

Contributors

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Chart 1

Markets Slightly Ease Off on Fed Bets

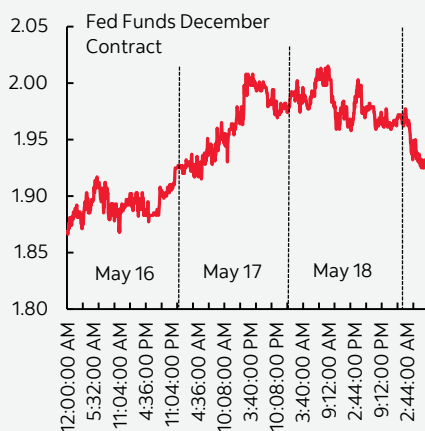
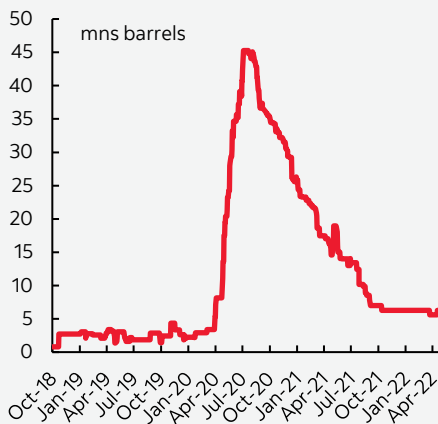


Chart 2

China's Depleted Oil Reserves



Sources: Scotiabank Economics, Bloomberg.

On Deck for Thursday, May 19

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	05-19	08:30	IPPI (m/m)	Apr	--	--	0.8
CA	05-19	08:30	Raw Materials Price Index (m/m)	Apr	--	--	-2.0
US	05-19	08:30	Initial Jobless Claims (000s)	May 14	200	200	218
US	05-19	08:30	Continuing Claims (000s)	May 7	1,320	1,323	1,317
US	05-19	08:30	Philadelphia Fed Index	May	--	15.0	2.6
US	05-19	10:00	Existing Home Sales (mn a.r.)	Apr	5.7	5.6	5.8
US	05-19	10:00	Existing Home Sales (m/m)	Apr	-1.2	-2.3	-2.7
US	05-19	10:00	Leading Indicators (m/m)	Apr	--	0.0	0.3
US	05-19	16:00	Fed's Kashkari Takes Part in Discussion on Inflation				

KEY POINTS:

- Risk-off sentiment continues
- Dollar softens as fed funds pricing eases
- Mixed signals from China's move to rebuild oil reserves
- Alberta's Premier the latest casualty of divided conservatives
- Limited US data
- Australian jobs turn up flat, markets ignore
- Philippines central bank commences hiking cycle

Don't look.

Ack, you silly beans, you looked! I told you not to! Well, ok then, here it is. Stocks are getting hit again and if this holds then US equities will be officially in the -20% zone from the early year peak which meets many definitions of a material correction. US and Canadian equity futures are down by about 1% which is less of a decline than earlier this morning. European cash markets are down by 1% to 2%. Asian indices ranged from up to ½% gains in mainland China to declines in the 1% to 2 ½% ballpark elsewhere. Sovereign bond yields are lower by 7-9bps across Treasuries, 5-9bps across Canada's curve and 2-11bps across gilts and EGBs. WTI oil is down another 2¾% which is also less than before China headlines. The USD is broadly softer against major crosses despite risk-off sentiment and in part as fed funds futures ease off hiking bets somewhat (chart 1) on the theory that more rapid tightening of financial conditions may do more of the Fed's work if it sticks.

There is more evidence that China is going rogue on much of the rest of the world's move to ban imports of Russian oil. Principles and values be darned, as cold hard economic opportunism is China's guiding light. Anonymous folks are telling press outlets that China is seeking to buy more Russian oil no doubt at a discount in order to rebuild its depleted reserves. China's oil stockpile is at its lowest since mid-April 2020 after which it soared as the pandemic swept the world (chart 2). There are several possibly important implications here and what may shake out of the mixture is uncertain.

