

ON DECK FOR MONDAY, JUNE 10

| Country | Date | Time | Event | Period | BNS | Consensus | Latest |
|---------|-------|-------|----------------------------|--------|-----|-----------|--------|
| CA | 06/10 | 08:15 | Housing Starts (000s a.r.) | May | 205 | 207.5 | 235 |
| CA | 06/10 | 08:30 | Building Permits (m/m) | Apr | -- | 1.8 | 2.1 |
| US | 06/10 | 10:00 | JOLTS Job Openings (000s) | Apr | -- | 7496 | 7488 |

KEY POINTS:

- Global markets start the week with a mild risk-on relief session
- US-Mexico deal averts tariff hike...
- ...but Trump's tweet re-injects uncertainty over the deal...
- ...as global trade tensions will remain high...
- ...and the case for Fed rate cuts remains solid
- Chilean peso tumbles on surprise rate cut
- US quiet, just JOLTS today...
- ...as the weeks' focus is upon CPI, retail sales
- CDN housing starts soften as expected, but still elevated
- Chinese trade: trust the rebound or is it fake invoicing?
- UK macro conditions sharply deteriorated in April...
- ...as Brexit destocking likely weighed upon the economy
- Global Week Ahead

Please see the Global Week Ahead [here](#) as a reminder of Friday's send-out. While weekend Mexican developments partly address one of the considerations, other key risks this week will include:

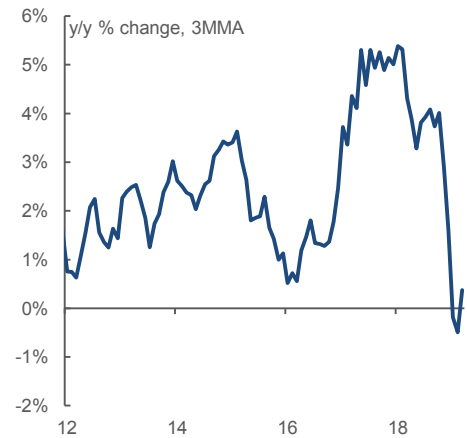
- China macro
- CBs: Russia, SNB, Peru, Turkey
- CPI: US, China, India, Indonesia...
- ...Sweden, Norway, Argentina,
- Fed blackout
- Italian fiscal drama
- US retail sales, confidence
- Australian jobs
- UK Conservative leadership contest begins
- UK macro reports
- Canada housing starts and prices

INTERNATIONAL

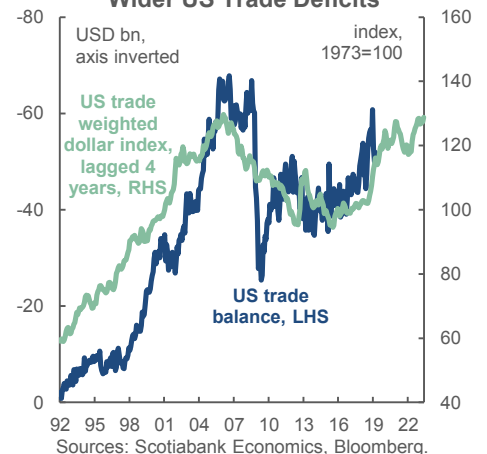
A mild risk-on relief session is being principally driven by a) avoidance of US tariffs on Mexico, b) solid Chinese trade figures. Both developments are worth deeper scrutiny (see below), while the general assumption of heightened global trade tensions is likely to persist. UK macro data disappointed expectations but likely due to Brexit-related destocking as the risk of a hard Brexit has at least been pushed out but may return. US markets are quiet

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World Trade Volume


Sources: Scotiabank Economics, Netherlands Bureau for Economic Policy Analysis.

USD Strength Will Keep Driving Wider US Trade Deficits


Sources: Scotiabank Economics, Bloomberg.

today with the Fed in blackout and just job vacancies on tap. Canadian housing starts slipped in line with expectations as volatile multies came off.

