ON DECK FOR TUESDAY, MARCH 5

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	03/05	10:00	ISM Non-Manufacturing Composite	Feb	57.0	57.4	56.7
US	03/05	10:00	New Home Sales (000s a.r.)	Dec	610.0	600.0	657.0
US	03/05	11:30	Fed's Barkin Speaks at the Rural Economy				
US	03/05	14:00	Treasury Budget (US$ bn)	Jan	--	12.0	-13.5

KEY POINTS:

- **Markets unimpressed by Premier Li's 'work report'**
- **Highlights of China's policy goals**
- **UK PMIs beat, sterling shrugs it off**
- **US: ISM-services, new home sales on tap**
- **Chinese private PMIs slip**
- **Philippines' CPI softens…**
- **…as a new Governor results in overstated independence concerns**
- **A$ shakes off as-expected RBA statement**
- **Bank Negara turns incrementally dovish**
- **South Korean inflation remains well below target**
- **Toronto's home sales follow Vancouver's lower…**
- **…teeing up a housing focus in the coming Federal Budget**

INTERNATIONAL

Chinese Premier Li Keqiang was true to his promise that stimulus would not be of the "flood like" variety and global stocks are behaving accordingly. Most of what Premier Li announced overnight to kick off the annual National People's Congress was already anticipated or relatively small potatoes (see below). In fact, global stocks may be paying at least as much attention to his warnings of the "battle" that looms ahead notwithstanding avoidance of longer-run ambitions that are sensitive issues to trade negotiations. Other developments are relatively light including stronger than expected UK PMIs that markets ignored, weaker Chinese PMIs, a neutral hold by the RBA, dovish developments regarding monetary policy in the Philippines and Malaysia and still well below target South Korean inflation. The US calendar faces modest data risk (ISM-services, new home sales). Canada's calendar is very light ahead of tomorrow's BoC but with regional home sales tallies rolling in from Toronto this morning after Vancouver yesterday. **I provide updates and perspectives on Toronto's and Vancouver's fresh home sales tallies below.**

- The USD is very slightly stronger on a DXY basis so far this morning. Pound sterling is leading the decliners as expectations are being managed lower ahead of yet another Brexit meeting between UK Attorney General Geoffrey Cox and the EC's Chief Negotiator Michel Barnier. CAD is also among the poorest performing currencies ahead of the BoC tomorrow.

- Sovereign yields are up by about 1–2bps across the US Treasury curve and about 1bp across Canada's curve. The US 10 year sits at 2.74% with Canada at 1.90%.

- WTI and Brent oil prices are flat.

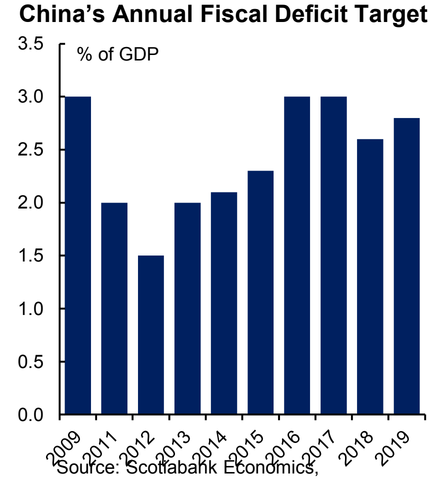
CONTACTS

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

A Bigger Economy Needs Less Growth

Source: Scotiabank Economics, Haver Analytics.

China's Annual Fiscal Deficit Target



Source: Scotiabank Economics, National Bureau of Statistics of China.

- US equity futures are very slightly positive and so are TSX futures. European cash markets are up in London (+0.6%), and slightly lower elsewhere. Chinese stocks rallied on the Shenzhen exchange (+2.3%) while Shanghai was up by just under 1%.

Global stocks are treating the developments out of China's National People's Congress as old news they've already priced in. Absent from Premier Li's annual work report that he delivered in a long speech was anything fresh by way of stimulus that wasn't already understood while he warned of a "tough economic battle ahead" in partial reference to US trade negotiations and added:

> "A full analysis of developments inside and outside China shows that in pursuing development this year, we will face a graver and more complicated environment."

