

CAPITAL MARKETS RESEARCH

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Daily Points

— Tracking the Numbers

On Deck for Wednesday, May 16

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	05/16	07:00	MBA Mortgage Applications (w/w)	MAY 11	--	--	9.2
CA	05/16	08:30	Manufacturing Shipments (m/m)	MAR	-0.2	0.4	-0.3
US	05/16	08:30	Building Permits (000s a.r.)	APR	--	730.0	764.0
US	05/16	08:30	Housing Starts (000s a.r.)	APR	685	685.0	654.0
US	05/16	09:15	Capacity Utilization (%)	APR	--	79.0	78.6
US	05/16	09:15	Industrial Production (m/m)	APR	0.6	0.6	0.0

KEY POINTS:

- Merkel constrains damage to the risk trade...
- ...as Greece moves toward setting an election date
- FOMC minutes could provide dated thoughts on stimulus
- US housing, factory data expected to be constructive
- Will Canadian manufacturing follow exports lower?
- Fed's Bullard speaks about the economy today
- UK jobs at odds with GDP
- Eurozone trade better on less robust imports
- BoE inflation report dovish
- France and Germany auction bonds
- Canada to auction 2s today

CANADA

Canada starts to awaken toward the back half of the week starting today. Thus far, the domestic market tone has been determined by events abroad. Today's manufacturing shipments and Friday's CPI could carry some curve and CAD effects, but equities remain driven by global events and how they have negatively impacted the commodities complex in such a manner as to push the TSX back to the lows of early last October.

Manufacturing shipments (8:30amET) could face downside risk to the consensus estimate for a small nominal gain of 0.4% m/m during March. The breadth of consensus estimates is divided on two tail risks. A far outlier expects a nearly 2% m/m gain, and the opposite end expects a drop of 0.3%. We're at -0.2%. There are two reasons why we're playing it cautiously. One is that we expect aerospace to drop out from having played a significant role the prior month. In February, aerospace shipments climbed a whopping 32% m/m, and on a weighted basis contributed 0.8% to the headline shipments number that wasn't enough to offset weakness in other categories as total shipments fell 0.3% in February. The second reason is that the March export figures that were released last week would suggest weakness in export led manufacturing categories. Exports of energy products fell 8.9% m/m, auto product exports dropped 0.7%, and forestry products fell 0.3%.

Canada will auction \$3.3 billion in 2s today at noon ET.

UNITED STATES

This could be a notable day for US influences upon the global market tone.

BoC Events

BoC Overnight Lending Rate

Current Rate: 1.0%

Next Move: June 5 @ 1.0%

Bias: Hawkish

Fed Events

Fed Funds Target Rate

Current Rate: 0-0.25%

Next Move: June 20 @ 0-0.25%

Bias: Dovish

Key International Events

BoJ

Current Rate: 0.10%

Next Move: May 23 @ 0.10%

Bias: Dovish

BoE

Current Rate: 0.50%

Next Move: June 7 @ 0.50%

Bias: Dovish

ECB

Current Rate: 1.00%

Next Move: June 6 @ 1.00%

Bias: Neutral

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The **minutes to the April 24th-25th FOMC meeting** (2pmET) will shed further light on internal discussions regarding stimulus prospects and the outlook for the US economy, but they will be largely backward looking in nature. Since that meeting, the global market risk tone has soured, and another weak US jobs report has landed.

Both housing starts and industrial production are expected to lend positive signals with respect to prospects for the US economy. **Housing starts** (8:30amET) had been rising through much of the past year in order to feed the rental multi-unit segment, but they have wavered more recently. After hitting a peak of 714k in January, they've slid back toward the 650k range and consensus is hopeful that a continued rise in building permits will get exercised and drive a resumed upward march in starts. In fact, permits are at their strongest since September 2008, but they are still 66% lower than the September 2005 peak.

US industrial production data for April will be released today at 9:15amEST and Scotia is anticipating fairly strong growth of 0.6% m/m. The main story here is that US industrial production ran flat in February and March along with a variety of coincident indicators (most of all the ISM manufacturing gage). The ISM turned strongly positive in April and forecasters are expecting industrial production therefore to have turned too. The distribution of consensus estimates runs from a gain of 0.2% to a rise of 1% and we're at 0.6%. On an 'add-up' basis, the warm winter that weighed on utilities output through Q1 has now passed, and automobile manufacturers are expected to ramp up production in the new quarter. There are sizable risks in both areas, however, as natural gas prices remain subdued and there are still good sized automobile inventories.

St. Louis Fed President James Bullard (hawk, alternate 2012, voting 2013) speaks about the US economy and monetary policy at 12:30pmET today. Slides will be available, and audience Q&A will be conducted. Bullard has made his opposition to further stimulus clear to date such that it's unlikely he'll say much of anything new today.

INTERNATIONAL

Constructive comments by German Chancellor Angela Merkel are reining in what would otherwise be harsher damage to the global risk trade this morning. Most European benchmarks are slightly in the red, but with the CAC 40 bucking the trend. Dow futures are flat. Spanish 10s had been selling off again early in the morning session, but have since rallied and dropped over 20bps from their worst point. Portugal's curve, however, continues to sell off with yields on 10s up 40bps to 11.82% and 2s up 89bps to 9.21%. Most major currency crosses are lower against the USD safe haven. On a DXY basis, the USD has appreciated by about 3 1/2% since April 27th and sits at its highest since January.

