

**ON DECK FOR THURSDAY, MAY 16**

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	05/16	08:30	International Securities Transactions (C\$ bn)	Mar	--	--	12.0
CA	05/16	08:30	Manufacturing Shipments (m/m)	Mar	1.0	1.5	-0.2
US	05/16	08:30	Building Permits (000s a.r.)	Apr	1280	1287	1269
US	05/16	08:30	Housing Starts (000s a.r.)	Apr	1200	1209	1139
US	05/16	08:30	Housing Starts (m/m)	Apr	5.4	6.2	-0.3
US	05/16	08:30	Initial Jobless Claims (000s)	MAY 11	230	221	228
US	05/16	08:30	Continuing Claims (000s)	MAY 4	1685	1680	1684
US	05/16	08:30	Philadelphia Fed Index	May	12.0	9.0	8.5

**KEY POINTS:**

- Global markets in tentative risk-on mode
- Ross casts fresh doubt on Trump's auto tariff stance
- CDN manufacturing another green shoot?
- US: starts, claims, Philly Fed
- Fed-speak: Brainard on the outlook
- Fed rate cuts would enable Trump's protectionism
- Banxico expected to hold
- CDN job gains: not looking fake according to all three measures
- BoC's Poloz on financial stability and green shoots
- Weidmann downplays rate tiering
- Bank Indonesia holds
- Australian jobs gain, but is an up-tick in the UR sufficient for RBA easing?
- China's new home price gains are at a cycle high
- Oil up on Saudi claims against Iran

**INTERNATIONAL**

**A mild risk-on bias across asset classes may be vulnerable to mixed US policy signals.** US Commerce Secretary Wilbur Ross delivered an interview this morning and seemed to downplay yesterday's unconfirmed reports that the decision on auto tariffs would be postponed by six months beyond this Saturday's deadline to respond to the auto industry review back in February. Ross emphasized Trump's options, said that talks could continue after May and that a decision would be made on Saturday. Weidmann's downplaying of ECB rate tiering to mitigate negative rate effects upon banks, Australian jobs and RBA implications, a policy hold by Bank Indonesia, and cycle high gains in Chinese property prices are all elaborated upon below. Canada will focus upon manufacturing shipments and the BoC's financial stability report that when combined with **Governor Poloz's press conference may focus further upon mortgage and housing markets while emphasizing green shoots amid binary risks to trade policy.** US markets face Fed-speak, housing starts and the Philly Fed's leading indicator for ISM-manufacturing. **Banxico** is expected to hold this afternoon.

**CONTACTS**

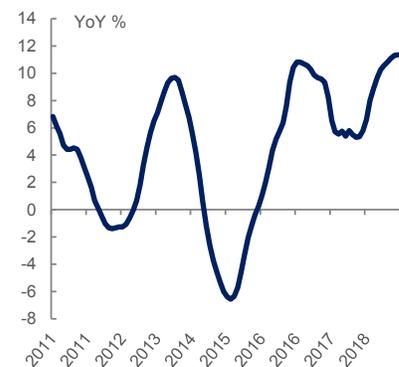
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**Australian Wage Growth at Highest Since 2015**



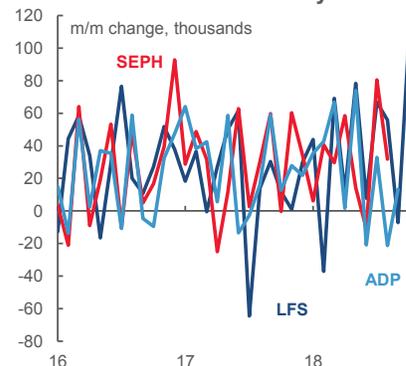
Sources: Scotiabank Economics, Bloomberg.

**China's New Home Prices Are Reaching New Highs**



Sources: Scotiabank Economics, Bloomberg.

**Canadian Job Surveys**



Sources: Scotiabank Economics, Statistics Canada, ADP.

- The USD is little changed on a DXY basis as appreciating crosses (rand, CAD, MXN, NZ\$) offset depreciating crosses (sterling, won) with key currencies like the euro and yen flat.
- Sovereign bonds are mixed with US Treasury yields slightly higher in a mild bear flattener, Canada's curve is flat, and European 10s somewhat richer and particularly across the riskier Italian and peripheral markets. Italy's 10 year spread over bunds is tighter by about 5bps for a change.
- US and Canadian equity futures are rallying by about ¼% across the exchanges. European cash markets are up by between ¼% and ¾% with London lagging and the Dax leading. Mainland Chinese stock markets were up ½% but HK was flat, the Nikkei was down ½% and Seoul sank by over 1%.
- Oil prices are richer in a reversal of yesterday morning's softness that was driven by US inventories. WTI and Brent are both up by around 85 cents to about US\$62.85 and US\$72.65 respectively. The Saudis are claiming that Iran was behind a pipeline attack in Yemen.

**Banxico is not expected to alter its policy rate of 8.25% (2pmET).** Higher food and energy prices played a role in pumping inflation to 4.4% y/y in April and hence above the upper limit of the 2–4% inflation target range. Core inflation increased to 3.9% y/y in April and remains just under the upper limit. Services inflation jumped to 4.0% y/y. Transitory influences upon commodity prices, potential Easter distortions, and 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.

