

**ON DECK FOR WEDNESDAY, APRIL 1**

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	04/01	07:00	MBA Mortgage Applications (w/w)	Mar 27	--	--	-8.4
US	04/01	08:15	ADP Employment Report (000s m/m)	Mar	-200	-150.0	-27.0
US	04/01	10:00	Construction Spending (m/m)	Feb	0.2	0.6	1.8
US	04/01	10:00	ISM Manufacturing Index	Mar	45	44.5	50.1
US	04/01		Total Vehicle Sales (mn a.r.)	Mar	14.5	12.0	16.8

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**KEY POINTS:**

- Risk off as COVID-19 cases multiply, damage estimates roll in
- US mortgage purchase apps fall to lowest since the 2016 election
- US ADP payrolls fell by less than expected, but very stale...
- ...while nevertheless tossing aside the most dire nonfarm predictions
- US ISM, vehicle sales on tap
- Japan's Tankan falls to seven year low
- China's private manufacturing PMI rebounds by less than the state's
- German retail sales soar on pandemic related categories
- BoC implements first round of GoC purchases today
- CDN PMI, auto sales on tap
- Canadian financial markets continue to be strained...
- ...but mild progress is becoming more evident

**INTERNATIONAL**

COVID-19 tracking and apprehension ahead of damage estimates are driving a significant risk-off tone. The alarming rise of the global COVID-19 case count is on pace to hit one million diagnosed cases within a couple of days and perhaps as soon as tomorrow. Global cases are rising by 60–75k a day and presently stand at 874k. The US has the most at 190k and may cross 200k today from just under one hundred on March 1<sup>st</sup> and 4.6k on March 15<sup>th</sup>. Within the US, New York accounts for 40% of the nationwide tally and in second place is NJ with 10% of cases. The reported global death rate is 4.9% but cases are probably undercounted more than deaths.

For the risk trade, there will continue to be a back and forth between case counts and the human and economic aftermath, versus stimulus efforts in getting to the other side. The interim period is going to be much harsher yet. Overnight releases were stale, but informed weakness in Japan, pandemic-related spending that popped German retail sales higher, and a milder rebound in the private sector version of China's manufacturing PMI. US ADP payrolls and ISM manufacturing are on tap with the latter being the freshest of the bunch given the responses arrive at month-end.

- Equities are broadly lower. European cash markets are down by 2–4%. Asian equities fell by as much as 4 ½% in Tokyo, 4% in Seoul, and 2.2% in HK but with mainland China down a milder ½%. US equity futures are down by between about 3–4%. TSX futures are more than 2% lower.

- Sovereign curves are bull flattening in the US, Canada and UK but mixed across EGBs. Spreads over 10 year German bunds are wider by a few basis points in France, Italy and the periphery.
- Oil prices are soft with WTI slightly lower and Brent down by almost a buck. Gold is up a little and perhaps taking another run at US\$1600/oz.
- The USD is broadly stronger and especially against the more commodity-oriented crosses in Canada, Mexico and China.

Overnight macro releases were mixed and while all lagging data is stale at a rapid turning point, there are useful observations that can be made.

**German retail sales:** German retail sales volumes soared by 1.2% m/m in February to post a second consecutive large gain. The composition of sales may reflect pandemic related items as food sales soared by 5.2% m/m, pharma/cosmetics sales jumped by 1.7%, but other categories fell like furniture and accessories (-1.6%), clothing and shoes (-1%) and IT-related equipment (-0.4%). Readings from March onward will likely be much weaker.

**Japan's Tankan indices:** The Q1 sentiment readings of manufacturing and non-manufacturing activity across all sizes of business turned lower across all readings and will assuredly test new lows in the Q2 releases. For example, the large manufacturing index fell to a seven-year low and the small manufacturing index fell to almost a seven-year low. Ditto for the large non-manufacturing index while the small non-manufacturing index fell to its lowest in just over five years.

