

ON DECK FOR FRIDAY, DECEMBER 13

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	12/13	08:30	Export Prices (m/m)	Nov	--	0.2	-0.5
US	12/13	08:30	Import Prices (m/m)	Nov	--	0.2	-0.5
US	12/13	08:30	Retail Sales (m/m)	Nov	0.6	0.5	0.3
US	12/13	08:30	Retail Sales ex. Autos (m/m)	Nov	0.4	0.4	0.2
US	12/13	10:00	Business Inventories (m/m)	Oct	--	0.2	0.0

KEY POINTS:

- Markets rejoice over UK election & tariff deal, for now
- Trump's 'deal' is farcical...
- ...and leaves many unanswered questions...
- ...that the US and a Chinese press conference could inform
- UK election eliminates hard Brexit risk...
- ...raises other risks
- US retail sales could be a solid reading
- Johnson may announce Carney's successor over coming days
- Peru's central bank holds with a dovish bias
- Russia's central bank cuts, guides there may be more to come
- Japan's Tankan survey weakens again
- Fed's year-end repo expansion is positive

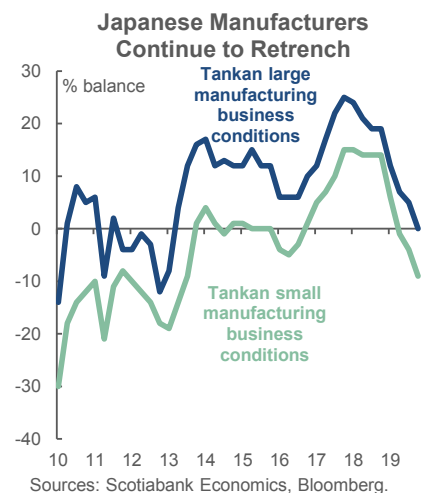
INTERNATIONAL

Sell the fact? That depends upon exactly what "facts" we're talking about as they are remarkably lean in terms of the US-China phase one trade deal. Further announcements from the US are expected today and China is expected to hold a press conference at some point today on the trade talks (likely soon this morning). I've outlined some of the many questions and doubts surrounding this deal in the US section of this morning's note. The UK election outcome is more positive, albeit with new risks and developments to monitor (see below). A pair of central bank decisions, weak data out of Japan, a positive year-end repo funding move by the Fed and a pending US retail sales release round out developments. Canada may announce the date of next week's expected economic and fiscal update perhaps as soon as today through early next week. Governor Poloz's speech ([here](#)) and press conference yielded little by way of fresh insights.

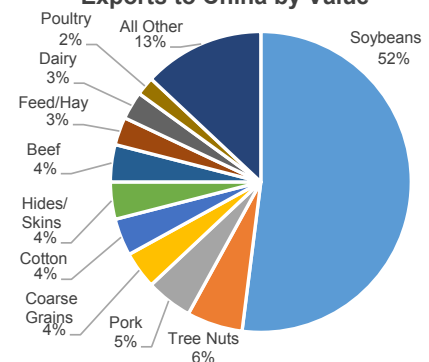
- US equity futures are up by between ¼% and ½% after yesterday's ¾% rally in the cash market. TSX futures are only slightly higher. European cash markets are up by between ½% (Italy) and 1¼% (London). Asian equities rallied by between about 1½% (Seoul) and 2½% (Tokyo).
- US Treasury yields are taking back a small amount of yesterday's cheapening. The US curve is down by about 2bps across maturities. Canada's curve is performing similarly, though slightly underperforming at the front end. The gilts curve is very slightly cheaper. EGBs are mixed with Italian 10 year spreads narrowing by about 5bps over the 2bps cheaper 10 year bund.

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Breakdown of 2017 US Agriculture Exports to China by Value



Sources: Scotiabank Economics, USDA, Minnesota Department of Agriculture.

- Oil prices are up by 50–75 cents. WTI is just under US\$60 and Brent is at about US\$65.
- The USD is depreciating particularly against sterling, the won and some Scandies but the euro is also gaining. CAD, the A\$ and Mexican peso are only slightly stronger. The yen is depreciating.

The UK general election eliminates the risk of a hard Brexit or a second referendum, not to mention nationalizations and higher taxes that the Labour Party blew itself up over. Sterling's rise is a somewhat complicating factor for the foreign earnings of UK firms. The vote raises the risk that Scotland splits as a major theme that will dominate developments in 2020. Further, while the UK government is in a stronger position to do so, it must still negotiate a trade agreement with the EU before the end of next year.

