

ON DECK FOR FRIDAY, JUNE 7

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	06/07	08:30	Capacity Utilization (%)	1Q	--	81.0	81.7
CA	06/07	08:30	Employment (000s m/m)	May	10	5.0	106.5
CA	06/07	08:30	Unemployment Rate (%)	May	5.7	5.7	5.7
US	06/07	08:30	Average Hourly Earnings (m/m)	May	--	0.3	0.2
US	06/07	08:30	Average Hourly Earnings (y/y)	May	3.1	3.2	3.2
US	06/07	08:30	Average Weekly Hours	May	--	34.5	34.4
US	06/07	08:30	Nonfarm Employment Report (000s m/m)	May	200	180	263
US	06/07	08:30	Unemployment Rate (%)	May	3.6	3.6	3.6
US	06/07	15:00	Consumer Credit (US\$ bn m/m)	Apr	--	13.0	10.3

KEY POINTS:

- Will nonfarm be a case of goods news is bad news for stocks, or vice versa?
- Will US nonfarm follow ADP, or ISM-employment and claims?
- CDN jobs: downside risk, but how much?
- German economy cratered in April
- PBOC downplays fiscal & monpol stimulus now...
- ...but rightly points to enormous room to stimulate if needed...
- ...although markets didn't believe his stable RMB scenario
- Mexican CPI expected to hold steady for now...
- ...but peso depreciation could boost inflation...
- ...and complicate Banxico's flexibility
- Will Chile hold its policy rate today?

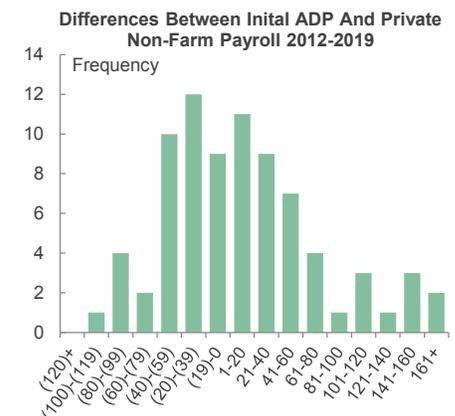
INTERNATIONAL

Will good news be bad news for stocks or vice versa on the back of the US jobs report? We'll find out soon enough. US nonfarm payrolls will dominate global market attention this morning in no small part due to the Fed policy expectations argument. Canada also updates jobs after a barn burner of a report in April. Germany's economy was very weak in April. The PBOC guided no monetary of fiscal policy adjustments soon but jawboned future flexibility and Chinese stocks were unimpressed. Mexican CPI will inform Banxico risks, but peso depreciation is complicating their end of June meeting. Chile is expected to hold with cut risk tonight.

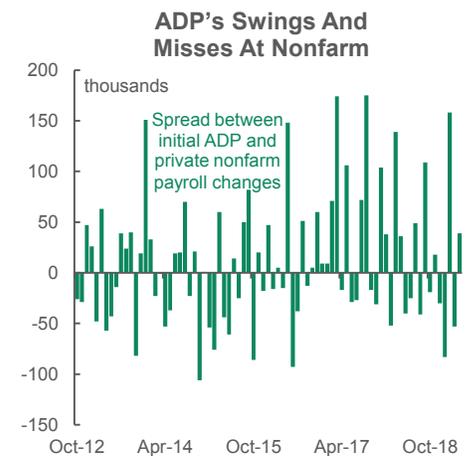
- The USD is strengthening into nonfarm payrolls. Each of the Mexican peso, Euro, yen and several other crosses are leading the decliners while slightly appreciating crosses include pound sterling and CAD.
- The Treasury curve is flat and so is Canada's curve ahead of dual jobs reports. Gilts are cheaper by 1–2 bps across the curve. Bunds and French bonds are little changed.
- Oil prices are up by about a buck in terms of WTI and Brent as Sudia Arabia's energy minister stated "I don't think the question is at all whether we

CONTACTS

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



Sources: Scotiabank Economics, BLS, ADP.



will extend or not. A rollover is almost in the bag for OPEC. The question is to calibrate with non-OPEC if there needs to be an adjustment from the first half.”

