

ON DECK FOR TUESDAY, MARCH 12

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Indicator</u>	<u>Period</u>	<u>BNS</u>	<u>Consensus</u>	<u>Latest</u>	
US	03/12	08:30	CPI (index)	Feb	--	252.8	251.7	
US	03/12	08:30	CPI (m/m)	Feb	0.3	0.2	0.0	
US	03/12	08:30	CPI ex. Food & Energy (m/m)	Feb	0.3	0.2	0.2	
US	03/12	08:30	CPI (y/y)	Feb	1.5	1.6	1.6	
US	03/12	08:30	CPI ex. Food & Energy (y/y)	Feb	2.1	2.2	2.2	
US	03/12	08:45	Brainard Speaks at Community Reinvestment Conference in DC					

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KEY POINTS:

- Global markets on edge as Brexit vote looms
- Today's vote on the Brexit deal is likely to fail...
- ...ahead of likely rejection of a no-deal outcome tomorrow...
- ...and then next steps will compound uncertainty
- UK macro data looked so good before Brexit developments made it moot
- US CPI expected to be flat to slightly lower on headline and core
- Brazilian inflation update on tap
- Swedish inflation eases Riksbank bets
- Fed's Brainard poses low risk today
- Canada quiet

INTERNATIONAL

The first of what could be a series of Brexit votes is scheduled for tonight sometime after 7pm London time (3pmET, recall time change this past weekend). It appears likely to fail and then set in motion a series of other votes (see below). See the accompanying summary flowchart of the steps to be taken. Other developments will be focused upon US CPI as UK macro data came in strong but is being completely overshadowed by Brexit. Regional markets in Sweden and Brazil are digesting inflation updates today.

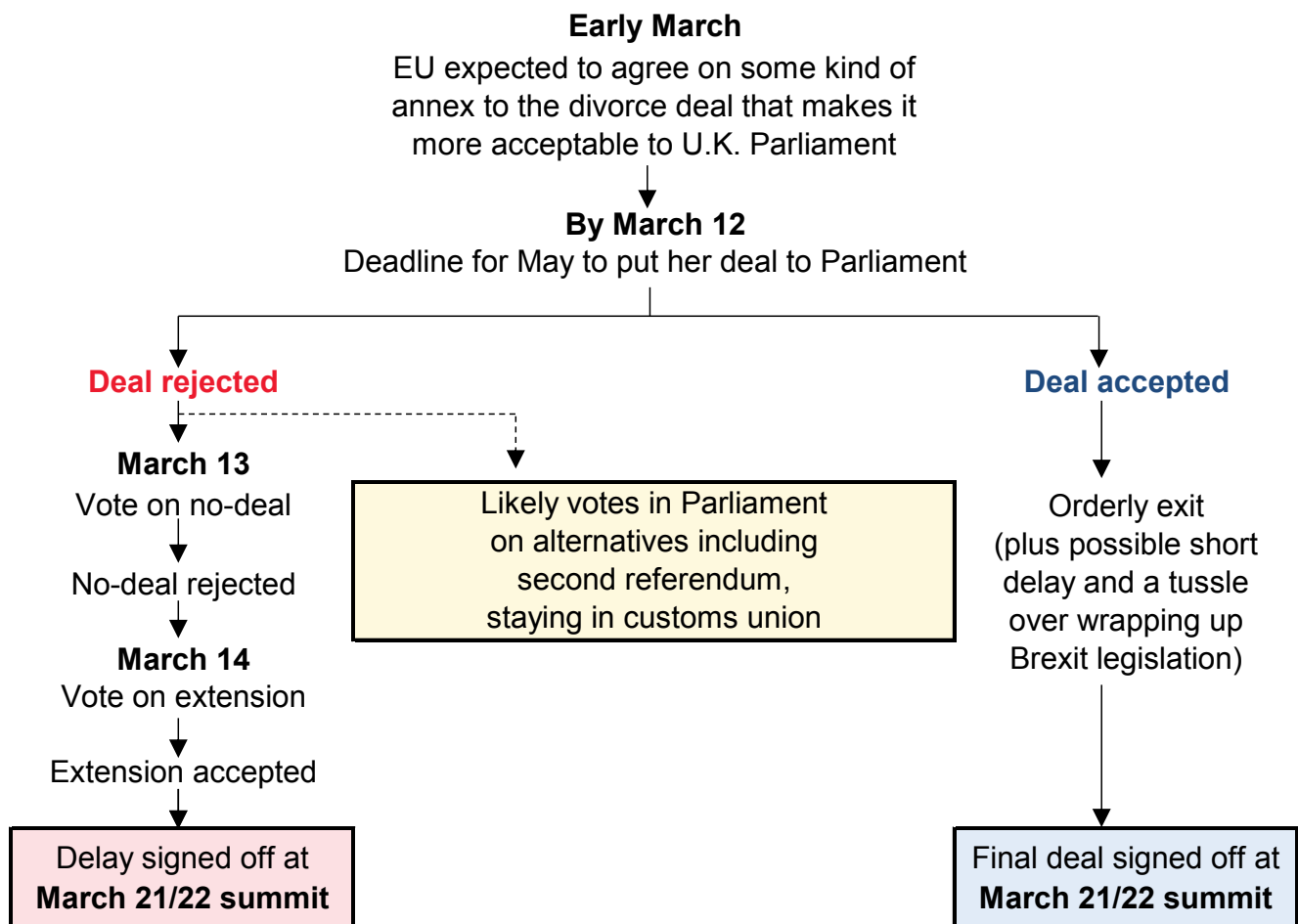
- Pound sterling will be the key currency to watch today and at present it is depreciating sharply versus all major crosses in the wake of the UK Attorney General's legal opinion. The USD is little changed on balance.
- Gilts and US Treasuries will be the main sovereign debt markets at risk today ahead of the Brexit vote and US CPI. UK 10s have been very volatile so far today, jumping by as much as 8bps higher before this was reversed when the legal opinion on the Brexit deal was released. The gilts curve is presently slightly dearer especially at the front end. US Ts and Canadas are flat.
- Oil prices are up a little in terms of WTI and Brent ahead of today's private US oil inventories figures and tomorrow's government report.
- Global equity markets are little changed on balance. US equity futures are slightly negative especially as Boeing continues to drag the Dow lower and with TSX futures flat. European cash markets range from up ½% in London

