ON DECK FOR TUESDAY, JUNE 25

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	06/25	08:30	Wholesale Trade (m/m)	Apr	--	0.2	1.4
US	06/25	09:00	S&P/Case-Shiller Home Price Index (m/m)	Apr	0.1	0.1	0.1
US	06/25	09:00	S&P/Case-Shiller Home Price Index (y/y)	Apr	2.6	2.5	2.7
US	06/25	10:00	Consumer Confidence Index	Jun	130.0	131.0	134.1
US	06/25	10:00	New Home Sales (000s a.r.)	May	693	685	673
US	06/25	10:00	Richmond Fed Manufacturing Index	Jun	--	4.0	5.0

KEY POINTS:

- **Markets await Powell, US macro reports**
- **Why is Powell speaking again so soon…**
- **…when his near-term risks are still ahead?**
- **US macro: consumer confidence, Richmond…**
- **…new home sales, repeat-sale home prices**
- **Navarro's claim there is no evidence of tariff damage…**
- **…is just factually wrong**
- **Other Fed-speak**
- **RBNZ likely to hold fire**
- **CDN wholesale the last piece of the GDP add-up**

INTERNATIONAL

The focus turns back to the US as Fed-speak and macro data are on tap. G20 expectations are being tamped down, while the US and Iran trade rhetorical shots. Fed Chair Powell delivers a speech on the economic outlook and monetary policy at the Council on Foreign Relations in NY and will hold a conversation on the topic. He may provide greater personal colour than his post-FOMC press conference, but his appearance is too soon after the FOMC and ahead of key developments. I doubt he'll comment too significantly on US trade policy given the politics of it all, but the Fed likely views the impact of protectionism rather differently than Peter Navarro's views in his infuriating Bloomberg interview last evening (see below). US consumer confidence, the Richmond Fed's manufacturing gauge, US new home sales, retail sales revisions, private industry data on US oil inventories and repeat-home sale prices are all on the docket. Canada only updates wholesale trade. The RBNZ is expected to buy some breathing room after cutting in early May.

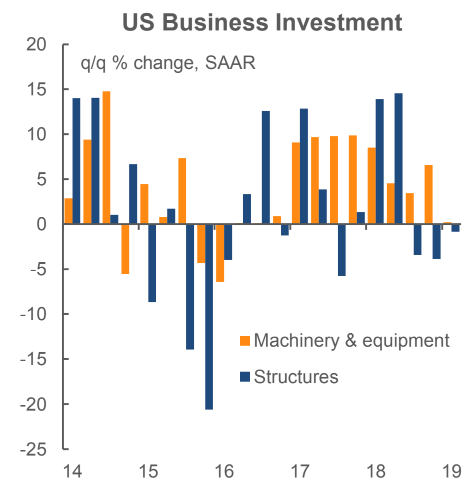
- Sovereign bonds range from flat to slightly bid at longer maturities. An exception is mild spread widening in Italy over bunds.

- Currency markets are somewhat divided in such fashion as to net out to little changed in the USD such as on a DXY basis. Upside performers to the USD include the rand, NZ$, yen, and krona. The Swiss franc, krone, Mexican peso and euro are all slightly depreciating.

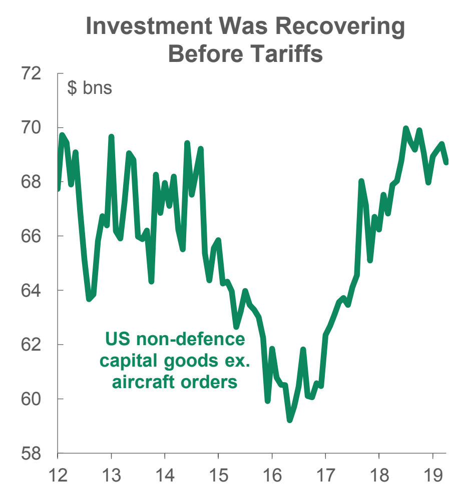
- US equity futures are very slightly lower along with TSX futures. European cash markets are little changed with outside performers including declines in Milan and Madrid of about –½%.

CONTACTS

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



Sources: Scotiabank Economics, BEA.



