

ON DECK FOR TUESDAY, FEBRUARY 26

<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	02/26	08:30	Building Permits (000s a.r.)	Dec	--	1290.0	1322.0
US	02/26	08:30	Housing Starts (000s a.r.)	Dec	1260	1256.0	1256.0
US	02/26	08:30	Housing Starts (m/m)	Dec	0.3	-0.1	3.2
US	02/26	09:00	S&P/Case-Shiller Home Price Index (m/m)	Dec	0.3	0.3	0.3
US	02/26	09:00	S&P/Case-Shiller Home Price Index (y/y)	Dec	4.5	4.5	4.7
US	02/26	10:00	Consumer Confidence Index	Feb	123	124.9	120.2
US	02/26	10:00	Richmond Fed Manufacturing Index	Feb	--	5.0	-2.0
US	02/26	10:00	Powell testifies Before Senate Banking Panel				

KEY POINTS:

- **Markets take a breather on trade optimism**
- **FTSE falls, sterling soars and gilts get grumpy over positive Brexit moves**
- **Powell's semi-annual testimony may be glossed over by markets...**
- **...but the risk is skewed toward a slightly more upbeat tone...**
- **...that still has us forecasting a return to H2 hikes...**
- **...against market pricing for easing**
- **US consumer confidence probably improved**
- **US housing starts, home prices also on tap**
- **A mixed CDN bank earnings season so far**
- **US to auction 7s**

INTERNATIONAL
Profit taking on trade optimism and positive market reflections upon Brexit developments (see below) are driving global markets so far this morning.

This morning, markets may be choosing to emphasize Trump's more ambivalent "might not happen at all" remark in relation to a US-China trade deal despite most signs pointing to one. European and Asian calendars are devoid of fresh developments. US markets will be the main focal point. The first of two Congressional testimonies by Chair Powell occurs this morning but should be of little consequence to markets (see below). Limited US data risk and a bond auction are also ahead. Canadian markets will broadly follow the global tone with only mixed bank earnings to consider.

- Pound sterling is the stand-out performer on Brexit headlines this morning (see below). CAD and the A\$ are downside performers as higher beta currencies generally lose ground.
- Gilts are underperforming other global bond markets. The gilts curve is up by 2–3bps in yield across maturities. US Treasuries and Canadas are little changed. European sovereign yields are also little changed with the exception of spread narrowing in Italy.
- US equity futures are down by about ¼% on average across the benchmarks. TSX futures are little changed. A stronger pound sterling is driving London lower by over 1%. Mild risk-off movements are occurring

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US Excess Demand is Running at a Nearly Two-Decade High


Sources: Scotiabank Economics, Congressional Budget Office.

across other European bourses. Asian markets were a sea of red as profit-taking following the prior session's massive rally in China swept through.

- Oil prices are slightly higher but with little by way of fresh developments.

UK PM May addressed the British Parliament this morning and following a cabinet meeting. She promised a vote to delay Brexit if the deal fails but stated delaying is not her preference and noted that an extension would be for a short time.

Two events may be influencing this outcome. One is tomorrow's possible vote that would consider Parliament overriding the Prime Minister by removing a hard Brexit on March 29th as an option and thus effectively extending the date anyway and with or without her approval. Two is that Labour leader Jeremy Corbyn also gave in to party pressure to support a second referendum and May probably sees that as a less palatable outcome than honouring the results of the first referendum in 2016 while appeasing the anti-EU leavers within the Conservative Party.

UNITED STATES

Fed Chair Powell delivers the first of two days of semi-annual testimony to Congress while delivering the Monetary Policy Report to Congress. Today is before the Senate Banking Committee (10amET). **The testimony may be glossed over by markets** given that the report was pre-released on Friday, Fed communications have saturated markets, and Congress is at least as apt to probe on social issues outside the Fed's purview as it is to inquire about matters of substance affecting the economy and markets. Powell may be asked if developments such as the improved market tone so far this year and more positive developments in US-China trade negotiations affect his earlier views. **The risk is toward sounding somewhat more positive** while nevertheless still "watching, waiting, patient and flexible".

More broadly, I think the Fed looks through the Q4–Q1 soft patch toward notably improved growth prospects from Q2 onward. A central bank shouldn't ease when the bulk of the soft patch can be explained by:

- a) Pulled forward demand from the stimulus that juiced earlier growth and took the form of the Tax Cuts and Jobs Act as well as the US\$300 billion spending bill one year ago.
- b) Trade wars that may be settling down on the path toward a US Presidential election next year.
- c) Unusually harsher than normal weather over December–January that contributes toward explaining readings like soft retail sales.
- d) The effects of the US government shut down that the CBO estimates knocked about two-tenths off Q4 growth and about ½% off Q1 growth ahead of the reversal of the shutdown effects that the CBO foresees adding 1% to Q2 GDP growth ([here](#)).

