ON DECK FOR WEDNESDAY, APRIL 10

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	04/10	07:00	MBA Mortgage Applications (w/w)	APR 5	--	--	18.6
US	04/10	08:30	CPI (m/m)	Mar	0.4	0.4	0.2
US	04/10	08:30	CPI (y/y)	Mar	1.8	1.8	1.5
US	04/10	08:30	CPI (index)	Mar	--	254.2	252.8
US	04/10	08:30	CPI ex. Food & Energy (m/m)	Mar	0.3	0.2	0.1
US	04/10	08:30	CPI ex. Food & Energy (y/y)	Mar	2.1	2.1	2.1
US	04/10	14:00	Treasury Budget (US$ bn)	Mar	--	-181.0	-234.0
US	04/10	14:00	FOMC Meeting Minutes				

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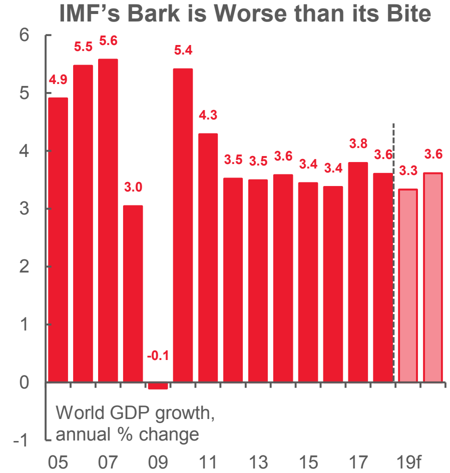
KEY POINTS:

- **Risk-on ahead of key global risks**
- **ECB statement offers no surprises…**
- **…but Draghi might yet have a few**
- **EU Summit to decide on Brexit extension today**
- **US CPI could commence headline rebound with stable core**
- **FOMC minutes: twist reference more likely than talk of easing**
- **Bullish European macro readings**
- **Krone appreciates as Norway's inflation exceeds expectations**
- **Brazil inflation rise by more than expected**
- **The IMF's sensational forecasts**



Sources: Scotiabank Economics, IMF.

INTERNATIONAL

It's risk-on across global markets so far, but the day is packed with key risks. They include the EU Summit that will decide upon a Brexit extension, Fed minutes, the ECB meeting (no change, focus on Draghi, see below) and US CPI. Overnight data was generally constructive with somewhat hawkish activity and inflation signals out of Europe.

- The USD is little changed this morning. The only real stand out performers are the Norwegian krone (CPI, see below), rand, Mexican peso, A$ and pound sterling (ahead of EU Summit). The euro is flat ahead of the ECB. So is CAD.
- Sovereign bond yields are little changed with the exception of a mildly cheaper gilts curve ahead of the EU Summit.
- US and Canadian equity futures are in the black by about ¼%. European cash markets are up by between a little (FTSE) and ½% (DAX). Asian equities were mixed between a ½% rise in Seoul and a ½% drop in the Nikkei with mainland China's exchanges generally little changed.
- Oil prices are up by 30–40 cents across the benchmarks.

The EU's emergency Summit in Brussels will decide upon whether to grant the UK a Brexit extension and how long to offer. The Summit will start at 2pmET. If no extension is granted, then hard Brexit this Friday here we come.

That's unlikely even though the EU must unanimously agree to extension. Key players are indicating support for a lengthy extension. Merkel supports "flextension" as a new entrant to the Brexit vernacular. Macron indicated support for a nearly year-long extension today and the EC now supports a "flexible extension" during which UK influence within the EU would be reduced. A long delay contrasts with UK PM May's desire for a shorter extension and that difference could make May vulnerable to shifting tides in domestic UK politics. It's entirely possible the EU is judging that since the UK can't get its act together on what it wants, give them plenty of time for lengthy options like an election or referendum and hit pause on the timer.

