

**ON DECK FOR WEDNESDAY, JANUARY 9**

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	01/09	08:15	Housing Starts (000s a.r.)	Dec	210.0	205.5	216.0
US	01/09	08:20	Fed's Bostic Speaks in Chattanooga on Economic Outlook				
US	01/09	09:00	Fed's Evans Speaks on Economy and Monetary Policy				
CA	01/09	10:00	BoC Interest Rate Announcement (%)	Jan 9	1.75	1.75	1.75
US	01/09	11:30	Fed's Rosengren Speaks on the Economic Outlook				
US	01/09	14:00	FOMC Meeting Minutes				

**KEY POINTS:**

- Risk-on tone across global markets
- BoC to reaffirm near-term rates pricing...
- ...but cautious optimism could surprise market pricing for future meetings
- FOMC minutes to expand upon unanimity
- Four FOMC officials weigh in
- US-China trade statement expected tonight
- Shutdown meeting likely won't yield progress today
- Ireland's DUP rejects backstop proposals...
- ...as British parliament resumes Brexit debate
- Canadian housing starts beat expectations
- German exports weaken, continue no-growth over 2018
- Mexican inflation on tap
- Swiss core inflation reaffirms long SNB pause

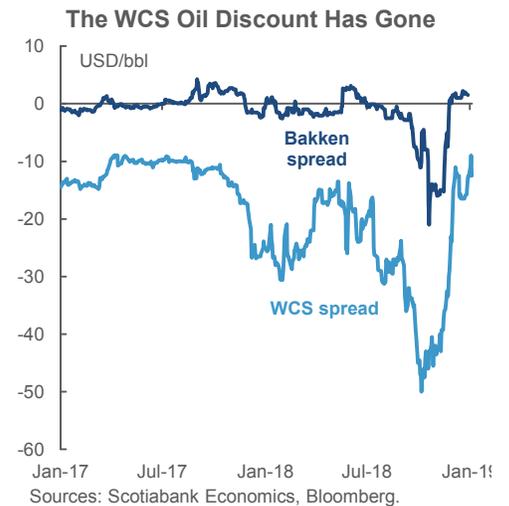
**INTERNATIONAL**

While most of the focus is upon the Bank of Canada and FOMC minutes, there are plenty of other considerations behind a general risk-on tone across global markets. Overall, the BoC is expected to reaffirm near-term market pricing for no action but emphasize a continued desire to get back toward a neutral policy rate over time that markets are not at all pricing. Near-term caution and cautious optimism toward future steps should sum up the overall bias.

- The USD is slightly weaker on a broad DXY basis. CAD is among the appreciating crosses ahead of the BoC but isn't particularly outperforming comparators like the A\$ or Mexican peso.
- US Treasury yields are slightly higher along with Canadian yields. Italian spreads are narrowing about 4bps over bunds in 10s but otherwise European debt yields are little changed.
- Oil prices are rallying and hence contributing to some of the commodity currency gains. WTI and Brent are both up by over a buck.
- US equity futures are up by around ½% with TSX futures underperforming. European exchanges are rallying by about 1% in London, Frankfurt and Paris.

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**Unconfirmed reports suggest that China and the US will coordinate release of statements on trade talks tonight (eastern time).** The three days of talks between generally lower level officials reportedly made progress in some areas but with significant differences remaining ahead of potentially more senior level negotiations later this month.

**The British parliament is just now resuming formal debate over the European Union (Withdrawal) Act** that will occur through to Tuesday's scheduled vote. Just ahead of debate, Northern Ireland's Democratic Unionist Party reiterated opposition to the backstop arrangement that remains the key stumbling block toward a soft Brexit.

**German exports fell** -0.4% m/m in November (-0.5% consensus) after a rise of about double that the month before. German exports have not grown on a trend basis throughout the year.

Apart from essentially being hitched to the ECB apart from periods of large swings in the franc, the **Swiss National Bank received more evidence it should be in no rush to tighten policy.** Core inflation is running at a scant 0.3% y/y as of December and that was actually a tick stronger than consensus.

**Mexican inflation (9amET) is expected to rise in December's update partly in lagging response to peso volatility.** The peso has since appreciated from early December to now. At 4.7% y/y in November and with core CPI at 3.6% y/y, inflation is challenging the upper end of Banxico's 2–4% target range. Inflation is expected to come off the boil over the duration of this year and possibly allow Banxico to eventually begin easing policy from what is the highest overnight rate since August 2008.

