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GLOBAL ECONOMICS
| DAILY POINTS

January 30, 2019 @ *9:15 EST*

ON DECK FOR WEDNESDAY, JANUARY 30

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	01/30	07:00	MBA Mortgage Applications (w/w)	JAN 25	--	--	-2.7
US	01/30	08:15	ADP Employment Report (000s m/m)	Jan	--	181.0	271.3
US	01/30	08:30	GDP (q/q a.r.)	4Q A	--	2.6	3.4
US	01/30	08:30	GDP Deflator (q/q a.r.)	4Q A	--	1.7	1.8
MX	01/30	09:00	GDP (q/q)	4Q P	--	0.2	0.8
MX	01/30	09:00	GDP (y/y)	4Q P	--	2.0	2.5
US	01/30	10:00	Pending Home Sales (m/m)	Dec	--	0.5	-0.7
US	**01/30**	**14:00**	**FOMC Interest Rate Meeting (%)**	**Jan 30**	**--**	**2.50**	**2.50**
US	01/30	14:30	Fed Chairman Powell Holds Post-FOMC Press Conference				

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KEY POINTS:

- **Global markets face three stagnating debates**
- **Hard Brexit risks went up yesterday…**
- **...or Parliament may be set up for a lousy Valentine's Day**
- **Formal US-China trade negotiations kick into higher gear…**
- **…with the best likely outcome being continued negotiations**
- **Four scenarios for the Fed statement and presser…**
- **...all speak to a conditional pause pending clarity on geopolitical risks**
- **Peso weakens as Mexican GDP slightly disappoints**
- **A$ rises to the top on Australian CPI**
- **Chile expected to hike today**
- **US ADP payrolls beat estimates**
- **German inflation stable**
- **Modest US earnings risk today**
- **Canada quiet ahead of tomorrow's GDP, BoC speech**

Three stagnating debates hang over global markets this morning. I'll return to them below after summarizing market conditions.

- The USD is little changed on a DXY basis. The A$ is outperforming (CPI, see below) with CAD doing likewise (higher oil, tomorrow's GDP). The Mexican peso is underperforming and vulnerable into GDP (see below).

- Modest price action is occurring in sovereign bond markets ahead of the Fed. US Treasury yields are up by about 1bps or less across the curve. Canadas are performing similarly. Gilts are slightly richer and so is the longer end of the bunds curve.

- WTI and Brent are up by about 50 cents each. Venezuela's issues continue to hang over markets but so will today's US oil inventories (10:30amET) after the private industry figures registered an increase yesterday.

- US equity futures are up by between ½% and 1% with TSX futures up ¼%. European cash markets are mixed with London up by nearly 2%, Paris up by just under ¾% but the Dax is down by ¼%. Asian equities were similarly mixed with Tokyo down ½%, mainland China down by between ¾% and 1 ¼% but Seoul was up 1% and HK was up by under ½%.

The three stagnating debates are as follows.

1. **It is exceptionally unclear how Brexit risks may evolve from hereon in but the risk of hard Brexit went up following yesterday's votes in the British parliament on seven amendments to the withdrawal agreement.** The results rejected another referendum or a delay to the March 29th deadline while favouring a purely symbolic vote against a hard Brexit without saying how to do so and voting in favour of sending PM May off to Brussels in search of a fresh solution to the Irish border that plagues all sides. Germany signalled that it doesn't want a hard Brexit but that the withdrawal deal is not open to renegotiation. PM May has indicated she doesn't want a hard Brexit but won't rule it out. The UK is seeking legally binding solutions to the Irish border when the EU continues to indicate that it won't provide any greater assurances, wants an open Irish border and Ireland insists upon an open border that does not violate the Good Friday agreement for many economic and historical reasons. The conundrum is that a fully open border is a sieve that essentially overrides withdrawal from the customs union and hence why leavers despise the notion (ie: the 'Hotel California' concern that they can never leave with an open Irish border). French and EU government spokespeople have indicated they won't reopen the agreement. Next steps are focused upon a vote on February 14th but on precisely what isn't clear. It may well be that issues like a second referendum or an election or a delay will have to be revisited barring the lunacy of a hard Brexit and the irreparable damage that could do to the UK economy.