In one sense, it's not clear whether this was a vote to leave or a vote against Jeremy Corbyn's brand of socialism, but either way it wasn't an ideal choice to present to voters. What moderates this interpretation somewhat and in favour of this being a solid vote to leave was a) the magnitude of the Conservatives' victory as they secured a bigger majority than most of the most optimistic forecasts anticipated, and b) essentially the death of the 'remain' parties outside of Scotland where the SNP is licking its chops over plans to separate in a new wrinkle. US Democrats take note: an extreme hard left turn was rejected by British voters and the Dems risk losing to Trump again if they go Corbyn on US voters with whomever they pick. In any event, the UK Conservatives are firmly in charge with unofficial results indicating they won 66 more seats to come in at 364 seats in total, while Labour lost 42 seats and fell to 203. The 'remain' supporting Liberal Democrats are toast as their leader Jo Swinson lost her seat and the party lost 10 seats to land at 11. In proportional terms, the Scottish National Party was the election's biggest winner by gaining 13 seats to hold 48, leaving just a handful of Scotland's seats outside of its control.

Be on watch for a potential announcement by the UK Johnson administration about who will follow Governor Carney at the Bank of England when he steps down at the end of next month. The Conservatives had guided they would act "very quickly" after an election victory and the new Governor's first day on the job is a month and a half away from now. The Conservatives have guided that announcement won't come today, but watch for this over the weekend or into next week. There are many hats in the ring and conflicting reports on who the favourite may be in a process renowned for its capacity to surprise. Recall that Carney himself denied interest for an extended period before the surprise appointment was announced.

Peru's central bank surprised no one by leaving its policy rate unchanged at 2.25% last evening. The statement ([here](#)) had a dovish tinge to it that noted that inflation has "a moderate downside bias" because of a soft economy.

Japan's Tankan survey of business conditions weakened last evening. Overall business conditions for large and small manufacturers deteriorated (see chart 1). The large and small non-manufacturing indices slipped by less than the manufacturing readings.

Russia's central bank cut its key rate by 25bps to 6¼% as expected. That brings cumulative easing to 150bps since April. The accompanying statement ([here](#)) had a dovish bias in that it mentioned it "will consider the necessity of further key rate reduction in the first half of 2020."

UNITED STATES

Markets will consider possible further details on the US-China trade agreement at least from the US side today, an expected impeachment vote around mid-morning, and significant macro data before all of that.

Retail sales for November are due out this morning (8:30amET). This should be a pretty solid overall report. Consensus expects a 0.5% m/m rise (Scotia 0.6%) in the total value of sales and a rebound in sales ex-autos as well as sales ex-autos and gas. Vehicle sales jumped by 3.3% m/m at a seasonally adjusted and annualized rate in November as the GM strike's effects unleashed some pent-up sales activity. They carry a 20% weight including volume and price effects. Gasoline prices fell by just over 1% m/m and gas carries about an 8% weight that also combines the volume and price drivers. A weak jumping-off point from the prior month's sales ex-autos and gas should also provide room for holiday season sales including Black Friday and Cyber Monday to add a seasonal boost. Markets might fade it if the autos rebound is transitory because of the release of pent-up sales demand, so there will have to be more to the report than that.

New York Fed President Williams speaks on “Topics in Monetary Policy” today (11amET) but no text is expected.

The Trump administration has guided there will be further announcements today on a phase 1 trade deal with China. **Details are sorely needed.** Among them are details around the pace and magnitude of tariff reversals. At this point, the strong cautions are outlined below. **I can't help but feel that this “agreement” is rather farcical in nature.** That's partly because of the cautions below, and partly because even if such outlines of a deal advance, the outcome is that China ran laps around Trump. In exchange for doing little to nothing about far more substantive issues, China a) avoids a tariff hike this Sunday, and b) winds back a good portion of existing US tariffs. What, exactly, was the point of all of this? The Trump administration has irreparably damaged relations with many of its trading partners and in the end secured little to nothing substantive by way of changes in the NAFTA 2.0 agreement, while the KORUS agreement just commits to buying more American cars the Koreans never bought in the first place. The US-China trade “deal” may be a further illustration of the generally failed approach. After two tumultuous years, the lesson to the Trump administration is that it should have stuck with more substantive multilateral advancements in the TPP.

