

ON DECK FOR THURSDAY, FEBRUARY 21

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Indicator</u>	<u>Period</u>	<u>BNS</u>	<u>Consensus</u>	<u>Latest</u>
US	02/21	07:50	Fed's Bostic Speaks on Economy and Monetary Policy				
CA	02/21	08:30	Wholesale Trade (m/m)	Dec	--	-0.2	-1.0
US	02/21	08:30	Durable Goods Orders (m/m)	Dec P	2.5	1.7	0.7
US	02/21	08:30	Durable Goods Orders ex. Trans. (m/m)	Dec P	0.5	0.3	-0.4
US	02/21	08:30	Initial Jobless Claims (000s)	FEB 16	230	228.2	239.0
US	02/21	08:30	Continuing Claims (000s)	FEB 9	1775	1743	1773
US	02/21	08:30	Philadelphia Fed Index	Feb	18	14.0	17.0
US	02/21	10:00	Existing Home Sales (mn a.r.)	Jan	4.9	5.0	5.0
US	02/21	10:00	Existing Home Sales (m/m)	Jan	-1.8	0.2	-6.4
US	02/21	10:00	Leading Indicators (m/m)	Jan	--	0.1	-0.1
CA	02/21	12:35	Bank of Canada Governor Stephen Poloz Speech				

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KEY POINTS:

- **Markets playing defense**
- **BoC's Poloz likely to sound more hawkish than market pricing**
- **Positive US-China trade headlines shaken off...**
- **...in favour of US-EU trade tensions...**
- **...and FOMC minutes that leave the door open to hiking again**
- **Eurozone PMIs stabilize thanks to services**
- **A\$ shakes off Australian jobs that ripped higher**
- **US Philly, durables, home resales, claims on tap**
- **Brexit headlines oscillate from deal to no deal**

INTERNATIONAL

The global risk trade is fairly flat so far this morning. It is shaking off reports of multiple memorandums of understanding being developed by the US and China toward a trade agreement and probably for good reasons (see below). Some of the reason might be trading off yesterday's FOMC minutes that left the door open toward returning with rate hikes and a changed bias (recap [here](#)). Eurozone purchasing managers' indices stabilized due to the services sector (see below). The A\$ fell partly on trade tensions with China despite a blow-out jobs report (see below). BoC policy guidance and four US macro reports will dominate attention in North America. Brexit headlines remain on a rollercoaster ride as they've swung from speculation toward an imminent deal to vote upon next week toward no deal being expected all within the past twenty-four hours.

- The USD is flat on a DXY basis. That's because the euro, yen and pound sterling are all little changed against it while the A\$ leads depreciating crosses and the rand leads appreciating ones. CAD and the Mexican peso are little changed.
- Sovereign bond yields are under mild upward pressure including a 2–3bp rise across the US Treasury and Canada curves. The gilts, bunds and French curves are similarly cheaper.

- US and Canadian equity futures range from flat to very slightly positive. European cash markets range from $-3/4\%$ in London to $+1/2\%$ in Frankfurt. Asian cash markets were flat in Tokyo and Seoul, up 0.4% in HK and down $1/4\%$ in mainland China.
- Oil prices are little changed with WTI at about US\$57.30 and Brent at US\$67.10. The Canada Western Select oil price benchmark didn't really react to Alberta's oil-by-rail announcements the other day.

The US and China are working toward multiple MOUs that could form a broader trade agreement, according to unnamed spokespeople. The reports are not confirmed by negotiators in China or the US. Stocks are ignoring the news. One reason for that is lingering uncertainty over whether progress toward China is being offset by a deteriorating relationship with Europe as the Trump administration needs to clear the air on what it intends to do with the Commerce Department's still private recommendations and potential auto tariffs. Another reason is that stocks may be trading off China trade gains with a little more hawkish or less dovish sounding Fed in yesterday's meeting minutes. Another reason is that it's not surprising that chapters/MOUs are being worked on as this is a basic part of trade negotiations but it doesn't mean there are not major obstacles remaining; observers of NAFTA negotiations last year saw plenty of that. A final reason is that markets may have partly priced in a deal because they spot a pattern whereby Washington stirs the pot and then signs agreements that ultimately change relatively little.

Eurozone survey-based growth evidence stabilized in January. The region-wide composite purchasing managers' index came in at 51.4 (51.1 consensus, 51.0 prior). That difference to consensus is well within the bounds of error for sentiment surveys, but at least the measure has stopped declining. Indeed, the composite PMI has largely moved sideways over the past couple of months after steadily declining from a peak last January up to December. Within the composite, the services PMI moved up 1.1 points to 52.3 and a full point above consensus while the manufacturing sector PMI dropped 1.3 points to 49.2 and about a full point below consensus expectations. So services accelerated while the smaller manufacturing sector dipped marginally into contraction territory. In France, both the manufacturing and services sectors improved but in Germany the manufacturing sector's deterioration was offset by a stronger services industry.

Australian job growth smashed consensus expectations. The A\$ ignored it in favour of reports that China has stopped importing Australian coal in protest against treatment of Huawei and speculation toward an RBA rate cut at some point. The country added 39.1k new jobs in January (15k consensus), all of which were full-time (+65.4k) as part-time jobs were converted in aggregate (-26.3k).

UNITED STATES

US markets will consider four macro releases.

Philly Fed Business Outlook Survey (8:30amET): This regional gauge is a leading indicator to ISM-manufacturing along with the Richmond Fed's metric. When Philly rebounded in January, it successfully portended a rebound in ISM. It's a volatile and nearly impossible to forecast metric but this morning's result will further inform whether the dip in ISM during December was transitory.

