

ON DECK FOR WEDNESDAY, JANUARY 16

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest	
US	01/16	07:00	MBA Mortgage Applications (w/w)	JAN 11	--	--	23.5	
US	01/16	08:30	Export Prices (m/m)	Dec	--	-1.3	-1.6	
US	01/16	08:30	Import Prices (m/m)	Dec	--	-1.3	-1.6	
US	01/16	08:30	Retail Sales (m/m)	Dec	0.0	0.1	0.2	
US	01/16	08:30	Retail Sales ex. Autos (m/m)	Dec	-0.1	0.0	0.2	
US	01/16	10:00	Business Inventories (m/m)	Nov	--	0.3	0.6	
US	01/16	10:00	NAHB Housing Market Index	Jan	--	56.0	56.0	
US	01/16	14:00	U.S. Federal Reserve Releases Beige Book					
US	01/16	16:00	Total Net TIC Flows (US\$ bn)	Nov	--	--	42.0	
US	01/16	16:00	Net Long-term TIC Flows (US\$ bn)	Nov	--	--	31.3	
US	01/16	18:30	Fed's Kashkari Speaks on Panel About Financial Crisis					

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KEY POINTS:

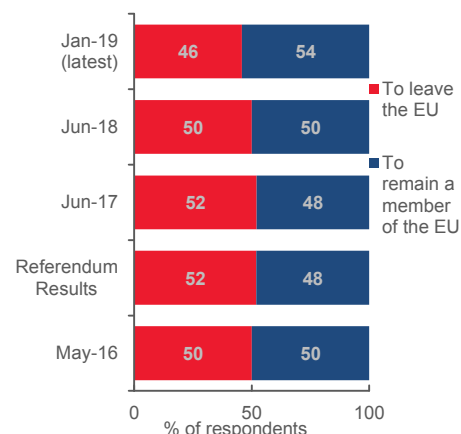
- Risk-on thanks to US earnings
- US bank earnings stronger than expected
- PBoC injects record liquidity
- UK PM May expected to survive confidence vote this afternoon
- Where to from here for Brexit?
- UK core CPI ticks up
- Turkey's CB stays on hold, lira rallies
- Fed's Beige Book will be buried behind UK vote

INTERNATIONAL

What if you held an important vote on the very future of your country and the rest of the world really didn't care? That conclusion may well be very premature, but at least so far, **global markets continue to function well in the wake of the failed Brexit vote that was widely anticipated**. Brexitgeddon postponed, again!

Part of the reason is because of uncertainty over next steps with markets possibly assuming that **the huge margin of defeat will either bring together a movement toward a better agreement or scuttle the whole thing altogether** amid evidence of a modest change of heart against leaving in British polls (see chart). The other part of the reason might be market faith that we've been there, done that Armageddon-talk thing about how European dysfunction will drag the rest of the world down and destroy the Eurozone and ultimately escaped intact as various automatic stabilizers and central banks adjust across the world economy. Of course, part of the reason might also be that much of the London-centric commentary is overstating the role of the UK in the world especially in relation to the rise of EMs over time. Today, the UK accounts for 3% of world equity market capitalization and a hair over 2% of world GDP in ppp terms. Perhaps if the country's decades-old indecisiveness toward the EU—we're in Europe, but certainly not European!—remains unsettled and they wish to remain an island in the world economy then so be it; the rest will march on and fill in the opportunity left behind.

But part of the resilience is also due to other factors to consider this morning and that should lead to caution in terms of getting too comfortable

Brexit Vote Poll


toward the future course of events in Europe. **The PBoC injected a record amount of liquidity into markets overnight** and while the Shanghai composite shook it off by the end of the trading session, it had been falling beforehand. **US earnings reports are also key in helping the market tone**, particularly as Goldman and BofA beat expectations and are rallying hard in the pre-market.

As for the UK confidence vote, **PM May's government is widely expected to survive especially after a lacklustre performance by Labour Party leader Corbyn today**, but the next steps are where the uncertainty lies. There is very little else by way of considerations on the formal calendars of releases and events to consider today with just US oil inventories this morning and the Fed's Beige book at 2pmET that will struggle for relevancy in the face of the coincident timing to the UK confidence vote and its aftermath.