Sources: Scotiabank Economics, US Census Bureau.

- Gold is up another eight bucks to US$1427 for a neat cumulative gain of almost US$150/oz since May 29th, or about +12% at a non-annualized rate WTI and Brent oil prices are slightly lower ahead of the private industry tally for US oil inventories later today.

The Reserve Bank of New Zealand is expected to keep its cash rate unchanged at 1.5% tonight (10pmET). The RBNZ cut in May for the first time since November 2016. RBNZ Assistant Governor Christian Hawkesby recently remarked that the policy rate "will remain broadly around current levels for the foreseeable future."

UNITED STATES

Fed-speak is back! Why it is back is a perfectly reasonable question! **Chair Powell delivers an 'economic outlook and monetary policy review' at 1pmET.** It is billed by the Fed as both a speech and a moderated conversation and so anything is fair game. Having said that, it's unclear why the event is occurring. There has not been materially new information since the FOMC communications last Wednesday. The heavy conditionality that Powell put around rate cuts had him sounding less than convinced about the legitimacy of easing but mindful toward what he described as near-term risks. On that list of near-term risks, one might put Friday's core PCE update, the Saturday meeting between Trump and Xi at the G20, Monday's ISM-manufacturing and next Friday's nonfarm. Powell speaking today won't have any of that information at his disposal and so expect him to continue with much of the line of reasoning that he delivered last Wednesday (recap here).

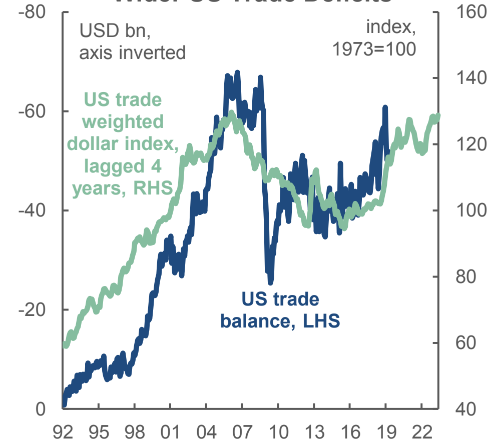
Before Powell, we'll hear from **NY Fed President Williams**, but only in the form of opening remarks at a conference including text but no Q&A (8:45amET). **Atlanta Fed President Bostic** speaks on housing at noon. **Richmond Fed President Barkin** speaks at 3:30pmET (Ottawa, topic unknown). **St. Louis President Bullard** will provide welcoming remarks at a an economics lecture by Carmen Reinhart (6:30pmET).

I heard US trade rabble-rouser Peter Navarro being interviewed on Bloomberg radio last evening. Apart from noting the obvious frustration of his skilled interviewers as Navarro talked over and through their efforts, manipulated the evidence and dodged the toughies, there is merit to challenging Navarro's contention that there is zero evidence that tariffs and US trade policy are harming the US economy. Here's some evidence and it's conceivable that we could get some more this morning.

Investment: Chart 1 shows that US businesses are not investing. Investing in machinery and equipment and structures has ground to a halt. Why invest when a company has no clue about what the rules of the trading and investment regime might be tomorrow or the day after? This has become a global problem and the knock-on risks to broad economic growth, living standards and complementary jobs may be underway. It also helps to explain why core capital goods orders in tomorrow's durables report had been on the mend before the tariffs began to arrive but they've since stalled out (chart 2).

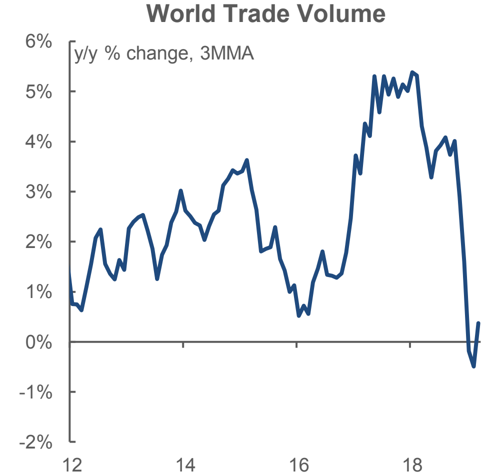
Trade: Navarro claimed that the US trade deficit has been improving because of protectionist measures against China. Nay nay. The trade deficit in volume terms excluding energy has narrowed slightly of late since its worst point in December that

USD Strength Will Keep Driving Wider US Trade Deficits



Sources: Scotiabank Economics, Bloomberg.

