

ON DECK FOR WEDNESDAY, FEBRUARY 13

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest	
CA	02/13	08:30	Teranet - National Bank HPI (y/y)	Jan	--	--	2.5	
US	02/13	08:30	CPI (m/m)	Jan	0.1	0.1	0.0	
US	02/13	08:30	CPI (y/y)	Jan	1.5	1.5	1.9	
US	02/13	08:30	CPI (index)	Jan	--	251.6	251.2	
US	02/13	08:30	CPI ex. Food & Energy (m/m)	Jan	0.2	0.2	0.2	
US	02/13	08:30	CPI ex. Food & Energy (y/y)	Jan	2.1	2.1	2.2	
US	02/13	08:50	Fed's Mester Speaks on Economic Outlook and Monetary Policy					
US	02/13	08:50	Fed's Bostic to Speak to European Financial Forum in Dublin					
US	02/13	12:00	Fed's Harker Speaks on the Economic Outlook					
US	02/13	14:00	Treasury Budget (US\$ bn)	Dec	--	-11.0	-204.9	

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KEY POINTS:

- Risk-on bias as US political risk may be ebbing
- Trump indicates tentative support for funding bill to avoid shutdown...
- ...but emergency declaration and debt ceiling risks remain
- Trump indicates leniency toward March 1st China tariff moratorium
- Five complicating factors for today's US CPI print
- Minor Fed-speak from non-voting members could react to CPI
- Krona and NZ\$ lead the currency pack...
- ...as the Riksbank drops intervention and reasserts H2 hike guidance...
- ...and the RBNZ resists a cut bias while pushing out hike guidance to 2021
- UK core CPI unchanged
- Sterling drops as conservative leavers may vote against government tomorrow
- CDN home prices set for another seasonal dip

Geopolitical matters centered upon the US administration are driving a risk-on tone across multiple asset classes in global markets. Other matters including the risk of a snap Spanish election call are being treated as tangential while US CPI lies ahead (see below).

Trump has signalled openness to signing the border and funding agreement reached by GOP members and Democrats and stated "I don't think you're going to see a shutdown." Trump's erratic ways still leave the risk in place, while the possibility he could declare border security to be a national emergency in order to pilfer funds from other sources outside of the funding bill in order to advance his border wall might drive heightened tensions. That's important, given that the debt ceiling gets reinstated on March 2nd with Treasury's cash and extraordinary powers connoting funding flexibility into early- to mid-summer, but the debt ceiling needs to be raised well before that point from the standpoint of potential market dysfunction and Congress isn't even onto the issue yet. **Does the bigger battle still lie ahead in Congress?**

Also note that **China trade headlines are on the back burner** as the US delegation won't commence high level talks with Chinese officials until tomorrow and President Xi Jinping will meet the US delegation on Friday. **UK CPI was ignored**

as sterling appreciated on Brexit headlines (see below). **Each of the Riksbank and RBNZ drove currency strength** (see below). Canada only updates house prices.

- US equity futures are mildly building upon yesterday's gain in the cash market. Futures are up by about ¼% to ½% across exchanges with TSX futures up ¼%. European cash markets are modestly higher by around an average of ¼% with Italy leading (+¾%) and Spain lagging as Spain's parliament blocked a 2019 Budget bill because support from Catalan independence parties was removed partly due to tangential tensions concerning the trial of 12 pro-independence leaders. The move raised the odds that a snap election could be called in Spain.
- The USD is little changed on a DXY basis. Pound sterling temporarily shot higher on continued volatility in Brexit headlines as CPI was ignored (see below). The NZ\$ and Swedish Krona are outperforming other crosses on central bank guidance (see below). CAD is flat and so is the Euro while the Mexican peso is depreciating.
- Sovereign bond yields are generally little changed across most major markets except for spread narrowing in Italian bonds over bunds.
- Oil prices are up a little with WTI up about 50 cents and Brent up 75 cents to US\$53½ and just over US\$ 63 respectively. Western Canada Select continues to hang in around the US\$42–43 per barrel range.

INTERNATIONAL

UK core CPI was unchanged at 1.9% y/y as expected in January. Headline inflation fell by a tick more than expected to 1.8% y/y and fell 0.6% m/m. Pound sterling largely shook off the report. It appreciated well after CPI when headlines began to roll about how the hard core Brexit faction called the European Research Group within the Conservative Party might vote against a government motion tomorrow because they dislike the January 29th "Spelman" amendment that set Parliament against a hard Brexit but only loosely so.

