

ON DECK FOR WEDNESDAY, MAY 8

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	05/08	07:00	MBA Mortgage Applications (w/w)	MAY 3	--	--	-4.3
US	05/08	13:00	U.S. to Sell 10-Year Notes		--	--	--
CA	05/08	08:15	Housing Starts (000s a.r.)	Apr	200	195.5	192
CA	05/08	12:00	5Y Auction Size		--	--	--
CA	05/08	12:00	5Y Auction Yield		--	--	--
CA	05/08	12:00	Canada to Sell 5 Year Bonds		--	--	--

KEY POINTS:

- Risk-off as markets await Friday at 12:01amET
- US-China trade negotiations start tomorrow...
- ...and will inform a binary market outcome
- Italy's fiscal mess is back on the market's radar
- Trump is at best very average at best among Presidents...
- ...across a broad suite of macroeconomic and market variables
- RBNZ cuts and sounds neutral
- Chinese trade figures disappoint partly on FX valuation effects
- German industrial output advances, setting up solid Q1 GDP growth
- Fed's Brainard on tap...
- ...after Clarida, Quarles reinforce Powell's 'no cut' message
- Brazil's CB expected to remain on hold with inflation at target
- BoT holds policy and sounds neutral
- CDN housing starts: weather related catch-up?
- Chilean CPI likely won't influence tomorrow's rate call
- Auctions: US 10s, CDN 5s

INTERNATIONAL

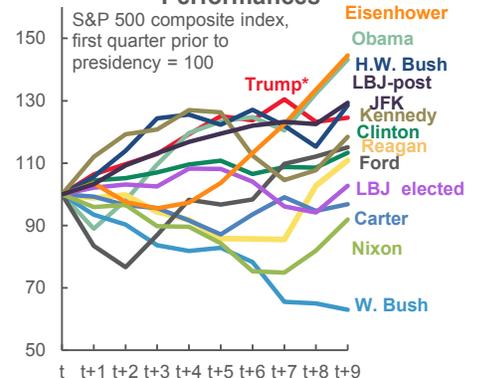
Markets continue to shed risk through the last of the three day pregnant pause that lies ahead of resuming high level trade negotiations between the US and China tomorrow. The threatened US tariff hike arrives at midnight tomorrow night in the middle of the scheduled two days of negotiations which means that by late tomorrow evening we'll likely know whether enough progress has been made to a) delay the decision and continue to negotiate, b) cancel the planned hike, or c) implement and invite immediate Chinese retaliation. Asian markets will be first to get the memo if it goes down to the wire tomorrow night in setting a potentially very binary outcome for how global markets end the week. Calendar-based risk will be modest overnight and tomorrow. Three regional central bank decisions, Fed-speak, Draghi, modest macro risk and a pair of US and Canadian auctions are on tap.

- The USD is flat on a DXY basis. Safe havens like the yen and Swiss franc are appreciating along with the euro while CAD is flat. Pound sterling is leading decliners along with the Mexican peso.
- Oil prices are little changed with WTI flat at US\$61.40 and Brent down a little to US\$69.70.

CONTACTS

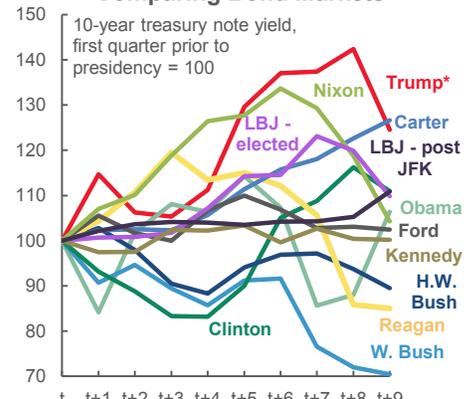
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Comparing Stock Market Performances



*Q1 calculation based on quarterly average to date. Sources: Scotiabank Economics, Standard & Poors, Bloomberg.

Comparing Bond Markets



*Q1 calculation based on quarterly average to date. Sources: Scotiabank Economics, Federal Reserve Board, Bloomberg.

