

ON DECK FOR FRIDAY, JANUARY 17

Country	Date	Time	Indicator	Period	BNS	Actual	Consensus	Latest
CA	01/17	08:30	International Securities Transactions (C\$ br	Nov	--	-1.75	--	11.3
US	01/17	08:30	Building Permits (000s a.r.)	Dec	--	1416	1460	1482
US	01/17	08:30	Housing Starts (000s a.r.)	Dec	1370	1608	1380	1365
US	01/17	08:30	Housing Starts (m/m)	Dec	0.0	16.9	1.1	3.2
US	01/17	09:15	Capacity Utilization (%)	Dec	--	77.0	77.0	77.3
US	01/17	09:15	Industrial Production (m/m)	Dec	-0.5	-0.3	-0.2	1.1
US	01/17	10:00	JOLTS Job Openings (000s)	Nov	--	--	7250	7267
US	01/17	10:00	U. of Michigan Consumer Sentiment	Jan P	99.3	--	99.3	99.3

KEY POINTS:

- Mild risk-on driven by China data, dovish Fed appointments...
- ...generally decent US data and BoE bets
- China's macro data better was than feared...
- ...as GDP meets expectations and avoids a 5-handle...
- ...while retail, industrial and investment ended the year better
- China can't beat the US on retaliatory measures...
- ...but it can on stimulus...
- ...as evidenced by what drove the industrial pick-up
- US housing starts soared, but will likely plunge again in January
- US industrial production fell, but was better on details...
- ...because ex-autos and utilities manufacturing output was up...
- ...but Boeing will crush the next reports
- Weather likely played a role in US starts, utilities and retail sales
- US UofM confidence likely remained high
- UK retail sales disappoint...
- ...and have not grown one shilling since July...
- ...adding to evidence favouring a BoE rate cut in two weeks
- CDN consumer confidence sharply rebounded in January
- Fed appointments are dovish. Credible and legal are other matters.

INTERNATIONAL

A mild risk-on bias is sweeping across global asset classes. Stronger than feared Chinese macro data is one culprit, but breadth to some of the gain in industrial output probably says more about narrowly focused stimulus than immunity from trade tensions. It's ridiculous to see some commentary that almost leans to arguing China's economy is immune from ongoing US tariffs and uncertainty; one month's data won't prove that versus years of ongoing supply chain adjustments that take time.

UK retail sales fed BoE easing bets. US macro data was mixed with a huge rise in housing starts that should be faded (see below) and a drop in industrial output. The Trump administration confirmed it plans to nominate Judy Shelton and Christopher Waller to the Fed's Board of Governors; Waller should fly and is dovish, but many will push back on Shelton who is more dovish. Shelton has a) come out against Fed independence in favour of taking orders from the White House, b) once advocated a return to the gold standard, and c) there is some talk that the same issue that sank Peter Diamond's candidacy could sink Shelton. Diamond was shot down by GOP members in the Senate when Obama appointed him and while there were many arguably silly points of opposition, the Republicans argued that one of

CONTACTS

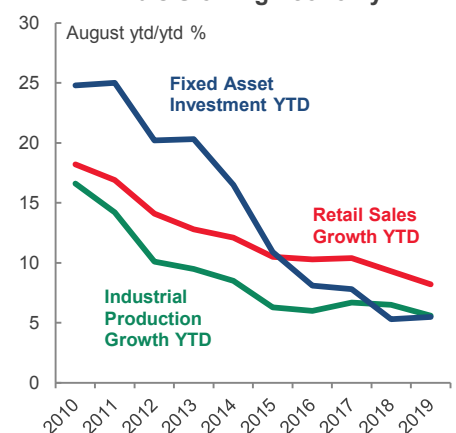
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A Bigger Chinese Economy Needs Less Growth



Source: Scotiabank Economics, Haver Analytics.

China's Slowing Economy



Sources: Scotiabank Economics, Bloomberg.

them was that Diamond would violate the law that no more than one member of the BoG can be drawn from a particular Fed district. The purpose of that law is to provide diversified regional representation on the BoG. Shelton lives in Brainard's district and so you'd have two Governors from the Richmond district. It's not clear if the GOP can legally overlook this issue now that they are not fighting an Obama appointee and are instead holding power. Hypocrisy has not been in short supply in the US Congress of administration.