- The Mexican peso is the strongest appreciating currency versus the USD this morning, although it has weakened on a tweet by Trump (see below). The Chilean peso is weakening after the surprise rate 50bps rate cut after the market close on Friday that no one anticipated with the central bank's rationale being that "The recovery of the economy has not been enough to close the output gap and fuel inflation." The USD is otherwise broadly stronger against most other crosses with an exception being that CAD is flat.
- Sovereign bond yields are rising across the board. US Treasury yields are up by 4–5bps in a mild bear steepener. Canada's curve is cheapening by somewhat more at the front-end. Gilt yields are up by about 3bps across the curve and EGB yields are climbing by 4–7bps in 10s. The JGBs curve is unchanged.
- US equity futures are up by about ½% on average across the exchanges while the TSX is flat. European cash markets are up by between ¼% (Paris) and ¾% (Frankfurt). Asian exchanges rallied across the board and generally by between about 1% and 2¼% (HK).
- Oil prices are little changed with a tinge up upside. Gold is down US\$15 and is tracking the largest intraday decline since April 11th.

The Mexican peso is rallying this morning after the US and Mexico issued a joint statement on Friday evening that averted a 5% across the board tariff on Mexican imports that would have taken effect today ([here](#)). The broad outlines of the agreement include:

- Mexico will deploy up to 6,000 National Guard troops "throughout Mexico, giving priority to its southern border";
- A stronger pledge to allow asylum-seekers to stay in Mexico while their legal cases proceed;
- The US will rapidly return asylum seekers to Mexico;
- no "safe third country" treaty;
- negotiations will continue toward possibly further arrangements to be "completed and announced within 90 days, if necessary."

There are multiple lingering doubts about whether this agreement has effectively settled much of anything. They include:

- a) follow-through and enforcement by Mexico;
- b) whether the measures are adequate to stem the tide of migrants;
- c) whether Trump's use of tariffs for any future purposes has just been further emboldened in such fashion as to see destabilizing repeats in future;
- d) What lies next. On that point, Trump tweeted the following this morning:

"We have fully signed and documented another very important part of the Immigration and Security deal with Mexico, one that the U.S. has been asking about getting for many years. It will be revealed in the not too distant future and will need a vote by Mexico's Legislative body!We do not anticipate a problem with the vote but, if for any reason the approval is not forthcoming, Tariffs will be reinstated!"

It's unknown what this other agreement may be, whether Mexico will confirm its existence and prospects thereafter. **The Mexican peso gave back some of its morning appreciation after this tweet.**

Of note is that the NY times put out [this](#) piece over the weekend that claimed that the broad outlines of the agreement had been achieved months ago. This plays to the thesis that the tariffs were just a political diversionary tactic for Trump. Trump claims that a side deal was struck with Mexico for that country to purchase more US agricultural products, but Mexican officials are denying any such agreement.

In any event, does this ‘deal’ mean that the probability of the Fed cutting rates has been lessened? Not really.

a) It's a fact that world trade is already suffering for multiple reasons (chart 1);

b) Global trade tensions and uncertainty stemming from US trade policy remain dominant including ongoing Mexican uncertainty, ongoing NAFTA implementation risk with the Democrats holding out for environmental and labour protections, but more importantly US-China relations, the risk of future tensions with the EU including on autos and whatever else Trump targets through weaponized tariffs. The result is ongoing, pervasive uncertainty toward trade policy that would be exceptionally naïve to ignore or downplay given that many of the assumptions for trade policy risk to subside have been erroneous to date.

c) The US trade deficit is likely to keep getting worse (chart 2) and driven by varied drivers of US dollar strength that go beyond trade uncertainty and that have persisted for years. This will likely continue to make Trump agitate trade relations throughout the rest of his present mandate and perhaps a second one if he wins in 2020;

d) Other tensions such as Brexit have deteriorated;

e) The Fed remains focused upon soft core inflation with a CPI update coming later this week that may inform expectations for the next reading on the Fed's preferred inflation gauge;

f) The Fed is more aware this time around of the need to step in front of uncertainty and may well do so more aggressively than when its actions have lagged developments. This was a theme at last week's Chicago Fed conference on alterations to the framework. The weak nonfarm payrolls (recap [here](#)) and soft GDP tracking reinforce a sense of urgency.

