ON DECK FOR THURSDAY, JANUARY 31							
Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	01/31	08:30	IPPI (m/m)	Dec	--	0.1	-0.8
CA	01/31	08:30	Raw Materials Price Index (m/m)	Dec	--	4.0	-11.7
CA	01/31	08:30	Real GDP (m/m)	Nov	0.1	-0.1	0.3
US	01/31	08:30	Employment Cost Index (q/q)	4Q	0.8	0.8	0.8
US	01/31	08:30	Initial Jobless Claims (000s)	JAN 26	205	215.0	199.0
US	01/31	08:30	Continuing Claims (000s)	JAN 19	1720	1721.0	1713.0
US	01/31	08:30	PCE Deflator (m/m)	Dec	0.0	0.0	0.1
US	01/31	08:30	PCE ex. Food & Energy (m/m)	Dec	0.2	0.2	0.2
US	01/31	08:30	PCE Deflator (y/y)	Dec	1.7	1.7	1.8
US	01/31	08:30	PCE ex. Food & Energy (y/y)	Dec	1.9	1.9	1.9
US	01/31	08:30	Personal Spending (m/m)	Dec	0.3	0.3	0.4
US	01/31	08:30	Personal Income (m/m)	Dec	0.4	0.5	0.2
CA	01/31	12:45	**Speech by Wilkins, Bank of Canada Senior Deputy Governor**				

KEY POINTS:

- **Little follow-through on earnings, Fed across global markets**
- **Month-end rebalancing to be a factor**
- **Second round of US-China trade negotiations ends today…**
- **...with Trump advising he's preparing to meet President Xi**
- **CDN GDP: black or red?**
- **BoC SDG Wilkins on labour markets**
- **BoC versus the Fed**
- **Chinese PMIs slightly beat**
- **Soft Eurozone macro hits and inflation**
- **BanRep expected to hold**
- **Alberta's scaled back cuts commence the rebound effect on growth**

There isn't much follow through across global asset classes in the wake of yesterday's combined influences of earnings reports and a more dovish than expected Fed (for now, here). Today's focus will be upon the scheduled conclusion of US-China trade talks (unless extended) and whether statements will be issued this evening or into week's end. Trump advised this morning that he plans on meeting President Xi Jinping in the "near future" as a possibly encouraging sign (why meet if progress is scant…). Month-end rebalancing by portfolio managers is likely to be a considerable market influence. Overnight macro data was mixed out of China and Europe (see below). Today's focus is upon Canadian GDP and BoC SDG Wilkins' speech, an expected hold by BanRep and relatively minor US releases. I also offer comments below on the relative policy circumstances facing the BoC compared to the Fed. Thirty-eight S&P500 firms release earnings today including Amazon in the after-market and an earnings miss by GE in the pre-market.

- The USD is broadly weaker following the FOMC. On a DXY basis, it has depreciated by about 0.7% post-Fed. All major crosses are up against it this morning, but with CAD underperforming ahead of GDP and Wilkins (see below).

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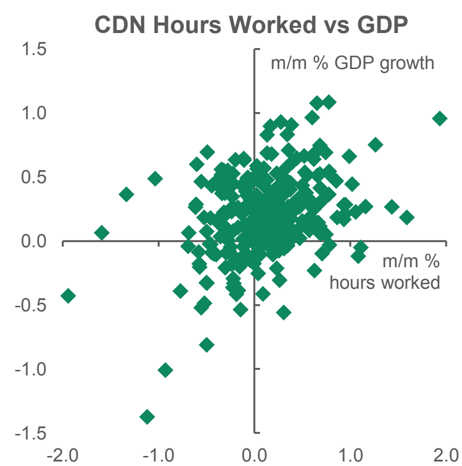

Sources: Scotiabank Economics, Statistics Canada.

- Sovereign bond yields continue to be under mild downward pressure this morning. US Treasury yields are down 1bp across the curve. Dittos for Canadas. Gilts are performing similarly while curves slightly bull flatten in Germany and France.

- US equity futures are taking a bit of a month-end breather following yesterday's pre- and post-Fed rally that had positive earnings influences caught up in the mix of it all (ie: it was hardly all the Fed). Overall, US and Canadian futures are little changed. European cash markets are offering little to no follow through on the Fed as they got their first chance at reacting overnight. London is up by under ½%, Paris is up a touch, by stocks in Germany, Italy and Spain are little change to slightly lower. Asian equities were mostly higher with Tokyo up 1% along with HK, but mainland China's exchanges split between a small gain and a small loss with the Kospi flat.

- Oil is little changed this morning. Western Canada Select climbed to US$45.60 yesterday but will be monitored today in the wake of yesterday's scaled back production cuts in Alberta (please see below).