as sterling drops and down by around ¼% elsewhere in Europe. Asian equities rallied by about 1% or better across Tokyo, Hong Kong, Seoul and mainland China.

Today's Brexit vote will be on the newly modified European Union (Withdrawal) Act after partial changes were secured in talks between PM May and EC President Jean-Claude Juncker last evening. Those changes are being met with skepticism in Parliament and being studied throughout the day. Headlines are evolving rapidly as this note is being published but UK Attorney General Cox published legal advice on the revised deal that says the overall legal risk is unchanged. Pound sterling and yields on gilts plunged in the wake of the legal opinion. If May's deal is voted down today—which seems highly probable—then Parliament will vote tomorrow on whether to allow a no-deal 'hard' Brexit outcome on March 29th and that's likely to reject the no-deal scenario. There may also be side movements to vote on alternatives such as another referendum. If they reject the no-deal option, then another vote will be held on Thursday on whether to extend the deadline beyond March 29th for "a short limited time" of uncertain length other than May's constraint it should be no later than June before European Parliament elections. Then the EU Summit on March 21st –22nd needs to approve an extension assuming it doesn't approve a passed deal and assuming other initiatives in the British Parliament don't make the Summit moot. All I can say with fair confidence is that the deal will be rejected today, a hard Brexit is likely to be rejected tomorrow, but then we don't know how developments will proceed thereafter.

UK macro data may be a sideshow ahead of the Brexit vote, but it was nevertheless rather robust. Here's a summary:

What's Next for Brexit?



Source: Bloomberg.

- industrial output was up 0.6%, three times faster than consensus in a reversal of the prior month's ½% drop;
- a 0.8% jump in manufacturing output helped (0.2% consensus, -0.7% prior);
- construction output leapt ahead by 2.8% m/m (0.8% consensus);
- the monthly services gauge increased by 0.3% (0.2% consensus, -0.2% prior);
- monthly GDP grew by 0.5% m/m (0.2% consensus, -0.4% prior);
- exports of goods were up 4.1% m/m and imports climbed by 3.8%. The trade deficit increased somewhat because the slower increase in imports was applied against a larger starting point than exports. Still, the economy exhibited improved export momentum and enough strength in the domestic economy to pull in more imports.

Fed Governor Brainard will speak (8:45amET) but only on modernizing the community reinvestment act. There should be no policy references. The Fed is technically in communications black-out already, but after Brainard there are no further planned communications by FOMC officials until next Wednesday's statement, forecasts and press conference.

Swedish inflation fell marginally shy of expectations and continued a cooling pattern that may add doubt to a guided Riksbank hike later in the year. CPI by the preferred measure that assumes constant interest rates slipped to 1.9% y/y. That's only a tick lower than expected, but it continues the deceleration from a peak of 2.5% last September. Headline inflation was unexpectedly unchanged at 1.9% (2% consensus) which remains just inside the Riksbank's 2% inflation target.