## CANADA

**The Bank of Canada statement and Monetary Policy Report will be released at 10amET and the press conference hosted by Governor Poloz and SDG Wilkins will be held at 11:15amET.** No hike, near-term patience with a signalled policy hold but longer term guidance to get back toward a neutral rate in the context of balanced optimism about sums up expectations. We think that Poloz's 15 minute CTV interview on December 17th ([here](#)) reflected a tone that he will broadly repeat today. What's happened since that interview is summarized below and on net it doesn't lead me to think he would have cause for drastically changing his perspective.

- The jobs report was solid along a ripping trend that has seen 178,000 jobs created over just the past four months.
- On the day of the interview he already knew that average core CPI ticked down to 1.9% from 2% in November with December's figure due on the 18<sup>th</sup>.
- retail sales were flat
- GDP growth was a touch stronger than expected for Oct
- The BoC's Business Outlook Survey was stale but mixed and generally solid on net
- The US gov't shut down, but that carries little effect versus monitoring future steps toward the March 1st debt ceiling
- US-China trade talks may be achieving progress
- WCS is up about US\$3
- The S&P500 has been flat (+0.4%), TSX up 1%
- CAD has appreciated by only about 1% to the USD, dep'd about 2.5% to MXN
- Canada 2 year yield is down about 5bps

Forecast details are likely to signal weak Q1 growth given Alberta's mandated oil production cuts but downgrade 2019 growth only modestly which would imply expectations toward improved quarterly growth over the duration of the year as the effect of production cuts on the GDP math abates and as the production cut schedule gets tapered.

The BoC has to acknowledge more slack now than it judged in its last formal forecast round last October because of years of downward revisions to actual GDP growth and because of Alberta's production cuts that were announced about a month ago. By corollary, more slack means repeated reference to how "there may be additional room for non-inflationary growth" as the near-term inflation outlook gets revised lower and acceleration pushed out somewhat. While domestic developments will dominate the BoC's communications, external risks will probably receive balanced treatment. Through it all, one should likely expect Poloz to repeat his general argument that there are two-sided risks to the outlook for everything from Brexit to US-China trade negotiations and the US government's shutdown but also including rates versus the market temptation to simply go to a dark place while pricing out rate hike risk this year

**Key will be how the BoC views the terms of trade.** Recall that the drop in commodity prices over 2014–15 dragged down the price of exports relative to imports and this meant lower national income that trickled down into lower expectations for profits, household income growth and fiscal balances. That's why the BoC cut in Jan 2015 and again later that summer. A key difference is that commodities back then were down for the count for much longer. This time, the BoC is likely to view the drivers behind the drop in measures like Western Canada Select as technical through transportation bottlenecks that are getting addressed. The improvement in WCS should translate into improved terms of trade (see chart). That would counsel looking through much of the negative trickle down effects and in the context of a much reduced role of the sector in overall GDP now versus in 2014.

**Ahead of the BoC, Canadian new home construction activity remains robust.** Housing starts came in at 213.4k at a seasonally adjusted and annualized rate last month (205.5k consensus) and there were upward revisions to 224.3k in November (215.9k previously). Overall that makes for a net positive beat to expectations. Starts have average 214k at a monthly annualized rate this year versus 220k last year. Volumes have held in but they have not grown.

## UNITED STATES

**FOMC minutes to the December 18-19<sup>th</sup> FOMC meeting arrive at 2pmET.** They might just be a distraction ahead of speeches by Chair Powell and Vice Chair Clarida tomorrow. Key will be an overall gauge of the frequency of citations using the Fed's language that connotes the degree of alignment across FOMC members on core issues like prospects for further rate hikes, criteria for doing so, unease toward market conditions, balance sheet management plans etc. Markets took Powell's comments last week as a move away from balance sheet unwinding being on 'autopilot'. Economists should not. Powell's 2017 speech that was focused upon balance sheet management clearly stated the unwinding was sensitive to developments and "should continue as planned as long as there is no material deterioration in the economic outlook." Markets react to everything the Fed says as if it's brand new information even when the same guidance gets repeated, and Powell has been emphasizing flexibility and data dependence for months.