INTERNATIONAL

German retail sales utterly tanked. The volume of sales fell 4.3% m/m (-0.6% consensus). That is the worst monthly decline since May 2007. The dollar value fell 4.8% m/m and so slightly higher prices insulated against only a small portion of the large volume decline. Every category pushed lower. IT related categories fell 8.3%, clothing and shoes fell 7.2%, furniture and fittings declined 2.9% and food and tobacco fell 1.4%. If this is any silver lining here then it lies in three observations. One is that Germany was walloped by heavy snow and cold during the weeks of December 10th and Christmas Eve. Two is that sales may have been brought forward earlier in the holiday season than usual, given significant gains in October and November that may have distorted seasonal adjustments in December. Third is the fact that annualized quarterly growth in sales volumes was still very slightly in the black at +0.5% q/q. Overall, it was a definitely weak report, but with caveats that surround one month's print and those caveats could set up a rebound in January.

Chinese PMIs slightly beat expectations on balance but still signal slow, plodding momentum in the combined manufacturing and service sectors. The state's manufacturing PMI was unchanged at 49.5 (49.4 prior). The non-manufacturing—primarily services—PMI climbed by just under one point to 54.7 (53.8 prior). That drove the composite PMI up by six tenths to 53.2. Recall that anything over 53 is expansionary.

Broad Eurozone GDP growth met expectations in Q4 but it was very slow. Growth was 0.2% q/q at a non-annualized rate, and hence sub-1% annualized. In year-ago terms, growth is only tracking 1.2%. Italy's economy slipped back into technical recession with back-to-back GDP declines of -0.1% q/q and -0.2% q/q in Q3 and Q4 respectively. That's the first time since 2013H1 for consecutive declines. Spain's economy grew by 0.7% q/q (0.6% consensus) at a non-annualized rate and 2.4% y/y. France's economy was reported the other day to have grown by 0.3% (0.2% consensus) and 0.9% y/y. Germany's growth rate won't be reported until February 14th so revision risk to the EU total exists. One of the drivers of weakness is the euro; it appreciated by 7% versus the dollar from last April to now, versus the 20% depreciation from late 2016 to February of last year that played a role in boosting earlier PMI readings.

Eurozone inflation readings decelerated but bottoming fuel prices into 2019 and pass-through from Spain's large minimum wage hike are expected to drive higher readings in January. French CPI inflation met expectations for a deceleration to 1.4% y/y (1.9% prior) on an EU-harmonized basis. Softer energy prices (-1.3% m/m) were a major culprit. Spanish CPI also decelerated to 1.0% y/y (1.2% prior). Details will be available in the next iteration, but lower fuel prices probably played a major role.

BanRep issues a policy decision later today that is universally expected to hold at an overnight lending rate of 4.25%.

CANADA

Canada releases GDP for November (8:30amET). Consensus ranges from -0.2% (6 estimates) to one flat reading and 4 forecasters (including Scotia) expecting +0.1%. My model that regresses against a number of indicators estimates growth of 0.2% but like any model there are wide confidence bands. 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 that GDP is defined as labour productivity times hours worked. Ergo, if hours worked jump by a lot as they did, 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 with the caution that there are many unobservable components to GDP before game day. **So what's the historical evidence on this?** See the repeated accompanying scatter plot. 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. In any event, this is a November report and hence will or should be faded. Alberta's production cuts will take down the January indicators for manufacturing, exports and GDP. The fact that **Alberta has already begun to scale back the cuts by removing about one quarter of the 8.7% mandated decline in January from February onward** will begin the rebound process into Q2.

On Alberta's cuts, they were helpful, but hardly the only or even the dominant influence in the recovery of Western Canada Select oil prices. Three US refineries that shut unusually and then came back on line into year-end restored appetite for Canadian heavy oil. Venezuela's implosion is also helping by reducing competition from another heavy oil producer. A large rise in transportation of oil by rail helped to clear out excess supply from key distribution points. The Line 3 pipeline is expected to become operational before year-end. In all, I don't think this is the last of the scaled back cuts that had been on a path toward elimination by year-end and may be eliminated much sooner especially with Alberta's election coming.

BoC SDG Wilkins' speech titled "A Look Under the Hood of Canada's Job Market" will hit the wires at 12:30pmET. There is no press conference planned for this one but there will be audience Q&A which is usually uneventful. She will probably lean on recent BoC research regarding weak wage gains across advanced economies (here). The BoC has already hit pause with no moves likely over H1 but Governor Poloz has continued to guide preference toward a positive real policy rate and more neutral policy.

At issue is whether the BoC can tighten if the Fed is on a pause of uncertain duration. Obviously there are limits, but there is no inextricably tight connection between fed funds and the BoC's o/n rate historically. There have been plenty of policy deviations over time. When large, they haven't typically ended well for the BoC. But modest deviations, like, say, the Fed on pause with the BoC hiking a couple of times are entirely possible and have occurred. Here are some distinctions between the policy environments that are worth drawing upon.

