

ON DECK FOR MONDAY, APRIL 8

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	04/08	08:15	Housing Starts (000s a.r.)	Mar	210.0	194.0	173.2
CA	04/08	08:30	Building Permits (m/m)	Feb	--	2.0	-5.5
US	04/08	10:00	Factory Orders (m/m)	Feb	-0.6	-0.5	0.1

KEY POINTS:

- Markets little changed to start the week
- Myron Scholes on the yield curve
- CDN housing starts rebound
- BoC's Wilkins speaks on digitalization and inflation
- US factory orders should follow durables
- German trade drops
- Chilean CPI higher than expected
- Global Week Ahead

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

- EU Summit
- Brexit
- FOMC minutes
- CBs: ECB, Peru
- Fed-speak
- US bank earnings
- CPI: US, China, India, Chile, Mexico, Brazil
- BoC's Wilkins
- CDN housing
- China trade, reserves, financing
- RBA's Debelle
- BoJ's Kuroda
- Riksbank's Ohlsson
- Other US, European, LatAm macro
- US, Canada auctions

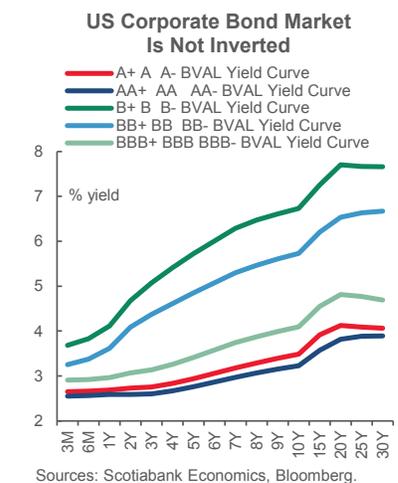
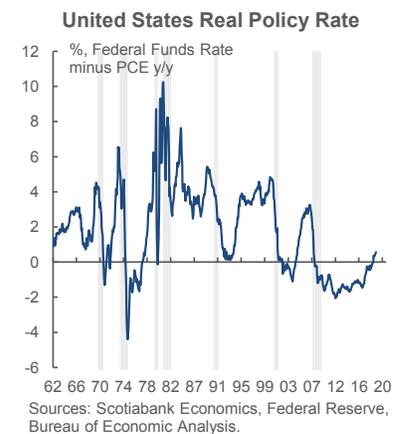
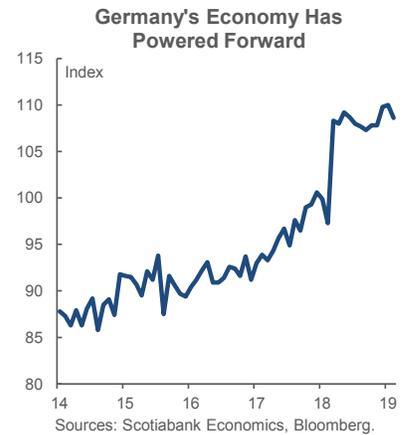
INTERNATIONAL

Global markets are generally little changed to start a new trading week.

There is mild evidence of risk aversion with a strengthening USD and little action in global equities. There are no real developments in either US-China trade or Brexit negotiations as both have hit a lull. We're still some distance before probably learning what Trump will do about European auto tariffs; the report following the section 232 investigation by the Commerce Department into the auto sector began in May of last year and was delivered on February 17th. Trump has 90 days—until May 18th—to respond so we're about five weeks away from that deadline. **Global data is confined to soft German exports.** Canada digested a rebound in housing starts and comments by BoC SDG Wilkins while the US only

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considers factory orders. Chilean inflation was stronger than expected. Note Myron Scholes' remarks on yield curve inversion as an indicator of recession risk.

- The USD is slightly appreciating on a DXY basis this morning. The Euro and related European crosses are leading the pack along with the yen. CAD is flat along with sterling. The won is the only notable depreciating currency.
- Sovereign bond markets are little changed to start the week with the US 10 year at 2.5%.
- Oil prices are about 30 cents higher for WTI and Brent partly given conflict in Libya.
- US equity futures are slightly lower by up to ¼% with TSX futures flat. European cash markets are little changed on average with Madrid leading decliners (-0.7%), and London and Paris both flat. Asian equities were similarly mixed with Shanghai and Seoul flat, Shenzhen down ½% and Tokyo down ¼%.

