

ON DECK FOR FRIDAY, FEBRUARY 19

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	02-19	08:00	Fed's Barkin Speaks on Panel				
CA	02-19	08:30	Retail Sales (m/m)	Dec	-2.6	-2.6	-3.4
CA	02-19	08:30	Retail Sales ex. Autos (m/m)	Dec	-2.0	-2.4	-4.1
US	02-19	10:00	Existing Home Sales (mn a.r.)	Jan	6.6	6.6	6.8
US	02-19	10:00	Existing Home Sales (m/m)	Jan	-2.0	-2.4	0.8
US	02-20	10:00	Fed's Rosengren Speaks at Yale Economic Symposium				
US	02-20	11:00	Fed's Barkin Speaks on Panel				

KEY POINTS:

- Global markets ending the week with risk-on sentiment
- Oil down as good news is bad news out of Texas & Iran
- UK PMIs on the rebound...
- ...but not so for Eurozone or Japanese PMIs...
- ...and Australia's expansion cooled a bit
- UK retail sales plunged during lockdown
- CDN retail sales did about what one would expect in lockdown...
- ...ahead of a likely Spring rebound
- US home sales beat, Markit PMIs flat, Fed's MPR on tap

INTERNATIONAL

Global markets are in risk-on mode. News that Pfizer's shot could be a one-dose wonder, the US extending an olive branch to Iran and the beginning of a Texas thaw effect on oil production are helping. Mixed global macro data is playing a minor role.

- The USD is a little softer against most major currencies except the Mexican peso. Despite lower oil, petro-currencies are mostly firmer including CAD and the Norwegian krone that are more driven by broader risk appetite.
- Sovereign 10s are cheapening again. The longer end of the US Treasury curve is up 3–4bps while all of Canada's curve is cheaper and steepening faster than the US as Canada 10s rise 6bps with 2s up 1bps. Canada's curve didn't even bat an eye at smelly retail sales figures. Ten year yields are up 8bps in the UK, 2bps in Germany and Italian spreads are compressing a touch over bunds.
- Modest equity gains between ¼% and 1¼% are being registered in Europe and N.A.
- Oil, however, is off by a few dimes which is less than the selloff earlier this morning and it may be a good news is bad news thing as output problems ease in Texas and the Biden administration extended an olive branch to meet with Iran.

The Eurozone composite PMI slightly increased to 48.1 (47.8 prior) but the move isn't really statistically significant and it does little to incrementally inform GDP

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Chart 1

Canadian Retail Sales Levels

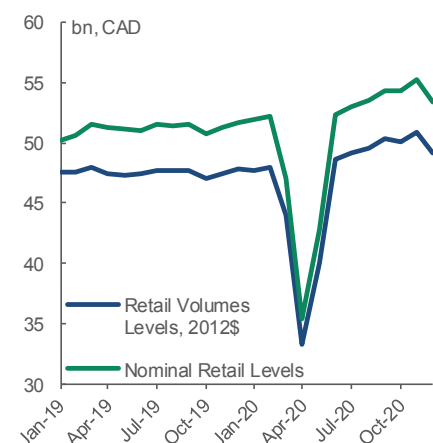
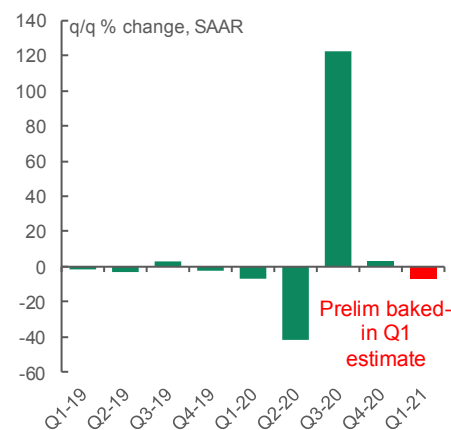


Chart 2

Canadian Real Retail Sales Growth



tracking (chart 4). A nearly three-point rise in the manufacturing PMI to 57.7 signals quicker acceleration but that was offset by a slightly more rapid pace of contraction in services.

