

**ON DECK FOR MONDAY, APRIL 1**

<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	04/01	08:30	Retail Sales (m/m)	Feb	0.3	0.3	0.2
US	04/01	08:30	Retail Sales ex. Autos (m/m)	Feb	0.3	0.3	0.9
US	04/01	10:00	Business Inventories (m/m)	Jan	--	0.5	0.6
US	04/01	10:00	Construction Spending (m/m)	Feb	-0.4	-0.2	1.3
US	04/01	10:00	ISM Manufacturing Index	Mar	54.5	54.5	54.2
CA	04/01	15:10	Bank of Canada's Poloz Gives Speech in Iqaluit				

**CONTACTS**

Derek Holt, VP & Head of Capital Markets Economics  
 416.863.7707  
 Scotiabank Economics  
[derek.holt@scotiabank.com](mailto:derek.holt@scotiabank.com)

**KEY POINTS:**

- Global markets in risk-on mode on China data, trade talks
- China PMIs surprise higher, but more data needed
- US macro: retail sales, ISM, construction
- British Parliament to stumble through more Brexit votes today
- Japan's Tankan survey disappoints
- BoC's Poloz hauls off to Nunavut on April fool's day
- Peru CPI climbs to highest in a year-and-a-half
- BanRep minutes on tap
- Mexican PMIs to inform growth momentum
- Eurozone core CPI drops toward a year-ago low
- Rand rallies with help from Moody's
- Global Week Ahead

Please see the Global Week Ahead [here](#). Key risks this week will include:

- US-China trade talks
- Brexit
- US macro: nonfarm, ISM, retail sales...
- ...durables, vehicles, construction
- BoC's Poloz
- CDN jobs
- PMIs: China, UK, Japan
- CBs: RBA, RBI
- CPI: Eurozone, Switzerland, Russia...
- ...Peru, Colombia
- German factory orders, output
- Other European macro
- Other Asian macro
- CDN 5s auction

**INTERNATIONAL**

A strong risk-on session is unfolding across global asset classes to start off the week. Equities are rallying, the US 90s10s curve slope is back to being positive, the USD is a little weaker and oil continues to rally. Credit China's economic fundamentals (see below), but be wary ahead of key US releases this morning (retail, ISM, see below). More Brexit drama unfolds across the pond today as

some selection of nine motions will be voted upon yet again in the British Parliament and one would think the votes are as unlikely to reveal sudden impetus toward agreement as any other steps to date. Governor Poloz's speech this afternoon will be the last scheduled BoC communication ahead of the April 24<sup>th</sup> statement, MPR and press conference and so any further bias shift may inform market pricing for no policy changes through to at least late year with the probability of a rate cut rising from September onward.

- US equity futures are up by about ¾% on average across the benchmarks with TSX futures up ½%. European cash markets are up by between ½% (Milan, Madrid) to ¾% (London, Paris) and as much as 1.1% in Frankfurt. Asian equities led the gains partly in lagging fashion to Friday's North American session but also in response to Chinese PMIs. Mainland China's markets were up by 2.6% (Shanghai) to 3.6% (Shenzhen). Tokyo gained about 1 ½%. Seoul rallied by 1.3%. HK was up 1¾%.
- Sovereign bonds are on the run again this morning and they are taking key inverted curves with them. The US 10 year yield is up 4bps with 2s up 3. With the 90 day US yield at 2.39% and the 10 year yield at 2.44%, the key 90s10s slope is positive but barely so while the differential between 90s and yields through to just shy of 10 years remains inverted. Canada's curve is performing similarly with slight outperformance at the front-end. EGB yields are rising in bear steepeners albeit with gilts slightly outperforming ahead of yet more Brexit votes.
- Oil prices are up with WTI up 70 cents and Brent up a buck partly as part of the general risk-on market bias that is informed by fundamentals and US-China trade talks.
- The USD is slightly depreciating on a DXY basis. Top performers include the South African rand (Moody's left SA rating unchanged with a stable outlook), Mexican peso, pound sterling, A\$/NZ\$ and some Scandies with the euro up a touch, CAD flat to slightly weaker and the yen slightly depreciating.

**China's state and private sector versions of purchasing managers' indices came in significantly better than expected** but more data with greater distance from the Lunar New Year effects will be required to inform the degree of bullishness that should be attached to the releases. On Saturday night, the state's composite PMI rose to 54.0 (52.4 prior) which is the strongest reading since September before the swoon in global growth prospects dragged down the reading. The improvement was driven by gains in both the manufacturing and non-manufacturing sectors, but particularly the former. The state's manufacturing PMI climbed to 50.5 (49.2 prior, 49.6 consensus) while the non-manufacturing PMI increased half a point to 54.8 (54.4 consensus). The underlying details to the improvements reinforced a positive interpretation. The new orders sub-index to the manufacturing PMI jumped a full point due to improved foreign orders while the output sub-index increased by 3.2 points. Within the non-manufacturing sector, the new orders sub-index increased by 1.8 points.

