

ON DECK FOR THURSDAY, MARCH 7

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	03/07	08:30	Building Permits (m/m)	Jan	--	-5.0	6.0
US	03/07	08:30	Initial Jobless Claims (000s)	MAR 2	225	225	225
US	03/07	08:30	Continuing Claims (000s)	FEB 23	1750	1774	1805
US	03/07	08:30	Productivity (q/q a.r.)	4Q F	--	1.5	2.2
US	03/07	08:30	Unit Labor Costs (q/q a.r.)	4Q F	--	1.7	0.9
CA	03/07	12:00	Bank of Canada's Lynn Patterson speech in Hamilton				
US	03/07	12:15	Fed's Brainard Speaks on Economy and Monetary Policy Outlook				
US	03/07	15:00	Consumer Credit (US\$ bn m/m)	Jan	--	17.0	16.6

KEY POINTS:

- Euro sinks after ECB announces fresh stimulus
- ECB introduces TLTRO III...
- ...and pushes out rate hike guidance
- The ECB just opened the door to greater trade tensions
- BoC's Patterson has some explaining to do
- The BoC and election cycles: a lopsided hockey score
- Update on Canada's credit quality cycle
- Peru expected to hold
- Mexican inflation to dip beneath 4% into Banxico's target range
- US: Brainard, productivity/costs...
- ...claims and US financial accounts

INTERNATIONAL

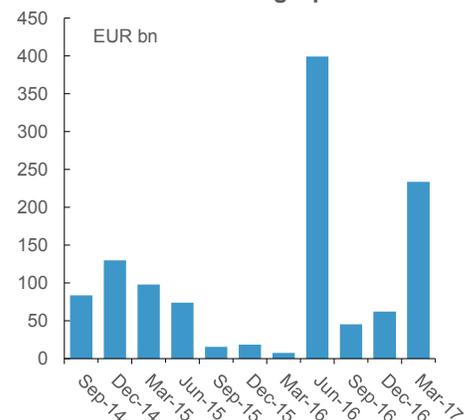
The ECB is the main event and it did not disappoint markets. Another batch of loan programs to the banking sector was rolled out while rate hike guidance was pushed out (see below). Details on the new TLTRO III are pending and Draghi's press conference will be closely watched, but committing to additional stimulus is being welcomed by markets. The BoC has some explaining to do in my opinion. Deputy Governor Patterson's speech matters relatively little given a) the BoC's shift yesterday and b) more importantly behind the ECB. If the BoC thinks markets went too far today then it's up to her to clarify but I doubt she will. Wilkins' speech one week from tomorrow on "risks to global growth in a time when leverage and protectionist sentiment are running high" doesn't sound like yesterday was a step too far in the BoC's eyes versus an erratic script re-write. Comments below address evidence on how the BoC has tended to behave before past Federal elections. Mexican CPI and an expected hold by Peru's central bank are also on tap. See below for discussion of Canadian loan delinquency rates, bankruptcies and proposals.

- The USD is appreciating on a DXY basis and I wouldn't be surprised to see a Trump claim that others (namely Europe today) are pushing dollar strength onto the US which risks aggravating trade tensions including toward auto sector risks. Not surprisingly, the euro is depreciating post-ECB. CAD is appreciating a touch this morning along with the A\$/NZ\$ while the yen is flat. Sterling is depreciating again as jitters intensify ahead of Tuesday's Brexit vote.

CONTACTS

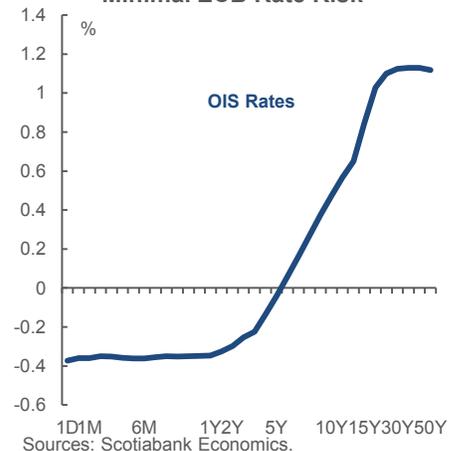
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Amounts Borrowed Under Prior ECB TLTRO Refinancing Operations



Sources: Scotiabank Economics, ECB.

