

**ON DECK FOR FRIDAY, JULY 19**

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	07/19	08:30	Retail Sales (m/m)	May	0.4	0.3	0.1
CA	07/19	08:30	Retail Sales ex. Autos (m/m)	May	0.4	0.4	0.1
US	07/19	10:00	U. of Michigan Consumer Sentiment	Jul P	99	98.8	98.2

**KEY POINTS:**

- **USD and Treasuries walk back volatile Fed-speak**
- **CDN retail sales: watch for volumes, look through tariffs**
- **US UofM sentiment: why are Fed doves cherry picking inflation expectations?**
- **Fed's Rosengren, Bullard on tap**

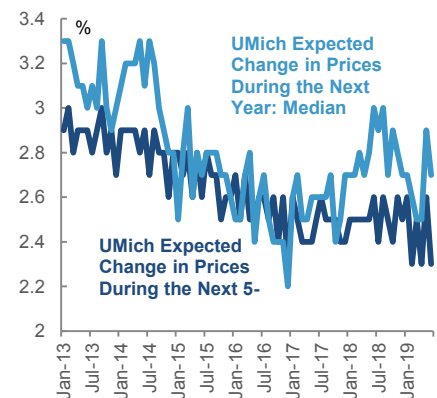
**INTERNATIONAL**

Regular publishing resumes today after marketing to fixed income clients in London this week. **Volatile Fed-speak is shaking out of the markets somewhat this morning.** After dueling remarks yesterday from the NY Fed's Williams, the walk-back by the NY Fed afterward, and Vice Chair Clarida's aggressive remarks, the dollar is now firming and Treasuries are cheapening. Fed funds futures are pricing about 33–34bps of easing on July 31<sup>st</sup>, so more than ¼ point cut but well under half a point. The half-point odds have notably lessened since the Fed remarks initially hit the screens yesterday and may have been met by an exaggerated market response. I still think they go 25bps and question the need for anything that emboldens Trump's protectionist bias and sends us further along a rates and trade policy downward spiral as evidenced by everything Trump has said since the June FOMC meeting including tariff warnings applied against China and France. **Canadian retail sales** will inform consumer tracking (see below) and the **UofM sentiment gauge** will reveal the latest measures of inflation expectations that the Fed doves have been conveniently ignoring (see below).

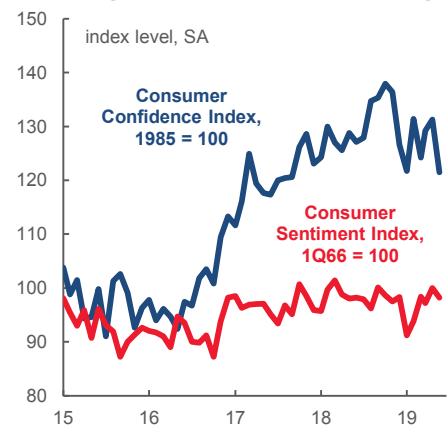
- Tensions in the Strait of Hormuz are driving oil prices higher with WTI up by about 75 cents and Brent up about a buck.
- US equity futures are slightly higher while TSX futures are flat. European equity markets are little changed on balance with a slight negative tilt, especially in Italy and Madrid where stocks are down by over ½% and 1 ½% respectively. Asian equities rallied across the board except in India, with the Nikkei up 2%, HK and Seoul up by just over 1% and mainland China's exchanges up by about ¾%.
- The USD is slightly firmer on a DXY basis this morning. Almost all crosses are down against the USD.
- US Treasury yields are up by 2–4bps across the curve out to 10s and less at the long end. Canadas are outperforming through somewhat lesser cheapening especially at the front end. Italian debt spreads are wider by 7bps in 10s versus bunds while gilts and EGBs are otherwise slightly rallying on balance.

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**UofM Inflation Expectations**


Source: Scotiabank Economics, University of Michigan.

**Divergent US Confidence Readings**


Sources: Scotiabank Economics, University of Michigan, Conference Board, Haver Analytics.

**UNITED STATES**

**With the Fed worried about inflation expectations, this morning's University of Michigan consumer sentiment gauge will offer further information that may continue to be much less disconcerting than some market measures.** The one and five year inflation expectations of consumers will be updated at 10amET for July, and they were running at 2.3% and 2.7% respectively in the June report (chart 1). When some Fed speakers flag flailing readings on inflation expectations, they are cherry picking the evidence and ignoring the measures that are not terribly disconcerting. Aside from these subcomponents, the other issue is that UofM understates confidence trends relative to the Conference Board's consumer sentiment metric (chart 2).

A pair of Fed speakers could comment upon the UofM inflation gauges. St. Louis Fed President Bullard (11:10amET) could be the most likely to do so given that he more than most FOMC speakers has emphasized easing for the sake of raising inflation expectations. Boston Fed President Rosengren will be on a panel after the market close at 4:30pmET.

