ON DECK FOR WEDNESDAY, FEBRUARY 19

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	02/19	07:00	MBA Mortgage Applications (w/w)	Feb 14	--	--	5.0
CA	02/19	08:30	Core CPI - Common (y/y)	Jan	2.0	2.0	2.0
CA	02/19	08:30	Core CPI - Median (y/y)	Jan	2.0	2.2	2.2
CA	02/19	08:30	Core CPI - Trim (y/y)	Jan	2.0	2.1	2.1
CA	02/19	08:30	CPI, All items (m/m)	Jan	0.3	0.2	0.0
CA	02/19	08:30	CPI, All items (y/y)	Jan	2.4	2.3	2.2
CA	02/19	08:30	CPI, All items (index)	Jan	--	136.7	136.4
US	02/19	08:30	Building Permits (000s a.r.)	Jan	--	1450	1420
US	02/19	08:30	Housing Starts (000s a.r.)	Jan	1450	1428	1608
US	02/19	08:30	Housing Starts (m/m)	Jan	-9.8	-11.2	16.9
US	02/19	08:30	PPI (m/m)	Jan	0.1	0.1	0.1
US	02/19	08:30	PPI ex. Food & Energy (m/m)	Jan	0.1	0.2	0.1

KEY POINTS:

- Risk-on with distance from corporate news & more stable coronavirus headlines
- Canada expected to post higher headline inflation…
- ...but what will matter is if core inflation follows
- FOMC minutes will probably be stale…
- ...but there may be four main considerations to monitor
- UK inflation rises more than expected…
- …but the main driver could be temporary
- Turkey's politically directed central bank cuts as expected…
- …and its policies are harming the economy
- Swedish inflation falls more than expected on transitory drivers
- Japan's cap-ex plunge points to negative GDP revision
- US housing starts and producer prices also on tap
- BC budget recap

INTERNATIONAL

Another day passes, and markets forget what fussed them yesterday. A gentle risk-on session is in place across equities and oil prices. There wasn't really anything on the overnight global calendar that would motivate this morning's broad global market movements as opposed to regional developments that are explained below. Incremental risk is posed by Canadian inflation, Fed minutes and limited US releases.

- Oil prices are up by about 70 cents in terms of Brent and WTI. Gold is up another $6 to US$1608.

- US equity futures are up by about ¼% across the exchanges. TSX futures are flat. European cash markets are up by between ½% and ¾%. Asian equities ranged from declines of ¼ % to ½ % at mainland China's

- The USD is broadly unchanged. Some commodity oriented

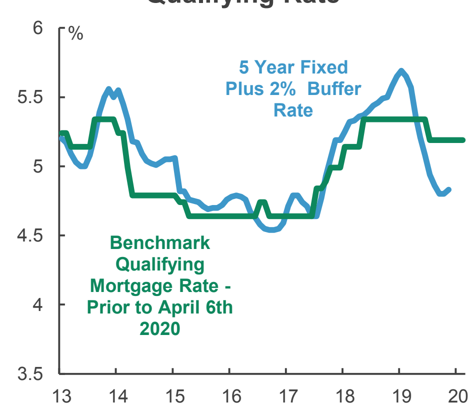
CONTACTS

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

Canadian Core Inflation

Sources: Scotiabank Economics, Statistics Canada.

Canada's Insured Mortgage Qualifying Rate



Sources: Scotiabank Economics, Bank of Canada, Statistics Canada..

currencies are outperforming including the impact of higher oil prices on the Norwegian krone and CAD. The latter may also be catching a bid ahead of CPI. The yen is the poorest performing cross while the euro, sterling and Mexican peso are roughly flat.

- Sovereign bond yields are generally little changed. US Treasuries are pretty much flat while Canada very slightly underperforms through the belly of the curves. European 10 year yields are up by 1bp lower.

UK inflation rose by somewhat more than expected and yet sterling and gilts shook it off. Headline inflation increased to 1.8% y/y (1.3% prior, 1.6% consensus). Core inflation increased to 1.6% y/y (1.4% prior, 1.5% consensus). The rise in core inflation takes it off the prior month's rate that was the lowest late 2016, but keeps it bouncing around the 1.4-1.7% range of the past six months. Housing accelerated from 1.2% y/y to 1.9%, transportation prices went from being up 0.7% y/y to 1.8% y/y, restaurant and hotel price inflation picked up to 2.2% from 1.6% and clothing and footwear price inflation jumped by 1.1 points to +0.3% y/y. A significant contributor to the higher headline inflation rate came from energy prices and year-ago base effects that should be transitory.

