

ON DECK FOR FRIDAY, JULY 12

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	07/12	08:30	PPI (m/m)	Jun	0.1	0.1	0.1
US	07/12	08:30	PPI ex. Food & Energy (m/m)	Jun	0.2	0.2	0.3

KEY POINTS:

- Equities continue to reap benefits of a dovish Fed
- China's exports aren't buoyant....
- ...but they're not cratering either
- China's financing figures are holding up strongly
- Indian core inflation dips, supports further RBI easing
- US core producer prices firmer than expected
- Fed dove Evans to speak on trade and the economy
- An economist's MAGA scorecard
- Scotia Economics will issue a global forecast update today

INTERNATIONAL

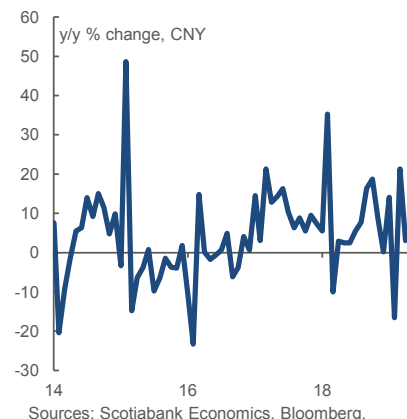
Global equities are ending the week in a generally positive manner. There is relatively little new information to incorporate after dovish testimony by Fed Chair Powell over the past couple of days. Chinese exports were a little softer (see below) but financing figures beat expectations for the same month of June (see below). Indian inflation supports further RBI easing. US core producer price inflation was firmer than expected, but represents little new information (see below).

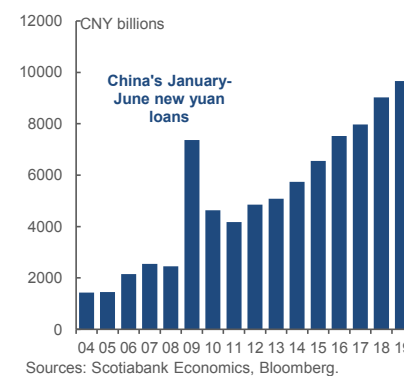
Scotia Economics will issue fresh global forecasts this morning. I've also included an updated MAGA scorecard that assesses the performance of markets and the economy under President Trump's mandate thus far and compared to past Presidents.

- The USD is flat on a DXY basis but mixed against individual crosses. The strongest upside performers are the Swiss franc and yen (both safe havens) but also CAD and the A\$. The weakest crosses are the won, a few other Asian plays, and the Euro and euro-related currencies.
- Treasuries, Canadas and gilts are generally little changed. European government bond yields are firmer with 10 year benchmarks up by between 2bps (Germany) and 6 (Spain).
- Oil prices are little changed with a slight positive bias. WTI sits just over US\$60 and Brent is just under US\$67.
- US equity futures are up by about ¼% while TSX futures are flat. European cash markets range from flat (Dax) to up by 0.3–0.4% in Paris and Milan. Asian equities were mostly higher across the Nikkei, Kospi, mainland China and HK.

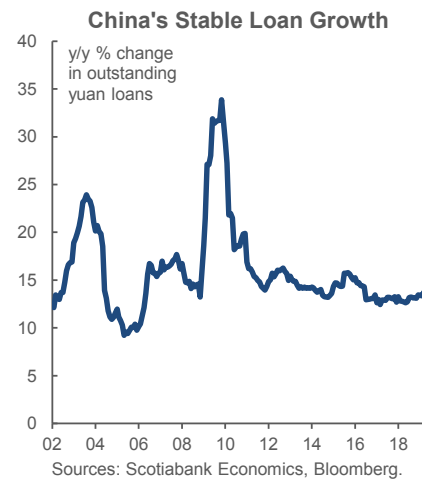
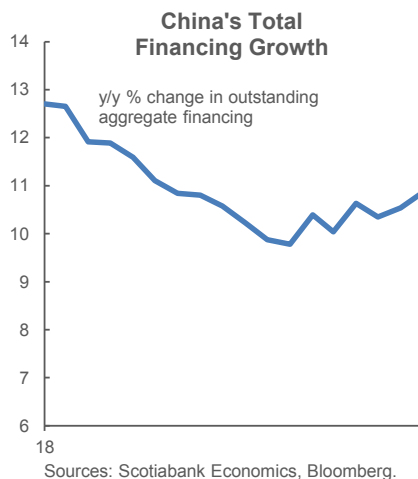
CONTACTS

