IS THE FED'S MORAL HAZARD PROBLEM MORE SERIOUS THIS TIME?

FORECASTS & DATA

CONTACTS

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Next Week's Risk Dashboard

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Chart of the Week

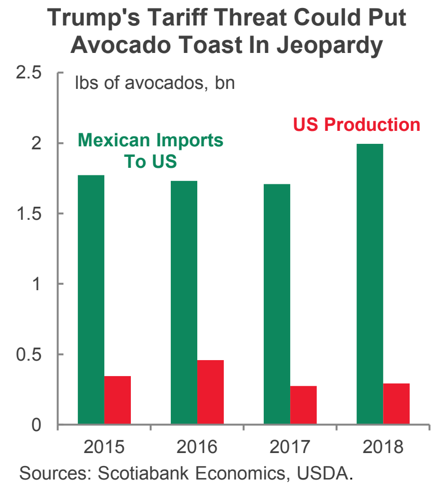


Chart of the Week: Prepared by: Evan Andrade, Research Analyst.

Is The Fed's Moral Hazard Problem More Serious This Time?

EUROPE—SIX ECB CONSIDERATIONS

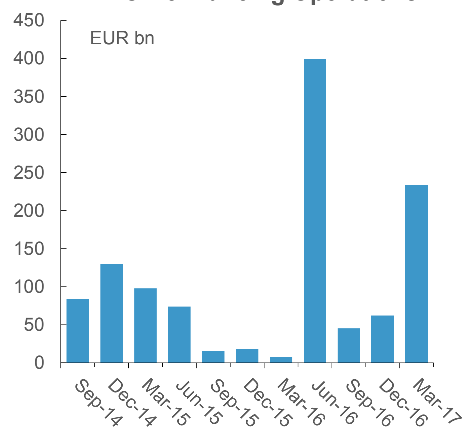
The ECB will be far and away the biggest pending development in European markets and with strong potential implications for world markets. The fundamentals calendar has some gems in it, but what the ECB does in the context of rising global trade tensions should matter considerably more.

The **European Central Bank** will weigh in with another round of policy decisions and guidance on Thursday morning. The statement lands at 7:45amET and President Draghi's press conference will be at 8:30amET. This could be a major event to markets, even after the ECB having announced fresh stimulus with another round of Targeted Longer-Term Refinancing Operations (TLTROs) and pushing out rate hike guidance in March to remain at the present level "at least through the end of 2019."

There are at least six considerations into this meeting. All of it starts with setting the foundation through **revised macro forecasts**. The direction of risks isn't toward upgrading forecasts in this environment, but will they fully throw in the towel or drive a partial rebound narrative? They haven't issued quarterly forecasts since March 7th and a lot has happened since then alongside rising uneasiness among Governing Council members. The narrative behind the numbers could reflect some uncertain combination of global trade policy risk, Brexit, European fiscal tensions, and baseline fundamentals. Expect Draghi to have a pointed critique of US trade policy again. On balance, downgrading the forecasts and upping the ante on risks is likely which could clear the way to do more on policy.

Chart 1

Amounts Borrowed Under Prior ECB TLTRO Refinancing Operations



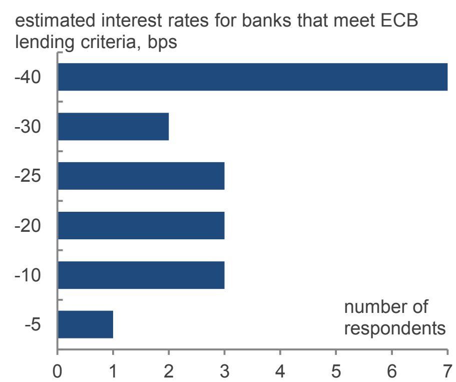
Sources: Scotiabank Economics, ECB.

Second is that the ECB needs to specify the terms of the previously announced TLTROs that offer subsidized funding to banks with the intent being to stimulate lending activity and hence economic growth. The TLTROs will be launched in September and end in March 2021 with two year maturities. Recall the volume of take-down on prior offerings as a guide to how significant this can be to markets (chart 1). Recall ECB guidance when the TLTROs were announced in March:

> "Under TLTRO-III, counterparties will be entitled to borrow up to 30% of the stock of eligible loans as at 28 February 2019 at a rate indexed to the interest rate on the main refinancing operations over the life of each operation. Like the outstanding TLTRO programme, TLTRO-III will feature built-in incentives for credit conditions to remain favourable. Further details on the precise terms of TLTRO-III will be communicated in due course."

Chart 2

Surveys Predict Favourable Loan Terms Offered By The ECB



Sources: Scotiabank Economics, Bloomberg Survey of Economists May 24-29.

Therefore, the important blanks that must be filled in include a) the interest rate on the TLTROs and b) the incentives. Both of these details will inform take-up rates and whether the initiative works. Chart 2 depicts a recent poll of economists on the rate that could be set for the two year loans and most expect it to be set in line with the current -0.4% deposit rate facility.

Third is whether the ECB pursues tiering. This would seek to mitigate the effects of negative deposit rates upon banks by exempting some portion of reserves one way or the other (aka "tiering" the levels at which negative rates apply). The Bank of Japan has had tiering for a long time but it's unclear what form it might take at the ECB. Indeed, tiering may ultimately be rejected, as openness to the idea has waned somewhat since Draghi first mused about the possibility. If he ultimately rejects tiering, then markets may reduce the probability of a future rate cut. Banque de France Governor Villeroy's recent comments were skeptical toward the concept. Regardless, Draghi has indicated the discussion will be occurring and it's a complicated area where they may have surprises up their sleeves and steps to mitigate the risks associated with whatever they might do.