European factories were humming along in unison during February. Both industrial production and the manufacturing component climbed by much more than anticipated in each of the UK, France and Italy. Rebound and reflation and better choices among the 'R' words it might seem. Here's a quick recap and recall that the figures follow the already released Germany industrial output figures that climbed by 0.7% m/m with upward revisions to no growth the prior month from -0.8% previously:

- **UK:** Total industrial output was up 0.6% (0.1% consensus, 0.7% prior upwardly revised from 0.6%) and manufacturing was up 0.9% (0.2% consensus, 1.1% prior revised up from 0.8%). The annualized gain in total industrial output during Q1 is tracking 3.6%;
- **France:** Total IP climbed by 0.4% (-0.5% consensus, 1.2% prior revised down from 1.3%) and manufacturing was up 1.1% (-0.4% consensus, 0.7% prior revised down from 1.0%). The annualized gain in total industrial output during Q1 is tracking 4.9%;
- **Italy:** Total TP climbed by 0.8% (-0.8% consensus, 1.9% prior revised up from 1.7%). The annualized gain in total industrial output during Q1 is tracking 5.8%;
- In addition, UK services output climbed by 0.1% m/m (0.1% consensus, 0.3% prior) during February. The services industry's value added is tracking a 1.4% annualized rise in Q1.

An estimate of UK monthly GDP also climbed by 0.2% m/m (0.0% consensus, 0.5% prior). Brexit schmexit. This is a strong rebound from the 0.3 dip in December that was only one of two declines since the start of last year.

Notwithstanding the services, industrial and GDP figures, the trend in the UK trade deficit is tracking larger than expected. This is due to revisions as opposed to the February data. Indeed, February's trade deficit narrowed as a 0.3% gain in merchandise exports was overwhelmed by a 1% drop in imports that was primarily fed by lower oil imports.

Norway registered stronger than expected inflation in March. Headline inflation slipped by a tick to 2.9% y/y (2.8% consensus) but underlying inflation that excludes energy and tax changes climbed by a tick to 2.7% (2.5% consensus). Norges Bank had expected 2.6% underlying inflation and so at the margin the data is hawkish to central bank expectations when the central bank is already in the early stages of policy tightening. As to be expected, the krone instantly appreciated and is among this morning's stronger currency performers to the USD and other crosses.

Even after the major policy changes at the March meeting, the ECB may yet have another trick or two up its sleeves this morning. The statement (here) contained no surprises but the focus will be upon President Draghi's press conference at 8:30amET**.** Additional easing is probably unlikely. Recall that at the March 7th meeting, the ECB pushed out rate guidance to remain "at their present levels at least through the end of 2019" and introduced a fresh round of Targeted Longer-Term Refinancing Operations (TLTRO-III) that will be launched in September and end in March 2021 with two year maturities. This was a big deal to markets because of the volumes involved in past TLTRO operations.

Further technical details to the TLTROs may be offered. In addition, **the ECB may take action to address the undesirable effects of negative rates**. President Draghi's recent speech (here) hinted at potential forthcoming measures to dampen the effects of negative rates on the banking sector as a barrier to passing through the benefits to the lending cycle:

> "We will continue monitoring how banks can maintain healthy earning conditions while net interest margins are compressed. And, if necessary, we need to reflect on possible measures that can preserve the favourable implications of negative rates for the economy, while mitigating the side effects, if any. That said, low bank profitability is not an inevitable

> consequence of negative rates. ECB analysis finds that the best-performing banks in the euro area in terms of return on equity between 2009 and 2017 share three key features: they have been able to significantly reduce their cost-to-income ratios; they have embarked on large-scale investments in information technology; and they have been able to diversify their revenue sources in a low interest rate environment."

A tiering system is likely in that negative rates may no longer apply to a portion of reserves that banks hold with the ECB. The ECB can apply lessons and practices at several other central banks like the BoJ that already tier reserves. The effects could prove beneficial to the banking sector and the transmission of monetary policy effects to the economy.