The UK composite PMI climbed by 8.6 points to 49.8 (42.6 consensus) and was mainly driven by a ten point gain in the services PMI and a 0.8 point rise in the manufacturing PMI. The improvement suggests GDP weakness is in the process of being reduced (chart 5).

Australia's composite PMI fell 1.5 points to 54.4 as both the services and manufacturing PMIs slipped. The reading continues to indicate correlated GDP strength (chart 6).

Japan's composite PMI remained little changed in contraction territory at 47.6 with manufacturing slightly returning to mild expansion offset by contraction in services. The more modest connection with GDP is shown in chart 7.

Offsetting the UK PMIs was that retail sales plunged by much more than expected (-8.2% m/m, -3% consensus). Ex-gas also fell -8.8% m/m. Food sales were up 1.4% m/m but everything else collapsed during the lockdown.

CANADA

Well, that's about what one would have expected in an environment of lockdowns, restrictions, stay-at-home orders and curbside shopping with dine-in eating banned. Retail sales fell sharply over the December and January period, but in the process this is creating a wicked pent-up demand argument into the Spring.

CDN retail sales, headline / ex-autos, m/m % change, SA, December:

Actual: -3.4 / -4.1

Scotia: -2.6 / -2.0

Consensus: -2.6 / -2.4

Prior: 1.8 / 2.9 (revised from 1.3 / 2.1)

January guidance: -3.3

The dollar value of sales fell by more than initially guided by StatsCan, but that was because of upward revisions to the prior month. Sales fell 3.4% m/m in December after StatsCan had previously guided they fell by 2.6% m/m, but the prior month was revised up by a half point to explain most of the disappointment in December.

What matters more is January's advance guidance based upon the preliminary 51% 'flash' estimate that showed a 3.3% m/m sales decline. Again, about what one would expect. As we move toward gradually reducing restrictions and ramp up vaccinations, the stage is likely being set for a strong rebound when better Spring weather returns.

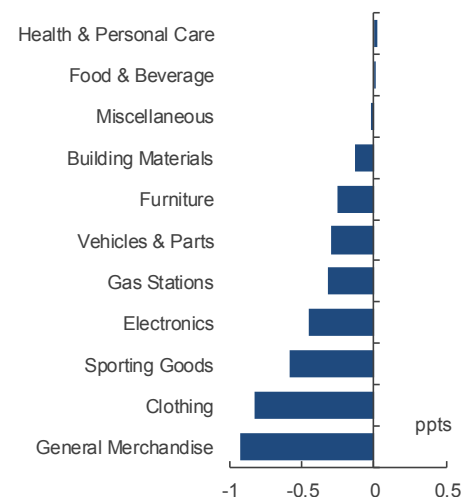
Sales volumes (-3.6% m/m) drove all of the December decline. We don't know the volume figures for January yet, but it's likely the same argument will hold.

Chart 1 provides a depiction of where we are in terms of the level of sales in dollar and volume terms that have lost ground but retain most of the rebound.

Chart 2 shows tracking of growth in sales volumes. They were up by about 3.3% q/q at a seasonally adjusted and annualized rate in Q4 and are tracking an 18.9% annualized drop in Q1. The uber-strong caution on the Q1 tracking, however, is that it is based solely on the Q4 jumping off point, the hand-off effect of weakness in December and hence the way the quarter transitioned into Q1 and is also based on the assumption that all of the guided drop in the dollar value of sales in January was due to lower volumes. Some of this plunge is likely to be reduced if the quarter ends more positively, but it's still likely to be a bad quarter that sets up a probable violent swing in the other direction as sales rebound into Q2.

Chart 3

Weighted Contributions to December Retail Sales Volumes



Sources: Scotiabank Economics, Statistics Canada.

Chart 3 shows which types of retail sales drove the decline in overall sales volumes on a weighted contribution to growth basis.

Regarding the question of on-line sales, they are included if domestic, not if from foreign sources, but that wouldn't have made a difference here. Domestic e-commerce sales were up by 69.3% y/y and are included. If you ordered off a foreign e-commerce site then that wouldn't have been. A proxy for the latter is imports of goods through postal services and couriers in the trade accounts. That amounted to about C\$598 million in December which was down from C\$1.1 billion in November. A caution is that the figures are not seasonally adjusted which should have helped seasonally adjusted December numbers. A bigger caution is that the first stab at the figures is usually heavily revised. Still, the 'normal' monthly amount is around C\$1 billion/month which is a trivial amount in comparison to total retail sales of C\$53.4 billion in December.