Fourth, will there be additional references to further stimulus? Will Draghi broach the issue of market pricing for rate cuts that would take the deposit rate more negative? If he does, he'd almost have to address tiering. Will he update thinking on the effective lower bound? Nix the idea of further cuts? Resurrect QE as a potential policy option as some speculate? Or just push out rate guidance again and this time into 2020? Perhaps he'll be like the Fed in that both central banks added stimulus in varying ways back in March and now they're simply monitoring, but the ECB is a bit different including—at a minimum—the issue of how generous they make TLTRO terms.

Fifth, will the ECB have the same dialogue that is going on at the Fed with respect to potential changes to its framework or targets? For example, will Draghi say that inflation 'below, but close to, 2%' is a medium-term target but one that could allow overshoots to offset years of undershooting? Whether it's a cap or an average is something the ECB hasn't been fully clear about. There are multiple possibilities here but it could be significant given their (and the Fed's) fixation on inflation expectations that are more problematic for the ECB than the Fed.

Sixth, note that **Draghi has four more meetings to go including this one**. Who takes his spot will determine the relevance of whatever Draghi pursues between now and October. Markets will spend coming months debating whether ECB policy will persistently lean toward more stimulus or set out policy exits sooner than expected and partly dependent upon which voice takes the helm.

Macro data will play a backseat to a lot of other things, including the ECB, over the coming week. Nevertheless, we'll get the Eurozone tally for May CPI on Tuesday that will sharply decline in keeping with what we've already learned from Germany, Italy, France and Spain but the difficulty will remain in terms of separating out energy and Easter effects. UK PMIs for May are due on Monday (manufacturing), Tuesday (construction) and Wednesday (services and the composite). Germany factory orders are on tap Thursday followed by industrial output and exports on Friday.

CANADA—IMPOSSIBLE…NOT!

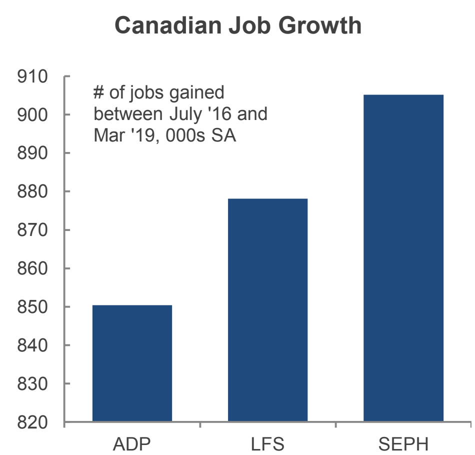
After an astounding pace of job creation in April, can May keep up the pace? That will be the dominant issue on the domestic calendar, but external developments particularly surrounding US-centric trade policies are more likely to capture market attention.

Recall that Canada created 106,500 jobs in April for the biggest single-month pace of creation ever. This was according to the Labour Force Survey of households. Some say throw it out, ignore it, didn't see that, and fake data. To them, I'd counter:

Probabilities: The 95% confidence interval on LFS job changes is the mean estimate +/- 54,400. Therefore, in repeated sampling 95 times out of 100 you would still have wound up with a rather strong job estimate even if the lower bound was closer to the truth and even stronger if the upper bound was on the mark.

GDP Disconnect: To the theory that companies can't be hiring that many workers because GDP growth is weak and the two phenomena can't co-exist, one could counter that the loose connection between GDP growth and jobs is historically replete with disconnects. In any event, strength in final domestic demand (consumption plus investment plus government spending) could be a better guide to business hiring attitudes (see recap here). GDP then tosses in net trade and inventories. In the latest Q1 GDP figures, GDP was soft in part because of a big import leakage effect (imports rose) and that reflects strength in the domestic economy.

Chart 3



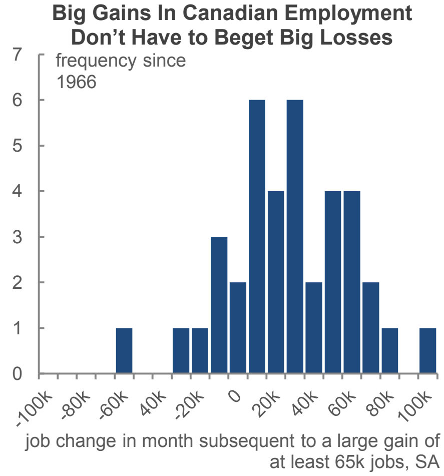
Sources: Scotiabank Economics, StatsCan, ADP Research Institute.

Multiple sources: It's not just one job market measure that's saying job growth has been strong. If it's fake data, then all of the sources from household surveys to two payroll-based estimates would have to be wonky. Households would have to be incorrectly reporting job status well outside of statistical norms and employers mass fudging their payroll data. As chart 3 demonstrates, while there are definitional differences, all surveys are pointing to strong growth.

As for what goes up so fast must surely come down, not so fast. Check out the histogram in chart 4. It looks at what happened after months when there was a job gain of at least 65k since the inception of the LFS. **The next number was up 79% of the time**, flat 5% and down 16%. Months of 90k or more new jobs were followed by another gain 60% of the time. There is clearly a momentum argument, but by no means is it a certainty that another gain will follow. I've played the momentum odds with a very tentative 10k guesstimate. In any event, the advice remains to take into account all measures of job growth and pay the most attention to the trends.

