

DAILY POINTS

February 28, 2022 @ 10:00 EST

Contributors

Derek Holt

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

Chart 1

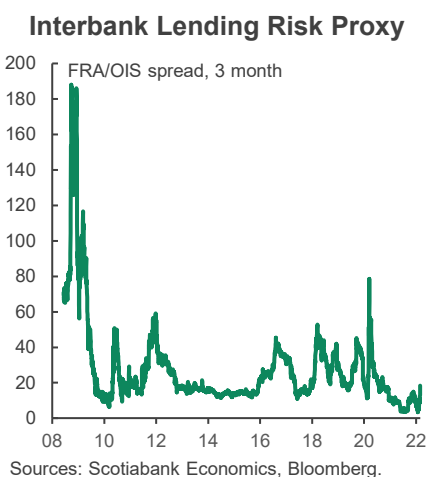
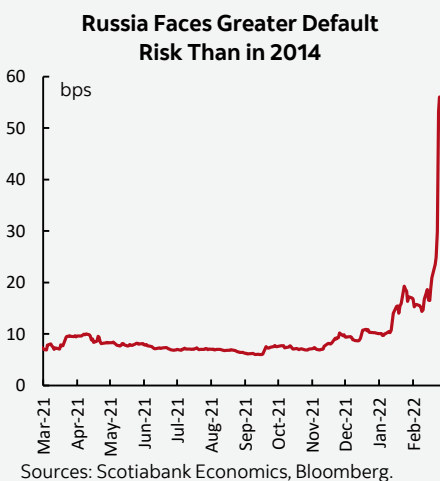


Chart 2



On Deck for Monday, February 28

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	02-28	08:30	Current Account (C\$ bn a.r.)	4Q	--	2.2	-0.8
CA	02-28	08:30	IPPI (m/m)	Jan	--	1.0	3.0
CA	02-28	08:30	Raw Materials Price Index (m/m)	Jan	--	5.0	6.5
US	02-28	08:30	Wholesale Inventories (m/m)	Jan P	--	1.3	0.8
US	02-28	09:45	Chicago PMI	Feb	--	62.3	65.2
US	02-28	10:30	Dallas Fed. Manufacturing Activity	Feb	--	4.3	2.0
US	02-28	10:30	Fed's Bostic Discusses the Economy				

KEY POINTS:

- **So far, global market stress is manageable...**
- **...after the allies found their spines over the weekend...**
- **...but it's a different matter altogether for Russia**
- **The ends justify the means in crushing Russia's economy**
- **Lehman event or manageable consequences?**
- **The US oil shock is paying the price for turning down Keystone XL**
- **The US posts another record monthly trade deficit as retailers re-stock depleted inventories**
- **Canada temporarily swings back into current account deficit**
- **Omicron continues to fade**
- **Please see Friday's Global Week Ahead [here](#)**

The ends justify the means. The debate over whether and in what form Machiavelli actually said this isn't what matters for present purposes. With the end goal defined as destroying the brutal killer Vladimir Putin through internal collapse and dissension by creating a critical mass of internal opposition, the targeted means to achieve this end kicked into higher gear over the weekend. We're seeing the limited effects upon global markets and the deepening effects on Russian markets to kick off the week. Overall, the response across the allies became considerably more impressive in nature than the timid measures that were initially pursued last week when the words were far stronger than the measures. It's welcome to see individual companies joining with their own measures. It's welcome to see more foreign provision of arms to Ukraine, but Harvard's Niall Ferguson is bang on saying that the amounts remain trivial in his thoroughly enjoyable weekend column about parallels between Biden and Jimmy Carter.

The intensification of measures included banning some undisclosed Russian banks from accessing the global SWIFTS payments system, as well as G7 central banks taking steps to cease transacting with Russian banks, Russia's central bank, Russia's ministry of Finance and Russia's sovereign wealth funds (the National Wealth Fund of the Russian Federation and the Russian Direct Investment Fund). The EC plus G7 minus Japan issued [this](#) communique on Saturday (Japan joined the next day), Canada had offered some further details yesterday and the US announced them this morning ([here](#)). Russian assets are being frozen in their respective G7 markets right down to the yachts, real estate and investments of Russia's corrupt oligarchs.

