really looked back. There was little by way of incremental information beyond what started it all into the North American session by way of speculation that growth in the coronavirus case load may be ebbing, subject to trusting the data! Calendar-based developments overnight through to tomorrow will focus upon five considerations that are briefly noted below. For further elaboration on these factors, see the Global Week Ahead ([here](#)).

- Stocks rallied by between 0.65% and nearly 1% across the US exchanges with the TSX up just over ¼%. European markets closed higher by between ½% and just under 1% led by the Dax.
- The day ended with the USD slightly appreciating. The Euro sank to 1,087 to the dollar which was its lowest exchange rate since May 11th 2017. The yen also depreciated to cross the 110 mark. CAD may be vulnerable to Poloz's comments tonight.
- Sovereign bond yields climbed by about 2-3bps across maturities in the US and with Canada slightly underperforming Treasuries. Gilts cheapened by 3-4bps across maturities.
- Oil prices jumped by about 3% (WTI) and almost 4% (Brent). Gold was flat at US\$1567 and has remained range bound since early January.

There will be five main developments to monitor overnight through to tomorrow's markets.

1. BoC Governor Poloz

Poloz appears on a panel with RBA Governor Lowe tonight (7pmET). It will be web cast by the RBA and at live <go> on Bloomberg. There will be no published remarks and no press conference. The BoC will not be webcasting the event. There will be audience Q&A. The key issue is to what extent Poloz still believes the "obviously" a rate cut is on the table in light of the flow of domestic and global macro reports relative to the negative terms of trade shock the country has been experiencing partly due to the coronavirus impact upon China's economy. Webcast link: <https://webcasting.boardroom.media/broadcast/5e1d2e24a034ef37c6b1af07>

2. US CPI

Expect headline inflation to accelerate somewhat. My estimate of 2.5% y/y is the most frequent submission within Bloomberg's consensus, but a) just by a whisker

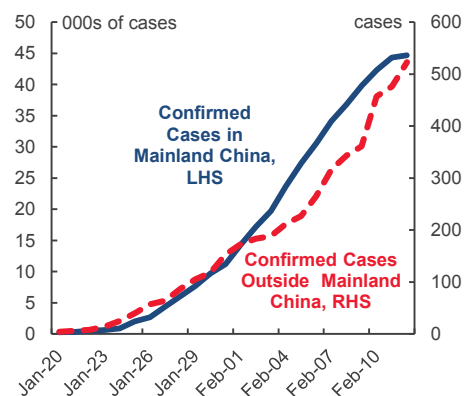
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Chart 1

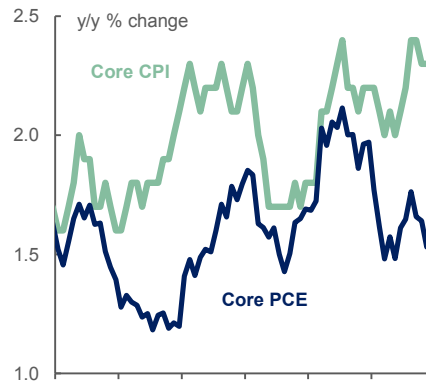
Are Coronavirus Cases Slowing in China, Accelerating Abroad?



Sources: Scotiabank Economics, WHO, CDC.

Chart 2

Core PCE Inflation Is Sharply Undershooting Core CPI



Sources: Scotiabank Economics, Bloomberg.

with 22 in the 2.5% camp and 21 forecasters in the 2.4% camp, and b) the median estimate, however, is 2.4% because of a small number of lower estimates that pull the median into this less frequently referenced estimate. Gas price inflation accelerated in January and could singlehandedly add two-tenths to the year-over-year headline rate and the Fed would look through that type of effect. I've estimated unchanged core CPI inflation at 2.3% y/y but the consensus is a slight deceleration to 2.2%. Regardless, the Fed's preferred inflation measure—the core PCE price deflator—won't be released until February 28th. If core CPI decelerates tomorrow, then—depending upon the drivers—it's feasible there could be added downward pressure on the prior month's 1.6% core PCE reading.

3. Banxico

Consensus is nearly unanimous in calling for a 25bps cut to 7% that would bring cumulative easing to 125bps since August. The issue is not present inflation relative to the target. The issue is propping up moribund growth given that there has been no GDP growth over the past five quarters.

