ON DECK FOR TUESDAY, APRIL 16

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	04/16	08:30	International Securities Transactions (C$ bn)	Feb	--	--	28.4
CA	04/16	08:30	Manufacturing Shipments (m/m)	Feb	-0.1	-0.1	1.0
US	04/16	09:15	Capacity Utilization (%)	Mar	79.2	79.2	79.1
US	04/16	09:15	Industrial Production (m/m)	Mar	0.2	0.2	0.0
US	04/16	09:50	ECB's Nowotny Speaks at Event in New York City				
US	04/16	10:00	NAHB Housing Market Index	Apr	--	63.0	62.0
US	04/16	14:00	Fed's Kaplan Speaks at Community Forum in New Mexico				

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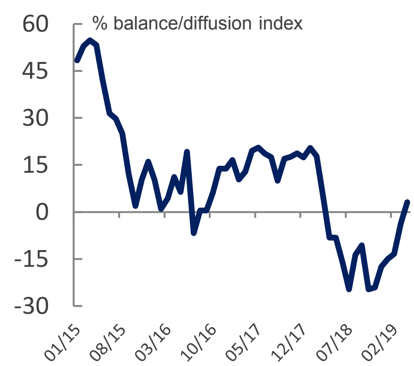
KEY POINTS:

- **Risk-on driven by US earnings**
- **US Q1 earnings beat ratio is tracking a record high so far**
- **Alberta's election results due overnight**
- **A$ drops as RBA minutes probably over-interpreted**
- **UK labour market readings offer no surprises**
- **German investor expectations improves**
- **CDN manufacturing payback?**
- **US industrial output expected to rise…**
- **…in the context of the sharp turn lower in global output and exports**
- **Argentina certainly has inflation!**
- **Chicago Fed's Evans' 'hypothetical' misinterpreted?**

German Investors Becoming More Optimistic



Sources: Scotiabank Economics, Bloomberg.

INTERNATIONAL

US earnings are buoying spirits somewhat this morning, but a risk-on bias is fairly muted. So far, the US beat ratio is at a record high (see below). German investor expectations are improving. RBA minutes were taken as dovish but appeared more neutral to me. Canadian manufacturing and US industrial production reports are on tap this morning. Alberta's election will be closely watched into overnight markets tonight.

- US equity futures are up by around ½% or slightly less across the exchanges. TSX futures are up by ¼%. European cash markets range from little changed to up by as much as 0.5% (London) and 0.7% (DAX). Asian equities rallied with HK up 1%, mainland China up by over 2% and Seoul up ¼% along with the Nikkei 225.

- The USD is flat on a DXY basis but this masks important moves across some of the crosses. In particular, the A$ is among the weakest in the wake of RBA minutes (see below). CAD is middle of the pack and unchanged ahead of manufacturing figures.

- Sovereign bond yields are little changed on average but US Treasuries are underperforming most markets. US yields are up by 1–2bps versus little change elsewhere.

- Oil prices are little changed with a slight positive bias ahead of private oil inventory figures for the US later today and tomorrow's government report.

German investor confidence saw an improvement in forward looking expectations while the assessment of current conditions deteriorated. The expectations component has continued to climb since hitting a low point in October of last year (see chart). Of the four main German confidence readings, only the ZEW has been trending higher. None of the composite PMI (due Thursday), IFO business confidence (due next week) and GfK consumer confidence metrics have improved.

The Australian dollar is the worst performing major currency cross to the USD this morning in the wake of dovish minutes to the April 1st RBA meeting (here). That might be an over-reaction. The option was discussed and the conditionality upon a rise in unemployment with no inflation that was outside of their base case. The pertinent passages are as follows:

> "The central scenario was for further gradual progress to be made on both unemployment and inflation. Given this outlook for further progress towards the Bank's goals, members agreed that there was not a strong case for a near-term adjustment in monetary policy. Members recognised that it was not possible to fine-tune outcomes and that holding monetary policy steady would enable the Bank to be a source of stability and confidence."

