

ON DECK FOR TUESDAY, APRIL 9

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	04/09	10:00	JOLTS Job Openings (000s)	Feb	--	7550.0	7581.0
US	04/09	18:45	Clarida Speaks at Fed Listens Event in Minneapolis				

KEY POINTS:

- Global markets taking USTR actions in stride so far
- The aviation industry is not necessarily symptomatic of broader trade tensions...
 - ...as the Boeing-Airbus conflict spans three US Presidents...
 - ...and given WTO rulings against subsidies to both companies
- Fed’s Clarida to give a preview of the June strategy conference
- Mexican CPI could cross 4% again today
- US 3s auction, JOLTS
- Canada quiet

INTERNATIONAL

Global markets are taking in stride another example of US trade conflicts with the rest of the world. An otherwise relatively light calendar lies in store for today. There are two highlights worth emphasizing. **The USTR’s statement last evening that the US will introduce tariffs on US\$11 billion of EU exports to the US pending a final WTO assessment this summer is being met cautiously by global markets that are generally little changed across asset classes this morning. As argued below, the USTR actions are part of a long-running battle between the US and EU that spans three US Presidents and should not necessarily be viewed as something that is symptomatic of a broader looming US-EU trade war even if—as seems likely—it results in commensurate EU retaliation on the heels of a separate and more recent WTO ruling against Boeing.** The global aviation industry is one of the most dirtied sectors when it comes to government assistance and many countries are equally guilty. Therefore, treating it as an example of tensions across global commerce on a march toward a full-on trade war may be a leap too far.

A speech by Fed Vice Chair Richard Clarida this evening will be worth paying attention to as it may provide a sneak peek at the Fed’s latest thinking ahead of a key conference in June on potential alternative policy frameworks and communications strategies.

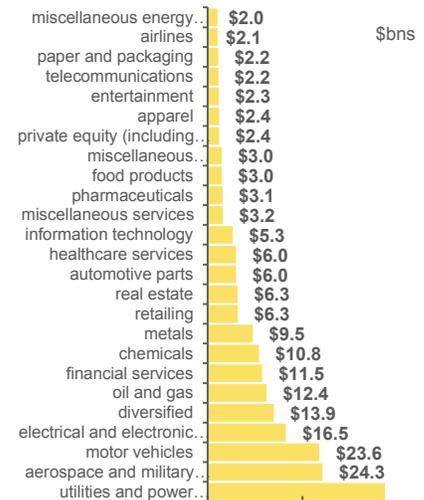
Mexico updates CPI this morning. Canadian markets should just follow the broad global market tone with an empty domestic calendar.

- US and Canadian equity futures are roughly unchanged. European cash markets are generally little changed across the FTSE, DAX and CAC40 while Madrid and Milan rally somewhat. Asian equities were also little changed on average with the only real stand-out performer being a ¾% rally in the Shenzhen exchange.

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America Also Subsidizes



Sources: Scotiabank Economics, Subsidy Tracker.

- Most currencies are slightly appreciating against the US including the yen, euro, pound sterling, CAD, A\$/NZ\$ and Mexican peso.
- Oil prices are slightly lower with WTI hanging in at US\$64.25 and Brent at US\$70.80.
- Sovereign bond yields are mostly flat across major markets. The US 10 year benchmark is parked at 2.52%.

Mexico updates CPI for March this morning (9amET). **Mexico's inflation rate could well breach the upper end of Banxico's 2–4% inflation target range** after temporarily dipping just slightly inside of the upper end in the last report.

UNITED STATES

Late yesterday, the US Trade Representative issued [this](#) statement that introduced a preliminary list ([here](#)) of US\$11 billion worth of targeted EU products listed across fourteen pages against which tariffs would apply in retaliation against EU subsidies to Boeing. The USTR once again invoked the Section 301 provision of the 1974 Trade Act that it has used to levy tariffs on China. The WTO had ruled in 2011 that the EU had given US\$18 billion in subsidized financing to Airbus over 1968 to 2006. The USTR stated it would wait until the final WTO ruling this summer that permits the US to proceed with tariffs before implementing them.

