ON DECK FOR MONDAY, JANUARY 7

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	01/07	10:00	Durable Goods Orders (m/m)	Nov F	--	--	0.8
US	01/07	10:00	Durable Goods Orders ex. Trans. (m/m	Nov F	--	--	-0.3
US	01/07	10:00	Factory Orders (m/m)	Nov	0.3	0.3	-2.1
US	01/07	10:00	ISM Non-Manufacturing Composite	Dec	59.9	59.0	60.7
US	**01/07**	**12:40**	**Fed's Bostic Speaks to Rotary Club of Atlanta**				

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KEY POINTS:

- **Markets on tenterhooks as the Ides of March loom ahead**
- **No apparent traction yet on 3 key issues**
- **US shutdown talks yield no progress as March's debt ceiling looms**
- **China elevates trade negotiations…**
- **…on path to averting March's expiration of the tariff truce…**
- **…while the US raises tensions in the South China Sea**
- **Brexit vote set for next Tuesday…**
- **…as frenzied negotiations continue…**
- **…with the March 29th exit deadline drawing nearer**
- **Today's US ISM-services matters far more than ISM-mfrg**
- **Mixed signals on the health of Germany's economy**
- **Colombian inflation drops to 3½ year low**
- **Canada quiet today**
- **Global Week Ahead**

Please see the Global Week Ahead—Self-Inflicted Wounds here. Key risks this week will include:

- BoC
- Powell, Clarida
- FOMC minutes
- CPI: US, China…
- …Mexico, Colombia, Chile…
- …Brazil, Argentina
- US-China trade talks
- US gov't shutdown
- Brexit debate
- Chinese credit, FDI?
- More PBoC easing?
- Peru's CB
- CDN trade
- US ISM-services
- Eurozone macro

INTERNATIONAL

Three major risks overhanging world markets are getting intensified focus to start the week but with no apparent progress to signal yet. All of them carry potentially maximum risk into March deadlines. Settle all of them in time, and maybe central banks like the Fed and BoC have renewed green lights to tighten monetary policy. All of that has markets on tenterhooks, unwilling to carry forward Friday's risk-on session but as yet also unwilling to unwind it. Those risks include the formal commencement of US-China trade negotiations on the same day as US belligerence in the South China Sea, Brexit with a vote date having been set, and stalled US government shutdown talks. Two out of three of those developments have March deadlines attached to them including the formal Brexit date and the expiration of the 90 day US-China tariff moratorium. A light macro release calendar is focused upon mixed signals out of Germany's economy. US ISM-services will matter much more today than last week's ISM-manufacturing report. Colombian core inflation eased. Canada's calendar is quiet ahead of trade tomorrow and the BoC on Wednesday.

- US equity futures are little changed so far this morning. European cash markets are generally lower with London, Frankfurt and Paris down ½% while Italy is up ¼%. This follows a positive Asian session that merely played catch up to Friday's catalysts including nonfarm payrolls and Powell's repeated message regarding policy flexibility and data dependence that he has been delivering for months now. Tokyo climbed by about 2½%, Hong Kong was up by under 1%, mainland China was up by between ¾% (Shanghai) and Shenzhen was up 1¾%.

- Oil prices are up by just over US$1 with WTI at just over US$49 and Brent at about US$58½. Since the intraday bottom on December 24th, WTI is now almost $7 higher and Brent is over US$8 higher. Since the low on November 15th, Western Canada Select is up by just under US$22 to just over US$35 as of Friday's close.

- The US Treasury curve is rallying across maturities in a bull flattener that has the 10 year yield down 3bps to 2.64% and the 30s yield down 4bps to 2.94%. Canada's curve is performing similarly in a bull flattener and ditto for the gilts curve that is outperforming while Eurozone debt curves are underperforming.

- The USD is under broad selling pressure to start the week with outperformers led by the won, rand, euro and euro-related crosses. CAD is little changed and underperforming most other non-USD crosses ahead of the BoC.

Tuesday January 15th is the date that has now been set for the British Parliament to vote on the European Union (Withdrawal) Act. With parliament returning today, there continues to be a fair amount of behind-the-scenes activity including signals that Germany is throwing its support behind UK PM May. German Chancellor Merkel spoke with the Irish PM and the latter addressed the Bavarian wing of the her ruling party—Bavaria's Christian Social Union party—late last week and no doubt these exchanges were about solutions to the 'backstop' issue concerning treatment of the Irish border post-Brexit that remains the hurdle to passing the deal before the March 29th deadline. Parliament recommences formal debate over the withdrawal agreement on Wednesday.

US-China trade talks commenced in Beijing today and got an added boost when President Xi Jinpeng sent his chief trade negotiator to the meeting; Liu He had previously not been expected to attend. This may elevate the seriousness with which China is treating the negotiations. The US, however, sent a destroyer through the South China Sea near three disputed islands and China labelled it a 'provocation' which is hard to see as helpful in the middle of sensitive negotiations.

Germany's economy received a mixed report card. November readings for retail sales volumes (+1.4% m/m, 0.4% consensus, -0.3% prior) and factory orders (-1% m/m, -0.1% consensus, +0.2% prior) depicted a picture of **greater than expected consumer strength and factory weakness.** The retail gain was the strongest since April after which general softness set in, so it's an encouraging reading on the health of the consumer that should boost Q4 GDP growth expectations. The weakness in factory orders was all on the foreign side as domestic orders picked up; that's a reversal of the drivers the prior month when the domestic order book was weak. Encouragingly, orders for German capital goods remain strong and have been trending higher for the past four months; the weakness of late has been more on the consumer goods side of the picture.

