GLOBAL ECONOMICS
| DAILY POINTS

April 17, 2019 @ *8:05 EST*

ON DECK FOR WEDNESDAY, APRIL 17

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	04/17	07:00	MBA Mortgage Applications (w/w)	APR 12	--	--	-5.6
CA	04/17	08:30	CPI, All items (m/m)	Mar	0.7	0.7	0.7
CA	04/17	08:30	CPI, All items (y/y)	Mar	1.9	1.9	1.5
CA	04/17	08:30	CPI, All items (index)	Mar	--	135.4	134.5
CA	04/17	08:30	Core CPI - Common (y/y)	Mar	--	1.8	1.8
CA	04/17	08:30	Core CPI - Median (y/y)	Mar	--	1.8	1.8
CA	04/17	08:30	Core CPI - Trim (y/y)	Mar	--	1.8	1.9
CA	04/17	08:30	Merchandise Trade Balance (C$ bn)	Feb	-4.0	-3.3	-4.2
US	04/17	08:30	Trade Balance (US$ bn)	Feb	-54.2	-53.4	-51.1
US	04/17	10:00	Wholesale Inventories (m/m)	Feb	--	0.3	1.2
US	04/17	12:30	Fed's Harker Speaks on the Economic Outlook				
US	04/17	12:45	Fed's Bullard Speaks at Hyman Minsky Conference				
US	04/17	14:00	U.S. Federal Reserve Releases Beige Book				
US	04/17	17:30	New York Fed's Logan Speaks at Money Marketeeers of New York				

KEY POINTS:

- **Risk appetite fed by Chinese macro reports, US earnings**
- **China's winning the trade war with the US**
- **CDN CPI: headline and core convergence just beneath 2%?**
- **US bank earnings continue to beat**
- **China Q1 GDP beats expectations…**
- **…but more important is the way the economy exited Q1…**
- **…with higher frequency readings beating expectations…**
- **…and that could set up a favourable Q2**
- **Canadian exports may be challenged to uphold prior gain**
- **US trade figures, Fed-speak on tap**
- **UK CPI unchanged**
- **RBNZ rate cut expectations fanned by NZ CPI**
- **After the UCP victory, the hard part now begins for Alberta**

INTERNATIONAL

US earnings and China are combining to fan some of the global risk trade in a positive manner this morning. The upside is fairly limited, perhaps in part because what's good for the global economy and stocks isn't necessarily so good for how markets had been pricing rate cut expectations that have further room to be unwound in my view. Chinese macro indicators surprised slightly to the upside of expectations (see below) and a decent case can be made for how the country is arguably winning the trade war with the US. The incremental focus this morning will be upon Canadian CPI that could see headline and core converge toward the BoC's 2% target on the path to next week's decision and MPR, but perhaps for reasons that wouldn't fuss the BoC, like gas prices, base effects and seasonal price swings. UK CPI was unexpectedly unchanged (see below). RBNZ rate cut expectations were fanned by NZ inflation (see below). The US and Canada update trade figures this morning. The easy part in terms of Alberta's election has been achieved with an expected UCP victory, but now the hard part of twisting arms in Ottawa and across the provinces on energy policy begins.

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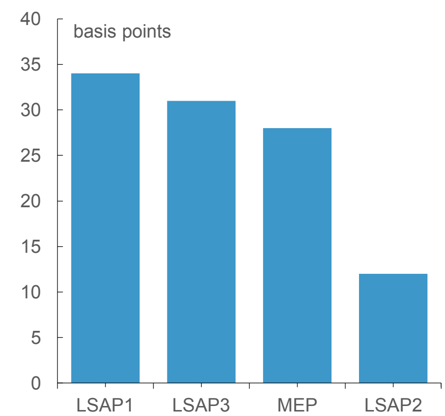
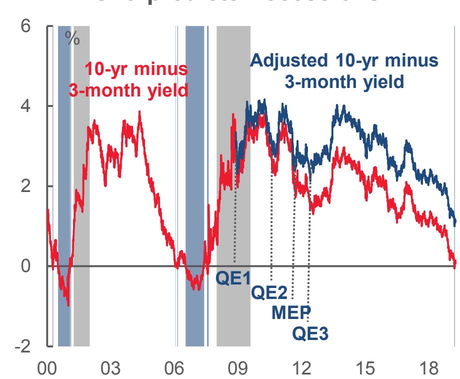
Impact on 10-year Treasury Yield from Fed's Purchase Programs



