

ON DECK FOR THURSDAY, MARCH 14

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	03/14	08:30	New Housing Price Index (m/m)	Jan	--	0.0	0.0
US	03/14	08:30	Export Prices (m/m)	Feb	--	0.3	-0.5
US	03/14	08:30	Import Prices (m/m)	Feb	--	0.3	-0.5
US	03/14	08:30	Initial Jobless Claims (000s)	MAR 9	225	225	223
US	03/14	08:30	Continuing Claims (000s)	MAR 2	1760	1763	1755
CA	03/14	18:50	Bank of Canada Wilkins Speech				

KEY POINTS:

- USD and gilts stand out from otherwise little changed global markets
- Another wave of Brexit votes...
- ...could see Parliament more clearly spell out chosen steps...
- ...amidst possible rejection of the government’s conditional extension
- Yuan drops on Chinese macro, delayed summit
- Broad dollar strength is driving US import prices lower...
- ...feeding through softened consumer price inflation...
- ...but will such effects dissipate or reverse later this year?
- BoC’s Wilkins probably won’t materially inform current BoC market pricing...
- ...ahead of Poloz’s April Fool’s appearance

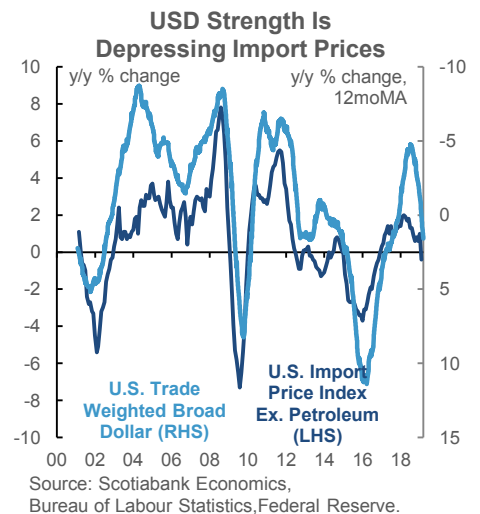
INTERNATIONAL

Global asset classes are mixed to start the North American trading day as multiple considerations are in play while stand-out market movements include dollar strength and underperformance of gilts. With further details below, the main focal points will be another wave of Brexit related votes in the British Parliament, negative US-China trade headlines, soft China macro releases, Bank of Canada communications and limited US macro risk.

- The USD is gaining strength today against almost all major and semi-major crosses. Pound sterling is the weakest of the bunch ahead of more Brexit votes. China’s yuan is leading Asian currencies lower versus the dollar (data, trade talks—see below). CAD is a middle of the pack performer that is weakening with oil and ahead of BoC communications.
- Gilt yields are higher by about 2bps across the curve though a little less so at the long end. Treasury and Canada yields are flat. EGB yields are generally little changed with the notable exception of about a 5–6bps spread narrowing in the Italian 10 year yield over bunds.
- Oil prices are little changed. They had been gaining until the US-China trade headlines hit the wires.
- US equity futures are little changed along with TSX futures. European cash markets range from up ¼% (Germany) to up by as much as ¾% in London and Milan. Asian equities were somewhat mixed as Seoul rallied by just over ¼%, HK was up by just over 0.1%, the Nikkei was flat, and Seoul was up 0.3%.

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Brexit will yet again be a focal point for markets. Notwithstanding the unusual theatrics that have been on display amidst evidence of a government in disarray this week, **a positive angle is that Parliament is finally taking steps to more specifically put to votes the prioritization of what it seeks.** Voting on PM May's motion to seek a delay to the March 29th Brexit deadline will commence earlier than normal **after 1pmET today.** The motion will be accompanied by votes on six other types of amendments that are in the works. It is important to note that a hard Brexit option remains the legal default notwithstanding the symbolic votes yesterday to reject a hard Brexit after having rejected May's deal the day before. That said, the spirit of the movement in Parliament is against May's contention that a hard Brexit would be the outcome of failure to ratify her pet agreement as Parliament usurps control over next steps.

First, the government's three part motion is repeated verbatim below. A major point of controversy is the conditional feature that PM May would ask the EU for a temporary extension to June 30th only if Parliament support's May's Brexit deal by next Wednesday. That day is just before the EU Summit at which May would seek an extension. Blackmail anyone? **May is sticking to her guns on the existing agreement that has failed two votes thus far and has expressed openness toward a third vote next week "if worthwhile."** Parliament has already told her it isn't terribly worthwhile to consider doing so. Absent approval by March 20th, the government motion indicates that the EU would require a clear explanation of why an extension should be granted absent an agreement while the UK would be forced into participating in the European Parliament elections in May. Recall that there are no guarantees whatsoever that the EU would agree to an extension unanimously across all EU-27 members. Having said that, European Council President Donald Tusk expressed support this morning by saying: "I will appeal to the EU27 to be open to a long extension if the UK finds it necessary to rethink its Brexit strategy and build consensus around it." Tusk's motion of support could be further informed by the outcome to this afternoon's vote if Parliament indicates it has a better feel for next steps.

