

**ON DECK FOR WEDNESDAY, JUNE 19**

| Country | Date  | Time  | Indicator                         | Period | BNS | Consensus | Latest |
|---------|-------|-------|-----------------------------------|--------|-----|-----------|--------|
| US      | 06/19 | 07:00 | MBA Mortgage Applications (w/w)   | JUN 14 | --  | --        | 26.8   |
| CA      | 06/19 | 08:30 | Core CPI - Common (y/y)           | May    | --  | 1.9       | 1.8    |
| CA      | 06/19 | 08:30 | Core CPI - Median (y/y)           | May    | --  | 1.9       | 1.9    |
| CA      | 06/19 | 08:30 | Core CPI - Trim (y/y)             | May    | --  | 2.1       | 2.0    |
| CA      | 06/19 | 08:30 | CPI, All items (m/m)              | May    | 0.1 | 0.1       | 0.4    |
| CA      | 06/19 | 08:30 | CPI, All items (y/y)              | May    | 2.0 | 2.1       | 2.0    |
| CA      | 06/19 | 08:30 | CPI, All items (index)            | May    | --  | 136.0     | 136.0  |
| CA      | 06/19 | 08:30 | Teranet - National Bank HPI (y/y) | May    | --  | --        | 1.2    |
| US      | 06/19 | 14:00 | FOMC Interest Rate Meeting (%)    | Jun 19 | 2.5 | 2.50      | 2.50   |

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**KEY POINTS:**

- Global markets on edge ahead of the Fed
- FOMC: when faced with so many binary interpretations of key issues...
- ...perhaps the best course lies in half measures
- CDN CPI: unchanged as idiosyncratic factors come off?
- UK core CPI declines by less than expected...
- ...but the BoE is still all about Brexit risks
- Brazil likely to stay on hold

It's Fed day, with a couple of other distractions here and there like Canadian and UK inflation plus Brazil's own rate decision. **If a Fed meeting is marked by binary options on how to interpret so many key issues, then perhaps the best course of action lies in half measures that give markets something, but not the whole prize.** A dovish turn is likely today, but it is by no means clear that the Fed can impress what's already priced which is the better part of three rate cuts by year-end and four over 2019–20 and the ten year Treasury at 2.08%. The debate is more focused upon whether the Fed will match or disappoint market expectations while still signalling easing. Just look at the state of the debate across consensus and financial market participants on some of the core issues.

- Nonfarm terrified them and landed after most Fed-speak. Nonfarm was just one print in a volatile measure that could bounce higher next time.
- Core inflation is going to remain low or fall further. Core inflation is weighed down by transitory influences so just wait for it to rise toward target.
- The fact core inflation is underperforming the target is suddenly a big problem and only massive easing might do something about proving the 2% goal to be a symmetrical target. Inflation's undershooting has been a fact for a decade and life has gone on; in fact, core PCE inflation has run below 2% for more like two decades except for the 2004–07 period.
- Monetary policy is effective at controlling inflation. Monetary policy alone can't ignite material inflation against secular forces at least not without massive easing, not a few cuts.

- There are no bubbles or risks of financial excess. Easing would inflame imbalances and do it all over again by creating a future crisis.
- Falling inflation expectations by some measures pose a real problem to the Fed's credibility. Delving too deeply into the usefulness of measures of inflation expectations is much like thinking too much about what's in your hot dog.
- The Fed is still of the mindset it must act in dribs and drabs and tee up future moves well in advance. Today's Fed has more conviction to act more quickly with shock and awe than it has in the past.
- Trade policy risks will keep getting worse. Trump and Xi Jinping could rekindle their bromance next week.
- Moral hazard problems plague easing in that they'll embolden Trump to do more dumb things on trade. Moral hazard is the lesser of the risks to the Fed's dual mandate.
- The ECB is unfairly manipulating its currency and this requires a response after years of the US being taken advantage of. Look in the mirror, the Fed has manipulated and distorted global markets and bailed out everyone for many years now, distorted the whole world and thus delayed necessary structural adjustments.

