

ON DECK FOR THURSDAY, MARCH 5

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	03/05	08:30	Initial Jobless Claims (000s)	Feb 29	220	215	216
US	03/05	08:30	Continuing Claims (000s)	Feb 22	1750	1738	1729
US	03/05	08:30	Productivity (q/q a.r.)	4Q F	-	1.3	1.2
US	03/05	08:30	Unit Labor Costs (q/q a.r.)	4Q F	-	1.4	0.9
US	03/05	10:00	Factory Orders (m/m)	Jan	-0.1	-0.1	1.8
CA	03/05	12:45	BoC's Poloz Gives Economic Progress Report				

KEY POINTS:

- Risk-off again on COVID-19 headline chasing
- A sweep across the latest virus headlines
- Markets need more confidence in COVID-19 case counts
- OPEC dysfunction is weighing on oil prices
- BoC's Poloz will offer a second chance to trade the BoC
- Canada's regionally diverse house price pressures
- Fed- speak on tap this evening
- BoE's Carney gets another chance to guide markets

INTERNATIONAL

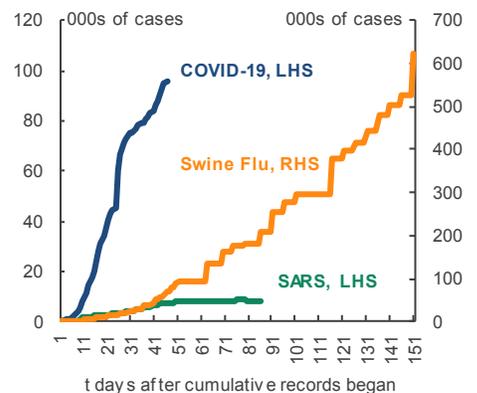
A broad risk-off tone has returned to global markets this morning. The focus is once again squarely upon chasing COVID-19 headlines which says as much about the fact that there was so little else to focus upon overnight as it does about the disorder that's driving headline chasing. Watch for Governor Poloz's remarks this afternoon as a second chance to trade the BoC (see below). OPEC is about as dysfunctional as the G7 given an inability to secure agreement toward production cuts that Russia apparently opposes.

- US equity futures are down by around 2% across exchanges. TSX futures are performing similarly. Ditto for European cash markets. Asian markets simply followed yesterday's western markets higher in the overnight session.
- Sovereign yields are outperforming in North America over Europe and Asia. US Treasury yields are down by about 10bps across the curve. Canadian yields are pretty much matching that. The gilts curve is richer by 3–5bps across maturities with a little more at the front-end. EGB 10s are little changed in most of core Europe except for spread widening in Italy and the periphery.
- Oil prices are very slightly lower with WTI just under US\$47 and Brent just under US\$51. Gold is up US\$18 to US\$1655/oz.
- The USD is depreciating particularly against the yen, won, euro and euro-related crosses. Sterling is also up versus the dollar. CAD is depreciating with Poloz on tap, while the Mexican peso and rand are the weakest semi-major crosses.

CONTACTS

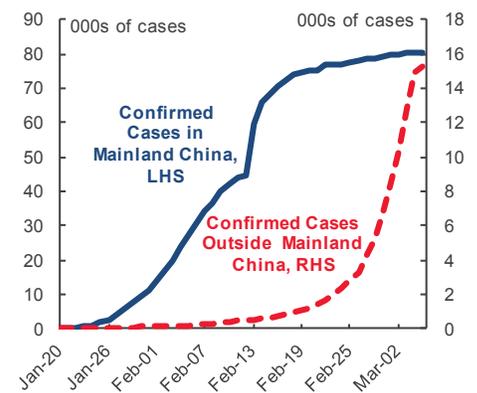
Derek Holt, VP & Head of Capital Markets Economics
 416.863.7707
 Scotiabank Economics
derek.holt@scotiabank.com

Global Cumulative Cases for Significant Viral Outbreaks



Sources: Scotiabank Economics, CDC, WHO.

COVID-19 Cases on the Rise Outside of China



Sources: Scotiabank Economics, WHO, CDC.

The COVID-19 global case count now stands at almost 96,000 cases. The death rate is 3.4%. There are over 15,000 cases outside of mainland China. China's case count has levelled off over about the last three weeks. That's if you trust the official figures. I don't. Never have. Trust Chinese data? Hardly, even at the best of times. Trust Chinese data on case counts when travel restrictions are being introduced? This is what the WHO warned against when it cautioned that travel bans were not the answer as it could impair tracking efforts and associated prevention. Since February 19th—or about when reported cases started to level off—China has omitted from case counts anyone who tests positive but is not presently showing symptoms despite their capacity to spread the disease. China's dictatorship also censors reporting and social media coverage including through services like the WeChat app. I don't think other countries' health authorities are as prone to potential cover ups especially in the democracies, but they've only recently begun to widen testing efforts and so it's unclear that we should trust any case counts. Regardless, chart 1 and 2 show the latest comparison of the faster spread of the COVID-19 virus compared to other viruses in the past.

Here is what I'm sure is an incomplete sampling of overnight developments.