China's private sector version of China's manufacturing PMI increased by just shy of a full point to 50.8 (49.9 prior, 50.0 consensus) and the highest since last July. The private services and composite PMIs will be released tomorrow night.

While the yen is depreciating primarily due to the lowered appeal for safe havens this morning, data didn't help. **Japan's quarterly Tankan survey of business conditions deteriorated across the board in Q1.** The large manufacturers' index fell to a two year low and so did the large non-manufacturers' index. The only glimmer of optimism came in the smaller non-manufacturers' index that climbed to its highest since 1991Q4.

**Yet another batch of non-binding indicative votes on Brexit options will occur today** as the British Parliament stumbles toward figuring out what it wants in the wake of three failed votes for PM May's withdrawal agreement. Speaker John Bercow will choose among the following list of nine motions to advance to voting; it's hard to say the list is getting shorter or the ideas fresher which may imply as indecisive outcomes as anything else we've seen over time. The British Parliament is playing Russian roulette with Brexit and will either go over the cliff without a plan or make a course correction at the very last second when they absolutely must which may well require a general election beforehand. Bercow will make his choices after 9:30amET and voting will begin by 3pmET.

- **Baron I:** This one would seek to alter the Irish backstop arrangement within May's agreement by granting the UK the unilateral power to abandon the backstop. This motion is going nowhere given EU opposition.
- **Baron II:** Leave the EU with no deal on April 12<sup>th</sup>. This one is also going nowhere given prior vote results.
- **Kyle/Wilson/Beckett:** Call a second referendum on a withdrawal agreement before implementation.
- **Jones/Grieve:** Call a second referendum on the no-deal Brexit option.
- **Clarke:** Leave the EU only after achieving a permanent customs union with the EU.
- **Eustice:** This is the purse Norway option in that—like Norway—the UK would remain in the European Economic Area and join the European Free Trade Association.
- **Kinnock/Powell/Boles/Halfon:** This is the Norway plus option in that in addition to Norway's arrangement, it would add a full customs framework for the UK.
- **Cherry/Grieve/Cable:** Before any no-deal exit from the EU, require a vote in Parliament to confirm such plans.
- **Labour:** This one would support May's agreement if the UK also pursued a customs union with the EU including close ties to EU institutions.

**Eurozone core CPI declined by a bit more than expected in March to 0.8% y/y (1% prior, 0.9% consensus).** That's the weakest rate since last April's temporary dip. The euro largely shook it off a) the ECB has already set its policy course since it pushed out rate hikes and announced new LTROs at the March 7<sup>th</sup> ECB meeting, b) because markets witnessed the country-level CPI releases last week that already contributed to euro softening to the USD, and b) because Brexit and other developments like Chinese fundamentals and trade talks are being monitored more closely.

**Peru's inflation rate unexpectedly jumped higher** to 2.25% y/y (2.0% prior, 2.1 consensus) for the fastest pace of inflation since September 2017. That pushes inflation somewhat above the midpoint of the central bank's 1–3% target range. The figures reinforced the more hawkish elements in remarks by President Julio Velarde on Friday: “The scenario maintained is that either there's an increase or it will depend entirely on the data. We don't see a cut at this moment because we're still seeing relatively strong domestic demand.” The central bank has been projecting 2% inflation this year.

Also note that **BanRep releases minutes to its March 22<sup>nd</sup> meeting** today (2pmET). At that meeting, BanRep kept its policy rate unchanged at 4.25% and described its policy as necessarily “slightly expansionary.”

**Mexico's growth momentum will be informed by purchasing managers' indices for March (2pmET).** The manufacturing gauge is expected to deteriorate following February's strong rise while the non-manufacturing gauge improves.

## UNITED STATES

**The US releases a pair of top-shelf releases today starting with retail sales for February (8:30amET).** Consensus expects small gains in total sales and sales ex-autos but **there may be downside risk to the most important component that feeds into GDP.** I've gone with a small increase of about 0.3% in headline sales and sales ex-autos. A roughly 3% rise in gasoline prices and flat vehicle sales that remained stuck at about 16.6 million units at an annualized rate could put a dampener on the dollar value of headline sales. Furthermore, the strong gain in the retail sales control group during January (+1.1% m/m) could further complicate expectations for another decent rise which would be negative for how consumption gets captured in GDP.

**ISM-manufacturing for March (10amET)** will further inform whether manufacturing will continue to decelerate in a trend that began with ISM readings late last summer or whether stability is in sight. I've gone with little change in the headline reading partly as the regional survey inputs were mixed. The Philly Fed's measure was up strongly and the Kansas measure gained somewhat, but the Richmond Fed's manufacturing gauge fell and Dallas also came in softer alongside the Empire report. In short, it's expecting a lot from Philly's influence to lift the overall ISM reading.