Japan's cap-ex picture took a turn for the worse. Machine orders fell by 12.5% m/m and thus more than consensus (-8.9%) after a temporary 18% jump in November. Since 2000, there have been only three bigger monthly declines. In year-ago terms, orders fell 3.5% y/y. This suggests further downside through revision risk to Japan's Q4 GDP contraction of 6.3% q/q at a seasonally adjusted and annualized rate following typhoon and sales tax effects.

The Turkish central bank cut its one-week repo rate by 50bps to 10.75% as expected. This is the kind of central bank that US President Trump dreams about while economists shudder at the price being paid by the economy. The central bank is politically directed by President Erdogan as he continues to push for single digit interest and inflation rates in 2020. At what cost? The Turkish lira is the poster child for debased currencies. In a little over five years, the lira has depreciated by about 160% to the USD. Inflation is running at 12.15% y/y with core inflation at 9.9%. Inflation will probably move higher yet as the lira has depreciated by about 14% just since the start of last year. It costs the Turkish government about 11% whether to borrow for 2 or 10 years in lira. Because of its political problems and trade tensions, the Turkish economy didn't grow in 2019 with real GDP up a scant 0.2% y/y. Since the middle of 2018, the unemployment rate has risen by 3 ½ percentage points to 13.3%.

Swedish inflation pulled back by more than expected. Even though the krona fell in the aftermath and is among the weakest crosses to the USD, guidance from the Riksbank indicates it won't matter at least for now and based upon the transitory drivers. Headline inflation fell to 1.3% y/y (1.8% prior, 1.7% consensus). Underlying inflation excluding tax effects fell to 1.2% y/y (1.7% prior, 1.6% consensus). Excluding energy, underlying inflation fell to 1.6% y/y (1.7% prior, 1.9% consensus). The deceleration is being pinned on lower electricity demand due to warmer than usual weather and higher electricity supply due to greater than usual winds increased wind driven electricity output. It likely doesn't matter to the Riksbank after the central bank hiked to 0% in an effort to get away from negative rates while pledging to remain on an extended hold. A longer period of more widespread downside risk to inflation pressures would be needed to influence the central bank's thinking.

CANADA

January Canadian CPI will be released at 8:30amEST. Consensus expects headline inflation to tick up to 2.3% y/y from 2.2% the prior month and with a range of estimates mostly within 2.2-2.5% (Scotia 2.4%). A change in year-ago base effects could be the source of mild disinflationary pressure but this should be more than offset by seasonality and higher gasoline prices. Seasonal influences as, for example, post-holiday stocking turns over to new clothing lines for late winter and Spring could be a touch more muted than normal given the stronger than usual seasonality in December's prices.

In addition, we have forecast a deceleration in the average of the three Bank of Canada core inflation measures to 2% y/y down from 2.0% y/y prior. Chart 1 shows the trend. There is no fundamentals-based model that is useful to forecasting monthly core CPI as opposed to simply interpolating quarterly expectations over time. Therefore what we do is three-fold. One approach is to evaluate the impact of dropping the first month out of the compounded monthly calculations (in this case December 2018) and seeing what this effect on its own would be assuming a trend pace of core inflation in the extra month that gets tacked on (in this case, January 2020). That on its own suggests lower core inflation on average. Second is that we use an AR (1) model process to forecast one month out of sample. That also suggests lower inflation. Third is the application of judgement to select few of the individual components that may be subject to outlier movements and how to compensate for this in the distribution of prices within the latest month. At the end of the day, on top of large errors that can arise from these methods, we have to assume there will be no revisions to the 55 individual CPI components that go into calculating the core measures which may or may not be realistic in any given period.

Canada's positive step to alter the benchmark rate for mortgage stress tests is getting unfairly panned in some quarters. What the housing haters - including some in the media - don't get is that the change wasn't an outright loosening of the B20 rule that was introduced at the start of 2018. The change was just to rein in what was becoming an inappropriately and progressively stricter test with an effective rate surcharge at the point of qualifying that was becoming well in excess of the originally intended 200bps target. There is no need for a stricter stress test. Morneau was right to take this step. Existing home sales fell 2.9% m/m in seasonally adjusted terms last month after slipping 0.4% m/m SA in December so it's a bit rich to say that this is occurring in the wake of accelerating data. In fact, there has been no growth in home sales for the past four months and a definite weakening of the market since the transitory drivers that drove last Spring's bounce.

Please go here for Scotia Economics' recap of the BC provincial budget that was released last evening.