There are, however, at least three catches here. One is that the bloated inventory cycle—at manufacturers and wholesalers—could dampen the job creation trend if it incites a more cautious production schedule. Two is that labour productivity may be suffering. We'll get Q1 productivity on Wednesday and expect a near-zero reading after a modest drop in Q4. Third is clearly the confidence effect of unstable US-centric trade policy.

Chart 4



Sources: Scotiabank Economics, StatsCan.

Following a 2.6% jump in export volumes in March and about a 1.4% jump in import volumes, some payback may be on order when April's numbers arrive on Thursday. The readings—including revisions as more complete sources are included – will further inform the Q1–Q2 rebound narrative.

Canada auctions 2s on Wednesday.

UNITED STATES—MORAL HAZARD REDUX—BUT IT'S WORSE THIS TIME

Top shelf macro releases and the top of the house's freshest thinking at the Federal Reserve in the face of deteriorating trade policies all lie ahead.

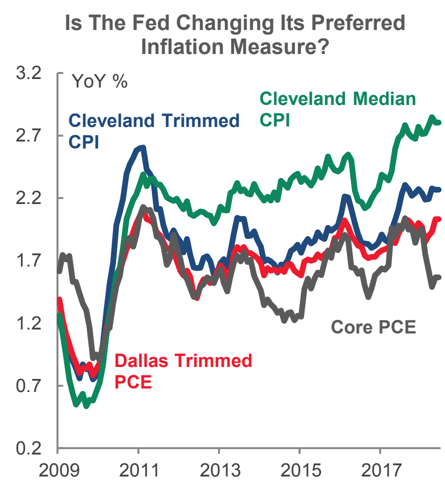
Front and centre to markets will be whether Powell and company signal increased concern toward the outlook that could bring forward rate cut expectations that are already a 50–50 market bet for the July meeting. Vice Chair Clarida's recent speech (recap here) recently indicated confidence in a positive base case outlook that pushes back upon rate cut expectations, but left the door open to possibly cutting if conditions deteriorate. How FOMC officials now view circumstances in the wake of the threatened tariffs against Mexico could signal somewhat greater unease.

In my personal opinion, the issue at hand is that—while the Fed is bound by its dual mandate as set by Congress— **to ease in the face of the Trump administration's self-imposed uncertainty surrounding trade policy could incite a deeper moral hazard problem**. When faced with such a choice as during the Global Financial Crisis, the Fed cast moral hazard aside and eased like there was no tomorrow and so interpreting the Fed's reaction function needs to be rooted in this reality. At the time, it was the fate of the world economy and markets weighed against what rewarding past bad behaviour would do if it caused such a cycle of excess risk-taking to repeat itself far into the future. Back then, it was felt that future risks could be addressed in advance by laying the foundations of regulatory change to guard against such risks. The danger to easing this time around, however, is that it could invigorate Trump with the sense that the Fed's got his back such that he can continue to pursue reckless trade policies, if not amplify them. Near-term dual mandate considerations aside, the longer-term dual mandate goals may be damaged by easing monetary policy to accommodate trade frictions in the sense that longer run productivity, employment and wages may be harmed while inflation risk from the trade-policy-motivated supply shock could be increased. This is a very different set of circumstances than during past easing bouts.

At this point, it may be too soon to anticipate a bias shift by the Fed. Core inflation is either holding steady—like core PCE—or it is firmly higher, like the Dallas Fed's updated trimmed mean gauge (chart 5). Further, financial conditions have only modestly tightened.

Regardless of this view, we'll see what the Fed has to say. **The Fed trudges out one marquee name after another next week including none other than Chair Powell himself**. Powell speaks on "Monetary policy strategy, tools and communications practices" on Tuesday at 9:55amET. The next day we'll hear from Vice Chair Clarida on the same topic at 9:45amET. Fifteen minutes later the nomination hearing for Governor-nominee Bowman will begin; expect her to be grilled on her stance regarding how monetary policy should be conducted in the face of trade policy uncertainty. This Monday brings out Vice Chair Quarles to speak on the post-Libor world. NY Fed President Williams speaks twice during the week as does San Francisco Fed President Daly. Each of Richmond Fed President Barkin, St. Louis Fed President Bullard, Atlanta Fed President Bostic and Dallas Fed President Kaplan also speak. The Beige book lands in the middle of it all on Wednesday afternoon. Also note that the Fed will update the financial accounts of the US economy including household and business financial metrics for Q1 on Thursday.

Chart 5



Sources: Scotiabank Economics, Bloomberg.

Macro data will briefly consist of the following two main events and sundry lesser readings:

- **ISM-manufacturing:** Given that each of the Philly Fed, Richmond and Empire regional surveys improved during May, there could be modest upside to the ISM-manufacturing reading on Monday.
- **Nonfarm payrolls:** Wage growth may come in flat with downside risk in the May report on Friday. Base effects and normally soft seasonal effects in May could combine to slightly soften the pace of wage gains that have been running at about a decade high. Similarly, the 263k jobs created in April may be a tough act to follow. ADP two days prior to nonfarm usually only offers a loose connection to nonfarm at best.

