

**ON DECK FOR MONDAY, MAY 13**

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
US	05/13	09:05	Fed's Rosengren, Clarida Makes Remarks at Fed Listens Event

**KEY POINTS:**

- Risk-off as US-China tensions escalate
- China announces retaliatory measures...
- ...including the total agricultural blockade option
- What to watch for today in the US-China dispute
- Automatic stabilizers invoked as yields drop, yuan depreciates
- Fed-speak may react
- India's inflation climbs on energy
- Norway's economy disappoints, but hands off to a better Q2
- Global Week Ahead

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

- US-China trade
- CPI: Canada, Eurozone, India, Sweden, Argentina
- CBs: Banxico, BI
- US retail sales
- GDP: Eurozone, Germany, Norway, Colombia
- CDN mfrg, housing
- China IP, retail
- Fed-speak
- Australian jobs
- Poloz on mortgages V2
- US macro

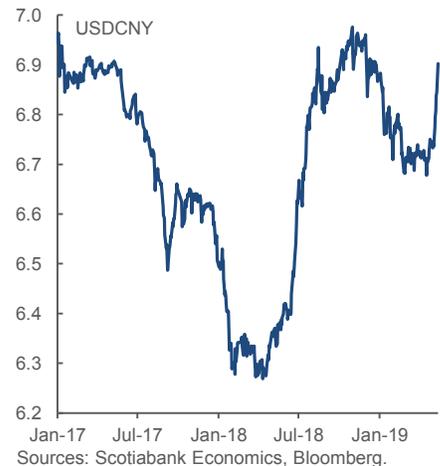
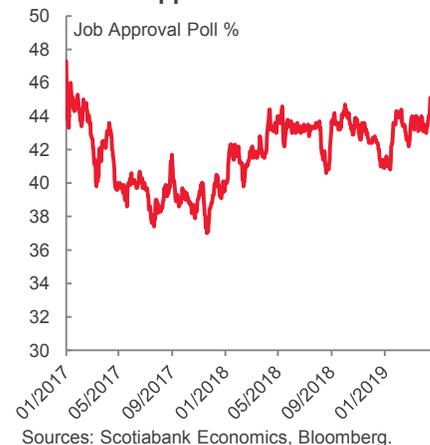
**INTERNATIONAL**

Escalating US-China trade tensions are driving risk-off sentiment across global markets to start the week but automatic stabilizers continue to kick in including lower bond yields and yuan depreciation that shoves at least some of the tariffs back onto the USD. Relations deteriorated even further over the weekend into this morning with finger pointing and lines being drawn in the sand on both sides. Please see below for what to watch for by way of incremental risk today and developments may well sour further in a disturbing turn of events.

- **US equity futures are down by almost 2% across exchanges with selling pressure intensifying following China's retaliation.** TSX futures are down by 1%. European cash markets are down by between ¼% (London) and 1¼% (Dax). Asian equities sold off with mainland China down by about 1%, Tokyo down ¾% and Seoul down 1.4%.

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**CNY Back To Offsetting Tariffs Again**

**Trump Gaining American Voter Support - For Now**


- **Sovereign yields are down mostly within the US and Canada.** The US Treasury yields are down by about 5bps across the curve with Canada slightly underperforming. Yields on gilts are down by about 2bp across maturities, bunds and French bonds are little changed while Italian spreads continue to widen by about 4bps over 10 year bunds.
- **Oil prices are up by about 2%** in the case of both WTI (US\$62.85) and Brent (US\$72.10). Throughout the escalated US-China tensions, **gold has not managed to do much**; it's parked at about US\$1280 and has been around that mark over recent weeks.
- **The USD is slightly appreciating this morning** with notable exceptions including the Swiss franc and yen that are picking up safe haven flows themselves, and pound sterling on signs that UK PM May is attempting to reopen negotiations with the EU (good luck...) and seeking compromise with Labour. The offshore yuan depreciated by just under 1% to the USD and is down by over 3% since about mid-April and back to where it was in December as currency markets invoke automatic stabilizers against Trump's tariffs with the risk of further destabilizing moves and debate over policy options (see chart). The euro is flat. CAD is slightly softer but holding onto most of Friday's appreciation after the blockbuster jobs print (recap [here](#)). The won, rand and Mexican peso (19.2) are leading the depreciating crosses.