Eonia Curve is Pricing Minimal ECB Rate Risk



Sources: Scotiabank Economics.

- Oil prices are up with Brent higher by almost a buck to about US\$67 and WTI closing in on US\$57.
- US equity futures are down by up to ¼% with TSX futures flat. European cash markets were down before the ECB but should be somewhat more positive over the duration of the session. Asian markets saw small rallies at mainland China's major exchanges but a drop in Tokyo HK and Seoul.
- The US and Canadian sovereign curves are richer by about 1bp across maturities. The most crowded trade that has PMs piling into the front-ends across world markets continues this morning as the consensus trade sees the Fed on hold forever with cut risk and the BoC on extended hold with smaller cut risk. The gilts curve is richer by 2bps while bunds and French bond yields are similarly lower.

The ECB announcements at 7:45amET this morning and President Draghi's press conference (8:30amET) will dominate market considerations. The ECB did not disappoint. Forecast details and broader guidance are pending at the press conference, but the ECB pivoted on two fronts. The full statement is [here](#).

First it introduced another batch of low cost loans to the banking sector to stimulate lending within the Eurozone. It stated the following:

"A new series of quarterly targeted longer-term refinancing operations (TLTRO-III) will be launched, starting in September 2019 and ending in March 2021, each with a maturity of two years. These new operations will help to preserve favourable bank lending conditions and the smooth transmission of monetary policy. Under TLTRO-III, counterparties will be entitled to borrow up to 30% of the stock of eligible loans as at 28 February 2019 at a rate indexed to the interest rate on the main refinancing operations over the life of each operation. Like the outstanding TLTRO programme, TLTRO-III will feature built-in incentives for credit conditions to remain favourable. Further details on the precise terms of TLTRO-III will be communicated in due course."

Second is that rate hike guidance was pushed out: "The Governing Council now expects the key ECB interest rates to remain at their present levels at least through the end of 2019." Previously they had guided "at least through the summer of 2019."

The new TLTROs are a fairly big deal to markets given the size of take-down on past offerings shown in the accompanying chart. The pushed out rate hike guidance matters little since the Eonia curve was already there in the second chart.

Banco Central de Reserva del Peru is expected to remain on hold again today (6pmET) at a policy reference rate of 2.75%. Inflation has been running at just over the midpoint of the 1–3% policy reference range. This factor and soft copper prices incited President Julio Velarde and the board to note at its last policy meeting that it was "appropriate to maintain an expansive monetary policy position." Since that decision, however, copper prices have continued to rally (chart 9). Prices on the London Mercantile Exchange are at their highest since early last July when they were in the midst of a swoon.

Mexico updates CPI inflation for February this morning (9amET). The higher frequency bi-weekly inflation figures already dipped to beneath 4% earlier last month. The full month tally is likely to drop below 4% y/y to inside Banxico's 2–4% target range for the first time since Dec 2016.

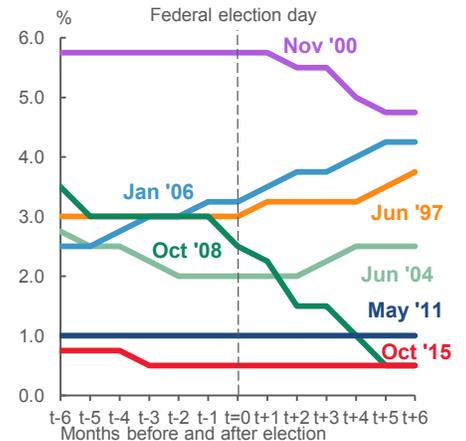
CANADA

BoC Deputy Governor Lynn Patterson gets the nod to take her turn on Governing Council to deliver the Economic Progress Report that the BoC started delivering after non-MPR meetings this year. Her speech will be released at 12:30pmET and there will be a press conference at 2pmET. A stronger defense of the BoC's about face compared to Governor Poloz's speech on February 21st should be a focus if not in the speech then in the press conference. I just can't bring myself to believe that that a half point here or there on what was already expected to be a Q4/Q1 slowdown when the Governor reinforced a hike bias less than two weeks ago justified suddenly dropping such guidance especially since financial conditions had eased since then. Our forecasts will push out hike timing but preserve a return to hiking by maintaining the broad narrative that a rebound is in store, global trade tensions will settle down and fiscal stimulus is likely coming.