- HSBC's London trading floor was evacuated this morning after someone in research reportedly contracted the virus. Dang research folks anyway.
- UK PM Johnson was dismissive toward the COVID-19 risks saying "just wash our hands" and that for "the overwhelming majority of peoplewho get it...this is going to be a mild to moderate illness."
- More companies and industry associations issued negative guidance or suspended guidance outright. The International Air Transport Association estimated that the virus will cost between US\$63–113 billion in foregone revenues at global airlines this year, revised up from US\$30 billion initially.
- Facebook told its employees in Seattle, Washington to work from home after a contractor was infected. I'm not sure that all industries and companies are as quite up to snuff as Facebook in terms of the required technology across a lot of roles.
- Hong Kong confirmed that a dog that had been under quarantine has tested positive. It ordered all family pets of quarantined patients to themselves be quarantined. Good luck with that.
- Italy required that all sporting events until at least April 3rd must take place in empty stadiums. This has been a topic under consideration as a contingency across North American sports leagues.
- RBA Deputy Governor said that the central bank has room for one more rate cut if needed and "Beyond that, we will have to consider quantitative easing" but probably not negative rates.
- New Delhi shut all schools until March 31st.
- Italy shut all theaters after previously closing schools.
- Seattle shut all schools.
- A cruise ship is being quarantined off the California coast.
- Congress passed a bill to unlock US\$8.3 billion in funding for address the virus. Obviously this carries zero impact upon growth not least of which because it's a huge US\$22 trillion economy, but it's a step.
- Coronavirus beats the environment I suppose. Starbucks said only disposable cups will now be used across all N.A. outlets as they don't want staff washing and touching everyone's reusables.

BoE guidance will be watched including remarks by outgoing BoE Governor Carney who speaks at 12pmET. PM Johnson reportedly spoke with Carney this morning. Markets have a quarter-point rate cut full priced for the March 26th meeting followed by about half of another cut over the summer. There is a very high bar to disappointing markets in this environment in my opinion. Nevertheless, Carney steps down on March 15th and passes the baton to Andrew Bailey for the next meeting. Bailey has indicated

coordination with the Treasury which suggests that monetary and fiscal policy may be unleashed in coordinated fashion, though Bailey has said he wishes to see more evidence on the spreading virus and its effects. Do we call this buying time or dithering?

CANADA

Governor Poloz will get a chance to more fully explaining himself today when he delivers an Economic Progress Report.

The embargo on his speech lifts at 12:45pmET, he will speak at around 1pmET and he will host a press conference at 2:15pmET.

I would expect Poloz to be one-part realist and one-part cheerleader. He just cut because the BoC realizes the global and domestic economies are troubled. He'll likely also emphasize how policy is adapting to smooth the shock to the extent possible and that a rebound of uncertain timing and magnitude lies on the other side. Part of that hope is likely to be reflected in reference to fuller forecasts being updated in the April MPR that will incorporate new information drawn from the round of Federal and provincial budgets.

Unlike the Fed—that cannot count on material stimulus from Congress in an election year—the Bank of Canada can likely count on stimulus being delivered in about three weeks' time by the Federal government. Washington's US\$8 billion response is small and solely focused upon combatting the virus as opposed to smoothing the macroeconomic effects. Canada is likely to offer both.

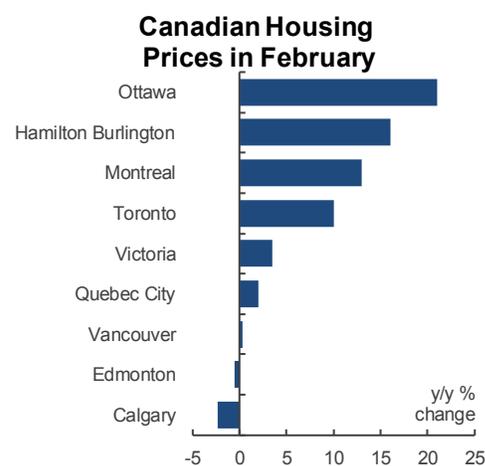
We may also hear Poloz address the expected nature of this shock in terms of the interplay between supply and demand considerations and implications for inflation risks, plus a deeper dialogue on spare capacity considerations. On how the virus will progress from here, Poloz is likely to reaffirm Powell's general approach that had him saying he simply didn't know.

Also watch for Poloz's remarks on housing. I suspect he'll say they are monitoring the risk, but also note the following points:

- monetary policy is a blunt instrument that has to first address the shock in the context of broad macroeconomic conditions and its impact upon potential slack and the inflation mandate;
- Ottawa, the provinces and municipalities have other better suited tools to address potential housing imbalances;
- The strength in February's numbers for existing home sales across the country is only one month and it might have reflected a concentrated burst of pent-up demand following the prior month's 3% m/m SA drop in home sales;
- Outside of southern Ontario and Montreal's release this morning, resale house price inflation is very weak (chart 3). In veiled fashion, Poloz might toss the ball toward the provincial and municipal governments to take more concerted action toward addressing supply side shortages and other tools and how monetary policy is not well designed to tackle regional issues. I've heard lots of hysteria from other shops on the issue of what rate cuts mean to house price inflation but it's soooo Toronto centric as to suggest these people never travel beyond King and Bay. In any event, given Ottawa has strongly boosted immigration numbers and most immigrants go to a handful of cities with Vancouver perhaps struggling to get its share given challenges abroad, it invites the question 'what did you expect would happen to prices in these cities?'. Ottawa's population growth, for instance, has dramatically increased over recent years.

UNITED STATES

More disinflationary evidence arrived this morning. Unit labour costs — essentially productivity-adjusted labour costs—rose by just 0.9% q/q at a seasonally adjusted and annualized pace in Q4 through a half point downward revision to the previously reported figure. That's still an acceleration from the prior two quarters, but nevertheless very weak. Combine that with the previously reported softer than expected core PCE print for January including downward revisions and the Fed has ample cover to ease even



Sources: Scotiabank Economics, various regional real estate boards.

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