ON DECK FOR WEDNESDAY, APRIL 24

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	04/24	07:00	MBA Mortgage Applications (w/w)	APR 19	--	--	-7.3
CA	04/24	10:00	**BoC Interest Rate Announcement (%)**	**Apr 24**	**1.75**	**1.75**	**1.75**

KEY POINTS:

- **Global markets have a mild risk-off bias**
- **BoC to hold rates again…**
- **…resisting any cut bias should be mildly hawkish to market pricing…**
- **…as a pause, not a cancellation of tightened policy**
- **RBA cut pricing intensifies…**
- **…as inflation falls…**
- **…but that only meets one of the RBA's criteria for a cut**
- **European confidence softens**
- **Focus is upon US, European earnings**

INTERNATIONAL

A mild risk-off bias is in play across global asset classes but with few fresh catalysts to explain it all. European confidence figures softened slightly. Earnings are a primary focal point in Europe and the US, especially with several key US tech stocks releasing in the after-market. Weaker Australian inflation motivated intensified pricing of RBA rate cuts. The Bank of Canada's policy decision and communications will dominate much of the focus.

- The USD is broadly stronger against most crosses except for other safe havens like the yen and Swiss franc but also relative to pound sterling. CAD is depreciating ahead of the BoC, but is a middle of the pack performer relative to other majors.

- Sovereign yields are pushing lower across the major markets. The US Treasury curve is rallying by 2–3bps across maturities. Canada's curve is outperforming Treasuries somewhat. Gilts are rallying in similar fashion to Treasuries. German 10s are back to zippo and down 4bps while the rest of the EGBs landscape similarly rallies. Japan's 10 year remains near the 'about 0%' BoJ target ahead of tonight's BoJ decision.

- Oil prices are flat in terms of both Brent and WTI at US$74.5 and US$66.2 respectively.

- Global equity markets are not doing much. US and Canadian equity futures are little changed. European indices range from about a 1/2% decline in London, Madrid and Milan to a nearly 3/4% rise in the DAX. Asian equities ranged from a ¼% drop in the Nikkei 225 and bigger declines in other Japanese indices to a 1.1% rally in Shenzhen, a flat Shanghai index and a nearly 1% drop in Seoul.

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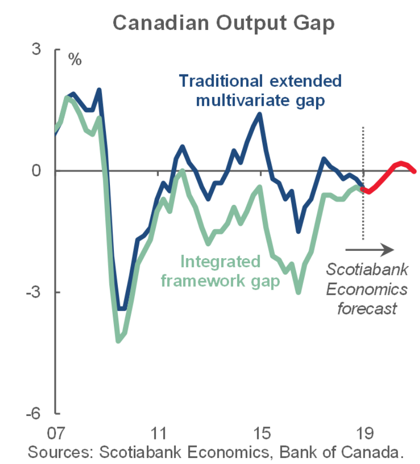

Sources: Scotiabank Economics, Bank of Canada.

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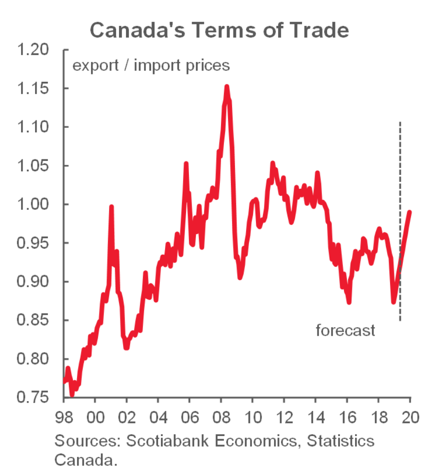


Sources: Scotiabank Economics, Statistics Canada.

Betting on a pair of RBA rate cuts this year intensified overnight in the wake of the release of Q1 CPI figures and that also dragged the A$ lower. Australian inflation eased to 1.3% y/y (1.8% prior, 1.5% consensus) which puts it significantly below the RBA's 2–3% inflation target range. The trimmed mean (1.6% y/y, 1.8% prior, 1.7% consensus) and weighted median (1.2% y/y, 1.6% prior revised down a tick, 1.6% consensus) inflation readings also fell. If it were just headline inflation that eased then the RBA may be inclined to look through it, but the fact that 'core' readings are falling is more dovish. With the cash rate now at 1.5%, OIS markets are pricing high odds of a pair of cuts this year. That said, recall the criteria for easing that the RBA laid out in the minutes to its April 1st meeting:

> "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."