Sweden's Riksbank remained on hold at a repo rate of -0.25% as universally expected, but the krona appreciated on the guidance that was provided. This took two forms. One was guidance toward the next hike coming "during the second half of 2019, provided that the economic outlook and inflation prospects are as expected." The Riksbank unexpectedly hiked in December. Second, the central bank dropped reference to intervening in the currency markets and Governor Ingves shared the view that the krona should appreciate without the need for intervention in the past world of very low inflation. As Ingves stated, "That mandate was put in place when inflation was much lower."

The NZ\$ is also appreciating on the back of the RBNZ's policy decision last evening. The guidance was mixed, however, in that what markets chose to emphasize was that the RBNZ resisted reintroduction of a cut bias that some had felt might be a factor. Governor Orr accompanied this by stating the outlook was 'balanced' and hence didn't lean in favour of a renewed cut bias. Nevertheless, the central bank pushed out its guidance for a rate hike to early 2021 from next year and with a neutral nearer term stance noted that the next rate move could well be either up or down.

UNITED STATES

As for US CPI, I would caution that there is higher than normal uncertainty surrounding the figures this time around. First the guesstimates:

- The range for headline CPI expectations is -0.1% m/m to +0.2% m/m (I'm 0.1%) and 1.4% y/y to 1.6% y/y (I'm at 1.5%).
- The range for core CPI expectations is 0.1–0.3% m/m and 2.0% to 2.2% y/y and like headline, as it turns out I'm down the middle of these ranges.

This is a tricky one to call with at least five complicating factors that on net may point to overall risk of a milder reading than consensus expects. Some of the effects are competing against one another, however, such that this is not at all a certainty and quantifying the overall outcome is nearly impossible.

1. Revision effects: The small risk is that consensus is a touch too high for January's headline estimates tomorrow because estimates were submitted at the end of last week before annual seasonal adjustment revisions were made on Monday. While the revisions stretch back to 2014, recent months were little affected. December's headline CPI print went from -0.1% m/m previously to now 0.0% m/m. That slightly higher jumping off point might make the consensus estimate of 0.1% m/m for January that was submitted late last week a bit too high. There is no impact of the revisions on core CPI expectations for tomorrow.

2. It has been well understood for a while that this report will include methodological adjustments, but few are brave enough to assume the exact quantified outcome. Quality adjustments will be made to how prices for land-line telephone services, internet services and electronic information providers and cable/satellite TV service are captured. This is called 'Hedonic adjustments' that take account of how prices should be adjusted when the quality or characteristics of the product change because of innovation over time (more on this [here](#)). Quality adjustments might exert downward pressure on some but perhaps not all of these components. The BLS explanation for these changes is [here](#). The weight on the affected telecomm services is a cumulative 4.6%.

3. A third factor is the decline in gasoline prices including a 5% m/m drop in regular unleaded that will weigh upon headline CPI by easily knocking about two-tenths off the month-ago rate.

4. A fourth factor is that shifting year-ago base effects will be an additional source of downward pressure.

5. The fifth and moderating influence is that January often witnesses seasonal price increases that should limit the deceleration in headline inflation to a shift from 1.9% y/y in December to 1.5–1.6% in January and with core price inflation more stable at just over 2% y/y.

Regardless, many of these drivers are tactical short-term factors for one print. I remain of the view that the Fed's preferred core PCE inflation could return to upside pressure into H2. Strong GDP growth over recent quarters drove the output gap toward the highest amount of excess demand in about two decades and it will likely take 3–5 quarters to get lagging positive pressure on core PCE inflation even with a flatter relationship including an augmented Philips curve approach today compared to the past. That means later this year into next. Second, nominal wage growth is trending around a near decade high and could reinforce inflation pressure. Third, the broad dollar topped in Nov/Dec and even though it's up a little in February, the appreciation from April through November last year clear hit the skids over the past several months. That prior strength probably explains some of the inflation soft patch we're in now but with the expectation that this effect could subside if not mildly reverse later in the year in a way that lifts core CPI/PCE again.

