

ON DECK FOR THURSDAY, MAY 9

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	05/09	08:30	Merchandise Trade Balance (C\$ bn)	Mar	-2.7	-2.4	-2.9
CA	05/09	08:30	New Housing Price Index (m/m)	Mar	--	0.0	0.0
US	05/09	08:30	Initial Jobless Claims (000s)	MAY 4	215	220	230
US	05/09	08:30	Continuing Claims (000s)	APR 27	1650	1670	1671
US	05/09	08:30	PPI (m/m)	Apr	0.2	0.3	0.6
US	05/09	08:30	PPI ex. Food & Energy (m/m)	Apr	0.1	0.2	0.3
US	05/09	08:30	Trade Balance (US\$ bn)	Mar	-53	-50	-49
US	05/09	09:45	Fed's Bostic Discusses Economic Outlook	--	--	--	--

KEY POINTS:

- Markets on edge ahead of tonight's potential tariff wall
- Sure China needs reform...
- ...but is the US going too far?
- Norges Bank guides toward a June hike
- Philippines CB eases
- Peru, Chile expected to hold policy rates
- BCB holds and sounds like it's in no rush to change
- Chinese CPI rises, but core inflation ebbs
- Chinese financing ebbs, but is still strong year-to-date
- Mexican CPI: headline expected to cross Banxico's upper bound
- US, Canadian trade reports on tap
- US jobless claims: shaking off distortions?
- US producer price inflation expected to rise

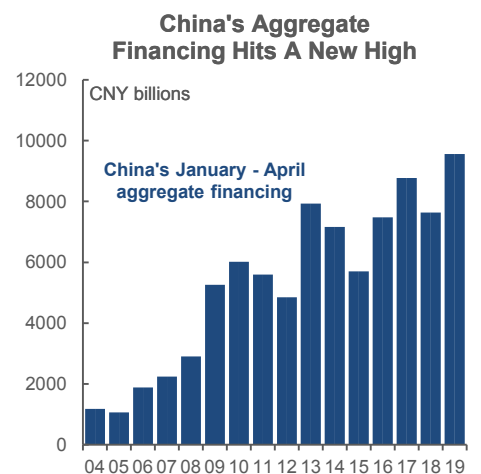
INTERNATIONAL

Everything else on the formal calendar of developments is being shoved aside by the understandably singular focus upon US-China trade talks. Trade talks are running against the clock with US tariffs set to hit by 12:01amET Friday and with that China's certain retaliation. My personal view is that while China needs reforms, the US is over-reaching and much more responsible for the current state of the negotiations than the US administration, most of the US press and US analysts may have one believing. Five central bank decisions, Chinese inflation and financing figures, US-Canada trade updates and limited other macro reports matter relatively little in the grander scheme of things into the end of the week.

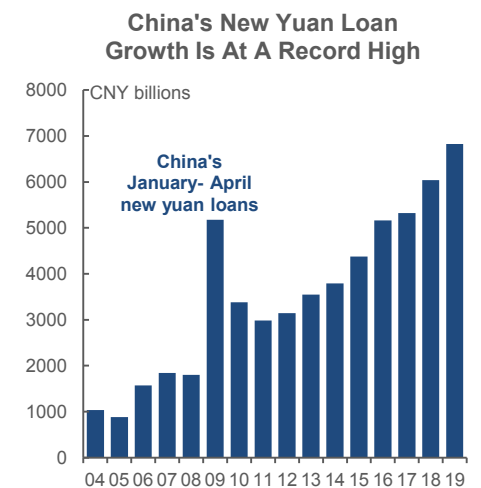
- The USD is flat on a DXY basis but partly because other safe havens like the yen and Swiss Franc are appreciating. CAD and the Euro are flat. The won and Mexican peso are leading decliners.
- Oil prices are little changed with WTI just under US\$62 and Brent just over US\$70.
- Sovereign bond yields are drifting lower. The US Treasury curve is shifting downward by 3–4bps in mostly parallel fashion. Canada's curve is slightly bull flattening. Gilts are a little richer and so are bunds while Italian spreads continue to widen by another 6bps to 10 year bunds.

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Sources: Scotiabank Economics, Bloomberg.



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- Chinese stocks took it on the chin again overnight as Shanghai fell 1.5%, Shenzhen was down 1.3% and HK fell by 2.4%. US equity futures are down by about ¾% on balance across the exchanges. TSX futures are slightly lower. European cash markets are down by about 1% on balance with London down by less (-1/4%).

Lower level US-China trade talks began yesterday in Washington through an advance Chinese delegation consisting of senior Commerce and Finance Ministry officials. Vice Premier Liu He joins the talks today. **We'll know any time by late tonight whether we're hitting a tariff wall that would abruptly halt the talks.** Watch for whether a meeting is scheduled on an impromptu basis between Trump and Liu in the Oval Office given the past tendency to do so and as a sign of progress.

