

ON DECK FOR WEDNESDAY, JUNE 26

| Country | Date | Time | Indicator | Period | BNS | Consensus | Latest |
|---------|-------|-------|---------------------------------------|--------|-----|-----------|--------|
| US | 06/26 | 07:00 | MBA Mortgage Applications (w/w) | JUN 21 | -- | -- | 1.3 |
| US | 06/26 | 08:30 | Durable Goods Orders (m/m) | May P | 0.0 | -0.3 | -2.1 |
| US | 06/26 | 08:30 | Durable Goods Orders ex. Trans. (m/m) | May P | 0.1 | 0.1 | 0.0 |
| US | 06/26 | 08:30 | Wholesale Inventories (m/m) | May P | -- | 0.5 | 0.8 |
| MX | 06/26 | 09:00 | Unemployment Rate (%) | May | 3.5 | 3.5 | 3.5 |

KEY POINTS:

- Selective hearing is driving US stocks higher...
- ...as markets cherry-pick remarks on US-China deal prospects...
- ...and hear 'cut' instead of 'caution' from Powell
- Durable goods orders: flat headline, but will core weakness persist?
- NZ\$ rallies on a less dovish RBNZ, G20 headlines
- Baht rallies despite BoT warning, probably due to G20 hopes
- Oil awaits confirmation of decline in US inventories
- US, Canadian auctions on tap

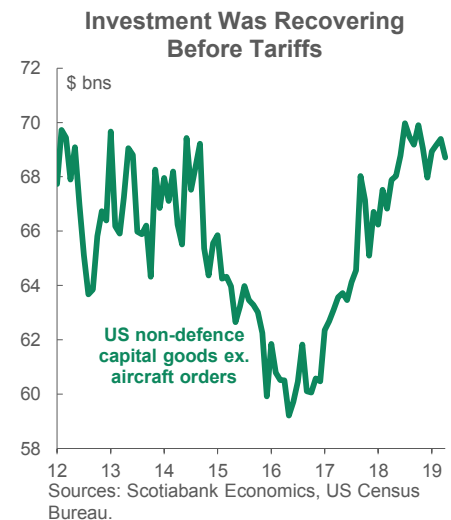
INTERNATIONAL

Selective hearing is driving stocks—particularly stateside—somewhat higher this morning. This is taking two forms that I'll return to in a moment: one is G20 related; the other is related to the Fed. For now, a mild risk-on bias is sweeping through global asset classes. Incremental calendar risk today will be confined to US durable goods orders that should show aircraft orders as a dampening influence but core capital goods orders will be more closely watched as evidence of business attitudes toward investing.

- US equity futures are up by about ½% on average across the exchanges with TSX futures up by under ¼%. European cash markets range from flat (London, Paris) to up by over ¼% in Germany. Asian equities were flat to little changed in Seoul, HK and Shenzhen to down by as much as ½% in Tokyo.
- Sovereign bond yields are pushing higher with the US Treasury market underperforming other sovereign bond markets. US Treasury yields are up by 2–5bps in a mild bear flattener. Canada's curve is cheaper by about 3bps across maturities. Yields on gilts are up by 1–2bps while 10 year EGBs are a touch cheaper in Germany and France with Italian spreads slightly narrower.
- Currency markets are keeping the USD fairly flat on a DXY basis. The NZ\$ is appreciating the most (RBNZ, G20, see below) but with the A\$ not far behind. Safe havens like the yen and Swiss franc are cheaper. The Mexican peso is rallying somewhat to 19.2 to the dollar and CAD is slightly firmer with USDCAD at 1.315.
- Oil prices are up by about a buck in terms of both WTI and Brent. Private industry data from the American Petroleum Institute indicated a sharp decline

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in US oil inventories that this morning's government report may or may not confirm (10:30amET). Gold is getting thumped and is down by US\$18/oz. The reversal in the US ten year yield is correlated with this. Can gold run further? Maybe, but it's a real rate play above all else and if bonds have gotten about as rich as they are likely to get then gold's run might be getting long in the tooth.

One form of selective hearing by stocks involves mixed G20 trade deal signals from officials within the US administration. **The optimistic interpretation is carrying the day so far and it is choosing to emphasize the following:**

- US Treasury Secretary Mnuchin remarked this morning that he is "hopeful" and "We were about 90% of the way there and I think there's a path to complete this" in reference to a US-China trade deal.
- Commerce Secretary Ross also expressed hope that the Saturday Trump-Xi meeting will resurrect the trade talks.
- There are also indications that the US will hold off on threatened additional tariffs against China.