Lastly, one consideration that dented yesterday's risk trade was fresh set of IMF forecasts (here). That didn't make much sense to me. First, Bloomberg has a good piece on IMF forecasts here. They note that the IMF's average forecast miss for GDP across all countries from 1999 onward has been 2% in absolute terms (ie: regardless of direction). Overall, the IMF's forecast update yesterday put forth a worse bark than bite. A new chief economist made a splash after all the controversy surrounding the last one. While headlines portrayed this year's global GDP growth to be the worst since 2009, that's a tad overly alarmist. The IMF projects 3.3% world GDP growth in 2019 and 3.5% in 2020, down two-tenths and unchanged respectively from its prior forecast. Technically it's just a tiny smidge below 2016 world GDP growth (3.4%) and we survived that! Further, to say that 2019 growth will be the weakest since 2009 is a bit overly alarmist; 2009 saw zero growth (very slight contraction in fact). We've been running 3-handled on world GDP growth for eight years including this year. Please see the accompanying chart.

I think this highly political organization is—with considerable merit—sending a message to the politicians not to mess it all up and hence the harsh headlines. Fair enough. But don't lose sight of their base case highest probability scenario which remains generally constructive. In terms of other numbers, the IMF projects the US at 2.3% in 2019 (2.5% prior) and 2.3% in 2020 (up 0.1%). Eurozone at 1.3% and 1.5% in 2019–2020, down 0.3 and 0.2 points respectively. China at 6.1% and 6.3% this year and next, up 0.1 and down 0.1 respectively. Canada 1.5% and 1.9% in '19–'20, down 0.4% and unchanged respectively.

Brazil updated inflation figures for March this morning and they came in a touch stronger than expected. **Brazilian inflation jumped from 3.9% in February to 4.6% in March. This was largely consistent with** the signals already sent by the IPCA-15 that measures price changes at the 15th day of the month and that jumped to 4.2% y/y last month.

UNITED STATES

The US updates CPI for March this morning (8:30amET). I estimate headline inflation was 1.8% y/y (1.5% prior) and core CPI inflation was unchanged at 2.1% y/y. A shift in year-ago base effects would drop the inflation rate to 1.3% y/y independent of other considerations. March is a seasonal up-month for prices and a sharp jump in gasoline prices last month could make this typical pattern for the month of March an even stronger gain. Regular unleaded gas, for example, was up 10% m/m to US$2.55 a gallon. If such expectations pan out, then it could commence the march higher in headline inflation with stabilizing core after both measures slipped over 2018H2 (see chart).

The Fed releases the minutes to its March 20th FOMC meeting today (2pmET). Recall it was a major shift for the Fed and the meeting started just 11 days after Trump called Powell to run him down and say "I guess I'm stuck with you." General references to the outlook and the year's improved market tone may be informative alongside updated perspectives on crosscurrents to the global outlook. I would particularly watch for three considerations.

First, it is possible that we hear officials saying that markets have misinterpreted the intent of their recent policy actions. Recall that the minutes to the December meeting when they were debating changes to balance sheet policy registered "several" FOMC participants who stated that slowing redemptions of Treasuries (as they did in March) "could be misinterpreted as a signal about the stance of monetary policy." To repeat this and possibly elaborate further could inform market pricing for Fed rate cuts and flirtations with inverted yield curves.

Also watch for further perspectives on how the FOMC consensus thinks about potentially twisting the curve through altering the duration of the Fed's SOMA portfolio of Treasury securities. Recall recent remarks by Philly Fed President Harker that were generally echoed by Boston Fed President Rosengren:

“We’ve made the decision on ceasing the normalization process at the end of September. But we haven’t made any decision yet on the overall long-term composition other than, I have to say, I think there’s a general consensus—I can only speak for myself—that we do want to go shorter to buy ourselves the option over time if we ever have to implement a twist-like program.”

