ON DECK FOR WEDNESDAY, MARCH 4

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	03/04	07:00	MBA Mortgage Applications (w/w)	Feb 28	--	--	-6.4
US	03/04	08:15	ADP Employment Report (000s m/m)	Feb	150	170.0	290.9
CA	03/04	08:30	Productivity (q/q a.r.)	4Q	--	0.2	0.2
CA	**03/04**	**10:00**	**BoC Interest Rate Announcement (%)**	**Mar 4**	**1.25**	**1.50**	**1.75**
US	03/04	10:00	ISM Non-Manufacturing Composite	Feb	54.5	54.9	55.5
US	03/04	14:00	U.S. Federal Reserve Releases Beige Book				

KEY POINTS:

- **Risk appetite rebounds**
- **Why the Fed was right to ease yesterday**
- **'Super Tuesday' may have helped to calm markets**
- **BoC expected to cut 50bps with risk of 25…**
- **…as a prolonged soft patch is magnified by a virus shock**
- **US ISM non-mfrg expected to cool**
- **US ADP payrolls disappoint on revisions, but stale**
- **Fed's Beige Book could reveal timely anecdotes**
- **Yep, China's economy is weak! Private PMIs confirm the obvious**
- **Australian GDP beats as inventories stockpile into a negative shock**
- **Stale Brazilian GDP landed on consensus**
- **Eurozone retail sales beat on revisions**

INTERNATIONAL

Thank your stocks that Sanders looks to have peaked! That appears to be part of the driver of renewed risk appetite this morning, but not the only one. Virus headline risk remains high, including Italy's decision to shut all schools and universities which in terms of economics means further workplace disruptions.

Personally I think the Fed did the right thing yesterday and shouldn't be blamed for yesterday's stock sell off by wickedly myopic markets. For one thing, core PCE inflation recently disappointed expectations and sits at 1.6% y/y while the prior figure was revised lower. Market-derived inflation expectations—as imperfect as they are—were tumbling as a credible threat to its dual mandate. The Fed therefore saw they weren't on the path toward 2% even before the latest shocks to world growth. For another, it's silly to demand a one-day market-derived judgement on Fed actions in the face of what is likely to be a long-tailed virus shock to the world economy. Third, in my view, the speed and magnitude of the stock sell-off risked revealing stress points in the financial system if left unchecked. That other G7 central banks sold the Fed down the river in free rider fashion after creating expectations with their statements didn't help stocks nor did the inaction across governments, but maybe markets are too impatient on these counts. It's possible that a re-think on the Fed's willingness to act combined with the outcome of 'Super Tuesday' combined to lift risk appetite this morning.

In any event, onto the next, with the BoC expected to ease this morning amidst the question mark over exactly how much (see below). All other data risk in the US and overnight is summarized below, but most of it is stale.

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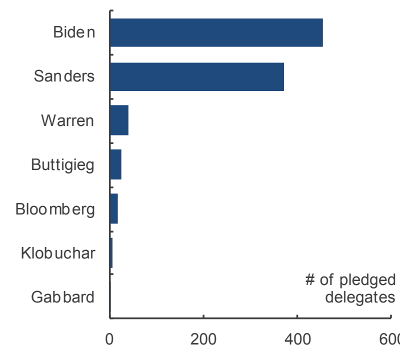
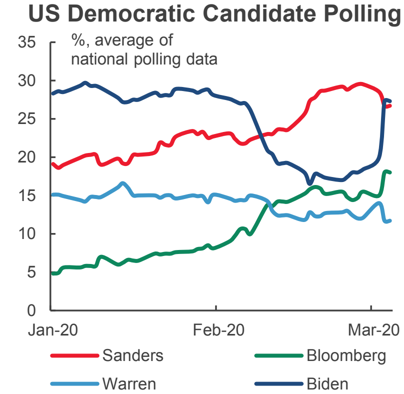
Democratic Delegate Count the Morning After Super Tuesday



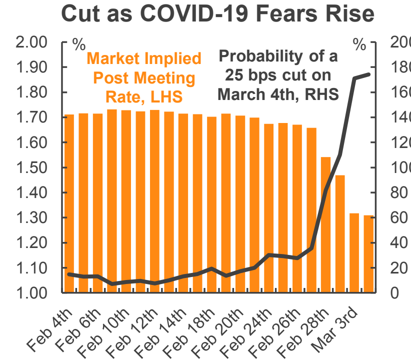
Note: 1991 delegates needed to win nomination.
Source: Scotiabank Economics, NBC News.