Stocks are not emphasizing the following:

- Mnuchin said he "can't speculate" on a deal and saying they were once 90% toward a deal is not new information. We knew that guidance long ago before the talks blew apart and there is no indication of progress on the other 10% that broke the deal.
- Commerce Secretary Ross said this morning that applying more tariffs on China after the G20 is not a bluff even though other reports indicate that the US may hold off on Trump's threat to apply further tariffs if a deal doesn't come out of the G20.
- Stocks were knocked back yesterday afternoon by comments from a "senior administration official" that they've forgotten this morning. That official said that while negotiations may be resurrected, a deal won't arise at the G20 and negotiations might take "months or years." That means that US and Chinese tariffs applied to date aren't going away any time soon.
- Further, the same official stated that the US won't accept conditions to its tariffs; recall that was likely a major factor that blew apart the trade negotiations as the US wanted to retain tariffs even after an agreement was achieved and put in place. The US did the same thing with the NAFTA 2.0 agreement until only recently removing steel and aluminum tariffs.

The second form of selective hearing is that stocks might also like Fed Chair Powell's speech and moderated Q&A yesterday, even though he said the same thing he did last week during the press conference and if anything seemed to be once again pushing back on markets. **With Fed funds futures primed for four and a half cuts by the end of 2020 and three cuts by the end of this year, markets might not be listening to possibly more cautious guidance on that rate path.** Even the most dovish among doves (Bullard) said yesterday that a 50bps cut in one fell swoop would go too far and he advocates only a *cumulative* 50bps of easing to tweak the policy rate and remove curve inversion presumably as measured by the spread between the policy rate and 10s or the 90s10s slope while assisting inflation expectations. That would appear to make discussion of a 50bps single shot at the end of next month pretty far-fetched unless conditions sharply deteriorate before then. Further, Chair Powell's speech ([here](#)) put further emphasis upon the conditional nature of easing including the following snippet:

"The question my colleagues and I are grappling with is whether these uncertainties will continue to weigh on the outlook and thus call for additional policy accommodation. Many FOMC participants judge that the case for somewhat more accommodative policy has strengthened. But we are also mindful that monetary policy should not overreact to any individual data point or short-term swing in sentiment. Doing so would risk adding even more uncertainty to the outlook. We will closely monitor the implications of incoming information for the economic outlook and will act as appropriate to sustain the expansion."

A pair of Asia-Pacific central banks left policy on hold as unanimously expected. The RBNZ left its cash rate unchanged at 1.5% in a no brainer call given Assistant Governor Hawkesby had previously said that the policy rate "will remain broadly around current levels for the foreseeable future." The statement ([here](#)) noted that "more support from monetary policy was likely to be necessary" and that a lower cash rate "may be needed over time." The NZ\$ rallied overnight perhaps in part due to the absence of any sense of urgency to ease relative to the fairly high market odds attached to further easing this year. Mixed G20/China headlines may have also played a role in driving both kiwi and A\$ strength.

The Bank of Thailand also surprised no one by leaving its policy rate unchanged at 1.75% overnight. Its statement ([here](#)) offered a dovish signal on the currency by stating that “The Committee expressed concerns over the baht appreciation which might not be consistent with economic fundamentals and would continue to closely monitor developments of exchange rates and capital inflows.” The baht nevertheless shook off the warning and appreciated, again more likely due to volatile G20/China headlines. The baht has appreciated by over 4% to the USD since the recent low in late April and has appreciated by about 8% over about the past year.

UNITED STATES

US durable goods orders (8:30amET) will further inform momentum—or lack thereof—in business investment. Headline orders should be soft because Boeing received no plane orders last month after only four the month before. Plane assemblies are running solidly but the order book has not surprisingly run bone dry.

The key is what happened to core orders (ex-defense and air) and it's possible we get a modest lift if for no other reasons than a) the prior month was the biggest decline in five months, and b) they will be May figures with the Mex/China effect likely to have a more pronounced negative effect on core orders in June. Even if that happens, the trend is unfavourable (see chart). Industry reports indicate that this year's Paris Air Show was weaker than last year's with Boeing getting only conditional commitments and no firm orders that went to Airbus instead and still resulted in a lower industry tally. Seasonal adjustments to June orders could therefore make the next headline reading a fairly soft one again while core orders will be evaluated into the period of heightened trade tensions.

