

ON DECK FOR THURSDAY, JANUARY 3

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Indicator</u>	<u>Period</u>	<u>BNS</u>	<u>Consensus</u>	<u>Latest</u>
US	01/03	08:15	ADP Employment Report (000s m/m)	Dec	185.0	180.0	178.9
US	01/03	08:30	Initial Jobless Claims (000s)	DEC 29	215	220	216
US	01/03	08:30	Continuing Claims (000s)	DEC 22	1685	1689	1701
US	01/03	10:00	ISM Manufacturing Index	Dec	58.2	57.5	59.3
US	01/03		Total Vehicle Sales (mn a.r.)	Dec	17.5	17.2	17.4

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KEY POINTS:

- Risk-off as Apple's negative guidance ripples through supply chains
- The new US Congress takes over today...
- ...and the day may set the tone for what is to come
- US shutdown carries minimal disruption risk to key US data
- US ISM-mfrg expected to signal softer growth
- US ADP a distraction ahead of nonfarm
- US vehicle sales: post-Hurricane bounce, or momentum?
- Ignore today's US claims
- UK construction PMI signals softer growth

INTERNATIONAL

Apple's after-hours negative guidance that reduced Q1 revenue expectations from US\$91.3B to US\$84B because of weak iPhone and China sales is a dominant influence upon global equities including through supply chain ripple effects. This serves as a useful reminder that even any possible US-China trade deal that may eventually calm down markets still involves permanent welfare losses to the economy based upon developments to date. **Significant US data risk begins to creep back into markets today and especially tomorrow.** December's ISM-manufacturing print and ADP private payrolls are on tap. Distorted US jobless claims should be ignored by trained market eyes and vehicle sales are also scheduled for release. **The new Congress takes over this afternoon** and a pending speech by speaker nominee Nancy Pelosi may further inform next steps in dealing with the Trump administration. Canadian markets remain in watch mode on external developments ahead of tomorrow's jobs figures for December.

- **Stocks are broadly lower.** US equity futures are down by between 1¼% and 2% with the tech-heavy Nasdaq leading the way lower. TSX futures are down by about ¾%. European cash markets are down by about 1% in terms of the Dax and CAC40 while London's FTSE100 is down by ¼%. Asian equities closed down ¾% in Seoul and on China's less-SOE dominated Shenzhen exchange versus a flat Shanghai composite. Tokyo's Nikkei 225 was down about ¼%.
- **Sovereign bonds are not picking up this morning's flows.** The US 10 year Treasury yield had pushed lower late yesterday once Apple's news struck and is about 2bps higher this morning. Canada 10s are underperforming through a slightly bigger yield increase. The stand-out in European debt markets is renewed spread widening in Italy with 10s pushing about 14bps higher than the bunds yield.

- **The USD is little changed on balance this morning.** The euro is flat versus the USD at 1.1354. The yen is climbing again and is up by over 1% versus the USD. At 107.65, the yen is at its strongest to the dollar since April and has appreciated by about 5% since mid-December. The next BoJ meeting is on January 23rd and continued strength like this may tilt the balance more toward intervention.
- **Oil prices are slightly higher with WTI up a couple of dimes and Brent up 60 cents.** OPEC's oil production fell in December. US oil inventories are on tap for delayed release tomorrow morning.

UK data returned to the softer side of the picture. After yesterday's improvement in the manufacturing PMI, today's purchasing managers index for the construction sector weakened but in line with expectations for moderate growth.

UNITED STATES

How quickly the Democrats will act upon challenging the GOP and Trump administration when they assume control of the House of Representatives today at 12pmET is a wild card to near-term headline risk that could supersede the importance of data risk. How quickly may they launch efforts to obtain Trump's tax returns and possibly issue subpoenas among other matters? A speech is expected by Nancy Pelosi who is set to become House speaker following a vote today. I would think it is likely to broadly outline the Democrats' policy platitudes more so than indicate specific next steps. The House is also expected to pass a funding bill that would reopen government while continuing debate on funding Trump's wall but it will go nowhere in the Senate, let alone past Trump's desk. Yesterday's late day meeting between Trump and Congressional leaders yielded no apparent progress toward reopening government.

US macro data will be a modest focal point today.

ISM-manufacturing (10amET): Cooler but still strong growth is expected for the manufacturing sector. Regional surveys like those from the Philly and Richmond Fed district banks came in significantly lower and usually portend a weaker ISM reading. Moderate weakening from the highest trending levels since 2004 would hardly be a recession signal.

ADP private payrolls (8:15amET): Consensus expects +180k jobs were created on private payrolls last month. The measure's many misleading signals ahead of the far more widely watched nonfarm payrolls release that is due tomorrow often has it being ignored.

