

**ON DECK FOR THURSDAY, JANUARY 17**

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	01/17	08:30	Building Permits (000s a.r.)	Dec	--	1289.0	1328.0
US	01/17	08:30	Housing Starts (000s a.r.)	Dec	1260	1250.0	1256.0
US	01/17	08:30	Housing Starts (m/m)	Dec	-0.3	-0.5	3.2
US	01/17	08:30	Initial Jobless Claims (000s)	JAN 12	220	220.0	216.0
US	01/17	08:30	Continuing Claims (000s)	JAN 5	1730	1734.0	1722.0
US	01/17	08:30	Philadelphia Fed Index	Jan	12	9.5	9.1
US	01/17	10:45	<b>Fed's Quarles Speaks at Insurance Industry Forum</b>				

**KEY POINTS:**

- Mild risk-off tone in global markets
- US bank earnings disappoint in a mixed week
- US earnings beats are strong for the overall season
- The lost art of compromise...
- ...is characterized by a potential Brexit stalemate...
- ...and awful negotiating skills that are prolonging the shutdown
- CDN ADP: net beat on revisions...
- ....with several reasons to ignore, but one big reason not to
- US Philly Fed beats expectations...
- ...which could turn out positively for ISM expectations
- Bank Indonesia pauses, rupiah depreciates
- Oil lower on supply concerns

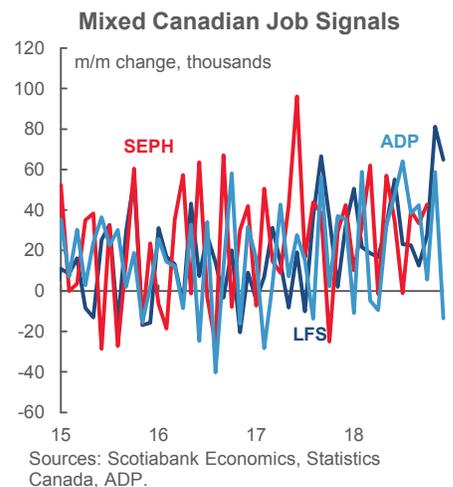
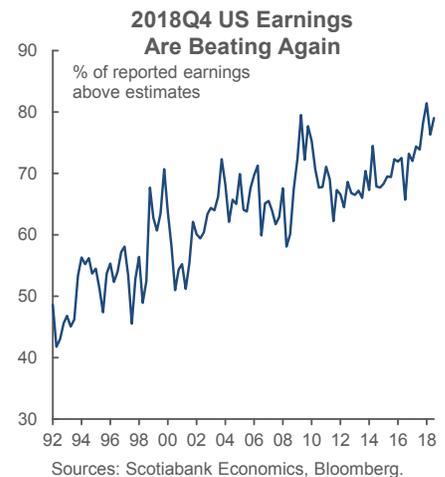
**INTERNATIONAL**

**A mild risk-off tone characterizes global asset classes.** A combination of disappointing US bank earnings, uncertainty over US-China trade negotiations given the US pursuit of charges against Huawei, softer oil prices on supply fears and continued uncertainty over next steps in the Brexit saga are responsible. US and Canadian calendars should offer little incremental data risk today.

- The USD is very slightly firmer on a DXY basis after the Philly Fed metric hit. Currencies like the yen, euro and pound sterling are slightly firmer, while crosses like CAD and the Mexican peso are slightly depreciating in part driven by lower oil prices. Few currency movements particularly stand out.
- Sovereign bond yields are little changed with US Treasury yields flat and Canada outperforming. Gilts are little changed with a very slightly dearer front end, bunds are flat with a very slightly cheaper front-end and peripheral debt is slightly rallying on balance.
- Oil prices are down \$1 for both WTI and Brent. Concern is focused upon US oil production figures offsetting OPEC cuts and at least delaying global supply rebalancing.
- US equity futures are down by about ¼% and TSX futures are performing similarly. European cash markets are about ½% to ¾% lower across the benchmarks with London leading decliners. Asian equities were mixed; Seoul was flat, Tokyo was off 0.2%, but HK fell ½% and mainland China was down by ½% to

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1% with the smaller cap and less SOE-driven Shenzhen market leading the decline. IT stocks (-1.6%) led Shenzhen lower on the back of headlines the US is getting close to pursuing charges against Huawei for allegedly stealing trade secrets from US companies.

