

**ON DECK FOR THURSDAY, JANUARY 10**

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest	
US	01/10	07:00	MBA Mortgage Applications (w/w)	JAN 5	--	--	23.5	
CA	01/10	08:30	Building Permits (m/m)	Nov	--	-0.5	-0.2	
CA	01/10	08:30	New Housing Price Index (m/m)	Nov	--	0.0	0.0	
US	01/10	08:30	Initial Jobless Claims (000s)	JAN 5	215	226	231	
US	01/10	08:30	Continuing Claims (000s)	DEC 29	1700	1740	1740	
US	01/10	08:35	<b>Fed's Barkin Speaks on Ensuring Long-Term Growth</b>					
US	01/10	10:00	Wholesale Inventories (m/m)	Nov F	--	0.5	0.8	
US	01/10	12:00	<b>Fed's Powell to Speak to The Economic Club of Washington</b>					
US	01/10	12:40	<b>Fed's Bullard Speaks on Economy and Monetary Policy</b>					
US	01/10	13:00	<b>Fed's Evans speaks at Economic Forecast Event</b>					
US	01/10	17:30	<b>Fed's Clarida Speaks to Money Marketeers in New York</b>					

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**KEY POINTS:**

- Mild risk-off tone
- Chinese inflation fans PBoC easing prospects
- Sterling sinks on election risk
- Powell likely to repeat strong and patient contradictions
- Clarida to deliver outlook speech tonight
- ECB minutes point to balanced risks, wage induced price pressures
- Trump will fan border, shutdown and Mexican tensions this afternoon
- China says little on trade negotiations...
- ...while earnings season is about to showcase pain to the US economy
- Canadian permits increase as residential gives way to nonres
- Peru expected to hold
- Norway's inflation conducive to a March hike
- BoC and FOMC minutes recaps
- Canada auctions 2s

**INTERNATIONAL**

A mild risk-off tone is characterizing global asset classes so far this morning. Pound sterling is depreciating to the USD on the back of **Labour's call for a general election should Tuesday's Brexit vote fail**, which seems likely. **China's inflation rate fell** by more than expected and puts heightened emphasis upon PBoC watching for prospects of further easing into the Lunar New Year. **Fed Chair Powell and Vice Chair Clarida** will focus upon the economic outlook and monetary policy today and I would expect them to repeat that the economy is strong. See a recap of yesterday's FOMC minutes [here](#). They will also repeat that 'patience' entails monitoring tail risks to markets that could work out well or badly over coming months and especially given March's deadlines for the US-China tariff moratorium (March 1st), US debt ceiling (March 1st) and the Article 50 Brexit deadline (March 29th although in play, see below). China's statements on trade talks revealed little overnight on the back of the US Trade Representative's statement yesterday that did likewise. Canada only has a 2s auction and building permits to consider; 2s appetite should be solid **post-BoC (recap [here](#))**. Note the gains in WCS (see below). Peru should keep rates on hold while Norway's

inflation rate is generally consistent with Norges Bank guidance toward a March hike. There will be a circus at the Mexican border this afternoon (see below).

- The USD is slightly appreciating this morning due to a sell-off in pound sterling on Brexit concerns (see below) and with the euro and CAD slightly cheaper while the Mexican peso is slightly gaining.
- The US Treasury curve is slightly bull steepening again in the wake of yesterday's FOMC minutes. Since the minutes, the 2s10s spread has risen by about 2bps. The curve is still very flat with the 2s10s spread rising only about 7bps from the December 20th low. Canada's curve is slightly outperforming the US.
- Oil prices are under mild downward pressure with WTI at just under US\$52 and Brent just under US\$61. Note that Western Canada Select hit US\$43.86 yesterday and is only giving back about half a buck of that which makes for the highest price since early September and over US\$30 higher than the mid-November low. Canada's transitory oil price correction may well be entirely over and done with. With that, pressure toward further easing Alberta's mandated output cuts may intensify.
- US equity futures are down by about ½% on average across the main exchanges. While the pain to tariff tensions is showing up in Chinese fundamentals, the start of the US earnings season next week may further inform evidence regarding the pain to the US economy and markets. TSX futures are also off ½%. European cash markets range from little changed (London) to down by up to ½% in Paris. Asian equities fell by 1.3% in Tokyo and just over ¼% at mainland China's two main exchanges while Seoul and HK were little changed.
- Post BoC, OIS markets are assigning about one in four odds to a hike in April.

