

ON DECK FOR TUESDAY, MAY 7

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	05/07	07:00	Fed's Kaplan Speaks in Beijing	--	--	--	--
US	05/07	10:00	JOLTS Job Openings (000s)	Mar	--	7350	7087
US	05/07	13:00	U.S. to Sell 3-Year Notes	--	--	--	--
US	05/07	15:00	Consumer Credit (US\$ bn m/m)	Mar	--	16.0	15.2

KEY POINTS:

- Divided asset classes reflect binary near-term trade policy risk
- US-China trade talks remain on at the highest level
- RBA holds
- Bank Negara cuts
- Philippines inflation could result in a cut later this week
- German factory orders stabilize but softer than expected
- How the Fed behaves in Presidential election years
- US markets only face 3s auction, job vacancies, consumer credit
- Recap of Poloz's mortgage market speech
- Canada quiet

INTERNATIONAL

A mild risk off tone is sweeping through global assets classes again but with important exceptions as US Treasuries and the greenback aren't really budging. That US-China negotiations remain on at the highest level is positive, but markets understandably lack confidence over whether the threatened US tariffs can be averted by a successful round of talks. Asian central banks had the RBA holding as Scotia expected, Bank Negara Malaysia cutting and Philippines inflation data conducive toward easing perhaps as soon as this Thursday. German factory orders rose but on the soft side of consensus as the sole macro release. The US faces minor releases. Canada will focus upon earnings and global developments. Anonymous officials are indicating that Canada will indeed proceed with the Trans Mountain pipeline in its decision on June 18th. For a recap of yesterday's speech by Governor Poloz on Canada's mortgage market please go [here](#). Also, see below for evidence on how the Fed has conducted monetary policy in Presidential election years.

- US and Canadian equity futures are off by about ½% to ¾% with tech stocks leading decliners. European cash markets range from a small rise in Milan to a decline of 1% in London. Following Monday's blood bath, Chinese equities posted a gain of ¾% in Shanghai and 1.6% on the Shenzhen exchange. Tokyo fell by about 1½%.
- The USD is starting off pretty flat into the North American session. That masks appreciation in the A\$, won, yen and a few others versus depreciation by pound sterling, the euro, the NZ\$, Swiss franc and CAD.
- US Treasury yields are unchanged while Canada's curve rallies with the 10 year yield down 2bps. The gilts curve is outperforming most others with the 10 year yield down 5bps. European government bond yields are broadly lower by 1–4bps in 10s except for mild cheapening in Italy.

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Philippines' Sliding Inflation


Sources: Scotiabank Economics, Bloomberg.

German Factories' Plunging Order Book


Sources: Scotiabank Economics, Bloomberg.

- Oil prices are lower again with WTI and Brent both off by about 1%. Today's private industry report on US crude inventories will be closely watched ahead of the government report tomorrow. Recall that inventories climbed by the most since early November the prior week.

US-China trade negotiations remain on track with only a slight delay to earlier plans. More important is that the delegation will remain at the highest level with China's Vice Premier Liu He still committed to travelling to Washington for the next round of talks on Thursday and Friday this week. An overnight statement by China's Ministry of Commerce ([here](#)) noted the continued commitment and mentioned buzzwords like "mutual respect" and "meet each other half way" in a "win-win" agreement that continues to point to China's demand for compromise.

The RBA held its cash rate at 1.5% and repeated the same conditionality for a rate cut in that deteriorating labour markets would be required. That drove the A\$ to be the strongest appreciating cross against the USD among the majors overnight and it resulted in a sharp downgrade of OIS market probabilities for easing in the nearer term. At issue is that the RBA is witnessing materially lower inflation in the wake of the Q1 estimates, but as explained in the week ahead, that only satisfies one of the two criteria for a cut as laid out by the RBA following the April 1st meeting. The other requirement was to see an upward trend in the unemployment rate and that hasn't been happening. The UR continues to trend around the 5% mark which is the lowest since 2011–12. The RBA's statement ([here](#)) explicitly tied the conditional aspects of the decision together by noting "a further improvement in the labor market was likely to be needed for inflation to be consistent with the target." The next jobs report is one week from tomorrow. Australian job growth has been strong this year with about 71,000 jobs created so far over the first three months of 2019.

Bank Negara Malaysia, however, couldn't wait and decided to cut its overnight policy rate by 25bps to 3%. Consensus was somewhat divided on the call with 9 expecting a hold and 14 a cut. Markets were more convinced that Negara would cut and so the ringgit was unchanged overnight. The statement ([here](#)) flagged "considerable downside risks to global growth" but the overall bias had a neutral feel to it given "underlying inflation is expected to remain stable" and that in the nearer term "inflation is expected to remain low mainly due to policy measures" that are partly transitory (e.g. a price ceiling on gas prices until the middle of the year).