**Brexit headlines are fairly scant this morning and indicative of a stalemate.** PM May and her spokespeople have indicated they have told the EU that March 29<sup>th</sup> remains a firm deadline notwithstanding the revelation that the EU held open the prospect of extending it. May is also refusing to provide assurances that a no-deal Brexit is not an option despite Labour Party leader Corbyn's insistence he will only engage in dialogue if that guarantee is put on the table. Corbyn also repeated he believes another referendum should be an option. Corbyn guided that Labour is working toward its own plan to put to a vote next week.

**Bank Indonesia left its 7 day reverse repo policy rate unchanged at 6% as expected.** The rupiah depreciated overnight and is among the poorest performing currencies versus the USD this morning. The accompanying statement ([here](#)) placed continued emphasis upon maintaining financial stability with an eye on managing the current account deficit and inputs like currency stability. On that latter point, the central bank noted that it will "remain vigilant of global financial market uncertainty and continue to implement exchange rate stabilisation measures in line with the currency's fundamental value" which was a nod to the nearly 7% appreciation in the rupiah versus the USD since early November. The central bank is telegraphing that if they are not done already, then they are close to being done with raising interest rates now that rupiah depreciation may be over. Recall the rupiah had been appreciating ever since 2011 in a long wave sense, and depreciation intensified over 2018 until October.

## UNITED STATES

US markets face only the Philly Fed metric of business conditions and weekly jobless claims. The Philly Fed measure is worth watching because it is an **advance signal of ISM-manufacturing expectations** and the latter is closely watched by equity markets. The Philly measure beat expectations due to a jump in new orders (21.3, 13.3 prior) notwithstanding the deceleration in employment and prices measures with the latter offering little information beyond already observed market prices. The Philly gauge had been falling from a peak way back in February 2017 but more recently accelerated its decline from May 2018 onward. It is still in growth territory and more firmly so now. We'll need more data for this volatile gauge before jumping to any big conclusions but at the margin it leans in favour of stabilization following prior distortions such as coming off a stimulus-fed sugar high and order front-running of tariffs. US jobless claims were 213k and hence remain low.

**US bank earnings suffered a setback this morning as Morgan Stanley significantly disappointed expectations.** Adjusted EPS was 70 cents versus consensus at 89 cents and climbed to 17.0 (9.4 prior) on the strength of faster growth in new orders (21.3, 13.3 prior), cooler employment growth revenues across FICC and equities sales and trading operations disappointed. That continues an oscillating tone to the start of the US bank earnings parade; Citi beat on Monday, JP and Wells Fargo disappointed on Tuesday, BofA and Goldman beat yesterday and then MS disappointed today.

**Where does this leave the earnings season overall so far?** It's still obviously early, but with nearly 10% of firms having reported, the net beat ratio on EPS expectations stands at almost 80% and on revenue expectations it stands at better than even odds (57%). Expectations were reset on the path to the earnings season one part because of legitimate concerns and one part because it's the standard course of action followed by US equity analysts in a post-SOX world where fear of being professionally pilloried in one fashion or the other has driven a more conservative approach after the dot-com era. The classic pattern of having revised too low to set up beats is one reason for the generally improved market tone so far this year today notwithstanding. Other reasons probably include reasonable valuations and the end to year-end tax-loss selling. These factors don't get enough consideration by comparison to (possibly) improved trade tensions. The after-market will reveal earnings at Netflix consensus and Amex.