A number of clients and staff have recently asked about how the BoC behaves around Federal elections. My stock answer is that underlying fundamentals and market conditions—recent and expected—dominate BoC actions and one should control for

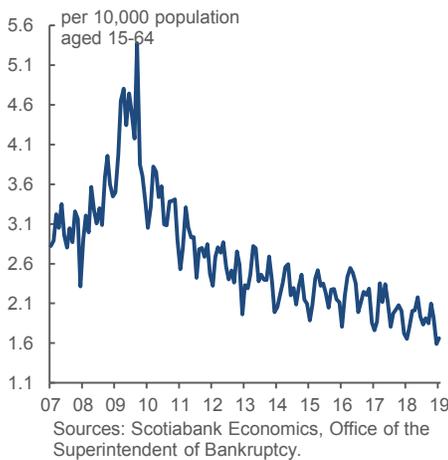
these factors when assessing BoC actions leading up to and after elections. For example, cutting ahead of the October 2008 Federal election was well grounded in fundamentals based arguments. But for what it's worth, the accompanying chart shows the evidence starting in 1996 when the BoC switched away from floating rates to its present operating band that sets the bank rate at the top of that band. **Six months ahead of the past seven Federal elections, the BoC held three times, cut three times, and hiked once.** The one time they hiked was midway through a hiking cycle that began in 2004, then paused until September 2005 and then they hiked uninterrupted through to May 2006 and hence past the Jan'06 election. **Being neutral/dovish before elections would appear to be the norm.** Obviously a lot of things have to be controlled during these episodes (e.g. cutting before the October 2008 election is perfectly explainable) and so elections aren't necessarily cause-and-effect factors, but **6-1 with the 1 being a soft goal would make for a pretty lopsided hockey game.** Of added interest may be that within six months after those elections, pauses continued in two cases, cuts occurred twice and hikes occurred three times. In other words, **the post-election hockey games have been far less lopsided outcomes.** Going forward, I think the BoC's abrupt dovish turn is going to be reinforced by a stimulus budget on March 19th. You could say both are justified because of recent weakness, or that both moves risk further fanning an expected growth rebound. I think it will be the latter. In the world of backward looking data dependence, central banks walk forward by emphasizing the past and this time appears to be no different.

The BoC Around Federal Elections

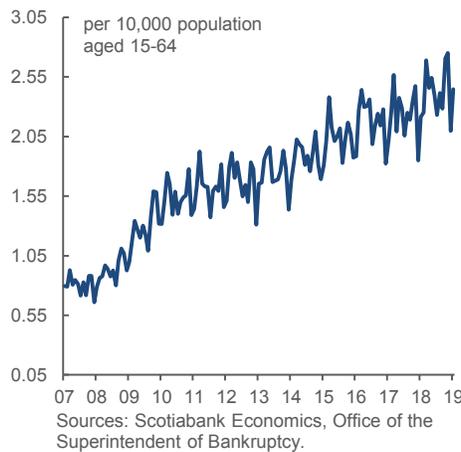


Sources: Scotiabank Economics, Bank of Canada.