- The USD is slightly appreciating on a DXY basis so far this morning. Pound sterling, CAD and the Mexican peso are holding their own along with a few others, while the Euro and euro-related crosses plus the A\$/NZ\$ are depreciating. Pound sterling is back to where it was yesterday morning at about this time. The currency appreciated in the immediate aftermath of the Brexit vote, but only because it had been abruptly selling off in the hours leading up to the vote. And everyone has an explanation for it all, post-hoc...
- Sovereign bond yields are up with gilts underperforming everywhere else. The gilts curve is bear steepening with 10s up 7bps. US 10 year Ts are up 2bps with Canada broadly matching the US albeit a touch cheaper at the front end relative to the US. Italian debt spreads are about 11bps narrower over 10 year bunds.
- US equity futures are up by between roughly ¼% and ½% across the exchanges with banks leading the way following bullish earnings. The S&P500 is now down by less than 10% from the late September peak; assuming this isn't one's first rodeo, then the softness qualifies as more of a blip that returns the index to where it was last April rather than a serious recession-inducing correction. TSX futures are little changed. European cash markets are mixed with London down ½% and the rest of Europe slightly positive on balance. Asian equities were mixed overnight with mainland China flat, Tokyo down ½%, Seoul up ½% and HK up ¼%.
- Oil prices are under slight downward pressure with Brent and WTI down by around ½% to 1%. Gold is flat at about US\$1290

The PBoC injected a single-day record amount of 560 billion yuan (US\$82.8 billion) into markets through reverse repos this morning. The yuan, Chinese equities and repo rates all largely shook it off because much but probably not all of it was anticipated but it's important to note that market movements before the injection were indicating yuan depreciation and a drop in Shanghai's stock market. Much of the injection was to meet seasonal demand for liquidity on the path to the February 5th Lunar New Year when industry shuts and people travel and spend, but also due to tax payments. Then again, it's a record liquidity injection! How much so? A year ago when faced with similar influences upon liquidity through holidays and tax payments, the PBoC injected only about half as much through reverse repos. The injection this time was comprised of 350 billion yuan of 7-day reverse repos and 220 billion in 28 day reverse repos.

The results of the UK confidence vote are expected shortly after 2pmET. The general expectation is that PM May will come out of it alive, but just barely. Then it's down to brass tacks to negotiate some possibly better deal amid mixed signals from Europe. Out of 650 seats, deduct the speaker and Sinn Fein so she needs half plus one of 642, or 322 votes to survive. She should get that support by retaining remainers, some leavers like Boris Johnson and her DUP coalition partner and it's whopping 10 seats... Labour has 256 seats and would need to have unanimity plus a significant draw of 66 other supporters to vote down the government. If, however, she loses, then next steps are summarized at the bottom of [this](#) link. Assuming the government wins the confidence vote, the options thereafter are uncertain but include in possible order of likelihood:

- Reopening the agreement especially in terms of binding assurances on the Irish backstop;
- Postponing the March 29th Article 50 Brexit deadline;
- Holding a second referendum;

- Withdrawing Article 50 as the European Court of Justice has ruled is the prerogative of the UK government but courting even more divisive domestic politics;
- Hold a general election to secure a possibly stronger mandate. Dickey, if Labour gains given its non-market friendly policy bias;
- Crash out in a hard Brexit scenario with no agreement, the worst possible scenario for risk assets that could spark a UK recession, serious strife and market instability with knock on effects through transmission mechanisms into the financial sector albeit with the BoE and ECB standing ready.

Guidance from the European Union is mixed in the wake of the post-Brexit vote outcome and ahead of the confidence vote which signals the possibility of some negotiating flexibility. On the one hand, the European Commission repeated guidance this morning that the ball is in the UK's court now and refused to entertain further negotiations on the European Union (Withdrawal) Act. The post-vote statement that was released yesterday ([here](#)) laid out clearly the EC's position by stating the existing agreement is "the best possible deal," it is "the only way," that "the risk of a disorderly withdrawal of the United Kingdom has increased" and that the UK must "clarify its intentions as soon as possible." This morning, an EC spokesperson repeated all that and added that there is nothing more the EU can do at this stage and that the UK hasn't requested an extension to the March 29th Article 50 deadline which may be too soon anyway in the unlikely event that the UK asks.

German Chancellor Angela Merkel, however, was a little more circumspect and quite frankly she calls more of the shots than the EC bureaucrats. This morning, she stated the following in the Bundestag:

"So we will of course keep trying to find an orderly solution, but we're also prepared in case there isn't such an orderly solution. We still have time to talk, but we're waiting to see what the British prime minister proposes."

And in case anyone cares, **UK core inflation unexpectedly ticked up** to 1.9% y/y while headline inflation performed as expected by decelerating to 2.1% (2.3% prior).