Here is the government's motion:

1. notes the resolutions of the House of 12 and 13 March, and accordingly agrees the Government will seek to agree with the European Union an extension of the period specified in Article 50(3);
2. agrees that if the House has passed a resolution approving the negotiated withdrawal agreement and the framework for the future relationship for the purposes of section 13(1)(b) of the European Union (Withdrawal) Act 2018 by 20 March 2019 then the Government will seek to agree with the European Union a one-off extension of the period specified in Article 50(3) for a period ending on 30 June 2019 for the purpose of passing the necessary EU exit legislation; and
3. notes that if the House has not passed a resolution approving the negotiated withdrawal agreement and the framework for the future relationship for the purposes of section 13(1)(b) of the European Union (Withdrawal) Act 2018 by 20 March 2019 then it is highly likely the European Council at its meeting the following day would require a clear purpose for any extension, not least to determine its length, and any extension beyond 30 June 2019 would require the United Kingdom to hold European Parliament elections in May 2019.

Here are the six amendments to the government's above-noted motion. They are non-binding, but arguably far more fascinating than the government's motion in that we may get a clearer expression of what Parliament supports by way of alternatives to approving May's Brexit deal. I've ranked them starting with the two most likely and most interesting amendments followed by the ones that are unlikely to go anywhere. It's possible that May's motion gets turfed in favour of alternative next steps.

Cooper/Letwin amendment: This would introduce a series of indicative votes that would be nonbinding expressions of parliamentary support for different approaches that would rank preferred options such as the existing deal, another referendum, retaining membership in the customs union etc.

Second referendum: There are two amendments on a second referendum. One seeks to rule it out and one seeks support for the idea. Whether it fails or not could significantly inform the next steps Parliament is prepared to take.

Labour's amendment: This one calls for delaying Brexit for an indeterminate time that would allow parliament to settle upon a different approach. This one falls well short on specificity and is unlikely to go anywhere but some note that it indicates Labour backing away from prior stances.

SNP/Paid Cymru amendment: This one won't go anywhere and seeks to delay Brexit in favour of a second referendum with a Scottish independence angle to it.

Chope amendment: This one will also go nowhere but seeks to replace the existing UK Brexit negotiating team.

China's economic indicators shifted downward in February and when combined with negative trade headlines drove the offshore yuan weaker. On a year-to-date basis that controls for the shifting timing of the annual Lunar New Year, retail sales growth eased to 8.2% y/y (9.0% prior). That's the weakest since June 2003, but not weak per se. Industrial output climbed by 5.3% y/y in the two combined months of 2019 for the weakest growth rate since March 2009. The jobless rate increased to 5.3% (4.9% prior) which is the highest since February 2017. Fixed asset investment performed better with growth edging up to 6.1% y/y and the highest since last May by a whisker.

While nothing had been formally scheduled, headlines that guide toward a postponed US-China trade summit reinforced the impact on the yuan of weak Chinese data and broadly based gains in the USD across most currency pairs. Newswires indicate that "three people familiar" with the developments say that a Trump-Xi summit is likely to happen in mid-April or later compared to prior speculation it might occur this month. Being mid-March with nothing announced yet, I'm not sure that should surprise anyone. But combined with Trump's shift toward playing hard to get in his comments yesterday, the market effects demonstrate evidence of at least a hiccup in US-China trade talks.

UNITED STATES

US markets face only relatively minor macro releases today. New home sales stand out from the trio and after a sizeable gain in December may face downside risk in January's reading (10amET). **Weekly jobless claims** were released for last week and about all there is to say of the 229k reading is that they have shaken off the shutdown distortions and settled back down in a 220k range that is off the lows of around 200k set last year but still historically low.

While it rarely influences anything in markets, **import prices for February are worth keeping an eye on.** They increased by 0.6% m and were revised up to a 0.1% m/m rise the prior month (from -0.5% initially). Core import prices excluding volatile oil prices were up by only 0.1% after a 0.6% prior drop. Import prices matter because they are the first step toward assessing the impact of the strong dollar on inflation. A strong dollar cheapens the cost of imports all else equal. As shown in the accompanying chart, the broad dollar's rise over the past year depressed core import prices excluding oil. The next stage of pass-through is how this works through to end consumers as indicated by core CPI and core PCE. We've seen core CPI trend lower (recap here) but translating this into the Fed's preferred PCE gauge remains subject to uncertainty with no PCE readings for 2019 as of yet due to the government shutdown. Dollar strength is playing a role in tamping down inflationary pressure. After appreciating so much last year, the broad dollar has been largely range bound this year; if it remains that way or weakens, then the disinflationary effects of the dollar might end if not reverse into H2. Recall Fed research that points to how a 10% broad dollar rise tamps down core PCE inflation by ½% within six months and a lesser ¼% or so within twelve months.

