

ON DECK FOR FRIDAY, FEBRUARY 8

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Indicator</u>	<u>Period</u>	<u>BNS</u>	<u>Consensus</u>	<u>Latest</u>
CA	02/08	08:15	Housing Starts (000s a.r.)	Jan	210.0	205.0	213.4
CA	02/08	08:30	Employment (000s m/m)	Jan	15.0	5.0	7.8
CA	02/08	08:30	Unemployment Rate (%)	Jan	5.6	5.7	5.6

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KEY POINTS:

- Mild risk-off tone could be prematurely judging US-China trade talks
- CDN jobs shooting for another rise...
- ...and they've been on a tear of late
- CDN housing starts could follow permits higher
- Mostly positive European macro reports...
- ...as German trade rebounds...
-and so does French industrial output...
- ...while Norway notches another GDP gain...
- ...but Italy's industrial output shrinks again
- Russian central bank holds, but bias suggests further hike risk
- A\$ weakens on RBA forecast downgrade
- Chilean peso drops as inflation falls by more than expected
- Brazilian inflation remains stable
- US only faces limited Fed speak today

INTERNATIONAL

Global markets are in a mild risk-off mood so far this morning. I think they are over-interpreting trade headlines as postponement of a possible meeting between Trump and Xi Jinping on trade negotiations until after March 1st probably has more to do with scheduling and Trump's usually overly ambitious timelines than the state of the negotiations themselves. Trump had previously indicated that a meeting might be held before the end of the tariff moratorium on March 1st but a) US negotiators are heading to China next week, led by Mnuchin, b) they continue to flag progress, and c) Trump is now scheduled to meet North Korea's leader at month end which offers a scheduling conflict. Postponement of the March 1st deadline and avoiding another previously threatened tariff hike on that day is the most likely scenario as the US administration has the repeated tendency to set artificially tight scheduling deadlines for trade negotiations as witnessed throughout the NAFTA saga.

Beyond this, Canada will focus upon the latest jobs data for January this morning. The US will only have a regional Fed President's comments on the outlook to consider (San Fran's Daly, 1:15pmET). European data is slightly more encouraging on balance this morning. Latin American inflation remains tame. Russia's central bank held its policy rate.

- US equity futures are down by ½% to ¾% across the exchanges with the Nasdaq leading the decline. TSX futures are only slightly weaker. European stocks are down by around ¼% on balance except for a larger decline in

Spain. Asian stocks fell including a 2% drop in Tokyo, a 1.2% decline in Seoul and a small decline in HK with mainland China still shut for the Lunar New Year.

- Sovereign bond yields are slightly richer with US Treasury yields down 1–2bps and Canadian yields down about 1bp across the curve. Ten year sovereign yields are slightly lower in Europe.
- Oil and gold prices are generally little changed.
- The USD is flat on a DXY basis this morning. Most major crosses are little changed. The A\$ is the weakest performing cross due to downward revisions to the RBA's forecasts that follow through on a more dovish/neutral policy turn earlier this week when Governor Lowe described the chances of a hike or a cut as "more evenly balanced" versus the previously more hawkish bias. The Chilean peso is also weaker on the back of CPI (see below).

European macro reports were somewhat mixed but more positive on balance. German export growth tripled consensus expectations with a 1.5% m/m rise that more than reversed prior weakness (0.4% consensus, -0.4% prior). Imports were also strong (+1.2% m/m, 0.5% consensus, -1.6% prior). French industrial output was up 0.8% m/m in December on gains in manufacturing, but this only clawed back some of the prior month's decline. Italian industrial output, however, fell for a fourth straight month with the Italian economy in recession. Norway's economy registered the 9th straight quarterly expansion and grew by ½% q/q at a non-annualized rate in Q4.

Chilean inflation was substantially cooler than expected in January (1.8% y/y, 2.3% consensus, 2.6% prior) with core inflation excluding food and energy decelerating to 1.9% y/y (2.3% prior). The deceleration in core inflation is the first notable downward move since January of last year. The Chilean peso is depreciating on the back of the report.

Brazilian inflation, by contrast, was stable at 3.8% y/y last month and in line with consensus expectations.