Sources: Scotiabank Economics.

US Yield Curve Inversion Overpredicts Recessions



Sources: Scotiabank Economics, Bloomberg. Grey bars indicate NBER recession. Blue bars indicate periods of yield curve inversion

- The USD is slightly weaker on a DXY basis and both the yen and Swiss franc are also exhibiting less safe haven demand. CAD is vulnerable into CPI. The NZ$ is underperforming on rate cut expectations.

- Sovereign bond yields are under mild upward pressure. The US 10 year yield is now at 2.6%, up from a low of 2.37% on March 27th. Canadian bonds are underperforming Treasuries. European 10s are up by 1–3bps. **The first two accompanying charts make adjustments to the slope of the US yield curve by factoring in estimates drawn from the literature on the effects of QE policies**. A general consensus is that the cumulative influences of QE policies lowered by Treasury term premium by about a full percentage point. As this effect is gradually factored in according to estimates of the QE1–3 effects by stage of influences, the end result is that the curve isn't inverted at all. I still think this is a very important point in terms of efforts to misleadingly use the slope of the curve as a recession predictor today relative to past signals.

- Oil prices are benefitting from the one-two punch of tighter private US oil inventories reported late yesterday ahead of this morning's government report (10:30amET) and decent Chinese macro data. WTI and Brent are up by about 35 cents each.

- US equity futures are up by about ¼% on average across exchanges with TSX futures slightly higher. European cash markets range from slight softness in London to a gain of about ¼% on average across other regional exchanges. Chinese stocks were up by between ¼% (Shanghai) and ¾% (Shenzhen) overnight.

China's economy modestly outperformed expectations through a variety of readings that were released overnight. The most important takeaway is that not only did Q1 GDP come in a touch stronger than expected and stronger than once feared, the higher frequency readings suggest that the economy exited Q1 on sound footings which could set up a better Q2 for broad GDP growth.

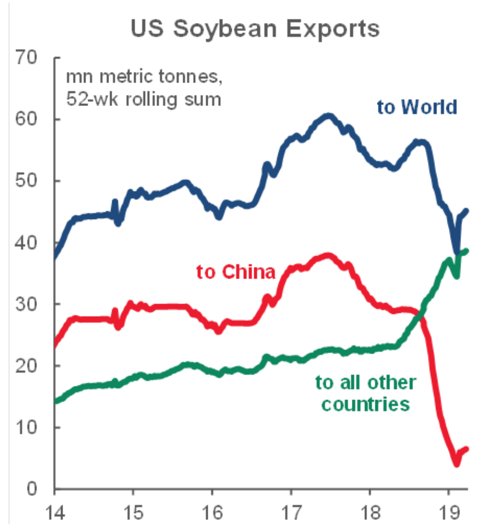
- **GDP:** Q1 growth of 6.4% y/y was a tick higher than consensus and unchanged from the prior quarter. In quarter-ago terms that are seasonally adjusted but non-annualized, growth was 1.4% which is the softest since 2016Q1. Still, by most countries' standards, GDP growth is remarkably stable in China and never revised!

