

ON DECK FOR WEDNESDAY, MARCH 6

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	03/06	08:15	ADP Employment Report (000s m/m)	Feb	200.0	190.0	212.9
CA	03/06	08:30	Merchandise Trade Balance (C\$ bn)	Dec	-1.5	-2.1	-2.1
CA	03/06	08:30	Productivity (q/q a.r.)	4Q	--	-0.3	0.3
US	03/06	08:30	Trade Balance (US\$ bn)	Dec	-57.0	-57.9	-49.3
CA	03/06	10:00	BoC Interest Rate Announcement (%)	Mar 6	1.75	1.75	1.75
CA	03/06	10:00	Bank of Canada Rate Decision				
US	03/06	12:00	Fed's Williams Speaks to Economic Club of New York				
US	03/06	12:00	Fed's Mester Participates in Moderated Discussion				
US	03/06	14:00	U.S. Federal Reserve Releases Beige Book				

KEY POINTS:

- Mild risk-off tone driven by three factors...
- ...as China pushes back on US demands...
- ...Brexit negotiations continue to go nowhere...
- ...and the OECD arrives late to the party with negative forecast revisions
- BoC is unlikely to come across more dovish than what's already priced
- US ADP payrolls beat expectations on revisions...
- ...ahead of trade, Fed-speak
- A\$ drops in Australian GDP
- Colombian CPI supports BanRep's pushback on rate hikes

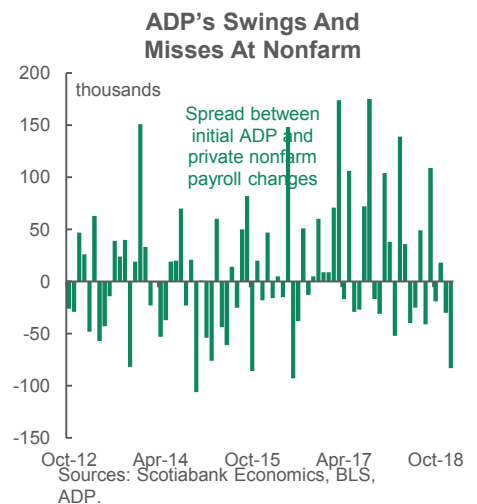
INTERNATIONAL

A mild risk-off tone is sweeping through global markets this morning. **As near as I can tell the catalysts likely include three things: perceived pushback from China on US trade demands; reports that Brexit talks in Brussels were "difficult" and yielded no progress ahead of next week's vote in the British parliament; and OECD forecasts albeit that they are a lagging indicator of developments (see below).** A former Chinese finance minister is the latest example of party communications that are emphasizing how some US demands in trade negotiations are "unreasonable" and some are "just nitpicking." **The main focus for many of our clients will be this morning's Bank of Canada statement (see below).** US and Canadian macro data will be a sideshow today as the US numbers should offer little surprise. The US trade deficit shouldn't surprise markets while ADP poorly tracks the more widely followed nonfarm payrolls report due out on Friday. Canada's trade figures arrive 90 minutes before the BoC and will probably be quickly shaken off by markets. NY Fed President Williams' remarks may be worth watching. The A\$ fell on a soft Australian GDP report and Colombian inflation supported BanRep's recent pushback on market pricing for rate hikes this year.

- The USD is little changed on a DXY basis this morning. The euro and yen are roughly flat while depreciating currencies are led by the A\$ (GDP, see below) but also the rand, pound sterling, won and CAD ahead of the BoC.
- Sovereign bond yields are rallying across major markets. US Treasury yields are down by only about 1bp across the curve. Canada's curve is

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outperforming ahead of the BoC as markets may be bracing for a more dovish sounding BoC that should be already priced into markets. Yields on gilts are down about 3bps through to 10s and both the bunds and French bond curves are bull flattening.

- Oil prices are a little lower with Brent down 30 cents and WTI down by about double that. A private industry estimate showed a US crude inventory build yesterday ahead of the government report this morning at 10:30amET.
- US equity futures are down by about ¼% and TSX futures are flat. European cash markets range from up ¼% in London to down ¼% in Frankfurt. Tomorrow's ECB meeting is the main focal point for further risks.