The effects include blocking Russia's access to its US\$643B of reserves that were almost doubled since the last invasion. The allies are catching on to the fact that Putin had taken steps to insulate Russia from sanctions since the last war in 2014 by ramping up reserves, paying down external debt, trying to create an alternative payments system and diversifying FX exposures away from the dollar. Putin gambled that the US would be

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isolated in whatever sanctions it sought to impose upon Russia and that those sanctions wouldn't effectively hit at the capital account or would do so in limited fashion by focusing upon the USD. I'm delighted to now see that Putin seriously miscalculated as the allies adapted over the weekend. They can still do more but the biggest remaining options are likely ones—like thwarting the supply of Russian energy—that could take years.

So with that we are in monitoring mode in terms of watching measures of stress across global markets and need to be careful in prematurely drawing conclusions on the impacts and the potential policy responses.

Headlines are somewhat alarmingly drawing parallels to March 2020, but in reality, the magnitudes of the deteriorations across key measures are a fraction of what they were back then—so far. For one, the widely monitored FRA-OIS spread that is a rough measure of systemic risk across the global banking system has climbed to 18bps this morning, up from 13 on Friday and about four times what it was about three weeks ago (chart 1). Still, it was about four times today's level in March 2020 and about 165bps higher when the GFC was breaking out. The cross currency EURUSD 90-day basis sank to -48bps this morning but was 100bps below that when liquidity initially froze at the start of the pandemic. The VIX has increased to about 33 but had soared to about 50 points above that at the start of the pandemic and a similarly height when the GFC broke out.

Across asset classes, sovereign bonds are catching a limited bid so far. US 2s are about 12bps richer in a bull steepening move that has the long end down by 6bps. Similar moves are occurring in gilts and EGBs. Canada's curve is richer but underperforming ahead of the BoC on Wednesday. Equities are under pressure with European cash markets down by between 1–3% and N.A. futures off by ~1% across benchmarks. The USD is little changed this morning in part because other safe havens like the yen and CHF are gaining, but also because broader moves are fairly limited despite talk of the risk of flooding the world with dollars to avert a liquidity crisis that at least so far is not in existence. Oil is up by about 3–4% and expectations ahead of Wednesday's OPEC meeting to raise output by the long planned 400kpbpd may be set too low.

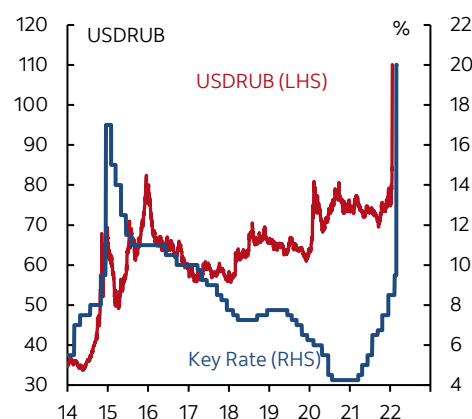
It's a rather different picture for Russia's financial markets. A currency and banking run appears to be underway in Russia as savers express diminished confidence in the currency and banks. Cueing costs are piling up. At the same time, Russia's implied default probability has soared to about a one-in-two chance as of this morning (chart 2). The ruble started off by plunging by about one-third versus the USD but a 10.5 ppt hike by Russia's central bank cut that in half, albeit with the strong caution that liquidity is severely hampered so treat pricing accordingly (chart 3). The long-term collapse of the ruble is a back door pay cut for Russians that basically import everything they consume other than oil, some minerals and vodka. It destroys their purchasing power on the world stage. Russia isn't willing to test what this means for stocks and so it shut the stock market, but one can well imagine the direction when it eventually reopens and we can already see that in ADR proxies in London that have plunged toward the lows of the prior invasion (chart 4).

