

ON DECK FOR TUESDAY, APRIL 23

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	04/23	08:30	Wholesale Trade (m/m)	Feb	--	0.1	0.6
US	04/23	10:00	New Home Sales (000s a.r.)	Mar	647.0	650.0	667.0
US	04/23	10:00	Richmond Fed Manufacturing Index	Apr	--	10.0	10.0

KEY POINTS:

- Mixed global asset classes absent a unifying theme
- PBOC may be done with RRR cuts for big banks, not smaller banks
- US new home sales: take back, or momentum?
- US Richmond gauge to fill in ISM expectations
- US earnings still beating
- CDN wholesale trade adds to slight growth expectations
- The US is still a net crude oil importer...
- ...but Canada had better get its act together quickly
- Canadian consumers: financial ruin, versus the facts on bankruptcies

INTERNATIONAL

A very quiet session is marked by mixed developments across global asset classes and no unifying theme. US earnings continue to beat expectations. A Reuters story is indicating that the **PBOC may be done with cuts to the required reserves ratio for larger banks** but not yet for smaller banks after rapidly reducing both ratios over the past year (see chart 1). Canada's wholesale figures are the final input to expectations for little GDP growth in February. US new home sales are on tap this morning. Below are assessments of the US position as a net energy importer in the wake of yesterday's Iranian waivers announcement and an update on Canadian consumer bankruptcies.

- The USD is slightly appreciating on a DXY basis and against most currency crosses.
- European sovereign bond yields are underperforming Treasuries and Canadas this morning as Europe returns from a four day long weekend and catches up to yesterday's North American rates sell-off.
- Oil is hanging onto yesterday's rally but is not really building on it in any material sense. WTI is little changed at just north of US\$ 65½ and Brent is just over US\$74. Canada Western Select rallied by over US\$2 yesterday to US\$55½.
- US and Canadian equity futures are slightly in the black across the exchanges. European cash markets are mixed with London up ½% but the rest of the continent down by a little (CAC40) to 0.7% in Madrid.

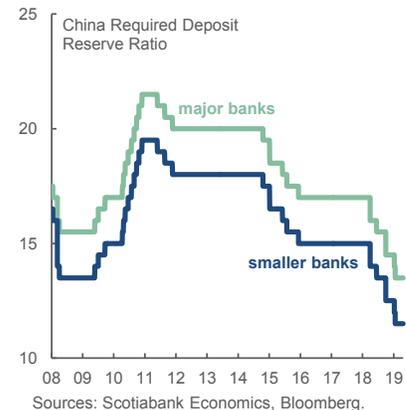
UNITED STATES

Twenty-six S&P500 firms release earnings reports today. All but six were in the pre-market with eBay the notable after-market release. Twitter, Coca-Cola, Lockheed Martin, P&G and Verizon were among the beats as only two missed

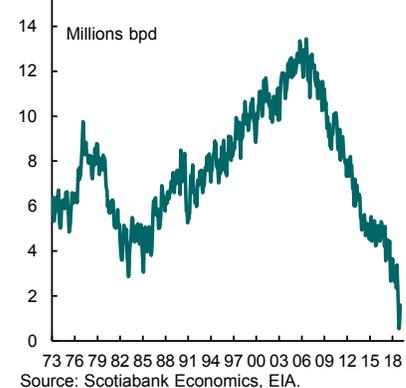
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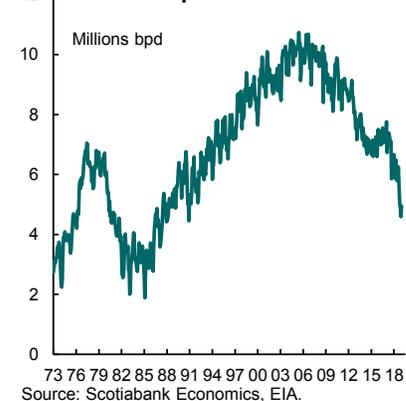
China Is Unleashing Its Banks



U.S. Net Imports of Crude Oil and Petroleum Products



U.S. Net Imports of Crude Oil



analysts' expectations. So far this season, 80 out of 102 firms have beaten EPS expectations.

Is the US a net beneficiary of higher oil prices or do they still represent a drag on the US economy? How has the shale revolution altered the balance? The answer lies in the balance of net imports of energy products into the US. Chart 2 shows the net import position of crude oil and **all** petroleum products including natural gas and other products. This balance has sharply narrowed on the combined effects of the shale revolution that has pumped out more oil but also other developments such as the sharp move toward becoming a net natural gas exporter over roughly the past 5–6 years.

