

ON DECK FOR WEDNESDAY, MARCH 18

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	03/18	07:00	MBA Mortgage Applications (w/w)	Mar 13	--	--	15.1
CA	03/18	08:30	Core CPI - Common (y/y)	Feb	--	--	1.8
CA	03/18	08:30	Core CPI - Median (y/y)	Feb	--	--	2.2
CA	03/18	08:30	Core CPI - Trim (y/y)	Feb	--	--	2.1
CA	03/18	08:30	CPI, All items (m/m)	Feb	--	--	0.3
CA	03/18	08:30	CPI, All items (y/y)	Feb	--	--	2.4
CA	03/18	08:30	CPI, All items (index)	Feb	--	--	136.8
CA	03/18	08:30	Teranet - National Bank HPI (y/y)	Feb	--	--	2.1
US	03/18	08:30	Building Permits (000s a.r.)	Feb	--	1495	1550
US	03/18	08:30	Housing Starts (000s a.r.)	Feb	--	1500	1567
US	03/18	08:30	Housing Starts (m/m)	Feb	--	-4.3	-3.6

KEY POINTS:

- **Strong risk aversion returns**
- **Why global markets are seemingly unresponsive to stimulus plans**
- **Former Fed chairs advocate a five-point plan of additional measures**
- **Canada will announce modest fiscal measures some time today**
- **Specifics to US fiscal plans will continue to be monitored**
- **Canada and US to shut border to nonessential travel**
- **Brazil's CB expected to cut**
- **CDN CPI: who cares?!**
- **US housing starts on tap**

INTERNATIONAL

It seems that there are few safe havens other than the USD this morning. Stocks and sovereign bonds are both selling off. I'll note the market moves so far and then return to possible reasons why this is happening even as more aggressive fiscal and monetary policy options are being rolled out. Please see last night's Closing Points for discussion of monetary and fiscal policy steps undertaken into the evening ([here](#)).

- US equity futures are down by about 4% across all exchanges. TSX futures are down by slightly more. European cash markets are falling by between 2% (Italy) and 4 -5% (UK, Germany, France). Asian equities were broadly lower overnight by anywhere from -1.7% (Nikkei) to -5% (Kospi, Sensex).
- US Treasury yields are rallying at the front end by little changed further out across the curve. Canada's curve is slightly cheaper toward the longer end. Gilts are dearer by about 4bps in 2s but getting caught up in significant cheapening further out along the curve in Europe. Italy's 10 year yield is up 32bps with other peripheral debt cheapening by a similar magnitude.
- Oil is getting hit hard again. WTI is now down to US\$25 and Brent is below US\$28. Gold is not picking up safe haven flows and is slightly lower at US\$1520.

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- The USD is stronger again, along with the yen while the Swiss franc is holding its own. The weakest cross among the majors and semi-majors is the Mexican peso that is falling by over 4% to almost 24 to the dollar.

Why are global markets not responding more favourably to momentum that is rolling out more aggressive stimulus programs? That's unclear and I don't have any one convincing answer, but here are several possibilities. One thing I would emphasize with clients is not to give up hope. The machinations are in place toward more aggressive responses to at least mitigate the consequences of the complex shocks sweeping through the world economy and financial markets.