US Democratic Candidate Polling



Note: As of March 4th, 2020.
Sources: Scotiabank Economics, Real Clear Politics.

Markets Price in Bank of Canada Cut as COVID-19 Fears Rise



Note: As of March 4th 2019. Greater than 100% probability is interpreted as odds of more than one discreate 25 basis point cut occurring.
Sources: Scotiabank Economics, Bloomberg.

- US equity futures are up by 2% to 2½% across the exchanges with the TSX up 1 ¾%. European stocks are up by 1½% to 2% across the bourses. Virus headlines are reining in some of the earlier gains. Asian stocks were mixed as the Nikkei was little changed, Seoul rallied 2 ¼%, HK fell ¼% and mainland China was modestly higher.

- The USD is somewhat stronger this morning. The main drivers are weakness in the yen and euro. Sterling is flat and CAD is appreciating a touch, but the strongest crosses are the Mexican peso, rand, won and A$/NZ$.

- The US Treasury curve is little changed but slightly dearer at the front-end while Canada's curve is slightly richer. Gilts are rallying on volatile BoE expectations. Bunds and French bonds are little changed on balance, while Italy's spread over bunds is tightening on firmer risk appetite.

- Oil prices are up by about a buck. Gold is up by another US$6 to US$1647.

Yep, China's economy is weak. We didn't need to see the private PMIs to know that, but for the data dependent purists, their overnight collapse confirms it. **China's private Caixin composite PMI fell by almost half to 27.5 (51.9 prior).** The state's composite PMI had fallen by a similar magnitude when it arrived last Friday evening (28.9, 53 prior). To repeat the argument, the uncertainty now lies over whether China is going v-shaped as workers return, or whether any lift in the March PMIs could be a dead cat bounce. The uncertainties are focused upon a) whether China's COVID-19 cases start rising again with workers returning to rub elbows, b) whether a rising case count outside of China will boomerang back into the country, and c) who China will be selling to as its export markets suffer a negative growth shock. Retaining high caution toward China's outlook has merit.

Australia's economy expanded at an ever so slightly faster than expected pace in Q4, but it's likely a stale assessment given developments since. The economy grew by 0.5% q/q (0.4% consensus) in seasonally adjusted but non-annualized terms, and 2.2% y/y (2.0% consensus). On a weighted contribution-to-growth basis, inventories added 0.2 percentage points which dents the quality of the reading somewhat as adding inventories into an unanticipated shock isn't optimal. Household spending added 0.4 points, government spending added 0.1 points, and investment subtracted 0.2 points through a mixture of lower dwellings investment (-0.2 points), lower non-residential construction (-0.2 points) and flat equipment spending.

Brazil's economy grew in line with expectations, but who cares because Q4 data is stale on arrival given more recent downside risks to the global economy and commodities. The economy expanded by 0.5% q/q at a seasonally adjusted and annualized rate or 1.7% y/y. A v-shaped recovery from the 2014–16 deceleration into a contracting economy and then the 2016–17 rebound has since given way to very modest growth.

Eurozone retail sales rebounded to beat expectations on revisions, but being January data, markets have more of an eye on forward looking data. January's sales were up 0.6% m/m which was on-consensus, but the prior month was revised to a lesser contraction of -1.1% from -1.6%. The release of German figures just prior to the Eurozone add-up reinforced the rebound expectations when German consumers spent 0.9% m/m more after December tumbled by an unrevised 3.3% m/m.