Chart 3 shows the net import balance just for crude oil; it has also narrowed, but less so than the broader energy balance, and **remains in net importer territory**. In fact, the US still imports about five million barrels of crude oil per day. It's therefore incorrect to assert that higher oil prices benefit the US economy these days due to a move toward being a net oil exporter which itself isn't true.

The fourth chart shows that **falling US crude oil imports have not come at Canada's expense**. Perhaps Canadian net oil exports to the US have not grown as rapidly as they would have absent the rise of US production as a substitute for imports, but in absolute terms this substitution has hit producers other than Canada. For now, at least, and herein lies the rub: Canada had better quickly get its act together on pipelines to export to the US before it's a moot point. Getting pipeline capacity to export to Asia is yet more vital as the larger source of longer run demand versus the slower growing US economy.

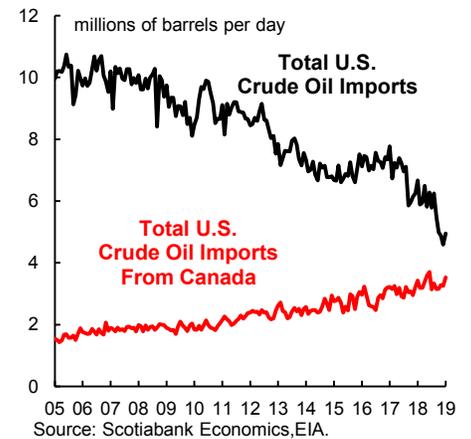
The US updates new home sales for March this morning (10amET). Some reversal of the 5% jump in February is generally expected by most within consensus, but not all. It may be feasible that improved weather, falling mortgage rates and improved markets could continue to feed a rebound from the deterioration in new home sales last Fall. Nevertheless, the Tax Cuts and Jobs Act continues to harm home buying activity because of the lowered interest deductions and SALT deduction limits. In a broader sense, homebuyer affordability is well past its best but nowhere near its worst and best characterized as mid-cycle (chart). Ditto for new home inventories that have risen over time in absolute terms but less so in terms of months' supply which expresses inventories as the number of months of sales at the current pace it would take to clear them out (chart 5).

The US also updates the **Richmond Fed's manufacturing index** (10amET) with April's estimate informing ISM-manufacturing expectations ahead of the May 1st update. We already know that the Empire gauge of manufacturing activity in New York improved, the Philly Fed's gauge deteriorated and the Markit manufacturing PMI was flat this month.

CANADA

Canada's economy is estimated to have grown by 0.1% m/m in February. GDP will arrive next Tuesday. The final input was a **0.3% m/m rise in wholesale trade volumes** this morning. As input into my simple regression model, the wholesale figure complements a 0.2% rise in retail sales volumes but contradicts a 0.7% drop in hours worked and a 0.5% drop in manufacturing shipments as domestic economy readings were mixed.

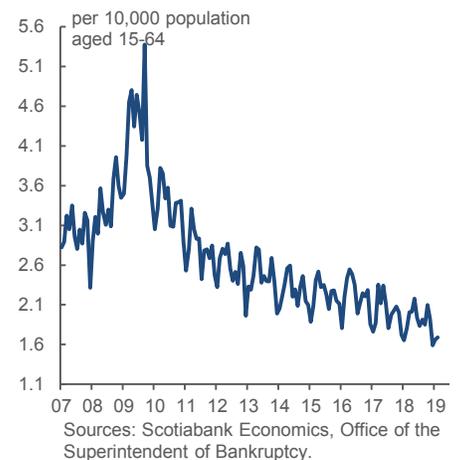
Canada Is Not Getting Squeezed In A Shrinking Market