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

China Export Growth

China's Aggregate Financing Hits A New High

China's New Yuan Loan Growth Is At A Record High


China's export figures were in line with expectations while imports were softer than expected. Currency volatility is distorting trends as valuation effects are influenced by the yuan's depreciation during June. Exports were down by 1.3% y/y in USD terms but up 6.1% in yuan terms. Imports were down by 7.3% y/y in USD terms but only by -0.4% y/y in yuan terms. Chart 1 depicts the trend in export growth that is generally not exactly buoyant but not cratering either. One possible explanation is that export growth was front-loaded ahead of tariffs at points over the past year (imports might also have been front-loaded). Another is that China is diverting exports through other countries, adding minimal incremental value, maybe just changing the labels, and getting its products out to its main markets through different channels. Another is that exports and supply chains react slowly to shocks like tariffs and future risk may rear itself more to the downside.



China also updated its financing figures for June. This is a strong year for aggregate financing (chart 2) and new yuan loan originations (chart 3). These are flow figures, however, and so one should also look at the change in the outstanding amounts of total financing products (chart 4) and just yuan denominated loans (chart 5). Any way you slice it, financing is at worst holding up if not under upward pressure. This conforms to the narrative that China stimulates its domestic economy through credit channels in order to adapt to the increased external risks.

India's inflation rate was roughly in line with expectations. CPI was up 3.2% y/y (3.0% prior, 3.1% consensus). Core inflation ebbed to 4.1% y/y (4.2% prior). So headline inflation is below the mid-point of the RBI's 2–6% inflation target range, and core is roughly in the middle. At the margin, the persistent downward trend in core CPI from a peak of 6.3% last July incrementally supports an easing bias.

UNITED STATES

US producer price inflation shouldn't matter one iota to markets this morning. Yesterday's up-tick in core CPI (recap [here](#)) fed expectations for an up-tick in the Fed's preferred core PCE inflation gauge when it lands on July 30th and hence the morning of the start of the FOMC's next two-day meeting. For what it matters, however, **core producer prices were firmer than expected.** They were up by 2.3% y/y which is unchanged from the prior month and two-tenths firmer than consensus. This is third tier stuff to the Fed after Powell set the table for rate cuts yesterday and in the wake of the firmer core CPI reading.

Chicago Fed President Charles Evans speaks on trade and the economy this morning (10amET). He's a dove, but a moderate one by way of the magnitude of expected easing that he currently supports.

Periodically it is worth tracking MAGA progress against the hype, slogans and made-in-China hats (I've got a snappy red one in my drawer that was given to me). What better way to do that than to let the pictures do the talking with brief observations.

- **Trade deficits:** the US trade deficit has significantly increased since the November 2016 election. The trend over the past year has been toward the biggest deficits since 2008. Strike one for progress toward reining them in. The deficit will likely keep on rising and taking the broader current account deficit with it in the years ahead given the lagging effects of the tight correlation with the USD (chart 6).
- **Fiscal deficits:** Washington's deficit was 3% of GDP in November 2016. It started last year at 3.4% of GDP. It's now 4.3%. So much for tax cuts paying for themselves. Further, there has been zero progress toward addressing important issues like the future impact of rising health care and social security costs that the CBO figures will drive the deficit much further over

the long run (chart 7). Strike two.

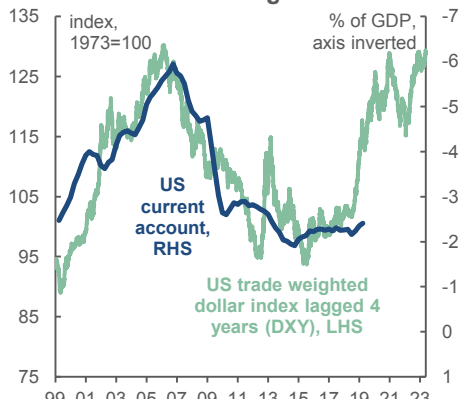
- **Stocks:** I'll come back in a minute to the performance of stock markets, but for now, why have they been resilient? One significant reason is that the Tax Cuts and Jobs Act diverted deficit funding toward company share buybacks (chart 8). That worked well for the stock market, but it's leveraging the future tax burden. Half a strike.
- **Manufacturers:** The sharply falling ISM-manufacturing gauge pours cold water on the notion that manufacturers are coming back in droves (chart 9). In fact, many of America's top multinationals are struggling to reassess their supply chains given the disruptive impact of tariffs and the evidence doesn't point to this resulting in manufacturing coming home. Another strike.