2. **US-China trade talks commence in Washington today** with this round expected to conclude tomorrow unless it is extended like the last time. The talks are unlikely to yield any major breakthroughs at this point versus signs of progress and official party lines oriented toward ongoing negotiations. The focus remains upon signalling enough progress to avoid the threatened tariff hike on Chinese imports on March 1st.

3. **We'll also hear the Federal Reserve say that because of considerations like these two other issues, among others, they won't know what to do for some time.** The more polite references to this state of monetary policy stagnation or purgatory is to use words like 'patient', 'flexible,' 'watching' and 'waiting' that Chair Powell and other Fed officials have been repeating several times this month (fuller expectations below). Markets have either misinterpreted this communication as a signal that the Fed is done raising rates or markets have prematurely priced in the darkest assumptions on how geopolitical risks may evolve in March including Brexit (March 29th), the expiration of the US-China tariff moratorium on March 1st and the March 2nd cessation of the debt ceiling's suspension. The Fed, markets and economists don't have enough information to pre-judge such outcomes and so markets will hear a message from the Fed that is about jawboning the uncertainty during a period of inaction that will mark at least the first half of 2019. Exactly how they do so is uncertain, but the message of a conditional pause should be the end result one way or the other.

The A$ is the strongest performing major currency cross this morning. That's because Australian inflation did not fall by as much as consensus expected. Headline inflation ended 2018 at 1.8% y/y (1.9% prior, 1.7% consensus) and the central tendency 'trimmed mean' and 'weighted median' measures were little changed.

Mexico updated GDP for Q4 and it slightly missed. Growth of 1.80% y/y fell shy of consensus that had pegged 2.0% (2.5% prior). The actual reading was at the low end of the range of consensus estimates. The Mexican peso was already the worst performing currency versus the USD this morning before the release but it depreciated a little further thereafter.

Beyond the Fed, a pair of inflation reports probably won't matter much to global markets behind such grander risks. **German inflation for January was unchanged at 1.7% y/y** on an EU harmonized basis and a tick softer than consensus.

Banco Central de Chile is expected to hike its policy rate by 25bps (4pmET). Consensus is unanimous.

Also note that China releases its state purchasing managers' indices tonight (8pmET).

UNITED STATES

The FOMC statement (2pmET) and Chair Powell's press conference (2:30pmET) are likely to continue to signal a conditional pause in keeping with language from FOMC officials over recent weeks. Precisely how they do that is frankly anyone's guess. Here are **four of the possible scenarios** and there may well be more.

1. One scenario is that they could leave the statement largely unchanged and save jawboning of the risks for the press conference. Why? They may feel they've already signalled enough of a turn toward greater uncertainty in the statement itself over recent iterations.

- For example, the December statement shifted to "judges" from "expects" as reference to the need for additional policy tightening with 'judges' being more uncertain.
- As another example, they inserted "some" in front of "further gradual increases" in the December statement as a stronger signal that they feel they are nearing the end of the hike cycle.

2. Another scenario is that these prior changes are retained while resurrecting a line from the past such as the following: "Based on its current assessment, the Committee judges that it can be **patient** in beginning to normalize the stance of monetary policy" but obviously replacing 'beginning' with something like 'continuing.' To make such a change in the statement with little else by way of conditioning or qualifiers could be taken as a sign of an extended pause given its past uses.

3. A third scenario is that such a 'patient' line is accompanied by conditioning upon specific irritants to the outlook such as Brexit, US-China trade negotiations and US fiscal policy risks. The latter would at least be expressed in terms of shutdown effects and it's unlikely the Fed would spell out concerns about funding issues on the path to the reinstatement of the debt ceiling on March 2nd and the funding flexibility through Treasury that could be exhausted a few months later. That could be a stronger signal to markets of a different sort of highly conditional patience this time around.

4. A fourth scenario is no reference to 'patient' but insertion of references to buzzwords of the late such as 'watching,' waiting,' and 'flexible'. That could be more hawkish in that it would signal to markets that their concerns are almost entirely event driven and should such event risks subside then it is game back on for hiking when markets have priced out future risk.

Other expectations for the statement include **possible reference to lower market-based inflation expectations** as evidenced by the 5y5y inflation swap or TIPS break evens. They will probably **retain reference to risks being still 'roughly balanced'** but adding downside risks in the statement would clearly be more dovish and probably premature to judge. The statement is likely to be **unanimous.**

In the press conference, I would expect Powell to repeat messages he delivered on January 4th in Atlanta and January 10th in Washington. He will reference a still strong macro backdrop but uncertainty toward market stability in the face of key risks to the outlook. The Fed is under no pressure to revise forecasts again until the March 19th–20th FOMC.