4. Peru's central bank decision

They are almost universally expected to stay on hold tomorrow evening except for a couple of relatively fringe shops when it comes to LatAm forecasting who think they might cut. In fairness to them, 1.9% y/y inflation is slightly below the 2% mid-point of the 1-3% target range although core CPI is running at 2.3% y/y.

5. Senate confirmation hearings for Trump's appointees to the Fed's BoG

This will be held at 10amET. The controversy will focus upon Judy Shelton whom many simply view as not being a credible candidate for the Board. Waller should not attract significant scrutinization.

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.	1.44	1.42	1.44	1.44	1.42	1.46	1.63	1.60	1.65	2.08	2.07	2.14	Canada - BoC	1.75
CANADA	1.51	1.48	1.50	1.39	1.36	1.39	1.39	1.35	1.39	1.51	1.47	1.51	US - Fed	1.75
GERMANY	-0.64	-0.64	-0.64	-0.60	-0.60	-0.59	-0.38	-0.39	-0.36	0.15	0.14	0.17	England - BoE	0.75
JAPAN	-0.15	-0.15	-0.14	-0.13	-0.15	-0.14	-0.03	-0.06	-0.04	0.39	0.38	0.42		
U.K.	0.53	0.50	0.51	0.48	0.44	0.46	0.61	0.57	0.62	1.09	1.06	1.13		
	Spreads vs. U.S. (bps):													
CANADA	7	6	5	-5	-6	-8	-23	-25	-26	-57	-59	-63	Euro zone - ECB	0.00
GERMANY	-207	-206	-209	-204	-202	-205	-200	-199	-201	-194	-193	-197	Japan - BoJ	-0.10
JAPAN	-158	-158	-158	-157	-157	-160	-166	-166	-169	-169	-169	-172		
U.K.	-90	-92	-94	-96	-99	-100	-102	-103	-104	-100	-100	-100	Mexico - Banxico	7.25
Equities	Level						% change:							
	Last	Change		1 Day		1-wk		1-mo		1-yr				
S&P/TSX	17840	63.2		0.4		1.1		3.5		14.1		Australia - RBA	0.75	
Dow 30	29551	275.1		0.9		0.9		2.5		16.2		New Zealand - RBNZ	1.00	
S&P 500	3380	21.9		0.7		1.3		3.5		23.1				
Nasdaq	9726	87.0		0.9		2.3		6.0		31.2				
DAX	13750	121.9		0.9		2.0		2.0		23.6				
FTSE	7534	34.9		0.5		0.7		-0.7		5.6				
Nikkei	23861	175.2		0.7		3.4		0.0		12.8		Canada - BoC	Mar 04, 2020	
Hang Seng	27824	239.8		0.9		3.9		-3.9		-2.4		US - Fed	Mar 18, 2020	
CAC	6105	50.0		0.8		2.0		1.1		20.7				
Commodities	Level						% change:							
WTI Crude	51.57	1.63		3.3		1.6		-12.7		-2.9		England - BoE	Mar 26, 2020	
Natural Gas	1.85	0.06		3.4		-0.6		-16.0		-31.2		Euro zone - ECB	Mar 12, 2020	
Gold	1566.98	-0.91		-0.1		0.7		0.3		19.5		Japan - BoJ	Mar 19, 2020	
Silver	17.71	-0.08		-0.4		-0.1		-1.2		12.7				
CRB Index	171.76	2.15		1.3		1.3		-6.7		-3.6				
Currencies	Level						% change:							
USDCAD	1.3254	-0.0032		-0.2		-0.2		1.5		0.1		Mexico - Banxico	Feb 13, 2020	
EURUSD	1.0875	-0.0041		-0.4		-1.1		-2.3		-4.0				
USDJPY	110.08	0.2900		0.3		0.2		0.1		-0.4		Australia - RBA	Mar 02, 2020	
AUDUSD	0.6738	0.0024		0.4		-0.1		-2.4		-5.0				
GBPUSD	1.2959	0.0007		0.1		-0.3		-0.2		0.5		New Zealand - RBNZ	Mar 24, 2020	
USDCHF	0.9781	0.0022		0.2		0.5		0.8		-2.8				

Source: Bloomberg. All quotes reflect Bloomberg data as at the time of publishing. While this source is believed to be reliable, Scotiabank cannot guarantee its accuracy.

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