

**ON DECK FOR MONDAY, JANUARY 14**

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	01/14	08:30	Teranet - National Bank HPI (y/y)	Jan	--	--	3.1
US	01/14		Treasury Budget (US\$ bn)	Dec	--	-10.0	-204.9

**KEY POINTS:**

- Risk-off ahead of US earnings season, Brexit
- US earnings season starts today
- Chinese trade growth tumbles...
- ...as US-China trade tensions bite...
- ...but there are at least four caveats to tariff effects...
- ...as reserves remain stable...
- ...direct trade effects on GDP are muted by little net trade effect...
- ...tariff front-running needs to shake out of the figures...
- ...and they may be partly reflecting softening US growth
- Canada quiet
- Global Week Ahead

Please see the Global Week Ahead—Earnings Versus Brexit [here](#). Key risks on tap this week will include:

- Brexit vote & aftermath
- US earnings
- CPI: Canada, UK, Japan, India, Argentina
- China trade, financing
- US shutdown continued
- US macro
- Bank Indonesia

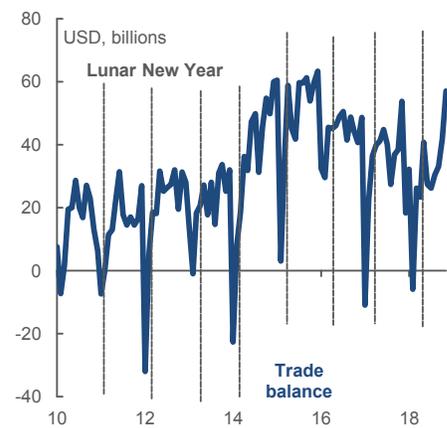
**INTERNATIONAL**

Risk aversion is marking the start to the global trading week across multiple asset classes. US equity futures were turning abruptly lower about 90 minutes before the release of Chinese trade figures. That may indicate that **more of the risk-off movement is precautionary in nature ahead of the start of the US earnings season and the aftermath to tomorrow's Brexit vote** in the UK given they are the two main considerations this week. Canada will be quiet until Friday's CPI print that is expected to witness slightly softer headline inflation but possibly stable core inflation.

- The USD is little changed on a DXY basis so far to start the week. Major crosses like the yen and pound sterling are slightly appreciating while the euro and CAD are flat and several other crosses are slightly depreciating.
- Oil prices are off by about 50 cents in terms of both WTI and Brent. Gold is little changed at just under US\$1300.

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**China's Trade Surplus**

**Reserves Are Stable**


- Sovereign bond yields are falling almost everywhere. US Treasury yields are down by 2–3bps across the curve with Canada, the UK, Germany and France performing similarly. Italian spreads are about 5bps wider than German 10s.
- US equity futures are down by around  $\frac{3}{4}$  – 1%% across the exchanges. TSX futures are about  $\frac{1}{4}$ % lower. European cash markets are down by about  $\frac{3}{4}$ % to 1% across the exchanges. Tokyo was shut overnight, while stocks sold off across mainland China (- $\frac{3}{4}$ %, HK -1.4% and Seoul - $\frac{1}{2}$ %).

**Citigroup kicked off the Q4 earnings season this morning at 8amET.** Adjusted EPS beat estimates at US\$1.61 (\$1.55 consensus) but revenues disappointed. FICC revenues came in at US\$1.94B (\$2.23B consensus).

**China's trade figures were weak and indicate downside pressure from the US-China trade conflict, but there are strong caveats to going too far with the gloomy media headlines.** In local currency terms, exports stalled (+0.2% y/y) and were revised down to 8.7% y/y the prior month from 10.2% previously. Imports fell 3.1% y/y. In USD terms, exports fell 7.6% y/y and imports fell 4.4%. Exports to the US fell 3.5% y/y.

**One caveat is that reserves are not under pressure yet** and that matters in terms of the overall balance of payments position including risks to the yuan that fully shook off the release. That's because China's imports cooled more abruptly than its exports and that explains why the trade surplus widened a touch in December (see chart). This is different from 2014–16 when reserves fell by about US\$1 trillion partly as the country botched devaluation of the yuan. For December 2018, reserves were stable and increased very slightly. See chart.

Second, as a partial off-shoot to the prior points, **some of the impact of the trade skirmish on GDP is mitigated by virtue of the overall effects on net trade.**

**Third is that we need to get through the front-running effect** in order to have a cleaner reading on how Chinese exports—and imports—are performing given the US-China trade skirmish. Therefore, at least some judgement should be reserved for now. Exports had accelerated over the prior months up to October in order to front-run US tariffs and now we're in the resulting vacuum. In fact, the preceding several months had witnessed the strongest levels of exports to the US on record. Therefore, part of the export softening is due to shaking out this effect, after which there will be a cleaner reading on export growth net of front-running. It may take a few months in order to be able to do so, especially given the distorting impact stemming from the shifting timing each year of the upcoming Lunar New Year and its disruptive effects upon industrial output. On the import side, there may be a similar front-running effect compounded by the impact of Chinese moves such as reflected in a 40% y/y decline in imported soybean volumes.

Fourth, **some of the export cooling in China is a logical reflection of coming off peak US growth.** US GDP growth went from 2.2% in Q1 to 4.2% in Q2 and then 3.4% in Q3. The Atlanta Fed's 'nowcast' is tracking about 2.8% annualized GDP growth. Growth is still very solid in the US, but as ordering activity cools, so should Chinese exports to the US.

