ON DECK FOR THURSDAY, APRIL 4

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	04/04	08:30	Initial Jobless Claims (000s)	MAR 30	215	215.0	211.0
US	04/04	08:30	Continuing Claims (000s)	MAR 23	1750	1750.0	1756.0
US	04/04	13:00	Fed's Mester Speaks at Banking Conference				
US	04/04	13:00	Fed's Harker Speaks on the Economic Outlook				

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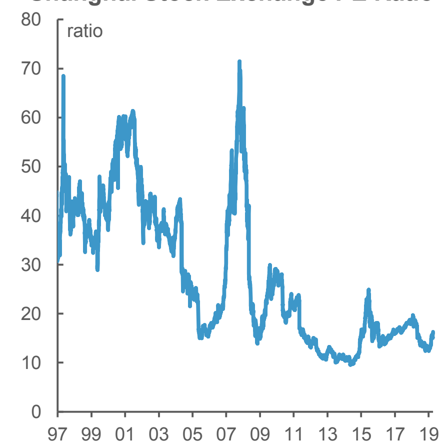
KEY POINTS:

- **Global asset classes are little changed on nonfarm's eve**
- **Will the Trump-He meeting set a signing date today?**
- **China must hold out for tariff removal…**
- **…as informed by the NAFTA experience…**
- **…as the US negotiates in bad faith…**
- **…by keeping tariffs while signing trade agreements**
- **Shanghai under-valued?**
- **US jobless claims hit 49 year low outside of the nonfarm reference period**
- **No 'hard' Brexit, if the EU unanimously agrees…**
- **…but what's next remains uncertain**
- **Germany's factory order book is at a two-year low**
- **RBI easing: fundamentals versus central bank independence**
- **ECB account of March meeting contained no real surprises**
- **Canadian consumer and business insolvencies remain very low**
- **Quantifying the Fed's SOMA portfolio shift**

Shanghai Stock Exchange PE Ratio



Sources: Scotiabank Economics, Bloomberg.

INTERNATIONAL

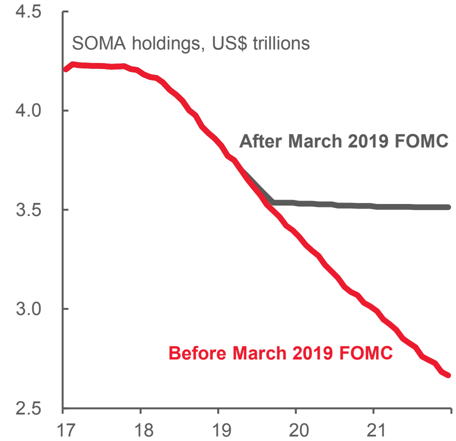
Global asset classes are generally little changed this morning. This is not terribly unusual to see ahead of tomorrow's nonfarm payrolls, but a potential interim risk catalyst could be the scheduled meeting after today's North American market close between US President Trump and Chinese Vice Premier Liu He (see below). Brexit developments are light in the aftermath of parliament's vote against a hard Brexit that is expected to pass the House of Lords today but needs unanimous agreement across the EU to allow a deadline extension in the event that ongoing negotiations between PM May and Labour leader Corbyn fail to achieve a passable agreement to exit by the May 22nd deadline. **German factory orders plunged**, but progress in trade agreements could be a forward-looking influence upon sentiment. **The RBI's overnight rate cut** was one part fundamentals and one part politics in terms of the drivers. The ECB's account of its March meeting contained no real surprises. US and Canadian developments should otherwise be light today. The remainder of the note also considers updated assessments of Canadian consumer and business insolvencies, quantifies the impact of the Fed's shift in its SOMA portfolio over our forecast horizon, and considers Chinese equity valuations relative to potential trade policy developments.

Sources: Scotiabank Economics, Bloomberg.

- The USD is very slightly appreciating on a DXY basis this morning. The Euro, pound sterling, CAD and A$ are all softer while the yen is firm.

- Sovereign curves are little changed but very slightly richer this morning. The US 10 year Treasury yield is at 2.52% (-1bp) and Canada is slightly outperforming. The gilts curve is little changed, while bunds and French bonds are slightly richer. While the Treasury curve could well bear steepen pending potentially positive developments in trade tensions into a US election year and Brexit, the Fed's abrupt policy shift toward balance sheet plans changed the dynamic by probably preserving very flat yield curves throughout the forecast horizon. The accompanying two charts depict the magnitude of the shift in the Fed's SOMA portfolio before the March FOMC compared to after the changes introduced at the March FOMC and include a much bigger SOMA portfolio driven by substantially larger Treasury holdings. The bottom line is that the SOMA portfolio will be about US$800 billion larger by the end of 2021 than it would have been if not for March's changes, and this is entirely due to renewed growth in Treasury holdings after September this year that will fill in for declining MBS, agency, FRN and TIPS holdings over time.