Is the USTR's action against the EU and Airbus the thin edge of the wedge ahead of a much broader trade conflict with Europe? Is the US entitled to take a unilateral approach to addressing subsidies in the aviation industry? If we take it at face value, then the USTR's stated goal "to reach an agreement with the EU to end all WTO-inconsistent subsidies to large civil aircraft" is a laudable aim. The problem is two-fold. First, the Trump administration has little to no goodwill internationally and is viewed as protectionist and so the risk of a broadening retaliatory conflict is subject to political interpretation. Further, having caused the global financial crisis and then bailed out multiple industries through taxpayer and Fed assistance, US actions to attack subsidies elsewhere are generally viewed as rather galling. Indeed, the accompanying chart provides one depiction of industry-based tallies of US government assistance. Note that this morning the EU has already vowed to retaliate against the USTR's actions.

Second, everyone's hands are extremely dirtied by many decades of state aid in one form or another to the global aviation industry and so there is no room for virtuous ideals and self-exoneration. [This](#) 2017 piece offers a round-up of the types and forms of assistance offered to the global aviation industry across manufacturers, infrastructure providers and airlines and many countries have engaged in this form of behaviour. The rise of the US aviation industry has been historically tied to the US military-industrial complex for decades.

It's nevertheless important to acknowledge that the US-EU spat is not a new one that has only emerged under the protectionist Trump administration. The conflict has been brewing for many years and formally started in 2004 when the US complained about Airbus subsidies to the WTO and the EU filed a counter-suit against Boeing's aid from Washington state. The spat has therefore been brewing under three US Presidents (Bush, Obama, Trump). In May of last year, the WTO upheld a 2016 ruling that the EU had not stopped aid to the A380 and A350 jets that flouted WTO rules. This was the ruling that paved the way for yesterday's USTR action.

There is another consideration that prompted this action by the USTR in terms of acting only just now (ie: nearly a year after the WTO ruling) and well ahead of the WTO's final assessment this summer. **Less than two weeks ago, the WTO had ruled on March 28th that the US failed to enforce a 2012 WTO order that Washington state should cease subsidizing Boeing through enormous tax breaks.** The WTO ruled that this impaired Airbus shareholders through lost sales. Place this WTO ruling in the context of Boeing's recent troubles with its 737 Max aircraft.

Also place it in the context of Boeing's failed attempt to push the USTR toward applying 292% duties on Bombardier's C-series aircraft sales into the US that the US International Trade Commission over-ruled in January of last year after the USITC unanimously (4-0) voted against Boeing's assertion that it had suffered economic damage given Boeing didn't offer a direct competitor to the C-series to begin with. **Everyone is acting in defense of their own airline industry and the US actions on the heels of the WTO ruling against Boeing are further evidence of this.**

Last, I've often pointed out in the past that Boeing tops the list in terms of efforts to track subsidies given by US governments to its companies ([here](#)). By the source's estimates, Boeing has received about US\$14.5 billion—their list tracks measures mostly since 2011—and a further US\$73.7 billion in government financing across mostly Federal but also state and local governments.

Fed Vice Chair Richard Clarida speaks tonight about “The Federal Reserve’s Review of its Monetary Policy Strategy, Tools and Communication Practices” (6:45pmET). He will speak at the latest “Fed Listens” conference this time hosted by the Minneapolis Fed.

While Clarida may address topics of nearer term considerations, he will primarily speak about the Fed’s review of its monetary policy, strategy, tools and communication practices as a prelude to the important June 4–5th meeting at the Chicago Fed on this topic. The June meeting has been promoted by Powell and FOMC members for some time now as the meeting that is expected to address whether maximum employment has been achieved, **whether alternative policy frameworks and strategies to achieving the dual mandate (e.g. price level targeting, NGDP etc) might be superior**, how to improve communications and also broader policy tools. So the expectation is that Clarida could share the Fed’s latest thinking on such matters and weigh in with his opinions. The full outline of the June agenda is available [here](#) at the link below and is full of the Fed’s heavy hitters and external academics and central bankers.

