

**ON DECK FOR THURSDAY, MARCH 28**

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	03/28	08:30	GDP (q/q a.r.)	4Q T	2.4	2.3	2.6
US	03/28	08:30	GDP Deflator (q/q a.r.)	4Q T	--	1.8	1.8
US	03/28	08:30	Initial Jobless Claims (000s)	MAR 23	220	220.0	221.0
US	03/28	08:30	Continuing Claims (000s)	MAR 16	1780	1778.0	1750.0
US	03/28	10:00	Pending Home Sales (m/m)	Feb	-1.0	-0.5	4.6
US	03/28	07:15	Fed's Quarles Speaks at ECB Conference in Frankfurt				
US	03/28	09:30	Fed's Clarida Speaks at Bank of France Conference in Paris				
US	03/28	13:15	Fed's Williams Visits Puerto Rico				
US	03/28	17:20	Fed's Bullard Speaks at Madison, Wisconsin				

**KEY POINTS:**

- USD climbing as a safe haven
- Will PM May bring her deal back for another vote tomorrow?
- Even if the ERG swings, it likely won't be enough to pass May's deal
- Banxico expected to remain on hold today
- Significant Fed-speak today
- US Q4 GDP revised lower on weaker consumption, investment...
- ...as the 'Trump bump' to growth has been minimal to date
- US pending home sales on tap
- Early Eurozone CPI readings softer than expected

**INTERNATIONAL**

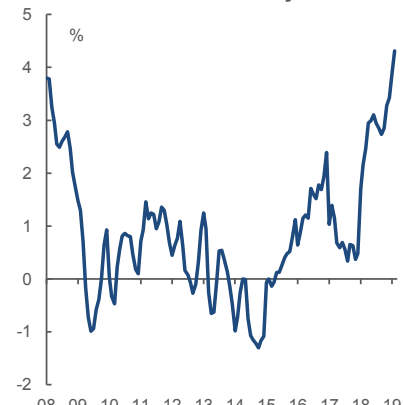
There is generally little movement across most global asset classes this morning but underlying caution has the USD a touch stronger. Brexit awaits PM May's decision today on whether to bring her deal back for yet another vote tomorrow (see below). Fed-speak may figure prominently in today's market tone (see below). Q4 US GDP is expected to be revised lower and early readings on Eurozone CPI for March were softer. Banxico delivers a policy decision this afternoon (see below).

- The USD is slightly appreciating on a DXY basis mostly as pound sterling, CAD, several Scandies, the euro, the rand and the Mexican peso (ahead of Banxico, see below) depreciate as the yen is a touch firmer.
- The US Treasury curve is little changed this morning with yields up 1bp across maturities. Canada's curve is slightly outperforming. Gilts are the best performing sovereign bonds thanks to Brexit safe haven seeking, along with Australian bonds. Bunds and French bonds are little changed with Italian and peripheral spreads widening.
- US equity futures are flat along with TSX futures. European cash markets are mixed, with the FTSE100 up ½%, Paris and Frankfurt little changed and declines of about ½% in Milan and Madrid. Asian equities fell by over 1 ½% in Tokyo, almost 1% across mainland China and just under 1% in Seoul while the Hang Seng was up a touch.

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**Banxico's Real Policy Rate**



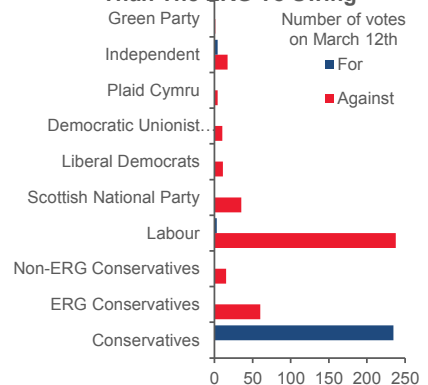
Sources: Scotiabank Economics, Bloomberg.

**Mexican Core Inflation**



Sources: Scotiabank Economics, INEGI.

**May's Brexit 3.0 Needs More Than The ERG To Swing**



Sources: Scotiabank Economics.

- Oil prices are retreating with WTI and Brent down by just over US\$1. This is partly the aftermath of the unexpected rise in US crude inventories yesterday.

**Banxico delivers a policy decision at 3pmET today.** The central bank is universally expected to remain on hold at an overnight rate of 8.25%. That's true across both the survey of economists and market expectations where the OIS probability of a rate change is nil and there is about a one-in-ten chance of a hike over the duration of the year priced into the OIS curve. That probability has been tamped down like it has virtually everywhere else. Indeed, the risks over time could well be tilted more toward easing.