- **Inadequate:** The forms of monetary and fiscal stimulus that have been introduced thus far have been inadequate. I'll return to this one below and draw heavily upon the advice of former Fed Chairs Yellen and Bernanke.
- **Not timely enough:** There is a sense that some of the policy options are arriving too late. An example of this is how long it took the US administration to turn from incompetent denial toward seeking constructive solutions. Perhaps stimulus efforts have not been given enough time to be implemented and work their way through the complicated plumbing of the world's financial system. Maybe they need to be sped up where feasible. For instance, proposed US cheques to Americans will take at least six weeks to be sent, during which many businesses that have been forced to shut may well have already gone under and laid off workers. Further, many of the key central bank facilities haven't even started up, such as the Primary Dealer Credit Facility that starts up this Friday. Others, like USD swap lines and discount window borrowing take time to reach a critical mass.
- **Not omnipotent:** Fiscal and monetary policy can only mitigate some of the decline in economic activity, earnings and risk appetite and cannot counter a fundamental shutdown of the economy.
- **Inappropriate:** Maybe some of the forms of monetary and fiscal stimulus have been inappropriate. For example, perhaps giving cash hand-outs is dicey when they may very well be hoarded.
- **An unstoppable credit event:** That a major credit event with widespread bankruptcies is in the works as the economies across large parts of the world are being shut.
- **Rising discount rates:** What explains the possible conundrum of rising bond yields and falling equities? Maybe rising sovereign yields reflect policy success in restoring some sense of relative normalcy to market functioning behind base yields but higher discount rates are combining with earnings downsides to hurt equities.
- **So long Trump, markets may miss you:** US President Trump is facing the increased risk of losing the November election to the Democrats given their turn toward more of a moderate candidate and with memories of Bush Sr losing to Clinton over the economy. Joe Biden's surging campaign presents a platform that is less business friendly especially from a tax standpoint but might attract an electoral turn toward more of a safety net.
- **Others need to step up:** Europe must get its act together. Lagarde has been completely underwhelming at the ECB which is a major handicap given its status as the second most powerful global central bank in the world. Ditto for fairly slow moving European governments.

Returning to my first point about inadequate policy responses, it's worth a particular focus upon **what more monetary policy can do** by emphasizing the counter-point to those who argue that the Fed is out of bullets. Oh no it's not, but it needs some adjustments to its powers in order to more fully execute a comprehensive action plan designed to counter today's different crisis.

Enter [this](#) op-ed piece in the FT which is highly recommended to clients. It is co-written by former Fed Chairs Yellen and Bernanke who know a thing or two about steering the world's markets away from the abyss they are presently staring into. **Bernanke and Yellen propose a five-point action plan of further steps to be pursued by the Federal Reserve to counter a very different crisis this time around than the one over a decade ago.** Here they are:

- reintroduce the Term Auction Facility that was used in the GFC in order to counter the stigma attached to borrowing at the discount window;
- set up a standing repo facility;
- adopt something like the UK's funding for lending scheme to directly extend low cost loans to businesses and households;
- with Treasury, restart the Term Asset-Backed Lending Facility to support issuance of ABS backed by loans to households and businesses;
- and ask Congress for the authority to directly buy limited amounts of investment-grade corporate debt.

Clearly these are not opportunists like Kevin Warsh chirping at the Fed and lurking in the background to take the number one job. I'd attach significant probability to seeing some of these programs being implemented soon and starting the wheels in motion to get the authority for the others. I suspect that the GOP won't find these powers quite as objectionable this go around with Obama gone, their past concerns about the implications for inflation having been thoroughly discredited and with their own political hides now being on the line come November. If they have a change of heart toward the Fed's powers, then support them for the sake of the economy and financial system and leave pointing out the hypocrisy until a subsequent moment.

Brazil's central bank is expected to cut its Selic rate by 50bps to 3.75% by the end of the day (5pmET).

CANADA

It is unclear at exactly what time the Federal Government will roll out its specific stimulus plan today. The Prime Minister's daily itinerary has yet to be uploaded and could be done on a more timely basis at a point like this. Sometime later this morning is our best guess. As noted in last evening's Closing Points, stimulus on the order of just over 1% of GDP appears to be likely. The next leg of the debate concerns the adequacy of the response. Still, we need to be fair toward the capacity of Canadian institutions to lean against the complex forces sweeping through world markets.

Canada and the US are working toward shutting the border to nonessential travel ([here](#)). It's unclear what constitutes nonessential travel.

Canada updates CPI for the month of February this morning (8:30amET). Who cares. The battle at hand has nothing to do with backward looking inflation figures. Nevertheless, in the interest of ticking the box, materially cooler headline inflation is expected with the rate falling from 2.4% y/y in January (its highest since May) back toward 2% on lower energy prices. The average of the core inflation measures is expected to land at about 2% y/y. CPI shouldn't matter to markets that are focused upon the forward looking effects of the OPEC+ and COVID-19 shocks while retaining pricing for the BoC to return to the 1/4% lower bound by April 15th—or earlier.

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