

KEY POINTS:

- Equities soar again...
- ...as the stimulus curve races against the COVID-19 curve
- House vote and signing tomorrow
- The US blew its opportunity to avoid becoming #1 on COVID-19
- A 21 gun salute: comparing US and Canadian case counts
- Canada aims a bigger gun at the mortgage market
- Dysfunction in Canadian credit card market funding conditions
- Downside risk to US consumer spending before COVID-19?
- PCE inflation is about to dive further beneath the Fed's target
- S&P downgrades Mexico with negative outlook
- Will BanRep cut and by how much?

TODAY'S NORTH AMERICAN SESSION

Markets ignored the spread of the COVID-19 virus and placed greater emphasis upon stimulus and looking through to the possible recovery side. Equities and gold rallied, the dollar weakened, but sovereign bonds rallied as well while oil fell. The stimulus curve is catching up to the COVID-19 curve at least for now. The House of Representatives is expected to take up the stimulus bill tomorrow morning and send it to Trump's desk for his signature by around mid-day. Market participants should also be prepared for the possible announcement of details behind the Fed's proposed Main Street Business Lending program soon after the stimulus bill is enacted into law; that means there could be a Fed announcement as soon as tomorrow or perhaps over the weekend.

The total number of worldwide COVID-19 cases crossed the half million mark today (about 526k according to this tracking site). The US now has the most number of cases in the world followed by China and then Italy, all with over 80,000 cases each. The shame is that after watching China, Italy, Iran and others, the US lost precious time to contain the spread of the virus with the responsibility for that resting squarely with the US administration that continues to create uncertainty about whether it is serious about flattening the curve. With very cautious fingers crossed for the country, Canada has about 4k cases which is a fraction of the number that a standard 9-to-1 scaling factor to the US would suggest. In fact, as the White House unwisely wants troops on the northern border, it needs a reminder that it's case count is 21 times that of Canada's.

Of the global tally, 23% have recovered and 4.5% have deceased. The usual cautions apply in that one likely has more confidence in the numbers of deceased than the likely understated number of cases. As this link shows, the virus has truly gone global with the most dangerous development being what the WHO warned about early on— the movement into poorer countries with far weaker health systems.

- Sovereign bond yields fell across maturities and major markets. Canada's curve outperformed Treasuries. Canadian yields fell by 4–6bps across

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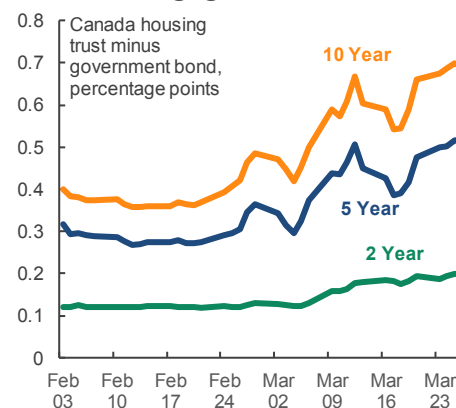
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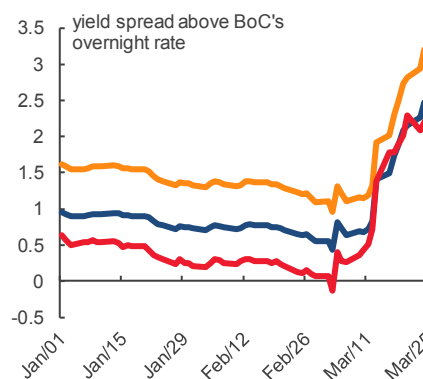
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Early Days for BoC's Mortgage Purchases



Sources: Scotiabank Economics, Bloomberg.

Proxies for Credit Card Trust Funding



Sources: Scotiabank Economics, Bloomberg.

maturities with US yields down by 2–4bps with a strong 7s auction helping post-claims. The largest rallies were in EGBs as curves fell sharply. France's curve rallied by about 20bps through to 10s and a little less at the long end. Bunds rallied 10bps in 10s. Italian, Spanish and Portuguese 10s rallied by about 30+ bps while Greece's ten year yield fell 74bps.