- there is no text. Squabbling over the text is what has blown apart other deals.
- China is keeping mum on the negotiations. That may be simply because it's prudent to do so. Nevertheless, China's Foreign Minister sounded pretty combative overnight when he slammed the US administration for “paranoid” behaviour that is “seriously damaging hard-won foundation of mutual trust” and “seriously weakening the United States’ international credibility.” That's not terribly helpful language to say the least. China's state media is also being quiet. Also note that Hu Xijin, editor-in-chief of China's *Global Times*, tweeted that the “Chinese side has basically kept silent. This is a delicate situation.”
- China has always resisted putting in words a firm commitment to purchase a specific volume of US agricultural goods over a particular time frame. Given the next point, this is understandable.
- Exactly how will China buy US\$40–50 billion (media reported the upper limit) of US agricultural goods next year? And exactly what? To do so will require China not only restoring purchases of US agricultural exports to where they were in 2017 (around US\$20B before plunging by about half) before the trade conflicts emerged, but to then raise that by 2–2.5 times the 2017 level. The accompanying pie chart breaks down US agricultural exports to China in 2017 and vividly makes the point that a whole mess of soybeans will have to be purchased in order to come close to the targeted purchase volumes.
- If China makes such volumes of purchases from the US, then a significant crowding out effect of purchases from other countries is likely. This could benefit US farmers, but weaken prospects elsewhere in the global economy.
- The currency provision that the Trump administration has indicated will be included is likely to be a toothless tiger like it is in other agreements. Proving manipulation versus pure market forces and difficulties in establishing enforcement mechanisms make provisions to avoid currency manipulation purely about political symbolism.
- There is vague guidance that a phase 1 deal will open up better prospects for US financial services firms and also address some of China's intellectual property rights issues. Details are needed in order to evaluate the significance of these points, but it's highly doubtful they'll be material.

In case you missed it, [here](#) is **yesterday's announcement from the NY Fed on expanded year-end repo operations**. The main element was a sizeable increase in operations right around year-end in the third paragraph. This plays further to Chair Powell's guidance that the Fed would tweak its tools to address funding pressures as opposed to introducing new tools.

Fixed Income	Government Yield Curves (%):												Central Banks	
	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		
U.S.	1.63	1.66	1.62	1.71	1.73	1.66	1.88	1.89	1.84	2.30	2.31	2.28	Canada - BoC	1.75
CANADA	1.69	1.70	1.65	1.65	1.66	1.59	1.65	1.67	1.58	1.74	1.75	1.68	US - Fed	1.75
GERMANY	-0.62	-0.63	-0.63	-0.52	-0.54	-0.54	-0.25	-0.27	-0.29	0.28	0.26	0.24	England - BoE	0.75
JAPAN	-0.13	-0.13	-0.14	-0.12	-0.12	-0.12	-0.02	-0.01	-0.01	0.43	0.45	0.45		
U.K.	0.59	0.58	0.59	0.62	0.61	0.58	0.84	0.82	0.77	1.34	1.34	1.28		
Spreads vs. U.S. (bps):														
CANADA	6	4	3	-6	-7	-7	-23	-23	-26	-56	-56	-60	Euro zone - ECB	0.00
GERMANY	-225	-229	-224	-222	-226	-221	-213	-216	-212	-202	-205	-204	Japan - BoJ	-0.10
JAPAN	-176	-179	-175	-183	-184	-178	-190	-191	-184	-187	-187	-182		
U.K.	-104	-108	-102	-109	-111	-108	-104	-107	-107	-96	-98	-100	Mexico - Banxico	7.50
Equities	Level						% change:							
	Last			Change			1 Day	1-wk			1-mo	1-yr		
S&P/TSX	16947			7.3			0.0	0.5			-0.1	14.9	Australia - RBA	0.75
Dow 30	28132			220.8			0.8	1.6			1.3	14.4	New Zealand - RBNZ	1.00
S&P 500	3169			26.9			0.9	1.6			2.4	19.5		
Nasdaq	8717			63.3			0.7	1.7			2.8	23.3		
DAX	13325			103.7			0.8	1.2			0.7	22.0		
FTSE	7391			117.8			1.6	2.1			0.5	7.5		
Nikkei	24023			598.3			2.6	2.9			3.0	10.1	Canada - BoC	Jan 22, 2020
Hang Seng	27688			693.6			2.6	4.5			4.2	4.4	US - Fed	Jan 29, 2020
CAC	5933			48.5			0.8	1.0			0.4	21.2		
Commodities	Level						% change:							
WTI Crude	59.70			0.52			0.9	0.8			4.5	13.5	England - BoE	Dec 19, 2019
Natural Gas	2.28			-0.05			-2.1	-2.4			-12.4	-44.8	Euro zone - ECB	Jan 23, 2020
Gold	1472.02			2.21			0.2	0.8			0.6	18.5	Japan - BoJ	Dec 19, 2019
Silver	16.87			0.21			1.2	-0.0			0.8	15.1		
CRB Index	183.81			0.90			0.5	1.4			1.9	0.4		
Currencies	Level						% change:							
USDCAD	1.3166			-0.0019			-0.1	-0.7			-0.6	-1.4	Mexico - Banxico	Dec 19, 2019
EURUSD	1.1174			0.0044			0.4	1.0			1.5	-1.6		
USDJPY	109.59			0.2800			0.3	0.9			0.7	-3.6	Australia - RBA	Feb 03, 2020
AUDUSD	0.6915			0.0006			0.1	1.1			1.1	-4.3	New Zealand - RBNZ	Feb 11, 2020
GBPUSD	1.3376			0.0215			1.6	1.8			4.1	5.8		
USDCHE	0.9827			-0.0023			-0.2	-0.8			-0.7	-1.2		

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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