Do I feel for everyday Russians? Absolutely. Many of them didn't ask for this and don't support it, though many do. Their life savings and jobs are seriously at stake which is always tragic. But I have far more sympathy toward Ukrainians and fans of democracy the world over. Short of unwisely engaging Russia in direct open conflict, economic war on its population is designed to crush its economy, foment domestic instability and perhaps enact change from within and hopefully one day become vividly illustrated by the toppling of dictator's statues as seen elsewhere (think Romania, Iraq etc). Putin has gone much too far and at whatever cost now needs to be removed in order to mitigate a potentially far bigger longer run cost if this is another September 1st 1939 moment in the context of a grand master plan.

Is it premature to seek too much comfort in the financial market responses thus far? Perhaps. Some are drawing parallels to a brewing Lehman event. We'll see, as so far, we haven't seen skipped payments, mass defaults and failures or real blow-outs in measures of stress. That may yet test the financial infrastructure and the likely policy response over coming days and beyond. But there are important differences to Lehman to consider. Lehman was an idiosyncratic firm event that should have arguably never been allowed to happen. One difference now takes the form of the leakage effects from sanctions like a pivot toward Russia's alternative payments system, but that only partially insulates the country. Another is that not all of the world's powerful central banks are refusing transactions with the Russians (think

Chart 3

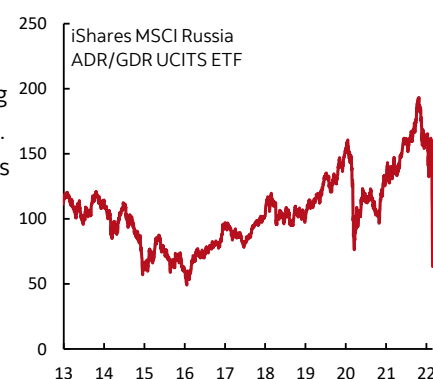
USDRUB and Russia Key Rate



Sources: Scotiabank Economics, Bloomberg.

Chart 4

Russia's Equity Market Collapses



Sources: Scotiabank Economics, Bloomberg.

PBOC etc). Another is that while Russia's capital account is (mostly) shut now, emergency capital control measures are being invoked without having to answer to the inconveniences inherent to a democracy. The longer that persists within the context of the currency's collapse and imported inflation, the greater the risks to Russia's economic and financial stability and its spillover effects abroad.

How we got to this point is the distressing part. My belief is that Trump's bromance toward Putin lost valuable time and his gutting of the State Department resulted in not enough voices flagging what Putin was up to as he was taking those steps to insulate his country from the effects of sanctions. A more effective and more American leader than Trump—who recall through inaction and forms of encouragement sought to bring down his own country's legitimately elected government after he flat out lost—would've stood a better chance at spotting the signs. At least, however, he saw fit to pursue N.A. energy security including support for Keystone XL whereas if the Biden administration really wished to lessen its vulnerability to swings in global oil markets then it has a nearly complete massive pipeline from Canada to reconsider among its options. Killing it was among Biden's biggest mistakes on par with Germany's earlier pursuit of the Nord Stream pipeline. Biden traded environmental considerations on his doorstep for heightened environmental and geopolitical risk attached to enemies of the United States abroad. He turned his back on energy supply from a safe and sound neighbour in favour of making the world more reliant upon energy supplied by despotic regimes.

As for other more mundane considerations, there is otherwise very little else on the economics calendar to consider at the start of the week unless another Eurozone inflation beat from Spain that follows Friday's upside surprise from France, some stale Japanese readings or Australian retail sales do it for you. The US saw its advance merchandise trade balance swing toward a new record monthly deficit of \$107.6 billion this morning as inventory restocking via imports drove retail inventories up by another 1.9% m/m in January (4.7% the prior month). Canada updated Q4 balance of payments figures but a markets crowd that saw the international investment transactions move across its desks months ago probably couldn't care less. Fwiw, the current account swung back into a small deficit position although surging oil prices may swing it back into surplus in Q1.