Only one of those criteria is being met as the unemployment rate has held around the 5% range over the past six months or so, and job growth has been sustainably strong including 71,000 jobs created so far this year.

A set of European confidence measures generally weakened a touch this morning. Germany's IFO business confidence metric slipped a half point to 99.2 which slightly reverses the prior month's up-tick but likely signals a recent sideways trend. Both the expectations and current conditions components softened in similar fashion. French business confidence held flat in April after a slight upward revision to the prior month and has been trending a little higher this year. Within the mixture, however, French manufacturers were the least confident since mid-2016.

CANADA

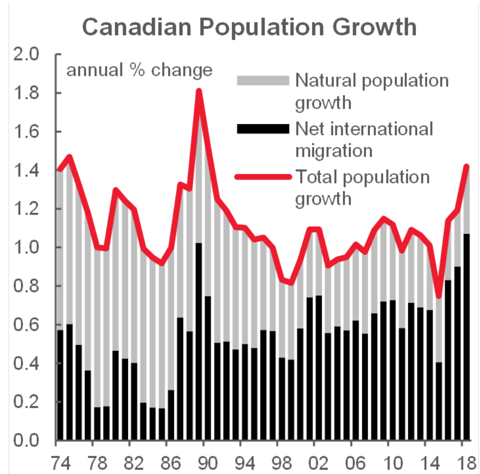
The Bank of Canada statement and Monetary Policy Report will be released at 10amET today. Governor Poloz and Senior Deputy Governor Wilkins will host a press conference at 11:15amET. All forecasts get updated in a suite of communications that will set the course of the BoC's policy apparatus and tone at least until the July MPR barring significant shocks.

If the broad package of expectations outlined below hangs together, then the message would be that there is a high bar for cuts, you don't cut with inflation on target and oil prices ripping, rates are stimulative including a positive imported bond shock, CAD is a shock absorber and we think we'll be back with hikes before markets are assuming. Charts 1–5 provide supporting portrayals of points made below including output gap forecasts, inflation being on target, the terms of trade having fully recovered along with tight Canadian oil discounts to WTI and meaningful immigration stimulus that has accelerated population growth into key housing markets. In fact, Canada hasn't seen this type of population growth—with the immigration policy shifts focused upon the economic class destined for the labour force and consumer/ housing markets—in nearly thirty years.

Fundamentally, I think Poloz's comments in his April 1st speech remain pertinent:

> "There are challenges in the Canadian and global economies that we need to manage, but there are clear signs that Canada is adjusting to the challenges. Recent economic data have been generally consistent with our expectation that the period of below-potential growth will prove to be temporary."

Sources: Scotiabank Economics, Bloomberg.



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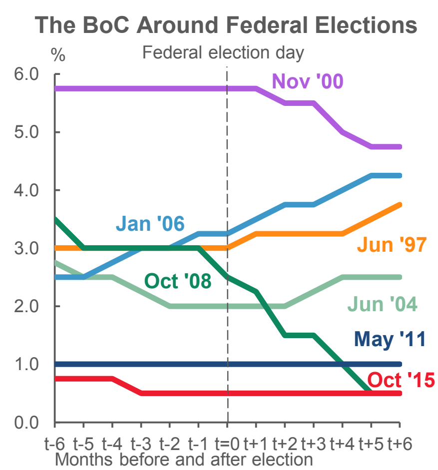

Sources: Scotiabank Economics, Bank of Canada.

So are aspects of his April 13th comments at the conclusion of the annual IMF meetings:

> "On hold for a while."
>
> "What's a while, I don't know."

What he said on those two occasions is falsely being pitted one against the other as some sort of epiphany within the two week interval that separated them, but **I don't find his comments this month to be at all inconsistent with one another.** In fact, I'd say he can repeat them all together today. You can be on hold for a while with below potential growth and greater slack than expected, but still communicate that these considerations are likely to prove temporary, still sound positive and still guide that future moves after a pause will be data dependent. I neither think he'll fan rate cuts nor put hikes on ice. Nice and neutral for now which in itself is slightly hawkish relative to markets.