- In one sense that's a negative in that it is likely to raise tensions with China's key export markets and may invite some forms of retaliation because it goes against what they are doing in terms of banning Russian oil imports. [This](#) piece in this morning's Wall Street Journal may support this narrative as it indicates China's leadership passed a directive in March to ban overseas holdings of real estate or financial assets by senior officials. China may be pursuing steps to shield officials from what happened to Russian oligarchs. That may serve as a warning sign that greater global tensions may lie ahead. China's total foreign reserves have also been falling of late (chart 3) with FX policy to stem the yuan's slide in the mixture of influences. Telling deep pocketed officials that benefit from party ties to sell dollar assets and repatriate into yuan may carry the indirect benefit of stemming the yuan's slide.

- In another sense, if China wants to rebuild depleted oil reserves, then it adds to signs that the economy is expected to rebound as restrictions are eased and further stimulus supports may be forthcoming.
- To add a third dimension, depending upon how much China wishes to buy, it could also mean renewed upward pressure upon oil prices but that's not evident this morning! Unless they'd be falling faster if not for China's actions.

Data isn't really mattering in all of this and we won't get any earnings bombs today. Australia's front-end had been rallying before jobs hit and the release was largely shaken off. Jobs were flat (+4k) as a big gain in full-time jobs (+92k) was offset by a big drop in part-time jobs (-88k). That pushed the participation rate down a tick to 66.3%. Slightly positive revisions to jobs were enough to dip the unemployment rate to 3.9% which then held steady in April.

Bangko Sentral ng Pilipinas raised its overnight rate by 25bps to 2¼% for its first hike as expected but also raised its standing overnight deposit rate by 25bps against the consensus median expectation.

Light US data is likely to be largely ignored today. The Philly Fed's gauge for May (8:30amET) fell 15 points to 2.6 as new orders climbed, shipments rose to their highest reading since October 2020, but employment decelerated while prices paid and received eased off somewhat especially on the paid side. Weekly initial jobless claims back up a bit to 218k last week (197k prior revised down from 203k) while continuing jobless claims continue to decline (1.317 million from 1.342 million before). April's existing home sales arrive later this morning and are expected to slip (10amET).

Deeply divided Canadian conservatives took down another one of their leaders last evening. Alberta Premier Kenney—one of the most recognizable faces in Canadian politics in a province that's once again enjoying booming oil prices—lost a leadership review which will mean that the United Conservative Party (an oxymoron?) will launch a campaign for his replacement ahead of the election to be held next May 29th, 2023 unless the provincial Legislature is dissolved before then. The reason they took him down? Because even though there were ups and downs in Kenney's approach to the pandemic, enough Conservatives were against the public health restrictions he implemented at times. A near tie between the UCP and left leaning NDP in the polls perhaps didn't help much either. As a sidebar, this may be further evidence that should the pandemic take a nastier turn in future, say with vaccine evading and more harmful variants, then implementation of public health restrictions may be very unlikely regardless of the consequences. It also indicates that Conservatives are getting more and more deeply divided across the land by contrast to the Liberal-NDP pact that has a lock on the center-left vote. Alberta's provincial bonds have many selling points and their spreads have performed similarly to other larger Canadian provinces of late (chart 4).

Chart 3

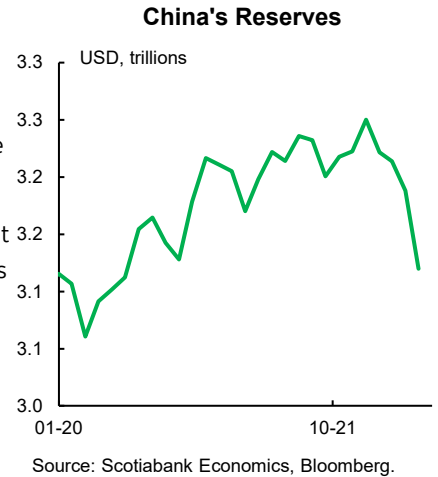
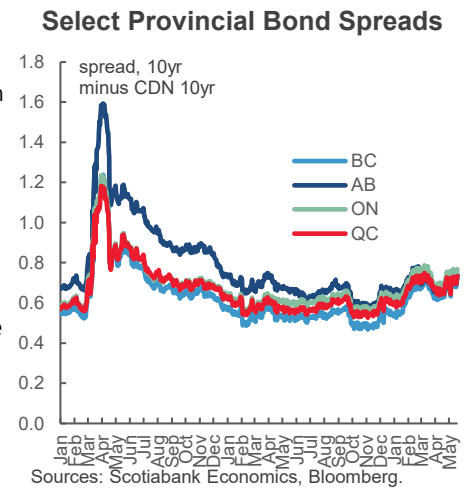