If one listens only to the US press and analysts, you'd think America is a saint in these negotiations. NAFTA observers know that not to be the case. Lighthizer had said "90%" of an agreement is in place but played the victim card when China pushed back on the scope of US demands. The issues are removing existing bilateral tariffs should an agreement be struck, enforcement, timelines, changing Chinese domestic laws in parallel to a trade agreement, subsidies and forced technology transfers. China has pushed back citing issues of sovereignty, the length of time that it takes to change domestic laws, a need for compromises and similar reciprocal demands upon the US in some of those areas. Both sides have legitimate points here. For instance, China needs a strengthened rule of law and transparent mechanisms including more credible courts as Canadians can well attest to. The US Congress, however, hardly sets an example for speed and efficacy of changing domestic laws. America wants to have its cake and eat it too by retaining tariffs even after an agreement is reached which seems so obviously against the spirit of a trade agreement as to be thoroughly mystifying.

I'm not defending China's opaque and distorted system, but the unilateral US demands are a bit much to take. The US is seeking changes to Chinese laws to complement a trade agreement and ensure accountability and enforcement, which has as its starting premise that China possesses democratic institutions and checks and balances on power that preserve the rule of transparent law and how to interpret and enforce it! **The US is asking to change everything about China in one trade agreement negotiated within about a year's time under duress and lacking basic international diplomacy to boot.** This strikes me as very similar to the naïve goals of this US administration going into the NAFTA negotiations.

Presumably China should also push the US to change its laws to prevent mass bail-outs, huge subsidies, tilted procurement programs, to weaken the military-industrial complex that drives industrial policies, agricultural protections, truck tariffs etc. We just went through a whole decade in which the US bailed out one industry after another and led the world economy into an abyss and the US feels it has the right to be preachy to its trading partners? Where's the humility here? **The US economy is vibrant, adaptive, highly competitive and often a beacon of innovative spirit, but it is not to be exonerated from economic policy distortions any more than China and particularly these days.** The US media and analysts have only played up inculpatory evidence of Chinese distortions that are real and that exist within an opaque system that needs change, but they've been negligent toward offering inculpatory evidence of US practices that have irked America's trading partners.

Chinese CPI inflation was bang in line with expectations at 2.5% y/y (2.3% prior). Core inflation fell to 1.7% y/y from 1.8%. All of the upward pressure upon headline inflation is traced to hogs and veggies. Food prices jumped by 6.1% y/y as pork was up 14.4% y/y and vegetables were up 17.4%. A combination of the African swine fever and lagging effects of prior supply disruptions were major culprits.

China's aggregate financing activity was somewhat weaker than expected in April but the year-to-date flows remain high (see charts). Total financing was up by 1.36 trillion yuan (1.65T consensus) and new yuan loans were up by 1.02T yuan (consensus 1.2T). China front-loaded loan and financing growth when January's figures were off the charts in somewhat typical seasonal fashion given the way China's banks operate with state guidance on lending activity. It's therefore not entirely unreasonable for subsequent months to soften somewhat while still leaving a strong year-to-date picture intact.

Five central banks are in play with three down and two to go.

1. Norges Bank: Held at 1% this morning but with a hawkish bias. The statement ([here](#)) noted "the policy rate will most likely be raised in June." Being the next meeting, that's at the earlier end of the timeline laid out at the last meeting in March when the guidance pointed toward hiking "in the course of the next half-year." The krone is outperforming most other crosses this morning.

2. BCB: Brazil's central bank held its Selic rate at 6.5% last evening as universally expected. The statement ([here](#)) sounded like it was in no rush to change the rate for some time by noting:

"The Committee deems important to observe how the Brazilian economy will behave over time, without the remaining effects of the various shocks that hit the economy last year and, especially, with reduction of the degree of uncertainty to which the Brazilian economy remains exposed. The Copom judges that this assessment takes time and should not be completed in the short run. The Copom emphasizes that the next steps in the conduct of monetary policy will continue to depend on the evolution of economic activity, the balance of risks, and on inflation projections and expectations."

3. Bangko Sentral ng Pilipinas: Cut its overnight borrowing rate by 25bps to 4.5% as widely expected. The statement ([here](#)) nevertheless said future moves will be informed by efforts to "continue to monitor developments", and that risks to the inflation outlook remain broadly balanced. Further, it unexpectedly held off a reduction in the required reserves ratio but slightly softer than expected Q1 GDP growth of 5.6% (6.0% consensus, prior revised up to 6.3%) could motivate such a move next week when Governor Diokno says the issue will be revisited.

4. Peru: Consensus is unanimous in expecting the reference rate to remain at 2.75% (7pmET).

5. Chile: Consensus is unanimous in expected the overnight rate target to remain at 3% (6pmET).

Mexico will freshen up CPI inflation figures for April (9amET). Higher food and energy prices will play a role in pumping inflation above the upper limit of the 2–4% inflation target range. Core inflation at 3.6% y/y in March is likely to remain just under the upper limit. Transitory influences upon commodity prices coupled with peso appreciation of 7% since the end of November that could cap and reverse exchange rate pass-through effects are expected to keep Banxico on hold on May 16th.

