

**ON DECK FOR FRIDAY, APRIL 5**

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	04/05	08:30	Employment (000s m/m)	Mar	20	6.0	55.9
CA	04/05	08:30	Unemployment Rate (%)	Mar	5.7	5.8	5.8
US	04/05	08:30	Average Hourly Earnings (m/m)	Mar	--	0.3	0.4
US	04/05	08:30	Average Hourly Earnings (y/y)	Mar	3.3	3.4	3.4
US	04/05	08:30	Average Weekly Hours	Mar	--	34.5	34.4
US	04/05	08:30	Nonfarm Employment Report (000s m/m)	Mar	150	177.0	20.0
US	04/05	08:30	Unemployment Rate (%)	Mar	3.8	3.8	3.8
US	04/05	08:30	Household Employment Report (000s m/m)	Mar	--	--	255.0
US	04/05	15:00	Consumer Credit (US\$ bn m/m)	Feb	--	17.0	17.0
US	04/05	15:30	Fed's Bostic Discusses Disruption and Opportunity				

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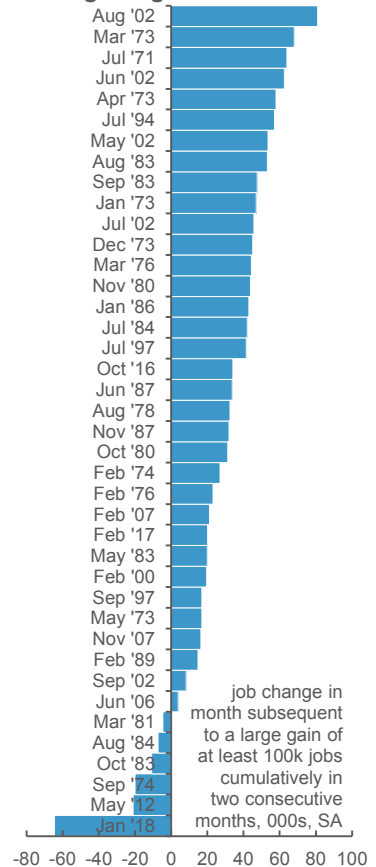
**KEY POINTS:**

- Markets on edge waiting for US payrolls
- US nonfarm: pent-up hiring but softer wage gains?
- CDN jobs: waiting for the other shoe to drop...
- ...versus what historical momentum odds suggest
- German industrial output beats expectations...
- ...versus payback in Spain's numbers
- Japanese real wages continue to frustrate the BoJ's inflation goal
- Philippines edging toward policy easing?
- Corporate bond curves are avoiding inversion...
- ...in the US and Canada...
- ....which matters more to the lending cycle than distorted sovereigns

**INTERNATIONAL**

Global markets are little changed this morning which is fairly typical of the kind of apprehension ahead of one of the world's most impactful releases if not the most impactful. US nonfarm payrolls will dominate global market attention perhaps more than typically so given a) the prior month's disappointment, and b) whether March's results test or reinforce the Fed's patience and the yield curve's interpretations. Canadian jobs will be a local market distraction but one that faces the opposite dilemma; instead of coming of prior weakness, can momentum toward very strong job gains in Canada continue? While there are other important developments this morning, they are longer term evolving matters versus the immediate shock risk of jobs reports. European macro data was mixed, Japanese real wage gains continue to frustrate the BoJ's inflation target, and the Philippines central bank may be another step closer to easing this year in a reversal of last year's tightening. US-China trade talk watch is put on the back burner for now with Trump's guidance that a deal is probably a month away and because the Trump administration routinely underestimates the complexity and time it takes to negotiate trade deals. Major sticking points include China's very reasonable insistence that US tariffs must be dropped as part of a trade deal given the tendency of this administration not to honour the principle of its agreements. Brexit is also on the back burner as PM May appealed to the EU for an extension to June 30<sup>th</sup> that the EU Summit next Wednesday.

**Big Gains Don't Have to Beget Big Losses**



Sources: Scotiabank Economics, Statistics Canada, Haver Analytics.

- Currency markets are generally little changed with the only moderately notable movements being slight appreciation of the rand and depreciation of the NZ\$.
- Sovereign bond yields are under mild upward pressure. US Treasury yields are up by 2bps. Canadian yields are slightly outperforming Treasuries. Gilts are 3–5bps higher while French and German bonds are up by about 1–2bp across most of their curves.
- Oil prices are little changed with WTI and Brent down by a dime or two.
- US equity futures are slightly positive at a gain averaging around 0.1% and TSX futures are flat. European cash markets are little changed on average with the FTSE up 0.2% along with the CAC40 and the Dax flat. Chinese equity markets were shut for the Qingming/Ching Ming Festival.