**China's private manufacturing PMI:** The Caixin manufacturing PMI rose by about ten points to 50.1 which is a weaker rebound from a higher starting point than the over sixteen point jump in the state's manufacturing PMI the previous day. The Caixin reading is more skewed toward smaller producers in coastal export-oriented cities and less skewed to the SOEs and so that might help explain its softer growth signal. The Caixin services and composite releases are due out tomorrow night.

## UNITED STATES

**Four fresh readings on the US economy arrive or have arrived already this morning.**

**a) Weekly mortgage applications:** US mortgage applications were up 15.3% w/w last week entirely due to a 25.5% jump in refis as purchase applications fell 10.8% w/w. Purchase apps are down by 24.4% since the first week of March and the overall seasonally adjusted index is at its lowest since the week containing the US election in 2016.

**b) ISM-manufacturing gauge:** March's reading arrives at 10amET. As it turns out, my estimate of 45 submitted to Bloomberg/Reuters is in line with the median consensus reading of 44.5 but the range runs anywhere from 35 to 48.5. All readings anticipate a contraction but it's guesswork to figure the magnitude. That said, Empire fell by 34 points to -21.5, Philly fell 49 points to -12.7, the KC measure fell 22 points to -17, and the Dallas metric plunged by 71 points to -70. Only Richmond edged higher and was up four points to +2. Significant regions of the US are underrepresented by the regional gauges which might explain why the Markit gauge wasn't hit as hard and fell only 1.5 points to 49.2. ISM should be a fresher reading than all of them because most responses arrive toward month-end.

**c) ADP private payrolls:** They fell by just 27k last month which was better than feared but stale. ADP seeks to match nonfarm's reference period that is the pay period including the 12th of each month. The COVID-19 case count in the US exploded afterward and with it social distancing and shutdown effects. Revisions to capture the whole month and the next month's reading will be much weaker. What this reading says is to toss out the worst readings in the nonfarm consensus for Friday as huge deviations between the initial ADP and initial nonfarm payrolls are very rare.

**d) Vehicle sales:** March's reading will come in toward the end of the day after individual companies release. Normally a monthly auto sales print is fudged these days because so many companies have shifted to quarterly reporting and so the monthly numbers are pure estimates. This being quarter-end, however, firms up data quality. Consensus thinks there will be around a 25% drop to 12 million (Scotia 14.5 million).

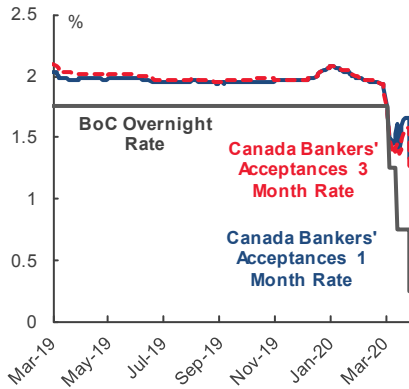
**CANADA**

Calendar-based risk is low today with just the Markit manufacturing PMI for March due out (9:30amET) along with Canadian auto sales for March.

**Finance Minister Morneau is expected to provide costing details for the massive wage subsidy program today.** We don't know at what time it may be held, but it may be as part of mid-day communications from ministers. The issue is by how much we need to scale up prior estimates that were in the C\$30B +/- range which is no longer relevant as the program since shifted to include larger businesses. Enterprises that employ over 500 people account for 45% of total employment in Canada. Thus, when you see articles today referencing that prior cost estimate, they are using outdated numbers on a program that could push into many tens of billions with monitoring and enforcement actions likely to be a big deal.

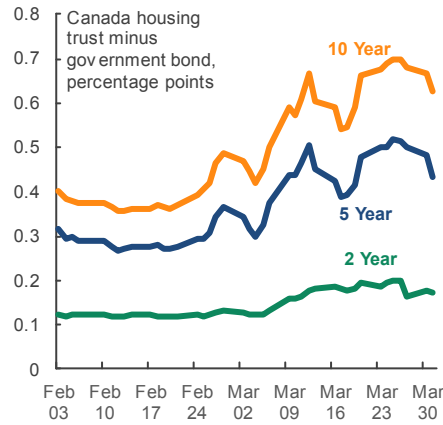
**Charts 1–8 provide depictions of ongoing strains in Canadian financial markets but also indicate several areas of modest improvement.** The Bank of Canada's multiple funding and asset purchase programs continue to be implemented and Canada is benefitting vicariously from spillover effects associated with what the Fed is doing. The BoC conducts its first purchase operation for its GoC bond purchase program today and will concentrated upon the 5 year sector followed by 10s tomorrow and 2s on Friday.