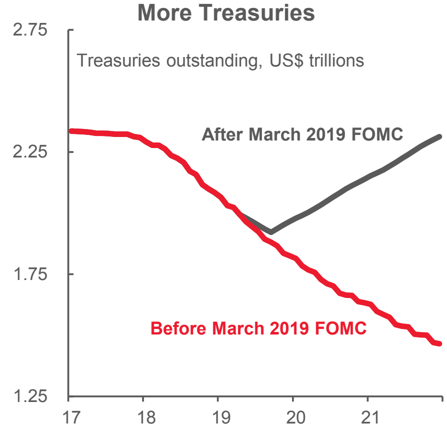
A Much Bigger Balance Sheet



Sources: Scotiabank Economics, FRB New York.

- Oil prices are slightly firmer with WTI and Brent both up by about 20–30 or so cents to US$62.65 and US$65½ respectively.

The Fed Will Buy A Lot More Treasuries



Sources: Scotiabank Economics, FRB New York.

- US and Canadian equity futures are flat this morning. European equity markets are mixed with London down ½%, Paris down ¼%, the Dax and Madrid up a little and Milan slightly lower. Asian equities were little changed outside of mainland China where the Shanghai composite rallied by 1% and Shenzhen was up ½%. See the accompanying chart that depicts the price-earnings ratio on the Shanghai composite; a trade deal with lowered or eliminated tariffs could yet be a powerful catalyst to valuations.

German factory orders fell by 4.2% m/m in February with only a mildly positive upward revision to the prior month's 2.6% drop that is now -2.1%. That is the largest monthly drop since January 2017 (tied) and over the post-GFC period it has only been exceeded by the 5.1% drop in August 2014. On a two month rolling average basis, the start of 2019 is the weakest period since 2009. Measured in terms of outstanding dollars of orders, **the order book is at its lowest level since January 2017** as vividly portrayed by the accompanying chart. Weakness was widespread across components as orders for capital goods fell 6% m/m (-3.1% prior month) and orders for consumer goods tanked by 3.5% m/m (-1.2% prior month).

The Reserve Bank of India met widespread expectations for a rate cut this morning (statement here). The RBI lowered the repo rate by 25bps to 6% after having previously cut in February. This is a reversal of the two hikes the RBI put through in June and August of last year as monetary policy has been a touch erratic of late. Five out of six members of the RBI's monetary policy committee voted in favour of a neutral policy stance versus one who wanted to label it as accommodative. The supporting statement language was more cautious than previously. Also note that India's commercial banks have only been passing on a portion of the rate cuts including just 5–10bps of the 25bps cut in February and so this may also inform the MPC's overall hesitancy to sound more dovish on the bias.

What changed for the RBI? Is easing necessary? There are multiple considerations involved when addressing these questions. The case for easing can be couched in terms of global risks, relatively soft headline inflation and moderating Indian economic growth. The RBI targets inflation of 4% +/-2%. Headline inflation is at the lower end of the range at 2.6% y/y but this is being driven by volatile commodities. CPI ex-food and energy is rising by 5.3% y/y and therefore easing on concerns over achieving the inflation target is contentious. Indeed, the RBI forecasts inflation to rise to 3.8% y/y by about this time next year and hence toward the middle of the inflation target range. Growth has waned from a peak of 8% in 2018Q2 to a still strong rate of 6.6% by Q4 and is expected to stabilize in the near term and gently improve thereafter. The RBI now projects growth to rise to 7.2% y/y over the coming fiscal year.

Nevertheless, it's not as clear cut as leaving it to debatable Indian fundamentals. PM Modi appointed the new RBI Governor Shaktikanta Das—a career civil servant who studied history—last December and he replaced former Governor Urjit Patel who had been pursuing tightened monetary policy. What prompted that decision? Perhaps PM Narendra Modi's eye on India's general elections that are held in seven steps starting one week from today and lasting through May 19th are the dominant influence behind the change in the Governor and the RBI's altered stance. Governor Das has also been amenable to the government's goals by easing regulations on state-owned banks and is contemplating handing over the RBI's excess capital to the government to improve its fiscal position.

The ECB released the account of its March 7th meeting at which it pushed out rate hike guidance and announced a new wave of TLTROs while lowering growth and inflation forecasts. There were no real surprises in the account that confirmed TLTRO details were being worked on, expectations for a return to solid growth later this year, a sense that uncertainty was elevated due to trade tensions and that some members support President Draghi's earlier remarks that the undesirable side effects of negative rates were of concern and perhaps in need of adjustments.