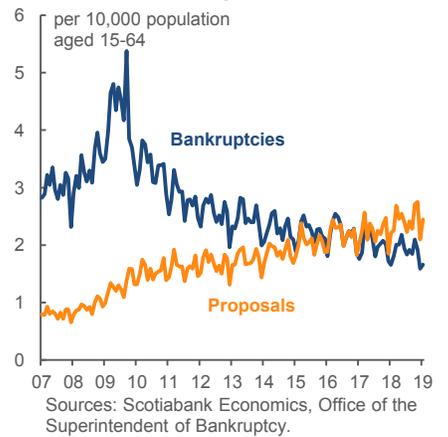
Consumer Bankruptcies



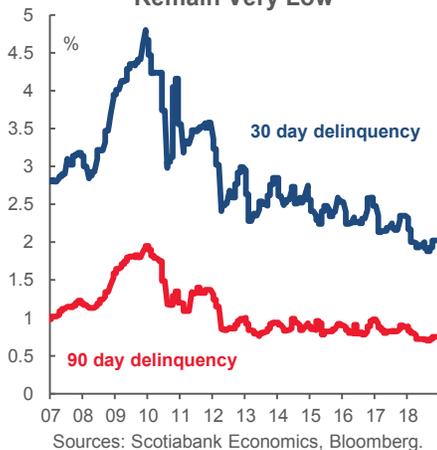
Consumer Proposals



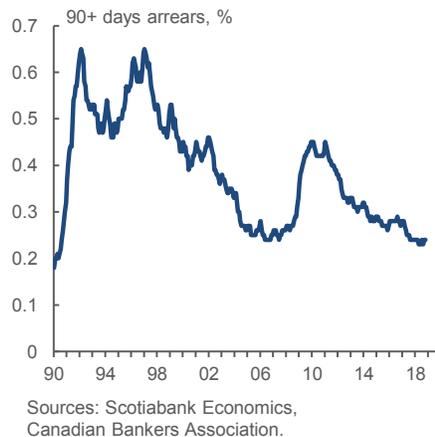
Consumer Bankruptcies & Proposals



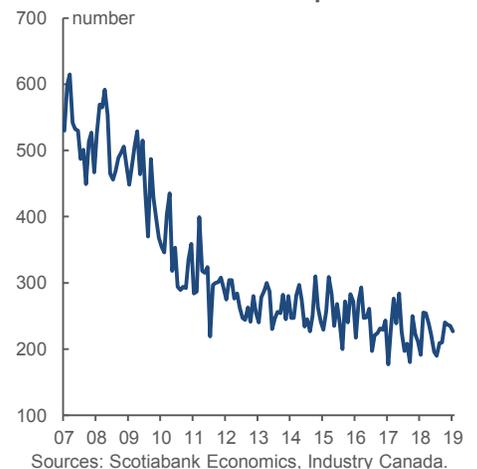
Canadian Credit Card Delinquencies Remain Very Low



Canadian Mortgage Arrears Remain Low



Business Bankruptcies



With another fresh batch of figures comes a replay of **false portrayals of the health of the Canadian credit cycle** including perhaps by the cottage industry that benefits from promoting distress. Let's look at the facts in charts 2–6. They show that on a per capita basis that controls for population growth over time, consumer bankruptcies remain toward cyclically rock bottom levels. Proposals to restructure debt payments have been rising over the cycle but flat lined over recent years. Proposals can reflect debt stress, socioeconomic factors like divorces or any number of other considerations. As for credit card delinquency rates drawn from trusts traced to the 'big five' banks, the 30 and 90 day rates into January remained very well behaved with zero evidence of any upward bias in the cycle. The somewhat more lagging public mortgage arrears rate also remained very favourable into late last year. Also notice that business bankruptcies (and proposals) in raw terms without even adjusting for growth in the number of businesses over time remain very low.

UNITED STATES

US markets will likely follow the tone in global markets post-ECB. US markets only face weekly jobless claims (8:30amET), Q4 productivity and unit labour costs, the Fed's financial accounts for the US economy that includes household net worth figures among many others, consumer credit figures (3pmET) and a speech on the outlook by Fed Governor Brainard (12:15pmET).

So with the Euro falling and the DXY representing the flip side, did Europe just shoot itself in the foot on trade policy risks? I wouldn't be surprised to see another Trump tweet complaining about USD strength. To his base, he could well play that the US is being treated like patsies as the rest of the world fudges their currencies and shoves dollar strength onto the US. America First. We're being taken advantage of. You've heard it all before, but it's possible it will escalate. The solution in Trump's mind could well be tariffs especially on autos. It's bad economics, but it's Trump. Viewed through this lens, what the ECB did today may be a pyrrhic victory that perversely escalates trade tensions with the US.