- The US Treasury curve was rallying before US data but then bear steepened to add to prior 10s30s steepening likely driven by the repriced added supply coming in the 20 year bucket with Treasury's auction announcement last evening. Gilts are outperforming most other markets except Italy's in the wake of UK retail sales that added to BoE easing bets. Canada's curve is slightly cheaper and bear steepening.
- The USD is generally stronger this morning and particularly against European crosses. The yen is flat, CAD is little changed, and the Mexican peso is slightly appreciating. Sterling and the euro are both down about ¼% to the dollar. Is dollar weakening reversing? It is in the new year as the USD appreciates on balance, but it's still below the late September and early October peak.
- US and Canadian equities are slightly firmer. European cash markets are up by between ½% and 1% across the exchanges. Asian equities closed mostly higher outside of mainland China with the Nikkei and HK up ½% and Seoul up a little.
- Oil prices are a little firmer with WTI just under US\$59 and Brent just under US\$65. Gold is up US\$7 to US\$1560. Agricultural commodities are mixed; soybean prices are about 2% lower since the text of the US-China trade deal was released two days ago.

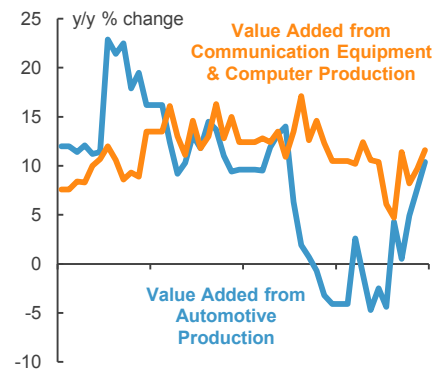
China's economy generally either met or exceeded expectations across a variety of economic indicators that were released last night. It would be a mistake to think that by corollary the country has been immune to the consequences of trade wars as opposed to emphasizing the role played by stimulus measures. Whether stimulus can durably lift growth and whether the real pain of trade wars takes longer to surface in the data as supply chains get revamped remain open questions. Fundamentally, however, China may have less room to directly retaliate against the US at least in terms of narrow trade measures, but it has more room to stimulate its economy than the US and that may have shone in the balance of the data.

1. GDP: Surprise, surprise, GDP growth met expectations for 6.0% y/y in Q4. For the full year, China's economy grew by 6.1% y/y which was a tick beneath consensus. The worth of these statistics is always in questions because a) they have been remarkably stable at a six-handled rate for over four years, b) the numbers are never revised, and c) the numbers are turned around remarkably quickly for such a larger economy by comparison to other global economies. Are these the world's best statisticians, or is it just fake data? Regardless, growth rates may have slowed over time and partly because economic development model and simple math makes it harder to post the same previously higher growth rates as the economy gets bigger. That doesn't mean that China's economy is any less influential in the world as evidenced by chart 1 that compares percentage growth rates versus the year-over-year difference in Chinese GDP levels. The evidence toward slowing percentage growth rates is fairly clear in chart 2.

2. Industrial output: This grew by 6.9% y/y which beat expectations by a full percentage point and was an acceleration from 6.2% the prior month. The acceleration was concentrated upon the manufacturing sector (7.0% y/y, 6.3% prior) as power and mining growth rates were little changed. Within manufacturing, the acceleration was driven by autos that expanded by 10.4% y/y (7.7% prior) and telecommunications/computers (11.6% y/y, 9.7% prior). See chart 3 for the growth in these sectors. All other sectors were little changed in their growth rates. What drove those two sectors?

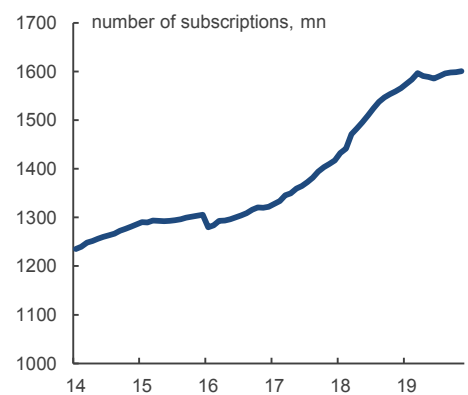
The government took steps to promote 5G mobile phones. The number of mobile phone subscribers in China rose to 1.6 billion in December of last year and that was a 2.2% y/y rise following torrid growth since early 2017 during which about 280 million new subscribers were added according to China's National Bureau of Statistics. China added as many new mobile phone subscribers last year as the entire population of Canada. What is less clear is the value shift toward more expensive phones sold not only to Chinese subscribers but also abroad.