- Stocks are up. US equity futures are rallying by between ¼% and ½%. We’ll see if good news is bad news for stocks on nonfarm, or vice versa through the Fed rate connection. TSX futures are up by over ¼%. European cash markets are up by between ¾% (Dax) and 1.5% (Paris).

Germany’s economy cratered in April across multiple industrial and trade readings.

Industrial output fell by 1.9% m/m (-0.5% consensus, +0.5% prior) for the largest since August 2015 and every component fell from manufacturing through intermediate goods and capital goods, consumer goods and energy with the sole exception being a 0.2% rise in construction output. Exports plunged by 3.7% m/m (-0.9% consensus, +1.5% prior) for the largest single-month decline since August 2015. Imports fell by 1.3% m/m (-0.2% consensus, +0.7% prior). See the pair of accompanying charts.

If Governor Yi Gang of the People’s Bank of China stepped up to boost confidence, then it’s certainly not clear that it worked. His remarks hit the wires at about 11pmET overnight, yet mainland China’s stock markets still marched lower. I think what markets latched onto is his indication that the PBOC isn’t close to altering monetary policy and that his insider view on fiscal policy suggests likewise through that policy toolkit. He did, however, attempt to jawbone flexibility if conditions worsen, though his remark that implied yuan stability throughout would be a stretch. Currency markets didn’t believe him as the offshore renminbi depreciated and was among the worst overnight performers to the USD. Here’s what he said:

“I think our benchmark interest rate right now is in right level. I would say in terms of resources allocation at this level, I call it very close to golden level.”

“The central bank of China is pretty much not intervening in the foreign-exchange market for a long time, and I hope that this situation will continue, not intervening.”

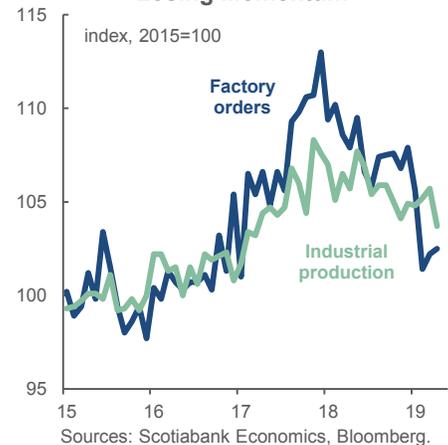
“Our fiscal policy this year is probably the largest and strongest fiscal reform package, in terms of the tax cuts, and also in terms of having more efficient fiscal resources allocation between the central government and the local government,” Yi said. “The current package is able to cover the cases where the situation is getting a little bit worse, but of course, if the situation gets tremendously worse, they will open the discussion. But right now they haven’t discussed that scenario yet.”

“We have plenty of room in interest rates, we have plenty of room in required reserve ratio rate, and also for the fiscal, monetary policy toolkit, I think the room for adjustment is tremendous.”

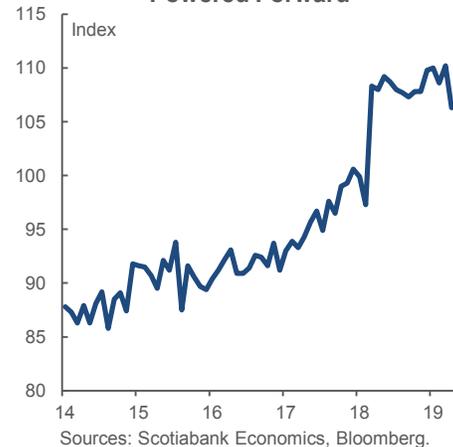
“A little bit of flexibility of renminbi is good for the Chinese economy and for the global economy because it provides an automatic stabilizer for the economy,” he said. “The central bank of China is pretty much not intervening in the foreign-exchange market for a long time, and I hope that this situation will continue, not intervening.”

Mexican CPI for May is on tap this morning (9amET). It may very well struggle to get attention behind nonfarm and through ongoing tariff negotiations and ratings issues. But for what it’s worth, the reading is expected to hold around 4.4% y/y after mildly accelerating over the prior couple of months. Inflation remains well above Banxico’s 2–4% policy target range. Going forward, inflation will be fascinating to monitor and along with that Banxico’s potential response. The peso is down again this morning and has depreciated by over 3% to the USD since Trump dropped the tariff bomb. The risk of import price pass-through to inflation if peso weakness is sustained could well complicate Banxico’s next decision on June 27th. Right now, the consensus of economists expects rate cuts by Banxico over the next year.

