

**ON DECK FOR FRIDAY, MARCH 15**

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	03/15	08:30	Manufacturing Shipments (m/m)	Jan	0.5	0.4	-1.3
US	03/15	08:30	Empire State Manufacturing Index	Mar	--	10.0	8.8
CA	03/15	09:00	Existing Home Sales (m/m)	Feb	--	-4.0	3.6
US	03/15	09:15	Capacity Utilization (%)	Feb	78.6	78.5	78.2
US	03/15	09:15	Industrial Production (m/m)	Feb	0.5	0.4	-0.6
US	03/15	10:00	JOLTS Job Openings (000s)	Jan	--	7225.0	7335.0
US	03/15	10:00	U. of Michigan Consumer Sentiment	Mar P	95.0	95.7	93.8
US	03/15	16:00	Total Net TIC Flows (US\$ bn)	Jan	--	--	-33.1
US	03/15	16:00	Net Long-term TIC Flows (US\$ bn)	Jan	--	--	-48.3

**KEY POINTS:**

- Risk-on to end the week
- BoJ stands pat
- Brexit risk parked until next week
- Nothing new from BoC's Wilkins
- A review of Canadian financial conditions
- CDN manufacturing shipments: higher oil price versus Alberta's cuts
- CDN home sales likely fell last month
- US industrial output rebound?
- Is US consumer confidence still on the mend?
- Italian industrial figures rebound
- Eurozone 'supercore' CPI at highest since 2013

**INTERNATIONAL**

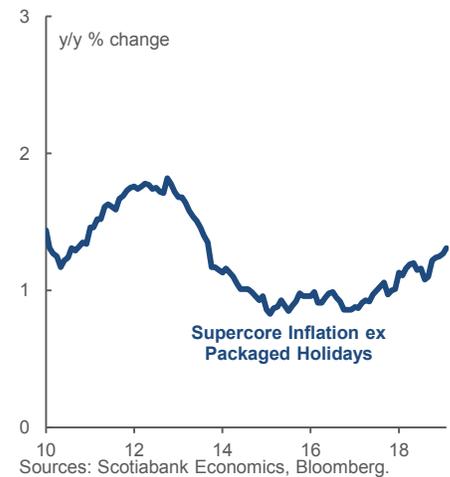
Enough Brexit! For now that is, and to be revisited next week. Indeed the week appears poised to end with a mild risk-on bias across global markets. US and Canadian macro data is on tap (see below). The BoC offered no materially new guidance last evening (see below including an overview of financial conditions). Ditto for the Bank of Japan (see below). European data has a positive ring to it through an Italian industrial rebound and supercore Eurozone inflation at 1¼% y/y. The focus will quickly cut through the morning data toward bigger things to pay attention to next week including the Fed for which I'll send out a preview today. Brexit will return as an obsession when PM May brings her existing deal forward for a third attempt at passage that will inform the length of extension assuming the EU-27 unanimously agrees to grant an extension to the March 29<sup>th</sup> Article 50 deadline and for how long.

- US equity futures are up ½% and TSX futures are gaining by a little less. European cash markets are rallying across the board by around 1% on average. Asian equities also rebounded with mainland China up by 1%+, Tokyo and Seoul up by 1% and HK up by ½%.
- The USD is little changed on balance as the yen and CAD are flat, the won is slightly softer, and the euro, pound sterling, Mexican peso and A\$ are slightly appreciating.

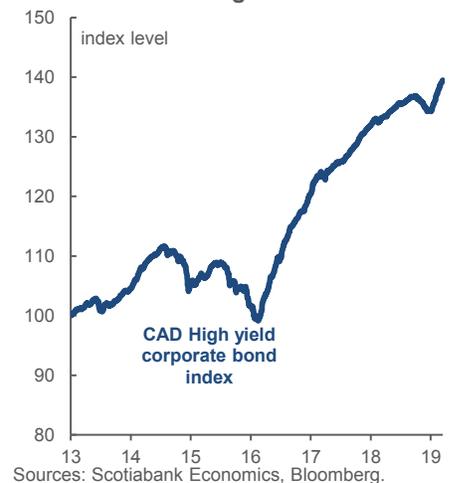
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**Soft Eurozone Inflation**



**Canadian High Yield Market**



- Sovereign debt yields are generally little changed across major markets with some vulnerability in Canada's curve ahead of macro data.
- Oil prices are little changed with WTI flat at about US\$58½ and Brent down a bit at US\$67.