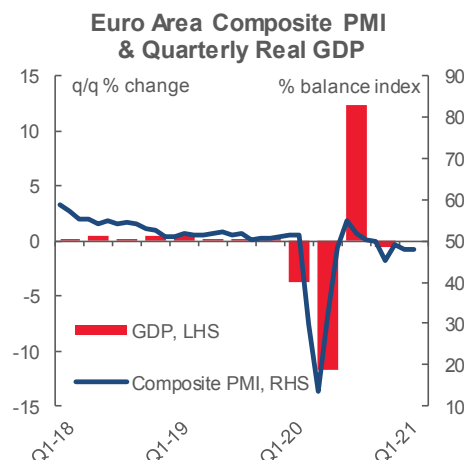
I'll write more about the coming consumer rebound in the Global Week Ahead later today including emphasis upon evidence surrounding the argument over if and how consumer behaviour might respond to vaccines.

UNITED STATES

The Fed's MPR arrives later today ahead of Powell's testimony on Tuesday–Wednesday. It's not like the BoC's MPR that includes full forecast updates and guidance. The Fed's doesn't contain forecasts and is largely descriptive in nature with just Fed staffers writing about what's happened for the most part. It's Powell's opening statement on Tuesday that matters and the early part of the Q&A before it goes all political.

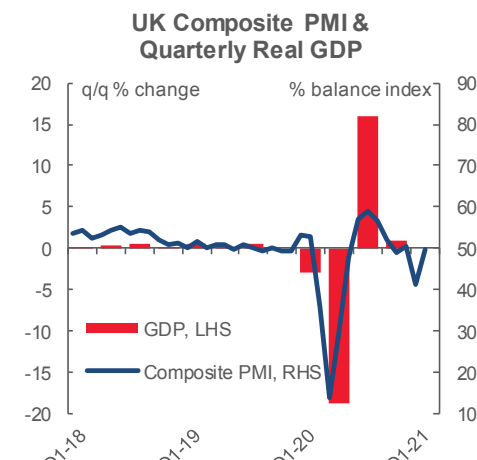
Light US releases include a flat Markit composite PMI at 58.8 in February and existing home sales for January that slightly increased by 0.6% m/m (consensus –2.4%) with a small upward revision. Recall the Fed prefers the ISM measures over Markit's partly because Markit's combine international operations of US companies whereas the Fed is more purely interested in the state of the domestic economy reflected in the ISM metrics. Home sales might follow the softening in pending home sales.

Chart 4



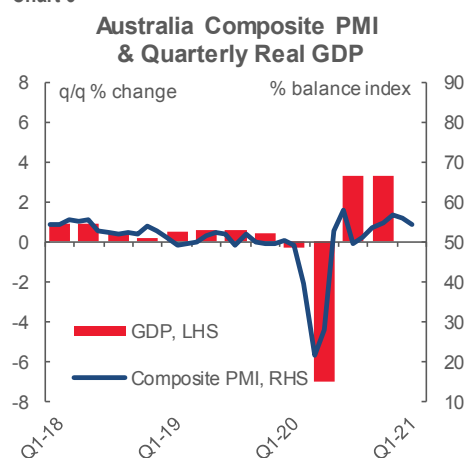
Sources: Scotiabank Economics, IHS Markit, Bloomberg.

Chart 5



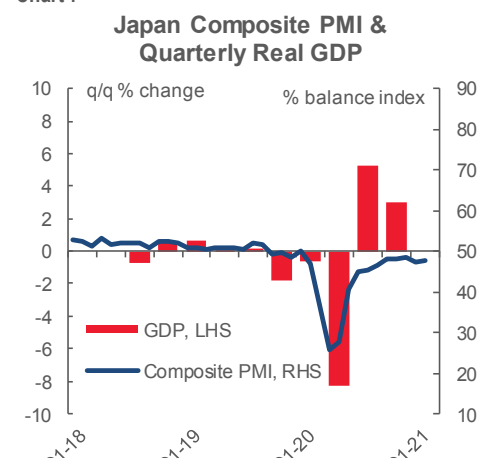
Sources: Scotiabank Economics, IHS Markit, Bloomberg.