China's trade figures surpassed expectations overnight. The May readings registered a 1.1% y/y rise in exports on a USD basis (-3.9% consensus) and a 7.7% rise in yuan terms (4.7% consensus). Imports fell by 8.5% y/y in USD terms (-3.5% consensus, +4.0% prior) and -2.5% in yuan terms (+5.8% consensus, 10.3% prior). Always treat Chinese trade figures with caution especially during such abrupt swings; in this case, the sudden depreciation of the yuan in May when it fell by 2½% versus the dollar could well have motivated fake invoicing to resurface particularly in the context of expectations for further depreciation. For now, I think it's prudent to reserve judgement on China's trade figures.

UK macro data disappointed expectations this morning and it might be the ongoing aftermath of prior Brexit-related stocking. Industrial production for April fell by 2.7% m/m (-1.0% consensus, +0.7% prior) and this was mainly due to a 3.9% decline in manufacturing output (-1.4% consensus, +0.9% prior) as construction output slipped by -0.4% m/m (+0.5% consensus). A monthly services reading came in flat for April (+0.1% consensus, -0.1% prior). The overall economy shrank by -0.4% m/m (-0.1% consensus, -0.1% prior). That was the largest retreat since March 2016.

UNITED STATES

The US only faces JOLTS job openings for April this morning (10amET) with zero market effect anticipated. The Federal Reserve is in communications blackout as of this past Saturday at midnight ahead of its policy decision on June 19th. The blackout means officials “will refrain” from commenting publicly. The main focal points for the US this week will include CPI on Wednesday and retail sales on Friday. Please see the Global Week Ahead for previews.

CANADA

Canadian housing starts softened to 202,300 last month from a slightly revised 233,400 the month before (235.5k prior). The main driver was an 18% m/m drop in multiple housing units following a large surge the prior month as single starts increased by 1.4%. CAD shook off the release as noise on a morning with bigger considerations.