The Philippine peso appreciated slightly overnight more so on the back of trade optimism than inflation. Inflation in April slipped to 3.0% (3.3% prior) and core CPI also fell to 3.4% (3.5% prior). Bangko Sentral ng Pilipinas targets 2–4% inflation and so the figures remain within the zone and above the mid-point. At the margin, the deceleration in core inflation from a peak of 5.1% in November of last year to 3.4% now (see chart) is directionally in keeping with Governor Diokno's guidance that "it's just a matter of timing. We can cut policy rates and reduce RRR." **Consensus is divided on how soon a cut may be delivered with a slight margin in favour of easing in the decision pending this Thursday.**

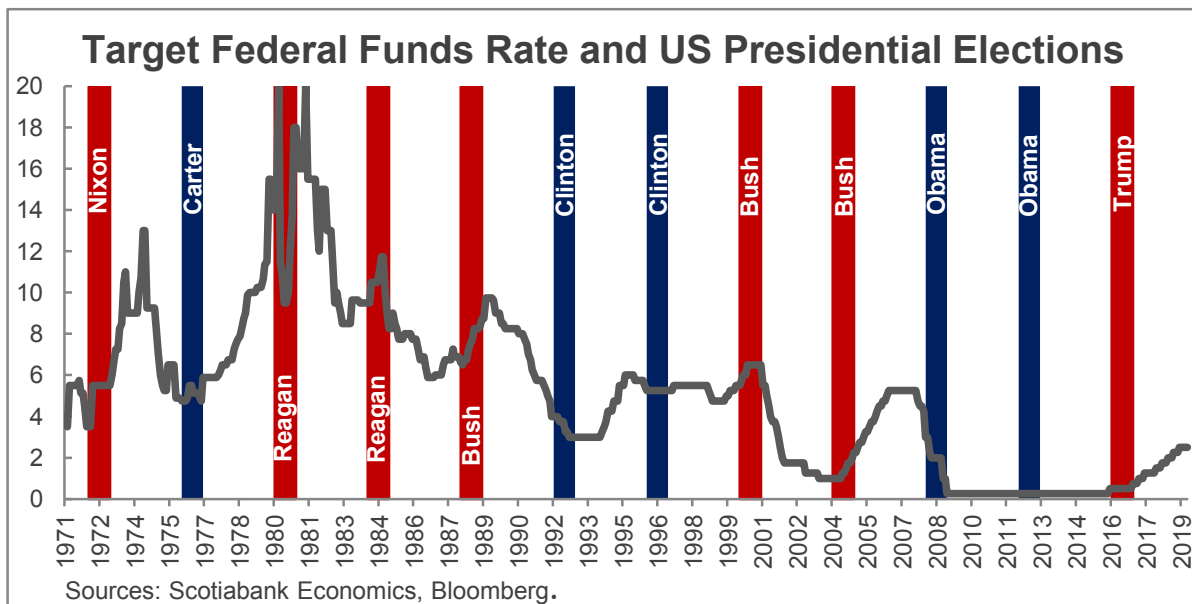
German factory orders were on the soft side of consensus expectations but stabilized after the prior month's plunge. Orders were up 0.6% (consensus 1.4%) after they fell 4.0% m/m in February (revised from -4.2%). The underlying details were mixed as orders for durable goods (+2.2%) and capital goods (+0.4%) increased but intermediate (-0.3%), non-durable (-0.7%) and consumer goods (-0.3%) all slipped. As the accompanying chart depicts, the small up-tick in March did little to arrest the decline in the level of the order book since late 2017.

UNITED STATES

US markets only face a three year auction (1pmET), the JOLTS job openings report for March (10amET) and consumer credit figures for March (3pmET). Neither report is ever a barn burner. Job openings fell in March and by the most notable amount since August 2015 and so any further deterioration may be taken as a sign of cooling hiring intentions. That said, with over 7 million unfilled positions, unfilled positions remain high.

