

**ON DECK FOR WEDNESDAY, APRIL 3**

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	04/03	07:00	MBA Mortgage Applications (w/w)	MAR 29	--	--	8.9
US	04/03	08:15	ADP Employment Report (000s m/m)	Mar	150	175.0	183.0
US	04/03	08:30	Fed's Bostic Speaks at American Banker Association Summit				
US	04/03	10:00	ISM Non-Manufacturing Composite	Mar	58.5	58.0	59.7
US	04/03	17:00	Fed's Kashkari Speaks in North Dakota				

**KEY POINTS:**

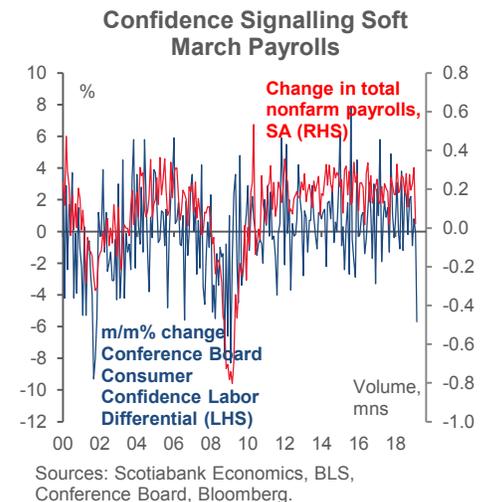
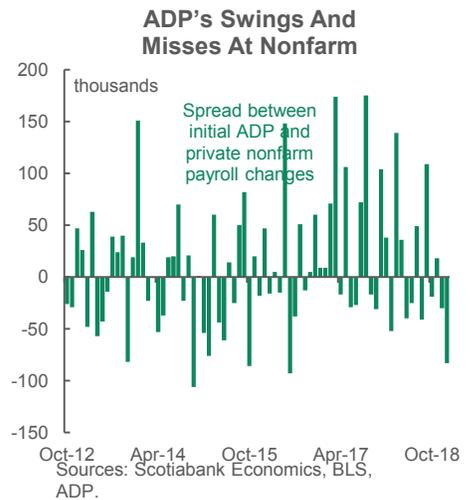
- Risk-on across global asset classes...
- ...as hints at a Brexit compromise unfold...
- ...despite what EC's Juncker says...
- ...and US-China trade negotiations are making progress, amidst hurdles...
- ...global PMIs are mending outside of the UK...
- ...and US retail sales are shaping up for a strong recovery
- US ISM-services on tap
- US ADP disappoints...
- ...but commonly sheds large false signals ahead of nonfarm
- Australian consumers drive strong retail gain
- More Fed-speak today

**INTERNATIONAL**

Stocks are up, sovereign debt yields are higher with curves generally steepening a touch, oil continues to rally a little further and the USD is on the run. All of this points to risk-on across global asset classes. **I find the narrative is shifting more and more away from Fed rate cut pricing in markets and toward not only pricing that out but steepening curves in the aftermath.** There are still major uncertainties, but the incremental information we're dealing with here is generally positive. US-China trade negotiations are making progress but significant hurdles remain (see below) as high level negotiations recommence today. Signs that UK PM May is finally reaching out to Labour Party leader Corbyn may indicate a compromise is in the works as clearly the momentum is swinging away from the hardest elements within the Conservative Party's ERG faction and toward more moderate voices. EC President Jean-Claude Juncker is taking a hard line with warning against a short extension and rising risk of a hard Brexit, but compromise is still possible and Juncker will likely once again take his orders from Merkel anyway. Chinese PMIs continued to improve overnight. Eurozone PMIs were revised higher. The composite UK PMI fell to its lowest reading since the referendum over two-and-a-half years ago. A strong rise in US vehicle sales points to a potentially very good retail sales report in about two weeks from now (see below). US macro data will include ISM-services and ADP payrolls this morning ahead of limited Fed-speak. Trump's reported remark that "I guess I'm stuck with you" to Fed Chair Powell further allays any lingering concerns over meddling with the Fed after the headlines in late December that he was contemplating firing Powell and now reportedly replacing him with Kevin Warsh.

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Canada will largely play observer until Friday's jobs with just a bond auction on tap today.