Banxico's nominal policy rate is at its highest since 2008 and the real policy rate adjusted for headline inflation is at its highest over the GFC era (see chart). Inflation has been decelerating from a peak of 6.8% y/y in December 2017 to 3.9% last month which brings the headline rate back within the 2–4% inflation target range. Core CPI, however, is still running at 3.5% y/y and has been little changed throughout most of the past year and so the recent drivers of easing headline inflation have been mostly food related (see chart). Banxico expects core inflation to hold around the 3 ½% y/y range over the next couple of quarters. Banxico would need core inflation to ebb more materially over time to contemplate easing. NAFTA implementation risks and sundry policy related considerations, a very patient sounding Fed, global risks and soft domestic growth expected to continue tracking under 2% y/y bear monitoring.

**Early Eurozone inflation readings are coming in softer than expected.** What else is new?! Spanish CPI did accelerate from 1.1% y/y in February but only to 1.3% in February and two-tenths shy of expectations. German CPI will be released at 9amET but the early reads from some of the individual länder suggest that expectations for a flat reading at 1.5% y/y may be too high. Saxony and Hesse registered unchanged CPI at 1.4% y/y and 1.1% respectively, but Brandenburg (1.4%, 1.6% prior) and Bavaria (1.5%, 1.7% prior) both decelerated.

**Brexit is in a severe state of limbo.** The EU deadline to get a deal passed in time for a soft Brexit on April 12<sup>th</sup> is tomorrow; PM May and spokespeople continue to indicate support for a third vote on her deal which seems all but impossible to achieve. She must confirm such plans for a vote tomorrow by some point today. If that doesn't happen, then Parliament returns to another round of debate and indicative motions on Monday and the most likely outcomes become a toss-up between a hard Brexit on the extended May 22<sup>nd</sup> deadline or a protracted delay.

**A key question is whether it matters that some Conservative members of the hard core Brexit faction known as the European Research Group caucus are now leaning toward supporting May's agreement. That's a very tall ask.** Recall the breakdown of the last vote on March 12<sup>th</sup> that was 242 for and 391 against May's deal for a margin of defeat of 149 votes (see chart). Within the 'against', there were 75 Conservatives of which about 60 were members of the Conservatives' ERG faction. Even if all members of the ERG switched sides in favour, it still wouldn't be close to enough without 89 other MPs doing likewise on net. That may be unlikely given continued opposition from Labour (238 of 241 against last time), the SNP (35 against), the DUP's 10 votes against and its continued current opposition to the deal, and the minority of non-ERG Conservatives that also voted against. Plus, it's unlikely the whole ERG joins the likes of Boris Johnson, Jacob Rees-Mogg and Duncan Smith; in fact, one—Steven Baker—has already just publicly said he won't. Even Rees-Mogg has indicated its pointless to support the deal if the DUP with the DUP still against it.

Here is a recap of last evening's vote results on the indicative motions (ayes-noes). All motions were defeated.

- **Baron I motion:** Leave the EU even without a deal by the extended April 12<sup>th</sup> deadline. 160–400.
- **Norway plus option:** This is a cross-party motion to seek access to the EU single market with a comprehensive customs arrangement. 188–283.
- **Eustice motion:** Also the Norway model, but absent a customs union. 65–377.
- **Clarke motion:** leave the EU only with a permanent customs union in place. 264–272.

- **Labour's motion:** Support May's agreement but only if a customs union with the EU is sought alongside continued tight relations with the single market and EU institutions. On might ask what's the point? 237–307.
- **Cherry/Grieve/Cable motion:** require a last minute confirmation vote on a hard Brexit if within two days of the April 12<sup>th</sup> deadline there is no agreement. 184–293.
- **Beckett/Kyle motion:** hold another referendum. 268–295.
- **Malthouse motion II:** Absent support for May's deal with the backstop, seek a so-called standstill agreement during which time a trade agreement is negotiated. 139–422.

## UNITED STATES

**Fed-speak continues with a fairly heavy line-up of speakers today** including several from the top of the house and among the more analytically minded regional Fed Presidents. Things to watch for will include further views on if and when the yield curve becomes a concern plus how other FOMC officials view risks to the inflation outlook as their main current focal point. On the yield curve, we've heard varying viewpoints from Chicago's Evans' relatively dovish interpretation to Philly Fed's Harker and his reference to monitoring the curve while stating it is premature to be overly concerned. Here's the run down:

- KC Fed President Esther George (voting 2019) spoke last evening and for a prior hawk sounded pretty conciliatory. When asked if hikes in September and December were a mistake, she said September wasn't (ie: dodged December). She also lent support to the Fed's current patient stance but notably provided no apparent support for easing.
- Fed's Vice Chair Quarles spoke at an ECB event on the financial stability board agenda this morning but did not comment on monetary policy (7:15amET)
- Fed's Vice Chair Clarida is on a panel titled "Global shocks and the US economy" as this publication goes to print (8:30amET)
- Fed's Gov Bowman on ag and community banking (10amET)
- Fed's Bostic on income inequality (11:30amET)
- Fed's Williams in moderated chat & Q&A (1:15pmET)
- Fed's Bullard on the outlook for the US economy and monpol (5:20pmET)

Data risk will also factor into the US market tone. **The main form by which it will do so will be another kick at estimating Q4 GDP growth.** Growth was revised down to 2.2% from an initially reported 2.6% (2.3% consensus). Most of the reason was due to a softer consumption profile. On a weighted contributions basis, consumer spending added 1.66 points to top line GDP growth versus 1.92% on the first pass. Net trade was a little less of a drag than initially reported and other revisions were generally small with slightly cooler contributions from investment.