Turkey's central bank stayed on hold as expected, leaving its one-week repo rate at 24%. The lira had been appreciating well before the anticipated decision and strengthened only a little further afterward as the tiny minority view within consensus that was in favour of a cut didn't pan out.

UNITED STATES

US earnings reports from financials are posting strong beats on balance. Goldman registered US\$4.83 in Q4 adjusted EPS this morning (consensus \$4.53). BofA came in at 70 cents and beat by 7 cents. BlackRock missed (adj EPS of \$6.08, consensus \$6.28). US Bancorp posted about a four cent beat, Comerica registered a seven cent beat and PNC missed by 12 cents.

Weekly US oil inventories are due at 10:30amET and a sizeable draw is expected in the wake of yesterday afternoon's private industry report that registered a drop of 560,000 barrels.

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	2.55	2.54	2.53	2.55	2.73	2.71	2.71	3.09	3.07	3.00	Canada - BoC	1.75
CANADA	1.91	1.89	1.91	1.93	1.91	1.91	1.99	1.97	1.98	2.21	2.19	2.18	US - Fed	2.50
GERMANY	-0.60	-0.62	-0.58	-0.38	-0.40	-0.33	0.22	0.21	0.28	0.84	0.82	0.87	England - BoE	0.75
JAPAN	-0.16	-0.15	-0.14	-0.15	-0.14	-0.14	0.01	0.01	0.03	0.70	0.70	0.71		
U.K.	0.83	0.81	0.76	0.97	0.92	0.90	1.33	1.26	1.26	1.83	1.78	1.78		
Spreads vs. U.S. (bps):														
CANADA	-63	-64	-65	-62	-63	-64	-74	-75	-74	-88	-88	-83	Euro zone - ECB	0.00
GERMANY	-315	-316	-314	-292	-293	-288	-251	-251	-243	-225	-225	-214	Japan - BoJ	-0.10
JAPAN	-271	-269	-269	-269	-267	-268	-272	-270	-268	-239	-237	-230		
U.K.	-172	-173	-180	-157	-161	-165	-140	-146	-145	-126	-129	-122	Mexico - Banxico	8.25
Equities	Level						% change:							
	Last			Change			1 Day	1-wk	1-mo	1-yr				
S&P/TSX	15046			70.8			0.5	3.0	3.1	-7.7			Australia - RBA	1.50
Dow 30	24066			155.8			0.7	1.2	-0.1	-6.7				
S&P 500	2610			27.7			1.1	1.4	0.4	-6.0			New Zealand - RBNZ	1.75
Nasdaq	7024			117.9			1.7	1.8	1.6	-2.8				
DAX	10907			15.1			0.1	0.1	0.4	-17.7				
FTSE	6861			-33.6			-0.5	-0.7	0.2	-11.5				
Nikkei	20443			-112.5			-0.5	1.2	-4.4	-14.7			Canada - BoC	Mar 06, 2019
Hang Seng	26902			71.8			0.3	1.7	3.1	-15.7			US - Fed	Jan 30, 2019
CAC	4799			12.8			0.3	-0.3	-1.1	-13.0				
Commodities	Level						% change:							
	Last			Change			1 Day	1-wk	1-mo	1-yr				
WTI Crude	51.54			-0.57			-1.1	-1.6	0.7	-19.1			England - BoE	Feb 07, 2019
Natural Gas	3.68			0.18			5.1	23.4	-3.8	17.6				
Gold	1291.42			1.93			0.1	-0.2	4.3	-3.5			Euro zone - ECB	Jan 24, 2019
Silver	15.60			-0.02			-0.1	-0.3	7.0	-10.0				
CRB Index	179.42			0.44			0.2	0.2	-0.5	-8.0			Japan - BoJ	Jan 23, 2019
Currencies	Level						% change:							
	Last			Change			1 Day	1-wk	1-mo	1-yr				
USDCAD	1.3252			-0.0014			-0.1	0.3	-1.2	6.6			Mexico - Banxico	Feb 07, 2019
EURUSD	1.1397			-0.0016			-0.1	-1.3	0.4	-7.0				
USDJPY	108.81			0.1300			0.1	0.6	-3.6	-1.5			Australia - RBA	Feb 04, 2019
AUDUSD	0.7178			-0.0023			-0.3	0.1	-0.0	-9.8				
GBPUSD	1.2858			-0.0003			-0.0	0.5	1.9	-6.8			New Zealand - RBNZ	Feb 12, 2019
USDCHF	0.9893			0.0015			0.2	1.5	-0.4	3.1				

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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