

**ON DECK FOR THURSDAY, FEBRUARY 14**

<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	02/14	08:30	Manufacturing Shipments (m/m)	Dec	0.4	0.4	-1.4	
CA	02/14	08:30	New Housing Price Index (m/m)	Dec	--	0.0	0.0	
US	02/14	08:30	Initial Jobless Claims (000s)	FEB 9	230	225	234	
US	02/14	08:30	Continuing Claims (000s)	FEB 2	1740	1740	1736	
US	02/14	08:30	PPI (m/m)	Jan	0.1	0.1	-0.1	
US	02/14	08:30	PPI ex. Food & Energy (m/m)	Jan	0.1	0.2	0.0	
US	02/14	08:30	Retail Sales (m/m)	Dec	0.1	0.1	0.2	
US	02/14	08:30	Retail Sales ex. Autos (m/m)	Dec	0.1	0.0	0.2	
US	02/14	<b>09:55</b>	<b>Fed's Harker Discusses Approaches to Leadership</b>					
US	02/14	10:00	Business Inventories (m/m)	Nov	--	0.2	0.6	

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**KEY POINTS:**

- Investors continue to declare their love for stocks
- US mulling extension of China tariff deadline...
- ...in a replay of the movie that NAFTA observers have already seen
- US funding deal likely to be passed by tonight
- Is global cap-ex on the mend?
- Japanese growth mildly rebounds in Q4
- Germany narrowly avoids technical recession on domestic strengths
- Chinese exports, imports smash consensus expectations....
- ...with important caveats...
- ...while exports benefit from yuan offsets to tariffs
- US retail hopes rest on core sales
- CDN manufacturing to inform a soft patch...
- ...that the BoC is inclined to look through

**INTERNATIONAL**

**Stocks are feeling loved on Valentine's Day as risk-on continues.** The bears who in the height of market volatility over late December said to pay attention to signals being shed by markets are curiously inclined to ignore market signals as risk-on has steadily returned so far this year! **The dominant drivers include guidance that Trump's March 1<sup>st</sup> tariff deadline on Chinese imports will be extended by another sixty days, votes in Congress that are expected to pass the funding bill and avert a US government shutdown by later tonight, and generally constructive data out of China, Japan and to a lesser extent Germany that at least barely averted a technical recession.** Also note that today is Day 1 of renewed high level US-China trade talks and so be on guard for headlines related to progress from now into the weekend. **The US releases retail sales** that will probably be weak in headline terms but hopefully stronger excluding autos and gas. **Canada updates manufacturing shipments** with consensus all over the map in terms of expectations for this one.

- The USD is little changed overall this morning. Appreciating crosses are led by the NZ\$/A\$ while depreciating crosses are led by the rand, won and

pound sterling. The Euro, yen, CAD and Mexican peso are all little changed ahead of US and Canadian macro data.

- Sovereign bond yields are slightly lower with 10 year note yields down by 1–2bps across the US, Canada, Germany, France and UK with the latter outperforming.
- Oil prices are up again with WTI up 50 cents and Brent gaining 75 cents to US\$54.30 and about US\$64½ respectively. WTI is up by over \$3 since the recent low on Monday.
- US and Canadian equity futures are up by about ¼% to ½% across the exchanges as European cash markets rally by between ¼% and ½% across the exchanges with the exception of softness in Italy.

**Chinese trade rebounded smartly in January** as both export and import growth figures smashed consensus expectations. In yuan terms, exports were up 13.9% y/y (3.8% consensus, 0.2% prior) and imports were up 2.9% y/y (-1.9% consensus, -3.1% prior). In USD terms, exports were up 9.1% y/y (-3.3% consensus, -4.4% prior) and imports were down 1.5% y/y (-10.2% consensus, -7.6% prior). There are caveats. One is that the annual Lunar New Year was on February 5<sup>th</sup> this year but it was on February 16<sup>th</sup> last year. The inference is that front-running exports ahead of typical production shutdowns may have occurred earlier this year and more so in January than last year. Therefore, this could have inflated the year-ago comparison in that last year's efforts to move product ahead of the new year were likely more concentrated into early February. A second caveat is an extension of the first one; if this effect was dominant, then expect the year-ago trade growth figures to tumble again in February when the year-ago comparison is made to front-running that occurred last February. That said, it shouldn't necessarily be terribly surprising to see some export resilience in the face of US tariffs since the yuan depreciated by about 11% from last April to its weakest point in late October as a heavy offset to the weighted average tariff effect on export competitiveness. The yuan is still 8% depreciated to the dollar compared to last April even with the mild appreciation over the past couple of months.

