

**ON DECK FOR TUESDAY, JANUARY 15**

| Country | Date  | Time  | Indicator   | Period | BNS  | Consensus | Latest |
|---------|-------|-------|---|--------|------|-----------|--------|
| US      | 01/15 | 08:30 | Empire State Manufacturing Index                                  | Jan    | --   | 10.0      | 10.9   |
| US      | 01/15 | 08:30 | PPI (m/m)   | Dec    | -0.1 | -0.1      | 0.1    |
| US      | 01/15 | 08:30 | PPI ex. Food & Energy (m/m)                                       | Dec    | 0.2  | 0.2       | 0.3    |
| CA      | 01/15 | 09:00 | Existing Home Sales (m/m)   | Dec    | --   | -1.0      | -2.3   |
| US      | 01/15 | 11:30 | <b>Fed's Kashkari Speaks on Regional Economy in Minnesota</b>     |        |      |           |        |
| US      | 01/15 | 13:00 | <b>Fed's George Speaks on Economy and Monetary Policy Outlook</b> |        |      |           |        |
| US      | 01/15 | 13:00 | <b>Fed's Kaplan Speaks in Plano, Texas</b>                        |        |      |           |        |

**KEY POINTS:**

- Global markets have a slight defensive bias ahead of Brexit vote
- Brexit vote expected to fail this afternoon...
- ...but it's the next steps that are where the risk lies
- China jawbones stimulus with the same old stimulus tricks
- China financing activity surpasses expectations
- US bank earnings disappoint
- US court ruling on shutdown pay due today
- US: PPI, Empire offer small risk
- CDN home resales expected to dip again

**INTERNATIONAL**

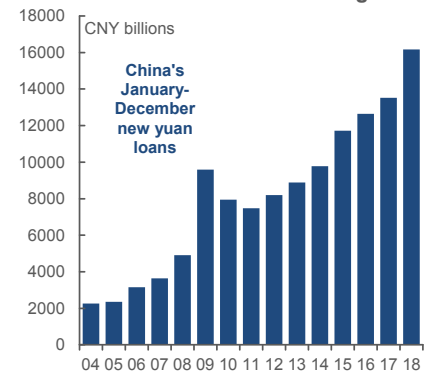
Global markets are little changed across the asset classes with a slight defensive bias. Weak US earnings (JPM, see below) and this afternoon's Brexit vote are the main focal points. A Federal Court decision may affect the US government shutdown (see below) as Trump tweets about caravans and walls to distract attention away from his political problems. Second- and third-rung Chinese policy officials attempted to jawbone markets with vague talk of further stimulus to come on the path to March's National People's Congress and that helped Asian equities and oil prices, but with little effect otherwise. Chinese data on financing exceeded expectations in a strong year for lending activity (see below). The US faces modest data risk with just producer prices and Empire. Canada releases existing home sales for December that usually garner little market reaction even when little else is going on.

- Equity markets are little changed on balance. US equity futures are flat to very slightly positive. TSX futures are flat. European cash markets are flat to slightly lower with Milan leading decliners (-1/2%) and London the best performer at unchanged. Asian equities held to a positive tone overnight, with Tokyo returning from holiday to drive a 1% gain in the Nikkei, HK up 2%, Seoul up 1 1/2% and mainland China up by over 1%.
- Sovereign bond yields are slightly lower by up to 2bps across curves in the US, Canada, UK and Germany.
- Oil prices are firmer with WTI and Brent up by 75 cents to \$1. China's jawboning on further stimulus to come and speculation ahead of private US oil inventories this afternoon are aiding oil markets.