World Trade Volume



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

U.S. Manufacturing & Trade Inventories/Sales

Source: Scotiabank Economics, U.S. Census Bureau.

set the modern record for the worst reading that he didn't mention. Why it has narrowed somewhat this year so far is because of a weak domestic pull factor on imports owing to the softness in the US consumer in Q1. Inflation-adjusted consumer spending grew by a scant 1.3% q/q in Q1 at an annualized pace. The trend in the trade deficit is volatile, but that trend is not getting better. In fact, it will likely keep getting worse because of USD strength (see chart 3).

Global trade: US protectionism has crippled global trade (see third chart 4). If protectionism drives weaker world growth, who will US companies be selling to?

Inventories: Uh oh. Inventories had been high before the tariff skirmishes, then began to decline when the more positive growth measures of the Trump administration began to carry short-term effects (e.g. Feb'18 spending bill, Tax Cuts and Jobs Act). Since then, inventories have begun to climb again (chart 5) and right over the period in which tariffs began to go into effect. The same is true in Canada given the tightness of the integrated supply chains. When global trade sours because US trade policy takes a turn for the worse and everyone retaliates, businesses get stuck with an undesired build-up of product they can't move. Discounting and/or production cuts become the solution barring a sudden about face in trade policy and upward momentum in world growth.

Inflation: Protectionism has not driven overall prices higher. This is true. So far. But why? If you are stuck with collapsing world trade and flattening business investment that sours world growth and causes a backing up of inventories, then discount like there is no tomorrow. Inventories are not costless to hold and toeing the line on prices as a first response to soured world growth may explain softening US core inflation. There are many other considerations to explaining softer US inflation. A further point is that several categories where tariffs have been directly applied have indeed seen price spikes, such as washing machines, steel and aluminum before tariffs began to get rolled back etc. More fundamentally, tariffs applied against Chinese imports to date have not only been applied to consumer goods which limits the consumer pass-through, yuan depreciation has insulated against tariff-motivated price spikes, and US consumption affected by targeted categories has been relatively small as a share of the overall consumption pie.

Offsets: Thus far, bonds and the Fed have had Trump's and Navarro's backs. The US 10 year yield has plummeted by about 125bps since November. Why? Global instability sparked by US protectionism has played a role in driving safe haven seeking, inverting the curve, and courting markets to ponder recession risk. Gosh, what could go wrong. For a time, this serves as an automatic stabilizer by lowering business and household borrowing costs. Depending upon the next steps of the Trump administration, such automatic stabilizers risk being powerless in the face of a marked deterioration in risk appetite given that markets are presently hopeful that cooler heads will prevail. There are indeed limits to the extent to which bonds and the Fed can offset major supply shocks like protectionism. Further, I'm still of the view that if the Fed eases materially, then it will prove to be an enabler of protectionism by tossing a security blanket over the short-run effects while the US administration pursues more growth-damaging policies. It's not the Fed to blame for this versus the Trump administration.

As for the possibility of more evidence this morning that protectionism is fomenting instability in the US economy, there are several releases on tap.

1. Consumer confidence (10amET): The Conference Board's measure for June (10amET) is expected to soften somewhat. The cutoff date for today's preliminary results was mid-month and so the sample period could be skewed toward the period of heightened market uncertainty toward Trump's Mexican tariff threat and derailment of US-China trade talks. The S&P500 hit a low point on June 3rd and only regained the pre-Mexican tariff peak on June 20th.

2. Richmond Fed (10amET): The regional surveys have been turning negative so far this month. That's a warning ahead of Monday's ISM-manufacturing report. The Richmond Fed's measure could well follow each of the Philly, Empire, and Dallas measures lower.