Canada and the US auction government debt today. Canada auctions 2s at 12pmET and the US auctions two year floating rate notes (11:30amET) and 5 year Treasuries (1pmET).

| 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 | | |
| | 1.75 | 1.73 | 1.74 | 1.77 | 1.73 | 1.76 | 2.02 | 1.99 | 2.02 | 2.54 | 2.52 | 2.54 | Canada - BoC | 1.75 |
| | 1.43 | 1.40 | 1.39 | 1.37 | 1.33 | 1.31 | 1.48 | 1.43 | 1.42 | 1.71 | 1.69 | 1.67 | US - Fed | 2.50 |
| | -0.74 | -0.74 | -0.74 | -0.65 | -0.66 | -0.64 | -0.31 | -0.33 | -0.29 | 0.27 | 0.25 | 0.29 | | |
| | -0.21 | -0.23 | -0.21 | -0.25 | -0.26 | -0.24 | -0.14 | -0.16 | -0.14 | 0.38 | 0.35 | 0.34 | England - BoE | 0.75 |
| | 0.59 | 0.58 | 0.62 | 0.60 | 0.59 | 0.65 | 0.81 | 0.79 | 0.87 | 1.44 | 1.42 | 1.46 | | |
| | Spreads vs. U.S. (bps): | | | | | | | | | | | | | |
| | -31 | -34 | -35 | -40 | -40 | -45 | -54 | -55 | -60 | -83 | -83 | -86 | Euro zone - ECB | 0.00 |
| | -248 | -247 | -248 | -241 | -238 | -240 | -233 | -232 | -231 | -228 | -227 | -224 | Japan - BoJ | -0.10 |
| -196 | -196 | -195 | -201 | -199 | -200 | -216 | -214 | -216 | -216 | -217 | -219 | | | |
| -115 | -115 | -112 | -116 | -114 | -111 | -121 | -119 | -116 | -110 | -110 | -108 | | | |
| Equities | Level | | | | | | % change: | | | | | | Mexico - Banxico | 8.25 |
| | Last | Change | | | | 1 Day | 1-wk | 1-mo | 1-yr | | | | | |
| S&P/TSX | 16371 | -152.2 | | | | -0.9 | -0.8 | 0.9 | 0.6 | | | | Australia - RBA | 1.25 |
| Dow 30 | 26548 | -179.3 | | | | -0.7 | 0.3 | 3.8 | 9.3 | | | | New Zealand - RBNZ | 1.50 |
| S&P 500 | 2917 | -28.0 | | | | -0.9 | -0.0 | 3.2 | 7.1 | | | | | |
| Nasdaq | 7885 | -121.0 | | | | -1.5 | -0.9 | 3.2 | 4.3 | | | | | |
| DAX | 12282 | 53.4 | | | | 0.4 | -0.2 | 2.3 | 0.4 | | | | | |
| FTSE | 7428 | 6.1 | | | | 0.1 | 0.3 | 2.1 | -1.5 | | | | | |
| Nikkei | 21087 | -107.2 | | | | -0.5 | -1.2 | -0.1 | -5.6 | | | | Canada - BoC | Jul 10, 2019 |
| Hang Seng | 28222 | 36.0 | | | | 0.1 | 0.1 | 3.2 | -2.3 | | | | US - Fed | Jul 31, 2019 |
| CAC | 5522 | 7.0 | | | | 0.1 | 0.1 | 3.9 | 4.5 | | | | | |
| Commodities | Level | | | | | | % change: | | | | | | England - BoE | Aug 01, 2019 |
| | | Change | | | | 1 Day | 1-wk | 1-mo | 1-yr | | | | | |
| WTI Crude | 58.88 | 1.05 | | | | 1.8 | 9.5 | 0.4 | -16.5 | | | | Euro zone - ECB | Jul 25, 2019 |
| Natural Gas | 2.29 | -0.02 | | | | -0.7 | 0.7 | -11.8 | -22.0 | | | | Japan - BoJ | Jul 30, 2019 |
| Gold | 1405.08 | -18.37 | | | | -1.3 | 3.3 | 9.4 | 11.6 | | | | | |
| Silver | 15.40 | 0.03 | | | | 0.2 | 3.4 | 5.8 | -6.0 | | | | | |
| CRB Index | 181.90 | 1.02 | | | | 0.6 | 3.7 | 1.8 | -7.8 | | | | | |
| Currencies | Level | | | | | | % change: | | | | | | Mexico - Banxico | Jun 27, 2019 |
| | | Change | | | | 1 Day | 1-wk | 1-mo | 1-yr | | | | | |
| USDCAD | 1.3156 | -0.0013 | | | | -0.1 | -0.9 | -2.1 | -1.1 | | | | Australia - RBA | Jul 02, 2019 |
| EURUSD | 1.1360 | -0.0007 | | | | -0.1 | 1.2 | 1.5 | -2.5 | | | | New Zealand - RBNZ | Aug 06, 2019 |
| USDJPY | 107.75 | 0.5500 | | | | 0.5 | -0.3 | -1.6 | -2.1 | | | | | |
| AUDUSD | 0.6983 | 0.0022 | | | | 0.3 | 1.5 | 0.9 | -5.6 | | | | | |
| GBPUSD | 1.2679 | -0.0010 | | | | -0.1 | 0.3 | 0.0 | -4.1 | | | | | |
| USDCHF | 0.9780 | 0.0025 | | | | 0.3 | -1.6 | -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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