**Germany narrowly escaped the technical definition of recession** with Q4 growth slightly missing expectations. GDP growth was nil in Q4 after a 0.2% retreat in Q3. The German Federal Statistical Office noted ([here](#)) that positive contributions to growth came from the domestic economy as trade failed to contribute to growth. Investment both through construction and equipment spending accelerated sharply along with government spending, while consumption registered a small gain. Therefore the silver lining here is that capital spending growth rebounded.

**Japan's economy also escaped a technical recession but with a bit more verve than Germany.** After contracting by an annualized 2.6% q/q in Q3 (revised a tick lower), growth was 1.4% in Q4 and it was the downward revision to Q3 that explained the slight miss in Q4. The brightest spot was a 9.8% annualized jump in capital investment followed by a 4.7% increase in residential investment. Consumption was up 2.4% and government spending increased 3.2%. Net trade was a drag, but not for bad reasons as an 11.3% jump in imports reflected domestic pull factors alongside a 3.7% export increase.

## UNITED STATES

**Nothing is confirmed, but 'people familiar with the matter' are telling newswires that the Trump administration is considering a 60 day extension to the March 1<sup>st</sup> tariff deadline given perceived progress in negotiations.** The 90 day fiancé trial period has given way to hesitation to deliver the ring but to nevertheless continue dating. Those negotiations restarted today at a high level with USTR Lighthizer expected to meet with Chinese President Xi Jinping tomorrow in Beijing. NAFTA observers have seen this movie before. The Trump administration sets unrealistic deadlines either because it is naïve toward how long and complex trade negotiations can be or because it applies pressure with staged deadlines (I'm inclined to believe the former...) and then repeatedly extends the deadlines. Throughout the negotiations, Trump's bark tends to be worse than his bite and our house assumption remains there will be a deal in time for heightened campaigning over H2 into the earlier than normal US primaries one year from now on the path to the November 2020 Presidential election.

**The US Senate and House of Representatives are expected to vote on the funding bill** designed to avert a government shutdown today but it will take until later tonight or tomorrow before the votes and Trump's hoped for signature are delivered. The Senate will vote first and then two afternoon funerals for congressmen will delay the House vote until sometime after 6:30pmET.

**US markets will focus upon retail sales in December (8:30amET) as one of the delayed macro hits during the shutdown gets updated.** Softness is expected given known components but there may be a little more hope for sales ex-autos and gasoline in the context of a solid quarter. Auto sales volumes were flat at 17.5 million units in December before they fell in January. Gas prices also fell by 10% m/m. Since the US retail sales figures are only reported in terms of dollar values without stripping out price effects, the headline figure won't be helped by flat headline CPI that has been unchanged at 0% m/m for the past three months. Core retail sales, however, will get a price boost as core CPI inflation has been up by 0.2% m/m for five consecutive months.

A distant second to US retail will be producer price inflation during January (8:30amET). A return to a small rise in core prices is expected following the flat December reading.

## CANADA

**Canada will consider manufacturing data (8:30amET)** that is stale ahead of the next report for January that will be weak given Alberta's energy production cuts that will exert downward pressure on the energy component. At the margin, Canada is just informing the widely expected Q4/Q1 soft patch ahead of an expected rebound so there is a strong policy filter put on the interim data. A mild rise in December's shipments is plausible but not assured. On the downside, new orders fell 2.9% m/m the prior month and that may portend soft shipments, although timing the effect on shipments is uncertain. Positive offsets included price effects on the dollar value of shipments since Western Canada Select oil prices had recovered in December while CAD depreciated over the month.