3. New home sales (10amET): The May reading could rebound somewhat from the 6.9% drop in April. New home sales have nevertheless been on a positive upward trend so far this year because of falling mortgage rates, while volatile weather compared to seasonal norms has contributed to noise along that path. The S&P CoreLogic Case Shiller repeat sales price measure for April (9amET) is also due out this morning (9amET) and is expected to show tepid house price inflation. In fact, March's pace of price increases was the slowest since September 2012 at 3.7% y/y.

CANADA

Canada only updates wholesale trade today for the month of April (8:30amET). It never really catches market attention, but it's the final report on the path to Friday's April GDP so I'll update any GDP tracking if required. See the Global Week Ahead for further elaboration, but at present GDP is tracking about a 0.2% m/m rise in April.

Fixed Income	Government Yield Curves (%):											
	2-YEAR			5-YEAR			10-YEAR			30-YEAR		
	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk
U.S.	1.74	1.73	1.87	1.75	1.75	1.83	2.01	2.02	2.06	2.54	2.55	2.55
CANADA	1.41	1.40	1.40	1.35	1.35	1.32	1.46	1.46	1.42	1.71	1.71	1.67
GERMANY	-0.73	-0.74	-0.76	-0.65	-0.65	-0.69	-0.32	-0.31	-0.32	0.26	0.26	0.27
JAPAN	-0.23	-0.23	-0.20	-0.26	-0.26	-0.23	-0.16	-0.15	-0.12	0.35	0.36	0.37
U.K.	0.59	0.59	0.59	0.60	0.61	0.60	0.81	0.82	0.81	1.43	1.43	1.42
	Spreads vs. U.S. (bps):											
CANADA	-33	-33	-47	-40	-40	-52	-55	-56	-64	-83	-84	-88
GERMANY	-247	-248	-263	-240	-240	-252	-233	-232	-238	-229	-228	-228
JAPAN	-197	-196	-206	-201	-201	-206	-217	-217	-218	-219	-219	-218
U.K.	-115	-114	-128	-114	-114	-124	-120	-120	-125	-111	-112	-113

Equities	Level		% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	16523	-2.0	-0.0	1.0	1.8	2.1
Dow 30	26728	8.4	0.0	2.4	4.5	10.2
S&P 500	2945	-5.1	-0.2	1.9	4.2	8.4
Nasdaq	8006	-26.0	-0.3	2.0	4.8	6.3
DAX	12267	-7.1	-0.1	-0.5	2.1	-0.0
FTSE	7418	0.8	0.0	-0.3	1.9	-1.2
Nikkei	21194	-92.2	-0.4	1.1	0.4	-5.1
Hang Seng	28186	-327.0	-1.1	2.5	3.0	-2.7
CAC	5516	-5.5	-0.1	0.1	3.8	4.4
Commodities	Level		% change:			
WTI Crude	57.84	-0.06	-0.1	7.3	-1.3	-15.0
Natural Gas	2.29	-0.02	-0.8	-1.8	-12.0	-21.8
Gold	1427.05	7.32	0.5	6.0	11.1	12.8
Silver	15.37	0.08	0.5	4.0	5.6	-6.4
CRB Index	180.40	0.40	0.2	2.4	1.0	-7.7
Currencies	Level		% change:			
USDCAD	1.3175	-0.0005	-0.0	-1.5	-2.0	-0.9
EURUSD	1.1386	-0.0013	-0.1	1.7	1.7	-2.7
USDJPY	107.10	-0.2000	-0.2	-1.2	-2.2	-2.4
AUDUSD	0.6968	0.0005	0.1	1.3	0.7	-6.0
GBPUSD	1.2727	-0.0016	-0.1	1.3	0.4	-4.2
USDCHF	0.9758	0.0038	0.4	-2.5	-2.8	-1.2

Central Banks	
Current Rate	
Canada - BoC	1.75
US - Fed	2.50
England - BoE	0.75
Euro zone - ECB	0.00
Japan - BoJ	-0.10
Mexico - Banxico	8.25
Australia - RBA	1.25
New Zealand - RBNZ	1.50
Next Meeting Date	
Canada - BoC	Jul 10, 2019
US - Fed	Jul 31, 2019
England - BoE	Aug 01, 2019
Euro zone - ECB	Jul 25, 2019
Japan - BoJ	Jul 30, 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.