**CANADA**

Canada updates retail sales for May this morning (8:30amET). Estimates range from a rise of 0.2% m/m to 0.7% for headline (Scotia 0.4%) and 0% to 0.6% for sales ex-autos (Scotia 0.4%). **Be careful with this one in that there may be an even greater than usual reason to look through the headline to the sales volume measure that strips out price effects.**

That's because higher prices may assist the headline given that total CPI was up by 0.3% m/m in seasonally adjusted terms during May. Higher prices were registered especially in categories like recreation/education/reading, food and transportation including gasoline effects. The jump in prices for items within the recreation/education/reading category that were hit by tariff effects took until this Spring to flow through the inventory and seasonal cycles after being initially introduced in July of last year. The tariff hikes were substantial (recall list [here](#)) and included 10% tariffs applied across a range of goods beyond the 25% tariff rate that was applied against steel and aluminum products. These effects will need to be looked through. In particular, view with skepticism gains in categories like 'other motor vehicle dealers' that capture tariff-affected ATVs and boats, as well as components within 'building material and garden equipment' that includes items like lawn mowers hit by tariff related price spikes.

The May report will also be used to update monthly and quarterly GDP tracking. With figures only up to April, retail volumes were tracking a mild rise of 1.2% q/q at a seasonally adjusted and annualized rate after no growth in Q1 and a nearly 1% drop in Q4. Retail volumes were up in February and March after prior weakness but stumbled again in April with the overall trend remaining soft.

*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.*

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									
	1.80	1.76	1.85	1.80	1.77	1.87	2.05	2.03	2.12	2.58	2.56	2.65	Canada - BoC	1.75							
	1.47	1.45	1.55	1.44	1.40	1.54	1.52	1.50	1.61	1.75	1.74	1.79	US - Fed	2.50							
	-0.77	-0.75	-0.72	-0.66	-0.64	-0.57	-0.32	-0.31	-0.21	0.29	0.28	0.39									
	-0.20	-0.19	-0.18	-0.23	-0.22	-0.20	-0.13	-0.13	-0.11	0.38	0.38	0.39	England - BoE	0.75							
	0.53	0.53	0.59	0.53	0.54	0.63	0.75	0.76	0.84	1.38	1.38	1.44									
	Spreads vs. U.S. (bps):																				
	-33	-31	-30	-36	-36	-33	-52	-53	-52	-82	-83	-86	Euro zone - ECB	0.00							
	-257	-251	-257	-246	-241	-244	-237	-234	-233	-229	-229	-226	Japan - BoJ	-0.10							
-199	-195	-203	-203	-199	-207	-218	-216	-224	-220	-219	-226										
-127	-122	-125	-127	-123	-125	-130	-127	-129	-120	-118	-121										
Equities	Level						% change:						Mexico - Banxico	8.25							
	Last			Change			1 Day	1-wk	1-mo	1-yr											
S&P/TSX	16494			10.0			0.1	-0.2	-0.1	-0.3			Australia - RBA	1.00							
Dow 30	27223			3.1			0.0	0.5	2.7	8.6			New Zealand - RBNZ	1.50							
S&P 500	2995			10.7			0.4	-0.2	2.3	6.8											
Nasdaq	8207			22.0			0.3	0.1	2.8	4.9											
DAX	12237			9.2			0.1	-0.7	-0.6	-3.5											
FTSE	7494			1.0			0.0	-0.2	1.2	-2.5											
Nikkei	21467			420.8			2.0	-0.8	0.6	-5.7			Canada - BoC	Sep 04, 2019							
Hang Seng	28765			303.7			1.1	1.0	2.0	2.7			US - Fed	Jul 31, 2019							
CAC	5551			0.6			0.0	-0.4	0.6	2.5											
Commodities	Level						% change:														
	Last			Change			1.3	-6.9	4.2	-19.3			England - BoE	Aug 01, 2019							
WTI Crude	56.04			0.74			-0.1	-6.9	0.4	-17.5											
Natural Gas	2.28			-0.00			-0.5	1.6	5.7	17.6			Euro zone - ECB	Jul 25, 2019							
Gold	1438.26			-7.87			2.7	5.0	7.6	3.8			Japan - BoJ	Jul 30, 2019							
Silver	16.03			0.42			0.7	-3.0	1.9	-6.6											
CRB Index	178.75			1.30			Currencies	Level						% change:							
	Last			Change			0.1	0.1	-1.8	-1.7			Mexico - Banxico	Aug 15, 2019							
USDCAD	1.3046			0.0019			-0.4	-0.3	0.1	-3.5											
EURUSD	1.1235			-0.0042			0.3	-0.2	-0.4	-4.3			Australia - RBA	Aug 06, 2019							
USDJPY	107.66			0.3600			-0.3	0.5	2.5	-4.2											
AUDUSD	0.7054			-0.0021			-0.1	-0.3	-0.8	-3.7			New Zealand - RBNZ	Aug 06, 2019							
GBPUSD	1.2534			-0.0015			0.2	-0.1	-1.1	-1.6											
USDCHF	0.9831			0.0017																	

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