Chinese Automotive & Electronic Industrial Production



Sources: Scotiabank Economics, China National Bureau of Statistics.

Chinese Cell Phone Service Subscriptions



Sources: Scotiabank Economics, Bloomberg.

Second, starting at about mid-2019, China's State Council directed local governments to relax restrictions on auto sales, promote first time auto buyers and encourage production of new energy vehicles. Back last January, the state enhanced vehicle replacement incentives by encouraging electric vehicles. Perhaps this is showing up in the data. Charts 5-11 on the last page of today's morning note breaks down Chinese auto production by class of vehicle in order to show the diversified pick-up.

3. Retail sales: China's sales growth held steady at 8.0% y/y which matched the prior month but was a tick above the consensus guesstimate. It's worth observing that, while rapid, this growth rate has been trending around 7–8% over the past year which is the lowest since 2003.

4. Fixed asset investment: On a year-to-date basis, the figures were reported at 5.4% y/y and two-tenths above consensus. Like retail, forget the tenth or two here and there and focus upon the fact that this is the softest growth in overall investment in at least two decades with figures readily available.

UK consumers retreated again to end the year and the result was a terrible holiday season for retailers. Retail sales volumes fell by 0.8% m/m in December when consensus had expected +0.8% m/m, and the prior month's decline was revised to be worse (-0.8% instead of -0.6%). UK retail sales volumes have not posted any growth since July; they fell in four of the past five months and were flat in September. **The probability of a Bank of England rate cut on January 30th rose to about three-in-four odds and is likely in my view following Governor Carney's recently dovish FT interview, UK CPI and dovish remarks by other MPC members.** The gilts curve is outperforming most other sovereign bond markets with the exception of Italy's, as 2 year gilts are 3bps richer. Sterling is among the worst currency performers to the USD this morning.

UNITED STATES

US markets face a trio of releases this morning. The two that have been release so far were encouraging.

a) Housing starts: They ripped higher by way more than expected in December, but will probably crash right back down in January. Starts were up by 16.9% m/m (non-annualized, seasonally adjusted) which popped the level to its highest since late 2006. Singles were up by 11% m/m and multis jumped by 30%. I think this is a weather phenomenon. Housing permits fell 3.9% m/m in December after a 0.9% rise in November and a 5% gain in October. Thus, there is no further momentum in permits. That said, 'permits not started' were up 9.3% in October, 1.6% in November, and then fell 6.3% in December. Previously taken permits were then sat on and the shovels only went in the ground in December.

b) Industrial—and manufacturing—output: Industrial output was down 0.3% m/m (-0.2% consensus) and the prior 1.1% rise was revised down to 0.8%. The details were considerably better. Utilities output fell by 5.6% m/m which likely reflected the fact that December was a warmer than usual month (see temperature and precipitation maps on the next page). Auto output fell 4.6% m/m as a partial reversal of the 12.8% gain the prior month and the pair of 6% drops in the two months before that. Take autos/parts out, however, and manufacturing output was up 0.5% m/m and fed by sectors like computers/electronics (+1.4%).

The problem, however, is that then we're getting closer to the further Boeing shock in January's numbers, given the announcement on December 16th that the company would suspend production of all the 737 Max planes in the new year and it's recent update that this suspension will commence right about now. The FAA has not allowed the planes that were being produced to go to customers and so they've been inventoried (in parking lots...). Production goes down and without a further inventory stockpiling effect from the planes on GDP. There are varying estimates of the Boeing hit on Q1 GDP but several tenths of lost growth is likely and with no lifting of the suspension in sight.