Here is a run down of where markets sit ahead of it all:

- The USD is little changed on a DXY basis. Most currencies are fairly stable against the dollar with minor exceptions including rallies in the won, Taiwan dollar, Swiss franc and sterling (CPI, see below).
- US Treasuries are cheapening by about 2–3bps through 10s this morning. Canada's curve is performing similarly. Gilts are cheaper by 4bps across most maturities. EGBs are generally taking back some of yesterday's rally.
- Oil prices are flat (WTI) to a little lower (Brent) ahead of the US government's oil inventories report at 10:30amET.
- US equity futures are roughly flat and so are TSX futures. European cash markets are little changed on average with a slight decline in the FTSE100 versus a flat DAX and CAC40. Asian equities followed yesterday's ECB-inspired western market rally.

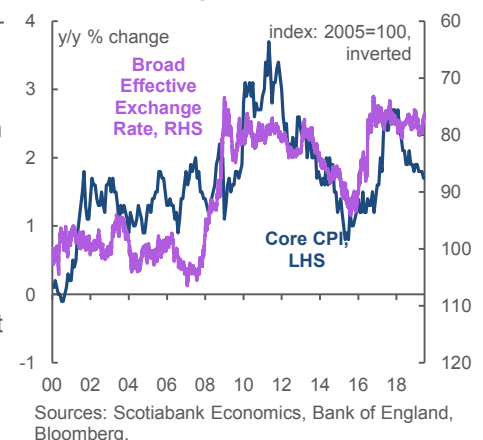
**UK core inflation slipped by a little less than expected and sterling very slightly appreciated in the aftermath.** Core CPI fell to 1.7% y/y in May (1.6% consensus, 1.8% prior). Headline inflation was 2.0% y/y, spot on consensus and a tick below the prior month. Core inflation has been falling since the beginning of last year when it was cruising around 2.7% at the peak. That prior peak was driven by the lagged effects of sterling's depreciation from the end of 2015 up to late 2016. Since then, sterling has been relatively range bound and so the currency pass-through effects should be stabilizing. See the accompanying chart. Regardless, ahead of tomorrow's Bank of England decisions, it's Brexit uncertainty that remains in the driver's seat.

**Banco Central do Brasil is expected to leave its Selic rate unchanged at 6.5% this afternoon (5pmET).** Inflation is running at 4.7% y/y which is roughly at the mid-point of the 3–6% inflation target range. A revised inflation outlook and discussion of risks to the outlook will inform the future policy bias.

## UNITED STATES

Here are my guesses at what the Federal Reserve may do today. See the Global Week Ahead ([here](#)) for fuller perspectives on these highlights. The GWA includes a table with my cheat sheet of pros and cons for material easing to help frame the debate. The dominant argument is inflation symmetry independent of trade effects. Trade uncertainty's direct and indirect roles are likely to play second or third fiddle such that the case for easing is likely to be positioned independently of Trump's trade protectionism. There is an economics case for doing so and certainly a political one.

**Currency Pass Through Driving UK Inflation**



- No rate change at this meeting. Improbable, not impossible. The Fed doesn't usually act when markets only have a one-in-four chance of easing priced in for right now versus over 80% odds priced in for July. The standard Fed playbook is to tee up a future move including a reference to 'soon' either today or in the minutes three weeks from now.
- Delete 'patient'? I'd say so, if for no other reason than not doing so while toeing the line against easing would cause huge market upheaval effects. If they downshift and don't want to disappoint then 'patient' is likely gone. Key is whether 'monitoring' or something more imminent sounding is then substituted or full-on dovish impatience is embraced. My hunch is that they'll delete patient but still signal reservations toward the outlook.
- The dot plot will shift down but it's unclear whether it will do so enough to alter the median rate projection and if so by how much. FOMC officials have been divided in their preparedness going into the meeting although nonfarm came after most of them had spoken. The hawks who advocated hikes this year will most assuredly swing to pauses but won't make a difference to the median forecast. Doves like Bullard and Evans might be joined by Clarida and Brainard among others, but whether they'll be joined by enough others to swing the median and what the Chair thinks as the final say is highly uncertain.
- Possibly upgrade 2019 gdp growth but downgrade 2020 growth and core pce.
- Historically they always move slowly which would counsel disappointment to what's priced. This is a test of whether thinking really has changed in favour of acting quicker and in favour of front loading changes as per advice from academics. I'm not sure they are there yet but a compromise could be to cut more sooner than priced, guide less than priced further out and jawbone further flexibility. Markets would retain some future accommodation in what is priced.
- Statement language: downgrade jobs, inflation expectations
- On balance sheet policy, I think they set their course at the March meeting. Expediting the September plan by a few months would carry little to no effect upon what's priced. Setting up a standing repo facility is possible but it's unclear they are there yet with other tools to rely upon in the meantime, and it's only a backstop with little immediate relevance.

