

ON DECK FOR WEDNESDAY, FEBRUARY 27

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	02/27	07:00	MBA Mortgage Applications (w/w)	FEB 22	--	--	3.6
CA	02/27	08:30	Core CPI - Common (y/y)	Jan	--	1.9	1.9
CA	02/27	08:30	Core CPI - Median (y/y)	Jan	--	1.8	1.8
CA	02/27	08:30	Core CPI - Trim (y/y)	Jan	--	1.9	1.9
CA	02/27	08:30	CPI, All items (m/m)	Jan	0.2	0.1	-0.1
CA	02/27	08:30	CPI, All items (y/y)	Jan	1.5	1.4	2.0
CA	02/27	08:30	CPI, All items (index)	Jan	--	133.6	133.4
US	02/27	10:00	Factory Orders (m/m)	Dec	0.6	0.6	-0.6
US	02/27	10:00	Pending Home Sales (m/m)	Jan	--	1.0	-2.2
US	02/27	10:00	Powell to deliver Semi-Annual Testimony to House Pane				

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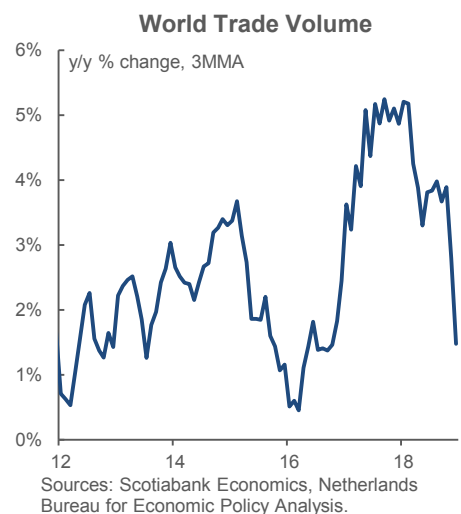
KEY POINTS:

- Mild risk-off tone on Powell optimism, India-Pakistan conflict
- CDN CPI: lower headline for reasons that shouldn't fuss the BoC...
- ...but will core remain stable?
- Powell round #2 should carry no surprises
- US: factory orders, advance goods, pending home sales
- Oil advances on US oil inventories
- US centered trade disputes have damaged world trade...
- ...but won't help the US trade deficit...
- ...as dollar strength should keep driving it wider
- Canada auctions 2s

INTERNATIONAL

Canadian CPI will tick the box in terms of further informing the progression of BoC risks (see below). CAD is strengthening into the report on the back of oil prices. Fed Chair Powell delivers round #2 of his semi-annual testimony, this time before the House Financial Services Committee. It should just be a repeat of what he said yesterday (recap [here](#)). Distractions of little to no consequence to markets may dominate headlines today including the chaotically assembled Trump-Kim Summit in Hanoi. Cohen's testimony against Trump will need hard evidence to support the allegations in order to matter. Fresh conflict between India and Pakistan is being monitored and is partly responsible for a soft market tone. US data risk will be modest and includes the first read on goods exports and imports for December that will be the last piece of information to possibly inform expectations for Thursday's Q4 GDP release. US pending home sales and factory orders should offer minor risk. European and Asian calendars are empty. There will be more largely meaningless Brexit votes today. Canada auctions 2s.

- The USD is slightly depreciating on a DXY basis. Pound sterling is leading the pack again on continued optimism a hard Brexit will be avoided. Scandies and CAD are among the other leading gainers partly on oil prices.
- Sovereign debt yields are generally little changed across major markets with the mild exception of slightly wider Italian spreads over bunds.



- Oil prices are up by about a buck in terms of both Brent and WTI. Private industry data showed a drawdown of US inventories last month ahead of today's government report at 10:30amET.
- US and Canadian equity futures are down about ¼% thus far. With the exception of Italy that is flat, European bourses are down by between ¼% and ¾% with London leading the decliners on currency strength that impairs earnings after FX translation effects.

CANADA

Canadian headline CPI inflation should drop significantly while core remains resilient. The median Bloomberg call is 1.4% y/y (2% prior) with five forecasters at 1.3%, five more at 1.4%, six at 1.5%, two at 1.6% and one at 1.7%. A shift in year-ago base effects alone would drop headline inflation from 2.0% y/y in December to 1.3% in January. Gas prices will be a fairly neutral influence upon the rate of change in the year-ago inflation rate.

Varying and largely random guesses on how seasonality will play out inform the forecast spread. January is usually a seasonal up-month for prices. A challenge is that December was much less of a seasonal down-month to prices than a typical December and this might have constrained the normal seasonal up-tick last month. Overall, I'm going with 0.2% m/m for seasonally unadjusted CPI and 1.5% y/y. The range of consensus estimates for the year-ago headline rate lines up with varying assumptions on the degree of this seasonality effect such that consensus expects anywhere from a -0.1% m/m drop in headline seasonally unadjusted prices to a 0.3% m/m rise.