**Norway's economy shrank by 0.1% q/q in Q1** after solid growth was revised up a tick to 0.6% q/q (non-annualized) in Q4. One particularly bad month of February when the economy shrank by 0.4% blew the quarter that was otherwise book-ended by 0.2% to start and finish the months within the quarter and hand-off better conditions to Q2.

**India updated inflation for April this morning.** Headline CPI was little changed at 2.9% y/y partly on the back of higher energy costs and hence almost a full percentage point above the low in January. Core inflation will be more closely monitored going forward for whether the trend continues to decelerate from a peak of 6.3% y/y in mid-2018 to about 5%. The RBI targets inflation within 4% +/-2% and so expectations for any further easing by the RBI after it cut the policy repo rate by 25bps on April 4<sup>th</sup> will be informed by core. The next decision is on June 6<sup>th</sup>.

## UNITED STATES

Here is what to watch for by way of potential developments in the escalating US-China trade conflict:

- **China announced it will raise tariffs on some US imports on June 1<sup>st</sup> and that it may stop buying US agricultural goods and reduce Boeing orders.** This came after Trump tweeted a warning this morning that "China should not retaliate—will only get worse." Therefore watch for the potential for further escalation of tit-for-tat tariffs. In essence, China's stance invalidates the argument that because China imports less from the US than vice versa its potential to retaliate is coming from a weaker position. China is invoking the threat of a total blockade of key US goods straight to the heartland of Trump's agricultural base.
- Today the **US Trade Representative** is expected to provide the schedule of products and possible timelines toward imposing a 25% tariff on the remainder of China's imports to the US.
- **Whether the US administration accepts China's invitation** to send the US delegation to Beijing for another round of talks. That seems unlikely given further escalation.
- **How Fed officials may react to developments through comments as soon as today.** They face a quandary in that a) tariffs are bad for US, Chinese and global growth, but b) they are inflationary. Fed officials will have an opportunity to weigh in on the impact of the increased trade tensions with China today but expectations are low given the brevity of the appearances. Vice Chair Clarida speaks twice at 9:10amET and 12:55pmET for five minutes each in order to deliver opening and closing remarks. Boston Fed President Rosengren (voting) also delivers similar appearances.
- **Further slings and arrows being tossed by both sides** after more insulting, aggressive tweets by Trump (see his Twitter account over the weekend and this morning) and China's administration through its tightly controlled press with examples [here](#), [here](#), [here](#), [here](#) and [here](#).

- **Chinese President Xi Jinping** will deliver a keynote address at the Conference on Dialogue of Asian Civilizations on Wednesday in Beijing with 47 countries represented mostly from within Asia.

