

**ON DECK FOR THURSDAY, JANUARY 9**

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	01/09	08:15	Housing Starts (000s a.r.)	Dec	200	210.5	201.3
CA	01/09	08:30	Building Permits (m/m)	Nov	--	1.0	-1.5
US	01/09	08:30	Initial Jobless Claims (000s)	JAN 4	220	220.0	222.0
US	01/09	08:30	Continuing Claims (000s)	DEC 28	1725	1720.0	1728.0

**KEY POINTS:**

- Risk-on as the Iran relief trade continues
- Fed's Clarida to share updated perspectives on the outlook
- BoC's Poloz: will new information change anything?
- Gilts rally, sterling drops on Carney's warnings
- China's core inflation continues to support PBOC easing
- Germany's economy remains on the defensive
- Below-target Mexican inflation supports 2020 easing
- Peru's central bank expected to remain on hold

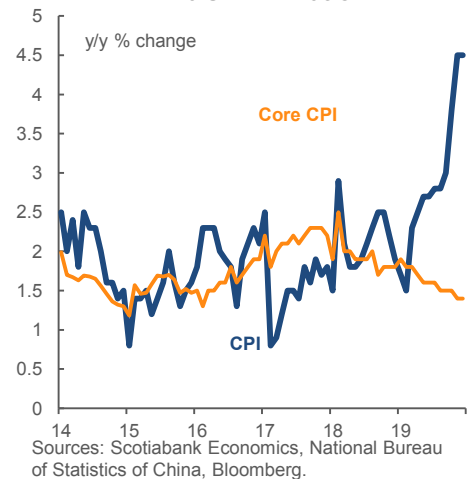
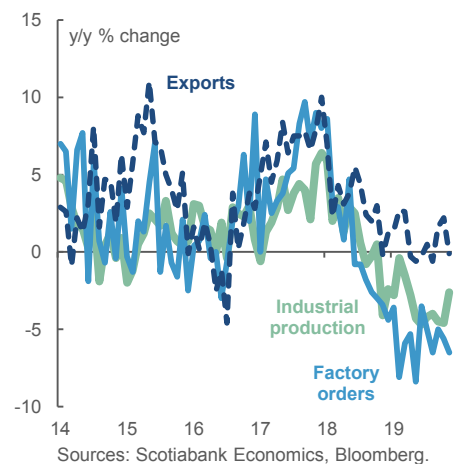
**INTERNATIONAL**

Global markets are in risk-on mode on a combination of developments. One is a continuation of the Iran-relief trade after both sides stepped back from the brink, at least for now, but with no clarity on next steps and with details on additional US sanctions pending along with Iran's response. BoE Governor Carney delivered a parting gift to the front-end of the gilts curve that drove sterling lower (see below). China's core inflation continues to support PBOC easing as the effects of soaring pork prices on headline inflation appear to be abating. Two out of three reports on the health of the German economy over the past couple of days don't support turnaround hopes. Mexican inflation incrementally supports Banxico easing expectations. All eyes today will be upon Bank of Canada Governor Poloz (see below) and the Fed's Clarida (see below). Peru is expected to hold rates unchanged.

- Currency markets are putting a small bid to the greenback this morning. Sterling is leading the depreciating crosses in the wake of an FT interview by BoE Governor Carney (subscribers [here](#)) in which he came across as more deeply concerned about a liquidity trap, future recession risk and the need for more monetary policy options. The yen is also losing ground while the euro, CAD and A\$ are little changed.
- Sovereign bond yields are little changed except for rallying gilts and spread narrowing in Italy as yields decline. The gilts curve is bull steepening with the 2 year yield down 6bps and 10s down 2bps also on the back of Carney's FT interview. US Treasuries are very slightly bid along with Canadas.
- Oil prices are boringly flat. Gold is shedding \$10 and has lost about \$27 since Trump's press conference that stepped back from the brink with Iran.

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**China's CPI Inflation**

**Germany's Troubled Economy**


- US equity futures are up by between ¼% and ½% across the exchanges. TSX futures are up by about ¼%. European cash markets are up by between ½% (London, Paris) and 1 ¼% (Germany). Asian equities closed higher by between about 1% (Shanghai) and 2¼% (Nikkei).