In the meantime, the US has moved into the largest amount of excess aggregate demand in its output gap position in about two decades (see chart) and that should combine with wage pressures and a broad dollar top to put gentle upward pressure upon inflation readings over 2019H2-onward. With all of that, markets have priced in a modest amount of easing and some strategists have just rubber stamped what the consensus of traders has done. Scotia Economics is of the view that modest tightening risk still lies ahead over the back half of this year and we don't see the criteria for recession risk.

The main macro release of relevance will be US consumer confidence for February (10amET). **A rebound is expected** in the wake of the conclusion to the US government shutdown on January 25th and given an improved market tone with solid gains in jobs (+304k in January) and wage growth of 3.2% y/y that is running at about a decade high.

Tangential US releases will include housing starts for December (8:30amET) that are lagged by the shutdown, and repeat sales home prices for that same month (9amET).

The US Treasury auctions 7s (1pmET)

CANADA

Canada's bank earnings season is rather mixed so far. After RBC met expectations last week, this morning's releases including BMO (adj EPS C\$2.32, consensus C\$2.23) and BNS (adj EPS C\$1.75, consensus C\$1.82).

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.	2.50	2.51	2.49	2.46	2.48	2.46	2.66	2.66	2.63	3.03	3.03	2.98	Canada - BoC	1.75
CANADA	1.78	1.78	1.77	1.79	1.80	1.79	1.89	1.89	1.89	2.14	2.14	2.14	US - Fed	2.50
GERMANY	-0.54	-0.56	-0.57	-0.34	-0.33	-0.35	0.11	0.11	0.11	0.74	0.74	0.74	England - BoE	0.75
JAPAN	-0.16	-0.17	-0.18	-0.16	-0.17	-0.17	-0.03	-0.04	-0.03	0.61	0.59	0.59		
U.K.	0.78	0.76	0.74	0.93	0.91	0.83	1.21	1.18	1.17	1.73	1.71	1.70		
Spreads vs. U.S. (bps):														
CANADA	-72	-73	-72	-67	-68	-67	-77	-77	-75	-89	-89	-84	Euro zone - ECB	0.00
GERMANY	-304	-306	-306	-280	-281	-281	-255	-256	-253	-229	-229	-224	Japan - BoJ	-0.10
JAPAN	-266	-268	-267	-263	-264	-263	-268	-270	-266	-242	-244	-239		
U.K.	-172	-174	-175	-154	-157	-163	-145	-149	-147	-129	-131	-128		
Equities	Level						% change:							
	Last			Change			1 Day	1-wk	1-mo	1-yr				
S&P/TSX	16057			44.0			0.3	1.4	4.5	2.2			Australia - RBA	1.50
Dow 30	26092			60.1			0.2	0.8	5.5	1.5			New Zealand - RBNZ	1.75
S&P 500	2796			3.4			0.1	0.7	4.9	0.6				
Nasdaq	7554			26.9			0.4	1.1	5.4	1.8				
DAX	11478			-27.6			-0.2	1.5	1.7	-8.4				
FTSE	7106			-77.7			-1.1	-1.0	4.4	-2.5				
Nikkei	21449			-78.8			-0.4	0.7	3.3	-3.2			Canada - BoC	Mar 06, 2019
Hang Seng	28772			-187.2			-0.6	1.9	4.4	-8.7			US - Fed	Mar 20, 2019
CAC	5221			-11.0			-0.2	1.2	6.0	-2.3				
Commodities	Level						% change:							
WTI Crude	55.69			0.21			0.4	-0.7	3.7	-12.9			England - BoE	Mar 21, 2019
Natural Gas	2.87			0.03			1.0	7.6	-9.8	8.6			Euro zone - ECB	Mar 07, 2019
Gold	1324.04			-3.56			-0.3	-1.3	1.6	-0.7				
Silver	15.96			0.09			0.5	1.2	3.8	-3.9			Japan - BoJ	Mar 15, 2019
CRB Index	182.05			0.30			0.2	-0.1	0.8	-7.5				
Currencies	Level						% change:							
USDCAD	1.3220			0.0033			0.3	0.1	-0.3	4.3			Mexico - Banxico	Mar 28, 2019
EURUSD	1.1364			0.0006			0.1	0.2	-0.6	-7.7				
USDJPY	110.88			-0.1800			-0.2	0.2	1.4	3.7			Australia - RBA	Mar 04, 2019
AUDUSD	0.7148			-0.0019			-0.3	-0.2	-0.3	-9.0				
GBPUSD	1.3184			0.0087			0.7	0.9	0.2	-5.6			New Zealand - RBNZ	Mar 26, 2019
USDCHF	1.0008			0.0001			0.0	-0.0	0.9	6.7				

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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