UNITED STATES

US President Trump is scheduled to meet with Chinese Vice Premier Liu He in the Oval Office at 4:30pmET today. Momentum is shifting toward a trade deal but with significant impediments remaining. There is some anticipation that the meeting might result in a date being set for Trump and Xi Jinping to meet. China wants neutral turf for a signing ceremony and so among the many issues is determining a suitable location. While the outlines of a trade agreement are being communicated through various channels, overall they appear to fall short of a big bang agreement. In some areas like Chinese purchases of US goods, it's unclear that much is being secured compared to China's much earlier offerings. Some points worth considering are as follows.

- a key division is what to do with existing tariffs after achieving a trade agreement and how to enforce an agreement. Given the CUSMA/USMCA experience that is marked by passage being held up by the US desire to maintain steel and aluminum tariffs or quotas, one would think that Chinese President Xi Jinping should not board a plane to a signing ceremony until China receives a firm agreement from the US for both sides to drop existing tariffs that have been introduced since last summer. The US is negotiating in bad faith by maintaining punitive tariffs that have invited reciprocal responses while seeking new trade agreements. Stocks would love it, and so would their respective economies in a win-win for both sides.

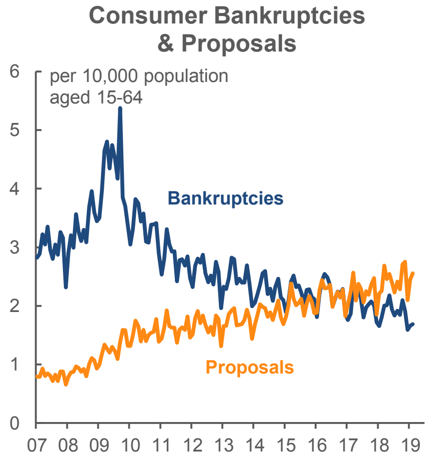
- From what I've seen, the **currency provisions appear to be the similar toothless scout's honour pledge** contained in the KORUS and CUSMA/USMCA deals and the US administration continues to exhibit a poor understanding of USD drivers (e.g. the US consumes a lot, saves little overall including mounting fiscal deficits). US goals in this area have always been unrealistic dating back to at least the Canada-US FTA and NAFTA negotiations in the 1980s and early 1990s. No country would tie its hands on its nominal exchange rate as a shock absorbing automatic stabilizer that serves an important role as a price signal. Besides, it's the real effective exchange rate—trade weighted and inflation adjusted—that governs the trade relationship. If the nominal exchange rate is artificially put in a straightjacket, more of any needed adjustment would occur through price effects and real variables. Would the US like prices of Chinese goods to be inflexibly high at times? Is the US going to attempt to dictate and straight jacket pricing strategies to Chinese firms next?

- China has agreed to buy more US products in select areas, though breadth remains in question relative to the possibility that only a few categories of political importance would be targeted (gas, pork, soybeans etc). While these would be political wins before Trump's base, it's hard to argue that the long-run future outlook for US prosperity will be so narrowly driven by these categories.

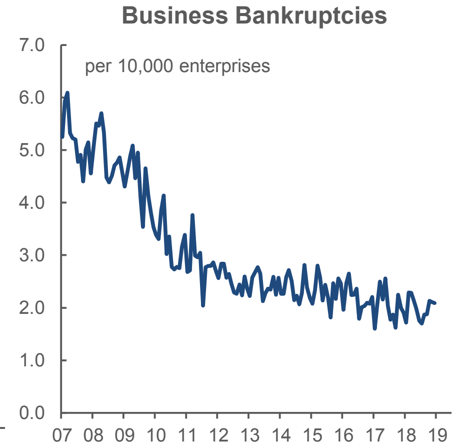
- The timelines of the binding commitments on Chinese purchases of US goods and relaxed foreign ownership of Chinese firms appear to go no further than 2025. Trade agreements are supposed to set goals that are less time dependent and longer-lived and by corollary less driven by the 2020 election term.

- The knock-on effects of a bilateral US-China deal upon China's other trade partners also merit consideration from a global markets standpoint in that zero-sum trade diversion is a possibility. It's unclear that anything about this trade 'deal' that is in the works would sustainably address the underlying drivers behind the US trade deficit that has at its root high domestic consumption.