The OECD's interim forecast revisions (presentation [here](#), hand-out [here](#)) are a bit late to the party. The last forecast update was in November and now they're warning of softer global growth and asking governments to cooperate. Fresh this is not, as slow moving global organizations that infrequently revise usually lag forecast changes and rarely lead. Slide 4 in their presentation summarizes growth projections by country/region, or see the table on page 2 in the hand-out. The OECD took down global growth to 3.3% in 2019 (3.5% prior) and 3.4% in 2020 (3.5% prior). The magnitude of the forecast revision follows the IMF's forecast revision shared at the annual Davos retreat on January 21st when the agency took global growth down to 3.5% in 2019 (3.7% prior) and 3.6% in 2020 (3.7% prior). Both agencies are harsher on the rhetoric and warnings than demonstrated in the actual forecast revisions that are measured by tenths of percentage points.

The largest OECD forecast revisions were applied to Europe and Canada but they aren't especially different from what consensus is already forecasting. For example, on Canada, Bloomberg consensus is at 1.8% GDP growth this year and 1.8% next year versus the OECD at 1.5% this year (down from 2.2% prior) and 2% next year (up from 1.9% prior). In short, the OECD forecasts growth in Canada to average around or a little above potential GDP growth over the forecast horizon and foresees the same implied improvement everyone else does. The problem with the annual number for 2019 is the setback suffered by virtue of the way 2018 ended and 2019 started and how that masks expectations for a significant rebound beginning in Q2.

A downside surprise to Australian GDP took down the A\$ overnight. Growth in Q4 slowed to 0.2% q/q in seasonally adjusted but non-annualized terms (0.3% consensus and prior) and the year-ago rate slowed to 2.3% y/y (2.7% prior revised down a tick). The quarterly growth rate is the softest since 2016Q3. Here are the highlights on a weighted contribution to growth basis:

- consumer spending added only 0.2% to non-annualized growth for the second straight quarter;
- government spending added 0.3%, up a tick;
- investment dragged 0.3% off GDP, led by lower housing investment (-0.2% drag) with machinery and equipment spending flat;
- inventories added only 0.2%;
- exports subtracted 0.1% from growth and imports were flat for an overall mild drag from net trade.

Colombian CPI inflation came in a little softer than expected last evening. At 3.0% y/y (3.15% prior), inflation is smack in the middle of BanRep's 2–4% inflation target range. **The report mildly reinforces Governor Echavarría's remarks on February 15th that disagreed with market pricing for rate hikes.**

CANADA

The Bank of Canada is a statement-only affair at 10amET this morning followed by Deputy Governor Lynn Patterson's Economic Progress Report tomorrow. Relative to what is priced into OIS—which is not even a handful of basis points upward by year-end—I **would expect the BoC to either sound neutral to markets or—more likely—come across with a slightly more hawkish than priced bias.** To turn more dovish *relative to what is already priced*—would require entertaining rate cuts and that's unlikely. Please see a fuller preview [here](#).

Canada also releases trade figures for December and they too were delayed by the US government shutdown given delays in cross border data sharing. Consensus expects an unchanged monthly trade deficit at C\$2.06 billion after it fell from being

roughly balanced in July. I think we could witness a somewhat narrowed deficit partly on improved domestic oil prices during the month but trade estimates are rarely done with a whole lot of conviction.

UNITED STATES

Trade, ADP and Fed-speak are all on tap for US markets today.

US ADP private payrolls for February beat expectations including revisions. 183,000 private payroll positions were created in February but January was revised up to +300,000 (213,000 previously). Consensus had expected 190k for February. ADP remains a distraction ahead of the more widely followed nonfarm payrolls report that is due out this Friday. The accompanying chart demonstrates the large differences that frequently occur between initial estimates of job growth in ADP private payrolls versus initial estimates of job growth in nonfarm private payrolls. The initial differences swing between overestimating nonfarm by as much as 175,000 jobs and underestimating nonfarm by as much as 106,000 jobs.

US trade figures for December (delayed by the shutdown) shouldn't be much of a surprise to markets since we already have last week's release for the advance goods trade balance. The goods deficit widened by US\$9 billion to US\$79.5 billion. Tack on what is usually a fairly stable services trade surplus that is the remaining part of the puzzle for this morning's numbers, and the all-in trade deficit is likely to come in around the US\$57 billion mark. That would be the largest monthly trade deficit since October 2008. I've argued for years now that broad dollar strength is only going to make the deficit worse despite Trump's protestations.

