

**ON DECK FOR WEDNESDAY, JANUARY 2**

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	JAN 2-11	10:00	New Home Sales (000s a.r.)	Oct	570.0	576.5	553.0

**KEY POINTS:**

- **Happy New Year! Especially for sovereign bond investors**
- **US shutdown length could be further informed today...**
- **...as Trump and Congressional leaders meet**
- **China Caixin PMI confirms slowdown in the state's version...**
- **...but the bigger services sector keeps China's overall growth in the black**
- **UK markets shake off solid manufacturing PMI...**
- **...that may have had mixed drivers**
- **Thai, Indonesia, Peru CPI reports carry few surprises**
- **CDN week ahead: jobs report after a record prior gain**
- **US week ahead: nonfarm, wages, Powell...**
- **...ADP, ISM, construction, vehicle sales**

**INTERNATIONAL**

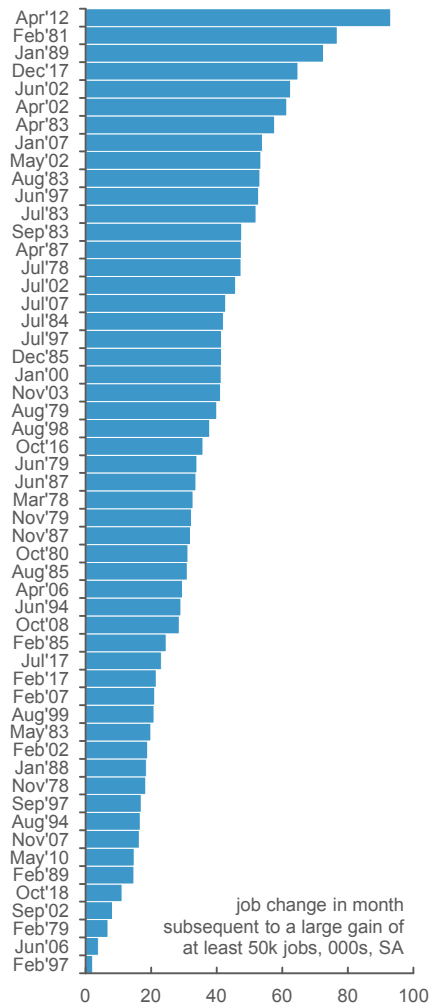
Happy New Year! For investors, that's especially if they own sovereign bonds. Just don't look at stocks. 2019 is starting off in the same way as 2018 broadly ended, at least so far and with the strong caveat that trading activity may still be affected by the holiday shortened week. Potential catalysts to today's risk-off tone may include lagging reaction to weak Chinese data that was released into the soft New Year's Eve market with today being the main opportunity to react. Weakness was then confirmed by China's private sector PMIs last evening. Another potential catalyst remains ongoing US government dysfunction pending what may be an informative meeting at noon today (see below) and ahead of the new Congress that takes over tomorrow. Strong UK data was ignored by markets. The US and Canadian release calendars are quiet today.

- US equity futures are down by between 1¼% and 1¾% with the Nasdaq leading the decline.
- Sovereign bonds continue to rally. The 10 year US Treasury yield is down about 3bps this morning and about 14bps since just before Christmas and now sits at 2.65%. The 2 year US Treasury yield is flat this morning but has rallied by about 15bps since just before Christmas as part of a 2s10s parallel downward shift over this time. Canadian government bond yields are down by between 4bps in 2s and 7bps in 10s this morning. European government bond yields are also down considerably with the UK 10 year down 8bps and the 10 year bund yield down 8bps.
- Oil prices are down by about 35 cents with WTI at just over US\$45 and Brent at about US\$53½. WTI is down by under \$1 since before the holiday season as most of its correction occurred from early October through to late November.

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**Big Gains Don't Have to Beget Big Losses**



Sources: Scotiabank Economics, Statistics Canada, Haver Analytics.

- The USD is broadly stronger over yesterday except against the yen that is appreciating and against CAD that is holding its own. Since before the holiday season, however, the USD has been little changed, depreciating by less than 1%.

**UK markets largely shook off solid UK data.** The country's purchasing managers' index for the manufacturing sector unexpectedly increased to 54.2 and was revised up by a half point to 53.6 the prior month. Anything above 50 signals expansion so the rate of expansion accelerated. A reason offered for the gain was that companies are running up inventories ahead of a possible hard Brexit in March. I'm less sure of that explanation provided by the source because a) many companies may wish to turn more cautious as an offset to building an inventory buffer given that a hard Brexit would harm the economy and pose the risk of being saddled with costly inventories, b) the sharp depreciation in pound sterling this year (down 6% to the USD) may have made UK goods more appealing, and c) new export orders accelerated which may be one part inventory buffering by the UK's trade partners or simply decent external demand.

**China watchers received more evidence of a slowing manufacturing sector.** The private sector version of the manufacturing PMI for December slipped slightly into sub-50 contraction territory at 49.7. That's the weakest reading since a temporary drop in May 2017. It reveals no real additional information over the state's manufacturing PMI that was released at the start of the week, but the initial market reaction on Monday may have been affected by holidays. The state's manufacturing PMI fell to 49.4 (50 prior) while the non-manufacturing PMI improved to 53.8 (53.4 prior) and continued to indicate enough growth to keep the composite PMI reading in growth mode at 52.6 (52.8 prior).

**Three inflation reports were released by a pair of Asian and one LatAm economies.** Yesterday's CPI for Peru was unchanged at about 2.2% y/y as expected. Asian readings saw softer headline CPI pressures in Thailand (0.4% y/y) and Indonesia (3.1% y/y) but stable core CPI readings.