## CANADA

**Canada updated ADP private payrolls for December and they beat expectations on revisions.** December registered 13,000 lost jobs but the prior month was revised up by about 35,000 jobs to a gain of 74k for a net overall solid gain. Markets usually ignore the release relative to other measures. One reason is that ADP doesn't include firms that don't have formal payrolls which matters in an economy significantly driven by small businesses. Another reason is timeliness, as the Labour Force Survey is the first out of the gates. A further reason is richness of underlying measures that favours LFS. Last, ADP is a relatively newer entrant to Canada. A reason not to ignore it, however, is that the three main measures of job growth have been all over the map (see chart). All of them have their shortcomings, so pay attention to all three.

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	2.58	2.55	2.54	2.57	2.73	2.72	2.74	3.06	3.07	3.06	Canada - BoC	1.75
CANADA	1.91	1.92	1.91	1.92	1.93	1.92	1.99	1.99	1.99	2.21	2.22	2.19	US - Fed	2.50
GERMANY	-0.59	-0.60	-0.59	-0.37	-0.37	-0.35	0.23	0.22	0.26	0.84	0.84	0.85	England - BoE	0.75
JAPAN	-0.17	-0.16	-0.15	-0.16	-0.15	-0.14	0.01	0.01	0.02	0.70	0.70	0.70		
U.K.	0.81	0.83	0.78	0.95	0.97	0.92	1.31	1.31	1.27	1.82	1.81	1.80		
Spreads vs. U.S. (bps):														
CANADA	-64	-63	-67	-63	-61	-65	-74	-73	-76	-85	-85	-87	Euro zone - ECB	0.00
GERMANY	-314	-314	-317	-291	-291	-292	-250	-250	-249	-222	-223	-221	Japan - BoJ	-0.10
JAPAN	-272	-270	-273	-270	-269	-271	-272	-271	-272	-236	-237	-237		
U.K.	-174	-171	-180	-159	-157	-165	-142	-141	-147	-124	-126	-126	Mexico - Banxico	8.25
Equities	Level			Change			% change:						Next Meeting Date	
	Last						1 Day	1-wk	1-mo	1-yr				
S&P/TSX	15111			65.0			0.4	2.1	5.2	-7.4			Australia - RBA	1.50
Dow 30	24207			141.6			0.6	1.4	2.6	-7.3			New Zealand - RBNZ	1.75
S&P 500	2616			5.8			0.2	1.2	2.8	-6.7				
Nasdaq	7035			10.9			0.2	1.1	4.2	-3.6				
DAX	10899			-32.1			-0.3	-0.2	1.2	-17.3				
FTSE	6817			-45.2			-0.7	-1.8	0.7	-11.8				
Nikkei	20402			-40.5			-0.2	-0.1	-5.1	-14.5			Canada - BoC	Mar 06, 2019
Hang Seng	26756			-146.5			-0.5	0.9	2.6	-16.3			US - Fed	Jan 30, 2019
CAC	4787			-23.4			-0.5	-0.4	-0.3	-12.9			England - BoE	Feb 07, 2019
Commodities	Level			Change			% change:							
WTI Crude	51.33			-0.98			-1.9	-2.4	2.9	-19.8			Euro zone - ECB	Jan 24, 2019
Natural Gas	3.53			0.14			4.2	18.8	-0.1	9.1			Japan - BoJ	Jan 23, 2019
Gold	1291.13			-2.48			-0.2	0.3	3.6	-2.7				
Silver	15.54			-0.06			-0.4	-0.5	6.6	-9.1				
CRB Index	179.16			-0.48			-0.3	0.3	0.7	-8.8				
Currencies	Level			Change			% change:							
USDCAD	1.3292			0.0037			0.3	0.4	-0.9	6.9			Mexico - Banxico	Feb 07, 2019
EURUSD	1.1394			0.0002			0.0	-0.9	0.4	-6.5			Australia - RBA	Feb 04, 2019
USDJPY	108.85			-0.2400			-0.2	0.4	-3.5	-2.2				
AUDUSD	0.7164			-0.0004			-0.1	-0.3	-0.2	-10.1				
GBPUSD	1.2906			0.0021			0.2	1.2	2.2	-6.7			New Zealand - RBNZ	Feb 12, 2019
USDCHF	0.9928			0.0025			0.3	0.8	-0.0	2.8				

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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