

ON DECK FOR FRIDAY, FEBRUARY 1

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	02/01	08:30	Average Hourly Earnings (m/m)	Jan	0.3	0.3	0.4
US	02/01	08:30	Average Hourly Earnings (y/y)	Jan	3.2	3.2	3.2
US	02/01	08:30	Average Weekly Hours	Jan	--	34.5	34.5
US	02/01	08:30	Unemployment Rate (%)	Jan	3.9	3.9	3.9
US	02/01	08:30	Nonfarm Employment Report (000s m/m)	Jan	200	165.0	312.0
US	02/01	10:00	ISM Manufacturing Index	Jan	54.5	54.0	54.3
US	02/01	10:00	U. of Michigan Consumer Sentiment	Jan F	--	90.7	90.7
US	02/01		Household Employment Report (000s m/m)	Jan	--	--	142.0
US	02/01		Total Vehicle Sales (mn a.r.)	Jan	--	17.2	17.5

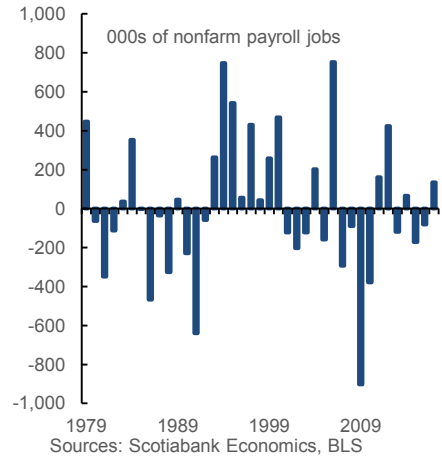
CONTACTS

Derek Holt, VP & Head of Capital Markets Economics
416.863.7707
Scotiabank Economics
derek.holt@scotiabank.com

KEY POINTS:

- Global markets lie in wait for nonfarm
- US nonfarm: annual revisions & shutdown could muddy the waters
- US ISM: upside potential?
- Chinese stocks rally...
- ...despite another slip in China's private manufacturing PMI...
- ...as PBOC rate cut speculation and trade headlines buoy sentiment
- UK PMI: another slip...
- ...but also a signal that even a Brexit deal could be followed by contraction
- Eurozone core CPI ticks up, euro rallies
- Italian spreads blow out on technical recession and budget headlines
- Soft CPI across Peru, South Korea, Thailand, Indonesia
- US vehicle sales on tap
- Canada quiet

US Nonfarm Annual Revisions



INTERNATIONAL

Being nonfarm Friday, it's not unusual to see guarded price action across global markets before the releases. Nonfarm payrolls and ISM-manufacturing will combine to materially inform tracking risk for the US economy via a pair of top shelf macro reports for the US economy. **Shutdown effects on some components and annual revisions could seriously muddy the waters** to the point to which I would strongly suggest guarded positioning into the report that faces elevated two-tail random risk (see below). ISM-manufacturing will also be a top tier consideration for markets in light of the prior report's decline and it may face upside risk (see below). PBOC rate cut speculation and US-China trade headlines are also influencing parts of world markets. Earnings risk shouldn't be much of a factor with 14 S&P500 firms including Merck and little in Canada; being Friday, all of the reports are in the pre-market. Weak UK and China PMIs, a slight up-tick in Eurozone core CPI and generally soft LatAm (Peru) and Asian (SK, Indonesia, Thailand) inflation reports are among the considerations buried behind US data and China considerations.

- Across stock markets, mainland China was where all the action was overnight. Speculation toward an imminent PBOC rate cut and positive

comments late yesterday regarding traction in US-China trade negotiations sparked a 2.8% rally in the Shenzhen exchange and a 1.3% jump in the SOE dominated Shanghai composite. Seoul, HK and Tokyo were all flat. European equities are little changed on average but that masks a nearly 1% drop in Madrid and 1.5% decline in Milan. US and Canadian equity futures are little changed.

- The USD is slightly weaker this morning primarily as the euro and related crosses pick up (core CPI, see below). CAD and the Mexican peso are little change with a touch weaker bias.
- Sovereign bond yields are flat across the curves in the US, Canada, UK, Germany and France with the mild exception of slight cheapening at the European long-ends. **Italian spreads are blowing out** across the curve including a 17bps gapping to 10 year bunds. Budget headlines are weighing on Italian bonds.
- **Oil prices are little changed.** Western Canada Select adjusted nicely to the reduced production cuts announced by Alberta; it lost a little over a buck yesterday to US\$44.30.