| Fixed Income | Government Yield Curves (%): | | | | | | | | | | | | Central Banks | |
|--|------------------------------|---------|-------|--------|-------|-------|-----------|-------|--------------------|---------|--------------|------|------------------|-------|
| U.S. CANADA GERMANY JAPAN U.K. CANADA GERMANY JAPAN U.K. | 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 | | |
| | 1.89 | 1.85 | 1.83 | 1.90 | 1.85 | 1.84 | 2.13 | 2.08 | 2.07 | 2.62 | 2.57 | 2.53 | Canada - BoC | 1.75 |
| | 1.46 | 1.40 | 1.36 | 1.40 | 1.34 | 1.29 | 1.52 | 1.46 | 1.42 | 1.77 | 1.72 | 1.70 | US - Fed | 2.50 |
| | -0.67 | -0.67 | -0.65 | -0.59 | -0.60 | -0.57 | -0.22 | -0.26 | -0.20 | 0.41 | 0.33 | 0.42 | | |
| | -0.19 | -0.20 | -0.18 | -0.23 | -0.23 | -0.20 | -0.12 | -0.12 | -0.09 | 0.36 | 0.39 | 0.46 | England - BoE | 0.75 |
| | 0.56 | 0.53 | 0.57 | 0.61 | 0.58 | 0.61 | 0.84 | 0.81 | 0.86 | 1.43 | 1.40 | 1.45 | | |
| | Spreads vs. U.S. (bps): | | | | | | | | | | | | | |
| | -43 | -45 | -47 | -50 | -52 | -55 | -62 | -62 | -65 | -85 | -85 | -83 | Euro zone - ECB | 0.00 |
| | -256 | -252 | -248 | -249 | -245 | -241 | -235 | -234 | -227 | -221 | -225 | -211 | Japan - BoJ | -0.10 |
| -208 | -205 | -201 | -213 | -209 | -203 | -225 | -220 | -216 | -226 | -219 | -207 | | | |
| -133 | -132 | -126 | -129 | -127 | -122 | -129 | -127 | -121 | -119 | -118 | -108 | | | |
| Equities | Level | | | | | | % change: | | | | | | Mexico - Banxico | 8.25 |
| | Last | Change | | 1 Day | | 1-wk | 1-mo | 1-yr | | | | | | |
| S&P/TSX | 16231 | 3.2 | | 0.0 | | 1.2 | -0.4 | 0.2 | | | | | | |
| Dow 30 | 25984 | 263.3 | | 1.0 | | 4.7 | 0.2 | 2.6 | | | | | | |
| S&P 500 | 2873 | 29.9 | | 1.0 | | 4.4 | -0.3 | 3.4 | | | | | | |
| Nasdaq | 7742 | 126.5 | | 1.7 | | 3.9 | -2.2 | 1.3 | | | | | | |
| DAX | 12045 | 92.2 | | 0.8 | | 2.7 | -0.1 | -5.6 | | | | | | |
| FTSE | 7373 | 41.5 | | 0.6 | | 2.6 | 2.4 | -4.0 | | | | | | |
| Nikkei | 21134 | 249.7 | | 1.2 | | 3.5 | -1.0 | -6.9 | | | | | | |
| Hang Seng | 27579 | 613.4 | | 2.3 | | 2.5 | -6.1 | -12.5 | | | | | | |
| CAC | 5382 | 17.6 | | 0.3 | | 2.7 | 1.0 | -1.3 | | | | | | |
| Commodities | Level | | | | | | % change: | | | | | | | |
| | | Change | | 0.6 | | 2.0 | -11.9 | -17.4 | | | | | | |
| WTI Crude | 54.32 | 0.33 | | 0.7 | | -2.1 | -10.2 | -18.6 | | | | | | |
| Natural Gas | 2.35 | 0.02 | | -1.0 | | 0.1 | 3.2 | 2.1 | | | | | | |
| Gold | 1327.17 | -13.64 | | -0.3 | | 3.0 | 0.5 | -11.0 | | | | | | |
| Silver | 14.91 | -0.05 | | -0.1 | | -0.3 | -2.7 | -12.9 | | | | | | |
| CRB Index | 174.19 | -0.23 | | | | | | | | | | | | |
| Currencies | Level | | | | | | % change: | | | | | | | |
| | | Change | | 0.1 | | -1.2 | -1.0 | 2.3 | | | | | | |
| USDCAD | 1.3277 | 0.0010 | | -0.3 | | 0.6 | 0.6 | -4.1 | | | | | | |
| EURUSD | 1.1305 | -0.0029 | | 0.4 | | 0.5 | -1.2 | -1.3 | | | | | | |
| USDJPY | 108.61 | 0.4200 | | -0.5 | | -0.2 | -0.5 | -8.5 | | | | | | |
| AUDUSD | 0.6964 | -0.0037 | | -0.6 | | 0.0 | -2.6 | -5.3 | | | | | | |
| GBPUSD | 1.2665 | -0.0072 | | 0.3 | | -0.2 | -2.1 | 0.6 | | | | | | |
| USDCHF | 0.9909 | 0.0032 | | | | | | | | | | | | |
| | | | | | | | | | Next Meeting Date | | | | | |
| | | | | | | | | | Canada - BoC | | Jul 10, 2019 | | | |
| | | | | | | | | | US - Fed | | Jun 19, 2019 | | | |
| | | | | | | | | | England - BoE | | Jun 20, 2019 | | | |
| | | | | | | | | | Euro zone - ECB | | Jul 25, 2019 | | | |
| | | | | | | | | | Japan - BoJ | | Jun 20, 2019 | | | |
| | | | | | | | | | Mexico - Banxico | | Jun 27, 2019 | | | |
| | | | | | | | | | Australia - RBA | | Jul 02, 2019 | | | |
| | | | | | | | | | New Zealand - RBNZ | | Jun 25, 2019 | | | |

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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