

ON DECK FOR WEDNESDAY, MAY 15

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	05/15	07:00	MBA Mortgage Applications (w/w)	MAY 10	--	--	2.7
CA	05/15	08:30	Core CPI - Common (y/y)	Apr	--	1.8	1.8
CA	05/15	08:30	Core CPI - Median (y/y)	Apr	--	2.0	2.0
CA	05/15	08:30	Core CPI - Trim (y/y)	Apr	--	2.1	2.1
CA	05/15	08:30	CPI, All items (m/m)	Apr	0.3	0.4	0.7
CA	05/15	08:30	CPI, All items (y/y)	Apr	1.9	2.0	1.9
CA	05/15	08:30	CPI, All items (index)	Apr	--	136	135
US	05/15	08:30	Empire State Manufacturing Index	May	--	8.0	10.1
US	05/15	08:30	Retail Sales (m/m)	Apr	0.1	0.2	1.6
US	05/15	08:30	Retail Sales ex. Autos (m/m)	Apr	0.5	0.7	1.2
CA	05/15	09:00	Existing Home Sales (m/m)	Apr	--	1.8	0.9
US	05/15	09:15	Capacity Utilization (%)	Apr	78.8	78.7	78.8
US	05/15	09:15	Industrial Production (m/m)	Apr	0.2	0.0	-0.1
US	05/15	10:00	Business Inventories (m/m)	Mar	--	0.0	0.3
US	05/15	10:00	NAHB Housing Market Index	May	--	64	63
US	05/15	16:00	Total Net TIC Flows (US\$ bn)	Mar	--	--	-22
US	05/15	16:00	Net Long-term TIC Flows (US\$ bn)	Mar	--	--	52
US	05/15	12:00	Fed's Barkin Speaks to Economists in New York	--	--	--	--
CA	05/15	12:00	Canada to Sell 3 Year Bonds	--	--	--	--

KEY POINTS:

- Risk-off on trade, Chinese macro, combative Xi Jinping
- Chinese growth readings soften across the board
- Eurozone GDP: durable green shoot?
- CDN CPI expected to remain roughly on target
- US retail sales: payback?
- Oil dips on US inventories despite middle east tensions
- China needs decent growth to absorb urbanization

INTERNATIONAL

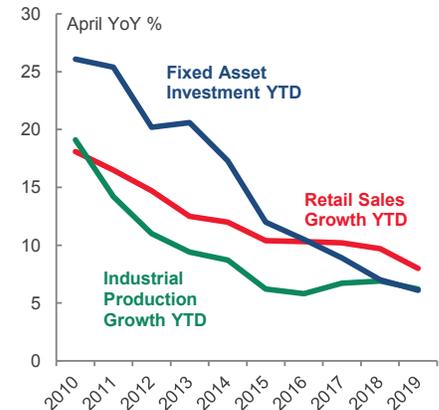
Fundamentals will get at least a brief moment back in the sun today, until the next tweet or salvo. This is notwithstanding Xi Jinping's combative speech overnight that had him taking Trump's bait to escalate the conflict in words. Chinese macro reports were on the soft side. German and Eurozone GDP growth offered a green shoot, but one that was in line with expectations and facing durability doubts. This morning will see a tug of war on USDCAD through the simultaneous release of US retail sales and Canadian CPI. Some give back on US retail sales and roughly on-target Canadian inflation are expected (see below). US industrial output might continue a soft macro theme. Colombia updates GDP growth later on.

- The USD is slightly firmer on a narrow DXY weighted basis. Safe havens like the yen and Swiss franc are in vogue again which somewhat limits USD appreciation on a trade-weighted basis. Most other crosses are weaker with CAD in the middle of the pack and the Mexican peso depreciating to 19.2.
- Oil prices are down by 50–75 cents as WTI softens a bit more than Brent. US private oil inventory estimates registered a large rise last week ahead of whether or not the US government's estimate confirms this (10:30amET). This is offsetting rising tensions in the middle east.

CONTACTS

Derek Holt, VP & Head of Capital Markets Economics
 416.863.7707
 Scotiabank Economics
derek.holt@scotiabank.com

China's Mixed Growth Signals



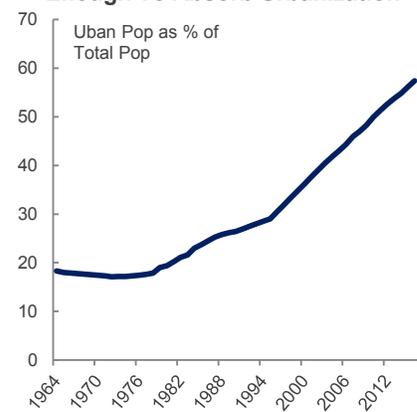
Sources: Scotiabank Economics, Bloomberg.

China's Population Growth Rate



Sources: Scotiabank Economics, Bloomberg.

