Scotiabank™

February 15, 2019 @ *8:25 EST*

ON DECK FOR FRIDAY, FEBRUARY 15

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	02/15	08:30	International Securities Transactions (C$ bn)	Dec	--	--	9.5
US	02/15	08:30	Empire State Manufacturing Index	Feb	--	7.0	3.9
US	02/15	08:30	Export Prices (m/m)	Jan	--	-0.2	-1.0
US	02/15	08:30	Import Prices (m/m)	Jan	--	-0.2	-1.0
CA	02/15	09:00	Existing Home Sales (m/m)	Jan	--	-0.6	-2.5
US	02/15	09:15	Capacity Utilization (%)	Jan	--	78.7	78.7
US	02/15	09:15	Industrial Production (m/m)	Jan	0.2	0.1	0.4
US	02/15	**09:55**	**Fed's Bostic to Speak on Workforce Development in Alabama**				
US	02/15	10:00	U. of Michigan Consumer Sentiment	Feb P	92	93.5	91.2
US	02/15	16:00	Total Net TIC Flows (US$ bn)	Dec	--	--	31.0
US	02/15	16:00	Net Long-term TIC Flows (US$ bn)	Dec	--	--	37.6

KEY POINTS:

- **Risk-on bias sets in to end the week**
- **Markets justifiably shaking off US retail sales**
- **China, US cite trade progress**
- **US shutdown averted as funding bill passes…**
- **…but awaits Trump's signature and emergency declaration**
- **Chinese CPI inflation dips, but core rises…**
- **…while inflation nevertheless remains persistently below target**
- **China's financing activity smashes records**
- **UK retail sales explode…**
- **…but is it driven by precautionary Brexit stockpiling…**
- **…or wage growth at a decade high?**
- **US Empire, IP to inform whether ISM volatility was a red herring**
- **UofM sentiment: stabilizing post-shutdown and with stocks up?**
- **CDN existing home sales in a dead zone until Spring**
- **Canada's bond market will close early today ahead of Monday's holiday**
- **US markets shut on Monday for President's Day**

INTERNATIONAL

A mild global risk-on bias is shaping up to end the trading week and it is driven by geopolitical and macro data considerations. Markets may be shaking off what I still think was a US retail sales reading that should be treated with great skepticism if not ignored outright (recap here). One driver was the passage of the US funding bill by both the Senate and House last night as it awaits Trump's signature. He will likely invoke a national emergency to reallocate funding from elsewhere to build his pet wall, but Congressional and court challenges are likely to persist for ages afterward. Even many members of the GOP are leery of taking this step partly because of what it may unleash (here) and partly because of the precedent that would be set and the fear that what goes around comes around. House Speaker Pelosi hinted at this latter effect yesterday when she mused that perhaps a future Democrat in the oval office might use such powers for gun controls that are anathema to many Republicans.

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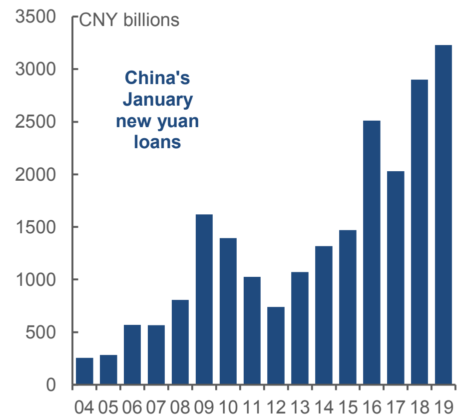
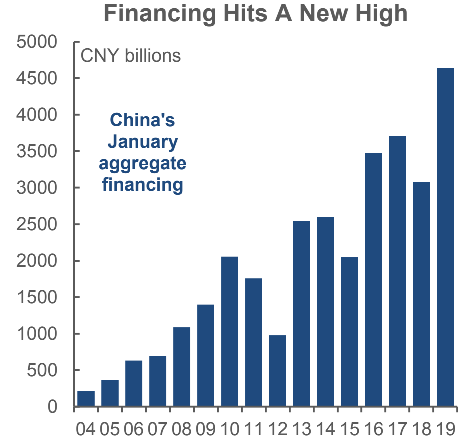
China's New Yuan Loan Growth Is At A Record High



Sources: Scotiabank Economics, Bloomberg.

China's Aggregate Financing Hits A New High



Sources: Scotiabank Economics, Bloomberg.

