

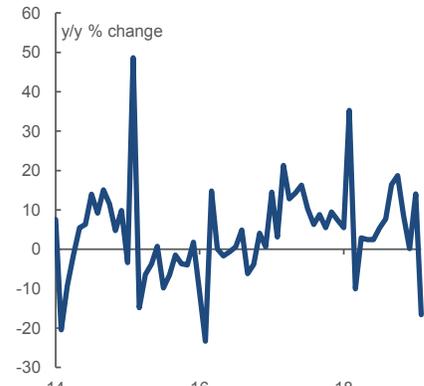
ON DECK FOR FRIDAY, MARCH 8

| Country | Date | Time | Indicator | Period | BNS | Consensus | Latest |
|---------|-------|-------|---|--------|-------|-----------|--------|
| CA | 03/08 | 08:15 | Housing Starts (000s a.r.) | Feb | 215.0 | 205.0 | 207.9 |
| CA | 03/08 | 08:30 | Capacity Utilization (%) | 4Q | 81.8 | 82.0 | 82.6 |
| CA | 03/08 | 08:30 | Employment (000s m/m) | Feb | 25.0 | 1.2 | 66.8 |
| CA | 03/08 | 08:30 | Unemployment Rate (%) | Feb | 5.7 | 5.8 | 5.8 |
| US | 03/08 | 08:30 | Nonfarm Employment Report (000s m/m) | Feb | 210.0 | 180.0 | 304.0 |
| US | 03/08 | 08:30 | Unemployment Rate (%) | Feb | 3.9 | 3.9 | 4.0 |
| US | 03/08 | 08:30 | Household Employment Report (000s m/m) | Feb | -- | -- | -251.0 |
| US | 03/08 | 08:30 | Average Hourly Earnings (m/m) | Feb | 0.2 | 0.3 | 0.1 |
| US | 03/08 | 08:30 | Average Hourly Earnings (y/y) | Feb | 3.3 | 3.3 | 3.2 |
| US | 03/08 | 08:30 | Average Weekly Hours | Feb | -- | 34.5 | 34.5 |
| US | 03/08 | 08:30 | Building Permits (000s a.r.) | Jan | -- | 1287.0 | 1326.0 |
| US | 03/08 | 08:30 | Housing Starts (000s a.r.) | Jan | -- | 1195.0 | 1078.0 |
| US | 03/08 | 08:30 | Housing Starts (m/m) | Jan | -- | 10.9 | -11.2 |
| US | 03/08 | 22:00 | Powell Discusses Monetary Policy Normalization and Review | | | | |

CONTACTS

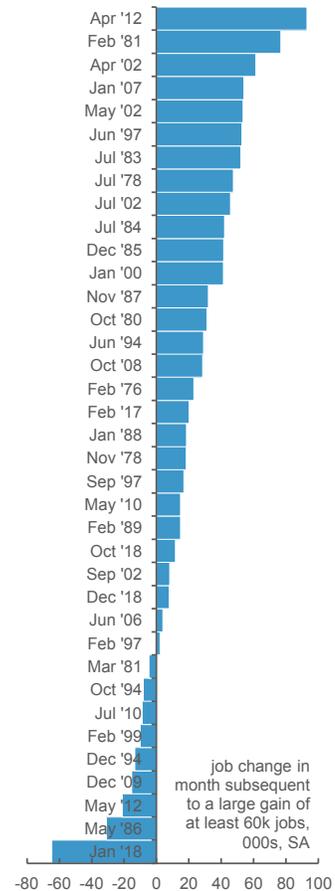
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China Export Growth



Sources: Scotiabank Economics, Bloomberg.

Big Gains Don't Have to Beget Big Losses



Sources: Scotiabank Economics, Statistics Canada, Haver Analytics.