**Japanese inflation-adjusted wage growth continues to disappoint.** February's reading for real cash earnings unexpectedly fell 1.1% y/y and was revised lower the prior month (see second chart). The seemingly never-ending disappointments in wage growth add to challenges facing ever achieving the BoJ's 2% inflation target.

**Philippines inflation came in softer than expected overnight.** The March reading fell back to 3.3% y/y (3.8% prior, X% consensus). The deceleration was all in the core reading that fell back to 3.5 y/y (3.9% prior) which was the softest reading since May 2018. Inflation is falling back toward the mid-point of the central bank's 2–4% inflation target range. Bangko Sentral ng Pilipinas Deputy Governor Diwa Guinigundo remarked in advance of the release that continued downside movements could prompt further discussion of the room to lower policy rates.

**German industrial production was stronger than expected** but the enthusiasm is dented by what the prior day's reported drop in factory orders say about future production. Industrial output advanced by 0.7% m/m (0.5% consensus) and the prior month's previously reported 0.8% drop was revised to flat. The saving grace of late has been surging construction output (+6.8% m/m, +0.9% prior) while capital goods output advanced by 0.6% and both consumer goods and energy output dropped.

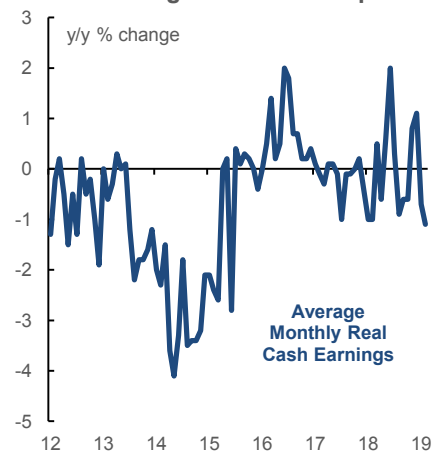
**Spanish industrial output fell by 1.1% m/m in February** but in this case it is excusable by virtue of the large 3.6% advance the prior month.

## UNITED STATES

**Consensus has 177k pencilled in for US nonfarm payrolls and I'm at 150k (8:30amET).** The 90% confidence interval is +/- 115,000 so I always emphasize the silliness that sometimes occurs within consensus as relatively small differences of opinion across the guesstimates are over-hyped. Most of the range of consensus opinion runs from 145k to 225k which falls well within what could be the confidence interval on whatever print arises.

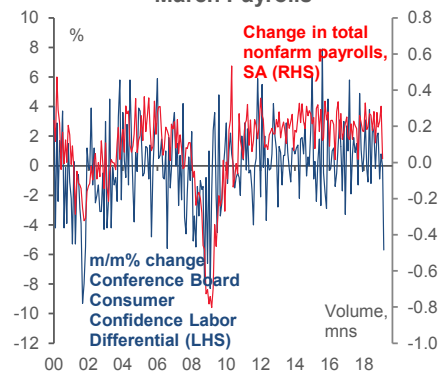
**I still think February's +20k reading may have been an undershoot on interrupted hiring plans due to the confidence shock of the shutdown and prior market turbulence; if so, there may be pent-up demand to be unleashed.** I've also gone with a **slight down-tick in wage growth to 3.3% y/y** driven by year-ago base effect changes and a modest expected month-ago rise following a larger than seasonally usual gain the prior month.

### Still No Wage Inflation In Japan



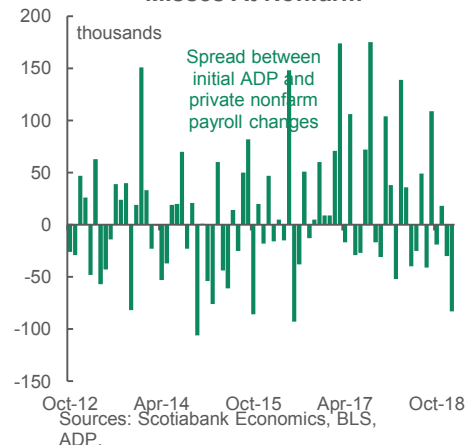
Source: Scotiabank Economics, Bloomberg.