German trade suffered a setback in February. Exports fell by 1.3% m/m (-0.5% consensus, 0.0% prior) and imports fell by 1.6% (-0.6% consensus, +1.5% prior). The combined results drove the trade surplus higher but not for encouraging reasons as exports fell and the slide in imports indicates a softened domestic economy. In volume terms, exports fell 1.3% and so all of the slide in the dollar amount of exports was due to lower volumes, and imports fell by 1.8% which indicates slightly higher prices offset only a little of the volume drop. The accompanying chart shows the trend in German export volumes that plateaued about one year ago have after a large prior gain and they have largely trended sideways through the monthly volatility.

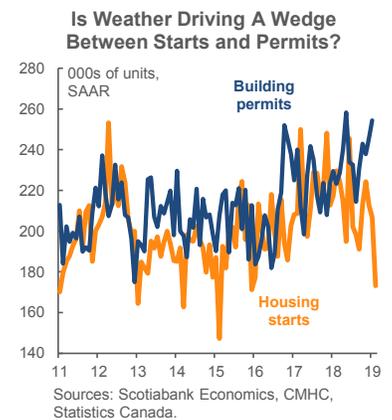
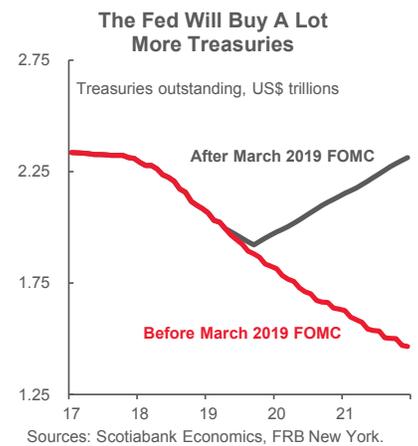
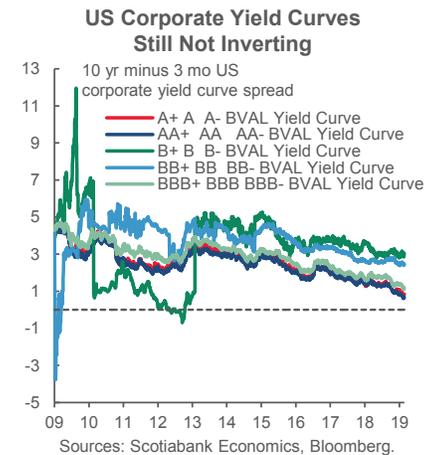
Chilean CPI for March climbed by more than expected to 2% y/y (1.7% prior, 1.9% consensus). **That puts it right in line with the middle of the central bank's 2–4% inflation target range** but core CPI has been riding just above 2% y/y of late and trending slightly higher over the past year.

UNITED STATES

US factory orders in February (10amET) should register a significant decline given we already know the 1.6% drop in about half of the report that is comprised of durable goods orders. Orders for nondurable orders with shorter economic lives should insulate against some of that.

Canadian Nobel laureate Myron Scholes—a well-known name in areas of finance like capital structure and options pricing—weighed in on the significance of inverted yield curves as a recession indicator in a Bloomberg op-ed piece ([here](#)). He makes two main points that are consistent with what I've been arguing for some time.

First, that there is a difference between the significance of a bear flattening and a bull flattening and this time has been more about the latter. This inversion was accompanied by a dovish Fed with a real policy rate that is nowhere close to where it typically hits into prior recessions. See the first chart that I've been using to make this point. Second, that in essence the yield curve's inversion isn't always a necessary condition for a recession and is definitely not a sufficient condition which motivates considering other measures. I've again included the charts showing the slope of the corporate yield curve as one such alternative and it has not inverted. This latter point may further illustrate the role of Fed policy including the movement toward a new balance sheet plan that was rolled out at the March FOMC and that returns the Fed to being a net buyer of Treasuries (fourth chart).



CANADA

Canada updates housing starts and building permits for March and February respectively this morning. **Starts have been released and rebounded to 192.5k** from a slightly revised 166.3k the prior month (down from 173.2k initially). Permits are due shortly. At issue is whether the slide in housing starts that runs against the strength in home building permit volumes (see chart) is due to harsher than usual weather effects or suspended if not cancelled permits to build. The modest rebound leans toward the former interpretation.