- The USD is broadly depreciating and the yen is going down with it as safe havens lose popularity. The A\$ is the leader of the pack against the USD partly on favourable interpretations of US-China trade headlines but also on domestic data (see below). CAD and the Mexican peso are appreciating.
- US equity futures are up ½% and TSX futures are up 0.2%. European cash markets are up by between 0.1% (London) and 1.2% (Dax). Asian equities rallied on the overnight China-US headlines with Tokyo up 1%, HK up 1.2%, mainland China up by 0.8% (Shenzhen) to 1.2% (Shanghai), and Seoul up 1.2%.
- the US Treasury curve is cheaper across maturities amid a slight bear steepening that has the 10 year yield up by 4bps to 2.51% for the highest intra-day yield since March 22<sup>nd</sup>. Canada's curve is performing similarly. Yields on gilts are up by 5–8bps in a bear steepening move as hints at a Brexit compromise take root. That also has the yield on a ten year bund up 6bps to precisely zero nominal return to lending to the German government for ten years.
- Oil prices are firm with WTI at US\$62.60 and Brent up to US\$69.60. This morning's US oil inventories will further inform risks (10:30amET). The Western Canada Select spread sits at just –US\$8 to WTI and toward the narrowest on record. Perhaps further curtailment of Alberta's mandated production cuts lies in store after what have already been two such moves to reduce the production cuts that only began at the start of January.

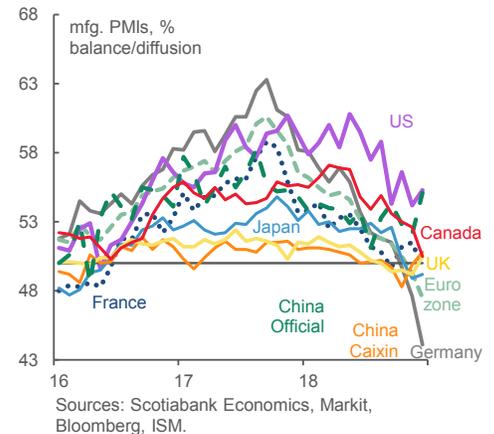
**China's private purchasing managers' indices for March registered considerable gains overnight.** We already knew the private manufacturing PMI that was up by nearly a point to 50.8 and hence back above the 50 line that divides expansion from contraction. The new information overnight was a 3.3 point jump in the services PMI to 54.4 that lifted the overall composite PMI by 2.2 points to 52.9.

That's the strongest private composite PMI reading since last June and it reverses all of the swoon since then. One should still be cautious with the March readings to see if it's more than just a bounce higher from the effects of the shifting timing of the annual Lunar New Year and given continued headwinds in the global economy, but it's a very good start toward firmer Chinese contributions to global economic momentum.

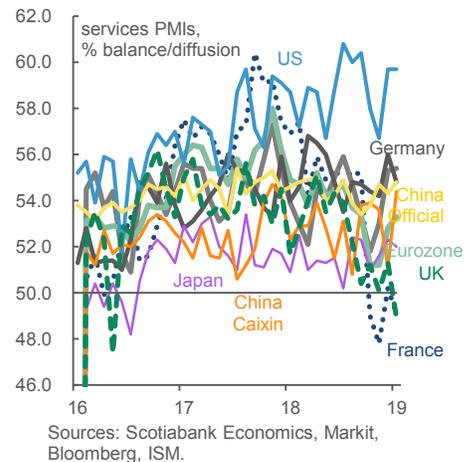
**What lends confidence here, however, is that it's not just China that is registering better PMIs.** On top of the improved US ISM reading, Eurozone PMIs were revised higher this morning. Normally revisions are as dry as dust, but the second swing at the Eurozone services PMI added six-tenths to lift it to 53.3 which increased the composite reading to 51.6 (51.3 prior). That's still a slowdown from last year's readings when the composite PMI peaked at 58.8 in January 2018, but at the margin it is moderately better than expected. Please see the updated charts for global manufacturing and service PMIs that display the volatility, the declines from the peaks especially in manufacturing, but also the more recent glimmers of hope in the latest readings.