### Confidence Signalling Soft March Payrolls



Sources: Scotiabank Economics, BLS, Conference Board, Bloomberg.

### ADP's Swings And Misses At Nonfarm



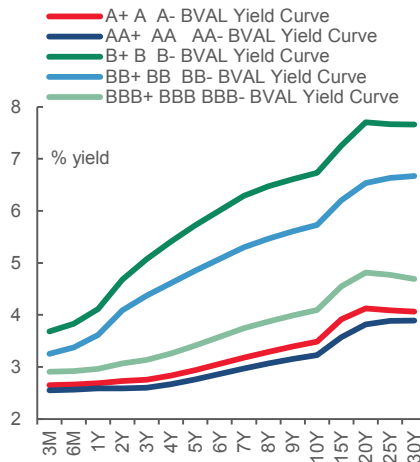
Sources: Scotiabank Economics, BLS, ADP.

**Leading indicators for US payrolls were mixed last month.** Initial claims plunged to a half century low only after the nonfarm reference period for the month which is the pay period that includes the 12<sup>th</sup> day of the month and so fade that influence. Consumer confidence indicated less availability of jobs which tends to be decently correlated with actual changes (see third accompanying chart). ADP disappointed (+129k) but sheds too many false signals with an average absolute value miss of about 49k on the initial prints and often much larger deviations (see fourth accompanying chart). Employment subcomponents to the ISM gauges were generally solid with the manufacturing survey indicating accelerated hiring but the far bigger services sector indicating only a modest acceleration. A weak jumping off point with only 20k jobs created in February may be a favourable influence.

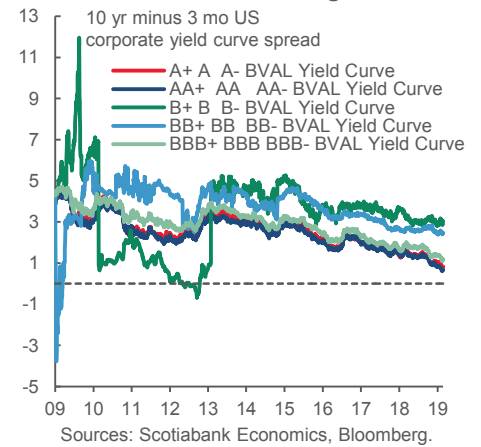
**CANADA**

**In Canada, 85% of the time since 1976 when back-to-back monthly job gains have added to 100,000 or more, the next jobs print has been up again so the momentum argument and odds favour a gain (see first chart on first page).** I submitted 20k as my guess but a Canadian jobs pick is always done with low conviction. It's a household survey with a limited sample size and a very wide 90% confidence interval of +/-43,520 on a particular month's job growth estimate. See the Canadian section of the Global Week Ahead for a fuller preview.

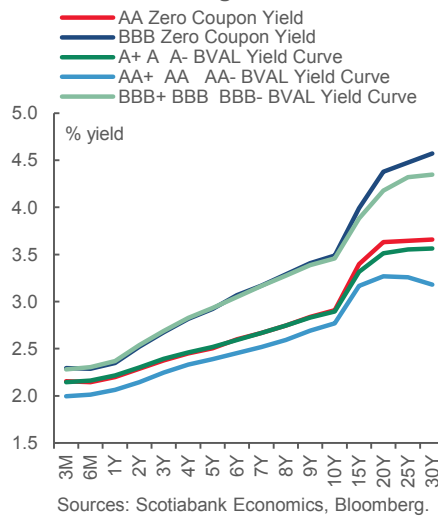
**US Corporate Bond Market Is Not Inverted**



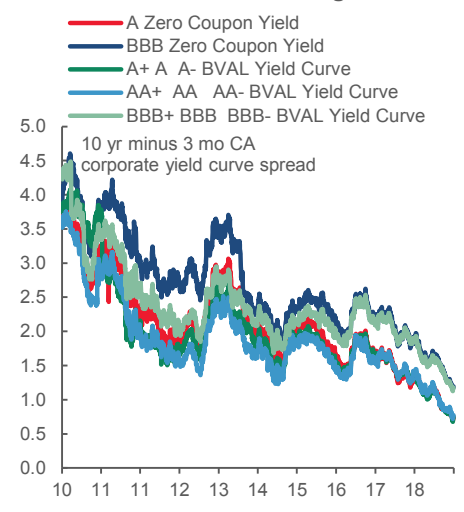
**US Corporate Yield Curves Still Not Inverting**