Key highlights of Premier Li's speech included:

- A **GDP growth target range of 6–6.5% this year** as anticipated. China's very quick, never revised and usually rather stable estimates of quarterly growth lead many economists to question the veracity of the figures and so there is little news attached to the target. That said, one point I would re-emphasize is shown in the accompanying chart: a developing economy that is getting bigger over time almost hardwires softer but still strong growth just as happened in the development experiences of the mature industrialized nations. In fact, one should focus at least as much upon the flow of incremental volumes of economic activity shown in the chart.
- **The 2019 inflation target is set "around" 3% again.** China almost never hits this target so markets shrug it off;
- Incremental fiscal stimulus through deficit financing is small as **the deficit to GDP target is set at 2.8%** this year, an increase of just 0.2 points from last year. See the accompanying chart for a depiction of the target over time and how little it has generally changed over recent years;
- **Moderate total tax relief of about 2 trillion yuan (US$300 billion)** is targeted through lower corporate taxes and other measures;
- **The highest bracket for the value added tax (VAT) applied to the manufacturing sector was reduced by three percentage points to a still rather high 13% and a one percentage point cut to the 10% VAT bracket was also announced. China's corporate taxes still remain high overall;**
- **An auto sales tax cut was not delivered** and instead the government is relying upon the wider VAT reductions to benefit producers.
- **Debt issuance will rise** from about 1.35 trillion yuan last year to 2.15 trillion this year with proceeds going toward infrastructure projects largely represented off budget;
- **Employer contributions to social insurance for workers will be reduced**;
- **Further reductions of the required reserve ratio for smaller banks** are coming;
- Continue opening financial markets;
- A pledge to continue deepening SOE reforms;
- **Made in China 2025 received zero reference in this year's speech;**
- On local government debt, Li had this to say: "We will resolutely control hidden debt expansion and strengthen risk monitoring and analysis... and urge high-risk cities and counties to reduce the scale of their hidden debts as rapidly as possible."

Chinese private PMIs slipped a little further in February but the round of data is always suspect around the shifting timing of the annual Lunar New Year. The composite PMI slipped by only two tenths to 50.7 which is barely above the 50 dividing line that separates expansion from contraction. The services PMI fell 2.5 points to 51.1. Recall that the manufacturing PMI that was released last Thursday increased by 1.6 points to 49.9 which is still not great but this improvement offset the drop in services to result in little change to the overall composite growth reading.

UK purchasing managers' indices beat expectations but pound sterling didn't care given the focus on next week's Brexit vote. The services PMI improved by 1.2 points to 51.3 to signal slightly better growth. That lifted the composite PMI up by an identical 1.2 points to 51.5. Recall that last Friday's manufacturing PMI slipped and yesterday's construction PMI also fell and so the services economy held up the overall composite reading last month.

The RBA left its cash target rate at 1.5% as universally expected overnight and left its statement largely intact. The A$ shook off the accompanying guidance as nothing new. The growth forecast was left unchanged at "around 3%" this year with a near-term dip that fell to 1.8% y/y in 2018Q4 expected to give way to underlying inflation of 2% in 2019 and 2¼% in 2020.

The Philippine peso is among the weakest performing currencies this morning on the twin developments of a greater than expected decline in inflation and a dovish appointment of a government insider to run the central bank. Benjamin Diokno is the new Governor of Bangko Sentral ng Pilipinas and he was previously the government's Budget Secretary. Diokno comes to the role with solid economics credentials. He holds a PhD in Economics from Syracuse University and an MA from Johns Hopkins University so it's not as if he's a stranger to the world of economics and high finance which may check some of the articles expressing concern about central bank independence. Indeed, appointing government insiders with strong backgrounds in economics has not been an uncommon practice elsewhere including at the Bank of Canada for example. Philippines CPI decelerated to 3.8% y/y (4.4% prior, 4.0% consensus) with core at 3.9% y/y. This brings inflation back inside the central bank's target range of 2–4% after a tightening campaign to rein in inflation.

