

ON DECK FOR FRIDAY, JANUARY 18

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	01/18	08:30	Core CPI - Common (y/y)	Dec	--	1.9	1.9
CA	01/18	08:30	Core CPI - Median (y/y)	Dec	--	1.9	1.9
CA	01/18	08:30	Core CPI - Trim (y/y)	Dec	--	1.9	1.9
CA	01/18	08:30	CPI, All items (m/m)	Dec	-0.5	-0.4	-0.4
CA	01/18	08:30	CPI, All items (y/y)	Dec	1.6	1.7	1.7
CA	01/18	08:30	CPI, All items (index)	Dec	--	133.0	133.5
CA	01/18	08:30	International Securities Transactions (C\$ bn)	Nov	--	--	4.0
US	01/18	09:05	Fed's Williams Speaks on Economic Outlook				
US	01/18	09:15	Capacity Utilization (%)	Dec	78.5	78.5	78.5
US	01/18	09:15	Industrial Production (m/m)	Dec	0.2	0.2	0.6
US	01/18	10:00	U. of Michigan Consumer Sentiment	Jan P	97.5	96.8	98.3
US	01/18	11:00	Fed's Harker Speaks Symposium on Prosperity				

KEY POINTS:

- Risk-on, but is it false hope?
- Talk of pre-emptive cuts in US tariffs on China lacks substance
- Canadian CPI: lower headline, stable core?
- How does NY Fed's Williams shave outlook risks?
- Japanese inflation remains very low
- UK retail sales reverse prior gain...
- ...in a soft quarter...
- ...that may be more about pulled forward demand than Brexit
- US industrial production and UofM sentiment on tap
- US markets shut Monday

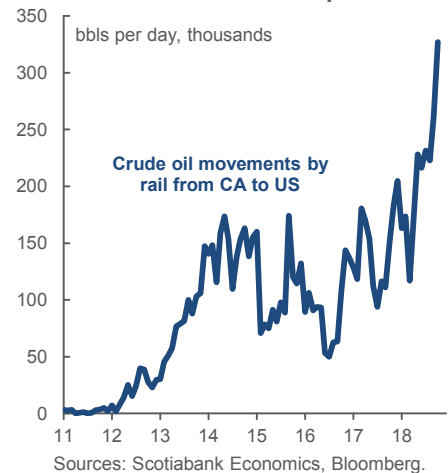
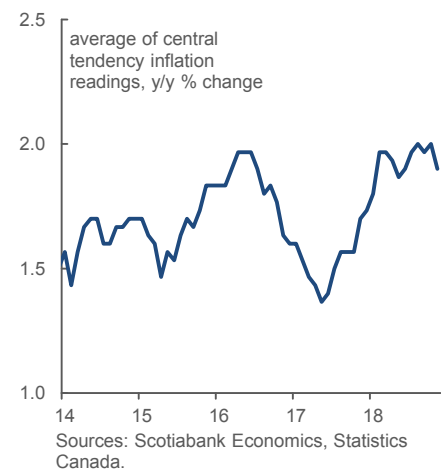
INTERNATIONAL

The week is ending with a positive bias to the risk trade across global asset classes with equities and commodities in favour over safe havens and little change in the USD. The main catalyst is hope – howsoever informed – that the US and China are inching toward a trade agreement. I don't think markets are discounting Treasury Secretary Mnuchin's alleged efforts to seek US tariff reductions on China as an olive branch in the negotiations as much as they should. Treasury denied the WSJ report shortly afterward, and Mnuchin's moderate stance on trade has not carried the day thus far versus the trifecta of those with protectionist leanings (Trump-Lighthizer-Navarro). We're cautiously optimistic that the March 1st tariff moratorium deadline will come and go without the imposition of new tariffs on the path to an agreement, but it's too early to have much to inform this bias in any concrete manner thus far. US-China negotiations are scheduled for January 30th-31st with China's vice premier Liu He's attendance confirmed.

- **Risks on tap for today include Canadian CPI, NY Fed President Williams' economic outlook and modest US data risk.** US markets will be shut on Monday for Martin Luther King Jr day.
- **Equities are in a positive frame of mind to end the week.** US equity futures are up about ½% on balance across the exchanges with TSX futures performing similarly. European cash markets are up by about 1½% on average. Asian equities were a sea of green across the screens overnight as stocks rallied by between ¾% in Seoul to 1.4% in Shanghai and with Tokyo in the middle.
- The USD is flat on a DXY basis. That masks slight appreciation of the Euro

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Record Crude Rail Shipments

Canadian Core Inflation


and related crosses and CAD (1.3265 ahead of CPI) versus slight depreciation in pound sterling, the Mexican peso (19.05), yen and rand.