The US auctions 3s at 1pmET and releases the latest JOLTS job vacancies figure for February (10amET).

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.	2.35	2.36	2.30	2.32	2.33	2.29	2.51	2.52	2.48	2.92	2.93	2.88	Canada - BoC	1.75		
CANADA	1.62	1.61	1.56	1.60	1.60	1.55	1.73	1.73	1.66	2.00	2.00	1.95	US - Fed	2.50		
GERMANY	-0.57	-0.58	-0.61	-0.41	-0.41	-0.45	0.00	0.01	-0.05	0.64	0.64	0.60	England - BoE	0.75		
JAPAN	-0.16	-0.16	-0.16	-0.17	-0.16	-0.17	-0.05	-0.05	-0.06	0.54	0.54	0.53	Euro zone - ECB	0.00		
U.K.	0.71	0.71	0.63	0.85	0.86	0.75	1.11	1.12	1.00	1.65	1.66	1.55	Japan - BoJ	-0.10		
Spreads vs. U.S. (bps):																
CANADA	-74	-75	-75	-72	-73	-74	-78	-79	-81	-92	-92	-93	Mexico - Banxico	8.25		
GERMANY	-293	-294	-291	-272	-274	-273	-251	-252	-252	-228	-229	-228	Australia - RBA	1.50		
JAPAN	-251	-252	-246	-248	-249	-246	-256	-257	-254	-238	-239	-235	New Zealand - RBNZ	1.75		
U.K.	-165	-165	-167	-147	-147	-154	-140	-141	-147	-127	-127	-133	Next Meeting Date			
Equities	Level						% change:									
	Last			Change			1 Day		1-wk		1-mo		1-yr			
S&P/TSX	16407			11.1			0.1		1.1		2.6		7.7		Canada - BoC	
Dow 30	26341			-84.0			-0.3		0.3		3.5		9.8		US - Fed	
S&P 500	2896			3.0			0.1		1.0		5.6		10.8		England - BoE	
Nasdaq	7954			15.2			0.2		1.6		7.4		14.4		Euro zone - ECB	
DAX	11934			-29.4			-0.2		1.5		4.2		-2.7		Japan - BoJ	
FTSE	7451			-0.6			-0.0		0.8		4.9		3.6		Mexico - Banxico	
Nikkei	21803			40.9			0.2		1.4		3.7		0.6		Australia - RBA	
Hang Seng	30157			80.3			0.3		2.0		6.8		-0.2		New Zealand - RBNZ	
CAC	5473			1.6			0.0		0.9		4.6		4.0			
Commodities	Level						% change:									
WTI Crude	64.28			-0.12			-0.2		2.7		14.6		1.4		Canada - BoC	
Natural Gas	2.71			0.00			0.0		0.9		-5.5		0.6		US - Fed	
Gold	1304.71			7.23			0.6		0.9		0.5		-2.4		England - BoE	
Silver	15.14			-0.06			-0.4		0.5		0.2		-7.0		Euro zone - ECB	
CRB Index	188.75			0.04			0.0		1.3		4.5		-3.2		Japan - BoJ	
Currencies	Level						% change:									
USDCAD	1.3288			-0.0026			-0.2		-0.4		-0.8		4.7		Mexico - Banxico	
EURUSD	1.1276			0.0013			0.1		0.6		0.3		-8.5		Australia - RBA	
USDJPY	111.23			-0.2500			-0.2		-0.1		0.0		4.2		New Zealand - RBNZ	
AUDUSD	0.7148			0.0021			0.3		1.1		1.1		-7.1			
GBPUSD	1.3069			0.0008			0.1		-0.4		-0.6		-7.5			
USDCHF	0.9995			0.0006			0.1		0.2		-1.1		4.5			

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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