Brazil updates inflation for February (8amET). Today's reading should be fairly similar around the 3¼% y/y range. That leaves inflation just beneath the mid-point of Banco Central do Brasil's 3–6% inflation target range, affording the central bank the option of maintaining policy stimulus with the Selic rate presently at 6½%. Governor Goldfajn held his last meeting on February 5th as incoming Governor Roberto Campos Neto takes the reins ahead of the next decision on March 20th.

UNITED STATES

US CPI will jostle for attention (8:30amET). **CPI figures for February could be flat to slightly lower for both headline and core inflation excluding food and energy.** On its own, a change in year-ago base effects would slow headline CPI inflation to 1.1% from 1.6% the prior month and to 1.7% for core from 2.2% previously. Average seasonal influences could add 0.3% m/m to headline CPI and core CPI which would lift the readings to 1.4% for headline and 2.0% for core. A slight up-tick in gasoline prices may assist the headline reading. Expectations from consensus/me below:

Headline CPI m/m: 0.2 / 0.3 (range of 0.1-0.3)

Headline CPI y/y: 1.6 / 1.5 (range 1.4-1.6)

Core CPI m/m: 0.2 / 0.3 (range of 0.1-0.2)

Core CPI y/y: 2.2 / 2.1 (range 2.1-2.2)

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.	2.48	2.48	2.55	2.45	2.44	2.53	2.65	2.64	2.72	3.04	3.03	3.08	Canada - BoC	1.75
CANADA	1.66	1.66	1.74	1.65	1.64	1.75	1.76	1.75	1.88	2.06	2.05	2.16	US - Fed	2.50
GERMANY	-0.54	-0.54	-0.50	-0.36	-0.36	-0.28	0.07	0.07	0.17	0.73	0.73	0.80	England - BoE	0.75
JAPAN	-0.15	-0.15	-0.14	-0.15	-0.15	-0.14	-0.03	-0.03	0.01	0.60	0.59	0.65		
U.K.	0.73	0.74	0.81	0.90	0.91	1.00	1.18	1.18	1.29	1.69	1.69	1.78		
	Spreads vs. U.S. (bps):													
CANADA	-82	-82	-81	-80	-80	-77	-89	-89	-84	-98	-98	-93	Euro zone - ECB	0.00
GERMANY	-303	-301	-305	-281	-280	-281	-258	-257	-255	-231	-230	-228	Japan - BoJ	-0.10
JAPAN	-263	-262	-268	-260	-259	-266	-268	-267	-271	-244	-244	-243		
U.K.	-175	-173	-174	-155	-154	-153	-147	-146	-143	-134	-134	-131	Mexico - Banxico	8.25
Equities	Level						% change:							
	Last			Change			1 Day	1-wk	1-mo	1-yr				
S&P/TSX	16106			110.0			0.7	0.4	3.0	3.2			Australia - RBA	1.50
Dow 30	25651			200.6			0.8	-0.7	0.9	1.9			New Zealand - RBNZ	1.75
S&P 500	2783			40.2			1.5	-0.3	1.4	0.0				
Nasdaq	7558			149.9			2.0	-0.3	1.9	-0.4				
DAX	11516			-27.1			-0.2	-0.9	3.5	-7.3				
FTSE	7156			25.8			0.4	-0.4	0.3	-0.8				
Nikkei	21504			378.6			1.8	-1.0	3.1	-1.5			Canada - BoC	Apr 24, 2019
Hang Seng	28921			417.6			1.5	-0.1	2.7	-8.5			US - Fed	Mar 20, 2019
CAC	5251			-14.8			-0.3	-0.9	3.9	-0.5				
Commodities	Level						% change:							
WTI Crude	57.07			0.28			0.5	0.9	7.5	-7.0			England - BoE	Mar 21, 2019
Natural Gas	2.76			-0.01			-0.4	-4.3	2.7	-0.6			Euro zone - ECB	Apr 10, 2019
Gold	1296.37			2.95			0.2	0.7	-1.1	-2.0				
Silver	15.30			0.18			1.2	0.9	-2.6	-7.2			Japan - BoJ	Mar 15, 2019
CRB Index	180.82			0.33			0.2	-0.6	1.5	-7.0				
Currencies	Level						% change:							
USDCAD	1.3407			0.0013			0.1	0.4	1.3	4.4			Mexico - Banxico	Mar 28, 2019
EURUSD	1.1251			0.0006			0.1	-0.5	-0.7	-8.8				
USDJPY	111.27			0.0600			0.1	-0.6	0.7	4.6			Australia - RBA	Apr 01, 2019
AUDUSD	0.7065			-0.0005			-0.1	-0.3	-0.4	-10.3				
GBPUSD	1.3048			-0.0102			-0.8	-1.0	1.2	-6.2			New Zealand - RBNZ	Mar 26, 2019
USDCHF	1.0100			-0.0006			-0.1	0.6	0.3	6.6				

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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