Russia's central bank held its policy rate at 7.75% as universally expected this morning. The central bank provided a **hawkish bias** on future hike risk into the March decision. It stated that at that time it will be "taking account of whether the rate increases in September and December 2018 are enough for annual inflation to return to the target in 2020. The balance of risks remains skewed toward pro-inflationary risks, especially over a short-term horizon."

CANADA

Canada's Labour Force Survey for January will further inform a hot streak for job growth (8:30amET). Canada has been leading major industrialized economies with 167,000 new jobs created over the past four months. Since job growth began to accelerate starting in mid-2016, Canada has grown about three quarters of a million new jobs. Over the past four months, about half of those job gains were full-time and since mid-2016 about 90% of jobs created have been full-time. That kind of job growth buys a lot of insurance against downside risks to housing and consumer spending.

Canada also updates housing starts for January (8:15amET). A 2.9% m/m and 8.5% y/y rise in building permit volumes for new housing might keep the reading over 200,000 at an annualized rate again. New home construction remains strong in Canada.

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.	2.47	2.48	2.50	2.44	2.46	2.50	2.64	2.66	2.69	2.99	3.00	3.03	Canada - BoC	1.75
CANADA	1.76	1.76	1.83	1.77	1.78	1.86	1.86	1.88	1.96	2.13	2.14	2.18	US - Fed	2.50
GERMANY	-0.57	-0.58	-0.58	-0.36	-0.35	-0.32	0.10	0.12	0.17	0.73	0.73	0.78	England - BoE	0.75
JAPAN	-0.16	-0.16	-0.17	-0.16	-0.15	-0.17	-0.03	-0.01	-0.01	0.58	0.61	0.61	Euro zone - ECB	0.00
U.K.	0.72	0.72	0.77	0.81	0.82	0.89	1.17	1.18	1.25	1.68	1.70	1.75	Japan - BoJ	-0.10
Spreads vs. U.S. (bps):														
CANADA	-71	-72	-67	-67	-68	-65	-77	-78	-73	-86	-86	-84	Mexico - Banxico	8.25
GERMANY	-304	-306	-309	-280	-281	-282	-253	-254	-252	-226	-226	-225	Australia - RBA	1.50
JAPAN	-263	-264	-268	-261	-261	-268	-267	-267	-270	-240	-238	-242	New Zealand - RBNZ	1.75
U.K.	-175	-176	-173	-163	-164	-161	-147	-148	-144	-130	-130	-128	Next Meeting Date	
Equities	Level						% change:							
	Last	Change		1 Day	1-wk	1-mo	1-yr							
S&P/TSX	15703	-8.9		-0.1	1.0	7.5	4.2							
Dow 30	25170	-220.8		-0.9	0.7	5.8	5.5							
S&P 500	2706	-25.6		-0.9	0.1	5.1	4.8							
Nasdaq	7288	-86.9		-1.2	0.1	5.7	7.5							
DAX	10964	-58.3		-0.5	-1.9	1.5	-10.6							
FTSE	7078	-15.4		-0.2	0.8	3.2	-1.3							
Nikkei	20333	-418.1		-2.0	-2.2	0.6	-7.1							
Hang Seng	27946	-43.9		-0.2	1.5	9.1	-13.3							
CAC	4975	-10.2		-0.2	-0.9	4.2	-3.4							
Commodities	Level						% change:							
WTI Crude	52.52	-0.12		-0.2	-5.0	5.5	-14.1							
Natural Gas	2.59	0.04		1.5	-5.3	-12.7	-4.0							
Gold	1313.12	3.02		0.2	-0.3	2.2	-0.4							
Silver	15.71	-0.02		-0.1	-2.3	-0.3	-5.9							
CRB Index	178.20	0.10		0.1	-1.3	1.3	-7.1							
Currencies	Level						% change:							
USDCAD	1.3309	0.0001		0.0	1.6	0.3	5.6							
EURUSD	1.1345	0.0004		0.0	-1.0	-0.8	-7.4							
USDJPY	109.76	-0.0600		-0.1	0.2	0.9	0.9							
AUDUSD	0.7082	-0.0019		-0.3	-2.3	-0.8	-9.0							
GBPUSD	1.2962	0.0010		0.1	-0.9	1.9	-6.8							
USDCHF	1.0016	-0.0005		-0.0	0.6	2.1	7.0							
								Mexico - Banxico				Mar 28, 2019		
								Australia - RBA				Mar 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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