

KEY POINTS:

- N.A. equities mostly recover from earlier selling
- Gilts cheapen, sterling rallied on fiscal stimulus expectations
- US headline and core CPI were higher than consensus expectations
- NY Fed reduces repo limits
- Banxico cuts, hints at further policy flexibility
- Peru's CB expected to hold
- German GDP expected to barely growth...
- ...informing Eurozone GDP revisions
- Moderate growth in US retail sales is expected
- US industrial output, UoM on tap
- Colombia's economy expected to post stable growth

Risk appetite significantly recovered from earlier selling today. Global markets will focus upon ongoing coronavirus risk plus several calendar-based forms of risk in the overnight session and throughout tomorrow's North American session. The main emphasis in that regard will be upon US macro reports including retail sales, industrial output and consumer sentiment. Peru's central bank is expected to hold after Banxico's expected rate cut. Canada will update existing home sales. The NY Fed took another step toward reducing repo sizes.

- US stocks fell by a small amount of between 0.1% (Nasdaq, S&P500) and just under 1/2% for the DJIA. The TSX was flat. European cash markets generally closed lower and led by a 1.1% drop in the FTSE100.
- The USD very slightly appreciated today but unevenly so. Sterling, the yen and Mexican peso held their own while the weakest crosses were the rand, euro, NZ\$ and some Scandies. CAD was a middle of the pack performer.
- Sovereign bond markets put in mixed performances. Gilts cheapened across the board in sync with currency strength after changes were made to PM Johnson's cabinet in the morning. The resignation of Chancellor of the Exchequer Sajid Javid prompted market participants to believe the spat might result in greater fiscal stimulus. Longer-term US Treasury yields slightly fell while Canada's curve slightly underperformed.
- Oil rallied by 50–75 cents in WTI and Brent while gold picked up \$10 to US\$1576/oz.

TODAY'S NORTH AMERICAN SESSION

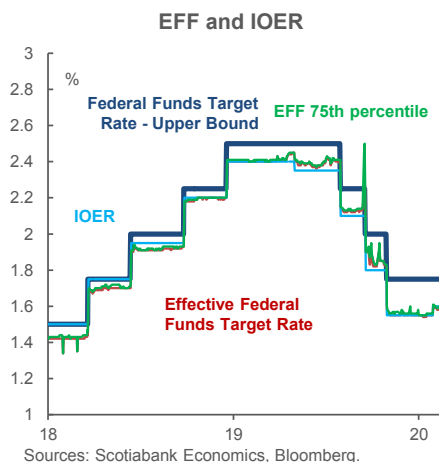
The NY Fed announced this afternoon that it would reduce the size of its repo operations starting tomorrow ([here](#) and [here](#)). The maximum amount of overnight repo operations will decline by US\$20 billion to \$100 billion starting with tomorrow morning's action. The maximum sizes for 14 day term repo operations was also reduced. Reduced operations reflect ongoing improvements in controlling short-term interest rates with effective fed funds trading slightly below the Interest on Excess Reserves ratio (chart 1).

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Chart 1



January US CPI was the major macro release for today (recap [here](#)). Both headline CPI (2.5% y/y) and core CPI (2.3% y/y) came in higher than consensus but in line with our estimates. There was minimal market reaction as the focus remains on coronavirus uncertainties. Stable growth in core CPI is unlikely to drag core PCE up closer to the Fed's 2% symmetric target. See our January US CPI flash for more on how drivers of CPI inflation can be different than the main drivers of PCE inflation.

Banxico cut its policy rate to 7% as universally expected and retained flexibility toward possible future reductions. The outcome wasn't a significant surprise to the currency as the peso was little changed. The decision was unanimous. The accompanying statement ([here](#)) noted that "the balance of risks...remains biased to the downside" and flagged the coronavirus outbreak while noting that growth in 2020 is expected to be lower than previously anticipated but inflation is expected to be somewhat higher than previously anticipated..

OVERNIGHT

Peru's central bank is expected to remain on hold this evening (6pmET) at a policy reference rate of 2.25%.

The first estimate of Germany's Q4 quarterly GDP is scheduled to be released early Friday morning (2amET). The consensus estimate has growth remaining at 0.1% q/q at a seasonally adjusted non-annualized rate—the same as in Q3. German industrial production has slumped over the course of 2019, culminating in a 3.5% m/m drop in December. Poor manufacturing activity has been partly the result of a slowing Chinese economy and Brexit. Germany's GDP data leads into the first revision of the **Eurozone's Q4 GDP** due for release a few hours latter. Eurozone industrial production fell 4.1% m/m in December—the sharpest monthly decline since 2012. This has likely set up the 0.1% q/q non annualize initial estimate for negative revisions. The Q1 outlook for Germany and the Eurozone growth doesn't look any better. Aggressive measures by the Chinese Government to combat the coronavirus spread will likely cause supply chain problems and lower demand for Eurozone goods in the near term.