### Canadian Bankers' Acceptance Rates



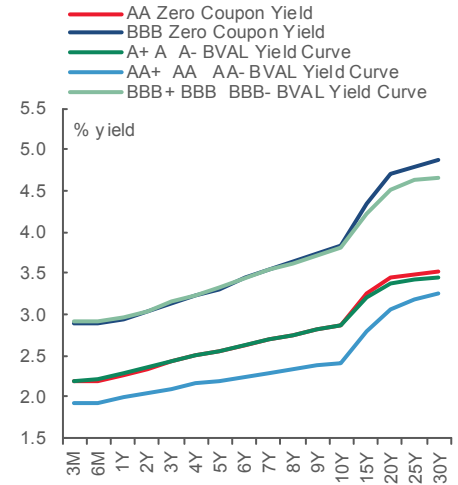
Sources: Scotiabank Economics, Bloomberg.

### Early Days for BoC's Mortgage Purchases



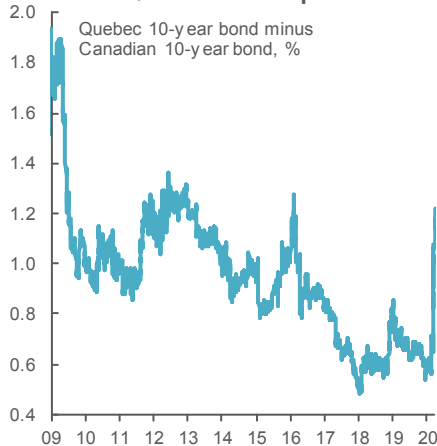
Sources: Scotiabank Economics, Bloomberg.

### Canadian Corporate Bond Market Is Still Rewarding Term Extension



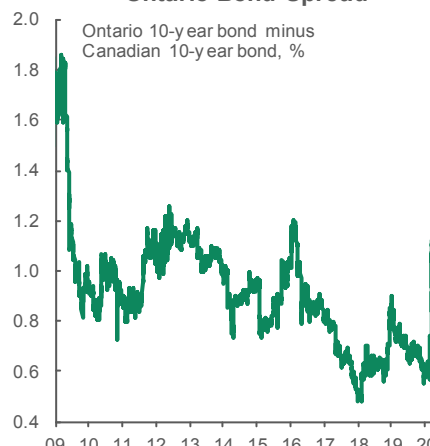
Sources: Scotiabank Economics, Bloomberg.

### Quebec Bond Spread



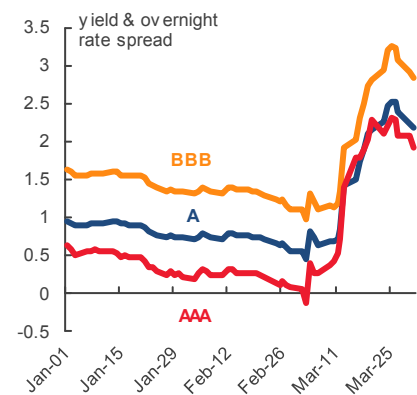
Source: Scotiabank Economics, Bloomberg.

### Ontario Bond Spread



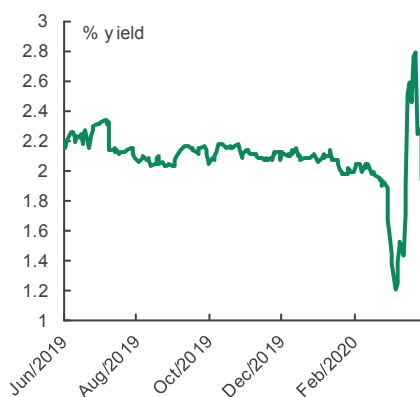
Source: Scotiabank Economics, Bloomberg.