- Sovereign bond yields are falling across major markets. The US 10 year Treasury is down 3bps to 2.43% and Canada's is performing similarly and down to 1.66%. Gilts are leading the charge lower in a bull flattening of the curve. Italian debt spreads are widening with its 10 year up 6bps and 8bps wider over 10 year bunds. Italian fiscal drama is making a comeback as the EU and Italy spar over progress toward structural deficit improvements.
- Equities are in the red pretty much everywhere. US equity futures are down by up to ¾% across the exchanges. TSX futures are down by ¼%. European cash markets range from flat (Dax) to down 0.5% in Italy and Spain with London in the middle. Asian equities tumbled including a 1.1% loss in Shanghai and a 1½% drop in the Nikkei 225.

German industrial output jumped by 0.5% m/m (consensus -0.5%) and only partly because of a downward revision to the prior month (+0.4% from 0.7%). That boosted Q1 to a 2.2% annualized rise following the 4% decline in 2018Q4. That, in turn, buoys the prospects for a rebound in GDP growth in Q1 on May 15th following no growth the prior quarter.

China's trade figures disappointed expectations on the export side of the picture and partly due to currency valuation effects. In USD terms, exports fell by 2.7% y/y (consensus +3%) following the prior month's 13.8% rise. Imports were up 4% y/y (consensus -2.1%) following the prior month's 7.9% decline. In yuan terms, exports were up 3.1% y/y and imports were up 10.3% y/y.

The RBNZ cut its cash rate by 25bps. The NZ\$ sank because markets had only priced in a 40% chance of a cut going into the meeting. Fourteen out of twenty economists had anticipated the rate cut. The statement ([here](#)) pointed toward a "more balanced outlook for interest rates" and during the press conference, Governor Orr noted they will continue to be data dependent. Recall that after the last meeting on March 26th, Governor Adrian Orr was quite blunt with his guidance: "Given the weaker global economic outlook and reduced momentum in domestic spending, the more likely direction of our next OCR move is down." The questions were when, and how to assign a probability to 'more likely'. Since Orr spoke in March, inflation then fell to 1.5% y/y in Q1 (1.9% prior, 1.7% consensus) and fresh trade worries resurfaced and so at the margin the newer information reinforced the cut bias.

The Bank of Thailand held steady by leaving its 1 day repo rate unchanged at 1.75% overnight. It also retained a **neutral bias** in the concluding paragraph of the statement ([here](#)) by stating "The committee viewed that the current accommodative monetary policy stance had contributed to the continuation of economic growth and was appropriate given the inflation target." The Thai baht appreciated overnight, but in advance of the decision and was little changed thereafter. A court decision supporting the Election Commission's approach to assigning seats in Parliament finally sets up the decision over who won the election on March 24th with results expected shortly.

Banco Central do Brasil is unanimously expected to hold its Selic rate at 6.5% later today (5pmET). Inflation is running at 4.6% y/y and hence pretty much bang on the 4.5% y/y +/- 1.5% target. The country remains consumed by prospects for pension reforms that dominated discussions on local economy prospects when I was down there a couple of weeks ago.

Chile will update inflation figures for April (8amET). There is very limited scope for the report to influence tomorrow's rate decision or the policy bias given unanimous expectations for the overnight target to hold at 3%.

CANADA

Canada auctions 5s (noon ET) and the US auctions 10s (1pmET) today.

Canada begins to focus upon macro data today and over the rest of the week. Housing starts for April are due at 8:15amET and the issue is whether starts will continue to catch up to permit volumes. The gulf between the two of late may have been driven by harsher than usual winter weather in many parts of the country over prior months. Canada then reports trade figures for March tomorrow and employment on Friday—both of which facing the daunting task of competing for headlines with US-China trade developments.

Canada also focuses upon earnings today. Twenty-eight TSX earnings reports will include Barrick, Thomson Reuters, Home Capital Group and Sun Life.