**The same cannot be said for the UK, but with understandable Brexit headwinds in play.** We already knew that the manufacturing PMI for March jumped three full points higher to 55.1 due to inventory stocking in anticipation of Brexit risks. This was not mirrored in the other PMIs. Yesterday's construction PMI remained soft at just below 50, and today's services PMI fell by 2.4 points into contraction territory at 48.9. **That dragged the composite PMI reading down by 1.5 points to an even 50 for the weakest reading since July 2016 which is no coincidence since that's when this lunacy all started after the June referendum.**

**Global Manufacturing**



**Global Services**



**Somebody forgot to tell the Australian consumer to be less happy.** Retail sales jumped higher by 0.8% m/m in February for the strongest monthly gain since November 2017. The increase had breadth to it including a 3.5% rise in department store sales, a 1.6% increase in sales of apparel, 1.1% jump in household goods and a 0.8% increase in food sales but with restaurant spending flat. The figures are measured in value terms when volumes would be preferable and it will take until April 23<sup>rd</sup> to get Q1 CPI. Nevertheless, the breadth of the sales rise reinforces a positive interpretation.

## UNITED STATES

**Is a US consumer rebound underway? US retail sales may advance at among the most rapid monthly rates of the post-GFC period when March's figures are released on April 18<sup>th</sup>.** That would fan expectations for a consumer rebound from a recent soft patch. How so? The sharp rise in US vehicle sales during March that was reported late yesterday will play a significant role. US vehicle sales were up by 5.7% m/m in seasonally adjusted terms as the volume of vehicles sold jumped by about 1 million units versus the prior month at an annualized rate. Vehicle sales account for about one-in-five dollars spent in overall retail sales and so in weighted terms this will add about 1.1 percentage points to retail sales growth. Also, gasoline prices were up 16% m/m last month and carry about an 8.1% weight such that higher gas prices will add around 1.3 percentage points to retail sales growth. Spending more money on gasoline isn't great, but the retail report measures changes in nominal sales with separate steps required to convert back to volumes that matter as input to growth in inflation-adjusted GDP. Next Wednesday's CPI reading for March will inform what happened to broad consumer prices and how much to deflate what happens to retail sales to convert back to volumes. Combine these points with a soft jumping off point for the prior month's sales in February that was due to upward revisions to a strong January reading and March's retail print is shaping up nicely.

**US-China trade negotiations recommence at high levels today** as China's vice premier and lead on the negotiations—Liu He—meets with USTR Lighthizer and Treasury Secretary Mnuchin in addition to a possible meeting with Trump. There are moderately conflicting headlines on the status of the trade negotiations this morning. The FT reports (subscribers [here](#)) that while a lot of progress has been made—prompting the head of the US Chamber of Commerce to say that “90%” of the deal is done—what happens to US tariffs on imported Chinese goods in the wake of a deal and enforcement mechanisms remain areas in dispute. China wants to see the tariffs eliminated upon signing—and would presumably do so reciprocally—but the US wants to retain at least some of them as the deal is implemented and enforced. So much for trust but verify as the US could be accused of poisoning the tone of any trade agreement. This sounds a lot like the re-worked NAFTA agreement in that most of the progress pointed toward a deal for some time that got hung up on a relatively small number of matters (like dairy, and previously a sunset clause) that the Trump administration eventually gave in to. My personal view remains this time will be similar as it is in both countries' interests to strike a deal and while a deal may be partly priced, the prospect of full tariff removal if Xi Jinping digs in on the issue is not priced in my opinion. Full-on tariff removal could well steepen the Treasury curve and add further momentum to stocks. So remove the tariffs and markets rip higher while China's economy accelerates and the country may face the nicer problem to have by way of potentially having excess stimulus.

**US markets will focus upon a pair of macro reports and limited Fed-speak. ADP private payrolls disappointed expectations with a rise of just 129k** in March (175k consensus) that was only partially offset by an upward revision to 197k in February from 183k initially. **ADP throws off many misleading signals ahead of the more important nonfarm payrolls report** on Friday so I always suggest taking it with a mountain of salt. The accompanying chart on the first page depicts the spread between what ADP indicates for growth in private payrolls in a particular month and what happens to private nonfarm payrolls; large differences are a very common occurrence in both directions with an average difference of about 49k in absolute value terms on the first readings and 45k after revisions to both readings. In fact, one very recent example of this was what the ADP and nonfarm reports said about February: ADP indicated a rise of 197k versus private nonfarm payrolls that were up by only 25k for a large 172k overshoot of private nonfarm payrolls. Again, the differences can be large and go in either direction.