China's private sector version of the manufacturing sector's purchasing managers' index slipped again. January's reading fell to 48.3 and hence slightly further into the sub-50 contraction zone and the lowest since February 2016. It was never really shedding bullish signals through a recent peak of 51.6 in February last year. Chinese PMIs are entering a period of unreliability because of the shifting timing of the annual Lunar New Year that leads to shutdowns in advance and throughout the week. When I was in places like Hong Kong and Taipei last week I already saw signs of festivities and read accounts of production being scaled back.

The UK's manufacturing PMI also slipped. It fell to 52.8 (54.2 prior) and below the consensus guess for a 53.5 reading. Being above 50 still signals mild expansion, but the year-long trend has been decidedly pointed toward slowing momentum. New orders decelerated by about four points to 52.4. Inventories, however, are being stockpiled to the moon; this subcomponent hit the highest on record as unease toward Brexit outcomes led to precautionary inventory management. That could be prudent. It could alternatively mean that the reward to settling Brexit risks is to still see the economy tank as inventories unwind and orders fall; just less so than the likely aftermath of a hard Brexit.

Eurozone core CPI ticked higher to...wait for it...1.1% y/y! While that was a tick higher than consensus, it is the fourth time in the past nine months when core CPI has hit 1.1% and doesn't signal any break-out. It's also still only about half of the 'under 2%' ECB target. Headline Eurozone CPI decelerated to 1.4% y/y as expected due to declining fuel prices. The euro was rallying into the figures and held onto the gains after CPI. Among the components, prices for services were up 1.6% y/ for the highest reading since May. Food/alcohol/tobacco prices were up by an unchanged 1.8% y/y. Non-energy industrial goods prices were little changed again at 0.3% y/y.

One LatAm and three Asian inflation reports are of relevance to local markets; the bottom line is that none of the readings pressure the central banks toward tightening and may even tilt the balance in the other direction. **Peru's inflation rate** was unchanged at 2.1% y/y and remains the highest since September 2017. That keeps inflation in line with the central bank's policy target range of 1–3% ahead of a likely hold decision next Thursday. **Indonesia's inflation rate** (2.8% y/y) fell below the bottom end of the 3–5% Bank Indonesia target zone but core CPI was unchanged at the bottom end. **Thailand's inflation rate** remains exceptionally low at 0.3% y/y with core at 0.7% y/y. **South Korea's inflation rate** was weaker than expected at 0.8% y/y (1.3% consensus and prior) while core CPI unexpectedly slipped a tick to 1.2% y/y.

UNITED STATES

This might be a very tricky nonfarm payrolls report to interpret. On top of omnipresent uncertainty over the actual readings, the key risks facing nonfarm payrolls may be the effects of annual revisions and the month-long government shutdown. The latter is likely to negatively affect hours worked. Annual revisions are conducted to seasonal adjustment factors going back years in time to 2014 this time around (more [here](#)). The household survey—from which the UR is derived—was revised in the last report but now it's nonfarm's turn. In percentage terms to outstanding payrolls, annual revisions are usually small; in terms of magnitudes of annual differences in employment and particularly individual months, the revisions can be substantial. See the

accompanying chart for a depiction of annual revisions. The highest annual revisions were +747,000 jobs to 1994's estimate and -902,000 to the 2009 estimate. My guestimate for January is +200k for headline nonfarm job gains with wage growth unchanged at 3.2% y/y but the revision risk leads to even greater caution toward the headline job change beyond the usual +/- 115,000 90% confidence interval on such estimates!

ISM-manufacturing for January (10amET) takes on heightened importance following the decline in the last reading. I still think there was an over-reaction to the last print partly as tariff front-running drove ISM upward and then when that effect subsided it drove ISM back down and we'll see where the trend shakes out. Consensus is expecting no change to the 54 mark. **The best correlated regional surveys suggest there may be upside risk.** The Philly Fed business outlook metric climbed by over 7 points to 17 and hence signalled quickened expansion during January. The Richmond Fed's measure improved to a milder pace of regional contraction. Across the other regional surveys, the Kansas City measure slipped a touch but only because of upward revisions, the Dallas Fed's measure jumped six points out of contraction, the Chicago PMI fell by about six points to a still healthy reading and the Empire metric that surveys conditions across the NY Fed's district fell by over 7 points.

