

ON DECK FOR MONDAY, JULY 8

Country	Date	Time	Event	Period	BNS	Consensus	Latest
US	07/08	15:00	Consumer Credit (US\$ bn m/m)	May	–	17.0	17.5

KEY POINTS:

- Markets continuing Friday's trades...
- ...and await the Fed, BoC this week
- German readings stabilize on a still weak trend
- CAD rallying as markets rethink jobs, BoC
- Chilean CPI holds firm, supports one and done CB move
- Erdogan's assault on CB independence....
- ...has Turks paying a steep price for his policies
- US, Canada quiet today
- Global Week Ahead

Please see the Global Week Ahead [here](#). The main risks including Fed Chair Powell's testimony on Wednesday morning ahead of FOMC minutes later that day and the next day's CPI. The Bank of Canada is expected to largely reaffirm its bias with greater rebound conviction in the face of external risks.

Risk Dashboard:

- Powell's testimony
- FOMC minutes
- CBs: BoC, Peru, Negara
- CPI: US, China, India, Norway, Sweden...
- ...Mexico, Brazil, Chile
- ECB minutes
- Eurozone 'supercore'
- China trade, FDI, financing, reserves
- UK macro
- German macro
- US auctions

INTERNATIONAL

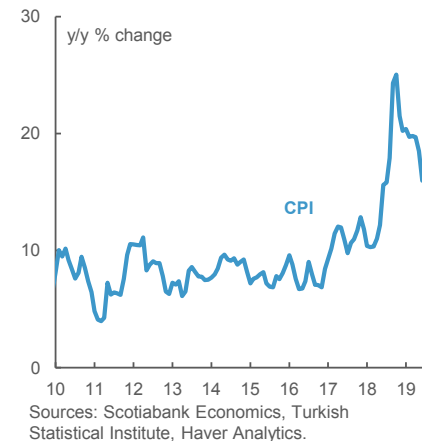
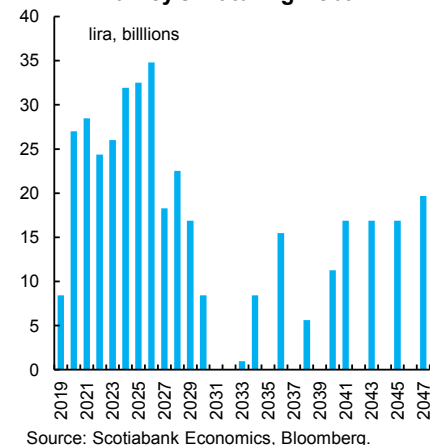
Global markets are generally carrying through on the same trade from Friday as nonfarm payrolls raised the risk of less monetary easing by the Federal Reserve with concentrated near-term risk around Powell's testimony this week. German macro data improved along a still poor trend. Chilean CPI held firm. See below for views on Erdogan's sacking of the head of the central bank and the market aftermath.

- US equity futures are down by ¼% on balance with TSX futures performing similarly. European cash markets range from flat (London) to down ¼% in Frankfurt and Madrid. Asian equities followed through on the drop in US equities from Friday following nonfarm.

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Germany's Troubled Economy

Turkish Inflation

Turkey's Maturing Debt


- US Treasury yields are little changed while Canadian yields are up by 3bps at the front end in a bear flattener. The gilts curve is dearer with yields down 2–4bps across the curve. EGB yields are little changed. Clearly the stand-out performer for all the wrong reasons is the cheapening of the Turkish debt curve (see below).
- Oil prices are little changed.
- The USD is little changed on a broad DXY basis. Downside performers include obviously the Turkish lira, but also the won while appreciating crosses are being led by the Mexican peso with CAD also firmer at 1.305 in a continuation of what is now almost a full cent appreciation to the USD since Friday's jobs report and a much more sensible reaction than the initial market reaction (recall [here](#)).

It may be going too far to call overnight German macro releases a sign of improvement. They stabilized a little after prior large declines, but this might have occurred through front-running orders as the global trade picture was deteriorating, and the trend remains unfavourable. See the accompanying chart for the round-up of the now complete series of trade and industrial figures. Nevertheless, industrial output increased by 0.3% m/m (0.4% consensus, -2% prior) with a slight downward revision to the prior month. German exports also rebounded in line with expectations (+1.1%, 0.9% consensus, -3.7% prior) and all of the export improvement came from higher volumes as prices were flat.

Chilean CPI held firm at 2.3% y/y last month and was a tick above expectations. Core inflation has been stable for months around 2% y/y. Inflation holding firm at the margin supports the country's central bank's guidance that the surprise 50bps cut on June 30th might be a one and done affair.

Central bank independence is again under fire after Turkey's central bank head—Murat Cetinkaya—was sacked by President Erdogan over the weekend and replaced by Deputy Governor Murat Uysal who immediately claimed he would preserve independence. We'll see about that. The challenge to Uysal, however, lies in the fact that it may be difficult to assert independence with markets already pricing rate cuts before the moves this weekend. Erdogan's assertion is that higher interest rates were responsible for Turkey's high inflation which is, well, looney tunes talk to most economists. Nevertheless, Erdogan had wanted lower rates instead of a policy hold at the last decision on June 12th and was lying in wait ever since and especially as he attempts to consolidate power after the opposition won Istanbul's mayoral election on June 23rd. The Turkish 10 year yield soared by 22bps to 7.16% this morning and the lira is down by almost 2% to the USD from Friday's close.