KEY POINTS:

- Global market unease ahead of nonfarm
- Did US wage growth accelerate last month?
- Canadian jobs: does what goes up have to come down?
- Are Chinese regulators jawboning equity froth lower?
- Chinese trade distorted by the Lunar New Year
- Germany factory orders disappoint, revisions positive
- European industrial output surges into the new year
- US housing starts on tap
- Canadian housing starts fall
- Peru holds as expected
- Chilean inflation softens a touch

INTERNATIONAL

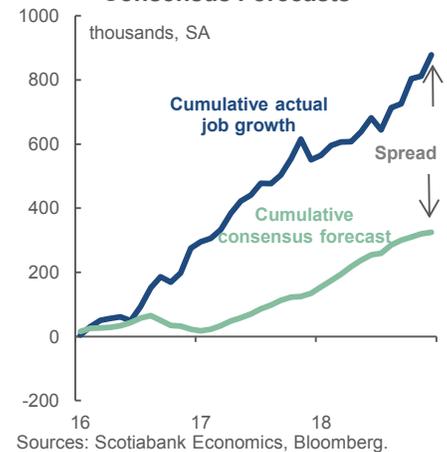
A generally mild risk-off bias is dominating global asset classes this morning. Some of that market unease may be apprehension ahead of this morning's US labour market readings. Some of it is traced to remarks by the US Ambassador to China Terry Branstad who said in an interview that progress in trade negotiations with China is nevertheless insufficient to set a date for Presidents Trump and Xi Jinping to meet. Some of the risk-off tone may also be driven by selective if not distorted interpretations of overnight Chinese and European data whereas my take on the collection of data covering Chinese trade, German factory orders and European industrial output is more constructive on balance. A major sell-off in Chinese stocks followed perception that regulatory authorities are trying to tamp down the recent pace of gains. US labour market readings are expected to register a little faster wage growth and solid job growth. Canada's jobs report is highly uncertain but the probabilities may favour another gain.

- US equity futures are down 1/2% on balance across the exchanges with TSX futures down about 1/4%. European cash markets are down by between 1/2%

(Paris) and 1% (London, Madrid, Milan). China suffered a 4.4% plunge in the Shanghai composite and a 3.8% drop in Shenzhen. From what I can tell this had less to do with Chinese macro data and trade talk and more to do with how markets interpreted the state's concerns about the speed of the rise in equity prices. A catalyst seems to be negative guidance provided on a state-owned insurer by a state-owned brokerage that markets took to be a signal by regulatory authorities to jawbone a less frothy market given past experiences.

- The USD is marginally weaker than where it left off after yesterday's rally. The USD on a DXY basis had appreciated by just under 1% post-ECB but is giving back about a quarter of that this morning. CAD and the Mexican peso are flat. The Euro is slightly firmer after yesterday's plunge but at 1.1215 it is still weaker than the pre-ECB level of 1.1310. Trump's schedule has more openings in it today than yesterday so perhaps be on guard for another shot about dollar strength, the Fed, and other countries' central banks shoving dollar strength onto the US following yesterday's ECB moves.
- Relatively small moves are occurring in sovereign bond markets. US Treasuries are slightly bid. Canada's curve is outperforming with yields down about 1–2bps especially at the front end. Gilts are a touch cheaper and Italian debt spreads over 10 year bunds are about 5bps wider.
- Oil is getting hit with WTI and Brent both off by just over a buck in a decline that began shortly after the ECB.

Job Growth Has Blown Away Consensus Forecasts



China's trade figures for February reversed the spurt of optimism in the prior month's tallies, but Lunar New Year distortions counsel high caution toward the figures even if markets are not. Last year's Lunar New Year was on February 16th and this year's was on February 5th. The swing effect of the production shutdowns and recoveries that occur around this time resulted in a big surge in year-ago export growth in February last year to which this year's February data was based on the year-ago comparison. A high year-ago base effect this February compared to last February drove the tally much weaker. See the accompanying chart that shows wicked volatility in year-ago Chinese export growth at the time of last year's Lunar New Year and this year's. Trade data will start to matter more going forward with less influence from this shifting annual distortion.

German factory orders disappointed expectations but revisions played a significant role in this disappointment. Factory orders fell by 2.6% m/m in January (+0.5% consensus). There were significant positive revisions to the two prior months. November was revised from a 1% drop to a decline of only 0.2% and December was revised to a gain of 0.9% m/m from an initially reported drop of 1.6%. That still left the level of the order book lower in January and at its lowest since last July so these are soft numbers. But relative to expectations and because of the revisions, the figures are not as bad as they would appear by just looking at the January tally.