> "…members agreed that the likelihood of a scenario where the cash rate would need to be increased in the near term was low."

> "Members also discussed the scenario where inflation did not move any higher and unemployment trended up, noting that a decrease in the cash rate would likely be appropriate in these circumstances. They recognised that the effect on the economy of lower interest rates could be expected to be smaller than in the past, given the high level of household debt and the adjustment that was occurring in housing markets. Nevertheless, a lower level of interest rates could still be expected to support the economy through a depreciation of the exchange rate and by reducing required interest payments on borrowing, freeing up cash for other expenditure."

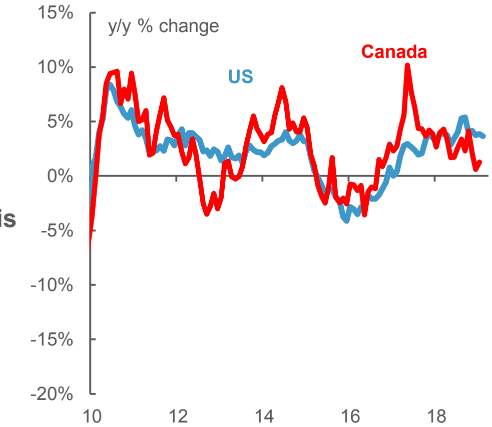
UK labour market updates for February didn't reveal much that was terribly new or particularly interesting. Wage growth was steady with the ex-bonuses measure at 3.4% y/y after an slight upward revision to 3.5% the prior month. Jobless claims were little changed at 28.3l (26.7k prior). 179,000 jobs were created in February versus three months prior.

Argentina updates CPI for March this afternoon (3pmET) and a further acceleration above 50% y/y wouldn't surprise.

UNITED STATES

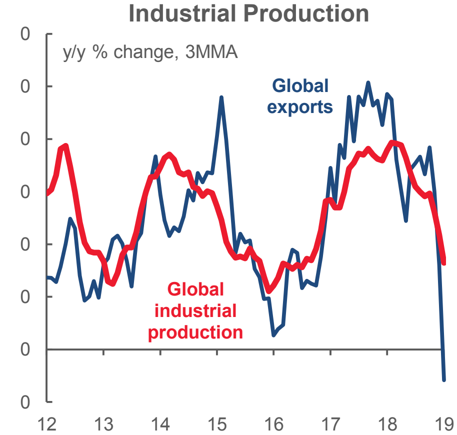
US financials reported a pair of earnings beats this morning. BlackRock posted adjusted EPS of US$6.61 (consensus US$6.13) and Bank of America registered adjusted EPS of US$0.71 (consensus US$0.66). Netflix reports in the after-market. While it's early in the earnings season, so far, 33 of 40 firms that have released have beaten analysts' estimates. **In fact, the 83% positive beats ratio is an all-time record high (see chart)**. Again, while it's early and the start of the season is skewed to financials with most nonfinancials still ahead of us, take this as tentatively positive evidence of the tone to this earning's season. That said, while it's tracking a record, a strong beat ratio has been commonplace since the dot-com period in the wake of SOX legislation and sundry other effects that have driven US equity analysts to persistently undercut earnings.

Canada-US Industrial Production



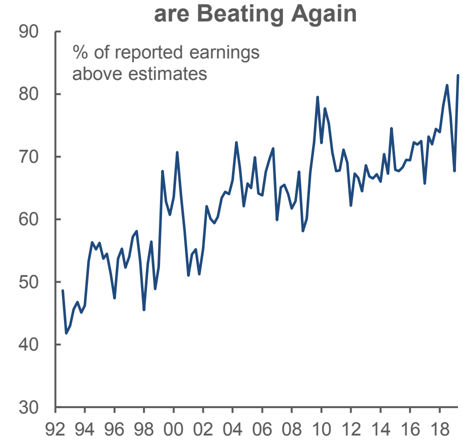
Sources: Scotiabank Economics, Statistics Canada, US Federal Reserve.