Chart 4



Fixed Income	Government Yield Curves (%):												Central Banks	
	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		
U.S.	2.59	2.67	2.56	2.80	2.89	2.82	2.79	2.89	2.85	2.99	3.07	3.02	Canada - BoC	1.00
CANADA	2.70	2.75	2.64	2.76	2.84	2.74	2.85	2.94	2.91	2.83	2.91	2.89	US - Fed	1.00
GERMANY	0.34	0.39	0.05	0.66	0.74	0.51	0.92	1.03	0.84	1.03	1.15	1.02	England - BoE	1.00
JAPAN	-0.06	-0.05	-0.05	0.02	0.02	0.02	0.24	0.25	0.25	1.01	1.03	1.01	Euro zone - ECB	0.00
U.K.	1.43	1.46	1.18	1.52	1.58	1.30	1.79	1.87	1.66	2.02	2.09	1.92	Japan - BoJ	-0.10
	Spreads vs. U.S. (bps):												Mexico - Banxico	7.00
CANADA	10	8	7	-4	-6	-8	6	6	6	-17	-16	-13	Australia - RBA	0.35
GERMANY	-225	-228	-252	-214	-216	-231	-188	-186	-201	-196	-192	-200	New Zealand - RBNZ	1.50
JAPAN	-265	-273	-261	-278	-288	-281	-255	-264	-260	-198	-204	-201		
U.K.	-117	-121	-139	-128	-131	-152	-100	-102	-119	-98	-97	-110		
Equities	Level						% change:						Next Meeting Date	
	Last			Change	1 Day	1-wk	1-mo	1-yr						
S&P/TSX	20101			-389.6	-1.9	2.0	-8.7	3.5					Canada - BoC	Jun 01, 2022
Dow 30	31490			-1164.5	-3.6	-1.1	-9.8	-7.1					US - Fed	Jun 15, 2022
S&P 500	3924			-165.2	-4.0	-0.3	-12.1	-4.7					England - BoE	Jun 16, 2022
Nasdaq	11418			-566.4	-4.7	0.5	-16.2	-14.1					Euro zone - ECB	Jun 09, 2022
DAX	13779			-228.3	-1.6	0.3	-2.6	-8.8					Japan - BoJ	Jun 17, 2022
FTSE	7276			-162.6	-2.2	0.6	-4.3	4.7					Mexico - Banxico	Jun 23, 2022
Nikkei	26403			-508.4	-1.9	2.5	-3.0	-6.0					Australia - RBA	Jun 07, 2022
Hang Seng	20121			-523.6	-2.5	3.8	-3.9	-29.3					New Zealand - RBNZ	May 24, 2022
CAC	6237			-115.9	-1.8	0.5	-4.6	-0.4						
Commodities	Level						% change:							
WTI Crude	106.51			-3.08	-2.8	0.4	3.9	68.1						
Natural Gas	8.13			-0.23	-2.8	5.1	13.4	174.4						
Gold	1839.28			22.68	1.2	1.0	-5.7	-1.6						
Silver	21.67			-0.12	-0.5	-0.6	-15.6	-23.9						
CRB Index	309.37			-6.03	-1.9	1.7	0.8	53.3						
Currencies	Level						% change:							
USDCAD	1.2820			-0.0070	-0.5	-1.7	1.6	5.7						
EURUSD	1.0542			0.0078	0.7	1.6	-2.3	-13.4						
USDJPY	127.30			-0.9300	-0.7	-0.8	-1.2	16.6						
AUDUSD	0.7005			0.0050	0.7	2.2	-5.0	-9.4						
GBPUSD	1.2427			0.0086	0.7	1.8	-4.4	-12.0						
USDCHF	0.9733			-0.0149	-1.5	-3.0	2.2	7.6						

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