**UK Labour Party leader Jeremy Corbyn threw a spanner into the Brexit works this morning**, but not in entirely unexpected ways. He said Labour will vote against the European Union (Withdrawal) Act in Tuesday's vote and in the likely event that the vote fails, his party will move toward tabling a confidence motion and set as a priority holding a fresh general election as soon as possible after the vote. Corbyn thinks an election is the 'best way' of breaking the stalemate in Brexit negotiations and would still campaign toward seeking a different Brexit deal while seeking to delay the March 29th Article 50 deadline. It's not clear at least to me how a) Labour thinks it would get a better deal and have greater success in terms of settling the contentious matters relating to the Irish border, and b) to what degree Merkel et al would be open to delaying Brexit. Labour holds 257 out of 650 seats in the British parliament, the Conservatives hold 317, the Scottish National Party holds 35 with the Liberal Democrats at 11 and the Democratic Unionist Party at 10. The coalition with the DUP results in 327 seats for a combined majority. All of the Labour Party would need to vote down the government plus 67 other members of parliament drawn from the other parties. An election call is therefore not assured. If, however, Labour were to win then it's hard to see how its strongly interventionist views wouldn't be taken negatively by markets.

**China's inflation rate declined by more than expected and this fanned expectations for further policy easing by the PBoC.** CPI inflation was 1.9% y/y in December (2.2% prior, 2.1% consensus). The rate has fallen from a recent peak of 2.5% in October and 2.9% in February although the latter was likely distorted by the shifting timing of the Lunar New Year. Lower energy and vehicle prices drove the headline reading down. Excluding food and energy, inflation was stable at 1.8% y/y for the third month in a row. The Chinese Communist Party's National Congress set an inflation goal of 'around 3%' last March. The Lunar New Year arrives on February 5th and further easing is possible ahead of it. Recall that industry shuts down leading up to and through the entire week and migrant workers return home for holidays in the world's largest annual migration. Credit and liquidity demands typically rise over this period.

**Norway's inflation rate** was stable at 3.5% y/y (3.4% consensus, 3.5% prior) but underlying inflation slipped a tick to 2.1% y/y. The trend for underlying inflation that excludes energy and tax changes remains generally higher since mid-year. Norges Bank targets 2% inflation. The central bank guided at its December 13th meeting that a deposit rate increase to 1% would "most likely" occur at the March 21st meeting.

**Banco Central de Reserva del Peru is expected to keep its benchmark rate unchanged at 2.75% later today.** The benchmark rate is expected to remain at 2.75% and the bias will be closely watched for how it fits with the consensus view that the

central bank could hike at one of its three meetings this quarter. Its last statement (here) cited “greater risk on global economic activity and uncertainty in financial markets” as an external complement to a neutral bias driven by anchored inflation expectations around the inflation target range of 1–3%. Inflation was 2.2% y/y in December. The decline in world copper prices provides some cover to remain on hold as it assesses risks to the outlook while transitioning closer to tightening monetary policy.

**The only real takeaway from this morning’s minutes to the December 12–13 ECB meeting** is that the downward revision to the growth outlook was deemed sufficient to maintain balanced risks going forward. In other words, they felt they had done enough to their forecasts for some time. The minutes also emphasized that pass-through of higher wage inflation to prices “was a key factor underpinning confidence in the outlook for underlying inflation.” The ECB pledges to keep rates on hold ‘through’ the summer and consensus expects the first hike to occur in Q1 next year.

**Evidence on Eurozone growth doesn’t help such expectations as data disappointed again this morning.** French industrial production fell by 1.3% m/m in November, but bear in mind that it was up by an identical amount the prior month. Still, output is down 2.1% y/y.

## UNITED STATES

It’s hard to think of what could be said that would be new, but the top of the house at the Fed will engage markets in a focused discussion about the outlook today. **Fed Chair Powell will hold a moderated Q&A (no text) before the Economic Club of Washington at 12:45pmET. Vice Chair Clarida speaks about the economic outlook and monetary policy at 7pmET** before the Money Marketeers of New York University. There will be text and moderated Q&A.

Four other FOMC officials including two voters will also speak today as follows:

- Richmond Fed’s Barkin (nonvoting) (8:35amET); spoke of slower growth, nothing new to his earlier comments.
- St. Louis Fed’s Bullard (voting) (12:40pmET)
- Chicago Fed’s Evans (voting) (1pmET)
- Minneapolis Fed’s Kashkari (alternate) (1:20pmET)

Otherwise, US data risk is very light today. Jobless claims fell back to 216k (233k prior). The US Treasury conducts a US\$16 billion 30 year bond reopening (1pmET).

**US President Trump will no doubt inflame tensions over the Mexican border wall, government shutdown and US-Mexican relations once again this afternoon.** He is going to the Mexican border with Texas—his opponents may wish he keeps walking—and should arrive shortly after 2pmET. Trump will hold a roundtable on immigration and border security at about the same time and will linger around for a couple of hours. The roundtable will no doubt be randomly sampled!