World Trade Volumes & Industrial Production



Sources: Scotiabank Economics, Netherlands Bureau for Economic Policy Analysis.

2019Q1 US Earnings are Beating Again



Sources: Scotiabank Economics, Bloomberg.

US industrial output is due out this morning (9:15amET) and another small gain with a manufacturing assist is expected. Industrial output has been unchanged for the past four months. At the global level, the picture shown in the accompanying chart is unflattering to say the least. While conditions may be stabilizing in the context of an expected improvement, the pace of weakening in global industrial output and global exports into January of this year has been disconcerting (see chart). The US administration's protectionist measures and their dampening influences upon global trade have played a major role.

Fed officials have to be increasingly careful about being baited by reporters into providing truisms when responding to hypothetical questions. Perhaps the stock answer should be "We don't deal in endless hypotheticals" and move on. When Chicago Fed President Charles Evans was asked yesterday whether there any circumstances under which he could see a rate cut, Evans understandably answered "I think the answer has to be yes. It depends on what the scenario is." That's perfectly reasonable, except in current circumstances when newswires are being a tad opportunistic. Headlines and the morning financial news radio spun it as if Fed officials are possibly leaning toward a rate cut. I'm not sure the information value to Evans' remark is appreciably different from zero. He goes on to say if inflation goes below 1.5% then maybe cut but "I don't expect that to be the case, but hypothetically speaking, that would be an argument."

Further, I read Evans' speech yesterday (here) and while it was a good one, I think the comments were more nuanced toward relaxing the inflation target if not downright debatable than the headlines offered. To take his remark at face value says who cares if core gets up to 2.5%, don't do anything. That's not quite what he's saying. He lays down criteria for this:

> "To fix this problem, I think the Fed must be willing to embrace inflation modestly above 2 percent 50 percent of the time. Indeed, I would communicate comfort with core inflation rates of 2–1/2 percent, as long as there is no obvious upward momentum and the path back toward 2 percent can be well managed. Importantly, we should follow these words with actions and implement policies consistent with these communications."

It's not clear this isn't how the Fed thought it was behaving last year. Tightening was partly geared toward sterilizing stimulus at exhausted capacity. The implied concern was that inflation was indeed going to overshoot the 2% goal if they didn't act. In fact, even with their assumed policy tightening path, the SEP this time last year still had core inflation rising to 2.1% y/y in 2019 and 2020 even after incorporating the FOMC consensus for a projected rise in the policy rate to 3.5% by next year (100bps higher than now). A lot happened since, but it's not clear to me they didn't have Evans' framework in their heads this time last year before circumstances shifted and policy changed (ie: they feared inflation getting really out of hand). At risk is whether the doves are not controlling for the various shocks to the outlook and instead assuming they can never forecast inflation and should just wait until they see it which to me seems to be an overshoot in the opposite direction.

Further, think about the implications here. Evans is saying "we should follow these words with actions and implement policies consistent with these communications." So then, should the Fed dramatically ease now to get an inflation overshoot? Then we'd repeat the boom-bust stuff that the Fed has always succumbed to. They'd shoot their bullets off now, overheat to get to 2.5% inflation or more, and then do what on the slippery slope downward in the aftermath? Just when you need it the Fed's prime conventional tool could be largely out of order.

Anyway, I can't help but think this is the sort of thinking that more often than not got the Fed to drop its guard toward inflation at precisely the wrong time.

CANADA

Canada updates manufacturing shipments for February this morning (8:30amET). I've pencilled in -0.1% m/m for the value of shipments after a large 1% rise the prior month. Consensus runs from a decline of -0.7% to a rise of 0.4% with no clear clustering of estimates. In general, some payback for the prior month's rise wouldn't be a surprise. New orders fell 11.9% m/m the prior month and unfilled orders fell by 1.0% which may indicate waning momentum. At present, I'm tracking a GDP rise of 0.1–0.2% m/m in February after the 0.3% gain in January. Assuming March comes in flat just to focus upon the effects of what we know thus far, Q1 GDP is tracking a rise of about 1½%. A comparison of growth in broad Canadian industrial output to US industrial output is shown in the accompanying chart in year-ago terms.

