

**ON DECK FOR TUESDAY, JANUARY 29**

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	01/29	08:30	Wholesale Inventories (m/m)	Dec P	--	--	0.8
US	01/29	09:00	S&P/Case-Shiller Home Price Index (m/m)	Nov	--	0.4	0.4
US	01/29	09:00	S&P/Case-Shiller Home Price Index (y/y)	Nov	--	4.9	5.0
US	01/29	10:00	Consumer Confidence Index	Jan	--	124.0	128.1

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**KEY POINTS:**

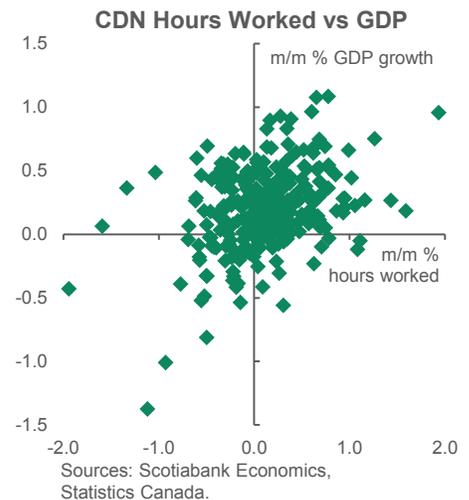
- Global markets await Brexit votes
- British parliament has yet to agree on what to vote for today...
- ...with 15 potential amendments on the line...
- ...that may boil down to two that pit May against Labour...
- ..and that could fundamentally reshape Brexit risks from hereon in
- US markets to consider confidence, house prices
- Fed survey: economists sticking to their guns
- Expectations for Canadian GDP

**INTERNATIONAL**

Global markets will be primarily sensitive to the outcome of this afternoon's planned votes on Brexit amendments (details below) that will hopefully help to chart the Brexit course from here. Little else is on the docket with the FOMC starting its two day meeting and light US data risk. Canada's calendar is quiet. Market moves thus far are pretty small in light of the Brexit uncertainty that is driving low conviction.

- US and TSX futures are flat. European cash markets range from flat (Dax) to up 1 ¼% in London. Asian equities ranged from flat (Tokyo) to a small rise in Seoul and down 1.1% at mainland China's smaller cap less-SOE driven Shenzhen exchange.
- The USD is little changed on a DXY basis so far. Appreciating crosses include the real, rand, MXN, NZ\$ and NOK. The euro and pound sterling are flat in watch-and-wait mode. CAD is also flat while the yen is a touch weaker.
- Sovereign bond yields are generally little changed with the US curve slightly richer, Canada's little changed and yields in the UK and Eurozone little changed on balance.
- Oil prices are up by about a half a buck for Brent and WTI. Western Canada Select held in around US\$ 42 ½% per barrel yesterday and has trended around the level for about the last three weeks.

On Brexit, we don't yet know which ones among 15 proposed amendments to the European Union (Withdrawal) Act will be chosen by Speaker John Bercow. Once chosen, voting will be after 7pm GMT (>2pmET) following debates that begin at 1:30pm GMT (8:30amET). Here are the ones that might be chosen with brief comments about what they are seeking and the likelihood of advancement. There is high scope for materially informing Brexit risks in either direction today as a



potentially major influence upon global market directions this afternoon and into the Asian overnight session. The most likely scenario is to see the first two pitted against one another

**Cooper-Boles amendment:** This one would delay Brexit if agreement cannot be reached by March 29<sup>th</sup> or a chosen date beforehand by forcing PM May to seek an Article 50 deadline extension until the end of 2019. This is the amendment that would avoid a hard Brexit. It is supported by Labour.

**Graham Brady amendment:** renegotiate the Irish backstop with the EU to avoid a hard border. This is the one that PM May supports and is trying to get the Conservative party to vote for but the EU has stated it is a non-starter. Therefore voting for this one could raise hard Brexit probabilities and uncertainty over what May would hope to achieve.

