

ON DECK FOR TUESDAY, MARCH 26

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	03/26	08:30	Building Permits (000s a.r.)	Feb	--	1305.0	1317.0
US	03/26	08:30	Housing Starts (000s a.r.)	Feb	1200	1210.0	1230.0
US	03/26	08:30	Housing Starts (m/m)	Feb	-2.4	-1.6	-14.0
US	03/26	09:00	S&P/Case-Shiller Home Price Index (m/m)	Jan	0.2	0.3	0.2
US	03/26	09:00	S&P/Case-Shiller Home Price Index (y/y)	Jan	3.8	3.8	4.2
US	03/26	10:00	Consumer Confidence Index	Mar	133	132.5	131.4
US	03/26	10:00	Richmond Fed Manufacturing Index	Mar	--	10.0	16.0
US	03/26	06:30	Fed's Evans Takes Part in a Moderated Q&A in Hong Kong				
US	03/26	08:00	Fed's Harker Speaks in Frankfurt on Economic Outlook				
US	03/26	15:00	Fed's Daly to Discuss Managing Inflation in Current Climate				

KEY POINTS:

- Risk-on mood as equities rally, curves steepen
- Two Fed officials guide a shortened-duration bias...
- ...that would steepen the curve
- A fuller history of US curve inversions and recessions
- COPOM minutes and inflation...
- ...don't back up BCB's dovish statement
- Canada Western Select at highest since July
- Will US consumer confidence keep recovering?
- Mildly constructive European confidence updates
- US starts, Richmond, repeat sales also on tap

INTERNATIONAL

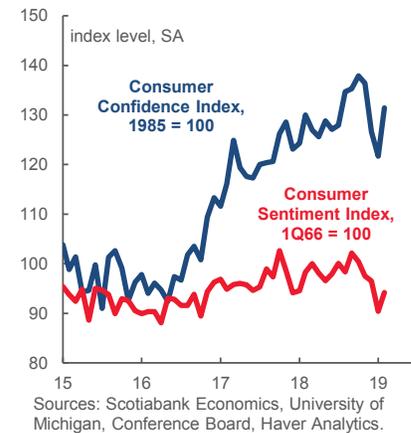
A risk-on mood is marked by rallying equities and curve steepening this morning. Fresh overnight developments were fairly scarce. **The most instructive development is derived from comments by a pair of Fed officials that indicate support for shortening up the duration of assets on the balance sheet that could steepen the curve (see below, along with a longer history of rate inversions and recessions).** Brexit developments are largely on hold ahead of tomorrow's planned non-binding indicative votes in Parliament on next steps just as one anti-EU MP—Jacob Rees-Mogg—indicated support for May's deal as "better than not leaving at all." Most economists would likely disagree with him. European confidence data was very mildly constructive. Brazilian monetary policy developments don't back up the BCB's dovishness on March 20th. US data risk will be focused on consumer confidence amid expectations for a continued recovery. Canada's calendar will remain empty until Wednesday's trade and Friday's GDP figures; I've submitted +0.2% m/m for my January CDN GDP estimate.

- The US Treasury curve is shifting upward in parallel fashion by about 5–6bps across maturities but a touch less at the very long end. The 90s10s slope that is the preferred predictor of future recessions is about 5bps wider this morning and basically flat. Canada's curve is performing in broadly similar fashion with the 90s10s slope inverted by just 6bps and up by about 4bps this morning. In neither country have the curves been inverted long enough

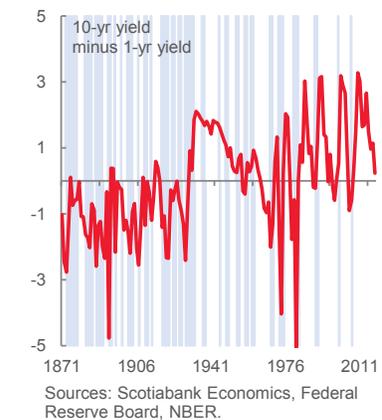
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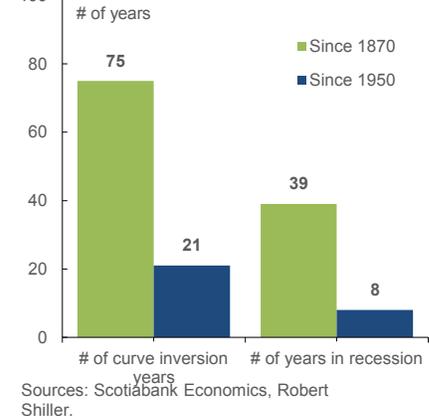
Divergent US Confidence Readings



US Yield Spreads



More Years Spent Inverted Than In Recession



to indicate future recession risk even if they were not distorted by policy measures. Yields on gilts are up are up by less than Treasuries with bunds cheapening by about 1bp across maturities. The 10 year JGB yield edged up 2bps overnight.