Durable goods orders (8:30amET): a jump in Boeing's orders should assist headline durable goods orders but the key will be core capital goods orders excluding defence and aerospace. They had fallen in November and in three of the past four months as uncertainty weighed upon business investment.

US existing home sales (10amET): Stability is expected after a 6.4% m/m drop in December. Note, however, that pending home sales that close and get turned into completed sales 30–90 days later have fallen in each of the past three months.

Jobless claims (8:30amET): They are probably still distorted by the government shutdown that occurred from December 22nd until January 25th. A backlog continues to be worked off and so the reading is not a good measure of labour market conditions including hiring appetite.

CANADA

I would expect BoC communications to be moderately more hawkish sounding relative to market pricing today. BoC Governor Poloz's speech highlights will hit at 12:35pmET or 12:45pmET given conflicting estimates on the BoC web site and he will host a press conference at 2pm. The venue has indicated his topic to be "monetary policy, its power to improve economic performance, and the scope of its effectiveness" which is a bit more expansive than BoC guidance that he will speak about monetary policy. Regardless, clearly by either interpretation the market risk is likely to be high into this one.

Poloz has repeatedly emphasized that monetary policy is no cure-all and best serves the economy and markets through targeting low and stable inflation. A hook today could well be to expand upon his prior guidance that if global protectionism becomes ingrained in the outlook, then it could reverse decades of disinflation that was partly due to trade liberalization. **The BoC's role in a less favourable environment of rising prices would be confined to enforcing its inflation target.** Broader messaging is expected to reinforce the BoC's position—and ours—that **Canada is presently in a soft patch driven by factors such as prior NAFTA uncertainty, B-20 and last Fall's oil price weakness but that a rebound is expected. I would expect Poloz to reinforce guidance that the hike cycle has been paused, not halted or at risk of reversal.** Since OIS markets have less than half a hike priced by year-end, the market risk is more skewed toward a relatively hawkish outcome than an incrementally dovish one especially given developments in global markets since the last time Poloz spoke. He will likely argue that recent weakness fits their narrative regarding a soft patch, with a little less 'patience' than the Fed.

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	2.50	2.50	2.49	2.47	2.47	2.67	2.65	2.65	3.02	3.00	3.00	Canada - BoC	1.75
CANADA	1.80	1.77	1.76	1.82	1.79	1.78	1.93	1.89	1.87	2.17	2.14	2.14	US - Fed	2.50
GERMANY	-0.55	-0.57	-0.55	-0.32	-0.35	-0.35	0.13	0.10	0.10	0.75	0.73	0.72	England - BoE	0.75
JAPAN	-0.18	-0.18	-0.17	-0.17	-0.18	-0.16	-0.04	-0.03	-0.01	0.57	0.59	0.61		
U.K.	0.77	0.75	0.74	0.88	0.84	0.81	1.22	1.18	1.15	1.73	1.71	1.67		
Spreads vs. U.S. (bps):														
CANADA	-72	-73	-73	-67	-67	-69	-75	-75	-78	-85	-85	-86	Euro zone - ECB	0.00
GERMANY	-307	-307	-305	-281	-282	-282	-254	-255	-255	-227	-227	-228	Japan - BoJ	-0.10
JAPAN	-269	-268	-266	-267	-264	-263	-271	-268	-267	-245	-241	-239		
U.K.	-175	-175	-176	-162	-163	-166	-145	-146	-150	-129	-129	-132	Mexico - Banxico	8.25
Equities	Level						% change:						Next Meeting Date	
	Last			Change			1 Day	1-wk	1-mo			1-yr		
S&P/TSX	16031			93.8			0.6	2.5	4.4			3.3	Australia - RBA	1.50
Dow 30	25954			63.1			0.2	2.1	5.1			4.7	New Zealand - RBNZ	1.75
S&P 500	2785			4.9			0.2	1.5	4.3			3.1		
Nasdaq	7489			2.3			0.0	1.0	4.6			3.8		
DAX	11416			14.3			0.1	2.9	2.5			-8.5		
FTSE	7160			-68.2			-0.9	-0.5	2.7			-1.7		
Nikkei	21464			32.7			0.2	1.5	3.6			-2.3	Canada - BoC	Mar 06, 2019
Hang Seng	28630			115.9			0.4	0.7	5.3			-8.9	US - Fed	Mar 20, 2019
CAC	5192			-3.7			-0.1	2.6	6.7			-2.1		
Commodities	Level						% change:							
WTI Crude	57.20			0.04			0.1	6.1	6.3			-7.3	England - BoE	Mar 21, 2019
Natural Gas	2.68			0.04			1.6	4.0	-23.1			0.7	Euro zone - ECB	Mar 07, 2019
Gold	1335.16			-3.32			-0.2	1.7	4.6			0.8	Japan - BoJ	Mar 15, 2019
Silver	16.04			0.26			1.6	2.2	3.7			-3.2		
CRB Index	183.55			0.28			0.2	2.7	0.7			-5.5		
Currencies	Level						% change:							
USDCAD	1.3173			-0.0003			-0.0	-0.9	-0.9			3.7	Mexico - Banxico	Mar 28, 2019
EURUSD	1.1355			0.0017			0.1	0.5	-0.1			-7.6		
USDJPY	110.70			-0.1500			-0.1	0.2	0.9			2.7	Australia - RBA	Mar 04, 2019
AUDUSD	0.7108			-0.0057			-0.8	0.0	-0.7			-8.9		
GBPUSD	1.3082			0.0032			0.2	2.2	1.5			-6.0	New Zealand - RBNZ	Mar 26, 2019
USDCHE	1.0009			0.0006			0.1	-0.4	0.4			6.6		

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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