China's Growth Needs To Be Strong Enough To Absorb Urbanization



Sources: Scotiabank Economics, Bloomberg.

- Sovereign bond yields are falling again. The US Treasury curve is down 3–4 bps across maturities with the ten year at 2.38%. Canada's curve is slightly underperforming with its 10 year at 1.66%. What a bargain at below inflation. The gilts curve is bull flattening with 10s down 6bps as Brexit motivate political tensions rise. Italian spreads over bunds are rising again as Italy is paying about 9bps more to borrow 10 year money than Germany compared to yesterday.
- US equity futures are down about ¼% with TSX futures flat. European cash markets range from flat (London) to down everywhere else by up to 1% in Italy. Asian equities followed yesterday's western markets higher and ignored soft Chinese data. Mainland China rallied by about 2% on average with Tokyo up by just over ½% and Seoul up similarly.

China's economy stumbled, but not quite as badly as one might think from the headlines. The way to look at their overnight releases is in year-to-date growth terms that essentially compensate for the fact that the individual months to start off the year can be distorted by the shifting timing of the annual lunar new year. This effect results in oscillating impressions of boom or bust from one month to the next as seasonal adjustment factors fail to fully control for this shifting effect each year. On that ytd basis, here's what we learned:

- industrial production is up by 6.2% ytd over the same four month period last year. That's slower than in 2017 and 2018, but China has been there before in 2015–16 and survived (see chart that plots ytd growth each April over prior years). This bears monitoring, not panic.
- It's a different picture for the consumer. Retail sales growth on the same basis is rising at what appears to be a solid rate of 8% (see chart again), but that's the coolest pace since 2003.
- Finally, we have fixed asset investments that on the same ytd basis are rising at the weakest pace since the data began in 1998 (+6.1% ytd/ytd).

China's population growth has all but ground to a halt (see chart). There is a chicken-and-egg argument on the growth implications. Slower population growth can mean weaker GDP growth over time as one of many drivers. But slower population growth can also be less destabilizing when slower growth arrives in that it makes workforce integration challenges less severe. Put another way, it can mean fewer idled workers standing around posing problems for the state. The problem with this interpretation, however, is that we need to also consider the vast movement of people to the cities through China's sharply rising rate of urbanization (chart). Aggregate population growth may be slow, but the economy needs to be strong enough to absorb workers otherwise standing around in more concentrated population centres.

Colombia will update Q1 GDP growth at 12pmET. In year-ago terms, growth should continue to be on the mend to 3% y/y. That would maintain the acceleration from a trough of 1% y/y growth in 2016Q3.

Germany's economy rebounded in line with expectations for Q1 GDP growth of 0.4% q/q (seasonally adjusted, non-annualized). This follows no growth in Q4 and a mild dip of -0.2% q/q in Q3. Hallelujah. Except for the fact that the same Brexit stocking that affecting UK GDP growth in Q1 and that may not be sustainable may have also influenced Germany's growth. Recall that German exports to the UK advanced quite solidly in Q1. We can't, however, really assess the role of this effect just yet because of the quirky way Germany releases GDP figures. Germany only gives the headline print on the first pass and keeps economists guessing until the second estimate (May 23rd) when the underlying details and drivers of growth are released. Stay tuned to see how solid Germany's growth really was is the point.

Nevertheless, with Germany now in, the Eurozone GDP add-up was offered earlier this morning and growth matched consensus at 0.4% q/q and 1.2% y/y. By way of green shoots, that's a modest one. France was up 0.3%, Italy 0.2% and Spain was up 0.7%.

CANADA

Canada gets a double shot of macro readings this morning through CPI for April (8:30amET) followed by home resales for the same month thirty minutes later. Scotia's Marc Desormeaux will cover home sales, but the individual city readings merit expectations for a higher reading and in no small part driven by Toronto's 11.3% m/m seasonally adjusted sales jump ([here](#)) that illustrates it's not all about Vancouver.

As for CPI, inflation should at least hang onto March's 1.9% y/y reading and could face marginal upside pressure. Base effects alone would counsel a softening of headline inflation to 1.6% in April. But April is traditionally a seasonal up-month for

prices albeit at a cooling pace than is typically the case over the January through March period. Furthermore, gasoline prices probably added around two-tenths to headline CPI inflation in year-ago terms on top of single-handedly driving CPI up by at least 0.3% m/m. Overall, a reading in the 1.9–2.0% range is likely and that would keep inflation pretty much on the BoC's 2% mid-point of the 1–3% inflation target range. Then we're left with difficulty in pre-judging the average of the BoC's three core inflation metrics that were bang on 2% in March. Our house expectation is that core inflation remains little changed over coming months. On-target inflation hardly merits rate cut pricing.

Canada auctions 3s at noon today.