Three regional Fed Presidents speak today – all after US CPI. None of them are voting FOMC members this year and include Cleveland's Mester (8:50amET) who has done one of the biggest policy flips among FOMC members compared to years of prior hawkish guidance, Atlanta's Bostic (8:50amET) and Philly's Harker (12pmET).

CANADA

Canada only updates Teranet repeat sales home prices for January (8:30amET). A fourth consecutive month-ago decline is expected after a string of seven monthly gains. The data is not seasonally adjusted, however, and what we are observing at this time of year is typical in that price gains accelerate until mid-year. In year-ago terms, price gains have decelerated from the unsustainable peak of 14% y/y in mid-2017 to 2½% now.

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.	2.51	2.51	2.53	2.50	2.50	2.50	2.68	2.69	2.70	3.02	3.03	3.03	Canada - BoC	1.75
CANADA	1.80	1.80	1.81	1.83	1.82	1.83	1.92	1.92	1.92	2.17	2.16	2.17	US - Fed	2.50
GERMANY	-0.56	-0.57	-0.56	-0.34	-0.34	-0.30	0.13	0.13	0.16	0.75	0.76	0.77	England - BoE	0.75
JAPAN	-0.16	-0.16	-0.16	-0.15	-0.15	-0.16	-0.01	-0.01	-0.01	0.62	0.60	0.60		
U.K.	0.74	0.73	0.74	0.83	0.83	0.86	1.19	1.19	1.22	1.70	1.69	1.72		
Spreads vs. U.S. (bps):														
CANADA	-71	-71	-71	-67	-67	-67	-77	-77	-77	-86	-86	-86	Euro zone - ECB	0.00
GERMANY	-307	-307	-308	-284	-284	-280	-256	-256	-253	-227	-227	-227	Japan - BoJ	-0.10
JAPAN	-267	-267	-269	-264	-265	-266	-269	-270	-271	-240	-243	-243		
U.K.	-177	-177	-179	-166	-167	-165	-150	-150	-148	-133	-133	-131	Mexico - Banxico	8.25
Equities	Level			Change			1 Day			% change:				
	Last						1 Day	1-wk	1-mo	1-yr				
S&P/TSX	15642			73.3			0.5	-0.4	4.7	2.8			Australia - RBA	1.50
Dow 30	25426			372.6			1.5	0.1	6.0	3.2			New Zealand - RBNZ	1.75
S&P 500	2745			34.9			1.3	0.3	5.7	3.1				
Nasdaq	7415			106.7			1.5	0.2	6.4	5.7				
DAX	11149			22.7			0.2	-1.6	2.4	-8.6				
FTSE	7173			40.3			0.6	0.0	3.7	0.1				
Nikkei	21144			280.3			1.3	1.4	3.9	-0.5			Canada - BoC	Mar 06, 2019
Hang Seng	28498			326.3			1.2	2.0	6.9	-4.5			US - Fed	Mar 20, 2019
CAC	5073			16.4			0.3	-0.1	6.1	-0.7			England - BoE	Mar 21, 2019
Commodities	Level			Change			1 Day			% change:				
WTI Crude	53.58			0.48			0.9	-0.8	3.9	-9.5			Euro zone - ECB	Mar 07, 2019
Natural Gas	2.60			-0.09			-3.3	-2.3	-16.1	0.2			Japan - BoJ	Mar 15, 2019
Gold	1309.31			-1.49			-0.1	0.2	1.7	-1.5				
Silver	15.81			0.11			0.7	-0.3	0.8	-3.7				
CRB Index	178.49			0.28			0.2	-1.1	0.2	-6.0				
Currencies	Level			Change			1 Day			% change:				
USDCAD	1.3243			0.0005			0.0	0.2	-0.3	5.2			Mexico - Banxico	Mar 28, 2019
EURUSD	1.1307			-0.0019			-0.2	-0.5	-1.4	-8.5			Australia - RBA	Mar 04, 2019
USDJPY	110.73			0.2500			0.2	0.7	2.4	2.7			New Zealand - RBNZ	Mar 26, 2019
AUDUSD	0.7112			0.0017			0.2	0.1	-1.2	-9.5				
GBPUSD	1.2906			0.0014			0.1	-0.2	0.3	-7.1				
USDCHF	1.0057			-0.0010			-0.1	0.4	2.5	7.6				

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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