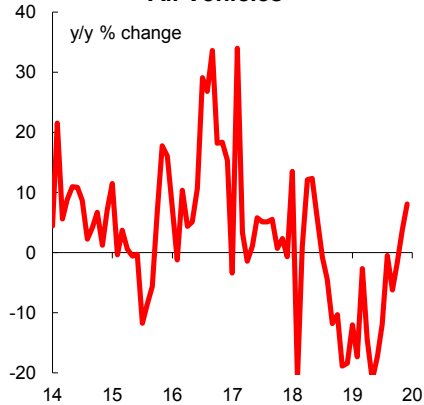
As a caution against ISM-manufacturing expectations (due February 3rd) recall that the Fed's regional surveys under sample transportation. Therefore, when there are shocks to autos or planes, they won't necessarily be adequately captured by the regional measures. Thus, fade the Philly and Empire improvements of late—as well as any others with Richmond et al pending.

c) UofM sentiment (10amET): This gauge of consumer confidence has been rising since September but the Conference Board's measure has been moving largely sideways. UofM is more skewed toward market measures and the CB is more skewed toward labour markets. UofM should continue to do well.

CANADA

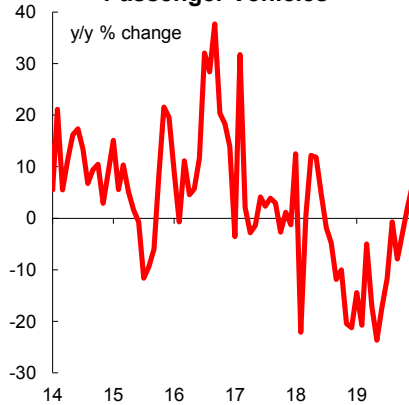
Canadian consumer confidence rebounded in January according to the Conference Board. Confidence landed at 114.1 from 102.1 in December and following the sharp drop from November's 112.0 level. Confidence is still lower than the peak in May–July when the readings were in the 119–121 range. Further details are pending.

China Automobile Production - All Vehicles



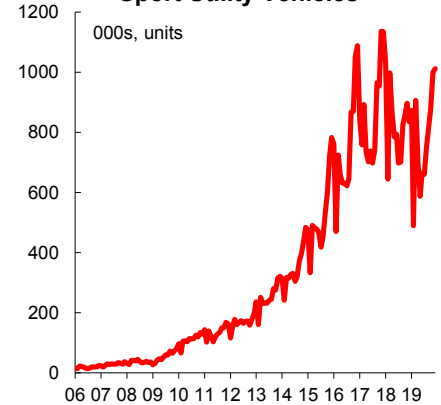
Source: Scotiabank Economics, China Automotive Information Net.

China Automobile Production Passenger Vehicles



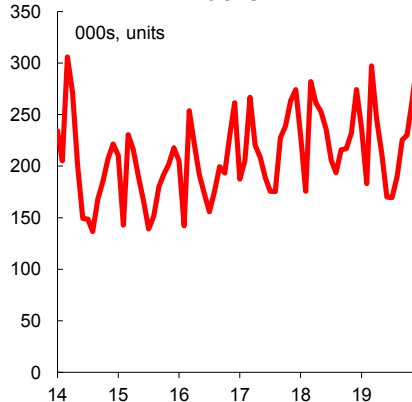
Source: Scotiabank Economics, China Automotive Information Net.

China Automobile Production Sport Utility Vehicles



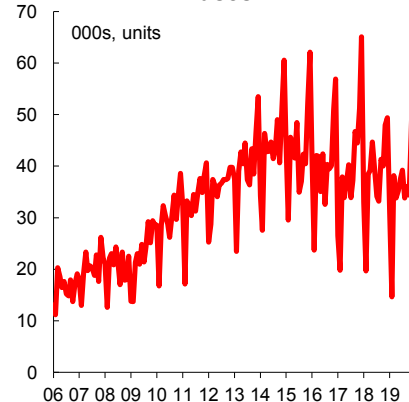
Source: Scotiabank Economics, China Automotive Information Net.

China Automobile Production Trucks



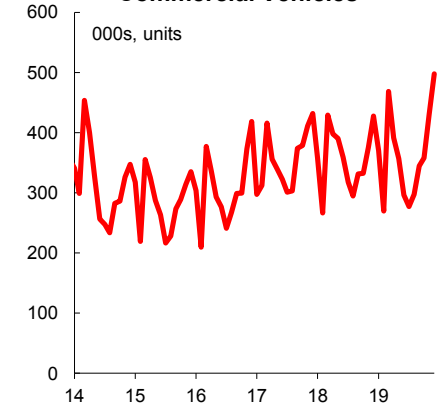
Source: Scotiabank Economics, China Automotive Information Net.