Europe's industrial complex performed better than expected in January. Industrial production was up in France (+1.3% m/m, 0.1% consensus), Italy (+1.7% m/m, 0.2% consensus), and Spain (+3.4% m/m, 1.6% consensus). A negative revision to the prior month for France explained much of that country's beat, but not the better than expected tallies in Italy and Spain. We'll need to see Germany's tally on Monday, but for now, one can safely indicate that industrial and manufacturing output charged into the new year on better footings across the Eurozone.

Peru's central bank met expectations with no change to its 2.75% reference rate last evening. The statement ([here](#)) signalled a continued pause with the following remarks: "The YoY inflation rate is expected to remain around 2.0 percent, within the target range. The Board considers that it is appropriate to maintain an expansionary policy stance while inflation expectations remain anchored in a context in which the level of economic activity is below its potential level."

Chilean inflation slipped a tick to 1.7% y/y (1.8% consensus). That further distances inflation from the lower bound of the central bank's 2–4% inflation target. Much of the downdraft over recent months has come through core CPI.

UNITED STATES

The main risk is the fairly widespread expectation among forecasters who contribute to Bloomberg and Reuters surveys including me for an up-tick in US wage growth on seasonal effects and year-ago base effects. My estimate is 3.3% y/y (3.2% prior). No forecast contributor expects a softer pace of wage gains and only 4 out of 29 forecasters expect a flat reading. There are several major shops higher at 3.4–3.5% y/y. As for US nonfarm payrolls, consensus expects +180k after a barnstormer of a report in January when 304,000 jobs were added. Be mindful toward the fact that the 90% confidence interval on nonfarm payroll changes is +/- 115,000. The US household survey's 90% confidence around the number of unemployed is +/- 300,000. Recall the unemployment rate is derived from the household survey.

The US also updates housing starts for January (8:30amET) and a strong rebound from the 11% m/m drop is expected.

Also note that diehards can see what Powell has to say tonight at 10pmET. Yes 10pmET on a Friday night and it will be about policy normalization. I doubt he'll say anything really new but any market reaction would be into the Asian market open on Sunday night.

CANADA

Canada's jobs numbers for February are coming off a strong gain of 66,800 in January that may pose downside risk this morning (8:30amET). That said, the probabilities don't favour a decline. Of the 37 times since the start of the LFS in 1976 when the monthly job gain was 60k or more, the next report was up again 28 of those times. Three-quarters of the time a large gain was followed by another gain. Nine of those 37 times there were drops but only 2–3 of those occasions were sizeable declines with January 2018 the biggest after a large gain in December 2017. As for random statistical noise, Canada's Labour Force Survey's 90% confidence interval is +/- 43,520. In repeated sampling 90 times out of 100 all one can say at that level of confidence is that the true pace of job creation in an individual month was somewhere between the reported figure minus 43,520 and the reported figure plus 43,520. Having said that, random noise from month to month shouldn't dent the data over time since it's unlikely that the sampling error would be consistently skewed in one direction or the other over many months and years. Therefore, I wouldn't use this sampling error observation as a way of dismissing the huge shortfall of predicted job gains compared to actual job gains as shown in the accompanying chart.

Canada released housing starts for February and they fell to 173,153 (205k consensus, 206.8k prior revised from 208k). That's the lowest level since December 2015.