On the path to nonfarm, there have been conflicting signals from survey-based evidence on what happened to job markets last month. Consumers indicated that jobs were harder to get last month in the Conference Board's confidence survey (see second chart on first page) but the ISM-manufacturing report's employment subindex improved. This morning's ISM-services report (10amET) will further inform labour market conditions in the much bigger services sector amid expectations the reading may have slipped somewhat to a still strong pace of expansion.

**Fed-speak will include three regional Presidents today including one voting FOMC member in 2019.** Atlanta's Bostic, Kansas City's George (voting) and Richmond's Barkin speak in a wide-ranging two-hour general session at the American Bankers' Association's Washington Summit (agenda [here](#)). Minneapolis Fed President Kashkari speaks at 5pmET.

## CANADA

Canada will remain quiet until Friday's jobs report with today's fixed income market focused upon the GoC 5 year auction at 12pmET.

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.	2.32	2.30	2.20	2.32	2.29	2.16	2.51	2.48	2.37	2.92	2.88	2.81	Canada - BoC	1.75
CANADA	1.58	1.56	1.46	1.58	1.55	1.42	1.70	1.66	1.53	1.99	1.95	1.83	US - Fed	2.50
GERMANY	-0.59	-0.61	-0.60	-0.41	-0.45	-0.45	0.01	-0.05	-0.08	0.67	0.60	0.54	England - BoE	0.75
JAPAN	-0.15	-0.16	-0.17	-0.17	-0.17	-0.18	-0.05	-0.06	-0.07	0.52	0.53	0.54		
U.K.	0.68	0.63	0.67	0.82	0.75	0.79	1.08	1.00	1.01	1.61	1.55	1.54		
	Spreads vs. U.S. (bps):													
CANADA	-75	-75	-74	-74	-74	-73	-81	-81	-84	-93	-93	-98	Euro zone - ECB	0.00
GERMANY	-291	-291	-280	-273	-273	-261	-250	-252	-245	-225	-228	-227	Japan - BoJ	-0.10
JAPAN	-248	-246	-237	-249	-246	-234	-256	-254	-244	-240	-235	-228		
U.K.	-164	-167	-153	-150	-154	-136	-143	-147	-136	-131	-133	-127	Mexico - Banxico	8.25
Equities	Level			Change			% change:							
	Last						1 Day	1-wk	1-mo	1-yr				
S&P/TSX	16264			35.8			0.2	0.7	1.2	7.1			Australia - RBA	1.50
Dow 30	26179			-79.3			-0.3	2.0	0.6	8.9			New Zealand - RBNZ	1.75
S&P 500	2867			0.0			0.0	1.7	2.3	9.7				
Nasdaq	7849			19.8			0.3	2.0	3.3	13.1				
DAX	11896			141.2			1.2	4.2	2.5	-0.9				
FTSE	7394			3.3			0.0	2.8	4.0	5.2				
Nikkei	21713			207.9			1.0	1.6	0.5	2.0			Canada - BoC	Apr 24, 2019
Hang Seng	29986			361.7			1.2	4.4	4.1	-0.6			US - Fed	May 01, 2019
CAC	5455			31.9			0.6	2.9	3.6	5.9				
Commodities	Level			Change			% change:							
WTI Crude	62.58			0.00			0.0	5.3	12.2	-1.5			England - BoE	May 02, 2019
Natural Gas	2.67			-0.01			-0.4	-1.5	-6.5	-0.9			Euro zone - ECB	Apr 10, 2019
Gold	1293.44			0.97			0.1	-1.2	0.0	-3.0			Japan - BoJ	Apr 25, 2019
Silver	15.03			-0.05			-0.3	-2.7	-3.4	-7.7				
CRB Index	186.79			0.42			0.2	1.5	2.9	-3.3				
Currencies	Level			Change			% change:							
USDCAD	1.3307			-0.0030			-0.2	-0.8	0.0	3.9			Mexico - Banxico	May 16, 2019
EURUSD	1.1242			0.0038			0.3	-0.0	-0.9	-8.4			Australia - RBA	May 07, 2019
USDJPY	111.45			0.1300			0.1	0.9	-0.3	4.5			New Zealand - RBNZ	May 07, 2019
AUDUSD	0.7124			0.0053			0.7	0.6	0.5	-7.3				
GBPUSD	1.3173			0.0045			0.3	-0.1	-0.1	-6.3				
USDCHF	0.9961			-0.0018			-0.2	0.1	-0.3	3.9				

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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