### Proxies for Canadian Credit Card Trust Spreads



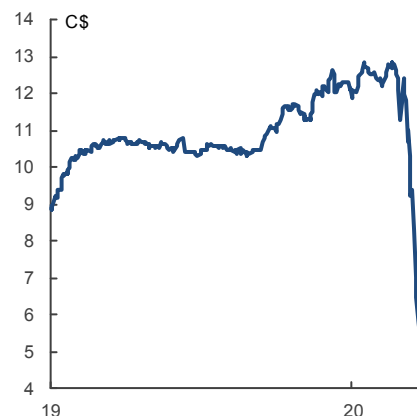
Sources: Scotiabank Economics, Bloomberg.

### Ford Canada Floorplan AAA Trust



Sources: Scotiabank Economics, Bloomberg.

### Canadian Auto Properties REIT



Sources: Scotiabank Economics, Bloomberg.

Fixed Income	Government Yield Curves (%):												Central Banks	
U.S. 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	Canada - BoC	0.25
	0.24	0.25	0.33	0.35	0.38	0.53	0.61	0.67	0.87	1.24	1.32	1.45		
	0.40	0.42	0.65	0.52	0.58	0.79	0.62	0.69	0.90	1.23	1.30	1.38		
	-0.69	-0.69	-0.60	-0.65	-0.65	-0.45	-0.49	-0.47	-0.26	-0.01	0.03	0.16		
	-0.11	-0.14	-0.23	-0.10	-0.09	-0.07	0.01	0.02	0.05	0.42	0.43	0.43		
CANADA GERMANY JAPAN U.K.	Spreads vs. U.S. (bps):												Euro zone - ECB	0.00
	16	17	32	17	20	26	1	2	3	-0	-2	-7		
	-92	-94	-93	-101	-103	-98	-110	-114	-113	-125	-130	-129		
	-34	-38	-56	-46	-47	-59	-59	-65	-82	-81	-89	-102		
	-13	-11	-22	-19	-17	-28	-32	-31	-42	-52	-50	-58		
	Equities	Level						% change:						Mexico - Banxico
S&P/TSX Dow 30 S&P 500 Nasdaq DAX FTSE Nikkei Hang Seng CAC	Last	Change					1 Day	1-wk	1-mo	1-yr				
	13379	340.3					2.6	6.4	-17.7	-17.6				
	21917	-410.3					-1.8	5.9	-13.7	-16.5				
	2585	-42.1					-1.6	5.6	-12.5	-9.9				
	7700	-74.1					-1.0	3.8	-10.1	-1.6				
	9521	-414.9					-4.2	-3.6	-19.9	-18.5				
	5452	-220.2					-3.9	-4.2	-17.2	-25.5				
	18065	-851.6					-4.5	-7.6	-14.6	-16.0				
	23086	-517.7					-2.2	-1.9	-11.7	-21.9				
	4205	-190.8					-4.3	-5.1	-20.8	-22.2				
Commodities	Level						% change:						England - BoE	May 07, 2020
WTI Crude Natural Gas Gold Silver CRB Index	20.32	-0.16					-0.8	-17.0	-54.6	-67.0				
	1.66	0.02					1.3	0.2	-1.3	-38.6				
	1585.56	8.38					0.5	-1.9	-0.0	23.1				
	13.93	-0.13					-0.9	2.2	-18.9	-7.7				
	120.31	-1.47					-1.2	-7.2	-24.5	-35.1				
Currencies	Level						% change:						Australia - RBA	Apr 07, 2020
USDCAD EURUSD USDJPY AUDUSD GBPUSD USDCHF	1.4242	0.0180					1.3	0.4	6.9	7.0				
	1.0927	-0.0104					-0.9	0.4	-1.9	-2.6				
	107.53	-0.0100					-0.0	-3.3	-0.7	-3.4				
	0.6059	-0.0072					-1.2	1.7	-7.3	-14.8				
	1.2371	-0.0049					-0.4	4.2	-3.0	-5.6				
0.9665	0.0054					0.6	-1.1	0.8	-3.2					
													New Zealand - RBNZ	May 12, 2020

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