

ON DECK FOR TUESDAY, JANUARY 8

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	01/08	08:30	Merchandise Trade Balance (C\$ bn)	Nov	-2.3	-2.2	-1.2
US	01/08	08:30	Trade Balance (US\$ bn)	Nov	-53.4	-54.0	-55.5
US	01/08	10:00	JOLTS Job Openings (000s)	Nov	--	7050.0	7079.0
US	01/08	15:00	Consumer Credit (US\$ bn m/m)	Nov	--	17.5	25.4

KEY POINTS:

- Risk-on global markets are being driven by two points of optimism
- US-China trade talks expected to end positively...
- ...as markets await a statement from China...
- ...but the path to a full deal remains risky
- Could the US government shutdown end...
- ...after Trump's address tonight...
- ...while nevertheless failing to address the March 1st debt ceiling deadline
- Canada's trade deficit probably widened
- Light US releases today
- Chilean core inflation inches higher

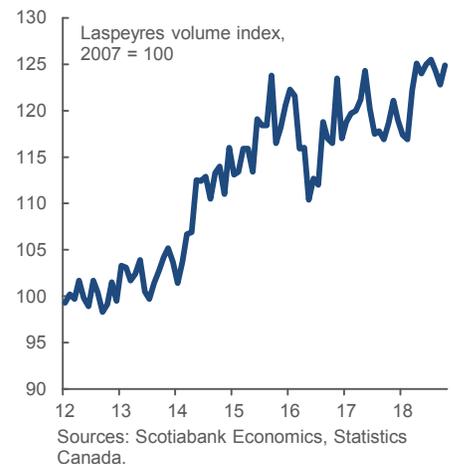
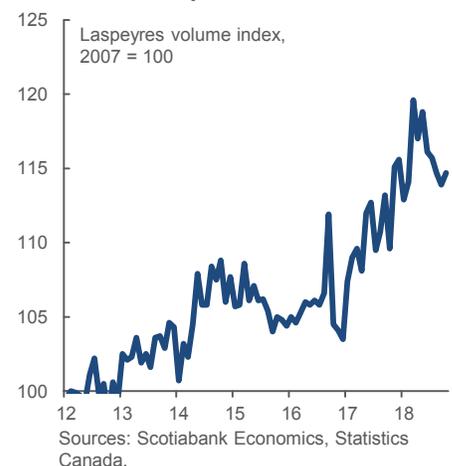
INTERNATIONAL

Global markets are in risk-on mode this morning. The day could end with the sense that the US and China have reached a negotiated trade settlement and the US government shutdown is nearing an end. If so, both senses could be premature as the risks may well resurface ahead of key March 1st deadlines (see below). The fundamentals calendar is light with just disappointing German industrial data, pending Canadian trade figures and an uptick in Chilean core inflation to consider. The UK government confirmed that the vote on the European Union (Withdrawal) Act will occur next Tuesday; Parliament resumes debate on the Act tomorrow. A UK government spokesperson stated this morning that the government is not seeking a delayed Brexit deadline but is continuing to seek EU guarantees on the contentious Irish backstop issue.

- US Treasury and Canadian yields are little changed across the board. The 10 year US note is already up 15bps from the recent low, but remains about a half percentage point lower than the 3.24% peak on November 8th. European government bond yields are also little changed on balance.
- The USD is slightly stronger on a DXY basis this morning. The strongest crosses are the real and CAD given higher oil prices and ahead of trade and the BoC.
- US equity futures are up by between ½ about ¾% across the benchmarks and TSX futures are up by slightly less. European cash markets are rallying by about 1% on average across the bourses.
- Oil prices are up again with WTI and Brent up by just over 50 cents on average. WTI is about US\$7 off the low point. Western Canada Select rallied by over US\$2½ yesterday to US\$38, or about triple where it bottomed on November 15th.

