

ON DECK FOR TUESDAY, NOVEMBER 19

| Country | Date | Time | Indicator | Period | BNS | Consensus | Latest |
|---------|-------|-------|---|--------|------|-----------|--------|
| CA | 11/19 | 08:30 | Manufacturing Shipments (m/m) | Sep | -1.0 | -0.5 | 0.8 |
| CA | 11/19 | 08:30 | Teranet - National Bank HPI (y/y) | Oct | -- | -- | 0.7 |
| US | 11/19 | 08:30 | Building Permits (000s a.r.) | Oct | -- | 1385 | 1391 |
| US | 11/19 | 08:30 | Housing Starts (000s a.r.) | Oct | 1340 | 1320 | 1256 |
| US | 11/19 | 08:30 | Housing Starts (m/m) | Oct | 6.7 | 5.1 | -9.4 |
| US | 11/19 | 09:00 | Fed's Williams Speaks at Capital Markets Conference | | | | |
| CA | 11/19 | 12:20 | Bank of Canada's Wilkins Gives Speech in Montreal | | | | |

KEY POINTS:

- **Global markets on guard for US-China risks**
- **US Senate could pass HK bill today**
- **Canada hit by another rail strike...**
- **...and why this one could be a bigger risk to the economy**
- **BoC's Wilkins to focus upon macroprud policies...**
- **...and may broach interest rate pass-through to housing**
- **CDN manufacturing probably followed exports lower**
- **US housing starts expected to rebound**

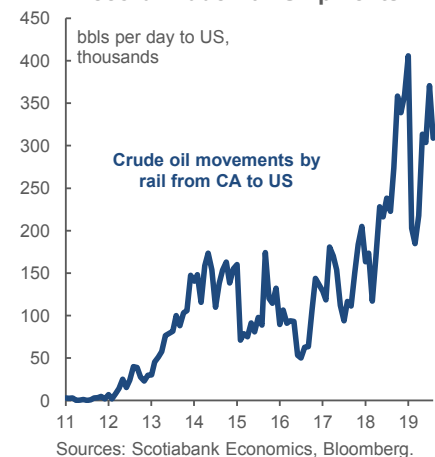
INTERNATIONAL

Global markets are playing the watching and waiting game given high uncertainty surrounding next steps in the interplay between US-China trade negotiations and what stance the US may take toward Hong Kong. This risk could escalate today (see below). Global calendars are otherwise fairly light except for in Canada where data, BoC communications and strike effects will heat things up (see below).

- The USD is mixed across major currencies. It's gaining ground to the won, Swiss franc and sterling while the euro, CAD and the yen are little changed. The rand, NZ\$ and Mexican peso are leading gainers. The Chilean peso is depreciating but is basically only back to where it was about this time yesterday morning while retaining most of the rally since Thursday.
- US equity futures are up by about ¼% on average across the exchanges. Earnings from Home Depot put a bit of a damper on earlier enthusiasm. TSX futures are similarly higher. European cash markets are up by between ¼% (Paris) and 1% (London, Frankfurt). Asian markets were mixed as Tokyo fell ½%, Hong Kong rallied by 1 ½%, mainland China was up by between ¾% and 1 ¾% but Seoul fell by just over ¼%.
- Sovereign bond yields are little changed across all major markets. Australia's curve was the one particularly notable exception as rates rallied by 2–3bps across maturities in the wake of dovish RBA minutes to the November 4th meeting.
- Oil prices are off by half a buck in terms of Brent and WTI. Gold is slightly lower at US\$1468/oz.

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Record Crude Rail Shipments

The WCS Oil Discount Has Widened Again


CANADA

Macro data, Bank of Canada communications and assessing potential strike effects liven things up a little for Canada watchers today.

Manufacturing shipments during September are due out this morning (8:30amET). The soft exports tally for September was a lousy way of ending the third quarter and it should spill over into a soft manufacturing report. The volume of exports fell by 2.1% m/m in September and they declined back to where they were in March. Five months of distorted and transitory export gains have been wiped clear including across key manufacturing categories. There is always a lot of uncertainty toward this morning's reading not least of which because a) inventory management can weaken or magnify the translation of exports into manufacturing shipments going out the door, and b) because we lack reliable advance indicators for domestic manufacturing sales.

Bank of Canada **Senior Deputy Governor Wilkins** will deliver a speech today (available 1pmET, audience Q&A, no press) about "measures in place to help safeguard the Canadian financial system in a challenging global environment." It's likely to be less macro in nature as Wilkins' speech may indirectly broach important topics such as pass-through of lower fixed mortgage rates and potentially easier monetary policy into housing markets. I've tended to argue that the effects are materially less troublesome than when the BoC cut rates in 2015 because a) the global bond rally already fed lower fixed mortgage rates, and modest easing would probably not compound the effects compared to the current term structure; and b) multiple forms of tightened macroprudential rules over the years have lessened pass-through risk. They include B20 OSFI mortgage guidelines and various dampening provincial housing policies.