**China's CPI inflation readings for December cam in a bit more stable than anticipated.** Headline inflation was unchanged at 4.5% y/y (consensus 4.7%) as the impact of African Swine Flu on pork prices may have taking a bit of a rest. Food prices were up by a still eye-popping 17.4% y/y but the rate of increase cooled a touch (19.1% prior). Core CPI inflation held unchanged at 1.4% y/y as food prices are either not transmitting to core or crowding out pricing power elsewhere in the economy. Core CPI has been riding at about half of the PBOC's 3% inflation target and long supported it's incremental easing steps as the central bank looks through the transitory shock posed by pork prices. Wholesale pork prices peaked in November so maybe the worst of the flu effect on the herd is maturing.

**A pair of mixed signals on the health of the German economy should be slanted to downside developments in tracking growth when combined with yesterday's factory orders.** Export volumes fell by 2.3% m/m (consensus -0.9%, prior +1.2%) and more than reversed the prior month's rise. Import volumes also fell (-0.8% m/m, 0.7% prior) which signal less of a pull effect from the domestic economy. Industrial production was a bright spot with output up 1.1% m/m (consensus +0.8%) and the prior month was revised to be a bit better (-1.0% m/m versus -1.7% prior). So is German industry on the rebound? What tempers such enthusiasm beyond the obvious point it's just one month's data is that yesterday's report on the order book showed a drop of 1.3% m/m for the same month of November. The second accompanying chart shows trends in German exports, factory orders and industrial production.

**Banxico got an inflation update this morning.** Headline inflation continued to ebb (2.8% y/y, 3% prior) and fell below the middle of the central bank's 2–4% inflation target range. The results were in line with expectations and the peso largely shook off the figures. The headline reading continues to support consensus expectations for additional easing this year. Having said that, core inflation is running at a roughly unchanged pace of 3.6% y/y over the past three months.

**Peru's central bank is unanimously expected to hold its policy rate unchanged** at 2.25% this evening (6pmET). Inflation is running at 1.9% y/y and hence below the mid-point of the central bank's 1–3% policy target range.

## UNITED STATES

The main attraction stateside will be an updated outlook on the US economy from the top of the house at the Fed. Data risk should be trivial. Jobless claims (8:30amET) are in between nonfarm reference periods. The Philly Fed releases historical revisions to its manufacturing index (8:30amET).

**Fed Vice Chair Clarida will share his updated perspectives on the outlook this morning** in a moderated discussion (8amET). Expect a repeat of the recent buzzwords (e.g. 'in a good place'), but the question is whether he's tilting things a bit more toward downside risks and reinforcing or strengthening the comments in the minutes to the December meeting.

## CANADA

**Bank of Canada Governor Poloz delivers another fireside chat this afternoon.** His opening remarks will be available at 1:45pmET and a press conference will be held at 3:15pmET. Minor data on housing starts in December is also on tap (8:15amET). This is the BoC's last full-on chance to speak before blackout next Tuesday ahead of the following week's decision and MPR.

**The key question is whether he will simply repeat the tone of his speech on December 12<sup>th</sup> and his prior fireside chat on November 21<sup>st</sup>.** It's worth observing new forms of information he will have at his ready since he spoke before the holidays.

1. The BoC releases its Business Outlook Survey next Monday but only in publication form, absent any additional communications. If Poloz got a clear signal of a shift in sentiment in either direction in that survey then it could indirectly influence his remarks without spilling the contents.

2. The BoC is also deep into the forecast dialogue ahead of the January 22<sup>nd</sup> decision and MPR. Any shift in thinking might influence his tone by way of inputs from staff to this point. Staff forecasts would have been submitted at the start of this week, 2½ weeks ahead of the decision as per the norm. Their briefings by department heads is about the middle of next week before Governing Council deliberations take over.

3. A variety of growth readings have taken an unfavourable turn since Poloz last spoke. Reports for monthly GDP, manufacturing shipments, retail sales and trade all substantially disappointed expectations and in all cases retrenched. Q4 is looking to post no material GDP growth.