It's also important to bear in mind that since Poloz spoke at the end of the IMF meetings, inflation data surprised to the upside. Have we forgotten that core inflation is bang on target? Cut talk makes no sense with inflation on target, oil prices ripping higher, the terms of trade fully recovering, and the factors that motivated a shock to growth in Q4/Q1 already turning around more favourably.

How long of a pause may be in order is the key question? Try after the election in October largely for reasons that are sensible in terms of the economics of it all. That said, recall that six months ahead of the past seven Federal elections, the BoC held three times, cut three times, and hiked once (see sixth chart). There are good explanations grounded in fundamentals for some of them (like cutting into the 2008 election!), but **the odds overwhelmingly favour staying out of election headlines** and not making the BoC a lightning rod. Also note that within six months after those same elections, pauses continued in two cases, cuts occurred twice and hikes occurred three times for a more balanced overall bias once the air had cleared on the politics. One added possible reason for this is that some elections have involved uncertainty toward the broader fiscal and regulatory policy bias and the BoC may prefer to take some time to assess potential shifts.

Overall, here are more specific expectations.

- **No rate change**, holding at 1.75%. This is unanimous across economists and market pricing.
- **Retained reference to how "the outlook continues to warrant a policy interest rate that is below its neutral range."** This is the pause clincher they introduced in the March statement.
- **Probably retain "uncertainty about the timing of future rate increases" in one form or another.** If they drop that, I'd expect alternative language to push back on cut risk including core CPI being bang on target, energy rallying and green shoots at home and abroad. Further, if they drop it, it's still very much open to returning with a hike bias conditioned by data.
- There is likely to be some emphasis upon how the terms of trade including its components like the price of oil is constructive to the outlook.
- **Neutral rate:** This will still be conveyed as a wide range because no central bankers anywhere have confidence in point estimates. They could easily leave it at 2.5–3.5% given they were referencing this range and the supporting literature as recently as Wilkins' speech in March, but the risk is obviously toward a minor ¼ point lowering of the range. Poloz will de-emphasize any changes they may make to the neutral range anyway with a shrug of his shoulders saying they simply don't know what neutral is. If they change the estimated range, look for a supporting staff piece but there have been no public signals this year to the effect that a fundamental re-think has been underway.
- **The broad bias is likely to continue to communicate a transitory soft patch from which Canada is emerging.**
- On GDP forecasts, they will **perhaps revise up Q1 from 0.8% to over 1% while leaving annual growth forecasts** very close to the 1.7% in 2019 and 2.1% in 2020 they had in January.

- **There is a temporarily greater amount of slack than previously estimated** because of factors like last Fall's oil market volatility and backward StatsCan revisions to actual GDP stretching back several years, but the output gap will close late year or early next as the economy rebounds. **That said, note that inflation marched to target even with slack in the economy** as a reminder that output gap frameworks are very loose guides to inflation forecasting at best and they depend upon the accuracy of the inputs such as potential GDP. Economists cannot forecast long-run potential GDP with much of any precision in my view. The precise drivers of long-run economic growth are uncertain and so is the ability to forecast them.
- **Core inflation could slightly soften near-term in lagging reaction to a wider gap, but stay close to and then return to 2% late year and throughout next.** Our modelling suggests 1.9% core CPI through Fall and then ticking back up to 2% thereafter and that includes our modelled pair of hikes. An augmented Philips curve estimated by Scotia's Rene Lalonde is the workhorse model behind this inflation forecast.
- **I would expect the tone to push back on cuts but I wouldn't be surprised to hear a question in the presser on whether the criteria for easing were discussed.**
- The general guidance will continue to say they don't know when they'll hike next, **it will be a data dependent decision**, and their numbers will speak for themselves in terms of the rebound with balanced discussion of risks.
- **Trade uncertainty is likely to be front and centre** in the discussion of risks with the finger pointed squarely at the Trump administration, but as a binary risk while also emphasizing how protectionism is inflationary.
- **On household finances, the arguments cut both ways.** For the BoC to signal an easing bias, they'd have to be comfortable with doing an about face on the desired target of a deleveraging debt-to-income ratio. In 2015, the BoC fanned stability risks and rapid debt growth that contributed to overshoots in some housing markets alongside the effects of the massive infusion of cash through the Federal government's child benefits stimulus. My personal view, however, longs for a more balanced bias on household finances by the BoC than has been generally communicated over time. Poloz misquoted references to bankruptcy figures at the January press conference by saying they've gone up, when they're actually at a record low in per capita terms. The BoC places emphasis upon the debt-to-income ratio that is a poor gauge in that it compares debt financed over a life cycle to a single period's income and one wouldn't use a secular trend in this variable to forecast a cycle. Debt service payments have gone up a little but around a half percentage point rise as a share of incomes doesn't derail a cycle. Debt:assets is stable and there is a ginormous amount of home equity on the household balance sheet. Higher debt is among the factors motivating lower neutral rates, but the household sector could well take 2–3 hikes over time before the BoC calls it quits in my opinion. Overall, I'd prefer to see the BoC flagging a bit more optimism toward household finances than they've tended to communicate.