**CONTACTS**

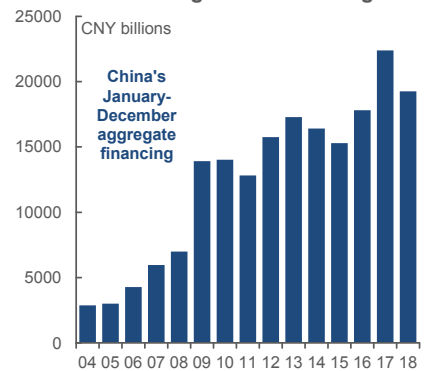
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**China's New Yuan Loan Growth Is At A Record High**



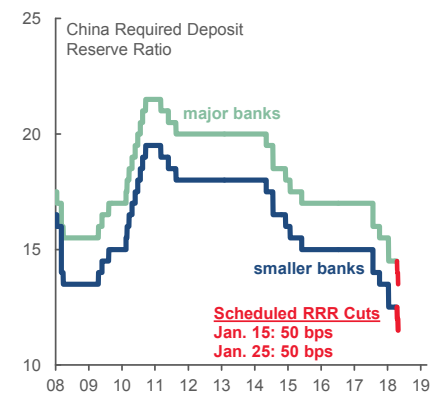
Sources: Scotiabank Economics, Bloomberg.

**China's Aggregate Financing Remains Strong**



Sources: Scotiabank Economics, Bloomberg.

**China Is Unleashing Its Banks**



Sources: Scotiabank Economics, Bloomberg.

- The USD is broadly stronger against most crosses. CAD is holding its own on the back of firmer oil prices, but the weakest crosses are the euro and euro-related currencies. Pound sterling is little changed.

**The British parliament votes on the Brexit deal (aka the “European Union (Withdrawal) Act”) sometime between about 7–9pm London time (2–4pmET) with the latest guidance suggesting around 8pmGMT (3pmET).** Several votes on proposed amendments have to be held first. A simple majority of 639 voting MPs is needed but it is universally expected to fail. What happens next is where the uncertainty is focused. PM May has up to the end of January 21st to make a statement to the House of Commons if the vote fails. A failed vote could be followed up by another vote and the possibility of fresh concessions by the EU that would have to address guarantees regarding the Irish ‘backstop’ that the EU has been loath to provide thus far. Labour Party Leader Jeremy Corbyn has indicated he will force a confidence vote in the government and move toward a general election that as previously noted would require support from Conservatives. There may be fresh agreement struck on a new law that would give the government some time to establish its plan B. It’s unclear whether a second referendum is a possibility. 54% of respondents to a recent poll preferred to remain in the EU versus 46% who wished to leave, after excluding the undecided and those who said they wouldn’t vote.

**China’s financing activity ended 2018 with a bang as growth in new yuan loans and aggregate financing exceeded expectations for the month of December.** The latter includes local currency loans, FX loans, short-term paper, bonds, equities and shadow financing products. For the year as a whole, new yuan loan originations hit a record high and aggregate financing volumes were the second highest on record behind the prior year (see two charts). China continues to ease lending practices in 2019. The first of two recently announced cuts to reserve ratios occurred today with the second stage of cuts coming ten days from now (see chart).

**Chinese policymakers attempted to jawbone markets with vague guidance that greater tax stimulus is on the way but offered no specific.** This came on the heels of auto sales that were reported for the full year and they declined by 4.1% y/y – the first drop in 28 years. The promised stimulus has already been telegraphed following the conclusion of the annual Economic Work Conference in December that works up to the National People’s Congress (NPC) in March. The Congress is expected to approve a 6.0–6.5% GDP growth target for 2019 (6.5% last year), 3% inflation rate (same as last year, 1.9% recent) and a slightly higher proposed 2.8% deficit to GDP target. Monetary policy is expected to be “stable” this year but they had previously struck out reference to being “neutral.” A general easing campaign to date has included RRR cuts, a targeted funding-for-lending scheme, tax cuts for small and micro-sized businesses, removal of a retaliatory duty on US auto imports and a possible auto sales tax cut, plus expedited government spending. Recently modest yuan appreciation may be at odds with growth challenges. Officials guided overnight that further VAT tax cuts will be offered at the time of the NPC, that investment is being expedited. PBoC officials guided to expect further ‘tweaking’ of monetary policy.