Bank Negara Malaysia left its overnight policy rate unchanged at 3.25% overnight. It has been there since January 2018. The central bank accompanied the decision with dovish guidance including the following reference to downsides: "Recognizing that there are downside risks in the economic and financial environment, the monetary policy committee will continue to monitor and assess the balance of risks surrounding the outlook for domestic growth and inflation."

South Korean inflation slipped on headline (0.5% y/y, 0.8% prior, 0.7% consensus) but core inflation edged up to 1.3% (1.2% prior, 1.1% consensus). Core inflation has been volatile but generally trended upward since about last August. Both measures remain well below the Bank of Korea's 2% inflation target.

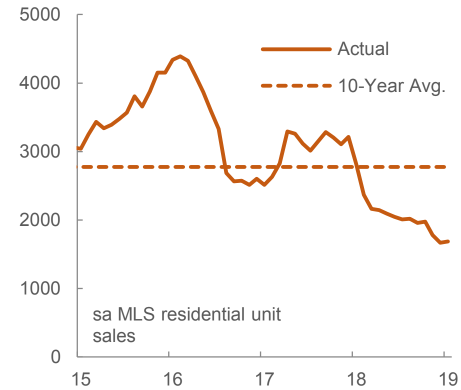
UNITED STATES

US markets will face light data risk on two counts. One is the **ISM-services gauge** for February (10amET) that consensus expects to register a slight improvement in growth momentum. Second is **new home sales** for December that were lagged by the shutdown; sales are expected to give back some of the 16.9% m/m jump in November that was fed by lower prices.

CANADA

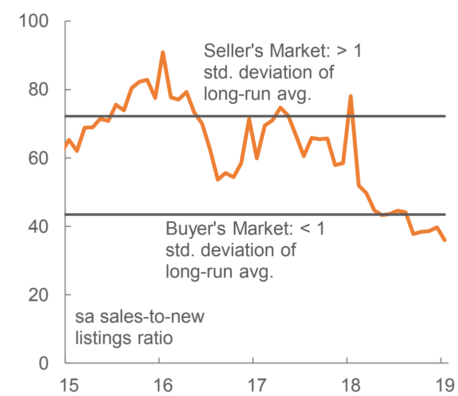
Canadian markets face light developments with only regional home sales figures rolling in for the month of February. This morning, **Toronto's home sales** (here) were reported to be down by 11.3% m/m in seasonally adjusted terms and down 2.4% y/y. New listings are down 6.2% y/y which helps to balance the market and explain why the average

Vancouver Home Sales Still Adjusting



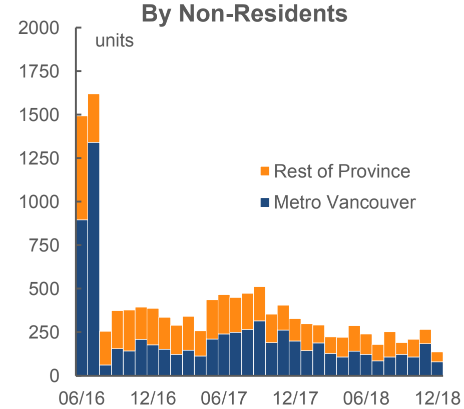
Sources: Scotiabank Economics, CREA.

Vancouver Market Tilts Towards Sellers



Sources: Scotiabank Economics, CREA.

BC Home Purchases By Non-Residents



Sources: Scotiabank Economics, BC Ministry of Finance.
*2018 figures include only residential transactions.

selling price is still up 1.6% y/y across the Greater Toronto Area. Perhaps not surprisingly, TREB came out in favour of reviewing B20 and raising amortization periods to 30 years ahead of the March 19th Federal Budget.

This follows yesterday's results for Vancouver (here). Vancouver's sales fell by 32.8% y/y. New listings fell by less (-7.8% y/y). The total number of listed homes is nevertheless up by 48% y/y. The sales to active listings ratio fell to 12.8% last month. The average price of C$1.02 million is down by 6.1% y/y. Unlike Toronto, Vancouver still doesn't seasonally adjust their figures so the Canadian Real Estate Association's nationwide figures that are due out on March 15th will be relied upon for comparable estimates.