- Oil prices fell with WTI down 5% and Brent off ½% to US\$23.20 and \$26.90 respectively. Gold rallied another \$16 to US\$1632.
- US equities closed about 6% higher across the exchanges. The S&P500 is now up 18% since Monday but is still 22% below the peak on February 19th. The S&P is basically back to where it was in mid-January of last year and has hence foregone about just over a year's gain that was arguably an overshoot to begin with. The TSX was up 1.8%. European cash markets were up by between ¾% (Milan) to 2 ½% (Paris).
- The USD fell again with all major crosses up by over 1% and as much as over 4% for the Mexican peso (23 to the USD), although S&P downgraded Mexico to BBB after the close with a negative outlook. CAD rallied again to just over 1.40 on a USDCAD basis. The Canadian dollar has rallied by over six cents over the past week due to a combination of broad USD weakness and BoC inaction which would seem to be an inopportune moment to tighten financial conditions for exporters.

The expansion of the Canada Mortgage and Housing Corporation's Insured Mortgage Purchase Program was definitely welcome as an effort to improve funding conditions, but with a lot more room for progress yet ([here](#)). Chart 1 shows proxy mortgage spreads over comparable maturity Government of Canada bonds and how they remain elevated. The effect is to keep funding costs and hence mortgage rates higher than would otherwise be the case. The CMHC will buy another \$100 billion of insured mortgage pools over and above the previously announced C\$50 billion program. The next purchase won't be until April 15th (details [here](#)).

Among the signs of dysfunction in markets is the spike in what it costs Canadian lenders to raise funds for credit card operations. Chart 2 shows the surge in the yield on representative trusts over the Bank of Canada's overnight lending rate. The spread captures a combination of credit and liquidity risk that has impaired valuations and by corollary raised the cost of any new potential funding of credit card operations by hundreds of basis points. Among the memories in the market is the impact on delinquency rates during the GFC when, say, the representative 30 day credit card delinquency rate shot up by 200bps from mid-2008 to early 2010. The industry faces a combination of soaring funding costs, a likely rise in delinquency rates as the COVID-19 shock drives unemployment higher and a likely deceleration in revenue growth as purchase volumes reduce with less frequent point of sale activity and credit driven profitability. *Consistent* policy support against this challenging backdrop is vital to ensuring the smooth availability of credit to Canadians who have many alternative choices and it should be focused upon steps to restore proper functioning in the funding market. For Canadians, there are many credit card issuers and many more individual cards to choose from. A large portion of credit card users don't carry a credit card balance each month and get free credit alongside rewards programs. There are also alternatives for extended credit requirements such as low cost revolving lines of credit albeit that don't carry the utility of a credit card nor required the same heavy investments in network and point of sale capacity.

Please see this morning's note for a recap of this morning's huge jump in US jobless claims.

OVERNIGHT MARKETS

There are no material releases or policy events scheduled for the overnight session. COVID-19 and off-calendar risk skewed toward stimulus developments will continue to dominate market attention.

TOMORROW'S NORTH AMERICAN SESSION

The dominant focus will be upon the aforementioned likelihood of signing the stimulus bill into law and following that with a possible announcement by the Fed on its Main Street Business Lending program tomorrow or in subsequent days. Markets may find a lengthier delay to be disturbing.

Ready for it? More stale data is on the way! **This batch will describe the consumption, income, inflation and saving patterns that existed before a few million Americans started losing their jobs. The batch of releases arrives at 8:30amET. After retail**

sales fell 0.5% m/m in February with the important control group landing flat, total consumption would seem to face downside risk to the consensus expectation for a rise of 0.4% in total spending as it would take a pretty big gain in spending underrepresented in retail sales to stay in the black.

Headline inflation is expected to hold steady at 1.7% y/y with core PCE inflation rising a tick to 1.7%. This is based upon a combination of year-ago base effect shifts, typical seasonality, information derived from the previous CPI readings for the same month, and judgement. Modest consumption growth is expected at best given the flat retail sales control group for February.