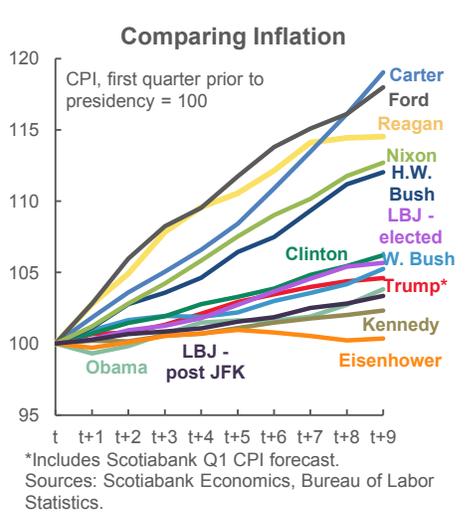
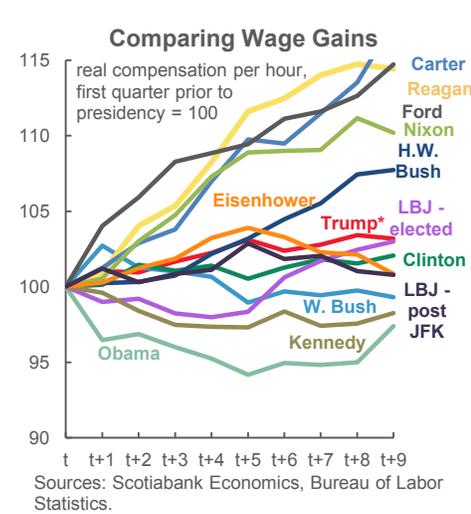
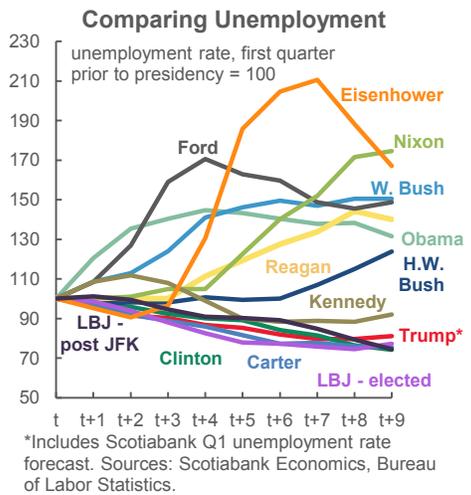
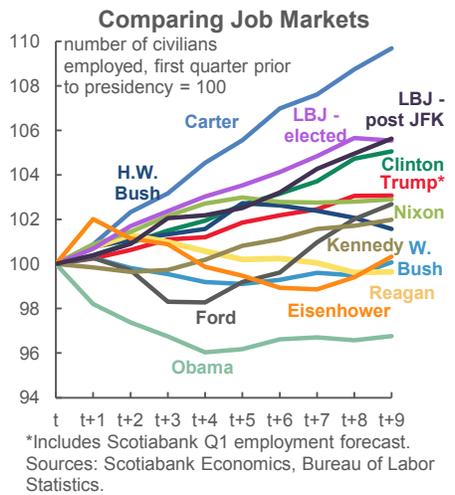
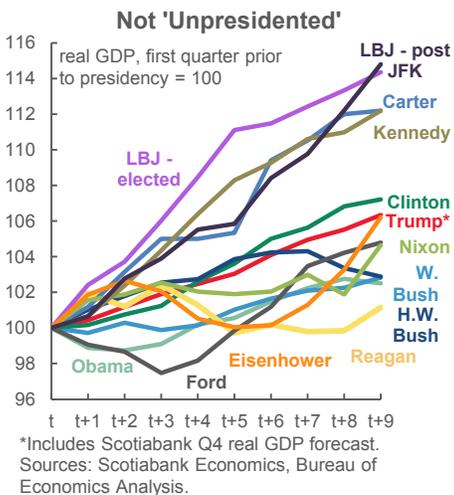
UNITED STATES

US markets only face a Treasury auction and limited Fed-speak. The US Treasury auctions 10s at 1pmET.

Fed Governor Brainard provides opening remarks at a “Fed Listens” event (8:30amET). Divisive politics will shove both considerations to the backburner including an intensified focus upon Trump’s tax returns ([here](#)).

Both Vice Chair Clarida and Governor Quarles delivered remarks yesterday that reinforced Powell’s messaging against rate cut expectations last week. Quarles was particularly dismissive toward low inflation as a motivation for a cut by stating “Inflation is difficult to measure precisely. From my point of view, 1.8 is two percent. If we were at 1 forever you would have a different issue.” Indeed it’s pretty obvious that the whole top of the house at the Fed is pushing back in coordinated fashion on the likes of minority doves such as Evans & Bullard in saying cuts aren’t on the table.