**Australia added another 28,400 jobs last month,** but the quality wasn't great. All of the rise was in part-time employment (+34.7k) as full-time jobs fell (-6.3k). The unemployment rate moved up to 5.2% from an upwardly revised 5.1% the prior month. This was because more people went out seeking work than got jobs which is a way is a double positive.

**What it means to the RBA is open to debate.** The RBA has guided that decelerating inflation *and* a rise in unemployment are required to deliver monetary easing. It was, however, vague on the issue of what constitutes a rise in unemployment. Is a one or two tenths rise in the unemployment rate sufficient? Does it matter why the UR increase (ie: lost jobs versus more seekers)? Further, one can't help but think that targeting the unemployment rate is a tad too simplistic. Australian wage growth is perhaps a better measure of labour slack and at 2.3% it held firm in Q1 at the highest pace of increase since mid-2015 (see chart). Markets think otherwise. The A\$ is flat and shook off the report, but the 2 year Australian government bond yield rallied by about 5bps initially and retained most of that through the overnight session.

**Bank Indonesia surprised no one as it kept its policy 7 day reverse repo rate unchanged at 6%.** The bias was fairly neutral and that resulted in a flat rupiah. Governor Warjiyo was somewhat more direct than the statement ([here](#)). He said that global markets and the rupiah will be monitored "in considering the room for an accommodative monetary policy in line with low inflation and the need to push domestic economic growth." He was more direct on the importance of the rupiah's direction in tailoring policy rates by noting the emphasis upon "the external stability of Indonesia's economy amid increasing uncertainties in global financial market." Import price pass-through effects that can stem from currency stability are a dominant consideration to the central bank.

**Bundesbank President—and candidate for Draghi's job when he steps down on Halloween—Jens Weidmann argued against tiering the negative deposit rate structure** as the Bank of Japan has done. Weidmann noted that the benefits to tiering "would be noticeable yet insignificant" and that the net effect could be negative to banks because of "postponed expectations of monetary policy normalization." The ECB next meets on June 6<sup>th</sup>.

**China's new home prices continue to tear higher.** The overnight release for April was up by 11.3% y/y and is retaining the acceleration that has been in place since the middle of last year (see chart). This is a double edged sword. It's a plus to wealth effects on consumption if Chinese homeowners feel wealthier. But it's a challenge to new home affordability and with the pace of increase at a cycle high it feeds concern about property bubbles.

**CANADA**

**Canada's manufacturing shipments for March (8:30amET) could be a strong reading.** Recall that exports were up 3.2% m/m in March and most of that came through higher volumes (+2.6%) as opposed to prices. The breadth of the gain was encouraging and swept through categories like autos and parts, chemicals and plastics and petrochemicals that are all manufacturing intensive. My estimate is for 1% m/m growth in shipments and consensus is at 1.5% with a range from 0.1% to 1.5% but the low end is a downside outlier. It's plausible that higher exports came out of inventories that may not translate well into shipments. Also keep an eye on new orders for a momentum signal; they climbed by 1.5% m/m in February but have been wickedly volatile over recent months.

**Canada also releases ADP payrolls for April (8:30amET).** It's a volatile report and there is never any consensus estimate. It does, however, serve as a bit of a cross check on other estimates of job growth. Enter the accompanying chart that compares the three main readings of Canadian employment changes since job growth started to accelerate after mid-2016. One is the Labour Force Survey which is a household survey and was the one that popped your socks off last Friday. Two is the Survey of Employment, Payrolls and Hours which is closer to being Canada's version of the US nonfarm payrolls survey. Three is ADP's payrolls survey. Two points stem from this.

1. Individual monthly readings are often correlated but the differences across the surveys can be material.

2. **They are all in the same ballpark by way of estimating cumulative job growth since mid-2016 when employment growth started to accelerate.** This is a big counterweight against assertions that the LFS is fake data, didn't see that, ignore it, doesn't fit the end of the world narrative etc etc. **Bearish economists have gotten Canada's labour market dead wrong for ages now.** Since July 2016, LFS has registered 972,000 new jobs, SEPH has recorded 899,000 new jobs and ADP has estimated 802,000 new jobs. If we constrain the estimates to identical periods up to February since LFS is the only one that goes up to April while ADP goes up to March and SEPH stops at February, then the July 2016 to February 2019 estimates are 873,000 for LFS, 899,000 for SEPH and 789,000 for ADP,

**Governor Poloz will issue the BoC's Financial System Review (10:30amET) and host a press conference at 11:15amET.** The greater market risk might be in the press conference. The report will focus upon stability matters with more promised insights into housing and mortgage markets. Poloz's recent mortgage market speech raised numerous concerns (recap [here](#)) and blowback by downplaying innovation and rather drastically over-simplifying potential future forms of innovation. Regardless, **the BoC's rebound narrative is performing quite well so the risks to any policy remarks in the press conference are on the hawkish side of neutral.**

**UNITED STATES**

**Modest US macro data risk is on tap. Housing starts** for April (8:30amET) are expected to jump higher. **The Philly Fed's business outlook survey** for May (8:30amET) will inform ISM-manufacturing expectations in the wake of yesterday's better than expected Empire report on manufacturing conditions in New York. The Philly Fed and Richmond Fed (May 29<sup>th</sup>) are the best correlated with ISM. **US jobless claims** (8:30amET) have held stubbornly around the 230k range after spiking higher from a low of 193k in mid-April and it's getting less likely that this rise was due to the Easter holiday shift or strikes or education sector issues. Today's reading gets closer to the nonfarm reference period which is the pay period that includes the 12<sup>th</sup> of each month and therefore pay slightly more attention to its signals.