US New Home Inventories - Higher, But Still Lean



Consumer Bankruptcies



Yet another survey of financial distress across Canadian households is being marketed by the cottage industry that benefits from promoting its bankruptcy services. Bear in mind the latest one is an on-line survey and hence it utilizes the pollster's trick of tapping into the most emotional, knee jerk and least-thought sampling approach. Gosh, maybe that's deliberate. Up pops on your smartphone a question about whether you'd like higher interest rates and whether they would be good or bad for finances. Not surprisingly, no is the answer accompanied by predictions of personal financial ruin. Who's ever heard consumers say they'd like the price of something to go up? Now, what if your wages went up by the national average? Not asked. What if that mattered more to your bottom line than what is spent on interest? Not asked. Would you have to pay that higher interest now or see it phased in as various debts get refinanced over years of income growth? Not asked. Are there other things you can do to head off personal financial ruin like tap into home equity, restructure payments, reduce other expenses, maybe alter working arrangements? Not asked. The only fact of the matter regarding how consumers are adapting to broad conditions including higher interest rates is shown in the sixth chart: consumer bankruptcies per capita are at a record low. Somehow, some way, as amazing as it may appear to be, consumers are adapting. There are strained pockets, but to paint a picture of overall financial distress is extremely misleading.

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.	2.38	2.39	2.41	2.37	2.39	2.41	2.58	2.59	2.59	2.99	2.99	2.99	Canada - BoC	1.75
CANADA	1.61	1.62	1.64	1.60	1.61	1.64	1.78	1.78	1.80	2.09	2.08	2.08	US - Fed	2.50
GERMANY	-0.58	-0.57	-0.57	-0.39	-0.39	-0.37	0.04	0.03	0.07	0.70	0.68	0.73	England - BoE	0.75
JAPAN	-0.15	-0.15	-0.15	-0.15	-0.15	-0.14	-0.03	-0.03	-0.02	0.58	0.59	0.55		
U.K.	0.78	0.77	0.80	0.93	0.91	0.94	1.22	1.20	1.22	1.73	1.71	1.73		
	Spreads vs. U.S. (bps):													
CANADA	-77	-77	-78	-77	-78	-77	-80	-80	-79	-90	-91	-91	Euro zone - ECB	0.00
GERMANY	-296	-296	-298	-276	-278	-278	-254	-256	-253	-229	-231	-226	Japan - BoJ	-0.10
JAPAN	-253	-254	-256	-252	-254	-255	-261	-262	-261	-241	-240	-245		
U.K.	-160	-162	-162	-144	-148	-147	-136	-139	-137	-126	-128	-127	Mexico - Banxico	8.25
Equities	Level						% change:							
	Last	Change			1 Day	1-wk	1-mo	1-yr						
S&P/TSX	16577	-35.5			-0.2	0.6	3.0	6.6					Australia - RBA	1.50
Dow 30	26511	-48.5			-0.2	0.4	4.0	8.4					New Zealand - RBNZ	1.75
S&P 500	2908	2.9			0.1	0.0	3.8	8.9						
Nasdaq	8015	17.2			0.2	0.4	4.9	12.4						
DAX	12205	-17.2			-0.1	1.7	3.5	-2.9						
FTSE	7493	33.0			0.4	0.8	2.3	2.2						
Nikkei	22260	41.8			0.2	0.2	2.9	0.8					Canada - BoC	Apr 24, 2019
Hang Seng	29963	-0.0			-0.0	0.2	1.7	-2.4					US - Fed	May 01, 2019
CAC	5576	-4.1			-0.1	1.3	2.8	3.4						
Commodities	Level						% change:							
WTI Crude	65.74	0.19			0.3	3.7	11.3	-4.2					England - BoE	May 02, 2019
Natural Gas	2.52	-0.00			-0.2	-2.7	-8.5	-8.1						
Gold	1268.04	-6.89			-0.5	-0.7	-3.5	-4.3					Euro zone - ECB	Jun 06, 2019
Silver	14.96	-0.05			-0.3	-1.4	-2.8	-11.7						
CRB Index	187.66	-0.27			-0.1	0.1	1.9	-6.5					Japan - BoJ	Apr 25, 2019
Currencies	Level						% change:							
USDCAD	1.3402	0.0055			0.4	0.4	-0.0	4.3					Mexico - Banxico	May 16, 2019
EURUSD	1.1215	-0.0042			-0.4	-0.6	-0.9	-8.1						
USDJPY	111.97	0.0300			0.0	-0.0	1.8	3.0					Australia - RBA	May 07, 2019
AUDUSD	0.7101	-0.0033			-0.5	-1.0	-0.2	-6.6						
GBPUSD	1.2958	-0.0024			-0.2	-0.7	-1.8	-7.0					New Zealand - RBNZ	May 07, 2019
USDCHF	1.0221	0.0067			0.7	1.4	3.0	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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