Alberta's election is today. The polls close at 8pm mountain time, or 10pmET tonight. All ballots have to be counted by hand including the over half million advance voters (about double the 2015 election). This time around the advance voters could vote for their riding's candidate from anywhere in the province which may complicate the vote counting. Those who voted in advance from outside of their riding represent about one-third of all advance voters and they won't be counted until Wednesday which could be dicey for any close ridings. The CBC's poll tracker (here) shows the United Conservatives Party (UCP, the combination of the PC and Wildrose parties) at 46.9% of the vote ahead of the NDP at 38.4% and they translate this into a 54–70 seat projection for the UCP and 17–32 for the NDP. See the Canadian section of the week ahead for more on Alberta's election.

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.	2.40	2.39	2.35	2.39	2.37	2.31	2.57	2.56	2.50	2.98	2.97	2.91
CANADA	1.62	1.61	1.60	1.62	1.61	1.59	1.76	1.75	1.73	2.06	2.06	2.01
GERMANY	-0.57	-0.56	-0.58	-0.38	-0.37	-0.42	0.06	0.06	-0.01	0.72	0.72	0.63
JAPAN	-0.15	-0.16	-0.16	-0.14	-0.16	-0.17	-0.02	-0.03	-0.05	0.55	0.56	0.54
U.K.	0.80	0.79	0.70	0.94	0.94	0.84	1.22	1.22	1.10	1.73	1.73	1.64
	Spreads vs. U.S. (bps):											
CANADA	-79	-79	-75	-77	-76	-71	-81	-80	-77	-92	-91	-91
GERMANY	-297	-295	-293	-276	-275	-272	-251	-250	-251	-227	-225	-229
JAPAN	-255	-255	-251	-253	-253	-247	-259	-258	-255	-244	-241	-237
U.K.	-160	-160	-165	-145	-143	-146	-135	-134	-140	-126	-124	-128

Equities	Level		% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	16515	34.9	0.2	0.7	2.3	7.9
Dow 30	26385	-27.5	-0.1	0.2	2.1	7.4
S&P 500	2906	-1.8	-0.1	0.3	2.9	8.5
Nasdaq	7976	-8.2	-0.1	0.3	3.7	11.5
DAX	12109	88.7	0.7	2.2	3.6	-2.3
FTSE	7475	37.7	0.5	0.7	3.4	3.8
Nikkei	22222	52.5	0.2	1.9	3.6	1.8
Hang Seng	30130	319.1	1.1	-0.1	3.9	-0.6
CAC	5518	9.2	0.2	1.5	2.1	3.9
Commodities	**Level**		**% change:**			
WTI Crude	63.69	0.29	0.5	-0.5	8.8	-3.8
Natural Gas	2.59	-0.00	-0.1	-4.1	-7.4	-6.0
Gold	1284.72	-3.20	-0.2	-1.5	-1.4	-4.6
Silver	14.94	-0.13	-0.9	-1.4	-2.7	-9.5
CRB Index	187.21	-0.21	-0.1	-0.7	1.8	-6.2
Currencies	**Level**		**% change:**			
USDCAD	1.3369	0.0002	0.0	0.3	0.3	6.4
EURUSD	1.1304	0.0000	0.0	0.4	-0.3	-8.7
USDJPY	111.98	-0.0600	-0.1	0.8	0.5	4.5
AUDUSD	0.7169	-0.0004	-0.1	0.6	0.9	-7.9
GBPUSD	1.3081	-0.0019	-0.1	0.2	-1.3	-8.8
USDCHF	1.0060	0.0019	0.2	0.6	0.5	4.8

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	Jun 06, 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.