Before the Fed, **ADP private payrolls beat expectations** (+213k, 181k consensus and prior revised to 263k from 271k) and pending home sales (10amET) are due out. They will probably be ignored by markets a) given the Fed, and b) given they are generally low profile reports with ADP offering poor tracking of nonfarm payrolls due out this Friday.

US earnings risk is fairly light today with most of it in the after-market. Apple's disappointing revenue guidance last night isn't having a large effect on overall markets while eBay's results slightly beat. Boeing (beat US$5.48, consensus U$$4.59), AT&T (met with EPS of 86 cents) and McDonald's (beat with EPS of US$1.97, consensus $1.89) are in the pre-market while the after-market will be focused upon Microsoft, Facebook and Visa.

Fixed Income	Government Yield Curves (%):											
	2-YEAR			5-YEAR			10-YEAR			30-YEAR		
	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk
U.S.	2.58	2.57	2.58	2.55	2.55	2.58	2.72	2.71	2.74	3.04	3.04	3.06
CANADA	1.86	1.85	1.89	1.88	1.86	1.90	1.96	1.94	1.97	2.18	2.17	2.19
GERMANY	-0.56	-0.57	-0.58	-0.29	-0.29	-0.29	0.19	0.20	0.23	0.78	0.80	0.83
JAPAN	-0.16	-0.16	-0.16	-0.16	-0.15	-0.15	0.01	0.01	0.01	0.66	0.66	0.67
U.K.	0.78	0.78	0.80	0.91	0.92	0.96	1.25	1.27	1.33	1.73	1.75	1.82
	Spreads vs. U.S. (bps):											
CANADA	-72	-72	-69	-68	-69	-68	-76	-77	-77	-86	-87	-88
GERMANY	-314	-314	-317	-285	-284	-287	-253	-251	-252	-227	-224	-224
JAPAN	-273	-273	-275	-271	-270	-273	-271	-270	-274	-238	-238	-239
U.K.	-180	-179	-178	-165	-163	-162	-146	-144	-142	-131	-129	-124

Equities	Level		% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	15463	84.5	0.5	1.5	8.7	-3.1
Dow 30	24580	51.7	0.2	0.7	6.6	-5.7
S&P 500	2640	-3.8	-0.1	0.3	6.2	-6.5
Nasdaq	7028	-57.4	-0.8	0.1	6.7	-5.1
DAX	11183	-35.9	-0.3	1.0	5.9	-15.3
FTSE	6950	116.3	1.7	1.6	3.2	-8.4
Nikkei	20557	-108.1	-0.5	-0.2	2.7	-11.7
Hang Seng	27643	111.2	0.4	2.3	8.4	-15.2
CAC	4965	36.4	0.7	2.6	6.1	-9.3
Commodities	Level		% change:			
WTI Crude	53.95	0.64	1.2	2.5	19.0	-16.4
Natural Gas	2.87	-0.04	-1.2	-3.8	-13.2	-10.2
Gold	1310.42	-1.38	-0.1	2.2	2.3	-2.1
Silver	15.86	0.17	1.1	3.9	3.7	-8.5
CRB Index	179.67	0.50	0.3	0.6	5.1	-9.3
Currencies	Level		% change:			
USDCAD	1.3224	-0.0045	-0.3	-0.9	-3.0	7.2
EURUSD	1.1410	-0.0023	-0.2	0.3	-0.5	-8.0
USDJPY	109.70	0.3000	0.3	0.1	0.0	0.8
AUDUSD	0.7184	0.0029	0.4	0.6	1.9	-11.1
GBPUSD	1.3080	0.0014	0.1	0.1	2.6	-7.5
USDCHF	0.9993	0.0047	0.5	0.4	1.8	6.9

Central Banks	
Current Rate	
Canada - BoC	**1.75**
US - Fed	**2.50**
England - BoE	**0.75**
Euro zone - ECB	**0.00**
Japan - BoJ	**-0.10**
Mexico - Banxico	**8.25**
Australia - RBA	**1.50**
New Zealand - RBNZ	**1.75**
Next Meeting Date	
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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