## CANADA

**Canada updates CPI inflation for May this morning (8:30amET) and it will struggle to assert relevance on Fed day.** My estimate of 2.0% y/y is slightly softer than consensus that is at 2.1%. As argued in the week ahead, base effects should drop the inflation rate to 1.9% y/y, gas prices should continue to exert downward influence upon headline inflation, but seasonality and idiosyncratic factors are more complicated this time. May's seasonal influences upon month-ago seasonally unadjusted CPI can be all over the map in any given year and so the average of 0.3% m/m in May over recent years masks huge variations. More important is that April's CPI report was distorted by the shifting of the Easter holiday and Boeing's challenges that resulted in grounded planes; the two effects spiked travel tour pricing by 8.4% y/y and air transportation prices by 6.6% y/y. These effects should drop out and reverse in the May reading and could carry the day lower on the net result.

**The long awaited interview with Governor Poloz is finally out and it is inconsequential to markets.** Announced last Thursday, the wait time built considerable suspense and competing theories over why it hadn't yet been published. You can check it out [here](#) if you wish, but there is absolutely nothing of consequence to BoC watchers.

| Fixed Income   | Government Yield Curves (%): |         |       |        |       |       |           |           |       |         |       |      | Central Banks      |              |
|--|------------------------------|---------|-------|--------|-------|-------|-----------|-----------|-------|---------|-------|------|--------------------|--------------|
| U.S.<br>CANADA<br>GERMANY<br>JAPAN<br>U.K.<br><br>CANADA<br>GERMANY<br>JAPAN<br>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                         | 1.87    | 1.88  | 1.86   | 1.83  | 1.87  | 2.08      | 2.06      | 2.12  | 2.56    | 2.55  | 2.62 | Canada - BoC       | 1.75         |
|  | 1.42                         | 1.40    | 1.45  | 1.35   | 1.32  | 1.39  | 1.45      | 1.42      | 1.49  | 1.69    | 1.67  | 1.75 | US - Fed           | 2.50         |
|  | -0.74                        | -0.76   | -0.68 | -0.65  | -0.69 | -0.60 | -0.29     | -0.32     | -0.24 | 0.30    | 0.27  | 0.37 |                    |              |
|  | -0.21                        | -0.20   | -0.19 | -0.24  | -0.23 | -0.22 | -0.14     | -0.12     | -0.11 | 0.34    | 0.37  | 0.34 | England - BoE      | 0.75         |
|  | 0.60                         | 0.59    | 0.61  | 0.63   | 0.60  | 0.65  | 0.85      | 0.81      | 0.87  | 1.45    | 1.42  | 1.47 |                    |              |
|  | Spreads vs. U.S. (bps):      |         |       |        |       |       |           |           |       |         |       |      |                    |              |
|  | -47                          | -47     | -43   | -51    | -52   | -48   | -63       | -64       | -63   | -87     | -88   | -87  | Euro zone - ECB    | 0.00         |
|  | -263                         | -263    | -256  | -250   | -252  | -247  | -237      | -238      | -236  | -226    | -228  | -225 | Japan - BoJ        | -0.10        |
| -210   | -206                         | -207    | -210  | -206   | -209  | -222  | -218      | -223      | -222  | -218    | -227  |      |                    |              |
| -129   | -128                         | -127    | -123  | -124   | -122  | -124  | -125      | -125      | -111  | -113    | -115  |      |                    |              |
| Equities   | Level                        |         |       |        |       |       | % change: |           |       |         |       |      | Mexico - Banxico   | 8.25         |
| S&P/TSX<br>Dow 30<br>S&P 500<br>Nasdaq<br>DAX<br>FTSE<br>Nikkei<br>Hang Seng<br>CAC  | Last                         | Change  |       | 1 Day  |       | 1-wk  | 1-mo      |           | 1-yr  |         |       |      | Australia - RBA    | 1.25         |