Colombia's inflation rate eased back to 3.2% y/y as core CPI fell to about 3½% y/y. Inflation is running within the 2–4% target range but remains high enough to possibly motivate policy tightening by BanRep over 2019H1.

UNITED STATES

US markets will only have the ISM-services reading for December to consider (10amET). It may soften but still remain near cycle highs. This is a far more important reading than ISM-manufacturing that fell last week because 77% of the US economy is comprised of service sector industries whereas manufacturing accounts for 12% of the economy. Markets shouldn't fall into the same outdated trap that seems to be governing policy of late by focusing almost exclusively upon manufacturing and particularly older elements of manufacturing.

Weekend negotiations generated zero traction toward ending the Trump shutdown of the US government and there are no scheduled further meetings. All that can be said is that Trump now prefers steel over concrete for his wall which is likely just a cost issue.

CANADA

Canada will be quiet to start the week. Tomorrow's trade figures for November are expected to post a wider trade deficit. The key focus is Wednesday's full suite of BoC communications including a policy hold with dovish near-term implications that are already priced in but hawkish-leaning longer term implications through repeating a desire to get back toward neutral monetary policy that would contradict market pricing for no rate hikes this year.

Fixed Income — Government Yield Curves (%):

	2-YEAR			5-YEAR			10-YEAR			30-YEAR		
	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk
U.S.	2.48	2.49	2.49	2.47	2.50	2.51	2.63	2.67	2.69	2.94	2.98	3.02
CANADA	1.85	1.85	1.86	1.83	1.85	1.88	1.90	1.93	1.96	2.11	2.13	2.18
GERMANY	-0.59	-0.60	-0.61	-0.35	-0.35	-0.31	0.20	0.21	0.24	0.85	0.86	0.88
JAPAN	-0.17	-0.18	-0.14	-0.17	-0.18	-0.14	-0.01	-0.04	0.00	0.69	0.66	0.72
U.K.	0.73	0.76	0.75	0.86	0.90	0.90	1.23	1.28	1.28	1.77	1.81	1.82

Spreads vs. U.S. (bps):

	2-YEAR			5-YEAR			10-YEAR			30-YEAR		
CANADA	-63	-64	-63	-64	-65	-63	-73	-74	-72	-83	-85	-83
GERMANY	-307	-309	-310	-282	-285	-282	-243	-246	-244	-208	-213	-214
JAPAN	-264	-267	-263	-264	-269	-265	-264	-271	-268	-225	-232	-230
U.K.	-174	-174	-174	-160	-161	-161	-140	-139	-141	-117	-117	-119

Equities

	Level		% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	14427	213.9	1.5	1.8	-2.5	-11.8
Dow 30	23433	746.9	3.3	1.3	-3.9	-7.4
S&P 500	2532	84.1	3.4	1.7	-3.8	-7.7
Nasdaq	6739	275.4	4.3	2.4	-3.3	-5.6
DAX	10706	-61.4	-0.6	3.1	-0.8	-19.6
FTSE	6799	-38.1	-0.6	1.0	0.3	-12.0
Nikkei	20039	477.0	2.4	4.6	-7.6	-15.5
Hang Seng	25836	209.7	0.8	1.3	-0.9	-16.2
CAC	4709	-27.8	-0.6	0.7	-2.2	-13.9

Commodities

	Level		% change:			
WTI Crude	49.00	1.04	2.2	8.1	-6.9	-20.2
Natural Gas	2.97	-0.08	-2.5	-10.1	-33.8	6.2
Gold	1292.38	7.23	0.6	0.9	3.5	-2.0
Silver	15.71	0.17	1.1	2.7	8.0	-8.3
CRB Index	174.78	1.42	0.8	2.2	-5.1	-9.7

Currencies

	Level		% change:			
USDCAD	1.3351	-0.0023	-0.2	-2.1	0.2	7.5
EURUSD	1.1439	0.0044	0.4	-0.2	0.5	-4.4
USDJPY	108.26	-0.2500	-0.2	-1.3	-3.9	-4.3
AUDUSD	0.7135	0.0022	0.3	1.2	-1.0	-9.0
GBPUSD	1.2748	0.0025	0.2	-0.0	0.2	-6.0
USDCHF	0.9817	-0.0059	-0.6	-0.0	-1.0	0.5

Central Banks

Current Rate	
Canada - BoC	1.75
US - Fed	2.50
England - BoE	0.75
Euro zone - ECB	0.00
Japan - BoJ	-0.10
Mexico - Banxico	8.25
Australia - RBA	1.50
New Zealand - RBNZ	1.75

Next Meeting Date	
Canada - BoC	Jan 09, 2019
US - Fed	Jan 30, 2019
England - BoE	Feb 07, 2019
Euro zone - ECB	Jan 24, 2019
Japan - BoJ	Jan 23, 2019
Mexico - Banxico	Feb 07, 2019
Australia - RBA	Feb 04, 2019
New Zealand - RBNZ	Feb 12, 2019

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.