**US construction spending** for February (10amET) will inform 'nowcast' tracking of Q1 GDP growth expectations but play second fiddle to the other reports. Downside risk follows the strong 1.3% rise that was registered in January.

## CANADA

**Bank of Canada Governor Stephen Poloz speaks today from Nunavut and one can't help but observe that the media is being dragged to the press conference on April Fool's day.** His comments will be available by 2:55pmET and a press conference will be held at 4:30pmET. Poloz's topic is "The Importance of Trade." That may imply a neutral/dovish tone to the speech for four reasons that I reviewed in the Global Week Ahead. I'd add to that by observing the tone of the readings and developments since SDG Wilkins' speech on March 14<sup>th</sup>. Activity readings have generally been solid including Friday's January GDP that was stronger than expected at 0.3% m/m. Headline inflation ticked up to 1.5% y/y. The average of the BoC's three 'core' CPI gauges slipped but by an inconsequential amount that was mostly a rounding issue (from 1.87% y/y in January to 1.83% in February).

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.	2.29	2.26	2.24	2.27	2.23	2.18	2.44	2.41	2.40	2.85	2.82	2.86	Canada - BoC	1.75
CANADA	1.57	1.55	1.48	1.54	1.52	1.44	1.65	1.62	1.55	1.92	1.89	1.85	US - Fed	2.50
GERMANY	-0.60	-0.60	-0.57	-0.43	-0.45	-0.40	-0.04	-0.07	-0.03	0.61	0.57	0.58	England - BoE	0.75
JAPAN	-0.17	-0.17	-0.18	-0.18	-0.20	-0.19	-0.07	-0.08	-0.08	0.53	0.51	0.50	Euro zone - ECB	0.00
U.K.	0.64	0.64	0.64	0.77	0.76	0.76	1.02	1.00	0.99	1.57	1.55	1.48	Japan - BoJ	-0.10
	Spreads vs. U.S. (bps):												Mexico - Banxico	8.25
CANADA	-72	-72	-76	-73	-72	-74	-79	-79	-85	-93	-92	-102	Australia - RBA	1.50
GERMANY	-289	-287	-281	-270	-268	-258	-248	-248	-243	-224	-224	-228	New Zealand - RBNZ	1.75
JAPAN	-246	-243	-242	-245	-243	-237	-252	-249	-248	-232	-231	-236		
U.K.	-164	-162	-160	-150	-148	-142	-143	-141	-141	-128	-126	-139		
Equities	Level						% change:						Next Meeting Date	
	Last	Change		1 Day		1-wk		1-mo		1-yr				
S&P/TSX	16102	-53.4		-0.3		0.1		0.2		4.8		Canada - BoC	Apr 24, 2019	
Dow 30	25929	211.2		0.8		1.7		-0.4		7.6		US - Fed	May 01, 2019	
S&P 500	2834	19.0		0.7		1.2		1.1		7.3		England - BoE	May 02, 2019	
Nasdaq	7729	60.2		0.8		1.1		1.8		9.4		Euro zone - ECB	Apr 10, 2019	
DAX	11643	117.4		1.0		2.6		0.4		-3.7		Japan - BoJ	Apr 25, 2019	
FTSE	7328	49.2		0.7		2.1		3.1		3.9		Mexico - Banxico	May 16, 2019	
Nikkei	21509	303.2		1.4		2.5		-0.4		0.3		Australia - RBA	Apr 01, 2019	
Hang Seng	29562	510.7		1.8		3.6		2.6		-1.8		New Zealand - RBNZ	May 07, 2019	
CAC	5386	35.7		0.7		2.4		2.3		4.2				
Commodities	Level						% change:							
WTI Crude	60.86	0.72		1.2		3.5		9.1		-6.3				
Natural Gas	2.68	0.02		0.7		-2.7		-6.3		-1.9				
Gold	1291.89	-0.41		-0.0		-2.3		-0.1		-2.5				
Silver	15.10	-0.10		-0.6		-2.3		-4.5		-7.2				
CRB Index	184.60	0.85		0.5		0.2		1.7		-5.5				
Currencies	Level						% change:							
USDCAD	1.3363	0.0014		0.1		-0.3		0.5		3.5				
EURUSD	1.1234	0.0016		0.1		-0.7		-1.2		-8.7				
USDJPY	110.97	0.1100		0.1		0.9		-0.8		4.8				
AUDUSD	0.7122	0.0026		0.4		0.1		0.6		-7.1				
GBPUSD	1.3119	0.0084		0.6		-0.6		-0.6		-6.6				
USDCHF	0.9949	-0.0003		-0.0		0.3		-0.4		4.2				

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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