CANADA

BoC SDG Wilkins will speak on "risks to global growth posed by high leverage in major economies." That sounds uplifting especially on such a lovely prelude to Spring weather in Toronto and upon first sighting in quite some time of our resident falcon circling outside the windows here. Her comments will be available at 6:50pmET. There will be no press conference but there will be audience Q&A which is usually pretty light. The BoC seems to recently have a thing against press conferences given the abruptly truncated one following DG Patterson's speech and nothing tonight. Given the topic, don't expect the BoC to walk back any of its abrupt dovish stance that it adopted on March 6th when it removed reference to the need to return the policy rate to neutral over time. After a buoyant jobs report and ahead of next Tuesday's Federal Budget it may be premature to expect any increased dovishness. This is the BoC, however, with its reputation for erratic moves well deserved and so one can't entirely ignore the possibility that while it may continue to talk through near-term softness, it could express intensified concern over increased slack given tepid growth in Q4 and Q1.

Also note that Governor Poloz is now scheduled to speak on April 1st which may be a dicey day on which to possibly alter guidance ahead of the April 24th BoC and MPR and hence ahead of when the BoC goes into blackout on April 16th. He will speak in Nunavut. No speech topic has been revealed by the source and won't be available from the BoC until three days beforehand.

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.	2.46	2.47	2.47	2.43	2.43	2.44	2.62	2.62	2.64	3.01	3.02	3.03	Canada - BoC	1.75
CANADA	1.67	1.67	1.62	1.66	1.66	1.63	1.76	1.76	1.76	2.04	2.04	2.07	US - Fed	2.50
GERMANY	-0.55	-0.55	-0.55	-0.35	-0.36	-0.37	0.07	0.07	0.07	0.73	0.73	0.73	England - BoE	0.75
JAPAN	-0.16	-0.15	-0.14	-0.17	-0.16	-0.14	-0.04	-0.04	-0.01	0.57	0.58	0.62	Euro zone - ECB	0.00
U.K.	0.77	0.75	0.73	0.95	0.93	0.90	1.23	1.20	1.17	1.74	1.73	1.66	Japan - BoJ	-0.10
	Spreads vs. U.S. (bps):													
CANADA	-79	-80	-85	-77	-77	-81	-86	-86	-88	-97	-97	-96	Mexico - Banxico	8.25
GERMANY	-301	-302	-302	-278	-279	-281	-254	-256	-257	-228	-229	-230	Australia - RBA	1.50
JAPAN	-262	-262	-262	-259	-259	-258	-266	-266	-265	-244	-244	-241	New Zealand - RBNZ	1.75
U.K.	-169	-172	-174	-147	-150	-155	-139	-142	-147	-127	-129	-136		
Equities	Level						% change:						Next Meeting Date	
	Last	Change		1 Day	1-wk	1-mo	1-yr							
S&P/TSX	16150	13.3		0.1	0.4	2.9	3.2							
Dow 30	25703	148.2		0.6	0.1	1.0	3.8							
S&P 500	2811	19.4		0.7	1.4	2.4	2.2							
Nasdaq	7643	52.4		0.7	1.8	2.9	2.0							
DAX	11616	43.2		0.4	0.8	4.7	-5.1							
FTSE	7195	35.3		0.5	0.5	-0.0	0.9							
Nikkei	21287	-3.2		-0.0	-0.8	0.7	-2.3							
Hang Seng	28851	43.9		0.2	0.2	1.5	-8.2							
CAC	5340	33.9		0.6	1.4	5.5	2.0							
Commodities	Level						% change:							
WTI Crude	58.56	0.30		0.5	3.4	7.6	-3.9							
Natural Gas	2.84	0.02		0.7	-0.9	10.4	4.0							
Gold	1298.69	-10.51		-0.8	1.0	-1.1	-2.0							
Silver	15.52	0.08		0.5	2.8	-1.1	-6.0							
CRB Index	183.36	-0.05		-0.0	1.4	2.6	-5.7							
Currencies	Level						% change:							
USDCAD	1.3339	0.0037		0.3	-0.9	0.3	3.0							
EURUSD	1.1306	-0.0021		-0.2	1.0	0.1	-8.6							
USDJPY	111.63	0.4600		0.4	0.0	1.0	5.0							
AUDUSD	0.7053	-0.0041		-0.6	0.5	-0.7	-10.5							
GBPUSD	1.3278	-0.0060		-0.4	1.5	3.7	-4.9							
USDCHF	1.0043	0.0002		0.0	-0.7	-0.1	6.3							

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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