Unfortunately, Turks will pay a steep price, literally, as the plunge in the lira drives import prices higher and living standards lower. Restrictive monetary policy was applied to rein in inflation that was caused by the lira's sharp 17% depreciation to the USD since the start of this year through to its weakest level in early May. That was a relatively minor bout of depreciation following the massive depreciation from the start of last year to August 2018 when the lira plunged by 83%. Investors demanded very high real borrowing rates to compensate for risks to the currency. That earlier bout of depreciation drove Turkish CPI to the moon, from about 10% y/y in March 2018 to over 25% by last October (see chart 2). Inflation had been coming down since then but was still a lofty 15.7% y/y last month. The central bank's restrictive monetary policy had driven the Turkish one week repo rate from 8% in April of last year to triple that by September 2018 and it has remained at 24% since then.

Turkey's challenges have been caused by Erdogan's authoritarian regime and they could well get worse. The country has huge amounts of domestic state and private debt. It borrows heavily in foreign markets. Turkey has a large current account deficit that, even while it has improved to -1.7% in 2019Q1 from -6 ½% in mid-2018, has never been in surplus since 2002. Since 2002, Turkey's external debt has soared by about 250%. Turkey's reserves have dropped by one-third since the end of 2013. The country has a lot of maturing debt to refinance over the next several years (see chart 3). Weak domestic and external finances made Turkey more vulnerable to US sanctions last year that were imposed when Erdogan's forces detained Christian pastor Andrew Brunson last year following a failed 2016 coup.

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		
	1.85	1.86	1.79	1.82	1.83	1.79	2.02	2.03	2.03	2.52	2.54	2.55	Canada - BoC	1.75
	1.65	1.62	1.47	1.55	1.53	1.39	1.58	1.57	1.46	1.74	1.74	1.68	US - Fed	2.50
	-0.75	-0.75	-0.76	-0.64	-0.64	-0.69	-0.38	-0.36	-0.36	0.22	0.24	0.25		
	-0.20	-0.21	-0.22	-0.23	-0.25	-0.24	-0.15	-0.16	-0.15	0.36	0.34	0.38	England - BoE	0.75
	0.53	0.56	0.61	0.51	0.54	0.62	0.70	0.74	0.81	1.33	1.36	1.44		
	Spreads vs. U.S. (bps):													
	-20	-24	-32	-26	-30	-40	-44	-46	-56	-78	-80	-87	Euro zone - ECB	0.00
	-260	-261	-255	-246	-247	-248	-240	-240	-238	-230	-230	-230	Japan - BoJ	-0.10
-205	-207	-201	-205	-208	-203	-216	-219	-217	-216	-220	-217			
-132	-130	-118	-131	-129	-117	-132	-130	-121	-120	-118	-110			
Equities	Level						% change:						Mexico - Banxico	8.25
	Last	Change		1 Day		1-wk	1-mo		1-yr					
S&P/TSX	16542	-46.9		-0.3		1.4	1.9		1.0		Australia - RBA	1.00		
Dow 30	26922	-43.9		-0.2		1.5	3.6		10.1					
S&P 500	2990	-5.4		-0.2		2.2	4.1		8.4		New Zealand - RBNZ	1.50		
Nasdaq	8162	-8.4		-0.1		2.4	5.4		6.2					
DAX	12536	-32.7		-0.3		0.1	4.1		0.3					
FTSE	7554	1.0		0.0		0.8	3.0		-0.8					
Nikkei	21534	-212.0		-1.0		-0.9	3.1		-1.2		Canada - BoC	Jul 10, 2019		
Hang Seng	28332	-443.1		-1.5		-0.7	5.1		0.1		US - Fed	Jul 31, 2019		
CAC	5586	-8.2		-0.1		0.3	4.1		3.9					
Commodities	Level						% change:						England - BoE	Aug 01, 2019
		Change		1 Day		1-wk	1-mo		1-yr					
WTI Crude	57.44	-0.07		-0.1		-1.8	6.4		-22.2		Euro zone - ECB	Jul 25, 2019		
Natural Gas	2.43	0.01		0.3		5.1	3.8		-15.1		Japan - BoJ	Jul 30, 2019		
Gold	1404.79	5.54		0.4		1.5	4.8		11.9					
Silver	15.21	-0.07		-0.5		-0.1	2.5		-4.6					
CRB Index	181.00	0.22		0.1		-0.0	3.8		-8.6					
Currencies	Level						% change:						Mexico - Banxico	Aug 15, 2019
		Change		1 Day		1-wk	1-mo		1-yr					
USDCAD	1.3053	-0.0028		-0.2		-0.6	-1.6		-0.4		Australia - RBA	Aug 06, 2019		
EURUSD	1.1220	-0.0005		-0.0		-0.6	-0.8		-4.5					
USDJPY	108.54	0.0700		0.1		0.1	0.1		-2.1		New Zealand - RBNZ	Aug 06, 2019		
AUDUSD	0.6987	0.0007		0.1		0.3	0.4		-6.4					
GBPUSD	1.2520	-0.0001		-0.0		-1.0	-1.3		-5.6					
USDCHF	0.9917	0.0001		0.0		0.4	0.2		0.0					

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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