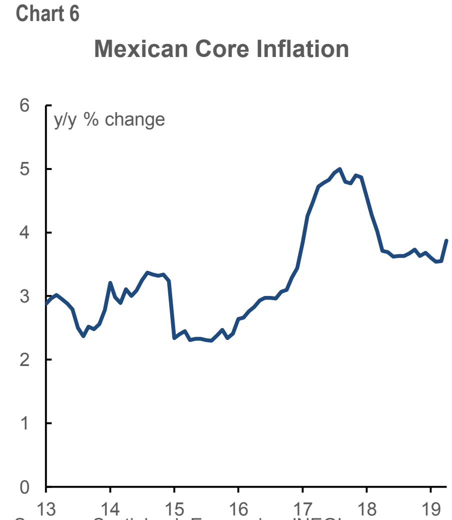
Construction spending could rebound in Monday's April reading in lagging fashion to a pick-up in new home sales this year. Vehicle sales are due on Monday and follow the prior month's dip to the softest level since August 2017 (by a smidge). Factory orders will likely follow the already-known durables report lower in April's reading on Tuesday. After decelerating since February, ISM-services may stabilize in May's shout-out. The trade deficit is likely to slightly widen further on Thursday, given we already know that the goods trade deficit did so with services to be added.

LATIN AMERICA—DON'T PULL THAT ALARM QUITE YET

The obvious dominant macro risk concerns the fate of Trump's threat to levy a tariff on all of Mexico's over US$350 billion worth of imports starting at a 5% rate on June 10th and escalating to 25% by October. That's the talk at least, and when it comes to Trump, talk can be very cheap. Other developments will pale by consideration.

In the face of such a risk, however, there is a case for not quite pulling the alarms yet while nevertheless prudently positioning for an adverse outcome. For one thing, Mexico has a flexible exchange rate that instantly depreciated by about half of the initial stage of the threatened tariff. The ability to continue depreciating if the tariff rate escalates is seriously limited, however, by the implications for imported price pressures. A bout of imported inflation through currency weakening has typically motivated Banxico to tighten monetary policy. That may be especially the case now given that core inflation is already running above Banxico's 2–4% inflation target range (chart 6). Banxico's next scheduled policy decision is on June 27th.

Chart 6



Sources: Scotiabank Economics, INEGI.

Having said that, domestic forces within the US may be the best hope for reining in Trump. A groundswell of domestic opposition has emerged from within Congress including traditional allies and foes alike, across business interests including threatened lawsuits by the Chamber of Commerce, across financial markets, and among voters who are signalling waning job approval ratings. Legal challenges are likely to spring up. The US administration itself appears to be split with USTR Lighthizer and

Treasury Secretary Mnuchin apparently at odds with Trump, Navarro and far right advisors. You've seen nothing yet, however, should American consumers soon wake up to higher prices on-line and at the mall as soon as next month and over the summer. The impact of tariffs on Mexico and the risk of retaliation against American exports could prove much more destabilizing to the US than the trade war with China. The negative earnings hits to vulnerable supply chains will be closely monitored into the Q3 earnings season.

A round of inflation figures will be released by Peru (Sunday), Colombia (Wednesday), and then Mexico, Brazil and Chile (Friday). Chile's central bank is expected to hold its policy rate at 3% on Friday.

ASIA-PACIFIC—RBA/I EXPECTED TO EASE

Central banks will be in focus over the coming week and their policy prescriptions may well lean toward easing stances.

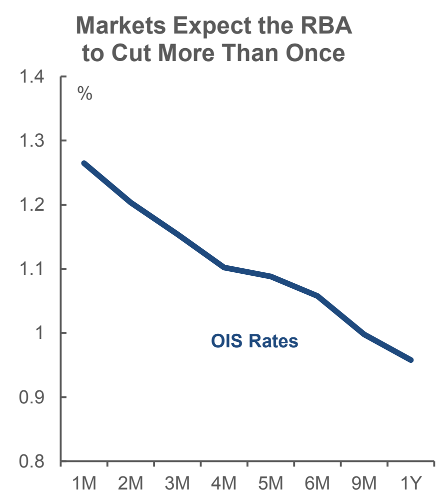
Consensus is unanimous toward expecting the **Reserve Bank of Australia** to cut its 1.5% cash rate by 25bps on Tuesday morning (ET). OIS markets attach over 90% odds to a rate cut at this meeting. What shifted the bias in favour of expecting policy easing was a speech by Governor Lowe on May 21st when he openly stated that the RBA "will consider the case for lower interest rates" next week. Previously he had guided that a deceleration in central tendency CPI measures and a rise in unemployment would be required to motivate easing. The first part did indeed happen as Q1 trimmed mean CPI at 1.6% and weighted median CPI at 1.2% are both tracking beneath the 2–3% inflation target range. On the surface, so did the latter requirement, as the unemployment rate ticked up to 5.2% in April from an upwardly revised 5.1% rate the prior month. Nevertheless, the rise in the unemployment rate was not due to a decline in employment as job growth remains strong; it was due to a faster pace of entry into the workforce which is hard to suggest is a negative. If the RBA does indeed ease, which seems likely, then it would likely be positioned more in terms of inflation and mounting risks to US-centric global trade policies.

Key, however, will be the bias going forward. OIS markets are primed for about a one-in-two chance of a further rate cut in July with more later on (chart 7). Part of what further informs this view will be the June 4th release of Q1 GDP growth that is expected to fall below 2% y/y for the first time since 2013Q2. GDP, however, doesn't arrive until just after the RBA decision notwithstanding its general understanding in advance.

Consensus is more divided toward what the Reserve Bank of India might do next Wednesday morning (ET). Sixteen out of 25 economists expect the RBI to cut its 6% repo rate by 25bps. GDP growth in Q1 fell to 5.7% y/y which is the weakest pace since 2014Q1. India's core CPI inflation is nevertheless running at 4 ½% y/y which is somewhat in the upper half of the 4% +/-2% inflation target zone while headline inflation is at just 2.9%.