**Three Fed speakers are on tap but I'd pay particularly close attention to Governor Brainard's address because it is focused upon the outlook and monetary policy (12:15pmET).** Vice Chair Quarles also speaks (10amET) but on regulatory supervision. Minneapolis Fed President Kashkari (nonvoting) speaks at 12:05pmET also on monetary policy and the economy. **My hope throughout it all is that the Fed will not set itself up to be Trump's enabler, or rather an enabler to US isolationism and protectionism.** Obsessing over the last inflation or employment rate or where things might go over the next six months risks missing the forest for the trees. If the Fed were to be brought toward easing because of the instability caused by US protectionism, they'll wind up captured by the Trump administration and emboldening the administration's damaging policies which would be unfortunate in terms of the longer run end games of global economic and policy stability for the sake of improving living standards.

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.	2.18	2.16	2.26	2.16	2.15	2.25	2.38	2.37	2.44	2.82	2.82	2.86	Canada - BoC	1.75
CANADA	1.59	1.58	1.58	1.54	1.54	1.55	1.67	1.66	1.68	1.90	1.90	1.93	US - Fed	2.50
GERMANY	-0.65	-0.65	-0.63	-0.51	-0.51	-0.47	-0.11	-0.10	-0.05	0.53	0.53	0.60	England - BoE	0.75
JAPAN	-0.16	-0.16	-0.16	-0.17	-0.16	-0.16	-0.06	-0.05	-0.05	0.52	0.54	0.54		
U.K.	0.69	0.71	0.74	0.80	0.82	0.87	1.05	1.07	1.13	1.60	1.61	1.66		
	Spreads vs. U.S. (bps):													
CANADA	-59	-58	-68	-62	-61	-69	-72	-71	-77	-92	-92	-94	Euro zone - ECB	0.00
GERMANY	-283	-281	-289	-267	-266	-272	-249	-247	-249	-229	-229	-226	Japan - BoJ	-0.10
JAPAN	-234	-232	-242	-233	-231	-241	-244	-243	-249	-231	-229	-232		
U.K.	-149	-145	-152	-137	-133	-138	-133	-131	-132	-122	-121	-120	Mexico - Banxico	8.25
Equities	Level						% change:							
	Last		Change		1 Day		1-wk		1-mo		1-yr			
S&P/TSX	16318		33.6		0.2		-0.5		-1.1		1.3		Australia - RBA	1.50
Dow 30	25648		116.0		0.5		-1.2		-3.0		3.5		New Zealand - RBNZ	1.50
S&P 500	2851		16.6		0.6		-1.0		-1.9		4.7			
Nasdaq	7822		87.7		1.1		-1.5		-2.2		5.7			
DAX	12182		82.8		0.7		1.7		0.7		-6.3			
FTSE	7316		18.9		0.3		1.5		-2.1		-5.4			
Nikkei	21063		-125.6		-0.6		-1.6		-5.2		-7.3		Canada - BoC	May 29, 2019
Hang Seng	28275		6.4		0.0		-2.5		-6.2		-9.1		US - Fed	Jun 19, 2019
CAC	5391		16.4		0.3		1.5		-2.5		-3.2			
Commodities	Level						% change:							
WTI Crude	62.78		0.76		1.2		1.8		-2.0		-12.2		England - BoE	Jun 20, 2019
Natural Gas	2.60		-0.00		-0.0		0.2		1.1		-7.6		Euro zone - ECB	Jun 06, 2019
Gold	1294.20		-2.33		-0.2		0.8		1.4		0.3		Japan - BoJ	Jun 20, 2019
Silver	14.82		0.06		0.4		-0.8		-0.8		-9.7			
CRB Index	182.08		1.42		0.8		1.7		-2.8		-10.6			
Currencies	Level						% change:							
USDCAD	1.3423		-0.0015		-0.1		-0.4		0.5		4.9		Mexico - Banxico	May 16, 2019
EURUSD	1.1204		0.0003		0.0		-0.1		-0.7		-5.1		Australia - RBA	Jun 04, 2019
USDJPY	109.62		0.0200		0.0		-0.1		-2.1		-0.7			
AUDUSD	0.6913		-0.0015		-0.2		-1.1		-3.7		-8.0			
GBPUSD	1.2810		-0.0035		-0.3		-1.6		-1.8		-5.0		New Zealand - RBNZ	Jun 25, 2019
USDCHF	1.0091		0.0004		0.0		-0.6		0.1		0.8			

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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