Scotiabank

GLOBAL ECONOMICS

DAILY POINTS

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Contributors

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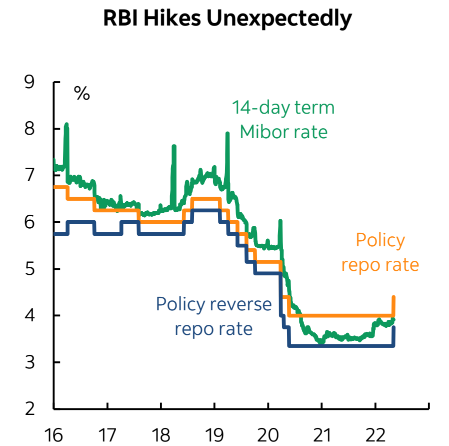
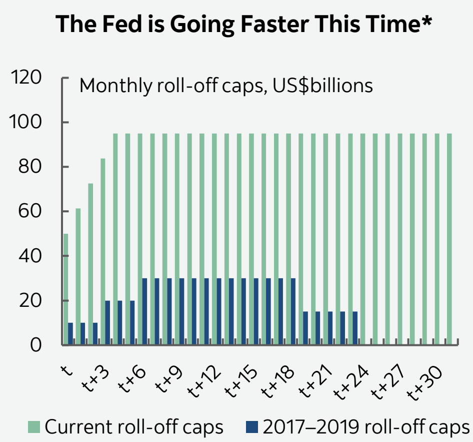
Chart 1



Sources: Scotiabank Economics, Bloomberg.

Chart 2



*Green bars: t=May 2022. Blue bars: t=Sept. 2017
Sources: Scotiabank Economics, Federal Reserve.

On Deck for Wednesday, May 4

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	05-04	07:00	MBA Mortgage Applications (w/w)	Apr 29	--	--	-8.3
US	05-04	08:15	ADP Employment Report (000s m/m)	Apr	400	383	455
CA	05-04	08:30	Merchandise Trade Balance (C$ bn)	Mar	3.5	3.9	2.7
US	05-04	08:30	Trade Balance (US$ bn)	Mar	107.0	-107.1	-89.2
US	05-04	10:00	ISM Non-Manufacturing Composite	Apr	58.0	58.5	58.3
US	**05-04**	**14:00**	**FOMC Interest Rate Meeting (%)**	**May 4**	**1.00**	**1.00**	**0.50**
US	05-04	14:30	Fed Chair Holds Press Conference Following FOMC Meeting				

KEY POINTS:

- **Oil rallies as EU finds solution to banning Russian oil**
- **EU photobombs Powell & Co…**
- **…as perhaps the day's main event….**
- **…versus expectations for the FOMC to stick to its script…**
- **…with a 50bps hike, faster guidance and implementation of roll-off plans**
- **India sacrifices principles in favour of deeper oil discounts**
- **RBI delivers an unscheduled hike**
- **NZ wages give the kiwi dollar a boost**
- **Australian consumers lift the A$**
- **Trade figures from Germany, Canada and the US**
- **ADP probably won't affect expectations for nonfarm payrolls**

There are a few sideshows, but the overwhelming focus across global markets will clearly be on the Fed today while the EU attempts to photobomb Powell & Co and ahead of tomorrow's OPEC+ meeting. Risk appetite is mixed. US equity futures are up by about ½% with the TSX flat, while European cash markets are off by up to -½%. US Ts are slightly bear flattening with 2s up 1–2bps and 10s down ~1bps. European curves are up by about 2bps across maturities and most countries except for more of a bear flattening move in countries like Italy and Spain. The USD is very slightly weaker on balance with the A$/NZ$, CAD and MXN leading the gainers along with the rupee (RBI, see below).

Oil prices are up by about US$4 because the EU formally announced plans to ban imports of Russian oil within six months and refined products by year end. It also added more sanctions to related services. Two minor loopholes will be that Hungary and Slovakia will be given until the end of 2023 to join the sanctions which might avoid vetoes when it goes to an all EU-27 vote. If it works, then the carve out for these two countries will be a neat solution that also conveniently lands the day before the OPEC+ decision and today's technical committee weigh-in.