In the meantime, please see the two accompanying charts depicting the magnitude of the drop in Vancouver's home resales market and the shift toward a buyers' market on measures like the sales to new listings ratio. Note that the vast majority of the adjustment has occurred well ahead of the Huawei controversy and speculation toward the impact it may have had upon the attractiveness of Vancouver's housing market to buyers from China and perhaps elsewhere. Successive bouts of stress testing, the province's taxes on speculation, foreign buyers and vacant homes, rate hikes, and what was once an overheated market that likely would have cooled on its own are the main domestic drivers of the sharply softened market tone. Now the issue involves stabilizing if not reversing risks to price expectations and how they feed back on sales. A caveat to the interpretation that Chinese buyers are nowhere near the principal source of softening demand is that BC won't publish January and February figures for non-resident home purchases until March 28th and so the final chart is pending this update. Nevertheless, it does show that purchases of Vancouver homes during December by non-residents hit their lowest since the government began tracking them. That said, the volume of non-resident purchases tracked for the foreign buyers' tax is quite a small share of overall purchases and is also a small share of the marked deceleration in total purchases since 2016. The figures nevertheless likely understate indirect foreign buyer activity, but again, the vast bulk of the adjustment to sales is traceable to other developments over recent years.

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.	2.55	2.54	2.48	2.55	2.53	2.45	2.74	2.72	2.64	3.11	3.09	3.01
CANADA	1.76	1.74	1.75	1.78	1.76	1.77	1.91	1.89	1.86	2.18	2.17	2.12
GERMANY	-0.50	-0.51	-0.54	-0.28	-0.29	-0.33	0.17	0.16	0.12	0.81	0.80	0.75
JAPAN	-0.14	-0.14	-0.16	-0.14	-0.14	-0.16	0.01	0.00	-0.03	0.65	0.64	0.61
U.K.	0.78	0.78	0.79	0.98	0.98	0.94	1.27	1.27	1.21	1.76	1.78	1.75
	Spreads vs. U.S. (bps):											
CANADA	-80	-80	-73	-77	-77	-68	-83	-83	-77	-93	-92	-89
GERMANY	-305	-305	-302	-283	-282	-277	-257	-257	-252	-230	-229	-226
JAPAN	-269	-268	-265	-268	-267	-261	-273	-272	-266	-246	-245	-240
U.K.	-177	-176	-169	-157	-155	-151	-147	-145	-143	-134	-131	-126

Equities	Level		% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	16038	-30.1	-0.2	-0.1	2.1	3.2
Dow 30	25820	-206.7	-0.8	-1.0	1.6	3.8
S&P 500	2793	-10.9	-0.4	-0.1	2.0	2.6
Nasdaq	7578	-17.8	-0.2	0.3	2.4	3.4
DAX	11589	-3.3	-0.0	0.4	1.9	-4.1
FTSE	7173	38.6	0.5	0.3	-0.1	0.8
Nikkei	21726	-95.8	-0.4	1.3	4.2	3.3
Hang Seng	28962	2.0	0.0	0.7	3.5	-3.1
CAC	5281	-5.6	-0.1	0.8	3.9	2.2
Commodities	Level		% change:			
WTI Crude	57.08	0.49	0.9	2.8	6.4	-8.8
Natural Gas	2.86	-0.00	-0.0	0.0	7.3	5.6
Gold	1286.22	-0.49	-0.0	-3.2	-2.2	-2.6
Silver	15.16	-0.40	-2.6	-5.0	-3.7	-7.8
CRB Index	181.68	0.58	0.3	0.2	1.0	-7.6
Currencies	Level		% change:			
USDCAD	1.3334	0.0031	0.2	1.3	1.6	2.9
EURUSD	1.1331	-0.0009	-0.1	-0.5	-0.7	-8.1
USDJPY	111.87	0.1200	0.1	1.2	1.7	5.3
AUDUSD	0.7079	-0.0013	-0.2	-1.5	-2.1	-8.8
GBPUSD	1.3124	-0.0056	-0.4	-1.0	1.4	-5.2
USDCHF	1.0009	0.0019	0.2	0.1	0.1	6.5

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	Apr 01, 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.