ON DECK FOR TUESDAY, APRIL 2

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	04/02	08:30	Durable Goods Orders (m/m)	Feb P	-2.1	-1.8	0.3
US	04/02	08:30	Durable Goods Orders ex. Trans. (m/m)	Feb P	0.2	0.1	-0.2
US	04/02		Total Vehicle Sales (mn a.r.)	Mar	16.8	16.8	16.6

KEY POINTS:

- **Idiosyncratic factors driving currency markets**
- **Oil prices rallying on OPEC curtailment; WCS at highest since July**
- **US durables: weak headline, but core?**
- **RBA stays on hold while watching…**
- **…with a pending election call…**
- **…that could stymy fiscal stimulus**
- **UK construction PMI falls flat**
- **South Korean inflation fans BoK easing bets**
- **No market follow-through on Poloz's speech…**
- **…but his frustration toward focusing upon the neutral rate…**
- **…was something the BoC brought upon itself**
- **Brexit developments pending outcome of May's cabinet meeting…**
- **…after another round of failed votes**

INTERNATIONAL

Rallying sovereign debt curves following yesterday's sell-off and continued gains in oil prices are the main focal points across global markets this morning. Currency markets are being driven by local idiosyncratic factors (e.g. Brexit, RBA, Korean CPI). The Brexit saga continues with PM May still holding a very long cabinet meeting to plot next steps in the wake of yesterday's failed votes (recapped below). US investment data is on tap while Canada goes quiet until Friday's jobs and tomorrow's 5 year GoC auction.

- Oil prices are slightly on the rise again with WTI crossing US$62 for the first time since early November last year and Brent crossing US$69 which takes us back to mid-November levels. Further OPEC curtailment is the catalyst. **Western Canada Select didn't receive any considerable attention by Governor Poloz yesterday, but it is at its highest level since mid-July** and closed yesterday at about US$53.40 with further gains likely today. US private oil inventories later today will inform risks into tomorrow's government report.

- Equities are taking a bit of a breather this morning. US and Canadian equity futures are little changed. European cash markets are rallying by between ¼% (Paris, Madrid) and ¾% (London) as they catch up to yesterday's North American rally. Asian markets also generally took a breather after the prior session's strong rally.

- Sovereign curves are rallying across most major markets. US Treasury yields are down by about 3bps across 2s through 10s with the ten year at 2.47%.

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Canada's curve is performing similarly but slightly underperforming at the front end. Yields on gilts are outperforming most other major markets with a decline of 4bps in yields across maturities.

- The USD is little changed on a DXY basis this morning. The weakest crosses include pound sterling (ongoing Brexit uncertainty with yesterday's failed votes), the A$ following the RBA and Australian budget, and the won following a softer than expected core inflation reading. There is no real follow through in CAD post Poloz nor was there much of any market reaction to begin with.

The Reserve Bank of Australia left its cash rate unchanged at 1.5% as universally expected and with a fairly neutral sounding bias in the written statement (here). Employment growth and investment—both private and through public infrastructure—were cited as bright spots against soft consumption and housing markets.

The RBA will incorporate the estimated macro effects of the election-year budget that was released after the RBA decision, but likely only after its passage into law which remains highly uncertain. Australia faces an election next month (on or before May 18th) and the budget is unlikely to be passed before then. Further, the Liberal-National coalition is at risk of losing the election to the opposition Labour Party. The budget included tax cuts valued at A$158 billion over the next decade and infrastructure spending of A$100 billion alongside a projected return to a budget surplus.

Some suggested that a minor wording change in the final sentence indicated openness to easing but that might be a stretch as intentions to "set monetary policy to support sustainable growth in the economy" still sounds fairly neutral and obviously conditional in part upon developments in fiscal policy. In all, the RBA faces conditions that are similar to the BoC in several respects such as strong job growth and reticence to rescue faltering housing given financial stability risks, alongside fiscal policy uncertainty in an election year. The differences to the BoC are equally striking, including much closer sensitivity to China's economy and a different make-up of its resource industries.

Here are the results from yesterday's Brexit votes (ayes/nays) that came close to supporting a customs union as a sign of progress while nevertheless failing to pass any of them. It may well be that if anything is achieved, then some combination of supporting a permanent customs union with the EU alongside either a second referendum or general election remains a counter-possibility to crashing out of the EU on April 12th. MPs are also once again seeking to advance a motion that would reject the no-deal outcome but this has repeatedly failed.

- **Clarke (273–276):** Leave the EU only after achieving a permanent customs union with the EU.
- **Kinnock/Powell/Boles/Halfon (261–282):** This is the Norway plus option in that in addition to Norway's arrangement (remain in the European Economic Area and join the European Free Trade Association), it would add a full customs framework for the UK.
- **Kyle/Wilson/Beckett (280–292):** Call a second referendum on a withdrawal agreement before implementation.
- **Cherry/Grieve/Cable (191–292):** Before any no-deal exit from the EU, require a vote in Parliament to confirm such plans. This is the so-called emergency brake option.

The UK construction sector did not follow in the footsteps of the manufacturing sector last month. That's because the purchasing managers' index for construction activity was little changed at a slightly contractionary reading (49.7, 49.5 prior) and by contrast to yesterday's three point rise in the manufacturing PMI to 55.1. Perhaps to be expected, pre-ordering activity ahead of Brexit uncertainty had more of an impact upon manufacturing with globally sourced inputs than construction with relatively more locally sourced inputs for a local economy.