China Automobile Production Buses



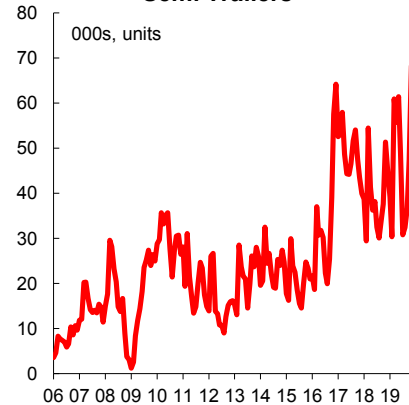
Source: Scotiabank Economics, China Automotive Information Net.

China Automobile Production Commercial Vehicles



Source: Scotiabank Economics, China Automotive Information Net.

China Automobile Production Semi Trailers

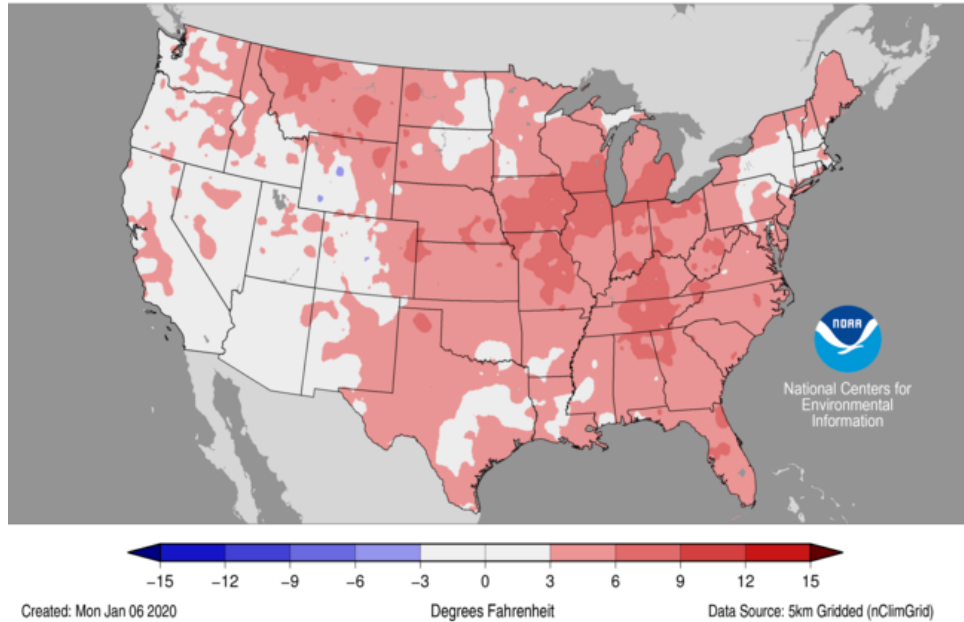


Source: Scotiabank Economics, China Automotive Information Net.