For more on the BoC, see here, here, here and decks that have been distributed recently.

UNITED STATES

US markets face largely empty calendars today. A pair of auctions and ongoing earnings releases will get all of the attention.

Forty-one S&P500 firms release today with a nearly even split in the pre- and after-market periods. Some of the names include AT&T, Boeing, Caterpillar (watched for cap-ex signals), Microsoft, Facebook and Visa.

A 2 year FRN auction (11:30amET) and a 5 year Treasury auction (1pmET) are on tap.

Fixed Income — Government Yield Curves (%):

	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
U.S.	2.33	2.36	2.40	2.33	2.36	2.40	2.54	2.57	2.59	2.96	2.98	3.00
CANADA	1.54	1.57	1.66	1.52	1.56	1.66	1.71	1.75	1.82	2.02	2.05	2.09
GERMANY	-0.58	-0.57	-0.57	-0.41	-0.39	-0.36	0.00	0.04	0.08	0.65	0.69	0.74
JAPAN	-0.15	-0.15	-0.14	-0.15	-0.15	-0.13	-0.04	-0.03	-0.01	0.57	0.58	0.58
U.K.	0.75	0.79	0.79	0.90	0.94	0.95	1.19	1.23	1.24	1.71	1.74	1.74
Spreads vs. U.S. (bps):												
CANADA	-79	-80	-74	-80	-80	-74	-83	-82	-78	-94	-93	-91
GERMANY	-291	-294	-297	-274	-275	-277	-253	-252	-251	-231	-229	-226
JAPAN	-248	-251	-254	-248	-251	-253	-257	-259	-260	-239	-241	-241
U.K.	-158	-157	-162	-143	-142	-146	-135	-134	-136	-125	-124	-125

Equities	Level: Last	Level: Change	% change: 1 Day	1-wk	1-mo	1-yr
S&P/TSX	16669	92.1	0.6	0.9	3.6	7.7
Dow 30	26656	145.3	0.5	1.0	4.5	11.0
S&P 500	2934	25.7	0.9	1.0	4.7	11.4
Nasdaq	8121	105.6	1.3	1.8	6.3	15.9
DAX	12314	78.3	0.6	2.4	8.4	-1.9
FTSE	7485	-37.8	-0.5	0.7	3.9	0.8
Nikkei	22200	-59.7	-0.3	-0.3	2.6	-0.4
Hang Seng	29806	-157.4	-0.5	-0.0	2.4	-2.7
CAC	5576	-15.5	-0.3	1.2	5.8	2.4
Commodities						
WTI Crude	66.21	-0.09	-0.1	3.4	12.1	-2.2
Natural Gas	2.48	0.03	1.1	-3.5	-9.9	-10.8
Gold	1273.45	1.01	0.1	-0.0	-3.1	-4.3
Silver	14.98	0.02	0.1	0.2	-3.1	-11.6
CRB Index	187.48	-0.11	-0.1	0.1	1.8	-6.3
Currencies						
USDCAD	1.3449	0.0026	0.2	0.8	0.3	4.8
EURUSD	1.1210	-0.0017	-0.2	-0.8	-0.9	-8.4
USDJPY	111.81	-0.0500	-0.0	-0.2	1.7	2.7
AUDUSD	0.7044	-0.0058	-0.8	-1.9	-1.0	-7.4
GBPUSD	1.2955	0.0017	0.1	-0.7	-1.8	-7.3
USDCHF	1.0183	-0.0020	-0.2	0.8	2.6	4.0

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.