The Spring meetings of the Institute for International Finance in Tokyo will bring out several top shelf speakers including key central bankers. Bank of Japan Governor Kuroda's keynote remarks on Thursday morning (eastern time) may inform BoJ expectations. Kuroda's remarks might be weighed in the context of modest data risk including Q1 cap-ex spending, vehicle sales and household spending that are all due out next week. BoE Governor Carney speaks right after Kuroda.

Chart 7



Sources: Scotiabank Economics, Bloomberg.

Other developments will be focused upon **CPI updates** for the month of May from South Korea, the Philippines and Thailand (Monday night) and then Taiwan on Wednesday morning. **China updates private version of the purchasing managers' indices** for May early in the week and foreign reserves late in the week.

Key Indicators for the week of June 3 – 7

NORTH AMERICA

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	06/03	09:00	Total Vehicle Sales (mn a.r.)	May	16.9	16.8	16.4
US	06/03	10:00	Construction Spending (m/m)	Apr	0.5	0.4	-0.9
US	06/03	10:00	ISM Manufacturing Index	May	53.3	53.0	52.8
US	06/04	10:00	Durable Goods Orders (m/m)	Apr F	--	--	-2.1
US	06/04	10:00	Durable Goods Orders ex. Trans. (m/m)	Apr F	--	--	0.0
US	06/04	10:00	Factory Orders (m/m)	Apr	-1	-0.9	1.9
US	06/05	07:00	MBA Mortgage Applications (w/w)	MAY 31	--	--	-3.3
US	06/05	08:15	ADP Employment Report (000s m/m)	May	200	183	275
CA	06/05	08:30	Productivity (q/q a.r.)	1Q	--	0.4	-0.4
US	06/05	10:00	ISM Non-Manufacturing Composite	May	55.4	55.5	55.5
CA	06/06	08:30	Merchandise Trade Balance (C$ bn)	Apr	-3.2	-2.8	-3.2
US	06/06	08:30	Initial Jobless Claims (000s)	JUN 1	215	215	215
US	06/06	08:30	Continuing Claims (000s)	MAY 25	1660	1662	1657
US	06/06	08:30	Productivity (q/q a.r.)	1Q F	--	3.5	3.6
US	06/06	08:30	Trade Balance (US$ bn)	Apr	-49.7	-50.6	-50.0
US	06/06	08:30	Unit Labor Costs (q/q a.r.)	1Q F	--	-0.9	-0.9
CA	06/07	08:30	Capacity Utilization (%)	1Q	--	81.0	81.7
CA	06/07	08:30	Employment (000s m/m)	May	10	-5.0	106.5
CA	06/07	08:30	Unemployment Rate (%)	May	5.7	5.7	5.7
US	06/07	08:30	Average Hourly Earnings (m/m)	May	--	0.3	0.2
US	06/07	08:30	Average Hourly Earnings (y/y)	May	3.1	3.2	3.2
US	06/07	08:30	Average Weekly Hours	May	--	34.5	34.4
US	06/07	08:30	Nonfarm Employment Report (000s m/m)	May	200	180	263
US	06/07	08:30	Unemployment Rate (%)	May	3.6	3.6	3.6
MX	06/07	09:00	Bi-Weekly Core CPI (% change)	May 31	0.3	--	0.1
MX	06/07	09:00	Bi-Weekly CPI (% change)	May 31	0.0	--	-0.3
MX	06/07	09:00	Consumer Prices (m/m)	May	-0.3	--	0.1
MX	06/07	09:00	Consumer Prices (y/y)	May	4.3	--	4.4
MX	06/07	09:00	Consumer Prices Core (m/m)	May	0.2	--	0.5
US	06/07	15:00	Consumer Credit (US$ bn m/m)	Apr	--	13.0	10.3

EUROPE

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
IT	06/03	03:00	Budget Balance (€ bn)	May	--	--	-2.9
IT	06/03	03:00	Budget Balance YTD (€ bn)	May	--	--	-31.6
IT	06/03	03:45	Manufacturing PMI	May	--	48.5	49.1
FR	06/03	03:50	Manufacturing PMI	May F	--	50.6	50.6
GE	06/03	03:55	Manufacturing PMI	May F	--	44.3	44.3
EC	06/03	04:00	Manufacturing PMI	May F	--	47.7	47.7
UK	06/03	04:30	Manufacturing PMI	May	--	52.2	53.1
FR	06/04	02:45	Central Government Balance (€ bn)	Apr	--	--	-40.7
UK	06/04	04:30	PMI Construction	May	--	50.6	50.5
EC	06/04	05:00	Euro zone CPI Estimate (y/y)	May	--	1.3	1.7
EC	06/04	05:00	Euro zone Core CPI Estimate (y/y)	May A	--	0.9	1.3
EC	06/04	05:00	Unemployment Rate (%)	Apr	--	7.7	7.7
GR	06/04	05:00	Real GDP NSA (y/y)	1Q F	--	--	1.6
SP	06/05	03:00	Industrial Output NSA (y/y)	Apr	--	--	-0.1
IT	06/05	03:45	Services PMI	May	--	49.8	50.4
FR	06/05	03:50	Services PMI	May F	--	51.7	51.7
GE	06/05	03:55	Services PMI	May F	--	55.0	55.0
EC	06/05	04:00	Composite PMI	May F	--	51.6	51.6
EC	06/05	04:00	Services PMI	May F	--	52.5	52.5
UK	06/05	04:30	Official Reserves Changes (US$ bn)	May	--	--	1517
UK	06/05	04:30	Services PMI	May	--	50.6	50.4
EC	06/05	05:00	PPI (m/m)	Apr	--	0.2	-0.1
EC	06/05	05:00	Retail Trade (m/m)	Apr	--	-0.5	0.0

Forecasts at time of publication.
Source: Bloomberg, Scotiabank Economics.

