

ON DECK FOR THURSDAY, MARCH 22

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Indicator</u>	<u>Period</u>	<u>BNS</u>	<u>Consensus</u>	<u>Latest</u>	
US	03/22	08:30	Initial Jobless Claims (000s)	MAR 17	225	225	226	
US	03/22	08:30	Continuing Claims (000s)	MAR 10	1870	1870	1879	
US	03/22	10:00	Leading Indicators (m/m)	Feb	--	0.5	1.0	
CA	03/22	14:45	Bank of Canada Senior Deputy Governor Carolyn Wilkins Speech					

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KEY POINTS:

- Risk-off sentiment driven by protectionism and soft European data
- The Fed is so yesterday
- Trump to announce China tariffs today...
- ...and key will be China's response
- Eurozone PMIs disappoint across the board...
- ...as protectionism and euro strength drag sentiment lower
- German IFO business confidence also weakened
- BoE stays on hold, but reinforces expectations for a hike next time
- BoC's Wilkins to speak on financial stability today
- A\$ tanks on mixed jobs, trade war concerns
- Brazil surprises with a signal of further cuts to come
- Bank Indonesia, Philippines stay on hold as expected

INTERNATIONAL

The Fed is so yesterday (recap [here](#)). It's time to move onto the next obsessions, and **today's bearish focus is upon weak Eurozone data that probably reflects the other obsession which is trade protectionism led by President Trump and the Republicans.** The US is expected to announce measures against China today and China's response will be key. The result is fairly mild safe haven seeking.

- Currency markets are divided between majors and semi-majors that are appreciating against the USD like the yen, pound sterling, NZ\$, CAD and rand, and majors that are lower including the euro and especially the A\$.
- Ten year sovereign bonds are rallying by 3-4bps across the US, UK, Germany, France and Italy. Canada 10s are slightly underperforming ahead of BoC communications. Curves are generally bull flattening.
- Oil prices are down a touch with WTI back below US\$65, but it has still been a good week so far during which oil has rallied by about \$3.
- US equity futures are down by between ¾% (S&P) versus 1¼% (Nasdaq) while TSX futures are down by 0.4%. European equities are down by about 1% on average. London had been down by less until the BoE communications reinforced hike expectations.

European survey-based growth evidence deteriorated in overnight releases.

The composite Eurozone purchasing managers' index fell by more than expected (55.3, 57.1 prior, 56.8 consensus) as both the manufacturing sector PMI (56.6, 58.6 prior) and services PMI (55.0, 56.2 prior) fell by more than expected during March. The Eurozone manufacturing new order book weakened and the incoming new business metric on the services side also fell.

Within the Eurozone composites, both Germany and France saw declines in the composite readings and each of the manufacturing and services components.

Germany's composite fell by over two points to 55.4 and so did the manufacturing composite while the services PMI slipped by just over one point. France's composite fell by just over one point to 56.2 and is therefore mildly outperforming Germany's, while the manufacturing PMI fell by over two points and the services PMI fell by under one point.

Why are PMIs falling? No doubt President Trump is responsible for some of this waning growth sentiment given his protectionist leanings that have sparked concern about retaliatory trade measures between the US and Europe. His Twitter account is a liability to global growth. But the PMIs peaked in January before the more recent escalation of trade irritants and so there is also an element of coming off the pre-inflated peaks partly due to euro strength since the start of last year and including the appreciation since the end of last year. I've argued in the past that the upswing in PMIs into year-end was not translating into faster Eurozone GDP growth, so consistency requires viewing survey-based evidence of growth downsides with some skepticism. They capture sentiment of purchasing managers and sentiment can swing all over the map for all manner of reasons.

German business confidence also fell this morning, but not as much as the PMIs let alone the other day's ZEW investment sentiment measure. IFO confidence slipped by seven-tenths of a point and the forward-looking expectations component fell by one point. Like the PMIs, the IFO measure has fallen for two months after peaking in January and so a combination of effects (euro strength, protectionism etc) is likely at play.