**The main risk factors over the duration of the week** will include the following considerations that were previously highlighted in the two week holiday version of the Global Week Ahead ([here](#)):

- **US nonfarm payrolls for December, moderately softer wage growth the main risk** (Friday)
- **Fed Chair Powell** conducts a joint interview with former Chairs Yellen and Bernanke (Friday)
- **other US macro:** ISM manufacturing (tomorrow); ADP private payrolls (tomorrow); vehicle sales (tomorrow)
- **CDN jobs** for December, follows a record gain in November that may point to downside risk but every single one of the 54 monthly gains of over 50,000 jobs since 1976 was always followed by another gain the next month (Friday). See the accompanying chart for a look back at what happened after months during which at least 50,000 jobs were created in a single month.
- **Eurozone CPI**, expected to be softer on headline due to energy but unchanged core at 1% y/y (Friday)

## UNITED STATES

**President Trump will hold a border security briefing with Congressional leaders at noon ET that may inform expectations for when the government shutdown may end—or it may deteriorate into another farcical public blame game with both sides digging in for a longer battle.** A hint at a potential compromise may be in the air on the back of a vague tweet by Trump yesterday. Trump has invited Congressional leaders and each of House Democratic leader Nancy Pelosi, US Senate Democratic minority leader Chuck Schumer and US Senate minority whip Dick Durbin who have confirmed their attendance. At day 12, this is tied for the fourth longest shutdown of the US government on the list of 18 closures since the 1970s. The record was 21 days over late 1995 to early 1996. The new 116<sup>th</sup> Congress commences at noon ET tomorrow with the Democrat controlled House pledging to pass two bills to restore partial funding but the GOP controlled Senate is unlikely to pick up on the bill given the risk Trump uses his veto powers because the House bills don't include border wall funding.

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.	2.49	2.49	2.62	2.48	2.51	2.65	2.65	2.69	2.81	2.98	3.02	3.07	Canada - BoC	1.75
CANADA	1.82	1.86	1.91	1.82	1.88	1.92	1.89	1.96	1.98	2.12	2.18	2.15	US - Fed	2.50
GERMANY	-0.63	-0.61	-0.60	-0.39	-0.31	-0.30	0.16	0.24	0.25	0.79	0.88	0.87	England - BoE	0.75
JAPAN	-0.14	-0.14	-0.13	-0.14	-0.14	-0.12	0.00	0.00	0.02	0.72	0.72	0.72		
U.K.	0.69	0.75	0.73	0.82	0.90	0.88	1.19	1.28	1.26	1.76	1.82	1.78		
	Spreads vs. U.S. (bps):													
CANADA	-67	-63	-71	-66	-63	-72	-75	-72	-83	-87	-83	-92	Euro zone - ECB	0.00
GERMANY	-312	-310	-322	-287	-282	-295	-249	-244	-256	-219	-214	-219	Japan - BoJ	-0.10
JAPAN	-263	-263	-274	-263	-265	-277	-265	-268	-279	-227	-230	-235		
U.K.	-179	-174	-189	-166	-161	-177	-146	-141	-155	-123	-119	-128	Mexico - Banxico	8.25
Equities	Level			Change			1 Day			% change:				
	Last						1 Day	1-wk	1-mo	1-yr				
S&P/TSX	14323			100.9			0.7	1.3	-5.8	-11.6			Australia - RBA	1.50
Dow 30	23327			265.1			1.1	3.9	-8.7	-5.6				
S&P 500	2507			21.1			0.8	3.7	-9.2	-6.2			New Zealand - RBNZ	1.75
Nasdaq	6635			50.8			0.8	4.8	-9.5	-3.9				
DAX	10539			-19.5			-0.2	-2.1	-6.4	-18.4				
FTSE	6691			-36.9			-0.5	-0.4	-4.1	-13.0				
Nikkei	20015			-62.8			-0.3	-1.9	-10.5	-12.1			Canada - BoC	Jan 09, 2019
Hang Seng	25130			-715.4			-2.8	-2.4	-5.2	-16.0			US - Fed	Jan 30, 2019
CAC	4671			-60.0			-1.3	-0.5	-6.7	-12.1				
Commodities	Level			Change			1 Day			% change:				
WTI Crude	45.07			-0.34			-0.7	6.0	-11.5	-25.3			England - BoE	Feb 07, 2019
Natural Gas	2.97			0.03			1.1	-14.2	-35.5	-2.7			Euro zone - ECB	Jan 24, 2019
Gold	1284.78			7.70			0.6	1.2	5.1	-2.5			Japan - BoJ	Jan 23, 2019
Silver	15.47			0.17			1.1	5.4	8.6	-8.3				
CRB Index	169.38			-0.42			-0.2	0.6	-6.8	-12.6				
Currencies	Level			Change			1 Day			% change:				
USDCAD	1.3637			0.0006			0.0	0.5	3.3	9.0			Mexico - Banxico	Feb 07, 2019
EURUSD	1.1403			-0.0062			-0.5	0.4	0.4	-5.4			Australia - RBA	Feb 04, 2019
USDJPY	109.16			-0.5800			-0.5	-2.0	-4.0	-2.8				
AUDUSD	0.7004			-0.0049			-0.7	-0.9	-4.8	-10.5				
GBPUSD	1.2650			-0.0090			-0.7	0.1	-0.6	-6.9			New Zealand - RBNZ	Feb 12, 2019
USDCHF	0.9859			0.0043			0.4	-1.0	-1.2	1.5				

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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