Chart 6



Sources: Scotiabank Economics, IHS Markit, Bloomberg.

Chart 7



Sources: Scotiabank Economics, IHS Markit, Bloomberg.

Fixed Income	Government Yield Curves (%):												Central Banks		
U.S. CANADA GERMANY JAPAN U.K. 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			
	0.11	0.11	0.11	0.57	0.55	0.49	1.33	1.30	1.21	2.12	2.08	2.01	Canada - BoC	0.25	
	0.24	0.22	0.19	0.64	0.60	0.50	1.21	1.14	1.03	1.78	1.73	1.63	US - Fed	0.25	
	-0.68	-0.69	-0.71	-0.61	-0.63	-0.68	-0.31	-0.35	-0.43	0.21	0.16	0.08	England - BoE	0.10	
	-0.11	-0.11	-0.12	-0.07	-0.08	-0.11	0.11	0.10	0.07	0.69	0.68	0.67			
	0.00	-0.04	-0.04	0.20	0.14	0.08	0.70	0.62	0.52	1.28	1.20	1.11			
	Spreads vs. U.S. (bps):														
	13	11	8	7	4	0	-13	-15	-18	-35	-35	-38	Euro zone - ECB	0.00	
	-79	-79	-82	-119	-118	-117	-165	-164	-164	-192	-193	-193	Japan - BoJ	-0.10	
-21	-22	-23	-65	-64	-60	-123	-120	-114	-143	-141	-134				
-11	-14	-15	-37	-41	-41	-63	-67	-69	-84	-88	-90	Mexico - Banxico	4.00		
Equities	Level						% change:								
	Last	Change					1 Day	1-wk	1-mo	1-yr					
S&P/TSX	18287	13.0					0.1	-0.6	1.8	2.0	Australia - RBA 0.10				
Dow 30	31582	88.5					0.3	0.5	2.1	7.6	New Zealand - RBNZ 0.25				
S&P 500	3924	9.9					0.3	0.2	3.3	15.9					
Nasdaq	13920	54.2					0.4	-0.8	5.5	41.8					
DAX	14000	113.0					0.8	-0.4	1.3	1.5					
FTSE	6638	20.7					0.3	0.7	-1.1	-11.0					
Nikkei	30018	-218.2					-0.7	1.7	4.8	28.3	Canada - BoC Mar 10, 2021				
Hang Seng	30645	49.5					0.2	2.0	3.4	10.8	US - Fed Mar 17, 2021				
CAC	5774	46.1					0.8	1.2	3.1	-5.5	England - BoE Mar 18, 2021				
Commodities	Level						% change:								
WTI Crude	60.13	-0.39					-0.6	3.2	13.5	12.8	Euro zone - ECB Mar 11, 2021				
Natural Gas	3.10	0.02					0.7	8.2	21.9	58.8	Japan - BoJ Mar 19, 2021				
Gold	1782.90	7.23					0.4	-2.3	-3.1	10.6					
Silver	27.17	0.05					0.2	0.1	9.2	51.9					
CRB Index	189.76	1.09					0.6	3.3	8.5	8.1					
Currencies	Level						% change:								
USDCAD	1.2619	-0.0060					-0.5	-0.6	-0.9	-4.6	Mexico - Banxico Mar 25, 2021				
EURUSD	1.2121	0.0029					0.2	0.0	-0.1	12.2	Australia - RBA Mar 01, 2021				
USDJPY	105.59	-0.1000					-0.1	0.6	1.6	-5.2	New Zealand - RBNZ Feb 23, 2021				
AUDUSD	0.7855	0.0087					1.1	1.2	2.1	17.7					
GBPUSD	1.4016	0.0041					0.3	1.2	2.8	8.5					
USDCHF	0.8955	-0.0004					-0.0	0.4	0.8	-9.0					

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