Well that's just what the country needed. **Canadian National Railway Co went on strike at midnight. Unlike past strikes, this one could well go on for a while and a) have a negative impact upon key parts of the economy, and b) mess with macroeconomic readings that will cloud the picture for markets and for monetary policy purposes.**

Past rail strikes have been short; CN in 2009 was a three day strike and CP strikes in 2012, 2015 and 2018 were comparably short. These past strikes ended either because they came to agreement or because of back to work legislation that was enacted or threatened. This one might be comparably short, but politics could easily lead to a worse outcome. This time, the economy could pay a price because it's the first test of the Liberal Party's efforts to court the further left NDP as a coalition partner. Canada's Labour Minister Patty Hajdu remarked that "The government of Canada supports and has faith in the collective bargaining process." Prospects for a Liberal-NDP coalition could be dealt a serious blow by legislating workers back as they seek concessions on benefits without disputing pay given the NDP's support base across labour unions.

In the meantime, boots on the economy's ground will pay the price. Rail is a major form of transporting a lot of goods in Canada. For example, the inability of the country's governments and special interests to get their act together on pipelines has made the oil patch increasingly reliant upon shipments of crude oil to the US. As chart 1 shows, over 300,000 barrels per day travel by rail. Inability to move product for a significant period could widen the discount on Canadian oil prices to WTI compared to the Bakken spread (chart 2). That's just what Alberta needs on top of everything else. The political blowback is likely to play up another example of how the rest of the country is not working in Alberta's interests.

Rail is also important across multiple other products. The accompanying table shows the volume of goods shipped by rail in terms of the number of carloads. Autos, grain, chemicals, lumber, metals, coal and non-metallic minerals are among the multitude of

| Type of Carload | YTD Carloads, 000s | YTD Change, y/y % |
|----------------------------|--------------------------|-------------------------|
| Intermodal/Containers | 3214 | 1.7 |
| Chemicals | 556 | -1.8 |
| Metallic Ores | 529 | -0.2 |
| Petroleum Products | 463 | 18.4 |
| Grain | 396 | -1.8 |
| Coal | 356 | 0.3 |
| Vehicles & Equipment | 249 | 2.5 |
| Crushed Stone/Sand/Gravel | 200 | -15.9 |
| Farm Products Ex. Grain | 151 | 1.3 |
| Lumber & Wood Products | 141 | -8.2 |
| Pulp/Paper/Allied Products | 122 | -2.2 |
| Food & Kindred Products | 114 | 0.0 |
| Metals & Products | 89 | -5.0 |
| Grain Mill Products | 75 | 7.9 |
| Stone/Clay/Glass Products | 59 | -4.0 |
| Non-metallic Minerals | 57 | -5.6 |
| All Other Carloads | 56 | -9.3 |
| Primary Forest Products | 53 | -15.8 |
| Coke | 43 | -4.5 |
| Waste & Scrap Materials | 11 | -2.2 |

Note: YTD as of November 15th, 2019
Sources: Scotiabank Economics, The Association of American Railroads

products shipped by rail. Intermodal/container shipments are the biggest category and are basically a grab bag of everything not captured by the rest of the breakdown including a lot of consumer goods.

UNITED STATES

The main thing to watch for today will be prospects for the US Senate to pass the Hong Kong Human Rights and Democracy Act as soon as today. That could spawn another flare-up in US-China relations. A similar bill unanimously passed the House last month and so the general thrust of efforts to review Hong Kong's special status annually has widespread support across both Democrats and Republicans. If the Senate bill passes today then either a) differences with the House bill would be settled in conference and then go back to quick votes, or b) the House and Senate will have to separately work toward identical bills. Then it's on to President Trump's desk and he has been absent from the debate. A veto-proof two-thirds super-majority could well raise the prospect of Congress offending China and either scuttling or setting back trade talks while Trump plays his well worn not-my-fault card.