Colombia will update Q4 GDP tomorrow (11amET). Growth is expected to land at about 3 ¼% y/y and hence little changed from the pattern of the prior three quarters.

NORTH AMERICAN RELEASES TOMORROW

January US retail sales will be released at 8:30 am. We have estimated retail sales growth of 0.4% m/m after posting a gain of 0.3% m/m in December. January US vehicle sales were up 0.8% m/m which accounts for 20% of the weighting in retail sales. Gasoline was up 1.2% m/m this month and could add around a tenth to the value of sales. Due to the potential strength of auto sales, retail ex autos could be slightly weaker by 0.1 – 0.2 points.

US industrial output for January (9:15amET) is expected to decline for a second consecutive month and the fourth month in the past five. **University of Michigan consumer sentiment** during February will be monitored in terms of resilience in the face of recent market turmoil (10amET).

January Canadian existing home sales will be released at 9:00 am. This reading will help to reinforce our understanding toward momentum in sales growth that appears to have slowed over recent months.

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	1.44	1.45	1.44	1.45	1.46	1.62	1.63	1.64	2.07	2.09	2.11	Canada - BoC	1.75	
CANADA	1.52	1.51	1.49	1.40	1.40	1.37	1.39	1.40	1.37	1.51	1.51	1.48	US - Fed	1.75	
GERMANY	-0.64	-0.64	-0.63	-0.60	-0.60	-0.59	-0.39	-0.38	-0.37	0.13	0.15	0.16	England - BoE	0.75	
JAPAN	-0.15	-0.15	-0.13	-0.13	-0.13	-0.12	-0.03	-0.03	-0.02	0.39	0.39	0.42	Euro zone - ECB	0.00	
U.K.	0.56	0.53	0.49	0.52	0.48	0.43	0.65	0.61	0.58	1.13	1.09	1.09	Japan - BoJ	-0.10	
	Spreads vs. U.S. (bps):												Mexico - Banxico	7.00	
CANADA	7	7	4	-5	-6	-9	-23	-24	-28	-56	-58	-63	Australia - RBA	0.75	
GERMANY	-209	-208	-208	-205	-205	-205	-201	-201	-201	-194	-194	-195	New Zealand - RBNZ	1.00	
JAPAN	-159	-159	-157	-158	-158	-159	-165	-167	-166	-168	-170	-169	Next Meeting Date		
U.K.	-88	-91	-96	-93	-97	-104	-97	-102	-106	-94	-100	-102	Canada - BoC	Mar 04, 2020	
Equities	Level						% change:						US - Fed	Mar 18, 2020	
	Last	Change		1 Day	1-wk	1-mo	1-yr							England - BoE	Mar 26, 2020
S&P/TSX	17821	-11.7		-0.1	0.4	3.1	14.0							Euro zone - ECB	Mar 12, 2020
Dow 30	29423	-128.1		-0.4	0.1	1.8	15.2							Japan - BoJ	Mar 19, 2020
S&P 500	3374	-5.5		-0.2	0.8	2.6	22.6							Mexico - Banxico	Feb 13, 2020
Nasdaq	9712	-14.0		-0.1	1.5	4.7	30.9							Australia - RBA	Mar 02, 2020
DAX	13745	-4.4		-0.0	1.3	2.2	23.1							New Zealand - RBNZ	Mar 24, 2020
FTSE	7452	-82.3		-1.1	-0.7	-2.2	3.6								
Nikkei	23828	-33.5		-0.1	2.2	-0.8	12.7								
Hang Seng	27730	-93.7		-0.3	0.9	-4.0	-2.5								
CAC	6093	-11.6		-0.2	0.9	0.9	20.1								
Commodities	Level						% change:								
WTI Crude	51.62	0.45		0.9	1.3	-11.1	-4.2								
Natural Gas	1.83	-0.01		-0.8	-1.7	-16.1	-28.9								
Gold	1576.33	10.27		0.7	0.6	1.8	20.7								
Silver	17.56	-0.15		-0.8	-0.3	-2.0	11.1								
CRB Index	172.28	0.51		0.3	1.1	-5.9	-3.6								
Currencies	Level						% change:								
USDCAD	1.3265	0.0015		0.1	-0.1	1.6	0.1								
EURUSD	1.0840	-0.0034		-0.3	-1.3	-2.6	-3.7								
USDJPY	109.82	-0.2700		-0.2	-0.2	-0.1	-1.1								
AUDUSD	0.6720	-0.0017		-0.3	-0.1	-2.7	-5.2								
GBPUSD	1.3043	0.0083		0.6	0.9	0.4	1.5								
USDCHF	0.9795	0.0013		0.1	0.5	0.9	-2.9								

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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