## UNITED STATES

**JP Morgan missed expectations** with adjusted EPS of US\$1.98 (\$2.21 consensus); the biggest miss came through FICC sales and trading revenues. Tomorrow offers up Goldman, BofA, PNC Financial, BoNYM, BlackRock, Kinder Morgan, Netflix and several other smaller banks. The next day will bring out Morgan Stanley and Amex.

**A Federal court judge will rule on lawsuits** demanding that the US government pay workers or allow them to seek other work or stay home given furloughs stemming from the government shutdown. The claimants state that not being paid for work violates the Constitution and Fair Labor Standards Act. The ruling could impact the US government shutdown and raise pressure upon Trump as he meets with members of Congress at 12:30pmET today.

**US markets will primarily follow Brexit and shutdown talks with little on the domestic calendar.** Producer price inflation for December (8:30amET) is expected to move sideways at 2.5% y/y and the Empire gauge (8:30amET) is a lesser watched regional manufacturing guide.

## CANADA

Canadian markets will be driven by Brexit and US earnings, as markets never really pay much attention to the **home resales update for activity in December** that is pending (9amET). Sales have fallen for three months and may do so again today. markets will face little new information until Friday’s CPI.

| 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.                    | 2.53                         | 2.54  | 2.59  | 2.51    | 2.52  | 2.58  | 2.69      | 2.70  | 2.73 | 3.04    | 3.05  | 3.01  | Canada - BoC       | 1.75         |
| CANADA                  | 1.88                         | 1.88  | 1.90  | 1.89    | 1.90  | 1.90  | 1.95      | 1.96  | 1.97 | 2.16    | 2.17  | 2.17  | US - Fed           | 2.50         |
| GERMANY                 | -0.61                        | -0.60 | -0.58 | -0.39   | -0.37 | -0.32 | 0.21      | 0.23  | 0.23 | 0.82    | 0.84  | 0.87  | England - BoE      | 0.75         |
| JAPAN                   | -0.15                        | -0.15 | -0.14 | -0.14   | -0.15 | -0.14 | 0.01      | 0.02  | 0.01 | 0.70    | 0.70  | 0.71  | Euro zone - ECB    | 0.00         |
| U.K.                    | 0.81                         | 0.82  | 0.76  | 0.94    | 0.96  | 0.90  | 1.27      | 1.30  | 1.27 | 1.80    | 1.82  | 1.81  | Japan - BoJ        | -0.10        |
| Spreads vs. U.S. (bps): |                              |       |       |         |       |       |           |       |      |         |       |       |                    |              |
| CANADA                  | -65                          | -66   | -69   | -62     | -63   | -68   | -74       | -74   | -76  | -88     | -88   | -83   | Mexico - Banxico   | 8.25         |
| GERMANY                 | -314                         | -313  | -316  | -290    | -289  | -290  | -248      | -247  | -250 | -222    | -222  | -214  | Australia - RBA    | 1.50         |
| JAPAN                   | -268                         | -268  | -272  | -265    | -267  | -272  | -268      | -269  | -272 | -234    | -235  | -230  | New Zealand - RBNZ | 1.75         |
| U.K.                    | -172                         | -171  | -183  | -158    | -157  | -168  | -142      | -141  | -145 | -124    | -123  | -120  | Next Meeting Date  |              |
| Equities                | Level                        |       |       |         |       |       | % change: |       |      |         |       |       |                    |              |
|                         | Last                         |       |       | Change  |       |       | 1 Day     | 1-wk  | 1-mo |         |       | 1-yr  |                    |              |
| S&P/TSX                 | 14976                        |       |       | 36.4    |       |       | 0.2       | 3.3   | 2.6  |         |       | -8.5  | Canada - BoC       | Mar 06, 2019 |
| Dow 30                  | 23910                        |       |       | -86.1   |       |       | -0.4      | 1.6   | -0.8 |         |       | -7.3  | US - Fed           | Jan 30, 2019 |
