

**ON DECK FOR MONDAY, MAY 6**

| Country | Date  | Time  | Indicator                | Period | BNS | Consensus | Latest |
|---------|-------|-------|--------------------------|--------|-----|-----------|--------|
| CA      | 05/06 | 01:45 | BoC's Poloz on mortgages | --     | --  | --        | --     |

**KEY POINTS:**

- Risk-off, thanks to Trump
- Trump does an about face on US-China trade in just 48 hours...
- ...but may well be just blowing off steam...
- ...with eyes on whether China's negotiators will still travel to US this week
- Trump's premise that tariffs don't cause pain is plain wrong
- BoC's Poloz to speak about Canada's mortgage market today
- China's final round of PMIs reinforce underlying improvement
- China cuts RRR for some of its smaller banks
- Indonesian rupiah ignores GDP
- Final European PMIs, retail sales
- London, Tokyo shut
- Global Week Ahead

Please see the Global Week Ahead [here](#). Key risks this week will include:

**Risk Dashboard**

- US-China trade talks
- CBs: RBA, RBNZ, Norges...
- ....BSP, Negara, Thailand...
- ...BCB, Chile, Colombia
- CPI: US, China, Norway...
- ...Mexico, Colombia, Chile, Brazil
- BoC's Poloz on mortgages
- CDN macro: jobs, trade, housing
- US macro: trade, PPI
- China PMIs, reserves, trade, financing
- UK GDP
- European macro

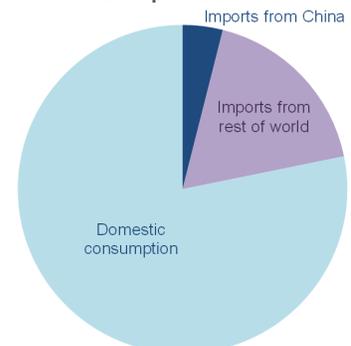
**INTERNATIONAL**

Trade tensions between the US and China are driving a significant global risk-off session to start the week. Blame Trump as his total about face from Friday to yesterday's tweet is hammering stocks. London and Tokyo are out for holidays which don't help market liquidity. BoC Governor Poloz will speak on the mortgage market this afternoon (see below). Other developments are light including the final round of Chinese private PMIs, limited Eurozone data and Indonesian GDP (see below).

- The USD is slightly appreciating this morning along with the yen. The euro is flat against the dollar. Commodity related crosses like CAD and the A\$ are

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**US Consumption: Domestic vs. Import Sources**


Sources: Scotiabank Economics, US Census Bureau.

depreciating with the A\$ also looking ahead to the RBA tonight. The offshore yuan fell ¼% overnight from 6.73 to the USD on Friday to 6.78. The onshore RMB depreciated by less (-0.45%).

- Sovereign bond yields are falling primarily in the US and Canada. US 10 year Ts are down 4bps with Canadas performing similarly but Canada's front-end is underperforming the US.
- US equity futures are down by 1.5–2% across the exchanges with TSX futures down 1%. European cash markets are 1.4–2% lower. Mainland China fell by 5 ½% (Shanghai) to 7 ½% (Shenzhen).
- Oil prices are lower, but generally clawing back much of the initial sell-off overnight. WTI is now 50 cents lower with Brent down 40 cents. WTI was down US\$1.8 at its worst overnight.

Beyond Trump's tweets, other global developments are pretty light to start the week.

**China released the final two of three private sector versions of its purchasing managers' indices** and they offered little new information. The private composite PMI slipped by two-tenths to 52.7 which was a very light take back on the surge from 50.7 in February to 52.9 in March. What this says is that the impact of the Lunar New Year's shifting timing didn't explain the improvement in March if it was mostly retained thereafter, versus more fundamental signs of stabilization.

**China took a token measure toward easing lending conditions overnight** by reduced the required reserve ratio applied to small banks serving local markets. This is not a broad reduction in the all small banks' required reserve ratio that has been previously reduced (see chart). It's unclear what RRR rate applied to the targeted segment, but it's a relatively small step.

**The final version of the Eurozone composite PMI ticked up by two-tenths** to 51.5 after incorporating releases from Spain and Italy this morning. Eurozone retail sales were flat in March (consensus -0.1%) and the prior month's gain was revised up a tick to 0.5% m/m for an overall mild net beat on the report.