The Bank of England held all of its policy variables intact this morning. The vote was 7-2, however, as a minority wanted to hike now. The bias moderately leans in favour of continued expectations for a hike at the next meeting in May. The BoE stated that inflation and growth was in line with its February forecasts, weather is a culprit in terms of soft Q1 growth, ongoing tightening is appropriate with an eye on its inflation target, Brexit is a significant influence on the outlook and that the central bank will reassess everything in May. Pound sterling appreciated on the back of the announcements and is among the strongest performers this morning. Scotia's Alan Clarke is forecasting a hike in May and will be covering this morning's announcements in greater detail.

The A\$ is depreciating versus the USD and all other major currencies this morning. One consideration is its proximity and relationship to China on the verge of US-China trade policy developments. The overnight release of the **jobs report** for February carried little influence. Jobs roughly met expectations (17.5k, 20k consensus) with a small downward revision. Like Canada, where wicked oscillations in the headline and components are common, Australia's full-time jobs swung from a 53k drop to a 65k rise while part-time jobs fell by 47k after gaining 66k.

In case one missed it, Brazil's central bank cut its Selic rate by 25bps to 6.5% as expected late yesterday afternoon. More important was that the bias was more dovish than anticipated and signalled that there may be more forthcoming rate cuts. How so? Rather bluntly so: "Regarding the next meeting, at this time, the Copom views an additional moderate monetary easing as appropriate." That's a surprise because of the massive amount of easing that has already been conducted to date and because inflation and growth evidence has been improving at the margin out of the depths of recession. Clearly the central bank wishes to foster this expansion and may also be considering political risks at home and abroad plus the impact of protectionist US policies that did not exempt Brazilian steel exports.

A pair of Asian central banks left policy rates unchanged as expected. Bankgko Sentral ng Pilipinas left its overnight borrowing rate at 3% and Bank Indonesia left its 7 day reverse repo rate at 4.25%.

UNITED STATES

Trump is expected to announce tariffs against China today under super 301 provisions and intended to counter intellectual property violations. The White House schedule shows the announcements coming at 12:30pmET. I'm a bit torn on this issue in that on the one hand many would concur that China offers poor protection for intellectual property and its companies have accordingly benefited, but in my opinion there are better ways of addressing this than Trump's finger-poke-in-the-eye style that risks a series of confidence-sapping retaliatory measures. Like, oh, perhaps staying at the negotiating table on global trade agreements! Further, the purity or credibility of US trade policy goals is seriously jeopardized by the White House's indiscriminate protectionist bias against friends and foes alike, unreasonable demands in NAFTA negotiations, and simplistic understanding of what drives trade balances in aggregate or with individual countries. Fake news and fake facts drive this US administration's overall trade policy goals.

CANADA

Bank of Canada Senior Deputy Governor Wilkins speaks today on "Financial Stability: Taking Care of Unfinished Business" and she will deliver it at a conference on preparing for the next crisis and what we can learn from the last one. Text will be available by 2:45pmET and there will be audience Q&A that is usually of limited use but there will be no press conference. The BoC's low rates for an extended period have been partly responsible for fanning household imbalances and real estate excesses. At this juncture, the central bank faces a complicated balancing act between pulling the punchbowl away from the credit cycle versus continuing to fan household imbalances through low rates driven by a multitude of policy considerations beyond just

housing markets and household finances.

Ahead of tomorrow's CPI, I'll repeat earlier comments. The range of CPI estimates is very wide from 1.4% y/y to 2.2% y/y. That on its own signals no real conviction across consensus. Why? It all largely boils down to whether or not February is a typical month in terms of seasonality influences on the seasonally unadjusted m/m CPI headline especially after an out-sized prior month. Recall that in January, CPI was up 0.7% m/m NSA which was more than double the typical gain in January on average over recent years. February's typical month-ago NSA CPI gain averages out to 0.6% in recent years. If we got that, then CPI would be up 2.2% y/y barring revisions. If instead of that we got a flat print in February over January in seasonally unadjusted terms following the big January rise, then the year-ago rate would fall to 1.5%. Hence the wide range of estimates. Gasoline prices were a flat influence in month-ago terms during February but should add 0.1-0.2 points to the year-ago headline reading. In all, I'm going with a headline reading of 1.8% y/y that would be little changed from the prior month's 1.7% reading. In my opinion, the estimates within consensus that are at or above 2% y/y are too aggressive. The primary issue nevertheless remains focused upon what happens to the average of the three central tendency measures that held steady at 1.8% y/y in January.