Canada faces a significant earnings line up with 20 TSX firms releasing today including Bombardier, Canadian Tire, TELUS, TransCanada, and several resource stocks.

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.	2.53	2.53	2.48	2.51	2.52	2.46	2.69	2.70	2.66	3.02	3.03	3.00	Canada - BoC	1.75
CANADA	1.81	1.81	1.76	1.83	1.84	1.79	1.92	1.93	1.88	2.16	2.18	2.14	US - Fed	2.50
GERMANY	-0.56	-0.56	-0.58	-0.35	-0.34	-0.35	0.11	0.12	0.12	0.73	0.75	0.73	England - BoE	0.75
JAPAN	-0.17	-0.16	-0.16	-0.16	-0.15	-0.15	-0.01	-0.01	-0.01	0.61	0.62	0.61		
U.K.	0.73	0.73	0.72	0.81	0.83	0.82	1.16	1.18	1.18	1.68	1.69	1.70		
	Spreads vs. U.S. (bps):													
CANADA	-72	-72	-72	-68	-68	-68	-77	-77	-78	-86	-86	-86	Euro zone - ECB	0.00
GERMANY	-308	-309	-306	-286	-286	-281	-258	-258	-254	-229	-229	-226	Japan - BoJ	-0.10
JAPAN	-269	-269	-264	-267	-267	-261	-270	-271	-267	-241	-241	-238		
U.K.	-180	-180	-176	-170	-169	-164	-153	-152	-148	-134	-134	-130	Mexico - Banxico	8.25
Equities	Level			Change			% change:			% change:				
	Last						1 Day	1-wk	1-mo	1-yr				
S&P/TSX	15627			-15.4			-0.1	-0.5	4.3	1.9			Australia - RBA	1.50
Dow 30	25543			117.5			0.5	0.6	6.8	2.6				
S&P 500	2753			8.3			0.3	0.8	6.6	2.0			New Zealand - RBNZ	1.75
Nasdaq	7420			5.8			0.1	0.6	7.4	3.9				
DAX	11195			27.6			0.2	1.6	3.1	-9.3				
FTSE	7223			32.2			0.4	1.8	5.4	0.1				
Nikkei	21140			-4.8			-0.0	1.3	3.8	-0.1			Canada - BoC	Mar 06, 2019
Hang Seng	28432			-65.5			-0.2	1.6	8.1	-6.8			US - Fed	Mar 20, 2019
CAC	5107			32.8			0.6	2.4	7.2	-1.1			England - BoE	Mar 21, 2019
Commodities	Level			Change			% change:			% change:				
WTI Crude	54.33			0.43			0.8	3.2	7.6	-10.3			Euro zone - ECB	Mar 07, 2019
Natural Gas	2.59			0.02			0.7	1.6	-27.8	0.2			Japan - BoJ	Mar 15, 2019
Gold	1304.35			-1.90			-0.1	-0.4	1.0	-3.4				
Silver	15.70			-0.12			-0.7	-0.2	0.1	-5.5			Mexico - Banxico	Mar 28, 2019
CRB Index	179.26			0.54			0.3	0.6	0.8	-6.8			Australia - RBA	Mar 04, 2019
Currencies	Level			Change			% change:			% change:				
USDCAD	1.3264			0.0010			0.1	-0.3	-0.2	6.2			New Zealand - RBNZ	Mar 26, 2019
EURUSD	1.1267			0.0006			0.1	-0.7	-1.8	-9.5				
USDJPY	111.04			0.0300			0.0	1.1	2.7	3.8				
AUDUSD	0.7109			0.0019			0.3	0.1	-1.2	-10.3				
GBPUSD	1.2807			-0.0039			-0.3	-1.1	-0.4	-8.5				
USDCHF	1.0089			-0.0003			-0.0	0.7	2.8	8.6				

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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