There are myriad risks. One is whether Russia just finds other outlets and to that effect India, which has never taken a stance against Russia's invasion, is signalling it will keep buying but wants deeper discounts to around $70/barrel. India has for some time now been ramping up oil imports from Russia; isn't that sweet to see opportunism over sacrificed principles, though we'll see if it invites sanctions upon itself and perhaps deservedly so. Russia is getting its support in one form or another from countries ranging from China to India and the Middle East, each of which has its own frictions with neighbours and in many instances weak records on human rights. Second, will Russia retaliate and in what form.

Speaking of India, the RBI surprised markets with an unscheduled emergency rate hike this morning. Wait, I thought cheaper oil was about to flood in, no? Meh. The repurchase rate was hiked by 40bps to 4.4% and the cash reserve ratio by 50bps to 4.5% (chart 1). That's the first rate hike since mid-2018. The move was partly because the RBI wasn't scheduled to meet until June 8th and Governor Shaktikanta Das emphasized that "Inflation must be tamed" while pointing to the next CPI report for April due out on May 12th as a likely hot one (~7% y/y prior).

The kiwi dollar got some support overnight from the Q1 release of strong wage growth. It climbed to 1.9% q/q SA non-annualized (1.2% consensus).

The consumer gave the A$ a lift when retail ales roughly tripled consensus expectations (1.6% m/m, 0.5% consensus).

Germany gave back a little more of the prior month's surge in exports than expected and volumes were weaker than the headline numbers. They fell by 3.3% m/m in March (-2.1% consensus) with the prior month's 6.4% gain revised down a touch to 6.2%. Imports were strong with a gain of 3.4% m/m (prior revised up to 4.7%). Controlling for price effects, exports were down by 6.8% m/m (5.1% prior) and imports were 2% lower (3.6% prior).

The FOMC statement will be at 2pmET and Chair Powell's presser will start 30 minutes later. The script has been set. Powell said on April 21st that +50bps would be considered which is basically central bank language for saying mark it down as done. The minutes to the March meeting had "many" participants advocating a 50bps move at this meeting. We haven't heard enough members deviating from that guidance since then. The Fed's not in surprise mode into the meeting so while a dissenter or two is possible, I wouldn't expect 75bps+. I would expect them to repeat that the committee wishes to get to neutral "expeditiously" and that "one or more" 50bps moves are likely (probably raised to "more" at this meeting). If he repeats that guidance then 75bps would be dashed for the next meeting as well.

We'll probably also get the implementation of plans to shrink the SOMA portfolio as outlined in the April 6th minutes to the March 16th meeting. Recall the outlines of that plan included getting up to peak roll-off caps on maturing Treasuries ($60B/mth) and MBS ($35B/mth) totalling US$95B/month within three months which is much faster than the last time around (chart 2 with an interpolated path over the first three months until we know better). The starting pace is uncertain, but the compressed time internal is what matters. They said they would consider outright MBS sales once unwinding is "well underway" and plough the proceeds back into Treasuries toward the goal of having a cleaner balance sheet. There are no end targets being offered for the size of the SOMA portfolio or optimal reserves because, well, neither the Fed or anyone else really knows where those points may be! Expect similar open-endedness tomorrow.

There will be no fresh forecasts with this meeting. They will arrive with the updated SEP in June including a fresh Rorschach plot. That said, I'd expect the presser to emphasize the solid details under the hood in terms of Q1 US GDP and to repeat earlier optimism on the outlook for the economy. Rhetoric around inflation risk may be further amplified given the arrival of further serial supply shocks since the March 16th meeting.

Powell is likely to discuss leaning toward a faster up-front pace of hikes than the last projections that saw fed funds at 2% by year-end, but markets have already blown well past that anyway and so the incremental impact on markets may be minor/nothing. It would be more of a surprise to market pricing if Powell sounded more cautious, but I think the Fed's singular focus is upon bringing down inflation through expedited exits.