- Further, if China's reported pledge to zero the bilateral trade surplus by 2024 is confirmed, then a) it may be a big stretch goal that just punts pressures down the line, b) the flip side would be less capital account inflow from China into US Treasuries over time just as Treasury supply balloons, and c) it's unclear to what extent China thinks this narrower trade surplus would happen anyway as it liberalizes and reforms its domestic economy and raises domestic demand for imports.
- The ultimate irony is the US demand that China lessens subsidies for its SOEs after the US experience of the GFC era.



Sources: Scotiabank Economics, Office of the Superintendent of Bankruptcy.



Sources: Scotiabank Economics, Industry Canada, Statistics Canada.

US markets otherwise face few developments today with only **weekly initial jobless claims that fell by 10k to 202k last week and in the process set the lowest level in just shy of a half century.** A caution ahead of tomorrow's nonfarm is that the drop of late has mostly occurred outside of the nonfarm reference period and over the back half of the month. Limited Fed-speak is also on tap. Cleveland Fed President Mester (nonvoting) and Philly Fed President Harker (nonvoting) speak at 1pmET. The path is cleared to focus upon nonfarm payrolls with highlights of expectations covered in the Global Week Ahead here.

CANADA

Canada will also focus upon tomorrow's jobs report with highlights in the week ahead. Only the Ivey purchasing managers' index is due out at 10amET. There are never consensus estimates and limited market sensitivity to the reading that, like many other global PMIs, has been waning toward the low points of the last three years.

As an aside, please see the updated insolvency charts for Canadian consumers and businesses using multiple measures. The broad takeaway remains that total insolvencies and the break down between bankruptcies and proposals to alter the original terms (and their multiple drivers) remain generally well behaved. Much of the coverage on this topic continues to opportunistically reference seasonally unadjusted month-ago swings when it suits the prior beliefs of those seeking evidence they are ballooning when they are not.

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.	2.33	2.34	2.24	2.32	2.33	2.22	2.52	2.52	2.40	2.93	2.93	2.82
CANADA	1.58	1.59	1.49	1.57	1.58	1.46	1.70	1.71	1.56	1.99	1.99	1.86
GERMANY	-0.59	-0.58	-0.59	-0.42	-0.41	-0.44	-0.00	0.01	-0.07	0.65	0.67	0.55
JAPAN	-0.16	-0.15	-0.18	-0.17	-0.17	-0.19	-0.04	-0.05	-0.09	0.52	0.52	0.50
U.K.	0.70	0.71	0.66	0.84	0.84	0.77	1.09	1.10	1.00	1.63	1.63	1.54
	Spreads vs. U.S. (bps):											
CANADA	-75	-75	-75	-75	-75	-76	-82	-82	-84	-95	-94	-97
GERMANY	-292	-292	-283	-273	-273	-265	-252	-252	-247	-229	-226	-227
JAPAN	-249	-249	-241	-248	-249	-241	-256	-257	-249	-241	-242	-233
U.K.	-163	-163	-158	-148	-149	-144	-142	-143	-140	-131	-131	-129

Equities	Level		% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	16280	16.0	0.1	0.9	1.5	7.4
Dow 30	26218	39.0	0.1	2.3	1.5	8.1
S&P 500	2873	6.2	0.2	2.4	2.9	8.6
Nasdaq	7896	46.9	0.6	3.3	4.2	12.1
DAX	11977	22.9	0.2	4.8	3.3	0.2
FTSE	7380	-37.8	-0.5	2.0	3.4	4.9
Nikkei	21725	11.7	0.1	3.3	-0.4	1.9
Hang Seng	29936	-50.1	-0.2	4.0	3.4	1.4
CAC	5456	-12.9	-0.2	3.0	3.2	6.1
Commodities	Level		% change:			
WTI Crude	62.65	0.19	0.3	5.6	10.7	-1.1
Natural Gas	2.67	-0.01	-0.2	-1.5	-6.5	-1.7
Gold	1284.14	-5.81	-0.5	-0.5	-0.2	-3.7
Silver	15.17	0.14	0.9	-1.5	-2.5	-8.2
CRB Index	187.30	0.45	0.2	2.2	3.4	-2.6
Currencies	Level		% change:			
USDCAD	1.3366	0.0021	0.2	-0.5	0.5	4.7
EURUSD	1.1216	-0.0017	-0.2	-0.0	-1.1	-8.6
USDJPY	111.48	-0.0100	-0.0	0.8	-0.2	4.4
AUDUSD	0.7103	-0.0010	-0.1	0.4	0.2	-7.9
GBPUSD	1.3132	-0.0026	-0.2	0.7	-0.4	-6.7
USDCHF	0.9997	0.0015	0.2	0.4	0.1	4.0

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	**May 07, 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.