US jobless claims (8:30amET): Markets should know to ignore weekly claims around this time of the year when the day on which Christmas falls and its proximity to weekends can distort filings through seasonal adjustments even in isolation of the effects of the government shutdown this time that may bias claims temporarily higher before falling back down later. In the meantime, treat any sudden movements as meaningless noise over this period.

US vehicle sales: company reports for December's sales tallies will be released over the day and result in the add-up by late day. Was the surge from September through November durable or a product of replacement demand due to the hurricane season?

The US government shutdown will delay the release of construction spending that would have otherwise been due out today. **The cost to markets from delayed US releases will be minimal to non-existent this week and next** with this Friday's nonfarm and next Friday's CPI both unaffected because they are both produced by the Bureau of Labor Statistics that is not among the agencies affected by funding shortfalls.

The main US data risk this week and next could well be dovish to markets in nature; I think hourly wage growth could reverse the acceleration over October and November while inflation is expected to pull back at least in terms of headline CPI and due to gasoline prices, base effects and typical seasonality. Base effects and typical seasonality might also tamp down core CPI a touch.

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	2.47	2.56	2.48	2.46	2.62	2.64	2.62	2.77	2.96	2.95	3.06	Canada - BoC	1.75
CANADA	1.86	1.84	1.91	1.86	1.83	1.93	1.94	1.90	1.99	2.15	2.12	2.17	US - Fed	2.50
GERMANY	-0.61	-0.61	-0.63	-0.36	-0.37	-0.32	0.18	0.17	0.23	0.82	0.80	0.87	England - BoE	0.75
JAPAN	-0.14	-0.14	-0.12	-0.14	-0.14	-0.12	0.00	0.00	0.03	0.72	0.72	0.73	Euro zone - ECB	0.00
U.K.	0.74	0.72	0.77	0.87	0.84	0.92	1.24	1.21	1.31	1.80	1.78	1.83	Japan - BoJ	-0.10
Spreads vs. U.S. (bps):														
CANADA	-63	-63	-65	-62	-62	-69	-71	-72	-78	-82	-83	-89	Mexico - Banxico	8.25
GERMANY	-310	-308	-319	-284	-283	-294	-246	-246	-254	-214	-215	-219	Australia - RBA	1.50
JAPAN	-263	-261	-269	-262	-260	-274	-264	-262	-274	-224	-223	-232	New Zealand - RBNZ	1.75
U.K.	-175	-175	-179	-161	-162	-169	-140	-141	-146	-117	-118	-123	Next Meeting Date	
Equities	Level			Change			% change:							
	Last						1 Day	1-wk	1-mo	1-yr				
S&P/TSX	14347			24.3			0.2	3.0	-6.1	-12.4			Canada - BoC	Jan 09, 2019
Dow 30	23346			18.8			0.1	7.1	-9.6	-6.3			US - Fed	Jan 30, 2019
S&P 500	2510			3.2			0.1	6.8	-10.0	-7.5			England - BoE	Feb 07, 2019
Nasdaq	6666			30.7			0.5	7.6	-10.4	-5.7			Euro zone - ECB	Jan 24, 2019
DAX	10454			-126.4			-1.2	-1.5	-8.8	-19.5			Japan - BoJ	Jan 23, 2019
FTSE	6714			-19.9			-0.3	0.4	-4.9	-12.5			Mexico - Banxico	Feb 07, 2019
Nikkei	20015			-62.8			-0.3	-1.9	-10.5	-12.1			Australia - RBA	Feb 04, 2019
Hang Seng	25064			-66.0			-0.3	-2.3	-7.8	-18.0			New Zealand - RBNZ	Feb 12, 2019
CAC	4637			-52.1			-1.1	0.2	-8.2	-13.0				
Commodities	Level			Change			% change:							
WTI Crude	46.71			0.17			0.4	1.1	-11.8	-24.2				
Natural Gas	2.93			-0.03			-0.9	-17.2	-32.4	-2.5				
Gold	1288.48			3.88			0.3	1.7	4.7	-1.9				
Silver	15.44			-0.03			-0.2	5.2	8.5	-9.5				
CRB Index	170.79			0.40			0.2	-1.2	-6.9	-12.6				
Currencies	Level			Change			% change:							
USDCAD	1.3590			0.0011			0.1	-0.2	3.0	8.4				
EURUSD	1.1349			0.0005			0.0	-0.7	-0.0	-5.5				
USDJPY	107.68			-1.2000			-1.1	-3.0	-5.3	-4.3				
AUDUSD	0.6963			-0.0022			-0.3	-1.0	-5.4	-11.1				
GBPUSD	1.2564			-0.0043			-0.3	-0.6	-1.3	-7.0				
USDCHF	0.9894			-0.0007			-0.1	0.1	-0.8	1.3				

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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