Key Indicators for the week of June 3 – 7

EUROPE *(continued from previous page)*

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
GE	06/06	02:00	Factory Orders (m/m)	Apr	--	0.0	0.6
EC	06/06	05:00	Employment (q/q)	1Q F	--	--	0.3
EC	06/06	05:00	GDP (q/q)	1Q F	--	0.4	0.4
EC	06/06	07:45	**ECB Main Refinancing Rate (%)**	**Jun 6**	**0.00**	**0.00**	**0.00**
GE	06/07	02:00	Current Account (€ bn)	Apr	--	--	30.2
GE	06/07	02:00	Industrial Production (m/m)	Apr	--	-0.5	0.5
GE	06/07	02:00	Trade Balance (€ bn)	Apr	--	19.5	22.6
FR	06/07	02:45	Current Account (€ bn)	Apr	--	--	-1263
FR	06/07	02:45	Industrial Production (m/m)	Apr	--	0.3	-0.9
FR	06/07	02:45	Industrial Production (y/y)	Apr	--	1.0	-0.9
FR	06/07	02:45	Manufacturing Production (m/m)	Apr	--	--	-1.0
FR	06/07	02:45	Trade Balance (€ mn)	Apr	--	-4742	-5324
UK	06/07	03:30	Halifax House Price (3 month, y/y)	May	--	5.0	5.0

ASIA-PACIFIC

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
JN	06/02	19:50	Capital Spending (y/y)	1Q	--	2.6	5.7
JN	06/02	20:30	Markit/JMMA Manufacturing PMI	May F	--	--	49.6
AU	06/02	21:30	ANZ Job Advertisements (m/m)	May	--	--	-0.1
CH	06/02	21:45	Caixin Manufacturing PMI	May	50	50.0	50.2
JN	06/02-06/07		Official Reserve Assets (US$ bn)	May	--	--	1293
MA	06/03	00:00	Exports (y/y)	Apr	--	-1.3	-0.5
MA	06/03	00:00	Imports (y/y)	Apr	--	-0.3	-0.1
MA	06/03	00:00	Trade Balance (MYR bn)	Apr	--	12.5	14.4
JN	06/03	01:00		May	--	--	2.5
TH	06/03	03:30	Business Sentiment Index	May	--	--	49.2
SI	06/03	09:00	Purchasing Managers Index	May	--	50.1	50.3
NZ	06/03	18:45	Terms of Trade Index (q/q)	1Q	--	0.5	-3.0
SK	06/03	19:00	CPI (y/y)	May	0.7	0.8	0.6
SK	06/03	19:00	Core CPI (y/y)	May	--	0.9	0.9
SK	06/03	19:00	GDP (y/y)	1Q F	1.8	1.8	1.8
JN	06/03	19:50	Monetary Base (y/y)	May	--	--	3.1
AU	06/03	21:30	Current Account (AUD bn)	1Q	--	-3.0	-7200
AU	06/03	21:30	Retail Sales (m/m)	Apr	--	0.2	0.3
AU	06/03	21:30	Australia Net Exports of GDP	1Q	--	0.2	-0.2
TH	06/03	23:30	CPI (y/y)	May	1.1	1.0	1.2
TH	06/03	23:30	Core CPI (y/y)	May	--	0.6	0.6
SK	06/04	19:00	Current Account (US$ mn)	Apr	--	--	4820
HK	06/04	20:30	Purchasing Managers Index	May	--	--	48.4
PH	06/04	21:00	CPI (y/y)	May	2.9	2.9	3.0
PH	06/04	21:00	Unemployment Rate (%)	Apr	5.2	--	5.2
AU	06/04	21:30	GDP (y/y)	1Q	1.9	1.8	2.3
CH	06/04	21:45	HSBC Services PMI	May	--	54.2	54.5
AU	06/04	00:30	**RBA Cash Target Rate (%)**	**Jun 4**	**1.25**	**1.25**	**1.50**
TA	06/05	04:00	CPI (y/y)	May	0.9	0.9	0.7
NZ	06/05	13:00	QV House Prices (y/y)	May	--	--	2.7
AU	06/05	21:30	Trade Balance (AUD mn)	Apr	--	5000	4949
TH	06/05	23:30	Consumer Confidence Economic	May	--	--	66.2
IN	06/06	02:15	**Repo Rate (%)**	**Jun 6**	**5.75**	**5.75**	**6.00**
IN	06/06	02:15	**Reverse Repo Rate (%)**	**Jun 6**	**5.50**	**5.50**	**5.75**
IN	06/06	02:15	**Cash Reserve Ratio (%)**	**Jun 6**	**4.00**	**4.00**	**4.00**
JN	06/06	19:30	Household Spending (y/y)	Apr	--	2.7	2.1
JN	06/07	01:00	Coincident Index CI	Apr P	--	100.2	99.4
JN	06/07	01:00	Leading Index CI	Apr P	--	96.0	95.9
AU	06/07	02:30	Foreign Reserves (AUD bn)	May	--	--	75.7
SI	06/07	05:00	Foreign Reserves (US$ mn)	May	--	--	296812
CH	06/06-06/07		Foreign Reserves (US$ bn)	May	--	3090	3095
IN	06/06-06/28		Current Account Balance	1Q	--	-7.00	-16.90

Forecasts at time of publication.
Source: Bloomberg, Scotiabank Economics.