NY Fed President John Williams speaks on "The Economic Outlook: The 'New Normal' Is Now" before the Economic Club of New York tomorrow over lunch. Text and audience Q&A are expected. The Fed also releases its Beige Book of regional conditions this afternoon (2pmET).

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.	2.54	2.55	2.50	2.52	2.53	2.48	2.71	2.72	2.68	3.07	3.08	3.07	Canada - BoC	1.75	
CANADA	1.72	1.74	1.77	1.73	1.75	1.80	1.85	1.88	1.91	2.14	2.16	2.16	US - Fed	2.50	
GERMANY	-0.51	-0.50	-0.53	-0.30	-0.28	-0.30	0.14	0.17	0.15	0.79	0.80	0.77	England - BoE	0.75	
JAPAN	-0.14	-0.14	-0.16	-0.15	-0.14	-0.16	0.00	0.01	-0.03	0.63	0.65	0.61	Euro zone - ECB	0.00	
U.K.	0.77	0.81	0.83	0.97	1.00	1.01	1.25	1.29	1.27	1.75	1.78	1.81	Japan - BoJ	-0.10	
	Spreads vs. U.S. (bps):														
CANADA	-82	-81	-72	-79	-77	-68	-86	-84	-77	-94	-93	-91	Mexico - Banxico	8.25	
GERMANY	-304	-305	-303	-281	-281	-278	-256	-255	-254	-229	-228	-230	Australia - RBA	1.50	
JAPAN	-268	-268	-266	-266	-266	-264	-271	-271	-271	-244	-243	-246	New Zealand - RBNZ	1.75	
U.K.	-176	-174	-167	-155	-153	-147	-145	-143	-141	-133	-131	-126			
Equities	Level						% change:						Next Meeting Date		
	Last	Change		1 Day	1-wk	1-mo	1-yr								
S&P/TSX	16087	48.4		0.3	0.1	2.4	3.5							Canada - BoC	Mar 06, 2019
Dow 30	25807	-13.0		-0.1	-1.0	1.6	3.7							US - Fed	Mar 20, 2019
S&P 500	2790	-3.2		-0.1	-0.2	2.1	2.3							England - BoE	Mar 21, 2019
Nasdaq	7576	-1.2		-0.0	0.4	2.7	2.8							Euro zone - ECB	Mar 07, 2019
DAX	11591	-29.5		-0.3	0.9	2.4	-4.3							Japan - BoJ	Mar 15, 2019
FTSE	7204	20.8		0.3	1.4	0.4	0.8							Mexico - Banxico	Mar 28, 2019
Nikkei	21597	-129.5		-0.6	0.2	3.5	0.8							Australia - RBA	Apr 01, 2019
Hang Seng	29038	76.0		0.3	1.0	3.7	-4.8							New Zealand - RBNZ	Mar 26, 2019
CAC	5289	-8.2		-0.2	1.2	4.1	2.3								
Commodities	Level						% change:								
		Change		1 Day	1-wk	1-mo	1-yr								
WTI Crude	55.95	-0.61		-1.1	-1.7	3.6	-10.6							England - BoE	Mar 21, 2019
Natural Gas	2.87	-0.02		-0.7	2.4	7.6	4.2							Euro zone - ECB	Mar 07, 2019
Gold	1288.36	0.37		0.0	-2.4	-1.4	-3.5							Japan - BoJ	Mar 15, 2019
Silver	15.11	-0.05		-0.3	-4.5	-4.8	-8.5							Mexico - Banxico	Mar 28, 2019
CRB Index	181.16	-0.74		-0.4	-1.1	0.3	-7.9							Australia - RBA	Apr 01, 2019
Currencies	Level						% change:								
		Change		1 Day	1-wk	1-mo	1-yr								
USDCAD	1.3381	0.0031		0.2	1.7	1.3	3.9							New Zealand - RBNZ	Mar 26, 2019
EURUSD	1.1306	-0.0002		-0.0	-0.6	-0.5	-8.9								
USDJPY	111.80	-0.0900		-0.1	0.7	1.7	5.3								
AUDUSD	0.7033	-0.0051		-0.7	-1.5	-1.0	-10.2								
GBPUSD	1.3157	-0.0021		-0.2	-1.1	1.7	-5.3								
USDCHF	1.0046	0.0005		0.0	0.3	0.2	6.8								

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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