Lastly, the usual collection of charts covering global COVID-19 trends in hospitalizations and deaths is offered at the end of the note. In general, there continues to be growing evidence that the omicron wave is subsiding across multiple jurisdictions. As one risk has gone down, another is flaring.

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		
	1.45	1.57	1.47	1.74	1.87	1.82	1.86	1.96	1.93	2.21	2.28	2.24	Canada - BoC	0.25
	1.48	1.54	1.49	1.65	1.73	1.72	1.83	1.90	1.88	2.12	2.17	2.15	US - Fed	0.25
	-0.50	-0.38	-0.45	-0.12	-0.00	-0.05	0.16	0.23	0.21	0.45	0.48	0.47		
	-0.03	-0.02	-0.02	0.02	0.04	0.05	0.19	0.21	0.21	0.90	0.93	0.89		
U.K.	1.08	1.21	1.28	1.09	1.25	1.30	1.43	1.46	1.41	1.63	1.61	1.49	England - BoE	0.50
CANADA GERMANY JAPAN U.K.	Spreads vs. U.S. (bps):													
	3	-3	2	-9	-13	-11	-3	-7	-6	-9	-10	-9	Euro zone - ECB	0.00
	-195	-195	-192	-186	-187	-187	-170	-173	-173	-175	-180	-177		
	-148	-159	-149	-173	-183	-177	-167	-175	-172	-131	-135	-135	Japan - BoJ	-0.10
	-37	-37	-18	-65	-62	-52	-43	-51	-52	-58	-66	-75		
Equities	Level						% change:						Mexico - Banxico	6.00
	Last			Change			1 Day	1-wk		1-mo	1-yr			
S&P/TSX	21007			-99.1			-0.5	-0.0		-0.4	16.3		Australia - RBA	0.10
Dow 30	33636			-422.3			-1.2	-1.3		-4.3	8.7			
S&P 500	4343			-41.6			-0.9	-0.1		-3.8	14.0		New Zealand - RBNZ	1.00
Nasdaq	13615			-79.2			-0.6	0.5		-4.4	3.2			
DAX	14265			-302.3			-2.1	-3.2		-7.8	3.5			
FTSE	7394			-95.9			-1.3	-1.2		-0.9	14.0			
Nikkei	26527			50.3			0.2	-2.2		-2.0	-10.6		Canada - BoC	Mar 02, 2022
Hang Seng	22713			-54.2			-0.2	-6.0		-4.6	-22.9		US - Fed	Mar 16, 2022
CAC	6568			-184.1			-2.7	-3.2		-6.2	15.2			
Commodities	Level						% change:							
WTI Crude	94.95			3.36			3.7	4.3		7.7	54.4		England - BoE	Mar 17, 2022
Natural Gas	4.48			0.01			0.2	1.1		-8.1	61.7			
Gold	1912.50			23.16			1.2	0.3		6.4	10.3		Euro zone - ECB	Mar 10, 2022
Silver	24.21			-1.11			-4.4	1.9		2.3	-13.3			
CRB Index	264.44			-4.57			-1.7	0.3		3.7	38.9		Japan - BoJ	Mar 18, 2022
Currencies	Level						% change:							
USDCAD	1.2704			-0.0009			-0.1	-0.4		-0.0	0.5		Mexico - Banxico	Mar 24, 2022
EURUSD	1.1228			-0.0040			-0.4	-0.7		-0.1	-6.8			
USDJPY	115.22			-0.3300			-0.3	0.4		0.1	7.9		Australia - RBA	Feb 28, 2022
AUDUSD	0.7239			0.0013			0.2	0.7		2.4	-6.9			
GBPUSD	1.3415			0.0006			0.0	-1.4		-0.2	-3.7		New Zealand - RBNZ	Apr 12, 2022
USDCHF	0.9182			-0.0070			-0.8	0.3		-1.0	0.3			