UNITED STATES

Retail sales will be the marquee release when April's tally hits on Wednesday and at least the headline could be somewhat of a setback. The volume of vehicle sales fell -6.3% m/m in April. Vehicle prices were soft as new vehicle prices were up by only 0.1% m/m but used vehicle prices fell by 1.3%. Vehicles carry a 20% weight and so this will be a significant drag on total retail sales. Gas prices were up 10.3% m/m with an 8.4% weight and so this should offset some of the vehicles effect assuming the volume of gasoline purchases is little changed. Also recall that core sales ex-autos and gas were quite strong in March and so there might be moderation in April. What may well offset this moderation argument is momentum driven by solid jobs and pent-up demand. Overall, I've gone with +0.1% for headline sales and 0.5% for sales ex-autos.

US industrial output in April is also on tap (9:15amET) amid expectations for little to no growth while the first of the fresh tranche of regional manufacturing surveys arrives (Empire, 8:30amET) to start the path toward tracking risks to the next ISM-manufacturing reading.

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.	2.16	2.20	2.30	2.15	2.19	2.29	2.38	2.41	2.48	2.82	2.85	2.89	Canada - BoC	1.75
CANADA	1.58	1.60	1.59	1.54	1.57	1.57	1.66	1.69	1.70	1.89	1.92	1.96	US - Fed	2.50
GERMANY	-0.66	-0.63	-0.61	-0.53	-0.49	-0.46	-0.12	-0.07	-0.04	0.51	0.57	0.60	England - BoE	0.75
JAPAN	-0.16	-0.16	-0.15	-0.16	-0.16	-0.16	-0.05	-0.05	-0.05	0.54	0.54	0.54	Euro zone - ECB	0.00
U.K.	0.69	0.72	0.75	0.80	0.84	0.88	1.04	1.11	1.14	1.59	1.65	1.67	Japan - BoJ	-0.10
Spreads vs. U.S. (bps):														
CANADA	-58	-60	-70	-61	-62	-72	-72	-72	-78	-93	-93	-94	Mexico - Banxico	8.25
GERMANY	-282	-283	-291	-268	-268	-275	-250	-248	-253	-231	-228	-229	Australia - RBA	1.50
JAPAN	-232	-235	-245	-231	-235	-245	-243	-246	-253	-228	-231	-236	New Zealand - RBNZ	1.50
U.K.	-147	-148	-155	-135	-135	-141	-133	-131	-135	-122	-120	-123	Next Meeting Date	
Equities	Level			Change			1 Day			% change:				
	Last						1 Day	1-wk	1-mo	1-yr				
S&P/TSX	16285			91.1			0.6	-0.4	-1.4	1.2			Canada - BoC	May 29, 2019
Dow 30	25532			207.1			0.8	-1.7	-3.2	3.3			US - Fed	Jun 19, 2019
S&P 500	2834			22.5			0.8	-1.7	-2.4	4.5			England - BoE	Jun 20, 2019
Nasdaq	7734			87.5			1.1	-2.9	-3.0	5.2			Euro zone - ECB	Jun 06, 2019
DAX	11919			-72.9			-0.6	-2.1	-0.8	-8.1			Japan - BoJ	Jun 20, 2019
FTSE	7239			-2.5			-0.0	-0.4	-2.7	-6.3			Mexico - Banxico	May 16, 2019
Nikkei	21189			121.3			0.6	-1.9	-4.4	-7.1			Australia - RBA	Jun 04, 2019
Hang Seng	28269			146.7			0.5	-3.7	-5.2	-9.3			New Zealand - RBNZ	Jun 25, 2019
CAC	5315			-26.1			-0.5	-1.9	-3.5	-4.3				
Commodities	Level			Change			1 Day			% change:				
WTI Crude	61.22			-0.56			-0.9	-1.4	-3.4	-14.1			England - BoE	Jun 20, 2019
Natural Gas	2.66			0.00			0.2	2.0	2.8	-6.1			Euro zone - ECB	Jun 06, 2019
Gold	1300.53			3.63			0.3	1.5	1.0	0.8			Japan - BoJ	Jun 20, 2019
Silver	14.76			0.10			0.6	-0.5	-2.1	-11.4				
CRB Index	179.93			-0.07			-0.0	0.1	-4.0	-11.6				
Currencies	Level			Change			1 Day			% change:				
USDCAD	1.3479			0.0017			0.1	0.0	0.8	4.7			Mexico - Banxico	May 16, 2019
EURUSD	1.1182			-0.0022			-0.2	-0.1	-1.1	-5.5			Australia - RBA	Jun 04, 2019
USDJPY	109.29			-0.3200			-0.3	-0.7	-2.5	-1.0			New Zealand - RBNZ	Jun 25, 2019
AUDUSD	0.6917			-0.0027			-0.4	-1.0	-3.6	-7.4				
GBPUSD	1.2884			-0.0021			-0.2	-0.9	-1.6	-4.6				
USDCHF	1.0083			-0.0004			-0.0	-1.2	0.4	0.7				

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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