**Spelman/Dromey amendment:** This one would seek to rule out a hard Brexit but is short on how to achieve this!

**Corbyn amendment:** This one would seek to rule out a no deal hard Brexit, seek out a customs union and pursue a second referendum.

**Main Lib Dem amendment:** create a committee of up to 17 MPs drawn from across Parliament to lead on all Brexit matters.

**Hilary Benn amendment:** This one seeks a series of non-binding indicative votes to find a way forward. Can't see this one being taken up.

**Dominic Grieve amendment:** Parliament would usurp control of the process through a series of indicative votes. Ditto to above.

**Citizens' assembly amendment:** This one would create a citizens assembly to find ways to advance Brexit. Unlikely to be taken up.

**Rachel Reeves amendment:** Extend the article 50 deadline by two years.

**M. John Baron backstop amendment:** Set a six month expiration to an Irish backstop arrangement or allow the UK to unilaterally withdraw. Going nowhere.

**SNP/Plaid Cymru amendment:** extend article 50 and remove no deal because the Scottish and Welsh assemblies never supported May's deal.

**Frank Field amendment:** non-binding votes on the backstop, trade deals and the possibility of another referendum.

**MacNeil/Wishart amendment:** This one would revoke Article 50.

**Murrison amendment (now withdrawn):** Force the Irish backstop to expire by the end of 2021. EU rejects this.

**John Baron amendment:** Reject any agreement with a backstop. Appeals to extreme leavers, going nowhere.

## UNITED STATES

**US markets will face low data risk with the Conference Board's consumer confidence reading from January due (10amET)** and expected to soften. We already know that the UofM sentiment reading softened but the CB measure weights market drivers less and labour market conditions more. Repeat home sales prices for November are also due (9amET) with a gain around 5% y/y expected.

**Bloomberg has published a fresh poll of economists on their expectations for Federal Reserve policy.** The general takeaways include that, as it turns out, Scotia Economics has lots of company for a call in favour of resuming hikes at the June FOMC and hiking 2–3 times this year. Ditto for our call for no change to balance sheet unwinding in 2019, no change to 'roughly balanced' risks in tomorrow's statement, and modification to the line about "some further gradual increases" with greater uncertainty but without abandoning further hikes.

On 'patience', I'd repeat that I think it's a different sort of patience this time around. When I hear Powell say "watching", "waiting" and "flexible" attached to it, the suggestion is that their view is conditional upon event flow much more so than during prior usages of patience. This likely includes the three events in March: March 1st US-China tariffs, March 2nd end to the debt ceiling suspension, and March 29th Brexit. All could go badly or well and it's premature to judge the outcomes at this stage by immediately shooting to one tail marked by the darkest thoughts regardless of how the lack of information that would inform such an immediate bias.

## CANADA

**Ahead of Canadian GDP on Thursday, I'm going with a tiny positive (+0.1% m/m) with downside risk.** My model that regresses against a number of indicators actually spits out 0.2% if I just let it speak unfiltered. Consensus is at -0.1% with estimates skewed to negatives but within a -0.2 to +0.1% range.

Several activity indicators were negative like retail sales volumes, wholesale volumes, and manufacturing shipment volumes. Only housing starts were up. The easily observed activity readings are therefore negative on balance.

Hours worked, however, posted a large 0.9% m/m rise. That often signals a GDP gain given a GDP identity that is output per hour worked times hours worked. If hours worked jump then GDP would be positive barring a larger decline in labour productivity. I'm not getting a large enough productivity drop to swing the GDP calculations into the negative.

Indeed much of the economy is unobservable in advance as retail/wholesale/mfrg/housing starts etc only cover portions of the economy. The signal via hours worked is that the rest of the economy might have performed well enough to keep overall GDP in the black. Further, volumes don't necessarily translate into value-added within GDP accounts.