**The Bank of Japan left policy intact and revised growth lower while jawboning the risks to the outlook.** The policy rate remains at -0.1%. The 10 year government bond yield target remains at "about 0%." The ¥80 trillion bond purchase target remained unchanged. He also doused talk of revisiting the 2% inflation target and remains committed to it albeit as a perpetually undershot benchmark.

**Italy's economy may be springing back to life.** After plunging in December (-3.6% m/m) and being down in three of the four months to end 2018 (flat in the fourth), industrial sales jumped by 3.1% m/m in January. Industrial orders jumped by 1.8% after four consecutive declines. This is more evidence at the margin that the Eurozone economy may be stabilizing.

With Eurozone CPI revisions for February we obtained the 'supercore' measure of CPI that continued to run at about 1 ¼% y/y. **That's the highest since September 2013** and the trend remains pointed decidedly higher since the start of 2017 (see chart). It stands in contrast to the more volatile and tamer core CPI measure.

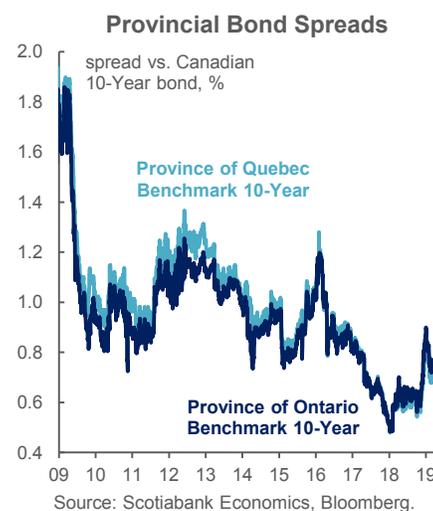
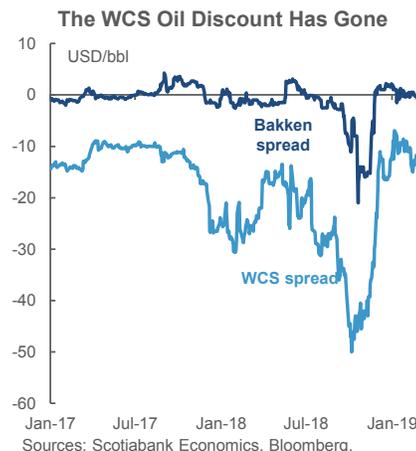
## CANADA

**Bank of Canada Senior Deputy Governor Wilkins' speech last evening contained no new information to influence market pricing of the rate outlook.** She reinforced BoC expectations for growth to improve later this year. I find that her—and prior—reference to a weak H1 masks what the BoC thinks will happen in Q2 and whether it expects a rebound to occur that rapidly as we do. If they agree with us, then why be coy about lumping together Q1 with Q2 in a first half comment versus saying more directly they are looking through a soft Q4/Q1 to a Spring rebound? This exposes a vulnerability to BoC communications in that they'd have a bit of a shift in guidance toward sounding a bit more positive sooner than H2 if the rebound does indeed commence in Q2. She ended her speech by saying more needs to be done, but placed the emphasis upon settling trade conflicts. Here's the quote:

"That said, more needs to be done to further reduce the downside risks. A long-lasting resolution to the current trade war is at the top of my list because the conflict is threatening growth around the world right now. Credible fiscal and monetary policies, and nimble financial system safeguards, are at the core of limiting vulnerabilities and promoting longer-term resilience for all countries."

**What I find absent from BoC commentary is reference to broad financial conditions.** That's not terribly unusual for this Governing Council but charts 1–5 provide a variety of measures. The broad takeaway is that financial conditions remain rather loose in Canada whether we're talking a record high yield debt index, provincial and mortgage debt spreads that are off the tights but still comfortably low, a full recovery in Canadian oil price discounts to the tightest levels since last July and of course the debasement of the currency judged through the BoC's preferred nominal Canadian effective exchange rate (CEER) that is almost 20% depreciated from the days of hundred dollar oil. Sure, pour kerosene on financial conditions with a rate cut and really light up the froth. Light up housing markets again like what the BoC did with its cuts in 2015. Nah, no stability implications there according to market pricing and those who advocate a return to easing.

Canada updates manufacturing shipments for January (8:30amET) and existing home sales for February (9amET) this morning. I've gone with a small rise in the dollar value of shipments. A weak prior report (-1.3% m/m) may stabilize. **Alberta's production**



**cuts will hit the volume of oil production** in the data but the value of manufacturing shipments may be at least partly insulated by the recovery in Western Canada Select oil prices into the new year. Orders momentum was mixed as the prior month saw new orders slip by 0.8% m/m but the order backlog rise by 0.6% m/m. This is a tricky report to read going in, and consensus is all over the map with 8 out of 13 expecting a rise and five a decline.