German Factories Still Losing Momentum



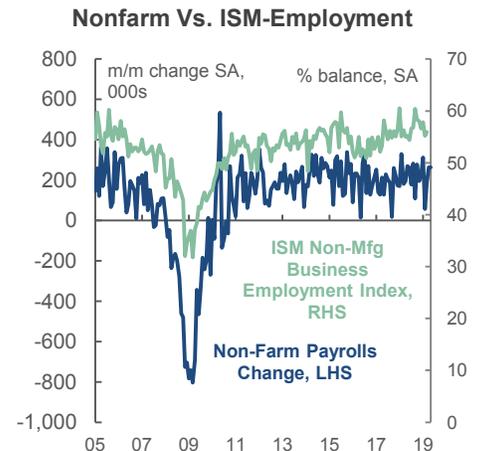
Germany’s Economy Has Powered Forward



Banco Central de Chile is expected by consensus to hold its policy rate unchanged at 3% (6pmET) but cut risk exists. **Inflation** is running toward the lower end of the central bank's 2–4% inflation target range but we'll find out May's reading at 8amET today.

UNITED STATES

Nonfarm payrolls (8:30amET) will be a contest between which one of two sets of potentially misleading indicators comes out on top. On the one side, we have the argument that nonfarm will be a solid print because initial jobless claims remained stable through the nonfarm reference period and because the ISM-services employment subindex improved by 4.1 points to 58.1. That argument is specious. For one, jobless insurance claims are a proxy for being thrown out of work and don't necessarily speak to whether or not hiring activity slowed or accelerated. Further, see the chart that shows that the ISM-services employment gauge isn't so hot at nailing nonfarm; a loose long-run correlation exists, but look at the magnitude of the misses when things turn ugly.

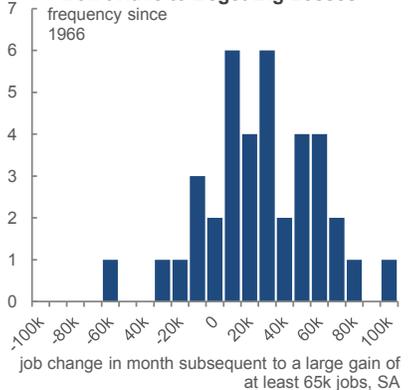


Sources: Scotiabank Economics, ISM, BLS.

Then on the other side we have an equally unreliable indicator of nonfarm in the form of ADP private payrolls. I put out [this](#) note last night on the connections between ADP private payrolls and nonfarm private payrolls. ADP provides a lot of misleading signals ahead of nonfarm, but it would be highly improbable statistically speaking for an ADP reading of 27k to be that large of a head fake for nonfarm to come in moderately strong. See the accompanying charts on the first page. Here are several knock on points:

- out of 77 estimates within Bloomberg's consensus, only eighteen submitted formal revisions to their estimates after Wednesday's ADP print. The overall consensus estimate is for a nonfarm print of 175k but the sample of those who submitted estimates after ADP is a median call for 160k. I did not submit a revised estimate and generally don't after ADP because of its historical wonkiness, but if ever ADP performs well, statistically speaking the odds of its doing so today are the highest they are likely to be.
- Also watch wage growth that is expected to be unchanged at 3.2% y/y but I've gone a tick lower than that on base effects and typical seasonal wage gains.

Big Gains In Canadian Employment Don't Have to Beget Big Losses



Sources: Scotiabank Economics, StatsCan.