## CANADA

**Canada will be quiet and largely follow the global market tone today.** A test of market sentiment post-BoC will be the noon 2s auction. The two year yield is little changed so far this morning after yesterday’s modest up-tick.

November’s building permits climbed by 2.6% m/m in value terms but the headline gain masked an important underlying shift in composition. The value of residential permits fell 2.5% m/m with the volume of dwellings approved declining by 3.1% m/m. The value of nonresidential permits issued jumped by 11.6% m/m with gains in the industrial (+21.9%) and commercial (+16.8%) categories. At the margin, the figures point to modest downside risk to near-term housing starts, but they play to the theme that construction activity is rotating more toward nonresidential projects. That’s a positive in that it can buoy appetite for the trades and related professions.

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.	2.54	2.55	2.38	2.54	2.55	2.36	2.71	2.71	2.55	3.01	3.00	2.90	Canada - BoC	1.75	
CANADA	1.89	1.91	1.76	1.90	1.91	1.75	1.96	1.98	1.82	2.16	2.18	2.06	US - Fed	2.50	
GERMANY	-0.59	-0.58	-0.61	-0.35	-0.33	-0.39	0.26	0.28	0.15	0.85	0.87	0.80	England - BoE	0.75	
JAPAN	-0.15	-0.14	-0.14	-0.14	-0.14	-0.14	0.02	0.03	0.00	0.70	0.71	0.72	Euro zone - ECB	0.00	
U.K.	0.77	0.76	0.70	0.91	0.90	0.83	1.27	1.26	1.19	1.81	1.78	1.75	Japan - BoJ	-0.10	
Spreads vs. U.S. (bps):															
CANADA	-65	-65	-62	-64	-64	-61	-75	-74	-73	-85	-83	-84	Mexico - Banxico	8.25	
GERMANY	-313	-314	-299	-288	-288	-274	-245	-243	-240	-216	-214	-210	Australia - RBA	1.50	
JAPAN	-269	-269	-252	-268	-268	-250	-268	-268	-255	-232	-230	-218	New Zealand - RBNZ	1.75	
U.K.	-178	-180	-168	-163	-165	-153	-144	-145	-136	-120	-122	-116	Next Meeting Date		
Equities	Level						% change:								
	Last			Change	1 Day	1-wk	1-mo	1-yr							
S&P/TSX	14805			199.6	1.4	3.2	0.5	-8.9	Canada - BoC Mar 06, 2019						
Dow 30	23879			91.7	0.4	2.3	-2.2	-5.9	US - Fed Jan 30, 2019						
S&P 500	2585			10.6	0.4	3.0	-2.0	-5.9	England - BoE Feb 07, 2019						
Nasdaq	6957			60.1	0.9	4.4	-0.9	-2.7	Euro zone - ECB Jan 24, 2019						
DAX	10875			-18.4	-0.2	4.4	2.4	-18.1	Japan - BoJ Jan 23, 2019						
FTSE	6898			-8.3	-0.1	3.1	2.6	-11.0	Mexico - Banxico Feb 07, 2019						
Nikkei	20164			-263.3	-1.3	0.7	-5.0	-15.2	Australia - RBA Feb 04, 2019						
Hang Seng	26521			59.1	0.2	5.8	3.0	-14.6	New Zealand - RBNZ Feb 12, 2019						
CAC	4789			-24.6	-0.5	3.8	1.0	-13.0							
Commodities	Level						% change:								
					Change	1 Day	1-wk	1-mo	1-yr						
WTI Crude	51.72				-0.64	-1.2	9.8	1.4	-18.6	England - BoE Feb 07, 2019					
Natural Gas	3.08				0.10	3.3	4.7	-32.2	6.1	Euro zone - ECB Jan 24, 2019					
Gold	1289.78				-3.81	-0.3	-0.3	3.6	-2.1	Japan - BoJ Jan 23, 2019					
Silver	15.62				-0.02	-0.1	1.2	7.8	-8.4	Mexico - Banxico Feb 07, 2019					
CRB Index	178.55				-0.50	-0.3	4.1	-1.7	-8.4	Australia - RBA Feb 04, 2019					
Currencies	Level						% change:								
					Change	1 Day	1-wk	1-mo	1-yr						
USDCAD	1.3240				0.0031	0.2	-1.8	-1.2	5.5	New Zealand - RBNZ Feb 12, 2019					
EURUSD	1.1518				-0.0025	-0.2	1.1	1.4	-3.6						
USDJPY	108.21				0.0400	0.0	0.5	-4.5	-2.9						
AUDUSD	0.7180				0.0010	0.1	2.5	-0.1	-8.5						
GBPUSD	1.2763				-0.0026	-0.2	1.1	1.6	-5.5						
USDCHF	0.9796				0.0052	0.5	-0.7	-1.1	0.1						

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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