Last is the issue of rate cuts. **I doubt the Fed will remark on the topic, but if it does, the tone of FOMC speakers on this topic has generally been more inclined to douse the idea.** For example, Dallas Fed President Kaplan said on March 29th:

“It would be premature to contemplate a rate cut here. You do want to watch the data closely. Most likely the economy will be stronger in the second quarter. You won’t know that until the July time frame. I would expect faster growth in the second half of 2019. I still think we are in reasonably good shape.”

The day before Kaplan spoke, a speech by Vice Chair Clarida basically laid out the criteria for a rate cut as driven by an external shock but without concluding that such criteria have been achieved. He noted that the Fed has eased—one way or another—during many past externally driven shocks to the global economy and markets such as the Tequila Crisis in 94–95, the Russian default and collapse of LTCM in 1998, the Eurozone recession in 2011–13 and China’s blundered devaluation in 2015. The way he ended his speech was to offer the strong inference that if current global risks evolve negatively, the Fed will likely have to ease again. His overall tone reinforced that the Fed is indeed monitoring risks like Brexit, trade tensions, perhaps US funding and debt ceiling issues and the broad tone of global data and this watch mode will be informed by events rather than trying to front-run hypotheticals with easing when the risks could easily turn out either positively or negatively.

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.	2.34	2.35	2.34	2.30	2.31	2.33	2.50	2.50	2.52	2.91	2.91	2.93
CANADA	1.60	1.60	1.59	1.59	1.59	1.58	1.72	1.73	1.71	2.01	2.01	1.99
GERMANY	-0.58	-0.58	-0.58	-0.42	-0.42	-0.41	-0.01	-0.01	0.01	0.63	0.63	0.67
JAPAN	-0.16	-0.16	-0.15	-0.17	-0.17	-0.17	-0.05	-0.05	-0.05	0.54	0.54	0.52
U.K.	0.71	0.70	0.71	0.86	0.84	0.84	1.12	1.10	1.10	1.65	1.64	1.63
	Spreads vs. U.S. (bps):											
CANADA	-73	-75	-75	-71	-71	-75	-78	-77	-82	-91	-91	-94
GERMANY	-291	-293	-292	-272	-272	-273	-251	-251	-252	-229	-229	-226
JAPAN	-250	-251	-249	-247	-247	-249	-255	-255	-257	-238	-237	-242
U.K.	-162	-165	-163	-144	-146	-149	-138	-140	-143	-126	-128	-131

Equities	Level		% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	16336	-70.8	-0.4	0.4	2.1	7.0
Dow 30	26151	-190.4	-0.7	-0.1	2.8	7.1
S&P 500	2878	-17.6	-0.6	0.4	4.9	8.3
Nasdaq	7909	-44.6	-0.6	0.8	6.8	11.5
DAX	11901	50.8	0.4	-0.4	3.9	-4.0
FTSE	7421	-4.4	-0.1	0.0	4.5	2.1
Nikkei	21688	-115.0	-0.5	-0.1	3.1	-0.5
Hang Seng	30120	-37.9	-0.1	1.7	6.7	-2.0
CAC	5453	16.7	0.3	-0.3	4.2	2.7
Commodities	Level		% change:			
WTI Crude	64.42	0.44	0.7	3.1	14.9	-1.7
Natural Gas	2.73	0.03	1.0	1.8	-4.9	2.6
Gold	1303.91	-0.15	-0.0	1.1	0.4	-2.7
Silver	15.26	0.12	0.8	1.5	0.9	-6.6
CRB Index	188.98	0.41	0.2	1.1	4.6	-4.1
Currencies	Level		% change:			
USDCAD	1.3326	-0.0004	-0.0	-0.1	-0.5	5.7
EURUSD	1.1279	0.0016	0.1	0.4	0.3	-8.7
USDJPY	111.16	0.0200	0.0	-0.3	-0.0	3.7
AUDUSD	0.7144	0.0020	0.3	0.4	1.0	-8.0
GBPUSD	1.3101	0.0049	0.4	-0.4	-0.4	-7.6
USDCHF	1.0001	0.0001	0.0	0.2	-1.0	4.5

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.