Key Indicators for the week of June 3 – 7

LATIN AMERICA

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
PE	06/02	01:00	Consumer Price Index (m/m)	May	0.2	--	0.2
PE	06/02	01:00	Consumer Price Index (y/y)	May	2.7	--	2.6
BZ	06/03	09:00	PMI Manufacturing Index	May	--	--	51.5
CL	06/03	09:00	Retail Sales (y/y)	Apr	--	-1.0	0.7
BZ	06/03	14:00	Trade Balance (FOB) - Monthly (US$ mn)	May	--	--	6061
BZ	06/04	08:00	Industrial Production SA (m/m)	Apr	--	0.5	-1.3
BZ	06/04	08:00	Industrial Production (y/y)	Apr	--	1.5	-6.1
CO	06/04	11:00	Trade Balance Exports	Apr	3307	--	3338
CL	06/05	08:30	Economic Activity Index SA (m/m)	Apr	--	--	0.6
CL	06/05	08:30	Economic Activity Index NSA (y/y)	Apr	--	--	1.9
CO	06/05	20:00	CPI (m/m)	May	0.24	0.3	0.5
CO	06/05	20:00	CPI (y/y)	May	3.2	3.3	3.3
BZ	06/07	08:00	IBGE Inflation IPCA (m/m)	May	--	0.3	0.6
BZ	06/07	08:00	IBGE Inflation IPCA (y/y)	May	--	4.7	4.9
CL	06/07	08:00	CPI (m/m)	May	--	--	0.3
CL	06/07	08:00	CPI (y/y)	May	--	--	2.4
CL	06/07	18:00	**Nominal Overnight Rate Target (%)**	**Jun 30**	**3.00**	**3.00**	**3.00**

Forecasts at time of publication.
Source: Bloomberg, Scotiabank Economics.

Global Auctions for the week of June 3 – 7

NORTH AMERICA

Country	Date	Time	Event
CA	06/05	12:00	Canada to Sell 2 Year Bonds

EUROPE

Country	Date	Time	Event
AS	06/04	05:15	Austria to Sell 0.5% 2029 Bonds On Jun 4
AS	06/04	05:15	Austria to Sell 2.4% 2034 Bonds On Jun 4
GE	06/04	05:30	Germany to Sell I/L Bonds on Jun. 4

ASIA-PACIFIC

Country	Date	Time	Event
CH	05/31	02:00	Hubei to Sell CNY7.17277 Bln 7Y Bonds
CH	05/31	02:00	Hubei to Sell CNY3.12443 Bln 30Y Bonds
IN	05/31	05:30	India to Sell INR30 Bln 7% 2021 Bonds
IN	05/31	05:30	India to Sell INR30 Bln 7.27% 2026 Bonds
IN	05/31	05:30	India to Sell INR20 Bln 7.62% 2039 Bonds
IN	05/31	05:30	India to Sell INR40 Bln 7.63% 2059 Bonds
MA	05/31	00:00	Malaysia to Sell 5Yr Bonds
MA	05/31	00:00	Malaysia to Sell 20Yr Islamic Bonds
TA	06/03	00:30	Taiwan to Sell TWD170 Bln 364-Day NCD
CH	06/03	02:00	Sichuan to Sell CNY 9.94 Bln 5Y Bonds
CH	06/03	02:00	Sichuan to Sell CNY 18.72 Bln 7Y Bonds
CH	06/03	02:00	Sichuan to Sell CNY 597 Mln 10Y Bonds
CH	06/03	03:00	Sichuan to Sell CNY 400 Mln 20Y Bonds
CH	06/03	02:00	Sichuan to Sell CNY 7 Bln 30Y Bonds
JN	06/03	23:35	Japan to Sell 10-Year Bonds
CH	06/04	23:00	China Plans to Sell 7-Year Government Bond
CH	06/04	23:00	China Plans to Sell 3-Year Upsized Government Bond
NZ	06/05	22:05	New Zealand To Sell NZD100 Mln 2.5% 2040 Bonds

Source: Bloomberg, Scotiabank Economics.

Events for the week of June 3 – 7

NORTH AMERICA

Country	Date	Time	Event
US	05/31	09:15	Fed's Bostic Moderates a Discussion on the Global Economy
US	05/31	12:00	Fed's Williams Discusses Monetary Policy Theory and Practice
US	06/02	21:45	Fed's Daly Speaks at Asian Bank Symposium in Singapore
US	06/03	12:40	Fed's Barkin Speaks to Charlotte Economics Club
US	06/03	13:25	Fed's Bullard Speaks in Chicago
US	06/04	08:30	Fed's Williams Speaks at Conference on Reforming Bank Culture
US	06/04	09:45	Powell Gives Welcoming Renarks at Fed Framework Conference
US	06/05	09:45	Fed's Clarida Gives Welcoming Remarks at Fed Conference
US	06/05	11:00	Fed's Bostic Speaks on Housing Panel in Atlanta
US	06/05	14:00	U.S. Federal Reserve Releases Beige Book
US	06/06	08:40	Fed's Kaplan Speaks at Boston College
US	06/06	13:00	Fed's Williams Discusses International Economics
US	06/07	00:00	Fed's Daly Speaks to University Students in Singapore