Both the US and Chinese administrations are short on the friends in the world within a bilateral dispute that continues to escalate in the context of policies that have alienated both administrations in their dealings with others. **American voters are signalling approval of Trump's tactics at least so far.** The accompanying chart shows Trump's disapproval rating is shrinking with 45% approving of his Presidency and recently rising toward the highest level since February 2017. How this approval holds up to paying more for imports and to risks facing the economy and markets all lies ahead. Politically neutral and dispassionate markets are avoiding assigning blame to who's telling the truth, don't much trust either side to provide as much anyway, and are simply seeking shelter. My personal opinions remain that a) China needs to change its practices, b) TPP and multilateral solutions would have been best and would have united multiples regions, c) US bilateralism is risking total gridlock and damaging escalation, d) Trump will likely face pressure to settle before the primaries begin in February 2020, and e) China is right to demand tariffs get dropped in an agreement and failure to implement NAFTA 2.0 provides an important lesson on why this is the case. Right now, Trump appears unlikely to get any material trade agreements in place going into an election 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.	2.21	2.27	2.29	2.21	2.26	2.26	2.42	2.47	2.47	2.86	2.89	2.89	Canada - BoC	1.75
CANADA	1.61	1.64	1.62	1.58	1.61	1.59	1.70	1.73	1.73	1.93	1.96	1.98	US - Fed	2.50
GERMANY	-0.62	-0.62	-0.59	-0.47	-0.47	-0.43	-0.05	-0.05	0.01	0.60	0.61	0.66	England - BoE	0.75
JAPAN	-0.16	-0.16	-0.15	-0.16	-0.16	-0.16	-0.05	-0.05	-0.04	0.55	0.54	0.57		
U.K.	0.73	0.74	0.80	0.85	0.86	0.95	1.12	1.14	1.22	1.67	1.68	1.74		
	Spreads vs. U.S. (bps):													
CANADA	-60	-63	-67	-63	-65	-67	-73	-74	-74	-93	-93	-91	Euro zone - ECB	0.00
GERMANY	-283	-288	-289	-268	-273	-269	-248	-251	-247	-226	-228	-223	Japan - BoJ	-0.10
JAPAN	-237	-243	-244	-237	-243	-243	-247	-252	-251	-231	-235	-232		
U.K.	-148	-153	-150	-136	-140	-132	-130	-133	-125	-119	-121	-115	Mexico - Banxico	8.25
Equities	Level			Change			% change:							
	Last						1 Day	1-wk	1-mo	1-yr				
S&P/TSX	16298			-24.2			-0.1	-1.2	-1.1	2.0			Australia - RBA	1.50
Dow 30	25942			114.0			0.4	-2.1	-1.8	4.5				
S&P 500	2881			10.7			0.4	-2.2	-0.9	5.6			New Zealand - RBNZ	1.50
Nasdaq	7917			6.4			0.1	-3.0	-0.8	6.9				
DAX	11901			-159.0			-1.3	-3.1	-0.8	-8.5				
FTSE	7176			-27.2			-0.4	-2.8	-3.5	-7.1				
Nikkei	21191			-153.6			-0.7	-4.8	-3.1	-6.9			Canada - BoC	May 29, 2019
Hang Seng	28550			239.2			0.8	-5.1	-4.5	-8.3			US - Fed	Jun 19, 2019
CAC	5274			-53.2			-1.0	-3.8	-4.2	-4.8				
Commodities	Level			Change			% change:							
WTI Crude	62.81			1.15			1.9	0.9	-1.7	-11.2			England - BoE	Jun 20, 2019
Natural Gas	2.61			-0.01			-0.4	3.4	-1.9	-7.0			Euro zone - ECB	Jun 06, 2019
Gold	1287.71			1.66			0.1	0.5	-0.2	-2.3			Japan - BoJ	Jun 20, 2019
Silver	14.80			-0.03			-0.2	1.0	-3.0	-10.9				
CRB Index	179.21			0.26			0.1	-0.8	-4.9	-12.0				
Currencies	Level			Change			% change:							
USDCAD	1.3439			0.0022			0.2	-0.1	0.5	4.9			Mexico - Banxico	May 16, 2019
EURUSD	1.1250			0.0017			0.2	0.5	-0.5	-5.7			Australia - RBA	Jun 04, 2019
USDJPY	109.27			-0.6800			-0.6	-1.3	-2.5	-0.4				
AUDUSD	0.6971			-0.0031			-0.4	-0.3	-2.8	-7.4				
GBPUSD	1.3029			0.0031			0.2	-0.5	-0.5	-3.9			New Zealand - RBNZ	Jun 25, 2019
USDCHF	1.0059			-0.0059			-0.6	-1.2	0.2	0.5				

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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