South Korea's core inflation rate pulled back to 0.9% y/y and fell well shy of consensus expectations for a 1.3% rate. That returns the rate to being tied with last August's reading for the lowest core inflation since January 2000. Bank of Korea Governor Lee Ju-yeol indicated before the release that it was premature to contemplate a rate cut given ensuing financial stability concerns, but markets are increasingly pricing in expectations for a rate cut. **The government indicated overnight that it would introduce an interim budget later this month that may further inform risks of monetary policy easing.**

UNITED STATES

US markets will focus upon investment data in the form of the monthly update to durable goods orders during February (8:30amET). This probably won't be a pretty one. Headline orders are likely to suffer under the weight of a sharp decline in Boeing's plane orders. Boeing reported just 5 planes ordered in February, down from 46 the month before. Total nondefense aircraft orders from all producers by US airlines had surged by 15.9% m/m in January and 35.7% the month before and so weaker momentum wouldn't be terribly surprising. Much more important will be core orders excluding planes and defense. Core orders were up in January for the first time in three months and only the second time in the last six months as the Trump administration's influences upon trade policy and concomitant economic uncertainty have been among the unfavourable influences upon investment activity.

CANADA

Speaking of the Bank of Canada, here is the recap I sent out shortly after Governor Poloz's speech and press conference yesterday afternoon. The only addition I would offer is that it was unusual for the Governor to express frustration toward the market fixation upon the neutral policy rate. Poloz stated that "I don't think it's really helpful to focus in on that neutral number. It's not, certainly, a target for us or anything. It's just a guideline. And of course, like I say, it's above where we are. How we get there and when we ever get there depends on too many things for us to predict. I wish markets would not interpret it such as a fine line." Then again, the BoC is responsible for attracting so much attention to the concept when it previously placed in its statement a desire to return to a neutral rate and then struck it out in the March statement. **It has used reference to the anchor as a form of communicating its bias**, and so naturally, markets have followed what the BoC says about the neutral policy rate very closely.

Fixed Income	Government Yield Curves (%):											
	2-YEAR			5-YEAR			10-YEAR			30-YEAR		
	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk
U.S.	2.30	2.33	2.27	2.28	2.32	2.21	2.47	2.50	2.42	2.87	2.89	2.87
CANADA	1.59	1.61	1.51	1.57	1.59	1.46	1.68	1.70	1.57	1.96	1.97	1.86
GERMANY	-0.61	-0.60	-0.56	-0.44	-0.42	-0.39	-0.04	-0.03	-0.02	0.61	0.62	0.58
JAPAN	-0.16	-0.17	-0.17	-0.17	-0.18	-0.18	-0.06	-0.07	-0.07	0.53	0.53	0.54
U.K.	0.62	0.67	0.66	0.74	0.79	0.79	1.00	1.05	1.01	1.54	1.59	1.53
	Spreads vs. U.S. (bps):											
CANADA	-70	-73	-76	-71	-73	-75	-79	-80	-85	-91	-92	-101
GERMANY	-291	-293	-283	-272	-275	-259	-251	-253	-244	-227	-227	-229
JAPAN	-245	-250	-243	-245	-251	-238	-253	-257	-249	-235	-237	-233
U.K.	-168	-167	-161	-155	-153	-142	-147	-145	-142	-133	-130	-134

Equities	Level		% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	16228	126.0	0.8	1.0	1.0	6.7
Dow 30	26258	329.7	1.3	2.9	0.9	11.1
S&P 500	2867	32.8	1.2	2.5	2.3	11.1
Nasdaq	7829	99.6	1.3	2.5	3.1	14.0
DAX	11751	69.5	0.6	2.9	1.3	-2.9
FTSE	7388	70.4	1.0	2.7	4.0	4.7
Nikkei	21505	-3.7	-0.0	0.4	-0.5	0.5
Hang Seng	29625	62.6	0.2	3.7	2.8	-1.6
CAC	5429	23.2	0.4	2.3	3.1	5.1
Commodities	Level		% change:			
WTI Crude	61.87	0.28	0.5	3.2	10.9	-1.8
Natural Gas	2.70	-0.00	-0.1	-1.3	-5.4	0.8
Gold	1289.07	1.32	0.1	-2.0	-0.3	-3.9
Silver	15.07	-0.03	-0.2	-2.9	-3.1	-7.4
CRB Index	185.51	0.05	0.0	0.1	2.2	-4.1
Currencies	Level		% change:			
USDCAD	1.3315	0.0008	0.1	-0.5	0.1	3.1
EURUSD	1.1203	-0.0010	-0.1	-0.6	-1.2	-8.9
USDJPY	111.37	0.0200	0.0	0.7	-0.3	5.2
AUDUSD	0.7084	-0.0028	-0.4	-0.7	-0.1	-7.6
GBPUSD	1.3020	-0.0083	-0.6	-1.5	-1.2	-7.3
USDCHF	0.9996	0.0009	0.1	0.5	0.1	4.7

Central Banks	
Current Rate	
Canada - BoC	1.75
US - Fed	2.50
England - BoE	0.75
Euro zone - ECB	0.00
Japan - BoJ	-0.10
Mexico - Banxico	8.25
Australia - RBA	1.50
New Zealand - RBNZ	1.75
Next Meeting Date	
Canada - BoC	Apr 24, 2019
US - Fed	May 01, 2019
England - BoE	May 02, 2019
Euro zone - ECB	Apr 10, 2019
Japan - BoJ	Apr 25, 2019
Mexico - Banxico	May 16, 2019
Australia - RBA	Apr 01, 2019
New Zealand - RBNZ	May 07, 2019

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.