**Indonesia's Q1 GDP growth held at 5.1% y/y**, down only a tick from 2018Q4. The rupiah depreciated overnight but on Trump's tweet as it shook off GDP.

## CANADA

**Bank of Canada Governor Poloz speaks this afternoon about "The future of Canada's mortgage market."** His comments will be released at 1:45pmET. A press conference will be held at 3:30pmET. Please see the discussion in the Canada section of the Global Week Ahead [here](#). In general, **watch for three main things**: a) how Poloz views progress toward stabilizing the housing market which is likely to sound constructive; b) how he views developments in mortgage market metrics from a safety and soundness vantage point in keeping with the BoC's risk management focus and this is also likely to sound positive; and c) potentially specific comments applied to the debate over whether to ease up on the B20 mortgage stress test. While it's OSFI's call, I would expect Poloz to push back on such demands either in his speech or the press conference or both.

## UNITED STATES

At the heart of China's dilemma is clearly how to separate President Trump from the rest of his administration in terms of who is most likely to steer the end game toward a trade agreement. I would hope that China retains its commitment to send a delegation to Washington this Wednesday to continue trade negotiations rather than let emotions guide outcomes. How unstable Trump's thinking is shines through in the **about face he did between Friday and Sunday on the prospects for a deal with China**. Recall that on Friday he remarked the following:

"The deal itself is going along pretty well. I would even say very well. We'll see what happens over the next couple of weeks. But we're getting close to a very historic, monumental deal. And if it doesn't happen, we'll be fine too. Maybe even better."

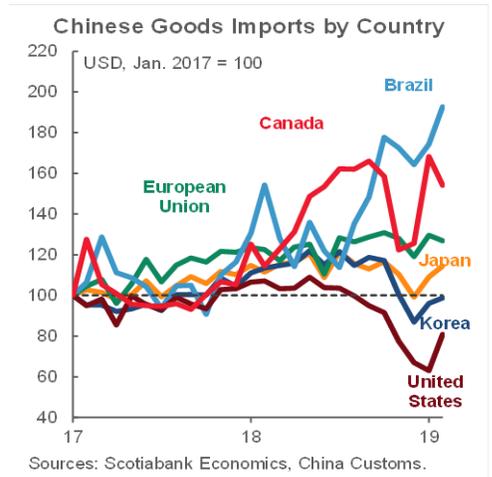
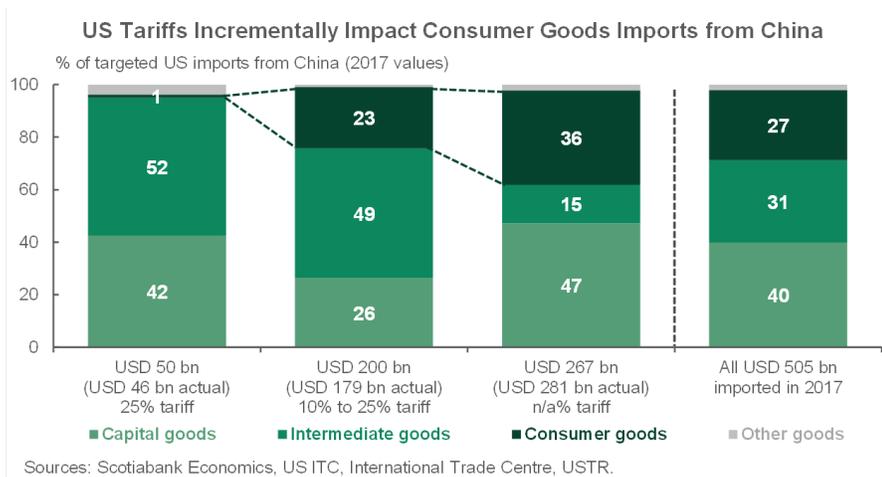
Then yesterday he tweeted:

"For 10 months, China has been paying Tariffs to the USA of 25% on 50 Billion Dollars of High Tech, and 10% on 200 Billion Dollars of other goods. These payments are partially responsible for our great economic results. The 10% will go up to 25% on Friday. 325 Billions Dollars of additional goods sent to us by China remain untaxed, but will be shortly, at a

rate of 25%. The Tariffs paid to the USA have had little impact on product cost, mostly borne by China. The Trade Deal with China continues, but too slowly, as they attempt to renegotiate. No!”