- **Retail sales:** Growth accelerated to 8.7% y/y (8.4% prior, 8.2% prior));

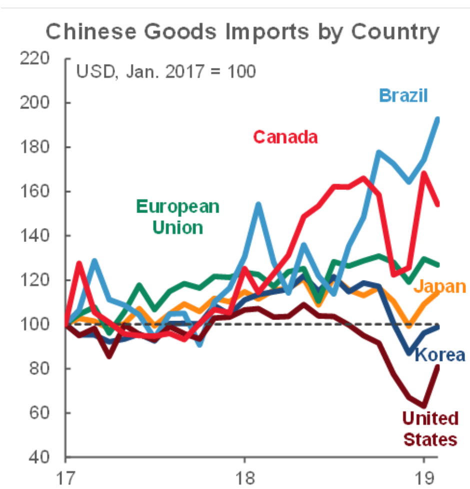
- **Industrial output:** Growth picked up to 8.5% (5.9% consensus, 5.7% prior).

UK inflation was unexpectedly unchanged last month. Headline CPI was unchanged at 1.9% y/y and core CPI was also unchanged at 1.8% y/y, both against expectations for a tick higher. That keeps core inflation around the 1.8–1.9% y/y range where it has been since last September such that at least the Bank of England isn't in the awkward position of facing rising core pressures in the face of never-ending Brexit risks. Pound sterling is underperforming most other currency pairs versus the USD this morning, but not by a lot.

Sources: Scotiabank Economics, US Customs Bureau.



Sources: Scotiabank Economics, USDA.



Sources: Scotiabank Economics, China Customs.

New Zealand's inflation rate ebbed to 1.5% y/y in Q1 (1.7% consensus, 1.9% prior). The reading further heated up expectations for a rate cut by the RBNZ. It next meets on May 7th after having adopted a dovish bias at the March 26th meeting with the remark that "the more likely direction of our next OCR move is down." Markets upped pricing for a rate cut in May to about a 50–50 call and the NZ$ is the worst performing currency pair to the USD this morning.

UNITED STATES

US earnings beats continue. Morgan Stanley posted Q1 EPS of US$1.33 which handily beat consensus expectations for US$1.17. Forty-one out of 51 S&P500 firms that have released thus far have beaten analysts' expectations.

The US calendar brings the February trade report (8:30amET) and limited Fed-speak. The Fed's Beige Book (2pmET) and three Fed officials are on tap. Philly Fed's Harker speaks on the outlook at 12:30pmET. The NY Fed's Laurie Logan (SVP, Deputy head of SOMA) speaks at 5:30pmET and keen Fed watchers will probably want to have an eye on that in light of the FOMC's quantum shift in balance sheet management at the March FOMC. St. Louis Fed President Bullard speaks again at 12:45pmET.

The interesting thing about the US trade figures these days is something that can be drawn back to China's releases in the context of keeping score over **who's winning the US-China trade war**. China's numbers are holding up in part as the yuan depreciated as an offset to US tariffs but also because China has enormous room to stimulate the economy and has exercised some of that so far. Enter the three accompanying charts. US exports to China are tumbling including China's strike at US soybean exports, while China has engaged in trade substitution away from the US to toward other trading partners. This was always one of the effects I suggested would unfold in response to a relative price change to US imports into China relative to the rest of the world. In short, thus far, the Trump administration has seriously miscalculated the consequences of picking a trade fight with China.

CANADA

Canada updates CPI and trade figures for March and February respectively this morning (8:30amET). Some payback for the prior month's strong export growth wouldn't surprise, hence expectations for little if any improvement in the nominal trade deficit. But the trade figures will likely take a distance back seat to the inflation reading.

On Canadian inflation, the March reading could see **headline inflation jump right back close to target alongside a reasonably stable core reading.** If this happens, then we would see both headline CPI and core CPI readings converge much more closely upon one another. I figure headline inflation will jump from 1.5% back to 1.9% in year-ago terms. This expectation is derived from a combination of year-ago base effect shifts, the fact that March is usually a pretty strong up-month for prices partly as new Spring product lines get rolled out, and partly due to gasoline prices. Indeed, gasoline prices are on a tear and the strong correlation between prices paid at the pump with how CPI captures gasoline points to gasoline alone adding around three-tenths to each of the month-ago CPI reading and the year-ago measure. The average of the three 'core' CPI measures should remain at 1.8%.