Please see the updated charts that compare performance across US Presidents in terms of a variety of macroeconomic and financial market indicators. The charts trace each variable starting just ahead of formally assuming office and up to the same point in each Presidency at which Trump now finds himself nine quarters later. The charts of course don’t control for a multitude of other macroeconomic factors, but Trump doesn’t do so either when he claims superiority by comparison to past Presidents. Overall, the conclusion is that stocks have done a little better than average under Trump but better under Ike, Obama and Bush Sr. The 10 year Treasury note has performed worse under Trump than all but one other President (Carter). Trump is pretty average across the suite of macroeconomic factors such as cumulative GDP growth, job growth, the unemployment rate, wage gains and inflation.



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.	2.26	2.29	2.31	2.23	2.26	2.30	2.43	2.46	2.50	2.84	2.86	2.90	Canada - BoC	1.75
CANADA	1.56	1.58	1.57	1.53	1.55	1.54	1.66	1.68	1.70	1.93	1.94	1.96	US - Fed	2.50
GERMANY	-0.62	-0.61	-0.58	-0.47	-0.46	-0.41	-0.05	-0.04	0.01	0.59	0.62	0.66	England - BoE	0.75
JAPAN	-0.15	-0.15	-0.15	-0.16	-0.16	-0.16	-0.05	-0.05	-0.04	0.54	0.55	0.57		
U.K.	0.72	0.75	0.74	0.85	0.90	0.88	1.11	1.16	1.15	1.64	1.68	1.67		
Spreads vs. U.S. (bps):														
CANADA	-70	-71	-73	-70	-71	-76	-77	-77	-80	-92	-92	-94	Euro zone - ECB	0.00
GERMANY	-287	-289	-289	-270	-272	-271	-248	-250	-249	-225	-225	-225	Japan - BoJ	-0.10
JAPAN	-241	-244	-245	-240	-242	-246	-248	-251	-254	-231	-232	-234		
U.K.	-154	-153	-157	-138	-136	-142	-132	-130	-135	-120	-119	-124	Mexico - Banxico	8.25
Equities	Level			Change			1 Day			% change:				
	Last													
S&P/TSX	16358			-135.7			-0.8	-1.3	-0.3	3.3			Australia - RBA	1.50
Dow 30	25965			-473.4			-1.8	-2.4	-1.4	6.6			New Zealand - RBNZ	1.50
S&P 500	2884			-48.4			-1.7	-2.1	-0.4	7.9				
Nasdaq	7964			-159.5			-2.0	-1.6	0.1	9.6				
DAX	12103			10.5			0.1	-2.0	1.2	-6.3				
FTSE	7241			-19.3			-0.3	-2.4	-2.8	-4.3				
Nikkei	21603			-321.1			-1.5	-3.0	-0.7	-4.0			Canada - BoC	May 29, 2019
Hang Seng	29003			-359.8			-1.2	-2.3	-3.6	-4.6			US - Fed	Jun 19, 2019
CAC	5386			-9.5			-0.2	-3.6	-1.6	-2.5			England - BoE	Jun 20, 2019
Commodities	Level			Change			1 Day			% change:				
WTI Crude	61.29			-0.11			-0.2	-3.6	-4.8	-11.3			Euro zone - ECB	Jun 06, 2019
Natural Gas	2.55			0.01			0.5	-2.7	-5.8	-6.7			Japan - BoJ	Jun 20, 2019
Gold	1289.31			4.84			0.4	1.0	-0.6	-1.9				
Silver	14.83			0.18			1.2	-1.0	-2.4	-9.7				
CRB Index	179.26			-0.22			-0.1	-2.4	-5.0	-11.3				
Currencies	Level			Change			1 Day			% change:				
USDCAD	1.3470			-0.0004			-0.0	0.2	1.2	4.0			Mexico - Banxico	May 16, 2019
EURUSD	1.1204			0.0013			0.1	0.1	-0.5	-5.6			Australia - RBA	Jun 04, 2019
USDJPY	110.07			-0.1900			-0.2	-1.2	-1.3	0.9				
AUDUSD	0.7003			-0.0009			-0.1	-0.2	-1.7	-6.1				
GBPUSD	1.3013			-0.0062			-0.5	-0.3	-0.4	-3.9			New Zealand - RBNZ	May 07, 2019
USDCHF	1.0173			-0.0023			-0.2	-0.1	1.8	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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