**The USTR would likely have to issue formal notices of intent to levy tariffs in advance of Friday and there are no signs this movement is afoot.** In fact I wouldn't be the least bit surprised if everyone else in the administration was caught off guard by Trump's tweet and now there is a rush to the Oval Office to calm Trump down. The premise that Trump needs trade policy victories into the election year remains intact since he likely won't get the CUSMA/NAFTA 2.0 agreement passed and implemented before the election and China is in doubt.

Trump's premise that tariffs works without causing pain for the US economy is just plain false. It's true there is little impact upon broad inflation thus far and for four reasons. One is that the US imports relatively little of its total consumer spending from China (chart 1). Second is that the tariffs applied on Chinese imports to the US have been applied against capital goods and intermediate inputs more so than finished consumer goods (chart 2). Third is that the US is at a stronger level following last year's appreciation in part due to its role as a shelter in the trade storm and this puts a lid on price pressures. Fourth is that complicated incidence effects could also explain why the US earnings season is seeing weaker profit levels. Tariff proceeds are flowing to the US Treasury and in classic mercantilist fashion Trump thinks that's evidence they are working, even if in the end this only means that wealth is not being created, it is being diverted from shareholders, consumers and workers and destroyed through creating uncertainty and deadweight costs.



Nevertheless, China is substituting away from US imports and thus shutting US businesses out of its market (chart 3) in a clear sign that trade diversion can push the riches elsewhere. This is particularly apparent in China's strategic wallop delivered to US soybean producers within Trump's base (chart 4). The overall effect is that US exports to China are falling more rapidly in percentage terms than US imports from China (chart 5). At the broad global macro level, the instability in global trade policy that is the fault of the US administration is causing definite weakness in global exports and industrial output (chart 6).