|  | 16503                        | 149.9   |       | 0.9    |       | 1.6   | 0.6       |           | 1.1   |         |       |      | New Zealand - RBNZ | 1.50         |
|  | 26466                        | 353.0   |       | 1.4    |       | 1.6   | 2.7       |           | 7.1   |         |       |      | Next Meeting Date  |              |
|  | 2918                         | 28.1    |       | 1.0    |       | 1.1   | 2.0       |           | 5.6   |         |       |      | Canada - BoC       | Jul 10, 2019 |
|  | 7954                         | 108.9   |       | 1.4    |       | 1.7   | 1.8       |           | 3.0   |         |       |      | US - Fed           | Jun 19, 2019 |
|  | 12344                        | 11.9    |       | 0.1    |       | 1.9   | 0.9       |           | -2.6  |         |       |      | England - BoE      | Jun 20, 2019 |
|  | 7422                         | -20.9   |       | -0.3   |       | 0.7   | 1.0       |           | -2.4  |         |       |      | Euro zone - ECB    | Jul 25, 2019 |
|  | 21334                        | 361.2   |       | 1.7    |       | 1.0   | 0.4       |           | -4.2  |         |       |      | Japan - BoJ        | Jun 20, 2019 |
|  | 28202                        | 703.4   |       | 2.6    |       | 3.3   | 0.9       |           | -4.3  |         |       |      | Mexico - Banxico   | Jun 27, 2019 |
|  | 5516                         | 6.2     |       | 0.1    |       | 2.6   | 1.4       |           | 2.3   |         |       |      | Australia - RBA    | Jul 02, 2019 |
| Commodities  | Level                        |         |       |        |       |       | % change: |           |       |         |       |      | New Zealand - RBNZ | Jun 25, 2019 |
| WTI Crude<br>Natural Gas<br>Gold<br>Silver<br>CRB Index                              | 53.91                        | 0.01    |       | 0.0    |       | 5.4   | -14.1     |           | -17.2 |         |       |      |                    |              |
|  | 2.34                         | 0.01    |       | 0.5    |       | -1.9  | -11.1     |           | -19.3 |         |       |      |                    |              |
|  | 1344.18                      | -2.44   |       | -0.2   |       | 0.8   | 5.2       |           | 5.5   |         |       |      |                    |              |
|  | 14.90                        | 0.12    |       | 0.8    |       | 1.4   | 2.9       |           | -10.3 |         |       |      |                    |              |
|  | 175.59                       | -0.51   |       | -0.3   |       | 1.4   | -3.0      |           | -9.4  |         |       |      |                    |              |
|  | Currencies                   | Level   |       |        |       |       |           | % change: |       |         |       |      |                    |              |
| USDCAD<br>EURUSD<br>USDJPY<br>AUDUSD<br>GBPUSD<br>USDCHF                             | 1.3379                       | 0.0002  |       | 0.0    |       | 0.3   | -0.4      |           | 0.7   |         |       |      |                    |              |
|  | 1.1207                       | 0.0013  |       | 0.1    |       | -0.7  | 0.4       |           | -3.3  |         |       |      |                    |              |
|  | 108.40                       | -0.0500 |       | -0.0   |       | -0.1  | -1.5      |           | -1.5  |         |       |      |                    |              |
|  | 0.6875                       | -0.0002 |       | -0.0   |       | -0.8  | -0.5      |           | -6.9  |         |       |      |                    |              |
|  | 1.2588                       | 0.0030  |       | 0.2    |       | -0.8  | -1.1      |           | -4.4  |         |       |      |                    |              |
|  | 0.9972                       | -0.0033 |       | -0.3   |       | 0.2   | -1.1      |           | 0.2   |         |       |      |                    |              |

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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