Chart 5

US: Cases, Hospitalizations, Deaths

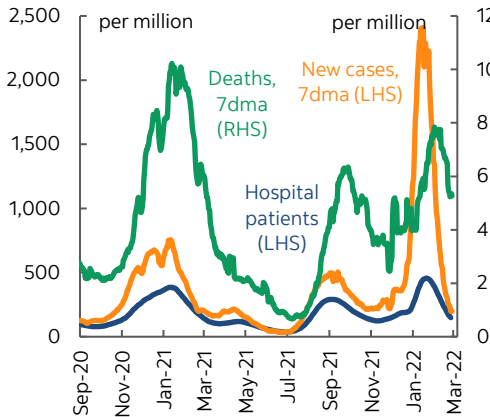


Chart 6

Canada: Cases, Hospitalizations, Deaths

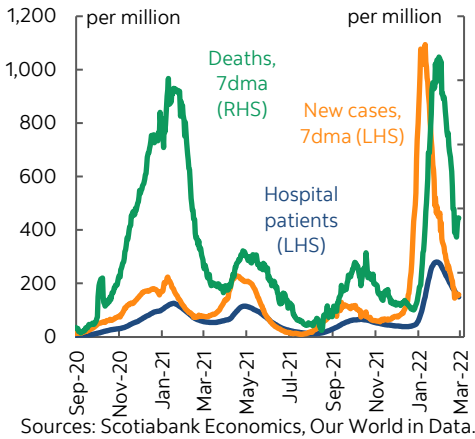


Chart 7

UK: Cases, Hospitalizations, Deaths

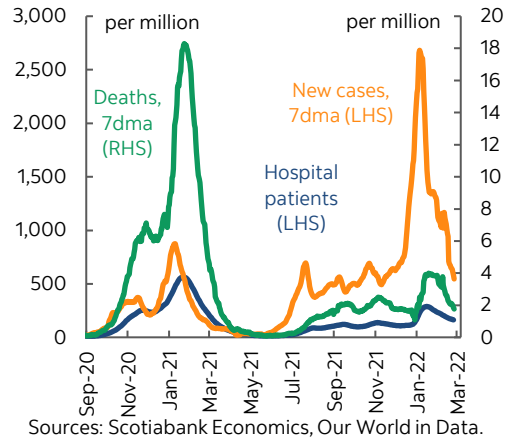


Chart 8

Australia: Cases, Hospitalizations, Deaths

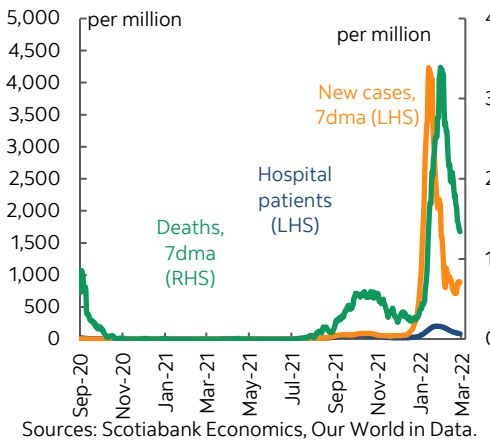


Chart 9

Germany: Cases, Hospitalizations, Deaths

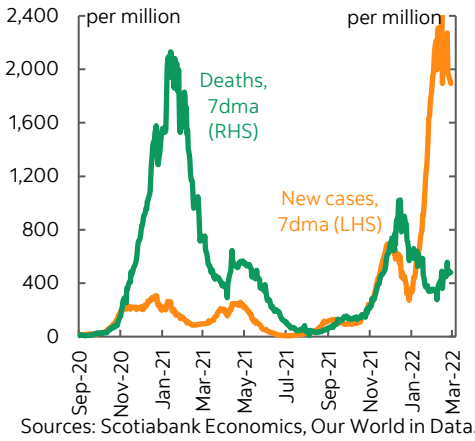