Recall that because of the shutdown, what would ordinarily have been two estimates by now were collapsed into one estimate of 2.6% q/q on February 28<sup>th</sup>. Given the tone of recent data, there was the widespread expectation for a downward revision of several tenths with most estimates in the 2.1–2.6% range and a median call of 2.3% (I'm at 2.4%). Full year growth in 2018 was 2.9% notwithstanding the heavy stimulus the US administration applied to the picture through the US\$300 billion spending bill in February 2018 and the Tax Cuts and Jobs Act. In fact, after growth of 2.9% in 2015, growth was 1.6% in 2016, 2.2% in 2017 and 2.9% last year. I don't call that much of a growth lift and nothing obviously sustainable in nature.

Also note that pending home sales for February are due out at 10amET and are likely to give back some of prior's 4.6% rise.

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.	2.21	2.20	2.41	2.17	2.16	2.34	2.37	2.37	2.54	2.81	2.81	2.97	Canada - BoC	1.75
CANADA	1.46	1.46	1.60	1.42	1.42	1.56	1.52	1.53	1.67	1.83	1.83	1.97	US - Fed	2.50
GERMANY	-0.59	-0.60	-0.55	-0.45	-0.45	-0.36	-0.09	-0.08	0.04	0.53	0.54	0.68	England - BoE	0.75
JAPAN	-0.18	-0.17	-0.16	-0.19	-0.18	-0.16	-0.09	-0.07	-0.04	0.50	0.54	0.57	Euro zone - ECB	0.00
U.K.	0.63	0.67	0.70	0.75	0.79	0.83	0.98	1.01	1.06	1.52	1.54	1.55	Japan - BoJ	-0.10
Spreads vs. U.S. (bps):														
CANADA	-75	-74	-81	-75	-73	-78	-85	-84	-87	-98	-98	-100	Mexico - Banxico	8.25
GERMANY	-280	-280	-296	-263	-261	-270	-246	-245	-250	-228	-227	-229	Australia - RBA	1.50
JAPAN	-238	-237	-257	-236	-234	-250	-246	-244	-257	-232	-228	-239	New Zealand - RBNZ	1.75
U.K.	-157	-153	-171	-142	-136	-152	-139	-136	-147	-129	-127	-142	Next Meeting Date	
Equities	Level			Change			1 Day			% change:				
	Last						1 Day	1-wk	1-mo	1-yr				
S&P/TSX	16133			-22.6			-0.1	-0.2	0.8	6.3			Australia - RBA	1.50
Dow 30	25626			-32.1			-0.1	-0.5	-1.1	7.5			New Zealand - RBNZ	1.75
S&P 500	2805			-13.1			-0.5	-0.7	0.7	7.7				
Nasdaq	7643			-48.1			-0.6	-1.1	1.5	10.0				
DAX	11452			32.9			0.3	-0.8	-0.6	-4.1				
FTSE	7231			37.2			0.5	-1.7	2.2	2.6				
Nikkei	21034			-345.0			-1.6	-2.7	-1.6	0.0			Canada - BoC	Apr 24, 2019
Hang Seng	28775			47.0			0.2	-1.0	0.5	-4.2			US - Fed	May 01, 2019
CAC	5306			5.1			0.1	-1.3	1.3	3.4			England - BoE	May 02, 2019
Commodities	Level			Change			1 Day			% change:				
WTI Crude	58.27			-1.14			-1.9	-2.9	1.8	-9.5			England - BoE	May 02, 2019
Natural Gas	2.75			0.03			1.0	-2.7	-2.3	1.8			Euro zone - ECB	Apr 10, 2019
Gold	1302.08			-7.50			-0.6	-0.6	-0.9	-1.7			Japan - BoJ	Apr 25, 2019
Silver	15.40			-0.04			-0.3	0.5	-2.9	-7.5				
CRB Index	183.04			-0.91			-0.5	-1.3	0.2	-5.8				
Currencies	Level			Change			1 Day			% change:				
USDCAD	1.3425			0.0016			0.1	0.5	1.9	3.9			Mexico - Banxico	Mar 28, 2019
EURUSD	1.1224			-0.0020			-0.2	-1.3	-1.3	-8.8			Australia - RBA	Apr 01, 2019
USDJPY	110.44			-0.0700			-0.1	-0.3	-0.9	3.4			New Zealand - RBNZ	May 07, 2019
AUDUSD	0.7082			-0.0002			-0.0	-0.4	-0.2	-7.6				
GBPUSD	1.3123			-0.0066			-0.5	0.1	-1.1	-6.8				
USDCHF	0.9962			0.0013			0.1	0.4	-0.2	4.1				

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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