- US equity futures are up ½% with TSX futures up by a little less. European cash markets are up by between ¼% (London, Frankfurt, Madrid) and ¾% (Paris). Asian equities mostly bounced back overnight except for another drop across mainland China's exchanges.
- Oil prices are up by 75 cents to \$1 with WTI near US\$60 and Brent approaching US\$68. Western Canada Select was close to US\$50 yesterday and may cross that threshold today while maintaining the highest levels since July 2018.
- An unchanged USD on a DXY basis is masking significant moves among some currencies. The A\$, pound sterling, real and some Scandies are outperforming most other currency crosses by appreciating against the USD. The Euro, CAD and the Mexican peso are flat. The yen and rand are depreciating the most.

French business confidence ticked higher for the second consecutive month in March's INSEE reading, but it remains considerably below the peak at the end of 2017. **German consumer confidence was little changed** again in the latest reading; despite challenges to the economy, confidence remains around a cycle high.

Those with an eye on Banco Central do Brasil's monetary policy bias are digesting new information this morning. First up were minutes to the March 20th meeting ([here](#)) that **did not compound the dovish sounding policy statement.** The minutes noted that risks to the outlook were symmetrical, inflation is at comfortable levels and the present Selic rate continues to provide policy stimulus. Fresh inflation data for March climbed back above 4% y/y to 4.2% and thus reversed the post-November deceleration. The IPCE-15 measures prices at the 15th day of the month compared to the 15th day of the prior month and it is a leading indicator for the full-month reading that arrives on April 10th.

UNITED STATES

The US macro calendar presents several updates with the most market-sensitive reading being the Conference Board's consumer confidence measure for March. It is expected to edge higher again in the current month's reading and has already recovered about 60% of the swoon from October to January. The UofM sentiment gauge is more market-driven and has regained about three-quarters of its decline from September to March. As the accompanying chart depicts, the Conference Board's gauge showed a much more dramatic risk starting before the 2016 Presidential election than the Michigan reading. The CB measure weights business and employment conditions more than the Michigan survey that puts more emphasis upon broader financial conditions within a much smaller sample size.

The US calendar also includes **housing starts** for February (8:30amET), **repeat sale home prices** for January (9amET) and the **Richmond Fed's manufacturing gauge** (10amET) as input into expectations for the next ISM-manufacturing reading.

Fed-speak is back again with four regional Presidents weighing in. Boston Fed President Rosengren (voting 2019) remains among the more optimistic FOMC members. Rosengren expects a return to 2–2.5% quarterly growth after Q1, still thinks the next rate move is likely to be up and seemed to indicate his was one of the dots supporting a rate hike this year. Rosengren also said "I don't take nearly as much information from the shape of the yield curve as some people do." Perhaps most important is that he advised that he thinks the maturity composition of the balance sheet should be skewed toward shorter duration assets in order to provide future flexibility to twist the curve via lowering longer term Treasury yields. This latter view was also reinforced by Philly Fed President Harker who said:

"We've made the decision on ceasing the normalization process at the end of September. But we haven't made any decision yet on the overall long-term composition other than, I have to say, I think there's a general consensus—I can only speak for myself—that we do want to go shorter to buy ourselves the option over time if we ever have to implement a twist-like program."

This is significant guidance in that it would be in error to assume that because the Fed announced last week that it was going to be rolling over MBS proceeds into Treasuries on a weighted average maturity basis that this was bullish for

yields beyond the front-end of the Treasury curve. That's the small potatoes matter compared to this guidance from Harker and Rosengren on the consensus that **the FOMC appears to prefer a skewness toward shorter term securities** and namely bills as it normalizes the balance sheet. If so, **this would steepen the curve all else equal.**

As an aside, we've heard a lot over time about the predictive ability of the 90s10s curve as a recession indicator in that it has forecast all recessions since the 1960s although it has also provided false signals through over-prediction. **I still think the current slope is less of a recession predictor because of heavy policy distortions.** The March 1st reinstatement of the debt ceiling induced relative scarcity of Treasuries while the Fed's tapered reinvestment caps and planned end to the shrinking balance sheet by September as expected (pre-meeting preview here) combined with plans to reinvest MBS flows into Treasuries on a weighted average basis to tilt the curve lower. This morning's Fed comments indicate a future steepening bias through Fed policy. ECB actions also brought down US Treasury yields by inciting greater carry out of EGBs after the ECB pushed out rate guidance and announced a fresh round of TLTROs.