CANADA

Canada also updates job growth for May (8:30amET) in the form of the household based Labour Force Survey. Recall that April posted a record single-month employment gain of 106,500 jobs. That might have one thinking that the next reading is obviously going to shed jobs. That may well prove to be correct, but don't assume so. Consensus expects a reading of +5k today but the spread across individual estimates is widely scattered. As for what goes up so much must surely come down, not so fast. Check out the accompanying histogram. It looks at what happened after months when there was a job gain of at least 65k since the inception of the LFS. **The next number was up 79% of the time**, flat 5% and down 16%. Months of 90k or more new jobs were followed by another gain 60% of the time. There is clearly a momentum argument, but by no means is it a certainty that another gain will follow. I've played the momentum odds with a very tentative 10k guesstimate. In any event, the advice remains to take into account all measures of job growth and pay the most attention to the trends.

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.	1.88	1.88	1.92	1.88	1.88	1.91	2.12	2.12	2.13	2.61	2.61	2.57	Canada - BoC	1.75
CANADA	1.38	1.38	1.43	1.33	1.33	1.36	1.45	1.46	1.49	1.74	1.74	1.77	US - Fed	2.50
GERMANY	-0.66	-0.65	-0.66	-0.58	-0.58	-0.58	-0.24	-0.24	-0.20	0.36	0.36	0.43	England - BoE	0.75
JAPAN	-0.20	-0.20	-0.17	-0.23	-0.23	-0.19	-0.12	-0.12	-0.09	0.39	0.41	0.46	Euro zone - ECB	0.00
U.K.	0.56	0.54	0.60	0.61	0.59	0.64	0.85	0.83	0.89	1.43	1.41	1.47	Japan - BoJ	-0.10
	Spreads vs. U.S. (bps):												Mexico - Banxico	8.25
CANADA	-50	-50	-50	-55	-56	-55	-66	-66	-64	-87	-87	-80	Australia - RBA	1.25
GERMANY	-253	-253	-258	-246	-247	-249	-235	-236	-233	-225	-225	-214	New Zealand - RBNZ	1.50
JAPAN	-207	-208	-210	-211	-212	-210	-224	-224	-222	-222	-221	-211		
U.K.	-132	-134	-132	-127	-129	-127	-127	-129	-124	-118	-118	-110		
Equities	Level			Level			% change:			% change:			Next Meeting Date	
	Last			Change			1 Day	1-wk		1-mo	1-yr			
S&P/TSX	16228			15.1			0.1	0.9		-0.8	0.2		Canada - BoC	Jul 10, 2019
Dow 30	25721			181.1			0.7	2.2		-0.9	1.9		US - Fed	Jun 19, 2019
S&P 500	2843			17.3			0.6	2.0		-1.4	2.6		England - BoE	Jun 20, 2019
Nasdaq	7616			40.1			0.5	0.6		-4.4	-0.3		Euro zone - ECB	Jul 25, 2019
DAX	12035			82.0			0.7	2.6		-0.5	-6.1		Japan - BoJ	Jun 20, 2019
FTSE	7320			60.4			0.8	2.2		0.8	-5.0		Mexico - Banxico	Jun 27, 2019
Nikkei	20885			110.7			0.5	1.4		-4.7	-8.5		Australia - RBA	Jul 02, 2019
Hang Seng	26965			69.8			0.3	-0.6		-8.2	-14.4		New Zealand - RBNZ	Jun 25, 2019
CAC	5354			75.6			1.4	2.8		-0.8	-1.7			
Commodities	Level			Level			% change:			% change:				
WTI Crude	53.34			0.75			1.4	-0.3		-13.1	-19.1			
Natural Gas	2.34			0.01			0.5	-4.8		-8.0	-20.3			
Gold	1335.21			-0.14			-0.0	2.3		4.0	2.9			
Silver	14.96			0.12			0.8	3.9		2.0	-9.6			
CRB Index	174.15			0.28			0.2	-0.7		-3.0	-12.7			
Currencies	Level			Level			% change:			% change:				
USDCAD	1.3358			-0.0004			-0.0	-1.2		-0.9	3.0			
EURUSD	1.1265			-0.0011			-0.1	0.9		0.7	-4.5			
USDJPY	108.49			0.0900			0.1	0.2		-1.6	-1.1			
AUDUSD	0.6969			-0.0008			-0.1	0.4		-0.6	-8.6			
GBPUSD	1.2709			0.0015			0.1	0.6		-2.8	-5.3			
USDCHF	0.9934			0.0022			0.2	-0.7		-2.6	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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