

ON DECK FOR MONDAY, MARCH 4

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	03/04	10:00	Construction Spending (m/m)	Dec	0.2	0.2	0.8

KEY POINTS:

- Mild rumour-driven risk-on tone to start the week
- Rumour #1: China to cut manufacturing VAT
- Rumour #2: China-US working to drop tariffs
- UK construction PMI dips into contraction
- US construction spending on tap
- Line 3 delay ups the ante on oil by rail, stable US refineries
- Global Week Ahead

Please see the *Global Week Ahead — The ECB Could Hold The Key To Risk Appetite* ([here](#)). This week's main events will include:

- China's National Congress
- US debt ceiling effects
- CBs: BoC, ECB, RBA, Negara, Peru, Turkey
- Jobs: US, Canada
- CPI: China, Russia, Switzerland, Chile, Colombia, Mexico...
-South Korea, Philippines, Taiwan, Turkey
- UK PMIs
- China trade & PMIs
- Australian GDP
- CDN trade, housing starts

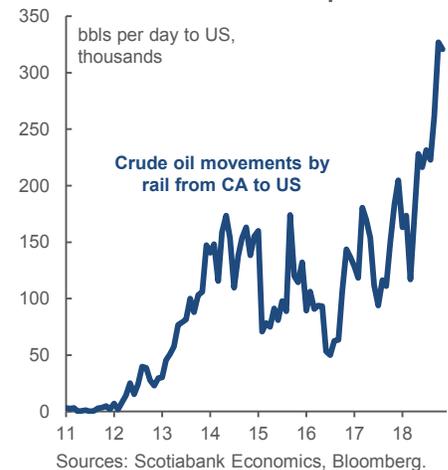
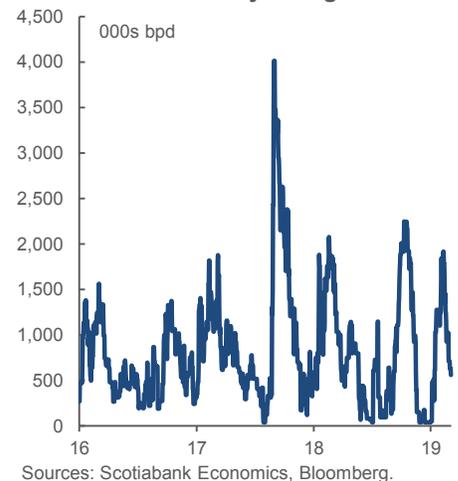
INTERNATIONAL

Rumour central is driving a slight risk-on bias across global markets to start the week. Two rumours from anonymous people "familiar" with the situations are responsible and both of the rumours pertain to China. One is that **China may be about to lower the VAT tax that is applied to its manufacturing sector** by three percentage points and may announce this as part of tomorrow's speech by Premier Li to kick off the National People's Congress. Second are unconfirmed reports that **the US and China are working toward a deal to drop reciprocal tariffs** (see below). **Enbridge's delayed Line 3 announcement** will have eyes on Canadian domestic oil prices today to assess the degree of surprise. The global fundamentals calendar only includes UK and US construction data. **The Global Week Ahead (see below) explores the main expected developments including the ECB, Bank of Canada, China's National People's Congress, US and Canadian jobs and other global macro reports.**

- US equity futures are up by between ¼% and ½% with the Nasdaq leading the way. TSX futures are up ¼%. European cash markets are rallying by

CONTACTS

Derek Holt, VP & Head of Capital Markets Economics
 416.863.7707
 Scotiabank Economics
derek.holt@scotiabank.com

Record Crude Rail Shipments

US Refinery Outages


between ¼% (Frankfurt) and ¾% (London) but with Milan and Madrid flat. Chinese stocks continue to rally with the Shanghai composite up by 1.2% overnight and Shenzhen up by 2.2%. The Nikkei 225 closed 1% higher, HK was up ½% and the Kospi was slightly lower.

- The USD is very slightly appreciating on a DXY basis. The yen, A\$, NZ\$, real, pound sterling and won are among the currencies that are flat to slightly higher versus the dollar. The Mexican peso, several Scandies and Euro are leading the decliners particularly given anticipation ahead of Thursday's ECB announcements. CAD is slightly depreciating to 1.3320 on a USDCAD basis.
- Oil prices are higher but domestic prices will be closely scrutinized today (see below). WTI is over US\$56 but has been floating around that level since about mid-February. Brent is just over US\$65½.
- Sovereign bonds are little changed on balance. The US long bond is down 1bp on yield in a slight bull flattener. Canada's curve is shifting down 1bp across maturities so far. Gilts are ever so slightly cheaper while bunds and French bonds are very slightly rallying at the long end and Italian debt spreads are 3–4bps wider over bunds.

Two unidentified people “familiar with the discussions” are telling newswires that the US and China are close to a trade deal that would remove all or most bilateral tariffs imposed to date. **I would treat it skeptically** and the muted market reaction may be implying agreement. First, the source is dubious, second there are contentious quid pro quo provisions and third there are still high risks in the underlying negotiations. It is not clear whether the tariffs would be dropped immediately or phased out over time as the two countries monitor compliance. It was also suggested that the US would drop its tariffs as long as China pledged not to challenge future tariffs through the WTO.