Regardless, for history buffs desiring a longer term perspective, I used Robert Shiller's data set for short and longer term yields back to the 1870s. His proxy for shorter term yields is impure as it also includes a credit spread, but it's the best very long term data set to my knowledge and it helps to inform perspectives on the length of inversion versus length of economic downturns. By this measure, **the curve has been inverted for 75 out of 148 years since the start of the historical data set in 1871. Since 1950, the curve has been inverted 21 out of 68 years or about one-third of the time.** So clearly the frequency of recessions before the post-WWI period distorts things, but either way, the slope spends much more time inverted than the US economy spends in recession. Since 1871 when the chart starts, the US has been in recession for over 39 years cumulatively; since 1950, just under 8 years cumulatively. The curve has been inverted almost twice as long as the US has been in recession since 1871 and over 2½ times since 1950. See the comparison in the accompanying chart.

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.	2.30	2.24	2.47	2.24	2.18	2.43	2.45	2.40	2.61	2.90	2.86	3.02	Canada - BoC	1.75		
CANADA	1.52	1.48	1.65	1.48	1.44	1.62	1.60	1.55	1.73	1.89	1.85	2.01	US - Fed	2.50		
GERMANY	-0.56	-0.57	-0.53	-0.39	-0.40	-0.32	-0.01	-0.03	0.10	0.60	0.58	0.75	England - BoE	0.75		
JAPAN	-0.17	-0.18	-0.16	-0.18	-0.19	-0.16	-0.07	-0.08	-0.04	0.54	0.50	0.56	Euro zone - ECB	0.00		
U.K.	0.67	0.64	0.75	0.80	0.76	0.92	1.02	0.99	1.19	1.52	1.48	1.67	Japan - BoJ	-0.10		
	Spreads vs. U.S. (bps):															
CANADA	-78	-76	-82	-76	-74	-81	-86	-85	-89	-102	-102	-101	Mexico - Banxico	8.25		
GERMANY	-285	-281	-300	-262	-258	-275	-246	-243	-252	-231	-228	-227	Australia - RBA	1.50		
JAPAN	-246	-242	-263	-241	-237	-259	-252	-248	-265	-237	-236	-246	New Zealand - RBNZ	1.75		
U.K.	-162	-160	-172	-144	-142	-150	-143	-141	-143	-139	-139	-135				
Equities	Level						% change:						Next Meeting Date			
	Last			Change			1 Day		1-wk		1-mo		1-yr			
S&P/TSX	16066			-23.5			-0.1		-1.1		-0.0		5.0		Canada - BoC	Apr 24, 2019
Dow 30	25517			14.5			0.1		-1.5		-2.1		5.4		US - Fed	May 01, 2019
S&P 500	2798			-2.3			-0.1		-1.2		0.2		5.3		England - BoE	May 02, 2019
Nasdaq	7638			-5.1			-0.1		-1.0		1.2		5.8		Euro zone - ECB	Apr 10, 2019
DAX	11375			28.5			0.3		-3.5		-1.4		-3.5		Japan - BoJ	Apr 25, 2019
FTSE	7198			20.2			0.3		-1.7		0.7		4.5			
Nikkei	21428			451.3			2.2		-0.7		-0.1		3.2			
Hang Seng	28567			43.6			0.2		-3.1		-0.7		-6.5			
CAC	5298			37.1			0.7		-2.4		1.1		4.6			
Commodities	Level						% change:									
WTI Crude	59.83			1.01			1.7		1.4		7.8		-8.7			
Natural Gas	2.75			-0.01			-0.3		-4.4		-3.7		5.0			
Gold	1314.38			-7.43			-0.6		0.6		-1.1		-2.9			
Silver	15.53			0.07			0.4		0.9		-2.7		-6.1			
CRB Index	184.96			0.65			0.4		-0.1		2.0		-5.5			
Currencies	Level						% change:									
USDCAD	1.3389			-0.0015			-0.1		0.5		1.7		4.3			
EURUSD	1.1307			-0.0005			-0.0		-0.4		-0.7		-9.1			
USDJPY	110.47			0.5000			0.5		-0.8		-0.1		4.8			
AUDUSD	0.7131			0.0019			0.3		0.6		-0.8		-8.0			
GBPUSD	1.3257			0.0062			0.5		-0.1		0.0		-6.8			
USDCHF	0.9936			0.0012			0.1		-0.6		-0.6		5.1			

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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