Now how does President Trump compare to other past Presidents by way of the performance of key metrics for the economy and markets to this point in his mandate and compared to identical points in the mandates of past Presidents? Here we go:

- **Stocks:** Not bad, but not great. Obama did better. Trump ranks fourth on the list of past Presidents in terms of the S&P500's performance to this point in his mandate (chart 10).
- **Bonds:** Not long ago, Trump was the worst President ever when judged in terms of the performance of the 10 year US Treasury. The yield had climbed up by the most during his tenure of any past President. But thanks to the trade policy related safe haven seeking that his administration's policies have pursued and thanks to the Fed's move toward accommodating the effects, Trump is now only the fourth worst President on record in terms of the bond market's performance (chart 11). Strike.
- **GDP:** Trump is roughly in the middle of the pack compared to past Presidents in terms of the performance of broad GDP growth to this point in his mandate (chart 12). That's despite juicing the economy with transitory deficit-financed stimulus including the spending bill in February 2018 and the Tax Cuts and Jobs Act at the start of last year.
- **Wage gains:** Trump is a little worse than average on this metric (chart 13). It's inflation adjusted, so there is no artificial advantage given to prior eras of more rampant inflation.
- **Inflation:** Trump is a little better than average on this measure (chart 14).
- **Unemployment:** Trump has done well on this count. The unemployment rate has drifted lower under his tenure than it has under most other Presidents (chart 15).
- **Employment:** Curiously, however, Trump is at best middle of the pack on employment growth (chart 16). Better on the unemployment rate, but middle of the pack on job growth means the labour force has grown more slowly under Trump's tenure than it did during past Presidents.

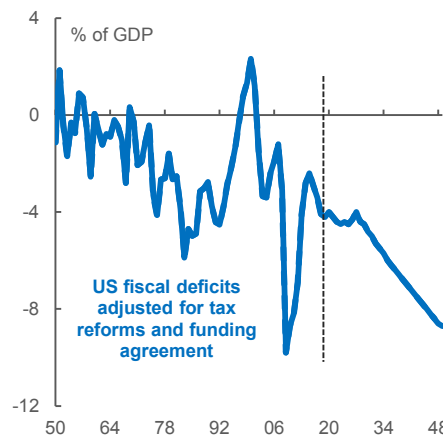
Overall, the MAGA hype should be discounted in favour of an approach to forecasting in this environment that is depicted by the final chart 17 which depicts the feedback loop we're now stuck in between damaging trade policy and Fed rescues. A theme to our forecast update today is that we're going to be stuck in this loop for some time. It's a loop that started with damaging protectionism that the US Congress is too weak to stand up to and that damages growth, only for the Federal Reserve to respond to its mandate set by said Congress by easing and thus throwing a big security blanket over the administration. The Fed is enabling the damaging consequences of trade wars. Why have stocks held up through it? Simple. The Fed's easing is being combined with transferring future wealth through deficit financed stimulus into stock buybacks. If not for these two effects, stocks would almost certainly be considerably lower than they are now and Trump's performance compared to past Presidents would likely be below average. We're now left debating recession risk via inverted sovereign curves. Infrastructure investment has made zero progress while trade and fiscal deficits balloon. Overall, America was already great, I have enormous regard for many features of the US economy and markets, and respect. That notwithstanding, a frank discussion of the true MAGA scorecard needs to be encouraged in order to ensure America's future greatness.

US Current Account Deficit and US Trade-Weighted Dollar



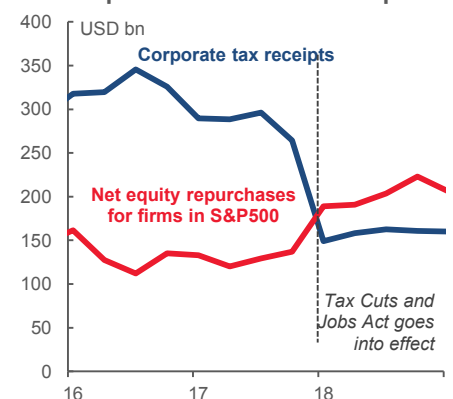
Sources: Scotiabank Economics, Federal Reserve, Bloomberg.