US vehicle sales during January are also on tap as individual companies release throughout the day leading the end of day add-up. Consensus expects a small decline.

Fixed Income	Government Yield Curves (%):												Central Banks	
U.S. CANADA GERMANY JAPAN U.K. CANADA GERMANY JAPAN U.K.	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		
	2.46	2.46	2.61	2.44	2.44	2.60	2.63	2.63	2.76	2.99	3.00	3.07	Canada - BoC	1.75
	1.78	1.77	1.88	1.79	1.78	1.89	1.89	1.88	1.98	2.14	2.14	2.20	US - Fed	2.50
	-0.57	-0.56	-0.58	-0.32	-0.32	-0.30	0.15	0.15	0.19	0.75	0.75	0.78	England - BoE	0.75
	-0.17	-0.16	-0.17	-0.17	-0.16	-0.16	-0.01	0.01	0.00	0.61	0.65	0.66		
	0.75	0.76	0.80	0.87	0.87	0.94	1.21	1.22	1.31	1.73	1.72	1.79		
Spreads vs. U.S. (bps):														
CANADA	-68	-69	-73	-65	-65	-71	-74	-75	-78	-85	-86	-87	Euro zone - ECB	0.00
GERMANY	-304	-302	-319	-276	-275	-290	-248	-248	-257	-224	-225	-229	Japan - BoJ	-0.10
JAPAN	-263	-262	-278	-261	-260	-276	-264	-263	-276	-239	-234	-241		
U.K.	-171	-170	-181	-157	-156	-166	-141	-141	-145	-127	-128	-128		
Equities	Level						% change:						Mexico - Banxico	8.25
	Last	Change					1 Day	1-wk	1-mo			1-yr		
S&P/TSX	15541	56.1					0.4	1.7	8.5			-2.0	Australia - RBA	1.50
Dow 30	25000	-15.2					-0.1	1.8	7.2			-4.5	New Zealand - RBNZ	1.75
S&P 500	2704	23.0					0.9	2.3	7.9			-4.2		
Nasdaq	7282	98.7					1.4	2.9	9.7			-1.4		
DAX	11143	-30.5					-0.3	-1.2	5.5			-14.3		
FTSE	6978	8.8					0.1	2.5	3.7			-6.8		
Nikkei	20788	14.9					0.1	0.1	3.9			-11.5	Canada - BoC	Mar 06, 2019
Hang Seng	27931	-11.7					-0.0	1.3	8.1			-14.4	US - Fed	Mar 20, 2019
CAC	4987	-5.9					-0.1	1.2	5.4			-8.6	England - BoE	Feb 07, 2019
Commodities	Level						% change:						Euro zone - ECB	Mar 07, 2019
WTI Crude	53.64	-0.15					-0.3	-0.1	18.1			-18.5	Japan - BoJ	Mar 15, 2019
Natural Gas	2.81	-0.01					-0.3	-11.7	-4.6			-1.8	Mexico - Banxico	Feb 07, 2019
Gold	1321.20	-0.00					-0.0	1.4	3.0			-2.0	Australia - RBA	Feb 04, 2019
Silver	16.08	0.16					1.0	5.1	3.9			-6.7	New Zealand - RBNZ	Feb 12, 2019
CRB Index	179.61	-0.03					-0.0	-0.6	5.8			-9.4		
Currencies	Level						% change:							
USDCAD	1.3137	0.0012					0.1	-0.6	-3.6			7.1		
EURUSD	1.1467	0.0019					0.2	0.5	0.0			-8.3		
USDJPY	108.91	0.0200					0.0	-0.6	-0.8			-0.4		
AUDUSD	0.7259	-0.0014					-0.2	1.1	2.9			-9.7		
GBPUSD	1.3057	-0.0052					-0.4	-1.1	2.5			-8.5		
USDCHF	0.9935	-0.0007					-0.1	-0.0	1.2			7.2		

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