EUROPE

Country	Date	Time	Event
IT	06/02	06:00	Bank of Italy Gov.Visco Speaks at Economy Festival in Trento
UK	06/05	04:00	BOE's Dave Ramsden speak in London.
UK	06/06	05:00	BOE Governor Mark Carney speaks in Tokyo.
EC	**06/06**	**07:45**	**ECB Main Refinancing Rate**
EC	06/06	07:45	ECB Marginal Lending Facility
EC	**06/06**	**07:45**	**ECB Deposit Facility Rate**
EC	06/06	08:30	ECB's Draghi Speaks After Policy Decision
SZ	06/07	03:00	Foreign Currency Reserves
IT	06/07		Bank of Italy Report on Balance-Sheet Aggregates

ASIA-PACIFIC

Country	Date	Time	Event
AU	**06/04**	**00:30**	**RBA Cash Rate Target**
AU	06/04	05:30	RBA Governor Lowe Gives Speech in Sydney
AU	06/04	21:30	RBA's Heath Speaks in Perth
IN	**06/06**	**02:15**	**RBI Repurchase Rate**
IN	06/06	02:15	RBI Reverse Repo Rate
IN	06/06	02:15	RBI Cash Reserve Ratio
JN	06/06	04:25	BOJ Kuroda speaks in Tokyo at 2019 IIF Spring Membership Meeti

LATIN AMERICA

Country	Date	Time	Event
CL	**06/07**	**18:00**	**Overnight Rate Target**

Source: Bloomberg, Scotiabank Economics.

Global Central Bank Watch

NORTH AMERICA

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Canada – Overnight Target Rate	1.75	July 10, 2019	1.75	1.75
Federal Reserve – Federal Funds Target Rate	2.50	June 19, 2019	2.50	2.50
Banco de México – Overnight Rate	8.25	June 27, 2019	8.25	8.25

EUROPE

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
European Central Bank – Refinancing Rate	0.00	June 6, 2019	0.00	0.00
Bank of England – Bank Rate	0.75	June 20, 2019	0.75	0.75
Swiss National Bank – Libor Target Rate	-0.75	June 13, 2019	-0.75	-0.75
Central Bank of Russia – One-Week Auction Rate	7.75	June 14, 2019	7.75	7.50
Sweden Riksbank – Repo Rate	-0.25	July 3, 2019	-0.25	-0.25
Norges Bank – Deposit Rate	1.00	June 20, 2019	1.00	1.00
Central Bank of Turkey – Benchmark Repo Rate	24.00	June 12, 2019	24.00	23.75

ECB: Fresh forecasts will inform whether the ECB delivers or contemplates additional policy easing. Terms for previously announced TLTROs are anticipated and also watch for potential tiering of negative rates on reserves. See the body of the text for a discussion about six potential considerations to watch for into this potentially key meeting.

ASIA PACIFIC

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Japan – Policy Rate	-0.10	June 20, 2019	-0.10	--
Reserve Bank of Australia – Cash Target Rate	1.50	June 4, 2019	1.25	1.25
Reserve Bank of New Zealand – Cash Rate	1.50	June 25, 2019	1.50	1.50
People's Bank of China – Lending Rate	4.35	TBA	--	--
Reserve Bank of India – Repo Rate	6.00	June 6, 2019	5.75	5.75
Bank of Korea – Bank Rate	1.75	July 18, 2019	1.75	1.75
Bank of Thailand – Repo Rate	1.75	June 26, 2019	1.75	1.75
Bank Negara Malaysia – Overnight Policy Rate	3.00	July 9, 2019	3.00	3.00
Bank Indonesia – 7-Day Reverse Repo Rate	6.00	June 20, 2019	6.00	6.00
Central Bank of Philippines – Overnight Borrowing Rate	4.50	June 20, 2019	4.50	4.50

Reserve Bank of Australia (RBA): Following the release of the May 7 meeting minutes and Governor Lowe's speech on May 21, we assess that the RBA is ready to cut the policy rate by 25 bps to 1.25% on June 4. The RBA communications over the past month have been much more precise than a month earlier, when we correctly argued that the RBA was not ready to cut because such action would not have been in line with the guidance it had set in its communications. On May 21, the tone was very different; Governor Lowe pointed out that monetary policy has a role to play in supporting the economy and that the RBA "will consider the case for lower interest rates" at the June 4 policy meeting. Moreover, the global context has worsened with the escalation of the US-China trade conflict, a development that has occurred after the May 7 policy meeting. **Reserve Bank of India (RBI)**: Indian monetary policymakers will likely take further steps to stimulate the Indian economy following the Monetary Policy Committee's bimonthly meeting on June 4–6. We expect the benchmark repo rate to be cut by 25 bps to 5.75%, marking a third consecutive interest rate reduction. While inflation is expected to rebound over the rest of the year, price pressures remain manageable for the time being with headline inflation at 3.0% y/y in April. Indeed, the RBI will likely act promptly as its window of opportunity for injecting monetary stimulus is narrowing; we expect headline inflation to climb towards 5% y/y by the end of the year.

LATIN AMERICA

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Banco Central do Brasil – Selic Rate	6.50	June 19, 2019	6.50	6.50
Banco Central de Chile – Overnight Rate	3.00	June 7, 2019	3.00	3.00
Banco de la República de Colombia – Lending Rate	4.25	June 21, 2019	4.25	0.00
Banco Central de Reserva del Perú – Reference Rate	2.75	June 13, 2019	2.75	2.75

Banco Central de Chile: No rate change is anticipated next week but a cautious bias should reflect the fact that inflation is riding at the low end of the 2-4% inflation target range.

AFRICA

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
South African Reserve Bank – Repo Rate	6.75	July 18, 2019	6.75	0.00

Forecasts at time of publication.
Source: Bloomberg, Scotiabank Economics.