Three FOMC members—two of who vote this year—will deliver comments on the outlook and monetary policy this morning including:

- Atlanta Fed's Bostic (nonvoting) (8:20amET)
- Chicago Fed's Evans (voting) on monpol (9amET)
- Boston Fed's Rosengren (voting), outlook (11:30amET)

We've already heard from St. Louis President Bullard who claims that further hikes will cause a US recession. He is a voting member of the FOMC this year so his views directly count toward the outcome. That said, he's usually out in the fringe of FOMC opinions and has ranged between agnostic toward providing longer term forecasts including being the only FOMC member to opt out of providing some forecast details, to sounding suddenly convinced about recession risk now. It's a fair debate, but I don't think the balance of his colleagues nor the top of the house see it that way.

**President Trump will meet with Congressional leaders again today at 3pmET to try to hammer out a compromise on border security funding and reopening the government.** There are very low odds of success. Trump's televised address last evening achieved nothing by way of steps toward ending the government shutdown and could well have further damaged such prospects as indicated by the Democrats' reaction. The Office of Management and Budget is reportedly exploring the possibility of tapping Pentagon funds for a border wall and White House aide Sanders has indicated that the national emergency option for funding the wall remains open.

The US conducts a 10 year note reopening at 1pmET.

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.	2.59	2.59	2.47	2.59	2.58	2.46	2.74	2.73	2.62	3.02	3.01	2.95	Canada - BoC	1.75
CANADA	1.92	1.90	1.84	1.92	1.90	1.83	1.98	1.97	1.90	2.18	2.17	2.12	US - Fed	2.50
GERMANY	-0.58	-0.58	-0.61	-0.32	-0.32	-0.37	0.28	0.23	0.17	0.87	0.87	0.80	England - BoE	0.75
JAPAN	-0.14	-0.14	-0.14	-0.14	-0.14	-0.14	0.03	0.01	0.00	0.71	0.71	0.72		
U.K.	0.76	0.76	0.72	0.90	0.90	0.84	1.27	1.27	1.21	1.79	1.81	1.78		
Spreads vs. U.S. (bps):														
CANADA	-67	-69	-63	-67	-68	-62	-76	-76	-72	-84	-83	-83	Euro zone - ECB	0.00
GERMANY	-317	-316	-308	-291	-290	-283	-245	-250	-246	-215	-214	-215	Japan - BoJ	-0.10
JAPAN	-273	-272	-261	-272	-272	-260	-271	-272	-262	-231	-230	-223		
U.K.	-183	-183	-175	-169	-168	-162	-147	-145	-141	-123	-120	-118	Mexico - Banxico	8.25
Equities	Level			Change			1 Day			1-wk			% change:	
	Last													
S&P/TSX	14605			101.0			0.7			2.0			-1.3	-10.5
Dow 30	23787			256.1			1.1			2.0			-2.5	-6.3
S&P 500	2574			24.7			1.0			2.7			-2.2	-6.4
Nasdaq	6897			73.5			1.1			3.9			-1.0	-3.7
DAX	10948			144.2			1.3			3.5			1.5	-18.2
FTSE	6934			72.0			1.1			3.0			2.3	-10.3
Nikkei	20427			223.0			1.1			1.7			-5.8	-14.4
Hang Seng	26462			586.9			2.3			5.3			1.5	-14.7
CAC	4839			65.9			1.4			3.2			0.5	-12.4
Commodities	Level			Change			1 Day			1-wk			% change:	
WTI Crude	51.26			1.48			3.0			10.1			-2.6	-18.6
Natural Gas	2.97			-0.00			-0.0			0.3			-33.9	1.5
Gold	1284.93			-0.27			-0.0			0.0			2.9	-2.1
Silver	15.64			-0.11			-0.7			1.1			8.0	-8.9
CRB Index	177.99			2.03			1.2			4.5			-3.3	-8.3
Currencies	Level			Change			1 Day			1-wk			% change:	
USDCAD	1.3239			-0.0035			-0.3			-2.5			-1.2	6.2
EURUSD	1.1463			0.0022			0.2			1.0			0.9	-4.0
USDJPY	108.74			-0.0100			-0.0			-0.1			-4.1	-3.5
AUDUSD	0.7168			0.0028			0.4			2.6			-0.3	-8.4
GBPUSD	1.2738			0.0021			0.2			1.0			1.4	-5.9
USDCHF	0.9795			-0.0018			-0.2			-1.1			-1.1	-0.4
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.

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