Canada's merchandise trade surplus in March (8:30amET) is likely to sharply widen as the reflection of the sharply wider US merchandise deficit and given high commodity prices. Canada's import leakage effect will update out understanding of the implications for Q1 GDP growth. The US will take the prior release for the merchandise component and tack on a usually fairly stable services surplus to give the whole trade picture (8:30amET). ADP payrolls for April (8:15amET) will probably just be mild ecotainment unless it's a real shocker to the +383k consensus, and even then, we've had several in the pandemic alone that have been total head fakes ahead of nonfarm.

Fixed Income	Government Yield Curves (%):											
	2-YEAR			5-YEAR			10-YEAR			30-YEAR		
	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk
U.S.	2.79	2.78	2.59	3.01	3.02	2.83	2.96	2.98	2.83	3.00	3.01	2.92
CANADA	2.72	2.71	2.50	2.85	2.85	2.66	2.96	2.96	2.80	2.87	2.87	2.79
GERMANY	0.28	0.28	0.10	0.73	0.71	0.53	0.98	0.97	0.80	1.08	1.09	0.97
JAPAN	-0.05	-0.05	-0.06	0.02	0.02	0.02	0.23	0.23	0.25	0.99	0.99	0.98
U.K.	1.65	1.65	1.49	1.74	1.73	1.58	1.97	1.96	1.81	2.09	2.08	1.94
	Spreads vs. U.S. (bps):											
CANADA	-7	-7	-9	-15	-17	-17	-0	-2	-4	-12	-14	-13
GERMANY	-251	-251	-249	-228	-232	-230	-198	-201	-203	-192	-192	-195
JAPAN	-284	-283	-265	-299	-301	-281	-272	-274	-259	-201	-202	-194
U.K.	-113	-114	-110	-127	-130	-126	-98	-102	-102	-91	-93	-99

Equities	Level		% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	20905	213.1	1.0	0.8	-5.3	8.9
Dow 30	33129	67.3	0.2	-0.3	-5.1	-2.9
S&P 500	4175	20.1	0.5	0.0	-8.9	0.3
Nasdaq	12564	27.7	0.2	0.6	-13.5	-7.8
DAX	14030	-9.3	-0.1	1.7	-3.4	-5.6
FTSE	7526	-35.8	-0.5	1.9	-0.4	8.7
Nikkei	26819	-29.4	-0.1	-1.1	-3.1	-6.9
Hang Seng	20870	-232.4	-1.1	4.7	-7.3	-26.6
CAC	6444	-32.3	-0.5	-0.0	-4.3	3.1
Commodities	**Level**		**% change:**			
WTI Crude	106.48	4.07	4.0	4.4	3.1	62.1
Natural Gas	8.09	0.13	1.6	11.3	41.5	172.5
Gold	1868.49	0.37	0.0	-0.9	-3.3	5.0
Silver	22.63	-0.82	-3.5	-4.8	-8.3	-12.5
CRB Index	306.78	-2.38	-0.8	1.4	3.1	51.5
Currencies	**Level**		**% change:**			
USDCAD	1.2813	-0.0028	-0.2	-0.0	2.6	4.1
EURUSD	1.0531	0.0010	0.1	-0.2	-4.0	-12.3
USDJPY	129.92	-0.2200	-0.2	1.2	5.8	18.8
AUDUSD	0.7135	0.0039	0.5	0.1	-5.4	-7.4
GBPUSD	1.2516	0.0017	0.1	-0.2	-4.6	-9.9
USDCHF	0.9803	0.0019	0.2	1.2	5.8	7.3

Central Banks	
Current Rate	
Canada - BoC	1.00
US - Fed	0.50
England - BoE	0.75
Euro zone - ECB	0.00
Japan - BoJ	-0.10
Mexico - Banxico	6.50
Australia - RBA	0.35
New Zealand - RBNZ	1.50
Next Meeting Date	
Canada - BoC	Jun 01, 2022
US - Fed	May 04, 2022
England - BoE	May 05, 2022
Euro zone - ECB	Jun 09, 2022
Japan - BoJ	Jun 17, 2022
Mexico - Banxico	May 12, 2022
Australia - RBA	Jun 07, 2022
New Zealand - RBNZ	May 24, 2022