- **Sovereign bonds are slightly cheaper across several major markets.** US Treasury yields are up by about 2bps across maturities and so are Canadas. The gilts curve is slightly steeper and so are curves in Germany and France. Noteworthy ahead of next week's BoJ meeting is that the ten year JGB yield is parked right on the 'around zero' target and has come off 15bps from the top last Fall.
- **Oil prices are rallying.** WTI and Brent are both up by over 1% to just under US\$53 and US\$62 respectively. Western Canada Select has continued to trend around US\$42 over recent sessions. The Bakken Clearbrook proxy remains around US\$53 and hence also materially higher than the US\$35 low last November. Ergo, why US producers have been ramping up production. Incidentally, see the accompanying chart showing how **crude transportation by rail in Canada is exceeding even our previously bullish expectations** for pipeline workarounds.

Japanese inflation remains very low. Headline inflation ended 2018 at 0.3% y/y and hence nowhere close to the Bank of Japan's 2% policy goal ahead of next Wednesday's policy meeting. Core inflation – defined in Japan to exclude fresh food – is running at 0.7% y/y and was a touch weaker than expected. CPI excluding both food and energy was 0.3% y/y. Overall, expect the BoJ to downgrade its forecast bias and speak of external risks next week while leaving policy broadly intact for now. We have the BoJ on hold throughout our forecast horizon.

UK retail sales basically took back the prior month's gain in the December tally. Sales volumes fell by 0.9% m/m (+1.3% prior, down from 1.4% initial). Excluding gas, sales volumes fell 1.3% m/m (-0.8% consensus, +1.0% prior downgraded two-tenths). For Q4 overall, sales volumes fell 1.5% q/q at a seasonally adjusted and annualized rate. Therefore, the spike in November that came from Black Friday sales was an anomaly within a generally soft quarter. It's nevertheless important to note that sales volumes grew strongly in Q3 (+6.5%) and Q2 (+7.5%). **Therefore one should be somewhat reserved toward the issue of whether Brexit and sundry other risks are dampening consumer spending, or whether spending was brought forward to earlier in the year. I suspect it's more of the latter.** Underlying UK wage growth will be updated next week, but it's running at 3.3% y/y which by a slim margin over 2015 is the strongest wage growth since 2008.

CANADA

Canada will update CPI inflation for December (8:30amET). **I'm expecting headline inflation to slip to 1.6% y/y (1.7% consensus and prior).** If inflation decelerates for the following reasons, then it shouldn't matter to the BoC that will pay more attention to **core inflation that at 1.9% y/y the prior month is close to the 2% target mid-point.** Please see the accompanying chart that shows core inflation. Shifting year-ago base effects should counsel higher inflation. The source of downward pressure could be two-fold. One is that gas prices have been tanking. Market prices lead availability of CPI and they point to significant disinflationary pressure. Much of that adjustment occurred in the November CPI reading but gas should knock another 0.1–0.2% off of headline inflation in the December reading. In addition, December is often a seasonally weak month for unadjusted month-ago price changes which should weigh on the year-ago rate if it's anything close to a typical December. I figure the month-ago rate will come in around -0.5% m/m in unadjusted terms (consensus -0.5%).

UNITED STATES

For US markets, I would pay the closest attention to what NY Fed President John Williams has to say. At about 9:05amET, he will deliver his outlook for the economy and monetary policy. He hasn't really spoken much since his December 21st interview on CNBC ([here](#)). In that interview, Williams stated:

"We are actually saying pretty clearly this is how we see it now based on our positive, pretty optimistic view of the economy, and we will change that as needed."

That was after the December FOMC meeting but before the emphasis upon 'patient,' 'flexible,' 'watching,' and 'waiting' in Fed communications so far this month. **To what degree is Williams – of course a permanent voting FOMC member - concerned about downside risks to the strong US economy as a potential signal regarding the Fed's pause that we presently view as temporary on the path toward resuming hikes in the Spring/Summer?**

US data and earnings risk will be light. US industrial production in November (10amET) is expected to post a small rise and the University of Michigan's widely followed consumer sentiment gauge may soften a little (10amET). Neither release will be affected by the shutdown but the shutdown really begins to bite into macro reports next week as we start to interrupt a second month of indicators.