Bank of Canada Senior Deputy Governor Wilkins speaks on a panel this afternoon at the Banque de France titled “Why is competition important for growth, wages and monetary policy?” While the panel occurs at 3:30pmET, the BoC released her slide deck in advance at 8amET this morning ([here](#)). It’s worth a look by BoC watchers in terms of following up on the BoC’s prior remarks on the role of digitalization and CPI etc, but there is nothing of consequence to nearer term policy considerations. There will be audience Q&A but no press conference following her appearance this afternoon. Wilkins is the last scheduled BoC official to speak before the central bank goes into communications blackout on April 16th ahead of the April 24th statement, MPR forecasts and press conference. There is probably low risk of policy-related remarks that may be impactful to markets in the wake of Governor Poloz’s speech (recap [here](#)).

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.	2.34	2.34	2.33	2.31	2.31	2.32	2.51	2.50	2.50	2.92	2.90	2.89	Canada - BoC	1.75
CANADA	1.60	1.59	1.61	1.58	1.57	1.59	1.71	1.70	1.70	1.98	1.97	1.97	US - Fed	2.50
GERMANY	-0.57	-0.57	-0.60	-0.41	-0.41	-0.42	0.00	0.01	-0.03	0.63	0.64	0.62	England - BoE	0.75
JAPAN	-0.16	-0.15	-0.17	-0.16	-0.15	-0.18	-0.05	-0.03	-0.07	0.54	0.55	0.53		
U.K.	0.71	0.72	0.67	0.85	0.86	0.79	1.11	1.12	1.05	1.65	1.66	1.59		
Spreads vs. U.S. (bps):														
CANADA	-74	-75	-73	-73	-74	-73	-80	-80	-80	-94	-93	-92	Euro zone - ECB	0.00
GERMANY	-291	-291	-293	-272	-271	-275	-250	-249	-253	-229	-226	-227	Japan - BoJ	-0.10
JAPAN	-250	-249	-250	-248	-246	-251	-255	-253	-257	-238	-235	-237		
U.K.	-163	-163	-167	-146	-145	-153	-140	-138	-145	-126	-125	-130		
Equities	Level						% change:							
	Last	Change		1 Day	1-wk	1-mo	1-yr							
S&P/TSX	16396	84.5		0.5	1.8	2.5	7.8							
Dow 30	26425	40.4		0.2	1.9	3.8	10.4							
S&P 500	2893	13.3		0.5	2.1	5.5	11.1							
Nasdaq	7939	46.9		0.6	2.7	7.2	14.8							
DAX	11980	-29.6		-0.2	2.6	4.6	-2.1							
FTSE	7449	2.2		0.0	1.8	4.9	3.7							
Nikkei	21762	-45.8		-0.2	1.2	3.5	0.9							
Hang Seng	30077	140.8		0.5	3.5	3.9	1.9							
CAC	5479	2.7		0.1	1.4	4.7	4.2							
Commodities	Level						% change:							
	Level		Change		1 Day	1-wk	1-mo	1-yr						
WTI Crude	63.32		0.24		0.4	2.8	12.9	2.0						
Natural Gas	2.66		0.00		0.0	-1.6	-7.0	-1.4						
Gold	1299.80		8.05		0.6	0.9	0.1	-2.5						
Silver	15.20		0.11		0.7	0.6	0.6	-6.8						
CRB Index	188.06		0.38		0.2	1.4	4.1	-2.2						
Currencies	Level						% change:							
	Level		Change		1 Day	1-wk	1-mo	1-yr						
USDCAD	1.3369		-0.0015		-0.1	0.5	-0.4	5.3						
EURUSD	1.1244		0.0028		0.2	0.3	0.1	-8.7						
USDJPY	111.46		-0.2700		-0.2	0.1	0.3	4.4						
AUDUSD	0.7107		0.0002		0.0	-0.1	0.9	-7.7						
GBPUSD	1.3046		0.0008		0.1	-0.4	0.2	-7.7						
USDCHF	1.0000		-0.0003		-0.0	0.1	-0.8	4.6						
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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