US housing starts are expected to rebound this morning after dropping 9.4% m/m in September (8:30amET). NY Fed President Williams speaks at 9amET in a one-on-one sessions at SIFMA's annual conference.

| 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 | | | |
| | 1.61 | 1.60 | 1.66 | 1.64 | 1.64 | 1.74 | 1.82 | 1.82 | 1.94 | 2.30 | 2.30 | 2.42 | Canada - BoC | 1.75 | |
| | 1.55 | 1.54 | 1.60 | 1.49 | 1.48 | 1.58 | 1.49 | 1.48 | 1.60 | 1.62 | 1.62 | 1.74 | US - Fed | 1.75 | |
| | -0.62 | -0.63 | -0.62 | -0.57 | -0.58 | -0.53 | -0.33 | -0.34 | -0.25 | 0.19 | 0.18 | 0.28 | US - Fed | 1.75 | |
| | -0.20 | -0.20 | -0.16 | -0.20 | -0.19 | -0.15 | -0.08 | -0.08 | -0.02 | 0.45 | 0.45 | 0.49 | | | |
| | 0.57 | 0.57 | 0.56 | 0.54 | 0.54 | 0.56 | 0.75 | 0.75 | 0.81 | 1.28 | 1.28 | 1.32 | England - BoE | 0.75 | |
| | Spreads vs. U.S. (bps): | | | | | | | | | | | | | | |
| | -6 | -6 | -6 | -15 | -16 | -16 | -33 | -33 | -33 | -68 | -68 | -68 | Euro zone - ECB | 0.00 | |
| | -223 | -223 | -229 | -222 | -222 | -226 | -215 | -215 | -219 | -211 | -212 | -214 | | | |
| -181 | -180 | -182 | -184 | -182 | -189 | -190 | -189 | -196 | -185 | -185 | -192 | Japan - BoJ | -0.10 | | |
| -103 | -103 | -110 | -110 | -110 | -118 | -107 | -107 | -113 | -102 | -102 | -110 | | | | |
| Equities | Level | | | | | | % change: | | | | | | Mexico - Banxico | 7.50 | |
| | Last | Change | | 1 Day | | 1-wk | 1-mo | 1-yr | | | | | | | |
| S&P/TSX | 17025 | -3.4 | | -0.0 | | 0.8 | 4.0 | 13.0 | | | | | | Australia - RBA | 0.75 |
| Dow 30 | 28036 | 31.3 | | 0.1 | | 1.2 | 4.7 | 12.1 | | | | | | | |
| S&P 500 | 3122 | 1.6 | | 0.1 | | 1.1 | 4.5 | 16.0 | | | | | | New Zealand - RBNZ | 1.00 |
| Nasdaq | 8550 | 9.1 | | 0.1 | | 1.0 | 5.7 | 21.6 | | | | | | | |
| DAX | 13325 | 118.5 | | 0.9 | | 0.3 | 5.5 | 18.5 | | | | | | Next Meeting Date | |
| FTSE | 7395 | 86.8 | | 1.2 | | 0.4 | 3.4 | 5.6 | | | | | | | |
| Nikkei | 23293 | -124.1 | | -0.5 | | -1.0 | 3.6 | 6.7 | | | | | | Canada - BoC | Dec 04, 2019 |
| Hang Seng | 27094 | 412.7 | | 1.5 | | 0.1 | 1.4 | 2.7 | | | | | | US - Fed | Dec 11, 2019 |
| CAC | 5945 | 14.7 | | 0.2 | | 0.4 | 5.5 | 19.2 | | | | | | England - BoE | Dec 19, 2019 |
| Commodities | Level | | | | | | % change: | | | | | | | | |
| WTI Crude | 56.51 | -0.54 | | -0.9 | | -0.5 | 5.1 | -0.4 | | | | | | | |
| Natural Gas | 2.54 | -0.02 | | -0.9 | | -3.0 | 9.6 | -45.9 | | | | | | | |
| Gold | 1467.89 | -3.56 | | -0.2 | | 0.8 | -1.5 | 19.9 | | | | | | Euro zone - ECB | Dec 12, 2019 |
| Silver | 16.80 | -0.08 | | -0.4 | | -0.5 | -3.7 | 17.6 | | | | | | | |
| CRB Index | 178.61 | -0.57 | | -0.3 | | -0.7 | 1.6 | -5.4 | | | | | | Japan - BoJ | Dec 19, 2019 |
| Currencies | Level | | | | | | % change: | | | | | | | | |
| USDCAD | 1.3214 | 0.0008 | | 0.1 | | -0.1 | 1.0 | 0.3 | | | | | | Mexico - Banxico | Dec 19, 2019 |
| EURUSD | 1.1076 | 0.0004 | | 0.0 | | 0.6 | -0.7 | -3.3 | | | | | | | |
| USDJPY | 108.77 | 0.0900 | | 0.1 | | -0.2 | 0.1 | -3.4 | | | | | | Australia - RBA | Dec 02, 2019 |
| AUDUSD | 0.6822 | 0.0011 | | 0.2 | | -0.3 | -0.7 | -6.5 | | | | | | | |
| GBPUSD | 1.2938 | -0.0015 | | -0.1 | | 0.7 | -0.2 | 0.7 | | | | | | New Zealand - RBNZ | Feb 11, 2020 |
| USDCHF | 0.9914 | 0.0018 | | 0.2 | | -0.2 | 0.6 | -0.2 | | | | | | | |

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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