US Fiscal Train Wreck



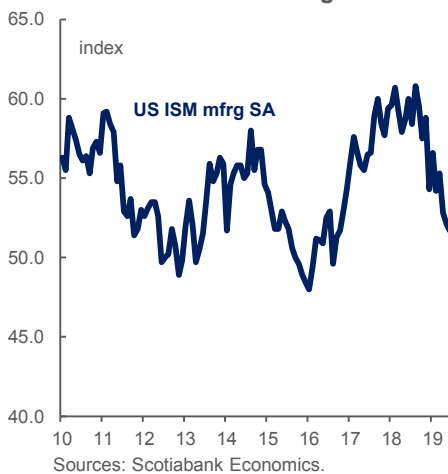
Sources: Scotiabank Economics, CBO.

US Share Buybacks Soar While Corporate Tax Revenues Slip

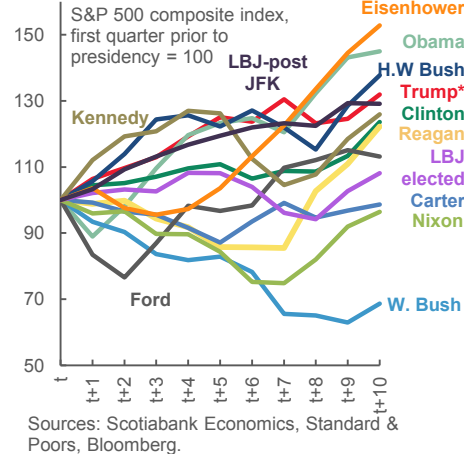


Sources: Scotiabank Economics, BEA US Treasury, Bloomberg.

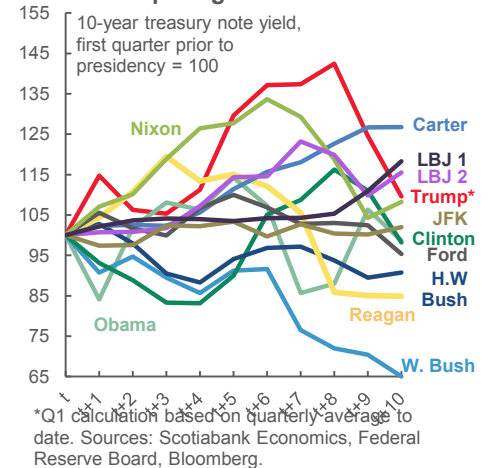
Manufacturers Coming Back?



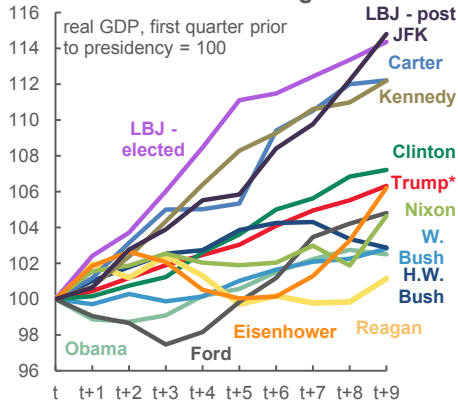
Comparing Stock Market Performances



Comparing Bond Markets

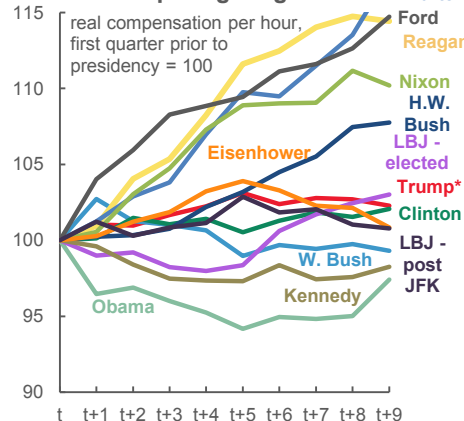


Real GDP Growth Among Presidents



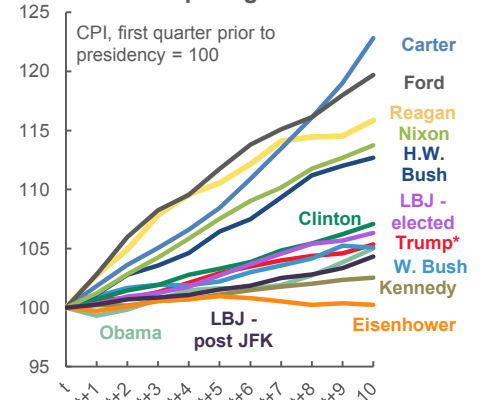
Sources: Scotiabank Economics, Bureau of Economics Analysis.