Mean Temperature Departures from Average

December 2019

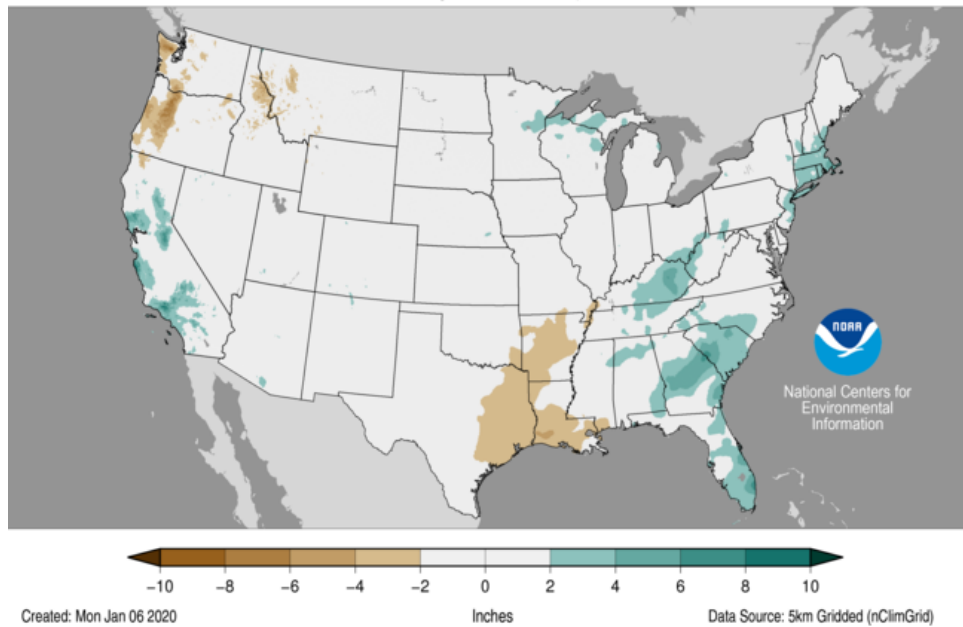
Average Period: 20th Century



Precipitation Departures from Average

December 2019

Average Period: 20th Century



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.	1.56	1.57	1.57	1.63	1.63	1.63	1.83	1.81	1.82	2.29	2.26	2.28	Canada - BoC	1.75
CANADA	1.65	1.64	1.65	1.59	1.57	1.60	1.58	1.55	1.59	1.70	1.68	1.69	US - Fed	1.75
GERMANY	-0.59	-0.59	-0.60	-0.52	-0.52	-0.51	-0.22	-0.22	-0.20	0.30	0.30	0.31	England - BoE	0.75
JAPAN	-0.13	-0.12	-0.14	-0.10	-0.09	-0.11	0.00	0.02	0.00	0.46	0.46	0.44		
U.K.	0.42	0.45	0.53	0.42	0.43	0.56	0.63	0.64	0.77	1.16	1.16	1.26		
Spreads vs. U.S. (bps):														
CANADA	9	7	8	-4	-6	-3	-25	-26	-24	-60	-58	-59	Euro zone - ECB	0.00
GERMANY	-215	-216	-217	-215	-214	-214	-205	-203	-202	-199	-196	-197	Japan - BoJ	-0.10
JAPAN	-169	-169	-171	-173	-172	-174	-183	-179	-182	-183	-180	-184		
U.K.	-114	-111	-105	-122	-119	-107	-120	-117	-105	-113	-110	-102	Mexico - Banxico	7.25
Equities	Level						% change:							
	Last				Change		1 Day	1-wk	1-mo	1-yr				
S&P/TSX	17485				69.6		0.4	1.5	2.4	14.9			Australia - RBA	0.75
Dow 30	29332				34.8		0.1	1.8	3.8	20.4				
S&P 500	3322				5.0		0.2	1.7	4.0	26.0			New Zealand - RBNZ	1.00
Nasdaq	9367				10.1		0.1	2.1	6.2	32.2				
DAX	13514				84.8		0.6	0.2	1.7	23.8				
FTSE	6768				67.7		0.9	1.2	2.0	12.3				
Nikkei	24041				108.1		0.5	1.3	-0.1	17.8			Canada - BoC	Jan 22, 2020
Hang Seng	29056				173.4		0.6	1.5	4.4	8.6			US - Fed	Jan 29, 2020
CAC	6101				62.1		1.0	1.1	2.2	27.3			England - BoE	Jan 30, 2020
Commodities	Level						% change:							
WTI Crude	58.67				0.15		0.3	-0.6	-3.7	12.7			Euro zone - ECB	Jan 23, 2020
Natural Gas	2.01				-0.06		-3.1	-8.6	-13.2	-41.0			Japan - BoJ	Jan 21, 2020
Gold	1558.16				5.65		0.4	-0.3	5.6	20.6				
Silver	18.01				0.16		0.9	0.6	5.8	15.9			Mexico - Banxico	Feb 13, 2020
CRB Index	182.47				0.22		0.1	-0.9	-1.5	1.5			Australia - RBA	Feb 03, 2020
Currencies	Level						% change:							
USDCAD	1.3054				0.0012		0.1	0.0	-0.8	-1.7			New Zealand - RBNZ	Feb 11, 2020
EURUSD	1.1101				-0.0036		-0.3	-0.2	-0.4	-2.5				
USDJPY	110.14				-0.0200		-0.0	0.6	0.6	0.8				
AUDUSD	0.6888				-0.0010		-0.1	-0.2	0.5	-4.2				
GBPUSD	1.3037				-0.0043		-0.3	-0.2	-0.7	0.4				
USDCHF	0.9678				0.0031		0.3	-0.5	-1.3	-2.7				

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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