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Export Volumes

Import Volumes


Markets await a promised statement as soon as today by Chinese trade negotiators regarding progress in trade talks with the US while it's unclear whether the US will do likewise. A foreign ministry spokesperson indicated that “a detailed readout” of the talks will be issued after the two days of negotiation conclude today. US Commerce Secretary Wilbur Ross said yesterday “there’s a very good chance that we’ll get a reasonable settlement.” It remains to be seen whether any settlement would be materially different to the one reached earlier in the year that President Trump rejected and if token measures like buying more soybeans will be enough to reach agreement. The path toward a fuller agreement remains uncertain with the fits and starts to other trade negotiations like the path to the CUSMA deal is potentially informative to such risks. The tariff moratorium expires on March 1st unless it is extended or becomes a moot point upon striking a full agreement in time.

German industry is reeling. Industrial output unexpectedly fell by 1.9% m/m in November, marking the third straight month and fifth time in the past six months that output has declined. From a peak in May, output has fallen by about 5% at a seasonally adjusted but non-annualized rate. That winds the clock back to where output was in January 2017 and hence wiping out nearly two years of gains. The declines are not just being fed by tradeable sectors. Construction output fell 1.7% m/m, energy output fell 3.1% and manufacturing and mining activity fell 1.8%. Production of capital goods fell 1.8% and output of consumer goods declined by 4.1%. The euro was already depreciating to the USD before the release and has been little affected afterward.

Chile’s inflation rate ebbed to 2.6% y/y (2.8% prior) and in line with expectations. Core inflation, however, ticked higher to 2.3%. Core inflation has been on the rise since May of this year from 1.6% to the present 2.3%. Banco Central de Chile targets inflation of 2–4%. Bloomberg consensus expects a rate hike this quarter with the benchmark rate rising to 3%.

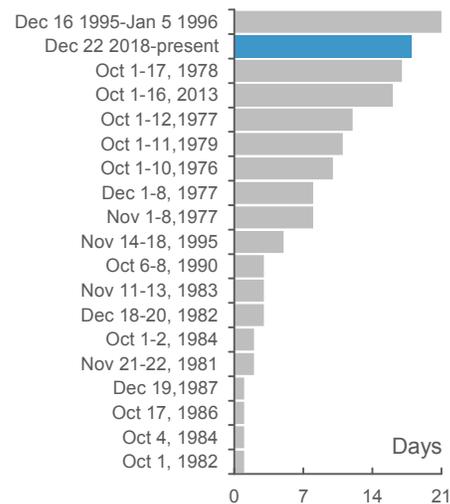
US markets face a light calendar. Trade figures were to have been released today but will be delayed until after the government shutdown ends. That leaves only minor updates like JOLTS job vacancies (10amET) that remain around a record high and consumer credit (3pmET) that has been bouncing back from weakness earlier in the year.

UNITED STATES

President Trump gives a national address at 9pmET on border security. At risk is whether he announces utilization of emergency powers to reallocate defense department budgets toward what he has described as an immigration emergency in order to fund building of a border wall. On the one hand that would spark multiple possible challenges through the courts and Congress. On the other, **it might end the shutdown**—at least temporarily—given that the House has already passed a bill to reopen government that perhaps the Senate would no longer object to passing if Trump’s veto is no longer threatened. It is conceivable that the shutdown ends as the second longest on record (see chart) but it is just three days away from a record long shutdown.

A strong caution is that if this is the mechanism by which the shutdown ends, then it doesn’t address the looming March 1st expiration of the debt ceiling suspension and we could well be at it all again on the path to that date. Indeed, invoking such a controversial mechanism could a) end in failure of the courts reject it, and/or b) poison the well in terms of further necessary funding talks. In either scenario, Trump may well get a pyrrhic victory. Recall that the February Bipartisan Budget Act of 2018 suspended the debt ceiling until March 1st 2019 and it will therefore be reinstated the next day. Recall, however, that Treasury has enough cash on hand and extraordinary measures to fund the government through to mid-summer 2019 according to the Bipartisan Policy Center ([here](#)). The cavalier manner by which the Trump administration treats funding its operations merits careful monitoring of funding risks to its obligations over coming months.

This Shutdown Could Be A Record Breaker By Week’s End



Sources: Scotiabank Economics, Congressional Research Service, US House, US Senate.