Comparing Wage Gains

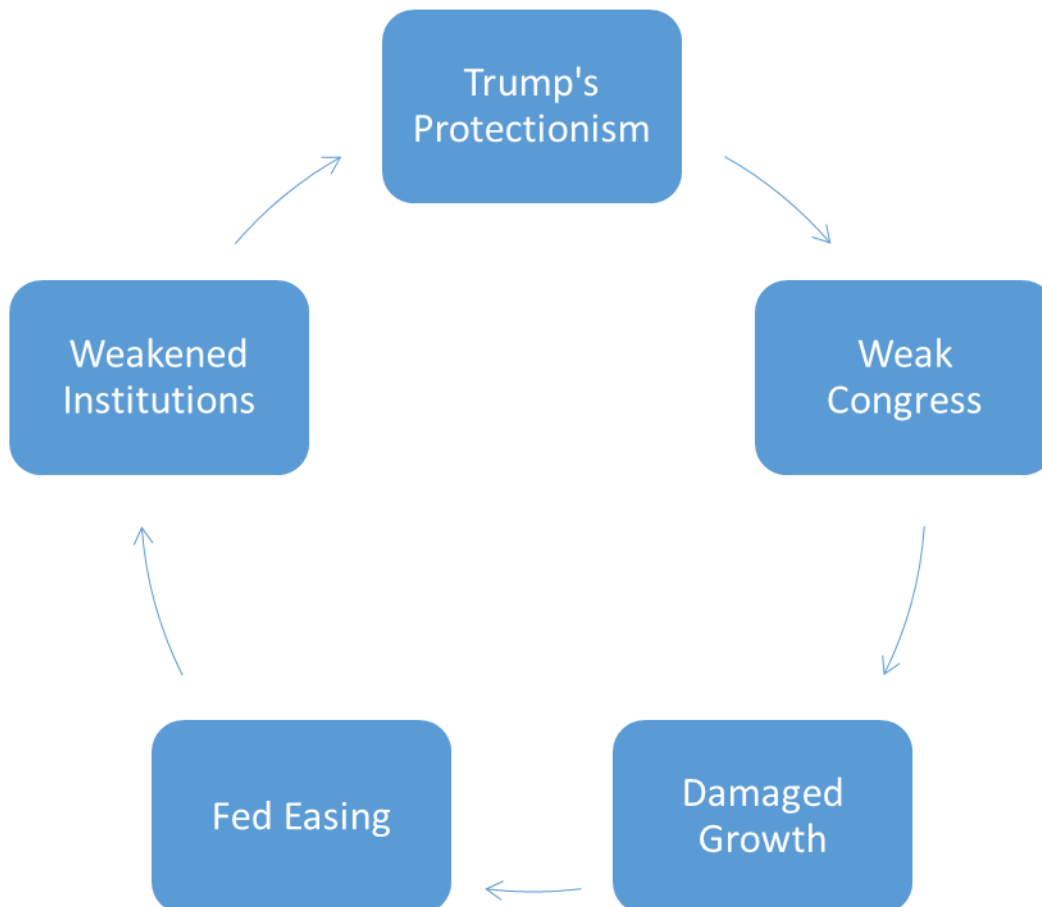
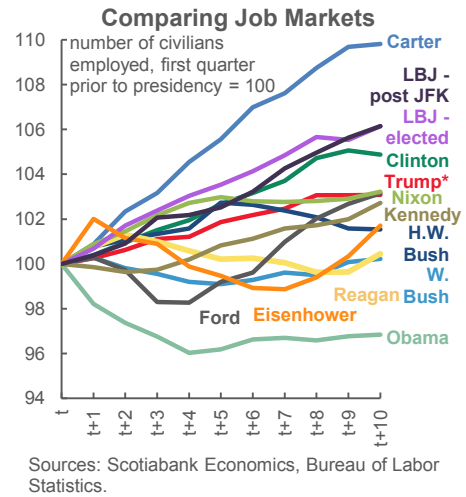
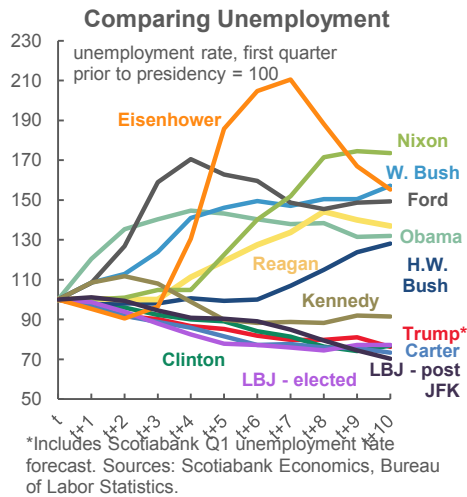