| S&P 500                 | 2583                         |       |       | -13.7   |       |       | -0.5      | 1.3   | -0.7 |         |       | -7.3  | England - BoE      | Feb 07, 2019 |
| Nasdaq                  | 6906                         |       |       | -65.6   |       |       | -0.9      | 1.2   | -0.1 |         |       | -4.9  | Euro zone - ECB    | Jan 24, 2019 |
| DAX                     | 10821                        |       |       | -35.0   |       |       | -0.3      | 0.2   | -0.4 |         |       | -18.0 | Japan - BoJ        | Jan 23, 2019 |
| FTSE                    | 6857                         |       |       | 1.5     |       |       | 0.0       | -0.1  | 0.2  |         |       | -11.7 | Mexico - Banxico   | Feb 07, 2019 |
| Nikkei                  | 20555                        |       |       | 195.6   |       |       | 1.0       | 2.6   | -3.8 |         |       | -13.1 | Australia - RBA    | Feb 04, 2019 |
| Hang Seng               | 26830                        |       |       | 532.0   |       |       | 2.0       | 3.7   | 2.8  |         |       | -14.4 | New Zealand - RBNZ | Feb 12, 2019 |
| CAC                     | 4760                         |       |       | -3.0    |       |       | -0.1      | -0.3  | -1.9 |         |       | -13.6 |                    |              |
| Commodities             | Level                        |       |       |         |       |       | % change: |       |      |         |       |       |                    |              |
| WTI Crude               | 51.20                        |       |       | 0.69    |       |       | 1.4       | 2.9   | 0.0  |         |       | -20.4 | Canada - BoC       | Mar 06, 2019 |
| Natural Gas             | 3.55                         |       |       | -0.04   |       |       | -1.2      | 19.6  | -7.3 |         |       | 10.9  | US - Fed           | Jan 30, 2019 |
| Gold                    | 1290.72                      |       |       | -0.98   |       |       | -0.1      | 0.4   | 4.2  |         |       | -3.7  | England - BoE      | Feb 07, 2019 |
| Silver                  | 15.62                        |       |       | -0.07   |       |       | -0.4      | -0.9  | 7.1  |         |       | -8.8  | Euro zone - ECB    | Jan 24, 2019 |
| CRB Index               | 178.58                       |       |       | 0.79    |       |       | 0.4       | 1.5   | -1.0 |         |       | -8.9  | Japan - BoJ        | Jan 23, 2019 |
| Currencies              | Level                        |       |       |         |       |       | % change: |       |      |         |       |       |                    |              |
| USDCAD                  | 1.3265                       |       |       | -0.0020 |       |       | -0.2      | -0.1  | -1.1 |         |       | 6.7   | Mexico - Banxico   | Feb 07, 2019 |
| EURUSD                  | 1.1432                       |       |       | -0.0037 |       |       | -0.3      | -0.1  | 0.7  |         |       | -6.8  | Australia - RBA    | Feb 04, 2019 |
| USDJPY                  | 108.56                       |       |       | 0.4000  |       |       | 0.4       | -0.2  | -3.8 |         |       | -1.8  | New Zealand - RBNZ | Feb 12, 2019 |
| AUDUSD                  | 0.7192                       |       |       | -0.0005 |       |       | -0.1      | 0.7   | 0.2  |         |       | -9.7  |                    |              |
| GBPUSD                  | 1.2837                       |       |       | -0.0027 |       |       | -0.2      | 0.9   | 1.7  |         |       | -6.9  |                    |              |
| USDCHF                  | 0.9859                       |       |       | 0.0049  |       |       | 0.5       | 0.5   | -0.7 |         |       | 2.4   |                    |              |

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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