The UK construction sector suffered an unsurprising setback in the face of Brexit risks in the February update of the purchasing managers' index for the construction sector. The PMI fell below 50 into mild contraction territory at 49.5 (50.6 prior). That's the weakest reading since March 2018. Pound sterling is ignoring the report and is flat to the dollar so far this morning.

CANADA

Enbridge announced over the weekend that its Line 3 pipeline has been delayed a year. A delay wasn't a total surprise but today's reaction in Western Canada Select will test that magnitude of the shock to markets. Instead of our assumption that the pipeline would become operational by late this year, the company guided it will be operational only by 2020H2. It will carry 370,000 bpd at that point and its delay places more emphasis upon oil by rail (see chart), avoidance of surprise shutdowns at US refineries (second chart), Alberta's supply curtailments and other pipelines like Trans Mountain Expansion (from 300,000 bpd to 890,000 bpd) and Keystone XL (830,000 bpd). The National Energy Board decided on February 22nd that TMEP is in the public interest with expanded conditions and the Federal cabinet has 90 days from that point—subject to extension—to decide whether to proceed or not partly contingent upon whether the ‘duty to consult’ has been satisfied in accordance with the Federal Appeal Court that stymied the project on August 30th 2018. Keystone XL was halted in November of last year when a federal judge in Montana ordered an environmental assessment by the State Department.

UNITED STATES

The US updates construction spending for December (10amET). After a large gain in November, some moderation wouldn't be surprising as the release was delayed by the US government shutdown.

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.	2.55	2.55	2.51	2.55	2.56	2.48	2.75	2.75	2.66	3.11	3.12	3.03	Canada - BoC	1.75	
CANADA	1.76	1.76	1.78	1.79	1.81	1.80	1.92	1.94	1.89	2.19	2.20	2.14	US - Fed	2.50	
GERMANY	-0.51	-0.51	-0.56	-0.29	-0.27	-0.33	0.17	0.18	0.11	0.81	0.82	0.74	England - BoE	0.75	
JAPAN	-0.14	-0.15	-0.17	-0.14	-0.15	-0.17	0.00	-0.01	-0.04	0.64	0.63	0.59			
U.K.	0.81	0.80	0.76	1.01	1.00	0.91	1.30	1.30	1.18	1.81	1.80	1.71			
Spreads vs. U.S. (bps):															
CANADA	-80	-79	-73	-76	-75	-68	-82	-82	-77	-92	-92	-89	Euro zone - ECB	0.00	
GERMANY	-306	-306	-306	-284	-283	-281	-258	-257	-256	-231	-231	-229	Japan - BoJ	-0.10	
JAPAN	-269	-270	-268	-269	-271	-264	-274	-276	-270	-247	-250	-244			
U.K.	-175	-176	-174	-154	-156	-157	-144	-146	-149	-131	-132	-131	Mexico - Banxico	8.25	
Equities	Level					% change:									
	Last	Change			1 Day	1-wk	1-mo	1-yr							
S&P/TSX	16068	69.2			0.4	0.3	3.0	4.4							
Dow 30	26026	110.3			0.4	-0.0	3.1	6.1							
S&P 500	2804	19.2			0.7	0.4	2.9	4.2							
Nasdaq	7595	62.8			0.8	0.9	3.4	4.6							
DAX	11630	28.4			0.2	1.1	4.1	-2.4							
FTSE	7158	51.6			0.7	-0.4	1.8	1.3							
Nikkei	21822	219.4			1.0	1.4	4.5	3.0							
Hang Seng	28960	147.4			0.5	0.0	3.5	-5.3							
CAC	5299	34.2			0.6	1.3	6.0	3.2							
Commodities	Level					% change:									
		Change			1 Day	1-wk	1-mo	1-yr							
WTI Crude	56.29	0.49			0.9	1.5	3.2	-8.1							
Natural Gas	2.86	0.00			0.0	0.8	7.5	6.1							
Gold	1288.09	-5.31			-0.4	-3.0	-1.8	-2.6							
Silver	15.56	-0.26			-1.6	-2.0	-2.8	-4.6							
CRB Index	181.50	-1.25			-0.7	-1.4	0.5	-6.5							
Currencies	Level					% change:									
		Change			1 Day	1-wk	1-mo	1-yr							
USDCAD	1.3315	0.0018			0.1	1.0	1.6	2.7							
EURUSD	1.1337	-0.0028			-0.2	-0.2	-0.9	-8.1							
USDJPY	111.86	-0.0300			-0.0	0.7	1.8	5.3							
AUDUSD	0.7091	0.0012			0.2	-1.1	-1.9	-8.7							
GBPUSD	1.3197	-0.0005			-0.0	0.8	1.2	-4.7							
USDCHF	1.0011	0.0018			0.2	0.0	0.3	6.5							
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.

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