CANADA

The Bank of Canada is expected to cut its overnight borrowing rate by 50bps this morning (10amET). See yesterday's Closing Points publication for more including links to prior publications. We've forecast a cut at this meeting since December. OIS markets are pricing about 44bps out of a 50bps cut today (chart 1). The consensus of economists woke up starting on Friday and now 28 out of 32 of them expect a rate cut in a last ditch pile on. There is now a nearly even split between those who expect -50bps (14 economists including Scotia) and 15 economists expecting a 25bps cut. Four still think they'll hold or they haven't updated their thinking. As argued in last evening's Closing Points, there are cases to be made for both a 25 and a 50 point cut,

It is vital to understand two distinctions when forecasting the BoC's move relative to the Fed. The Fed had little reason to ease other than the little facts that it is central bank to the world and the virus was driving tumbling risk appetite that risk revealing unknown skeletons in the plumbing system across world financial markets. You could argue that the recent small slippage in core PCE inflation and tumbling market-based measures of inflation expectations gave cover for the Fed to ease given perennially below-target inflation. The BoC has every reason to ease for more made-in-Canada reasons.

Indeed, domestic fundamentals have long merited policy easing because a considerable stretch of poor to non-existent growth has widening spare capacity. This, in turn, places downside risk upon future core inflation, and the likely more dominant influence will be a reversal of transitory and idiosyncratic factors that serendipitously landed the BoC on its inflation target over the past couple of years. The hottest items in the core basket have little to nothing to do with spare capacity and even the BoC's own staff research (here) has downplayed the usefulness of gaps in explaining and forecasting inflation.

Then we have the coronavirus and its impact upon Canada. So far, it is mostly a negative terms of trade shock. When combined with the negative effects of Trump's trade wars on world and Chinese growth, the virus has reinforced a negative trend in Western Canada Select as a proxy for the Alberta oil patch. WCS has dropped by US$22 since last April. East coast projects sell at Brent into the northeastern US seaboard and that price has fallen by almost US$30/barrel since October 2018 to its lowest since mid-2017. What selling your wares at lower export prices relative to import prices does is to pose a negative income shock to the economy that then trickles through fiscal balances, household incomes and corporate profits with much of this adjustment probably ahead of us. The risk that the COVID-19 shock becomes a drag on domestic spending and investment is material but more data dependent than the already observed impact upon the terms of trade. In short, it's folly to argue Canada is an island amidst all of this. The fact these shocks—add endless rail disruptions to the list—are hitting at cycle highs for inventory-to-sales ratios in the manufacturing and wholesale sectors and a moderately rising retail sector inventory to sales ratio concentrated at dealer lots is a particularly risk.

UNITED STATES

'Super Tuesday' may well have carried some influence upon market thinking this morning. Not-so-sleepy Joe Biden's overall win on the cumulative delegate count (chart 2) puts him comfortably ahead of the divisive and market-unfriendly leftist candidate, Bernie Sanders. It's also more likely that Biden picks up the other delegates when it really becomes a two-horse race rather than those delegates going to Sanders who may well have peaked. The Economist cogently nailed it with their piece (here) on what would have otherwise been a pretty pathetic choice:

> "If Mr Sanders becomes the Democratic nominee, America will have to choose in November between a corrupt, divisive, right-wing populist, who scorns the rule of law and the constitution, and a sanctimonious, divisive, left-wing populist, who blames a cabal of billionaires and businesses for everything that is wrong with the world."

Regardless of what one thinks toward the long-run, Sanders' policies—if enacted in office and successfully pushed through Congress (big ifs) would assuredly spark recession risk by banning fracking, banning private health insurance, confiscating 20% of companies' equity wealth, probably driving just as much policy risk to global trade as Trump would be likely to resume if re-elected, and doubling government spending probably by funding it through soaring taxes, just to name a few of his policy gems.

See chart 3 for a depiction of how the polling probability of Biden winning the Democratic nomination at the July convention has suddenly caught up to and very slightly surpassed the probability of Sanders winning the nomination.

ADP private payrolls disappointed expectations due to downward revisions. January's 291k gain was revised down to 209k and February landed in line with expectations at 183k for a net overall miss of about 70k. Regardless, it's stale data that largely precedes most of the accelerating concerns about global growth and markets.

The US ISM non-manufacturing reading (10amET) is expected to moderate toward a slightly cooler pace of expansion.