**Canadian Corporate Bond Market Is Still Rewarding Term Extension**



**Canadian Corporate Yield Curves Still Not Inverting**



**CORPORATE BOND CURVES IN THE US AND CANADA**

I've included four charts that depict the state of the US and Canadian corporate bond curves by maturity and risk rating. I think they are useful in that they indicate that the corporate curves have not inverted, although the US curve is relatively flat across shorter maturities and the Canadian curves are still upward sloping. One US chart shows a static snapshot as of yesterday for yields by rating and maturity and the other US chart shows the history of the 90s/10s corporate spread by rating. Two Canadian equivalent charts are shown. The broad takeaway is that there is still a moderate reward to taking term risk across both countries' corporate markets that is less evident in the more distorted sovereign curves particularly in the wake of the Fed's large shift in Treasury investment plans (see yesterday's note for that).

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.	2.36	2.34	2.26	2.35	2.32	2.23	2.54	2.52	2.41	2.94	2.92	2.82	Canada - BoC	1.75
CANADA	1.59	1.58	1.55	1.58	1.57	1.52	1.71	1.70	1.62	1.99	1.98	1.89	US - Fed	2.50
GERMANY	-0.57	-0.58	-0.60	-0.40	-0.41	-0.45	0.02	-0.01	-0.07	0.65	0.63	0.57	England - BoE	0.75
JAPAN	-0.15	-0.16	-0.17	-0.15	-0.17	-0.20	-0.03	-0.04	-0.08	0.55	0.52	0.51	Euro zone - ECB	0.00
U.K.	0.73	0.69	0.64	0.87	0.83	0.76	1.13	1.08	1.00	1.68	1.63	1.55	Japan - BoJ	-0.10
	Spreads vs. U.S. (bps):													
CANADA	-77	-75	-72	-76	-75	-72	-83	-82	-79	-96	-94	-92	Mexico - Banxico	8.25
GERMANY	-293	-292	-287	-275	-273	-268	-252	-252	-248	-229	-229	-224	Australia - RBA	1.50
JAPAN	-251	-249	-243	-250	-249	-243	-257	-256	-249	-239	-240	-231	New Zealand - RBNZ	1.75
U.K.	-163	-165	-162	-147	-149	-148	-141	-143	-141	-126	-129	-126		
Equities	Level			% change:										
	Last	Change		1 Day	1-wk	1-mo	1-yr							
S&P/TSX	16312	31.8		0.2	1.0	1.4	6.2							
Dow 30	26385	166.5		0.6	2.6	2.2	7.7							
S&P 500	2879	6.0		0.2	2.3	3.2	8.1							
Nasdaq	7892	-3.8		-0.0	2.9	4.2	11.5							
DAX	11988	0.1		0.0	4.0	3.2	-2.6							
FTSE	7414	12.5		0.2	1.9	3.2	3.0							
Nikkei	21808	82.5		0.4	2.8	0.4	0.7							
Hang Seng	29936	-50.1		-0.2	4.0	3.4	1.4							
CAC	5477	13.1		0.2	2.4	3.4	3.8							
Commodities	Level			% change:										
	Last	Change		1 Day	1-wk	1-mo	1-yr							
WTI Crude	61.88	-0.22		-0.4	2.9	9.4	-2.6							
Natural Gas	2.64	-0.00		-0.2	-0.9	-8.5	-1.3							
Gold	1287.61	-4.67		-0.4	-0.4	-0.0	-2.9							
Silver	15.09	-0.08		-0.5	-0.7	-0.5	-8.4							
CRB Index	186.63	-0.41		-0.2	1.6	2.6	-3.7							
Currencies	Level			% change:										
	Last	Change		1 Day	1-wk	1-mo	1-yr							
USDCAD	1.3380	0.0021		0.2	0.2	0.2	4.9							
EURUSD	1.1224	0.0003		0.0	0.1	-0.7	-8.3							
USDJPY	111.72	0.0600		0.1	0.8	-0.2	4.0							
AUDUSD	0.7115	0.0003		0.0	0.3	0.4	-7.4							
GBPUSD	1.3066	-0.0011		-0.1	0.2	-0.8	-6.7							
USDCHF	1.0007	0.0007		0.1	0.6	-0.3	3.9							
								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.

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