Thank you to Alena Bystrova for help with charts in this morning's note.

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	2.52	2.52	2.48	2.50	2.51	2.68	2.69	2.72	3.06	3.07	3.08	Canada - BoC	1.75
CANADA	1.66	1.68	1.78	1.68	1.69	1.81	1.81	1.82	1.94	2.10	2.12	2.19	US - Fed	2.50
GERMANY	-0.53	-0.52	-0.52	-0.34	-0.31	-0.28	0.11	0.13	0.18	0.78	0.78	0.81	England - BoE	0.75
JAPAN	-0.14	-0.14	-0.15	-0.14	-0.15	-0.16	-0.01	0.00	-0.02	0.62	0.63	0.61	Euro zone - ECB	0.00
U.K.	0.73	0.75	0.83	0.91	0.94	1.02	1.20	1.23	1.30	1.69	1.71	1.82	Japan - BoJ	-0.10
	Spreads vs. U.S. (bps):													
CANADA	-84	-84	-74	-80	-81	-70	-87	-87	-78	-95	-95	-89	Mexico - Banxico	8.25
GERMANY	-303	-303	-303	-282	-281	-279	-257	-257	-253	-228	-229	-227	Australia - RBA	1.50
JAPAN	-264	-266	-267	-262	-264	-267	-268	-270	-274	-244	-244	-247	New Zealand - RBNZ	1.75
U.K.	-177	-176	-169	-157	-156	-149	-148	-147	-141	-137	-136	-126		
Equities	Level						% change:						Next Meeting Date	
	Last	Change		1 Day		1-wk		1-mo		1-yr				
S&P/TSX	16092	5.5		0.0		0.1		2.5		4.0		Canada - BoC	Apr 24, 2019	
Dow 30	25673	-133.2		-0.5		-1.2		2.0		3.5		US - Fed	Mar 20, 2019	
S&P 500	2771	-18.2		-0.7		-0.7		2.4		1.6		England - BoE	Mar 21, 2019	
Nasdaq	7506	-70.4		-0.9		-0.6		3.0		1.5		Euro zone - ECB	Mar 07, 2019	
DAX	11588	0.6		0.0		0.6		5.1		-5.4		Japan - BoJ	Mar 15, 2019	
FTSE	7187	-9.3		-0.1		1.6		1.3		0.4		Mexico - Banxico	Mar 28, 2019	
Nikkei	21456	-140.8		-0.7		0.3		3.4		1.0		Australia - RBA	Apr 01, 2019	
Hang Seng	28779	-258.1		-0.9		0.5		2.8		-4.7		New Zealand - RBNZ	Mar 26, 2019	
CAC	5298	9.5		0.2		1.1		6.3		2.1				
Commodities	Level						% change:							
	Change		1 Day		1-wk		1-mo		1-yr					
WTI Crude	0.75		1.3		-0.4		8.2		-6.8		England - BoE	Mar 21, 2019		
Natural Gas	-0.02		-0.6		0.5		10.7		1.7		Euro zone - ECB	Mar 07, 2019		
Gold	-0.35		-0.0		-2.1		-1.8		-3.0		Japan - BoJ	Mar 15, 2019		
Silver	-0.02		-0.1		-4.8		-4.0		-9.2		Mexico - Banxico	Mar 28, 2019		
CRB Index	0.43		0.2		-0.6		2.0		-6.6		Australia - RBA	Apr 01, 2019		
Currencies	Level						% change:							
	Change		1 Day		1-wk		1-mo		1-yr					
USDCAD	-0.0016		-0.1		1.9		0.9		4.0		New Zealand - RBNZ	Mar 26, 2019		
EURUSD	-0.0040		-0.4		-0.9		-0.7		-9.2					
USDJPY	0.0100		0.0		0.4		1.8		5.4					
AUDUSD	0.0008		0.1		-0.8		-0.9		-10.0					
GBPUSD	-0.0037		-0.3		-1.0		1.4		-5.5					
USDCHF	0.0027		0.3		0.9		0.5		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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