Greek elections can be held no earlier than June 10th and today's meeting of Greek "leaders" is oriented toward first determining an interim government that can serve a caretaker role until after the election. The first meeting between German Chancellor Angela Merkel and French President Francois Hollande was somewhat encouraging, especially when backed by Merkel's relatively aggressive comments afterward. Europe stands together, Germany wishes Greece to stay within the euro, and growth measures for Greece will be evaluated by Germany and France. In all, this could be a nod toward easing off some of the terms and timelines for the Greek aid package and perhaps toward targeted measures.

The Eurozone's trade balance for March was released and was significantly more positive than anticipated, coming in at +€4.3bn (the not seasonally adjusted number was +€8.6bn – both numbers are improvements on February). The full European Union's external trade remained in deficit, however (-€1.4bn SA). It's hard to call it a strong report, as exports contracted – imports just contracted more. The data showed continued bifurcation among Eurozone members, with Germany's exports outside of the full EU growing on the margin (+0.3% m/m) while France's contracted (-1.8%). Italy posted a nice surprise, with its exports increasing by 3.1%.

France and Germany both auctioned bonds today, with France selling paper with maturities in 2014, 2015, 2016, and 2017 while Germany reopened a 10-year note. The two provide an interesting contrast, as Germany's 7/4/2022 bond yielded 1.47% at auction, only 10bps more than France's 4/25/2016 bond (yield at auction: 1.37%). Bond markets are definitely saying something about which market is considered Europe's 'safe haven' (and which country's financial system has more excess liquidity).

France also auctioned inflation linked notes, and the sale was well taken up by the market. Implied inflation breakevens on the 10-year paper are below today's revised EU core inflation numbers (April's Euro- Zone inflation number was revised marginally higher on core (from 1.5% to 1.6%) while headline was unrevised at 2.6%).

European inflation-watchers have their hands full today: **The BoE released its quarterly inflation** report today and Scotia's UK economics team notes that the key aspects of the report were dovish with respect to prospects for further monetary easing: growth was revised lower as were the BoE's expectations for inflation.

UK employment came in solidly for April, and as our UK economist Alan Clarke notes, the UK economy has grown 105k jobs over the past three months and unemployment has dropped by 45k over this same period. He notes the inconsistency between jobs and GDP figures and suggests two possible explanations. One is that the GDP data are simply wrong and will be revised, and the other is that jobs data lag GDP with downside risk to jobs ahead of us.

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.	99.97	0.28	0.26	100.60	0.73	0.76	99.88	1.77	1.82	2.92	2.92	3.03
CANADA	1.30	1.29	1.22	1.48	1.46	1.47	1.94	1.93	1.98	2.46	2.46	2.51
GERMANY	0.07	0.07	0.07	0.53	0.52	0.53	1.48	1.47	1.52	2.14	2.14	2.24
JAPAN	0.11	0.11	0.11	0.24	0.25	0.25	0.83	0.85	0.85	1.79	1.82	1.82
U.K.	0.38	0.39	0.40	0.88	0.92	0.95	1.86	1.90	1.90	3.18	3.22	3.21
	Foreign - U.S. Spreads (bps):											
CANADA	-9867	101	96	-9913	73	71	-9794	17	16	-46	-46	-52
GERMANY	-9990	-21	-19	-10007	-21	-22	-9841	-30	-31	-77	-78	-79
JAPAN	-9986	-17	-15	-10037	-48	-51	-9905	-91	-97	-113	-110	-121
U.K.	-9959	12	15	-9972	19	19	-9803	13	8	27	30	19

Equities			% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	11343.05	-145.48	-1.3	-3.1	-5.8	-15.3
Dow 30	12632.00	-63.35	-0.5	-2.3	-2.2	0.7
S&P 500	1330.66	-7.69	-0.6	-2.4	-2.8	0.1
Nasdaq	2893.76	-8.82	-0.3	-1.8	-3.2	4.0
DAX	6343.65	-57.41	-0.9	-2.0	-4.2	-14.1
FTSE	5384.01	-53.61	-1.0	-2.6	-5.0	-9.1
Nikkei	8801.17	-99.57	-1.1	-2.7	-7.1	-7.9
Hang Seng	19259.83	-634.48	-3.2	-5.3	-6.6	-16.1
CAC	3044.83	5.56	0.2	-2.4	-5.0	-23.7
Commodities			% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
WTI Crude	92.39	-1.59	-1.7	-4.6	-10.2	-5.1
Natural Gas	2.50	-0.00	-0.1	1.3	23.9	-42.1
Gold	1556.50	-2.00	-0.1	-2.9	-6.6	3.4
Silver	27.25	-1.03	-3.6	-5.3	-13.0	-20.7
CRB Index	289.14	0.69	0.2	-2.0	-3.9	-14.1
Currencies			% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
USDCAD	1.0092	0.0020	0.2	0.7	1.0	3.4
EURUSD	1.2716	-0.0013	-0.1	-1.6	-3.2	-10.2
USDJPY	80.50	0.3200	0.4	1.1	0.1	-0.4
AUDUSD	0.9921	-0.0016	-0.2	-1.3	-4.2	-6.0
GBPUSD	1.5924	-0.0069	-0.4	-1.3	0.2	-1.7
USDCHF	0.9445	0.0010	0.1	1.7	3.3	6.8

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