UNITED STATES

Minutes to the January 28th-29th FOMC meeting will be released at 2pmEST. A recap of the communications that followed that meeting is here. A full run-down of expectations is available in the US section of the Global Week Ahead here. The minutes could be stale in the wake of developments since then such as the ballooning coronavirus risk to the global outlook and following Chair Powell's exhaustive two-stage testimony to the US Congress. Here is a brief list of key things to watch for:

- How the overall committee views downside risks to the outlook including the coronavirus that was in more of an emerging state back then than it is now;
- A further discussion of the strategic review that Chair Powell hinted at;
- In particular, there may be additional discussion of average inflation targeting given changes to the statement language and given what Powell said in the press conference about inflation risks;
- Additional discussion of balance sheet policy guidance. I think Powell gave most of the parameters in his press conference, but we could witness a fuller range of views.

January US housing starts and building permits will also be released at 8:30 am EST. Housing starts are expected to decline to 1.4 million in January after a warm weather boost was given to December's 1.6 million unit start pace. The housing starts growth trend remains strong as builder optimism remains high despite a small weakening in February, and consumers remain resilient. There is also room for housing starts to surprise to the upside as the mean temperature deviation from seasonal was even greater in January compared to December.

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.	1.42	1.41	1.44	1.40	1.40	1.45	1.57	1.56	1.63	2.01	2.01	2.09
CANADA	1.48	1.47	1.51	1.35	1.34	1.40	1.34	1.33	1.40	1.46	1.45	1.51
GERMANY	-0.64	-0.65	-0.64	-0.62	-0.62	-0.60	-0.41	-0.41	-0.38	0.11	0.11	0.15
JAPAN	-0.15	-0.15	-0.15	-0.15	-0.15	-0.13	-0.05	-0.06	-0.03	0.37	0.35	0.39
U.K.	0.53	0.53	0.53	0.48	0.48	0.48	0.61	0.61	0.61	1.10	1.10	1.09
	Spreads vs. U.S. (bps):											
CANADA	5	5	7	-5	-6	-6	-23	-23	-24	-55	-56	-58
GERMANY	-206	-206	-208	-202	-201	-205	-197	-197	-201	-190	-190	-194
JAPAN	-158	-157	-159	-155	-155	-158	-161	-162	-167	-164	-166	-170
U.K.	-89	-88	-91	-93	-92	-97	-96	-95	-102	-92	-91	-100

Equities	Level		% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	17858	10.0	0.1	0.7	1.7	12.1
Dow 30	29232	-165.9	-0.6	-0.2	-0.4	12.9
S&P 500	3370	-9.9	-0.3	0.5	1.2	21.2
Nasdaq	9733	1.6	0.0	1.1	3.7	30.0
DAX	13751	69.9	0.5	0.0	1.7	21.6
FTSE	7436	54.2	0.7	-1.3	-3.1	3.6
Nikkei	23401	206.9	0.9	-1.9	-2.7	9.8
Hang Seng	27656	125.6	0.5	-0.6	-4.8	-2.0
CAC	6095	38.6	0.6	-0.2	-0.1	18.1
Commodities	**Level**		**% change:**			
WTI Crude	52.77	0.72	1.4	5.7	-9.9	-5.9
Natural Gas	1.96	-0.03	-1.3	9.4	-2.3	-26.5
Gold	1606.76	5.15	0.3	2.6	3.2	19.8
Silver	17.89	0.09	0.5	1.0	-1.0	13.4
CRB Index	174.62	0.81	0.5	2.9	-4.5	-4.2
Currencies	**Level**		**% change:**			
USDCAD	1.3223	-0.0037	-0.3	-0.2	1.3	0.1
EURUSD	1.0801	0.0009	0.1	-0.7	-2.6	-4.8
USDJPY	110.50	0.6300	0.6	0.4	0.3	-0.1
AUDUSD	0.6693	0.0007	0.1	-0.7	-2.6	-6.6
GBPUSD	1.2992	-0.0006	-0.0	0.2	-0.1	-0.5
USDCHF	0.9829	-0.0003	-0.0	0.5	1.5	-1.8

Central Banks	
Current Rate	
Canada - BoC	**1.75**
US - Fed	**1.75**
England - BoE	**0.75**
Euro zone - ECB	**0.00**
Japan - BoJ	**-0.10**
Mexico - Banxico	**7.00**
Australia - RBA	**0.75**
New Zealand - RBNZ	**1.00**
Next Meeting Date	
Canada - BoC	**Mar 04, 2020**
US - Fed	**Mar 18, 2020**
England - BoE	**Mar 26, 2020**
Euro zone - ECB	**Mar 12, 2020**
Japan - BoJ	**Mar 19, 2020**
Mexico - Banxico	**Mar 26, 2020**
Australia - RBA	**Mar 02, 2020**
New Zealand - RBNZ	**Mar 24, 2020**

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.