CANADA

On the eve of the BoC, Canada updates merchandise trade figures for November this morning (8:30amET). A wider monthly trade deficit is expected that would reverse the prior month's narrowing. Price effects will be a driver of widening on combined commodity price and Canadian dollar movements during the month. Key will be whether the prior gain in export volumes is retained after controlling for price effects. Regardless, this is a stale reading given that export figures will be negatively impacted by Alberta's mandated oil production cuts that began this month although this morning's figures will shed some light on underlying momentum. The next batch of trade figures is vulnerable to delays given the US government shutdown will impair collection and sharing of data. It's the smoothed trend that matters and the figures have been mixed in that regard. The accompanying charts show that after a growth spurt in export volumes earlier in the year, they've largely trended sideways since while import volumes have been falling since May. There have been multiple distortions to the figures including technical disruptions in the energy sector, but the recent trends are not terribly favourable.

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.	2.55	2.54	2.49	2.54	2.54	2.51	2.69	2.70	2.69	2.98	2.99	3.02	Canada - BoC	1.75
CANADA	1.89	1.88	1.86	1.89	1.88	1.88	1.96	1.95	1.96	2.16	2.16	2.18	US - Fed	2.50
GERMANY	-0.58	-0.58	-0.61	-0.32	-0.33	-0.31	0.23	0.22	0.24	0.87	0.87	0.88	England - BoE	0.75
JAPAN	-0.14	-0.17	-0.14	-0.14	-0.17	-0.14	0.01	-0.01	0.00	0.71	0.69	0.72		
U.K.	0.75	0.76	0.75	0.89	0.89	0.90	1.26	1.25	1.28	1.79	1.78	1.82		
	Spreads vs. U.S. (bps):													
CANADA	-66	-66	-63	-65	-66	-63	-74	-74	-72	-82	-83	-83	Euro zone - ECB	0.00
GERMANY	-313	-313	-310	-287	-287	-282	-247	-248	-244	-211	-212	-214	Japan - BoJ	-0.10
JAPAN	-268	-271	-263	-268	-271	-265	-268	-271	-268	-227	-230	-230		
U.K.	-179	-178	-174	-165	-165	-161	-144	-144	-141	-119	-121	-119	Mexico - Banxico	8.25
Equities	Level			Change			1 Day			% change:				
	Last													
S&P/TSX	14504			77.5			0.5	2.0		-2.0		-11.1	Australia - RBA	1.50
Dow 30	23531			98.2			0.4	2.0		-3.5		-6.9		
S&P 500	2550			17.8			0.7	2.6		-3.2		-7.2	New Zealand - RBNZ	1.75
Nasdaq	6823			84.6			1.3	3.6		-2.1		-4.7		
DAX	10839			91.2			0.8	2.7		0.5		-18.9		
FTSE	6874			63.1			0.9	2.2		1.4		-10.7		
Nikkei	20204			165.1			0.8	4.5		-6.8		-14.8	Canada - BoC	Jan 09, 2019
Hang Seng	25875			39.8			0.2	0.1		-0.7		-16.3	US - Fed	Jan 30, 2019
CAC	4784			64.7			1.4	1.1		-0.6		-12.8		
Commodities	Level			Change			1 Day			% change:				
WTI Crude	48.98			0.46			0.9	7.9		-6.9		-20.7	England - BoE	Feb 07, 2019
Natural Gas	2.99			0.05			1.6	1.7		-33.4		5.5	Euro zone - ECB	Jan 24, 2019
Gold	1282.56			-6.64			-0.5	0.0		2.7		-2.9	Japan - BoJ	Jan 23, 2019
Silver	15.75			0.05			0.3	1.8		8.7		-8.2		
CRB Index	175.49			0.85			0.5	3.3		-4.7		-9.0		
Currencies	Level			Change			1 Day			% change:				
USDCAD	1.3293			-0.0006			-0.0	-2.5		-0.8		7.0	Mexico - Banxico	Feb 07, 2019
EURUSD	1.1450			-0.0024			-0.2	-0.1		0.8		-4.3		
USDJPY	108.74			0.0200			0.0	-0.9		-4.1		-3.8	Australia - RBA	Feb 04, 2019
AUDUSD	0.7135			-0.0013			-0.2	1.2		-0.8		-9.0		
GBPUSD	1.2749			-0.0028			-0.2	0.1		1.5		-6.0	New Zealand - RBNZ	Feb 12, 2019
USDCHF	0.9810			0.0013			0.1	-0.1		-0.9		0.4		

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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