| 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. | 2.47 | 2.47 | 2.55 | 2.43 | 2.44 | 2.56 | 2.63 | 2.64 | 2.75 | 3.02 | 3.03 | 3.12 | Canada - BoC | 1.75 |
| CANADA | 1.60 | 1.62 | 1.76 | 1.60 | 1.63 | 1.81 | 1.73 | 1.76 | 1.94 | 2.05 | 2.07 | 2.20 | US - Fed | 2.50 |
| GERMANY | -0.55 | -0.55 | -0.51 | -0.36 | -0.37 | -0.27 | 0.06 | 0.07 | 0.18 | 0.71 | 0.73 | 0.82 | England - BoE | 0.75 |
| JAPAN | -0.15 | -0.14 | -0.15 | -0.15 | -0.14 | -0.15 | -0.03 | -0.01 | -0.01 | 0.59 | 0.62 | 0.63 | | |
| U.K. | 0.75 | 0.73 | 0.80 | 0.91 | 0.90 | 1.00 | 1.19 | 1.17 | 1.30 | 1.70 | 1.66 | 1.80 | | |
| Spreads vs. U.S. (bps): | | | | | | | | | | | | | | |
| CANADA | -87 | -85 | -79 | -83 | -81 | -75 | -90 | -88 | -82 | -98 | -96 | -92 | Euro zone - ECB | 0.00 |
| GERMANY | -301 | -302 | -306 | -280 | -281 | -283 | -257 | -257 | -257 | -231 | -230 | -231 | Japan - BoJ | -0.10 |
| JAPAN | -261 | -262 | -270 | -258 | -258 | -271 | -267 | -265 | -276 | -244 | -241 | -250 | | |
| U.K. | -172 | -174 | -176 | -153 | -155 | -156 | -145 | -147 | -146 | -132 | -136 | -132 | Mexico - Banxico | 8.25 |
| Equities | Level | | | | | | % change: | | | | | | Next Meeting Date | |
| | Last | | | Change | 1 Day | 1-wk | 1-mo | 1-yr | | | | | | |
| S&P/TSX | 16057 | | | -35.6 | -0.2 | 0.4 | 2.7 | 3.3 | | | | Australia - RBA | 1.50 | |
| Dow 30 | 25473 | | | -200.2 | -0.8 | -1.7 | 1.5 | 2.3 | | | | New Zealand - RBNZ | 1.75 | |
| S&P 500 | 2749 | | | -22.5 | -0.8 | -1.3 | 1.5 | 0.4 | | | | | | |
| Nasdaq | 7421 | | | -84.5 | -1.1 | -1.5 | 1.7 | -0.1 | | | | | | |
| DAX | 11440 | | | -77.6 | -0.7 | -1.4 | 4.9 | -7.4 | | | | | | |
| FTSE | 7090 | | | -67.3 | -0.9 | -0.2 | 0.3 | -1.6 | | | | | | |
| Nikkei | 21026 | | | -430.4 | -2.0 | -2.7 | 3.4 | -1.6 | | | | Canada - BoC | Apr 24, 2019 | |
| Hang Seng | 28228 | | | -551.0 | -1.9 | -2.0 | 1.0 | -7.9 | | | | US - Fed | Mar 20, 2019 | |
| CAC | 5239 | | | -29.0 | -0.6 | -0.5 | 5.6 | -0.3 | | | | England - BoE | Mar 21, 2019 | |
| Commodities | Level | | | | | | % change: | | | | | | | |
| | | | | | | | | | | | | | | |
| WTI Crude | 55.32 | | | -1.34 | -2.4 | -0.9 | 4.9 | -8.0 | | | | Euro zone - ECB | Apr 10, 2019 | |
| Natural Gas | 2.87 | | | 0.00 | 0.1 | 0.4 | 11.1 | 4.1 | | | | Japan - BoJ | Mar 15, 2019 | |
| Gold | 1292.70 | | | 7.08 | 0.6 | -0.1 | -1.7 | -2.2 | | | | | | |
| Silver | 15.08 | | | -0.02 | -0.1 | -4.7 | -4.0 | -9.4 | | | | | | |
| CRB Index | 179.59 | | | -1.28 | -0.7 | -1.1 | 0.9 | -7.3 | | | | | | |
| Currencies | Level | | | | | | % change: | | | | | | | |
| | | | | | | | | | | | | | | |
| USDCAD | 1.3455 | | | 0.0000 | 0.0 | 1.2 | 1.3 | 4.3 | | | | Mexico - Banxico | Mar 28, 2019 | |
| EURUSD | 1.1222 | | | 0.0029 | 0.3 | -1.3 | -0.9 | -8.9 | | | | Australia - RBA | Apr 01, 2019 | |
| USDJPY | 111.14 | | | -0.4400 | -0.4 | -0.7 | 1.3 | 4.6 | | | | | | |
| AUDUSD | 0.7030 | | | 0.0014 | 0.2 | -0.7 | -0.8 | -9.7 | | | | | | |
| GBPUSD | 1.3063 | | | -0.0022 | -0.2 | -1.1 | 0.9 | -5.4 | | | | New Zealand - RBNZ | Mar 26, 2019 | |
| USDCHF | 1.0091 | | | -0.0022 | -0.2 | 1.0 | 0.9 | 6.1 | | | | | | |

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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