Please also see the Global Outlook ([here](#)) and the Fed/BoC/Markets outlook ([here](#)) that we released on Friday afternoon. Overall, there were very few significant forecast changes this round. A forecast summary follows with 2019–20 figures and prior forecasts in parentheses.

**GDP:**

World: 3.5, 3.4 (3.7, 3.5)  
US: 2.4, 1.7 (2.4, 1.7)  
CDN: 1.8, 2.0 (1.9, 1.9)  
China: 6.2, 6.0 (6.2, 6.0)  
EZ: 1.7, 1.7 (1.9, 1.7)  
UK: 1.5, 1.5 (1.5, 1.5)  
Mexico: 1.6, 2.3 (1.6, 2.3)

**CPI:**

US: 2.1, 2.3 (2.1, 2.0)

CDN: 1.7, 2.2 (1.9, 1.9)

**BoC:**

2.5, 2.75 (2.5, 2.75)

- no change to endpoints or path, hikes recommence in Q2–2020Q1, then stop

**Fed:**

3.25, 3.25 (3.25, 3.25)

- no change to endpoints

- path delayed by one quarter with hikes restarting in Q2–Q4 then stop

**10s:**

Canada: 2.8, 3.0 (2.8, 2.95)

US: 3.4, 3.55 (3.4, 3.55)

- no material change to end points

- path delayed with cheapening into Q2 once major risks informed

**USDCAD:**

1.27, 1.23 (1.27, 1.23)

- no change to endpoints or path

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.	2.51	2.54	2.54	2.49	2.53	2.54	2.67	2.70	2.70	3.01	3.03	2.99	Canada - BoC	1.75
CANADA	1.87	1.89	1.88	1.87	1.90	1.88	1.93	1.95	1.95	2.13	2.16	2.16	US - Fed	2.50
GERMANY	-0.60	-0.59	-0.58	-0.38	-0.35	-0.33	0.21	0.24	0.22	0.81	0.84	0.87	England - BoE	0.75
JAPAN	-0.15	-0.15	-0.17	-0.15	-0.15	-0.17	0.02	0.02	-0.01	0.70	0.70	0.69		
U.K.	0.78	0.81	0.76	0.92	0.95	0.89	1.25	1.29	1.25	1.80	1.84	1.78		
	Spreads vs. U.S. (bps):													
CANADA	-64	-66	-66	-62	-63	-66	-74	-75	-74	-88	-87	-83	Euro zone - ECB	0.00
GERMANY	-311	-313	-313	-287	-288	-287	-246	-246	-248	-220	-219	-212	Japan - BoJ	-0.10
JAPAN	-266	-269	-271	-264	-268	-271	-265	-268	-271	-231	-233	-230		
U.K.	-173	-173	-178	-157	-158	-165	-142	-141	-144	-121	-120	-121	Mexico - Banxico	8.25
Equities	Level			Change			1 Day			% change:				
	Last													
S&P/TSX	14939					35.7	0.2		3.6		2.4	-8.4	Australia - RBA	1.50
Dow 30	23996					-6.0	-0.0		2.4		-0.4	-7.0		
S&P 500	2596					-0.4	-0.0		2.5		-0.1	-6.8	New Zealand - RBNZ	1.75
Nasdaq	6971					-14.6	-0.2		3.5		0.9	-4.0		
DAX	10826					-61.8	-0.6		0.7		-0.4	-18.3		
FTSE	6858					-60.5	-0.9		0.7		0.2	-11.8		
Nikkei	20360					195.9	1.0		4.1		-4.7	-13.9	Canada - BoC	Mar 06, 2019
Hang Seng	26298					-368.9	-1.4		1.8		0.8	-16.3	US - Fed	Jan 30, 2019
CAC	4747					-34.4	-0.7		0.6		-2.2	-14.0	England - BoE	Feb 07, 2019
Commodities	Level			Change			1 Day			% change:				
WTI Crude	51.02					-0.57	-1.1		5.2		-0.4	-20.7	Euro zone - ECB	Jan 24, 2019
Natural Gas	3.37					0.27	8.7		14.4		-12.0	5.3	Japan - BoJ	Jan 23, 2019
Gold	1294.96					7.46	0.6		0.4		4.6	-3.2		
Silver	15.68					-0.03	-0.2		-0.2		7.1	-7.8	Mexico - Banxico	Feb 07, 2019
CRB Index	178.02					-0.06	-0.0		1.9		-1.3	-9.2	Australia - RBA	Feb 04, 2019
Currencies	Level			Change			1 Day			% change:				
USDCAD	1.3279					0.0012	0.1		-0.2		-0.8	6.8	New Zealand - RBNZ	Feb 12, 2019
EURUSD	1.1466					-0.0003	-0.0		-0.1		1.4	-6.5		
USDJPY	108.06					-0.4200	-0.4		-0.6		-4.7	-2.2		
AUDUSD	0.7192					-0.0023	-0.3		0.6		0.3	-9.7		
GBPUSD	1.2847					0.0003	0.0		0.5		2.1	-6.9		
USDCHF	0.9819					-0.0016	-0.2		0.2		-1.6	2.0		
	Next Meeting Date													

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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