Another driver is progress in US-China trade talks. Chinese President Xi Jinping advised early this morning that another round of trade talks will occur in Washington next week. Xi said “Negotiations between both sides have achieved important progress in another step.” The general sentiment has been echoed by the US administration including Lighthizer’s remark “We feel we have made headway on very, very important and difficult issues. We have additional work we have to do but we are hopeful.” The bias that the negotiations end in agreement that avoids additional tariffs if not reverses existing ones remains intact.

Data is also supportive of the market tone including Chinese CPI, Chinese financing figures and UK retail sales (see below for all). US markets will face industrial and consumer confidence figures while Canada only faces home resales.

- US and Canadian equity futures are up by about ¼%. European cash markets are up by between 0.5% (London) and 1.4% (Paris). Asian stocks fell across the board including a 1.1% decline in the Nikkei, 1.9% drop in HK, 1.4% decline in Shanghai and 1.3% decline in Seoul. Asian equities followed the US market tone after the retail sales numbers, and then Asian equity markets closed before more positive trade headlines began to hit the wires.
- The USD is slightly stronger on a broad dollar basis. It’s either flat or up against most crosses with CAD and the NZ$ outperforming most.
- Sovereign bond yields are about 2bp higher across the US and Canadian curves with US 10s at 2.67% and Canada’s 10 year yield advantage at -78bps. European sovereign bonds are little changed except for spread widening in Italy over bunds.
- Oil prices are up again with WTI closing in on US$55 and Brent ten dollars higher.

China’s CPI inflation figures unexpectedly decelerated overnight but core inflation picked up a touch. The January CPI print decelerated to 1.7% y/y (1.9% consensus, 1.9% prior). That’s the weakest reading since exactly one year ago and it remains well below the annual target of around 3% that will probably be retained at the March National Congress for the upcoming year. Chinese CPI inflation hasn’t crossed 3% or even hit it since late 2013 (see chart) and so concern about the credit cycle takes a back seat to perennial underperformance of the prime monetary policy goal. The drivers of the deceleration were on the goods side of the picture. Consumer goods price inflation fell to 1.3% y/y (1.3% prior) while services prices accelerated to 2.4% (2.1% prior). Food price inflation decelerated to 1.9% y/y (2.5% prior). Excluding food and energy prices, inflation picked up to 1.9% y/y (1.8% prior).

China's Waning Inflation

Sources: Scotiabank Economics, National Bureau of Statistics of China

And so with Chinese inflation perennially falling short of the policy goal, the attention now turns to the fruits of stimulating the credit cycle. China’s lending and aggregate financing figures were updated with January tallies overnight. **New all-time records were achieved for the month of January in both new yuan loan originations and aggregate financing** that includes domestic and FX loans, bonds, equities, short-term paper and various shadow banking products. See the two accompanying charts that depict volumes in January of each year over time. The volumes usually surge in January because of the way the authorizations get doled out to the state banks, but this year is off to an exceptionally strong start. This is perhaps not terribly surprising given that China has lowered required reserve ratios and injected liquidity in a move to offer stimulus to counter tariff effects. My view remains that as long as further rounds of tariff escalation can be restored, China’s economy will be just fine with growth at about 6%. The yuan’s depreciation since last April offsets much of the weighted average tariff hike. The net implications of tariffs to the economy are somewhat offsetting given retaliatory measures. China will also probably introduce further stimulus at the National Congress next month including tax cuts.

UK Wage Growth is Soaring

Sources: Scotiabank Economics, Bloomberg.

Brexit schmexit, or precautionary stockpiling because of Brexit? That’s the question attached to understanding what UK consumers did to ring in the new year. **UK retail sales volumes unexpectedly jumped by 1% m/m** (consensus 0.2%) and were revised up to a little less of a contraction in December (-0.7% instead of -0.9%). Excluding fuel, sales volumes were up 1.2% m/m (0.2% consensus) and the prior month was revised up to

-1% from -1.3% previously. Over the past three months, sales volumes ex-fuel jumped by over 1% in two out of three months with December the weak spot after Black Friday sales fever likely brought forward some spending into November. Consumers bought more food (1.2% m/m, -0.2% prior) and perhaps this was motivated by stockpiling ahead of Brexit concerns and on the government's own advice to consumers. Clothing and footwear sales jumped by 2.1% m/m as clothing prices were sharply discounted. Sales were weak across other categories like household goods. In addition to Brexit considerations, a driver may well be accelerating wage growth that—much like the US—is running at the fastest pace since 2008 (see chart).