Colombia's central bank is expected to cut its overnight lending rate tomorrow afternoon, but opinions vary in terms of how much it may do so. Twelve out of 22 forecasters expect a 50bps cut, four expect -25bps and six expect a hold for a three-quarters majority expecting a cut of some sort. Colombia has seen the rise of nearly 500 COVID-19 cases, up from 145 last Friday, and therefore faces both the external shock to its export and commodity markets but also the potential for domestic business interruption effects. A complicating factor is that the central bank has also been intervening to stem the slide of the peso and its implications for imported inflation. The nation's inflation rate has risen to 3.7% and hence near the upper end of the 3% +/- 1% inflation target range. The peso's 23% depreciation in the exchange value of the peso to the USD since early January risks greater imported inflation. Of course, what matters is why a flexible exchange rate adjusts in such fashion, including the dominance of USD strength against all others and the deterioration in Colombia's terms of trade brought on by weaker commodity prices and particularly oil prices

Fixed Income	Government Yield Curves (%):												Central Banks			
U.S. CANADA GERMANY JAPAN U.K.	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	Canada - BoC	0.75		
	0.29	0.33	0.45	0.53	0.53	0.69	0.84	0.87	1.14	1.43	1.45	1.79				
	0.59	0.63	0.63	0.75	0.79	0.85	0.84	0.90	1.00	1.34	1.38	1.43			US - Fed	0.25
	-0.64	-0.60	-0.67	-0.55	-0.45	-0.41	-0.36	-0.26	-0.19	0.12	0.16	0.14				
	-0.23	-0.23	-0.16	-0.12	-0.07	-0.05	0.00	0.05	0.08	0.43	0.43	0.45				
	0.13	0.11	0.13	0.24	0.25	0.48	0.40	0.45	0.72	0.83	0.87	1.18				
Spreads vs. U.S. (bps):													Euro zone - ECB	0.00		
CANADA	30	30	18	23	26	16	-0	3	-15	-9	-7	-36				
GERMANY	-94	-93	-113	-107	-98	-110	-121	-113	-134	-131	-129	-165			Japan - BoJ	-0.10
JAPAN	-52	-56	-62	-64	-59	-74	-84	-82	-106	-100	-102	-134				
U.K.	-16	-22	-32	-29	-28	-21	-45	-42	-42	-60	-58	-61				
Equities	Level						% change:						Mexico - Banxico	6.50		
	Last		Change		1 Day		1-wk		1-mo		1-yr					
S&P/TSX	13371		231.9		1.8		9.9		-21.5		-17.2		Australia - RBA	0.25		
Dow 30	22552		1351.6		6.4		12.3		-16.3		-12.1					
S&P 500	2630		154.5		6.2		9.2		-15.6		-6.7		New Zealand - RBNZ	0.25		
Nasdaq	7798		413.2		5.6		9.0		-13.2		1.4					
DAX	10001		126.7		1.3		16.1		-19.1		-12.4		Next Meeting Date			
FTSE	5816		127.5		2.2		12.9		-14.4		-19.2		Canada - BoC	Apr 15, 2020		
Nikkei	18665		-882.0		-4.5		11.6		-15.0		-12.7					
Hang Seng	23352		-174.8		-0.7		7.6		-12.8		-18.7		US - Fed	Apr 29, 2020		
CAC	4544		111.3		2.5		17.8		-17.3		-14.3					
Commodities	Level						% change:						England - BoE	Mar 26, 2020		
	WTI Crude		23.29		0.69		3.1		3.8		-50.5				-60.8	
Natural Gas	1.64		0.01		0.3		2.4		-6.3		-39.5		Euro zone - ECB	Apr 30, 2020		
Gold	1631.20		-0.14		-0.0		8.8		-0.8		24.6					
Silver	13.97		0.34		2.5		12.4		-23.8		-10.0		Japan - BoJ	Apr 28, 2020		
CRB Index	126.35		-3.25		-2.5		-1.0		-24.0		-31.8					
Currencies	Level						% change:						Mexico - Banxico	May 14, 2020		
	USDCAD		1.4048		0.0028		0.2		-2.2		4.9				4.8	
EURUSD	1.1023		-0.0009		-0.1		3.1		0.2		-2.0		Australia - RBA	Apr 07, 2020		
USDJPY	109.42		-0.1600		-0.1		-1.4		-0.2		-1.0					
AUDUSD	0.6039		-0.0024		-0.4		4.4		-8.1		-14.8		New Zealand - RBNZ	May 12, 2020		
GBPUSD	1.2153		-0.0050		-0.4		4.5		-5.7		-7.9					
USDCHF	0.9635		0.0015		0.2		-2.4		-0.4		-3.2					

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