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.	2.58	2.56	2.54	2.59	2.57	2.53	2.77	2.75	2.70	3.09	3.07	3.03	Canada - BoC	1.75
CANADA	1.91	1.91	1.89	1.94	1.92	1.90	2.01	1.99	1.95	2.24	2.22	2.16	US - Fed	2.50
GERMANY	-0.58	-0.59	-0.59	-0.33	-0.35	-0.35	0.26	0.24	0.24	0.87	0.85	0.84	England - BoE	0.75
JAPAN	-0.17	-0.17	-0.15	-0.15	-0.16	-0.15	0.02	0.01	0.02	0.70	0.70	0.70	Euro zone - ECB	0.00
U.K.	0.81	0.82	0.81	0.97	0.98	0.95	1.35	1.34	1.29	1.85	1.85	1.84	Japan - BoJ	-0.10
	Spreads vs. U.S. (bps):													
CANADA	-67	-66	-66	-66	-65	-63	-76	-76	-75	-85	-85	-87	Mexico - Banxico	8.25
GERMANY	-316	-315	-313	-292	-292	-288	-250	-251	-246	-222	-222	-219	Australia - RBA	1.50
JAPAN	-275	-273	-269	-274	-273	-268	-275	-275	-268	-239	-237	-233	New Zealand - RBNZ	1.75
U.K.	-177	-174	-173	-162	-159	-158	-142	-141	-141	-123	-122	-120		
Equities	Level						% change:						Next Meeting Date	
	Last	Change			1 Day	1-wk	1-mo	1-yr						
S&P/TSX	15211	100.0			0.7	2.1	5.5	-6.6					Canada - BoC	Mar 06, 2019
Dow 30	24370	162.9			0.7	1.5	2.9	-6.3					US - Fed	Jan 30, 2019
S&P 500	2636	19.9			0.8	1.5	3.5	-5.8					England - BoE	Feb 07, 2019
Nasdaq	7084	49.8			0.7	1.4	4.4	-2.9					Euro zone - ECB	Jan 24, 2019
DAX	11096	177.4			1.6	1.9	3.3	-16.5					Japan - BoJ	Jan 23, 2019
FTSE	6937	102.4			1.5	0.3	3.5	-9.9					Mexico - Banxico	Feb 07, 2019
Nikkei	20666	263.8			1.3	2.5	-2.1	-13.0					Australia - RBA	Feb 04, 2019
Hang Seng	27091	335.2			1.3	1.6	4.9	-15.7					New Zealand - RBNZ	Feb 12, 2019
CAC	4869	75.1			1.6	1.8	2.4	-11.4						
Commodities	Level						% change:							
	Last	Change			1 Day	1-wk	1-mo	1-yr						
WTI Crude	52.58	0.51			1.0	1.9	13.7	-17.8					England - BoE	Feb 07, 2019
Natural Gas	3.31	-0.10			-3.0	6.8	-13.8	3.8					Euro zone - ECB	Jan 24, 2019
Gold	1285.58	-6.45			-0.5	-0.1	2.9	-3.1					Japan - BoJ	Jan 23, 2019
Silver	15.58	0.04			0.2	-0.8	6.7	-9.5					Mexico - Banxico	Feb 07, 2019
CRB Index	179.76	0.12			0.1	0.6	3.1	-8.4					Australia - RBA	Feb 04, 2019
Currencies	Level						% change:							
	Last	Change			1 Day	1-wk	1-mo	1-yr						
USDCAD	1.3267	-0.0012			-0.1	0.0	-1.5	6.8					New Zealand - RBNZ	Feb 12, 2019
EURUSD	1.1406	0.0017			0.1	-0.5	0.4	-6.8						
USDJPY	109.44	0.1800			0.2	0.9	-2.7	-1.5						
AUDUSD	0.7195	0.0002			0.0	-0.3	0.2	-10.1						
GBPUSD	1.2939	-0.0047			-0.4	0.7	2.4	-6.9						
USDCHF	0.9936	-0.0006			-0.1	1.0	0.1	3.6						

Source: Bloomberg. All quotes reflect Bloomberg data as at the time of publishing. While this source is believed to be reliable, Scotiabank cannot guarantee its accuracy.

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