UNITED STATES

US markets will consider refreshed figures for consumer confidence and industrial activity this morning. The **University of Michigan's consumer sentiment** print is expected to stabilize if not improve in today's February print (10amET) following the end of the US government shutdown and the improved market tone so far this year. The NY Fed's Empire gauge of manufacturing activity kicks off the regional surveys on the path to the next ISM (8:30amET). **Whether ISM called industrial weakness or was a red herring of sorts will be informed by the 9:15amET print for manufacturing and broader industrial output.** Recall that manufacturing output surged by 1.1% in December and posted a slight gain in November while the ISM-manufacturing reading retreated in the other direction in December before recovering in January. The usual warning is that PMIs are sentiment gauges versus hard data.

CANADA

Canada updates existing home sales for January this morning (9amET). At this time of year, moving activity is more driven by necessity as seasonal adjustment factors can be the dominant consideration. The real test of housing appetite will come with the Spring housing market.

Canada's bond market will shut at 1pmET today ahead of the Family Day holiday on Monday.

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.	2.51	2.50	2.47	2.49	2.47	2.45	2.67	2.65	2.64	3.01	3.00	2.98
CANADA	1.78	1.76	1.77	1.80	1.78	1.79	1.90	1.87	1.88	2.15	2.14	2.14
GERMANY	-0.56	-0.55	-0.58	-0.35	-0.35	-0.37	0.10	0.10	0.09	0.72	0.72	0.70
JAPAN	-0.17	-0.17	-0.16	-0.17	-0.16	-0.16	-0.02	-0.01	-0.03	0.60	0.61	0.58
U.K.	0.73	0.74	0.71	0.81	0.81	0.80	1.16	1.15	1.15	1.68	1.67	1.67
	Spreads vs. U.S. (bps):											
CANADA	-73	-73	-70	-69	-69	-65	-78	-78	-76	-86	-86	-84
GERMANY	-306	-305	-305	-284	-282	-281	-257	-255	-255	-229	-228	-228
JAPAN	-268	-266	-263	-266	-263	-261	-269	-267	-266	-241	-239	-240
U.K.	-178	-176	-176	-168	-166	-165	-152	-150	-148	-133	-132	-131

Equities	Level		% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	15696	69.3	0.4	-0.0	4.3	1.9
Dow 30	25439	-103.9	-0.4	1.1	5.7	0.9
S&P 500	2746	-7.3	-0.3	1.5	5.2	0.5
Nasdaq	7427	6.6	0.1	1.9	5.7	2.3
DAX	11235	144.8	1.3	3.0	3.1	-9.0
FTSE	7240	43.2	0.6	2.4	5.0	0.1
Nikkei	20901	-239.1	-1.1	0.7	1.7	-2.6
Hang Seng	27901	-531.2	-1.9	-0.2	4.0	-10.3
CAC	5136	74.0	1.5	3.5	7.3	-1.6
Commodities	Level		% change:			
WTI Crude	54.91	0.50	0.9	4.2	5.4	-10.5
Natural Gas	2.60	0.02	0.9	0.5	-25.8	0.7
Gold	1318.16	5.58	0.4	0.3	2.2	-2.6
Silver	15.58	-0.12	-0.7	-0.8	-0.2	-6.0
CRB Index	179.96	1.24	0.7	1.1	0.6	-7.0
Currencies	Level		% change:			
USDCAD	1.3288	-0.0007	-0.1	0.1	0.2	6.5
EURUSD	1.1254	-0.0041	-0.4	-0.6	-1.4	-10.0
USDJPY	110.55	0.0700	0.1	0.7	1.7	4.2
AUDUSD	0.7105	-0.0001	-0.0	0.2	-1.3	-10.6
GBPUSD	1.2796	-0.0007	-0.1	-1.1	-0.5	-9.2
USDCHF	1.0074	0.0025	0.2	0.7	2.0	9.3

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	Mar 21, 2019
Euro zone - ECB	Mar 07, 2019
Japan - BoJ	Mar 15, 2019
Mexico - Banxico	Mar 28, 2019
Australia - RBA	Mar 04, 2019
New Zealand - RBNZ	Mar 26, 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.