Newsflash: while RRBs and CAD might, the BoC probably couldn't care less and is more focused upon core precisely because policy can't swing according to shifting base effects and varying degrees of seasonality. The average of the core measures is expected to be stable at 1.9% y/y as the bulk of the volatility continues to focus upon headline inflation.

When the call in a particular month is heavily driven by seasonal influences and year-ago base effects, I would suggest considering the month-ago seasonally adjusted CPI readings that, in Canada, often get short shrift but deserve greater attention from a momentum standpoint.

Canada auctions 2s at 12pmET. A CMHC quarterly report on the state of mortgage markets may get mild attention from housing observers (8:30amET).

UNITED STATES

US markets face minor data risk in three forms:

- Trade figures for December are expected to register a wider goods trade deficit. Expect this to be the trend for years to come as the lagged effects of dollar strength drive widening US trade deficits regardless of whatever the US administration does on trade 'deals' (see chart). Dollar strength has been aided by safe haven flows partly driven by US-centric trade tensions but also aided by US stimulus, the cost to which is less trade competitiveness. All that has been accomplished thus far in terms of trade tensions centered upon the US has been to contribute toward a souring of growth in world trade volumes (see second chart).
- Factory orders (10amET) are expected to post a healthy rise given we already know that the durable goods component jumped by 1.2% m/m albeit narrowly on transportation sector orders.
- Pending home sales (10amET) that turn into completed resales 30–90 days later may rebound a touch after the prior month's weakness.

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.	2.48	2.48	2.50	2.44	2.45	2.47	2.63	2.64	2.65	3.01	3.01	3.00	Canada - BoC	1.75		
CANADA	1.76	1.75	1.77	1.77	1.77	1.79	1.86	1.86	1.89	2.12	2.12	2.14	US - Fed	2.50		
GERMANY	-0.54	-0.54	-0.57	-0.34	-0.33	-0.35	0.11	0.12	0.10	0.73	0.75	0.73	England - BoE	0.75		
JAPAN	-0.16	-0.16	-0.18	-0.16	-0.16	-0.18	-0.03	-0.03	-0.03	0.61	0.61	0.59				
U.K.	0.80	0.79	0.75	0.95	0.94	0.84	1.21	1.21	1.18	1.75	1.75	1.71				
	Spreads vs. U.S. (bps):															
CANADA	-72	-73	-73	-68	-68	-67	-77	-77	-75	-89	-89	-85	Euro zone - ECB	0.00		
GERMANY	-301	-302	-307	-278	-277	-282	-253	-252	-255	-228	-226	-227	Japan - BoJ	-0.10		
JAPAN	-264	-265	-268	-260	-261	-264	-266	-266	-268	-240	-240	-241				
U.K.	-168	-169	-175	-149	-151	-163	-142	-143	-146	-127	-126	-129	Mexico - Banxico	8.25		
Equities	Level						% change:									
	Last			Change			1 Day		1-wk		1-mo		1-yr			
S&P/TSX	16068			10.9			0.1		0.8		4.6		2.5		Australia - RBA	1.50
Dow 30	26058			-34.0			-0.1		0.6		5.3		2.5			
S&P 500	2794			-2.2			-0.1		0.5		4.8		1.8		New Zealand - RBNZ	1.75
Nasdaq	7549			-5.2			-0.1		0.8		5.4		3.0			
DAX	11488			-52.8			-0.5		0.8		1.8		-8.0			
FTSE	7105			-46.6			-0.7		-1.7		4.3		-2.4			
Nikkei	21557			107.1			0.5		0.6		3.8		-3.7		Canada - BoC	Mar 06, 2019
Hang Seng	28757			-14.6			-0.1		0.9		4.3		-8.0		US - Fed	Mar 20, 2019
CAC	5229			-9.4			-0.2		0.6		6.2		-2.1			
Commodities	Level						% change:									
WTI Crude	56.57			1.07			1.9		-0.6		5.4		-10.2		England - BoE	Mar 21, 2019
Natural Gas	2.77			-0.03			-1.1		4.9		-13.0		3.1		Euro zone - ECB	Mar 07, 2019
Gold	1326.73			-2.27			-0.2		-0.9		1.8		0.6		Japan - BoJ	Mar 15, 2019
Silver	15.83			-0.13			-0.8		0.3		3.0		-5.0			
CRB Index	182.56			1.16			0.6		-0.4		1.0		-6.6			
Currencies	Level						% change:									
USDCAD	1.3148			-0.0021			-0.2		-0.2		-0.9		2.9		Mexico - Banxico	Mar 28, 2019
EURUSD	1.1385			-0.0004			-0.0		0.4		-0.4		-6.9			
USDJPY	110.54			-0.0500			-0.0		-0.3		1.1		3.0		Australia - RBA	Mar 04, 2019
AUDUSD	0.7155			-0.0031			-0.4		-0.1		-0.2		-8.1			
GBPUSD	1.3319			0.0067			0.5		2.1		1.2		-4.2		New Zealand - RBNZ	Mar 26, 2019
USDCHF	0.9972			-0.0024			-0.2		-0.3		0.5		6.2			

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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