- the real policy rate in Canada remains negative and somewhat in crisis mode, while it is positive stateside. Monpol is easier in Canada.
- The Fed is dealing with a strong dollar, the BoC faces a weak dollar in terms of financial conditions and with implications for export competitiveness and inflation
- inflation is already on the BoC's target, but it is below target in the US
- Canada may well have pent-up demand to unleash as the three shocks responsible for the current soft patch continue to ebb.
- One shock is that oil has rebounded, stabilizing the sector's cash flow and the trickle down terms of trade implications to domestic incomes and purchasing power.
- Another shock is that B20 will probably be like other episodes of macroprudential tightening with effects lasting 12–18 months and then with renewed growth driven by broader conditions. The period of this adjustment is uncertain.
- a third shock is that investment was held back by NAFTA that is no longer a tear-up story versus manageable implementation risk aided by huge investment depreciation incentives that could well drive strong cap-ex gains this year.
- additionally, being a more trade dependent nation, protectionism is a more complicated factor for the BoC than the Fed. Poloz emphasizes time and again the stagflation risk and how his mandate is inflation.

- regardless, we don't have a BoC hike until around mid-year or so and hence around the same time as the Fed. Geopolitical risks around March timelines will keep both CBs on the sidelines for some time. Then we can debate the relative (modest) divergence story over H2.

UNITED STATES

US releases should be relatively minor influences in the wake of yesterday's FOMC. Tomorrow's nonfarm payrolls will be the main focal point. The Q4 employment cost index (8:30amET) is treated as an inflation signal by bond markets. The first of the postponed releases during the government shutdown arrives with new home sales for November (10amET). Weekly jobless claims are also due out at 8:30amET.

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.	2.50	2.51	2.57	2.48	2.48	2.55	2.67	2.68	2.72	3.03	3.03	3.03
CANADA	1.80	1.81	1.86	1.81	1.82	1.86	1.90	1.91	1.93	2.16	2.16	2.16
GERMANY	-0.56	-0.57	-0.58	-0.30	-0.29	-0.31	0.18	0.19	0.18	0.78	0.78	0.78
JAPAN	-0.16	-0.16	-0.16	-0.16	-0.16	-0.15	0.01	0.01	0.01	0.65	0.66	0.68
U.K.	0.76	0.78	0.77	0.89	0.91	0.91	1.24	1.26	1.27	1.73	1.74	1.76
	Spreads vs. U.S. (bps):											
CANADA	-70	-70	-71	-68	-67	-69	-77	-77	-79	-87	-87	-88
GERMANY	-306	-307	-315	-278	-278	-286	-250	-249	-254	-225	-225	-226
JAPAN	-267	-267	-273	-264	-264	-270	-267	-267	-271	-237	-237	-236
U.K.	-174	-173	-180	-160	-158	-164	-144	-142	-145	-130	-130	-127

Equities	Level		% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	15485	21.4	0.1	1.8	8.1	-2.9
Dow 30	25015	434.9	1.8	1.8	7.2	-4.3
S&P 500	2681	41.1	1.6	1.6	6.9	-5.1
Nasdaq	7183	154.8	2.2	2.2	8.3	-3.1
DAX	11154	-27.4	-0.2	0.2	5.6	-15.4
FTSE	6978	36.4	0.5	2.3	3.7	-7.4
Nikkei	20773	217.0	1.1	1.0	3.8	-10.1
Hang Seng	27942	299.6	1.1	3.0	8.1	-15.0
CAC	4979	4.5	0.1	2.2	5.3	-9.2
Commodities	Level		% change:			
WTI Crude	54.22	-0.01	-0.0	2.1	19.4	-16.2
Natural Gas	2.88	0.02	0.7	-7.2	-2.2	-4.0
Gold	1323.03	3.06	0.2	3.3	3.2	-1.6
Silver	15.92	0.06	0.4	3.4	4.1	-8.0
CRB Index	180.66	0.55	0.3	0.8	6.4	-8.5
Currencies	Level		% change:			
USDCAD	1.3150	0.0001	0.0	-1.5	-3.6	6.8
EURUSD	1.1486	0.0006	0.1	1.6	0.2	-7.5
USDJPY	108.65	-0.3900	-0.4	-0.9	-0.9	-0.5
AUDUSD	0.7276	0.0028	0.4	2.6	3.2	-9.7
GBPUSD	1.3118	0.0002	0.0	0.4	2.9	-7.6
USDCHF	0.9931	-0.0011	-0.1	-0.3	1.1	6.6

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	Mar 20, 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.