The Fed releases its Beige Book of regional anecdotes on how the economy is performing at 2pmET. At sudden turning points, this publication can be of greater use to inform the Fed and markets about emerging risks. The anecdotes were probably collected up to about February 24th and therefore in the early stages of market turmoil.

Fixed Income	Government Yield Curves (%):											
	2-YEAR			5-YEAR			10-YEAR			30-YEAR		
	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk
U.S.	0.68	0.70	1.17	0.74	0.74	1.16	1.00	1.00	1.34	1.62	1.62	1.82
CANADA	0.96	0.98	1.32	0.88	0.89	1.21	0.94	0.96	1.22	1.21	1.22	1.36
GERMANY	-0.81	-0.81	-0.70	-0.80	-0.81	-0.69	-0.62	-0.63	-0.51	-0.15	-0.16	-0.01
JAPAN	-0.26	-0.24	-0.19	-0.25	-0.23	-0.20	-0.13	-0.11	-0.09	0.33	0.33	0.35
U.K.	0.21	0.23	0.37	0.25	0.26	0.39	0.37	0.39	0.50	0.88	0.92	0.96
	Spreads vs. U.S. (bps):											
CANADA	28	28	15	13	14	5	-6	-4	-12	-41	-39	-47
GERMANY	-150	-151	-186	-155	-155	-185	-162	-163	-184	-177	-178	-184
JAPAN	-95	-94	-136	-99	-97	-136	-112	-111	-142	-130	-129	-148
U.K.	-48	-47	-80	-50	-48	-77	-63	-61	-83	-74	-70	-87

Equities	Level		% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	16424	-129.6	-0.8	-4.4	-6.2	2.4
Dow 30	25917	-785.9	-2.9	-4.3	-10.0	0.4
S&P 500	3003	-86.9	-2.8	-4.0	-8.9	7.5
Nasdaq	8684	-268.1	-3.0	-3.1	-8.3	14.6
DAX	#N/A Requesting Data...	#VALUE!	######	#VALUE!	######	#VALUE!
FTSE	6833	114.7	1.7	-3.0	-8.2	-4.2
Nikkei	21100	17.3	0.1	-5.9	-8.6	-3.3
Hang Seng	#N/A Requesting Data...	#VALUE!	######	#VALUE!	######	#VALUE!
CAC	#N/A Requesting Data...	#VALUE!	######	#VALUE!	######	#VALUE!
Commodities	Level		% change:			
WTI Crude	#N/A Requesting Data...	#VALUE!	######	#VALUE!	######	#VALUE!
Natural Gas	#N/A Requesting Data...	#VALUE!	######	#VALUE!	######	#VALUE!
Gold	1642.60	1.70	0.1	0.1	5.8	27.7
Silver	#VALUE!	#VALUE!	######	#VALUE!	######	#VALUE!
CRB Index	165.81	0.88	0.5	-0.3	-1.3	-8.4
Currencies	Level		% change:			
USDCAD	1.3361	-0.0019	-0.1	0.2	0.6	0.4
EURUSD	1.1124	-0.0049	-0.4	2.2	0.7	-1.9
USDJPY	107.55	0.4200	0.4	-2.6	-1.8	-3.8
AUDUSD	0.6624	0.0040	0.6	1.2	-1.7	-6.6
GBPUSD	1.2814	0.0003	0.0	-0.7	-1.7	-2.8
USDCHF	#N/A Requesting Data...	#VALUE!	######	#VALUE!	######	#VALUE!

Central Banks	
Current Rate	
Canada - BoC	1.75
US - Fed	1.25
England - BoE	0.75
Euro zone - ECB	0.00
Japan - BoJ	-0.10
Mexico - Banxico	7.00
Australia - RBA	0.50
New Zealand - RBNZ	1.00
Next Meeting Date	
Canada - BoC	Mar 04, 2020
US - Fed	Mar 18, 2020
England - BoE	Mar 26, 2020
Euro zone - ECB	Mar 12, 2020
Japan - BoJ	Mar 19, 2020
Mexico - Banxico	Mar 26, 2020
Australia - RBA	Apr 07, 2020
New Zealand - RBNZ	Mar 24, 2020

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.