**So what's the historical evidence on this?** Please refer to the accompanying scatter plot of monthly changes in hours worked (x-axis) and monthly GDP changes (y-axis). Large gains in hours worked are usually associated with GDP increases. **In fact, out of 16 months since 1997 when hours worked climbed by 0.9% m/m (as in November 2018) or more, GDP increased on fourteen of those occasions.** As for the two historical declines in GDP in months with hours worked that were equal to Nov 2018, they were both tiny.

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.	2.58	2.59	2.59	2.57	2.58	2.58	2.74	2.75	2.74	3.07	3.07	3.06	Canada - BoC	1.75
CANADA	1.87	1.87	1.89	1.88	1.88	1.90	1.96	1.96	1.97	2.18	2.18	2.19	US - Fed	2.50
GERMANY	-0.58	-0.58	-0.59	-0.30	-0.29	-0.36	0.20	0.21	0.24	0.80	0.80	0.84	England - BoE	0.75
JAPAN	-0.16	-0.16	-0.17	-0.15	-0.16	-0.16	0.01	0.00	0.00	0.66	0.65	0.68		
U.K.	0.79	0.77	0.80	0.92	0.91	0.95	1.27	1.27	1.32	1.75	1.75	1.84		
	Spreads vs. U.S. (bps):													
CANADA	-71	-72	-70	-69	-70	-68	-78	-78	-77	-89	-89	-87	Euro zone - ECB	0.00
GERMANY	-316	-317	-318	-287	-287	-293	-254	-254	-250	-227	-226	-222	Japan - BoJ	-0.10
JAPAN	-274	-275	-275	-272	-274	-273	-273	-274	-274	-241	-241	-238		
U.K.	-180	-182	-179	-165	-167	-163	-146	-148	-142	-132	-132	-122	Mexico - Banxico	8.25
<b>Equities</b>	Level						% change:							
	Last		Change		1 Day		1-wk		1-mo		1-yr			
S&P/TSX	15379		12.6		0.1		0.2		8.1		-4.4		Australia - RBA	1.50
Dow 30	24528		-209.0		-0.8		-0.7		6.4		-7.2		New Zealand - RBNZ	1.75
S&P 500	2644		-20.9		-0.8		-1.0		6.4		-7.3			
Nasdaq	7086		-79.2		-1.1		-1.0		7.6		-5.1			
DAX	11227		16.8		0.1		1.2		6.3		-15.7			
FTSE	6837		89.4		1.3		-0.9		1.5		-10.9			
Nikkei	20665		15.6		0.1		0.2		3.2		-12.5			
Hang Seng	27532		-45.3		-0.2		1.9		7.9		-16.5			
CAC	4931		42.2		0.9		1.7		5.4		-10.7			
<b>Commodities</b>	Level						% change:							
WTI Crude	52.50		0.51		1.0		-0.1		15.8		-19.9			
Natural Gas	2.93		0.02		0.5		-3.8		-11.4		-19.4			
Gold	1309.41		6.03		0.5		1.9		2.2		-2.3			
Silver	15.69		0.31		2.0		2.8		2.5		-9.9			
CRB Index	178.27		0.80		0.4		-0.4		4.3		-10.7			
<b>Currencies</b>	Level						% change:							
USDCAD	1.3259		-0.0003		-0.0		-0.7		-2.8		7.4			
EURUSD	1.1425		-0.0003		-0.0		0.6		-0.4		-7.7			
USDJPY	109.47		0.1200		0.1		0.1		-0.2		0.5			
AUDUSD	0.7160		-0.0006		-0.1		0.5		1.6		-11.5			
GBPUSD	1.3168		0.0005		0.0		1.7		3.2		-6.4			
USDCHF	0.9938		0.0020		0.2		-0.4		1.2		6.0			
													<b>Next Meeting Date</b>	
													Canada - BoC	Mar 06, 2019
													US - Fed	Jan 30, 2019
													England - BoE	Feb 07, 2019
													Euro zone - ECB	Mar 07, 2019
													Japan - BoJ	Mar 15, 2019
													Mexico - Banxico	Feb 07, 2019
													Australia - RBA	Feb 04, 2019
													New Zealand - RBNZ	Feb 12, 2019

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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