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.	2.30	2.31	2.29	2.66	2.67	2.63	2.85	2.88	2.83	3.08	3.12	3.06	Canada - BoC	1.25
CANADA	1.86	1.86	1.76	2.09	2.10	1.98	2.23	2.25	2.14	2.35	2.37	2.29	US - Fed	1.75
GERMANY	-0.60	-0.59	-0.58	-0.05	-0.02	-0.03	0.56	0.59	0.58	1.19	1.22	1.23	England - BoE	0.50
JAPAN	-0.16	-0.15	-0.14	-0.11	-0.11	-0.10	0.04	0.04	0.05	0.76	0.76	0.76		
U.K.	0.92	0.92	0.81	1.24	1.26	1.13	1.49	1.53	1.44	1.76	1.81	1.81		
Spreads vs. U.S. (bps):														
CANADA	-44	-44	-53	-57	-58	-65	-62	-63	-69	-73	-75	-77	Euro zone - ECB	0.00
GERMANY	-290	-290	-287	-271	-270	-265	-230	-229	-225	-189	-190	-183	Japan - BoJ	-0.10
JAPAN	-246	-246	-242	-278	-278	-273	-282	-284	-278	-232	-236	-230		
U.K.	-138	-138	-148	-143	-142	-149	-136	-136	-139	-132	-131	-125	Mexico - Banxico	7.50
Equities	Level						% change:							
	Last	Change		1 Day	1-wk	1-mo	1-yr							
S&P/TSX	15675	58.9		0.4	0.1	1.1	2.1							
Dow 30	24682	-45.0		-0.2	-0.3	-1.1	19.5							
S&P 500	2712	-5.0		-0.2	-1.4	0.3	15.5							
Nasdaq	7345	-19.0		-0.3	-2.0	1.9	26.2							
DAX	12170	-139.5		-1.1	-1.4	-2.3	2.2							
FTSE	6973	-66.3		-0.9	-2.3	-3.9	-4.8							
Nikkei	21592	211.0		1.0	-0.9	-1.7	11.0							
Hang Seng	31071	-343.5		-1.1	-1.5	0.3	27.8							
CAC	5180	-60.2		-1.1	-1.7	-2.4	3.7							
Commodities	Level						% change:							
	Level		Change		1 Day	1-wk	1-mo	1-yr						
WTI Crude	64.95		-0.22		-0.3	6.1	3.5	35.2						
Natural Gas	2.65		0.01		0.4	-1.2	0.6	-12.0						
Gold	1329.77		-2.68		-0.2	1.0	-0.2	6.5						
Silver	16.25		-0.01		-0.0	-2.2	-1.2	-6.2						
CRB Index	196.02		1.87		1.0	1.1	0.4	6.6						
Currencies	Level						% change:							
	Level		Change		1 Day	1-wk	1-mo	1-yr						
USDCAD	1.2875		-0.0028		-0.2	-1.4	1.3	-3.4						
EURUSD	1.2314		-0.0024		-0.2	0.1	-0.1	14.1						
USDJPY	105.65		-0.4000		-0.4	-0.6	-1.0	-5.0						
AUDUSD	0.7722		-0.0043		-0.6	-1.0	-1.6	0.6						
GBPUSD	1.4159		0.0018		0.1	1.6	1.5	13.4						
USDCHF	0.9478		-0.0019		-0.2	-0.4	1.6	-4.4						
Next Meeting Date														
													Canada - BoC	Apr 18, 2018
													US - Fed	May 02, 2018
													England - BoE	Mar 22, 2018
													Euro zone - ECB	Apr 26, 2018
													Japan - BoJ	Apr 27, 2018
													Mexico - Banxico	Apr 12, 2018
													Australia - RBA	Apr 03, 2018
													New Zealand - RBNZ	May 09, 2018

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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