Chart 10

Netherlands: Cases, Hospitalizations, Deaths

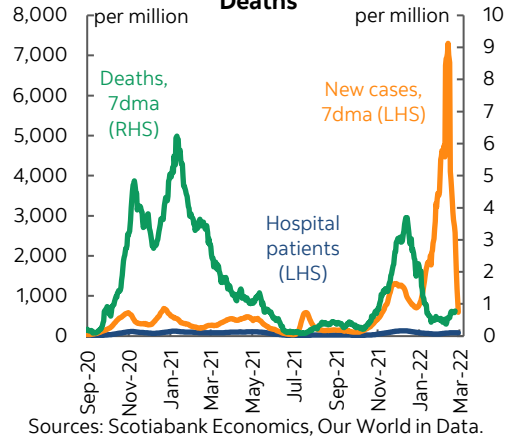


Chart 11

France: Cases, Hospitalizations, Deaths

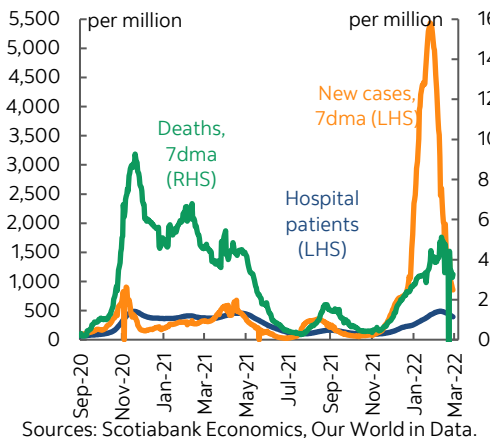


Chart 12

Italy: Cases, Hospitalizations, Deaths

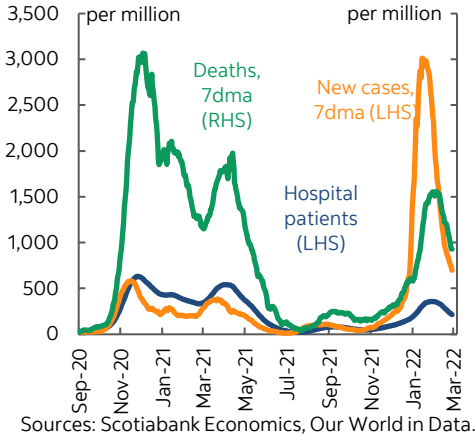


Chart 13

Austria: Cases, Hospitalizations, Deaths

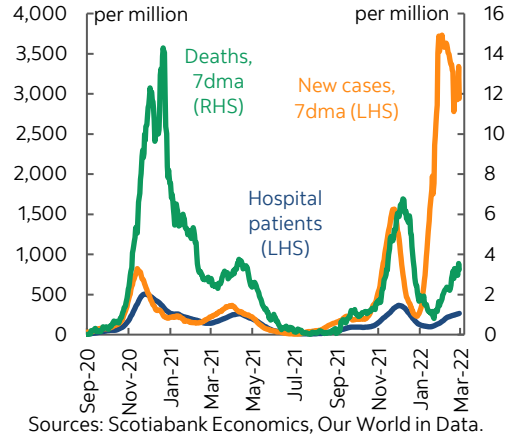
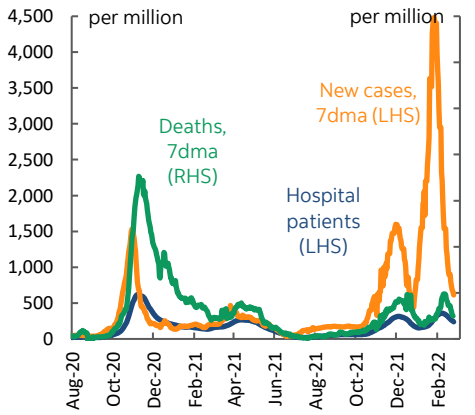