4. Inflation: Average core inflation ticked up 0.1% to 2.2% y/y in November.

How *should* the BoC square things up between higher inflation and disappearing growth? I think by becoming less confident they will stay on the inflation target. Transitory idiosyncratic drivers carried inflation to target in serendipitous fashion last year for reasons that have little to do with slack arguments. Those transitory drivers are all likely to weaken this year as spare capacity has opened up. The combined effects could threaten renewed downside risk to inflation. How *will* Poloz react? That's always uncertain but followers of this market know full well about the Governor's proclivity to suddenly change his bias.

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		
	1.58	1.58	1.57	1.66	1.66	1.67	1.86	1.87	1.88	2.34	2.36	2.33	Canada - BoC	1.75
	1.65	1.65	1.66	1.62	1.63	1.63	1.62	1.63	1.62	1.74	1.75	1.70	US - Fed	1.75
	-0.61	-0.61	-0.60	-0.51	-0.52	-0.51	-0.20	-0.21	-0.22	0.31	0.31	0.31	England - BoE	0.75
	-0.13	-0.12	-0.13	-0.11	-0.11	-0.12	0.01	0.00	-0.01	0.44	0.43	0.43	Euro zone - ECB	0.00
	0.56	0.63	0.57	0.60	0.63	0.59	0.79	0.82	0.79	1.27	1.28	1.28	Japan - BoJ	-0.10
	Spreads vs. U.S. (bps):													
	7	7	9	-4	-4	-4	-24	-25	-25	-60	-62	-63		
-218	-219	-217	-217	-218	-218	-206	-208	-210	-203	-206	-202			
-170	-170	-170	-176	-178	-179	-185	-188	-189	-190	-194	-191			
-101	-96	-100	-106	-103	-108	-107	-106	-108	-107	-108	-105			
Equities	Level					% change:							Mexico - Banxico	7.25
	Last	Change				1 Day	1-wk	1-mo	1-yr					
S&P/TSX	17168	-0.2				-0.0	0.6	1.3	16.0				Australia - RBA	0.75
Dow 30	28745					0.6	0.7	3.0	20.4				New Zealand - RBNZ	1.00
S&P 500	3253	15.9				0.5	0.7	3.7	25.8					
Nasdaq	9129	60.7				0.7	1.7	5.9	31.2					
DAX	13481	160.6				1.2	0.7	2.9	23.8					
FTSE	7616	41.5				0.5	0.2	5.3	10.3					
Nikkei	23740	535.1				2.3	-0.4	1.3	16.2				Canada - BoC	Jan 22, 2020
Hang Seng	28561	473.1				1.7	0.1	7.8	7.9				US - Fed	Jan 29, 2020
CAC	6052	21.1				0.3	0.2	3.7	25.7				England - BoE	Jan 30, 2020
Commodities	Level					% change:							Euro zone - ECB	Jan 23, 2020
													Japan - BoJ	Jan 21, 2020
WTI Crude	59.84	0.23				0.4	-2.2	1.4	14.3					
Natural Gas	2.13	-0.01				-0.5	0.4	-4.6	-28.6					
Gold	1551.90	-4.52				-0.3	1.5	6.2	20.0					
Silver	18.42	0.28				1.5	2.1	8.7	17.8					
CRB Index	183.38	-3.55				-1.9	-1.3	1.2	2.4					
Currencies	Level					% change:								
USDCAD	1.3044	0.0005				0.0	0.5	-1.5	-1.2				Mexico - Banxico	Feb 13, 2020
EURUSD	1.1113	0.0008				0.1	-0.5	0.4	-3.7				Australia - RBA	Feb 03, 2020
USDJPY	109.40	0.2800				0.3	0.8	0.8	1.1				New Zealand - RBNZ	Feb 11, 2020
AUDUSD	0.6865	-0.0001				-0.0	-1.8	0.6	-4.3					
GBPUSD	1.3040	-0.0057				-0.4	-0.8	-0.8	2.0					
USDCHF	0.9732	-0.0007				-0.1	0.2	-1.5	-0.1					

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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