One question that is frequently posed concerns how the Federal Reserve conducts monetary policy into a Presidential election year. Many argue that the Fed won't hike because we're going into an election in November 2020, but what's the evidence on how it has tended to behave? The accompanying chart provides the answer by showing the pattern of changes to the fed funds target rate within shaded bars that cover the calendar year of each election since the 1970s. Each of the bars is labelled with who won the election. Red bars connote a victory by the GOP candidate and blue bars are for the Dems. The Fed hiked in the

election years of 1972, 1976, 1980, 1984, 1988, 2000 and 2004. The Fed cut in the election years of 1992 and 2008. The Fed kept the policy rate unchanged in 1996 and 2012 and then in 2016 it hiked only after the election. Therefore the Fed hiked in seven of the past 12 Presidential elections which plays against the notion the Fed doesn't tighten policy in election years. Obviously two of the caveats here include a) many other factors have to be controlled in each of these periods, and b) history is only a loose guide to current circumstances given the shameful state of US politics these days.



CANADA

Canada will follow global sentiment alongside 23 earnings reports from names like RioCan, WestJet and George Weston. Only the April reading for the Ivey PMI is due out (10amET) and rarely influences markets.

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	2.29	2.27	2.27	2.26	2.28	2.48	2.47	2.50	2.89	2.89	2.93	Canada - BoC	1.75
CANADA	1.61	1.62	1.56	1.58	1.59	1.54	1.71	1.73	1.71	1.97	1.98	1.99	US - Fed	2.50
GERMANY	-0.60	-0.59	-0.58	-0.45	-0.43	-0.41	-0.03	0.01	0.01	0.63	0.66	0.66	England - BoE	0.75
JAPAN	-0.15	-0.15	-0.15	-0.16	-0.16	-0.16	-0.05	-0.04	-0.04	0.55	0.57	0.57	Euro zone - ECB	0.00
U.K.	0.77	0.80	0.76	0.91	0.95	0.91	1.18	1.22	1.19	1.70	1.74	1.69	Japan - BoJ	-0.10
Spreads vs. U.S. (bps):														
CANADA	-68	-67	-71	-70	-67	-74	-77	-74	-79	-92	-91	-94	Mexico - Banxico	8.25
GERMANY	-289	-289	-285	-272	-269	-269	-251	-247	-249	-226	-223	-227	Australia - RBA	1.50
JAPAN	-244	-244	-242	-244	-243	-244	-253	-251	-254	-234	-232	-236	New Zealand - RBNZ	1.75
U.K.	-152	-150	-150	-136	-132	-137	-130	-125	-132	-119	-115	-124		
Equities	Level						% change:						Next Meeting Date	
	Last	Change					1 Day	1-wk	1-mo	1-yr				
S&P/TSX	16493	-1.0					-0.0	-0.6	0.6	4.3			Canada - BoC	May 29, 2019
Dow 30	26438	-66.5					-0.3	-0.4	0.1	8.5			US - Fed	Jun 19, 2019
S&P 500	2932	-13.2					-0.4	-0.4	1.4	9.7			England - BoE	Jun 20, 2019
Nasdaq	8123	-40.7					-0.5	-0.5	2.3	11.8			Euro zone - ECB	Jun 06, 2019
DAX	12198	-88.6					-0.7	-1.1	1.6	-5.8			Japan - BoJ	Jun 20, 2019
FTSE	7303	-77.6					-1.1	-1.8	-1.9	-3.5				
Nikkei	21924	-335.0					-1.5	-1.3	3.4	-2.4				
Hang Seng	29363	153.2					0.5	-1.8	-1.9	-2.1				
CAC	5439	-44.3					-0.8	-2.5	-0.7	-1.7				
Commodities	Level						% change:							
	Last	Change					1 Day	1-wk	1-mo	1-yr				
WTI Crude	61.57	-0.68					-1.1	-3.7	-2.4	-13.0			Mexico - Banxico	May 16, 2019
Natural Gas	2.55	0.02					1.0	-1.0	-4.4	-7.0			Australia - RBA	May 07, 2019
Gold	1279.08	-2.02					-0.2	-0.3	-1.0	-2.7			New Zealand - RBNZ	May 07, 2019
Silver	14.66	-0.02					-0.1	-2.3	-3.4	-11.0				
CRB Index	179.82	-0.86					-0.5	-2.4	-4.2	-11.7				
Currencies	Level						% change:							
	Last	Change					1 Day	1-wk	1-mo	1-yr				
USDCAD	1.3470	0.0022					0.2	0.6	1.2	4.6				
EURUSD	1.1183	-0.0016					-0.1	-0.3	-0.7	-6.2				
USDJPY	110.65	-0.1100					-0.1	-0.7	-0.7	1.4				
AUDUSD	0.7016	0.0025					0.4	-0.5	-1.6	-6.7				
GBPUSD	1.3061	-0.0036					-0.3	0.2	0.0	-3.7				
USDCHF	1.0206	0.0026					0.3	0.1	2.2	1.8				

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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