**Canadian existing home sales during February are likely to reverse at least some of the prior month's 3.6% m/m rise based upon readings from local boards in major cities.** That said, who moves in February?! This exceptionally chilly February to boot! The most important housing news in the very near term is much more skewed toward whether or not Ottawa indeed delivers housing stimulus in the Federal Budget on Tuesday as we expect. If it does, it would add conviction to what we already expect by way of a more stable market across most parts of the country as 2019 unfolds.

Canadian Mortgage Bond Spreads



**UNITED STATES**

**US markets will have some confidence and industrial sector data to consider this morning.** They will include industrial production for February (9:15amET) alongside the Empire manufacturing report (8:30amET) that kicks off another round of regional gauges on the path to the next ISM-manufacturing. Industrial output is almost universally expected to recover from the decline in January with only two out of 66 forecasters within consensus expecting a decline. The University of Michigan's consumer sentiment report is expected to register a further improvement to build on gains in February after the plunge in January.

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	2.46	2.46	2.42	2.43	2.43	2.62	2.63	2.63	3.03	3.05	3.01	Canada - BoC	1.75
CANADA	1.64	1.65	1.65	1.63	1.64	1.65	1.74	1.76	1.76	2.04	2.05	2.05	US - Fed	2.50
GERMANY	-0.54	-0.54	-0.53	-0.34	-0.34	-0.35	0.09	0.09	0.07	0.75	0.74	0.71	England - BoE	0.75
JAPAN	-0.15	-0.16	-0.15	-0.16	-0.17	-0.15	-0.03	-0.04	-0.03	0.58	0.57	0.59	Euro zone - ECB	0.00
U.K.	0.77	0.77	0.75	0.95	0.95	0.91	1.22	1.22	1.19	1.72	1.73	1.70	Japan - BoJ	-0.10
	Spreads vs. U.S. (bps):													
CANADA	-82	-81	-81	-80	-79	-78	-88	-88	-87	-99	-100	-96	Mexico - Banxico	8.25
GERMANY	-300	-300	-300	-276	-277	-278	-253	-255	-256	-229	-230	-230	Australia - RBA	1.50
JAPAN	-261	-263	-261	-258	-260	-258	-265	-267	-266	-245	-248	-243	New Zealand - RBNZ	1.75
U.K.	-169	-169	-171	-147	-148	-152	-140	-141	-144	-131	-131	-131		
Equities	Level						% change:						Next Meeting Date	
	Last	Change					1 Day	1-wk	1-mo	1-yr				
S&P/TSX	16088	-62.4					-0.4	0.2	1.6	2.7			Canada - BoC	Apr 24, 2019
Dow 30	25710	7.0					0.0	0.9	-0.7	3.4			US - Fed	Mar 20, 2019
S&P 500	2808	-2.4					-0.1	2.2	1.2	2.2			England - BoE	Mar 21, 2019
Nasdaq	7631	-12.5					-0.2	2.8	2.1	2.0			Euro zone - ECB	Apr 10, 2019
DAX	11687	99.5					0.9	2.0	3.4	-5.3			Japan - BoJ	Mar 14, 2019
FTSE	7231	45.6					0.6	1.8	-0.1	1.3			Mexico - Banxico	Mar 28, 2019
Nikkei	21451	163.8					0.8	2.0	2.6	-1.6			Australia - RBA	Apr 01, 2019
Hang Seng	29012	160.9					0.6	2.8	4.0	-8.0			New Zealand - RBNZ	Mar 26, 2019
CAC	5398	48.4					0.9	3.2	4.8	2.5				
Commodities	Level						% change:							
WTI Crude	58.45	-0.16					-0.3	4.2	5.1	-4.5				
Natural Gas	2.83	-0.02					-0.8	-1.2	7.9	5.6				
Gold	1303.47	7.30					0.6	0.4	-1.4	-1.0				
Silver	15.24	-0.29					-1.8	1.1	-2.2	-8.3				
CRB Index	183.27	-0.11					-0.1	1.4	1.1	-5.5				
Currencies	Level						% change:							
USDCAD	1.3331	-0.0004					-0.0	-0.6	0.7	2.1				
EURUSD	1.1316	0.0012					0.1	0.7	0.2	-8.0				
USDJPY	111.71	0.0100					0.0	0.5	1.1	5.0				
AUDUSD	0.7077	0.0013					0.2	0.5	-0.9	-9.2				
GBPUSD	1.3252	0.0010					0.1	1.8	2.8	-4.9				
USDCHF	1.0042	0.0004					0.0	-0.4	-0.1	5.5				

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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