UNITED STATES

US markets will digest three distractions ahead of the big tariff show later on. Watch **initial jobless claims** (8:30amET) to see if distortions like lagging Easter effects, a grocery chain strike, and layoffs in the education sector in several states begin to shake out and drive claims back down. **US trade figures** for March (8:30amET) could see a wider deficit partly on higher oil prices given the net crude oil importer status of the US economy. **Producer prices** for April (8:30amET) are expected to come under some further upward pressure to headline and core readings. None of these will be worth spending a whole lot of time on in light of the tariffs issue.

CANADA

Canada's trade performance will be updated for March (8:30amET). Key will be whether the 4.1% plunge in export volumes during the prior month stabilizes if not rebounds. Recall that weakness was widespread, but there were important caveats.

For one, StatsCan admitted it was dealing with guesswork when it estimated crude oil exports and so watch for revisions with more complete data. Second, recall that exports of metal and non-metallic mineral products were sharply lower in February mostly due to lower exports of gold to the UK which is where many such transactions are cleared and it was likely a one-off. Removing the effects of crude oil guesswork and gold yielded an export volume picture that was still weak, but less so. Overall, a modest rebound from February weakness in export volumes is reasonable to expect particularly as Alberta's mandated crude production cuts have been scaled back twice already since their initial introduction at the start of the year.

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	2.30	2.35	2.24	2.29	2.35	2.44	2.48	2.54	2.86	2.89	2.93	Canada - BoC	1.75
CANADA	1.58	1.59	1.62	1.54	1.57	1.61	1.67	1.70	1.76	1.93	1.96	2.01	US - Fed	2.50
GERMANY	-0.62	-0.61	-0.59	-0.48	-0.46	-0.41	-0.06	-0.04	0.03	0.59	0.60	0.68	England - BoE	0.75
JAPAN	-0.16	-0.15	-0.15	-0.16	-0.16	-0.16	-0.05	-0.05	-0.04	0.54	0.54	0.57		
U.K.	0.73	0.75	0.77	0.86	0.88	0.92	1.12	1.14	1.19	1.66	1.67	1.70		
	Spreads vs. U.S. (bps):													
CANADA	-69	-70	-73	-70	-72	-73	-77	-78	-78	-93	-94	-92	Euro zone - ECB	0.00
GERMANY	-289	-291	-293	-272	-275	-276	-250	-253	-251	-228	-229	-225	Japan - BoJ	-0.10
JAPAN	-242	-245	-249	-241	-245	-251	-249	-253	-258	-233	-236	-236		
U.K.	-154	-155	-158	-139	-141	-143	-132	-135	-136	-121	-123	-123	Mexico - Banxico	8.25
Equities	Level						% change:							
	Last	Change			1 Day	1-wk	1-mo	1-yr						
S&P/TSX	16397	39.7			0.2	-0.6	0.4	3.1	Australia - RBA	1.50				
Dow 30	25967	2.2			0.0	-1.8	-0.7	5.8	New Zealand - RBNZ	1.50				
S&P 500	2879	-4.6			-0.2	-1.5	0.0	6.7						
Nasdaq	7943	-20.4			-0.3	-1.3	0.4	8.2	Next Meeting Date					
DAX	12085	-94.8			-0.8	-2.1	2.0	-6.6	Canada - BoC	May 29, 2019				
FTSE	7252	-18.6			-0.3	-1.8	-2.3	-5.4	US - Fed	Jun 19, 2019				
Nikkei	21402	-200.5			-0.9	-3.6	-1.8	-4.5	England - BoE	Jun 20, 2019				
Hang Seng	28311	-692.1			-2.4	-5.5	-6.1	-7.3	Euro zone - ECB	Jun 06, 2019				
CAC	5356	-61.8			-1.1	-3.3	-1.5	-3.2	Japan - BoJ	Jun 20, 2019				
Commodities	Level						% change:							
WTI Crude	61.93	-0.19			-0.3	0.2	-3.2	-12.9	Mexico - Banxico	May 16, 2019				
Natural Gas	2.60	-0.01			-0.6	0.2	-3.9	-5.2	Australia - RBA	Jun 04, 2019				
Gold	1281.98	1.11			0.1	0.9	-1.7	-2.3	New Zealand - RBNZ	Jun 25, 2019				
Silver	14.93	0.10			0.7	0.3	-1.4	-9.2						
CRB Index	179.42	-0.32			-0.2	-1.4	-4.8	-11.9						
Currencies	Level						% change:							
USDCAD	1.3484	0.0005			0.0	0.1	1.2	4.9						
EURUSD	1.1189	-0.0003			-0.0	0.2	-0.7	-5.6						
USDJPY	109.82	-0.2800			-0.3	-1.5	-1.2	0.1						
AUDUSD	0.6974	-0.0014			-0.2	-0.4	-2.1	-6.6						
GBPUSD	1.2992	-0.0014			-0.1	-0.3	-0.5	-4.1						
USDCHF	1.0185	-0.0018			-0.2	-0.1	1.8	1.3						

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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