| 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.                    | 2.29                         | 2.33  | 2.29  | 2.28    | 2.32  | 2.31  | 2.49      | 2.53  | 2.53  | 2.89      | 2.92  | 2.96          | Canada - BoC       | 1.75         |
| CANADA                  | 1.62                         | 1.64  | 1.56  | 1.60    | 1.62  | 1.55  | 1.73      | 1.76  | 1.72  | 1.98      | 2.00  | 2.00          | US - Fed           | 2.50         |
| GERMANY                 | -0.59                        | -0.59 | -0.58 | -0.42   | -0.41 | -0.42 | 0.02      | 0.03  | 0.00  | 0.67      | 0.67  | 0.65          | England - BoE      | 0.75         |
| JAPAN                   | -0.15                        | -0.15 | -0.15 | -0.16   | -0.16 | -0.16 | -0.04     | -0.04 | -0.04 | 0.57      | 0.57  | 0.57          |                    |              |
| U.K.                    | 0.80                         | 0.77  | 0.73  | 0.95    | 0.92  | 0.86  | 1.22      | 1.19  | 1.14  | 1.74      | 1.70  | 1.67          |                    |              |
| Spreads vs. U.S. (bps): |                              |       |       |         |       |       |           |       |       |           |       |               |                    |              |
|                         | Level                        |       |       | Level   |       |       | % change: |       |       | % change: |       |               |                    |              |
|                         | Last                         | 1-day | 1-wk  | Last    | 1-day | 1-wk  | 1 Day     | 1-wk  | 1-mo  | 1-yr      |       |               |                    |              |
| CANADA                  | -67                          | -70   | -73   | -68     | -71   | -76   | -75       | -76   | -81   | -91       | -92   | -95           | Euro zone - ECB    | 0.00         |
| GERMANY                 | -288                         | -292  | -287  | -270    | -274  | -273  | -247      | -250  | -252  | -223      | -225  | -230          | Japan - BoJ        | -0.10        |
| JAPAN                   | -244                         | -248  | -244  | -244    | -249  | -247  | -253      | -257  | -257  | -233      | -235  | -239          |                    |              |
| U.K.                    | -150                         | -156  | -156  | -133    | -141  | -145  | -127      | -134  | -138  | -116      | -122  | -128          | Mexico - Banxico   | 8.25         |
| Equities                | Level                        |       |       | Level   |       |       | % change: |       |       | % change: |       |               |                    |              |
|                         | Last                         | 1-day | 1-wk  | Last    | 1-day | 1-wk  | 1 Day     | 1-wk  | 1-mo  | 1-yr      |       |               |                    |              |
| S&P/TSX                 | 16494                        |       |       | 83.5    |       |       | 0.5       | -0.7  | 0.6   | 4.9       |       |               | Australia - RBA    | 1.50         |
| Dow 30                  | 26505                        |       |       | 197.2   |       |       | 0.7       | -0.1  | 0.3   | 9.2       |       |               | New Zealand - RBNZ | 1.75         |
| S&P 500                 | 2946                         |       |       | 28.1    |       |       | 1.0       | 0.2   | 1.8   | 10.6      |       |               |                    |              |
| Nasdaq                  | 8164                         |       |       | 127.2   |       |       | 1.6       | 0.2   | 2.8   | 13.2      |       |               |                    |              |
| DAX                     | 12196                        |       |       | -216.4  |       |       | -1.7      | -1.0  | 1.6   | -4.9      |       |               |                    |              |
| FTSE                    | 7381                         |       |       | 29.3    |       |       | 0.4       | -0.6  | -0.9  | -2.5      |       |               |                    |              |
| Nikkei                  | 22259                        |       |       | -48.9   |       |       | -0.2      | 0.3   | 5.0   | -0.9      |       |               | Canada - BoC       | May 29, 2019 |
| Hang Seng               | 29210                        |       |       | -871.7  |       |       | -2.9      | -1.3  | -2.4  | -2.4      |       |               | US - Fed           | Jun 19, 2019 |
| CAC                     | 5448                         |       |       | -100.8  |       |       | -1.8      | -2.2  | -0.5  | -1.2      |       |               | England - BoE      | Jun 20, 2019 |
| Commodities             | Level                        |       |       | Level   |       |       | % change: |       |       | % change: |       |               |                    |              |
|                         | Last                         | 1-day | 1-wk  | Last    | 1-day | 1-wk  | 1 Day     | 1-wk  | 1-mo  | 1-yr      |       |               |                    |              |
| WTI Crude               | 61.40                        |       |       | -0.54   |       |       | -0.9      | -3.3  | -2.7  | -11.9     |       |               | Euro zone - ECB    | Jun 06, 2019 |
| Natural Gas             | 2.54                         |       |       | -0.03   |       |       | -1.0      | -2.0  | -4.6  | -6.3      |       |               | Japan - BoJ        | Jun 20, 2019 |
| Gold                    | 1278.89                      |       |       | -0.26   |       |       | -0.0      | -0.1  | -1.0  | -2.8      |       |               |                    |              |
| Silver                  | 14.66                        |       |       | -0.02   |       |       | -0.1      | -2.3  | -3.4  | -11.0     |       |               |                    |              |
| CRB Index               | 181.77                       |       |       | -0.13   |       |       | -0.1      | -1.3  | -3.2  | -10.6     |       |               |                    |              |
| Currencies              | Level                        |       |       | Level   |       |       | % change: |       |       | % change: |       |               |                    |              |
|                         | Last                         | 1-day | 1-wk  | Last    | 1-day | 1-wk  | 1 Day     | 1-wk  | 1-mo  | 1-yr      |       |               |                    |              |
| USDCAD                  | 1.3477                       |       |       | 0.0057  |       |       | 0.4       | 0.1   | 1.2   | 4.6       |       |               | Mexico - Banxico   | May 16, 2019 |
| EURUSD                  | 1.1193                       |       |       | -0.0005 |       |       | -0.0      | 0.1   | -0.6  | -6.1      |       |               | Australia - RBA    | May 07, 2019 |
| USDJPY                  | 110.92                       |       |       | -0.1800 |       |       | -0.2      | -0.7  | -0.5  | 1.7       |       |               | New Zealand - RBNZ | May 07, 2019 |
| AUDUSD                  | 0.6988                       |       |       | -0.0030 |       |       | -0.4      | -1.0  | -2.0  | -7.0      |       |               |                    |              |
| GBPUSD                  | 1.3097                       |       |       | -0.0076 |       |       | -0.6      | 1.2   | 0.3   | -3.4      |       |               |                    |              |
| USDCHF                  | 1.0188                       |       |       | 0.0022  |       |       | 0.2       | -0.1  | 2.0   | 1.6       |       |               |                    |              |

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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