Chart 14

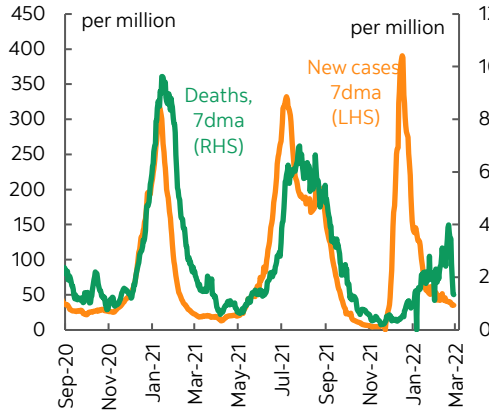
Belgium: Cases, Hospitalizations, Deaths



Sources: Scotiabank Economics, Our World in Data.

Chart 15

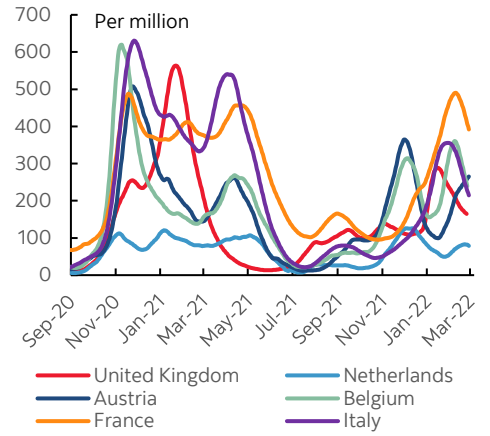
South Africa: Cases & Deaths



Sources: Scotiabank Economics, Our World in Data.

Chart 16

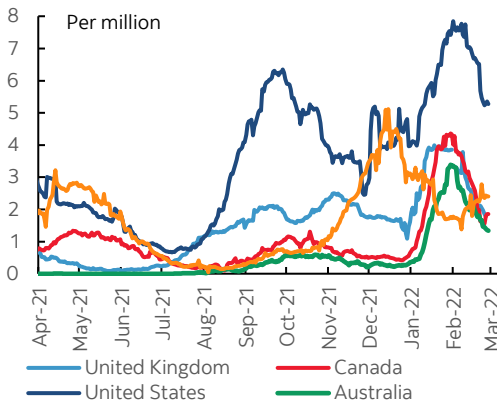
Trend in European Hospitalizations



Sources: Scotiabank Economics, Our World in Data.

Chart 17

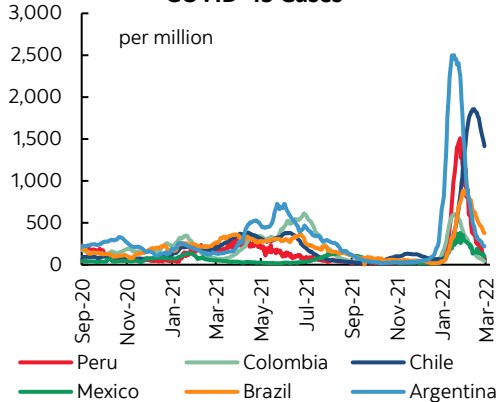
Trend in Deaths



Sources: Scotiabank Economics, Our World in Data.

Chart 18

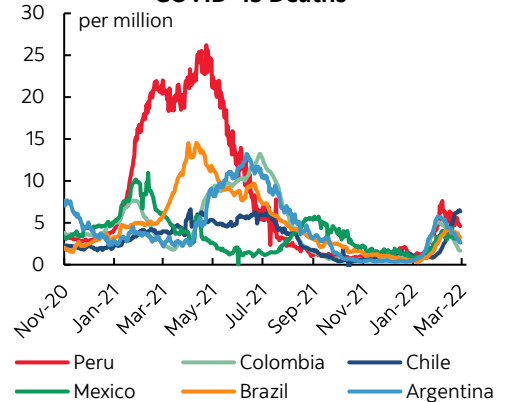
Trend in Latin America COVID-19 Cases



Sources: Scotiabank Economics, Our World in Data.

Chart 19

Trend in Latin America COVID-19 Deaths



Sources: Scotiabank Economics, Our World in Data.

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