Alberta returned to its political roots overnight. The anomaly of a centre-left NDP government is no more. Premier-elect Jason Kenney's United Conservatives Party won 55% of the popular vote and an estimated 63 seats and therefore trounced the NDP's 40.6% and 24 seats. **Now the hard part begins by way of the new government seeking to deliver upon election promises to extract changes to energy policy** across the disparate array of influences that span the Federal government, multiple provincial governments and special interest groups.

Canada auctions 10s at 12pmET today.

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.	2.41	2.41	2.32	2.41	2.41	2.27	2.60	2.59	2.47	3.00	2.99	2.89
CANADA	1.65	1.64	1.56	1.66	1.64	1.55	1.80	1.78	1.68	2.10	2.08	1.98
GERMANY	-0.57	-0.57	-0.59	-0.36	-0.37	-0.44	0.08	0.07	-0.03	0.74	0.73	0.62
JAPAN	-0.14	-0.15	-0.16	-0.13	-0.14	-0.17	-0.01	-0.02	-0.05	0.58	0.55	0.54
U.K.	0.80	0.80	0.70	0.96	0.94	0.84	1.24	1.22	1.10	1.74	1.73	1.63

Spreads vs. U.S. (bps):

	2-YEAR Last	2-YEAR 1-day	2-YEAR 1-wk	5-YEAR Last	5-YEAR 1-day	5-YEAR 1-wk	10-YEAR Last	10-YEAR 1-day	10-YEAR 1-wk	30-YEAR Last	30-YEAR 1-day	30-YEAR 1-wk
CANADA	-77	-78	-76	-76	-77	-72	-80	-81	-79	-90	-91	-92
GERMANY	-298	-298	-291	-277	-278	-271	-252	-253	-249	-226	-226	-227
JAPAN	-256	-256	-249	-254	-255	-244	-261	-261	-252	-241	-245	-236
U.K.	-161	-162	-162	-146	-147	-143	-136	-137	-137	-126	-127	-126

Equities	Level		% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	16502	-13.3	-0.1	1.0	2.2	7.5
Dow 30	26453	67.9	0.3	1.2	2.3	6.7
S&P 500	2907	1.5	0.1	1.0	3.0	7.4
Nasdaq	8000	24.2	0.3	1.1	4.1	9.9
DAX	12137	35.6	0.3	1.9	3.9	-3.6
FTSE	7460	-10.4	-0.1	0.5	3.2	3.2
Nikkei	22278	56.3	0.3	2.7	3.9	2.0
Hang Seng	30125	-5.2	-0.0	0.0	3.8	0.2
CAC	5544	15.0	0.3	1.7	2.6	3.6

Commodities	Level		% change:			
WTI Crude	64.41	0.36	0.6	-0.3	10.1	-3.2
Natural Gas	2.58	0.00	0.1	-4.6	-7.9	-6.0
Gold	1276.44	-0.40	-0.0	-2.4	-2.0	-5.3
Silver	14.95	0.01	0.1	-2.0	-2.7	-10.0
CRB Index	187.82	0.54	0.3	-1.0	2.1	-5.8

Currencies	Level		% change:			
USDCAD	1.3338	-0.0012	-0.1	0.1	0.0	6.3
EURUSD	1.1304	0.0023	0.2	0.3	-0.3	-8.6
USDJPY	111.97	-0.0300	-0.0	0.9	0.5	4.6
AUDUSD	0.7192	0.0017	0.2	0.3	1.2	-7.4
GBPUSD	1.3052	0.0004	0.0	-0.3	-1.5	-8.7
USDCHF	1.0088	0.0008	0.1	0.6	0.7	4.4

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.