Sources: Scotiabank Economics, Bureau of Labor Statistics.

Comparing Inflation



Sources: Scotiabank Economics, Bureau of Labor Statistics.



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			
	1.87	1.86	1.86	1.89	1.89	1.83	2.14	2.14	2.03	2.66	2.66	2.54	Canada - BoC	1.75	
	1.61	1.60	1.62	1.58	1.57	1.53	1.63	1.63	1.57	1.82	1.80	1.74	US - Fed	2.50	
	-0.73	-0.73	-0.75	-0.57	-0.58	-0.64	-0.20	-0.23	-0.36	0.39	0.37	0.24			
	-0.18	-0.19	-0.21	-0.20	-0.22	-0.25	-0.11	-0.14	-0.16	0.39	0.36	0.34	England - BoE	0.75	
	0.60	0.61	0.56	0.63	0.64	0.54	0.84	0.84	0.74	1.44	1.44	1.36			
	Spreads vs. U.S. (bps):														
	-26	-26	-24	-32	-33	-30	-51	-51	-46	-85	-86	-80	Euro zone - ECB	0.00	
	-260	-259	-261	-246	-247	-247	-235	-236	-240	-227	-229	-230	Japan - BoJ	-0.10	
-205	-206	-207	-210	-211	-208	-226	-227	-219	-227	-230	-220				
-127	-125	-130	-126	-126	-129	-130	-130	-130	-122	-122	-118				
Equities	Level						% change:						Mexico - Banxico	8.25	
	Last	Change					1 Day	1-wk	1-mo	1-yr					
S&P/TSX	16528	-35.4					-0.2	-0.4	1.9	-0.2	Australia - RBA 1.00				
Dow 30	27088	227.9					0.8	0.5	4.2	8.7	New Zealand - RBNZ 1.50				
S&P 500	3000	6.8					0.2	0.1	4.2	7.2					
Nasdaq	8196	-6.5					-0.1	0.3	5.2	4.8					
DAX	12343	10.8					0.1	-1.8	1.9	-1.2					
FTSE	7517	7.3					0.1	-0.5	2.0	-1.8					
Nikkei	21686	42.4					0.2	-0.3	2.6	-2.3	Canada - BoC Sep 04, 2019				
Hang Seng	28472	39.8					0.1	-1.1	4.3	-0.0	US - Fed Jul 31, 2019				
CAC	5577	24.7					0.4	-0.3	3.8	3.2	England - BoE Aug 01, 2019				
Commodities	Level						% change:						Euro zone - ECB Jul 25, 2019		
WTI Crude	60.19	-0.01					-0.0	4.7	17.7	-14.4	Japan - BoJ Jul 30, 2019				
Natural Gas	2.46	0.05					1.9	1.9	3.2	-11.9	Mexico - Banxico Aug 15, 2019				
Gold	1405.89	2.15					0.2	0.5	5.4	12.7	Australia - RBA Aug 06, 2019				
Silver	15.27	0.17					1.1	-0.1	3.9	-4.1	New Zealand - RBNZ Aug 06, 2019				
CRB Index	183.67	-0.01					-0.0	1.6	6.0	-5.3					
Currencies	Level						% change:								
USDCAD	1.3037	-0.0035					-0.3	-0.3	-2.3	-0.9					
EURUSD	1.1242	-0.0012					-0.1	0.2	-0.4	-3.7					
USDJPY	108.27	-0.2300					-0.2	-0.2	-0.2	-3.8					
AUDUSD	0.6987	0.0013					0.2	0.1	0.9	-5.7					
GBPUSD	1.2539	0.0018					0.1	0.1	-1.2	-5.1					
USDCHF	0.9869	-0.0031					-0.3	-0.5	-0.9	-1.5					

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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