

ON DECK FOR TUESDAY, MAY 22

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	05/22	08:30	Wholesale Trade (m/m)	Mar	--	--	-0.8
US	05/22	10:00	Richmond Fed Manufacturing Index	May	--	8.0	-3.0
US	05/22		Arkansas state primary				
US	05/22		Georgia state primary				
US	05/22		Kentucky state primary				
US	05/22		Texas primary runoff				

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KEY POINTS:

- Mini-relief rally on trade policy, Italian politics
- Reduced trade policy concerns ...
- ...as US-China trade tensions ease...
- ...and the NAFTA dialogue is likely pushed out
- Italian debt spreads narrow on President's fiscal policy caution
- Lower near-term trade tensions give the BoC a green light
- CDN wholesale to firm up GDP expectations...
- ...before the focus shifts to bank earnings
- US Richmond gauge to inform ISM...
- ...ahead of FOMC minutes, Powell
- Global Week Ahead

Please see the *Global Week Ahead – How Much Is Too Much To The Fed?* ([here](#)). Key risk highlights this week include:

- FOMC minutes
- Fed Chair Powell
- NAFTA negotiations
- US-China trade negotiations
- Eurozone PMIs
- CPI: UK, Japan, Brazil, Malaysia
- UK retail sales, GDP-II
- US housing, investment, mfrg
- CDN bank earnings
- Mexican election debate
- Venezuelan election
- BoK
- RBA's Lowe
- Mexican macro releases
- US, CDN auctions

INTERNATIONAL

Tamped down worries over US-Chinese trade frictions (see below) and lessened market concerns about Italy's fiscal plans are motivating a mini-relief rally that is weakening the USD and driving slight equity gains. US and Canadian developments will be light today ahead of FOMC minutes tomorrow and Chair Powell on Friday plus the start of Canadian bank earnings season tomorrow.

- Currency markets are selling the USD into the North American sessions and have been doing so since Friday's close. All of the major crosses are slightly firmer this morning with pound sterling and the euro among the leaders.

- Oil prices are higher perhaps partly on USD weakness. WTI and Brent are up slightly. Gold is flat.
- The benchmark US ten year Treasury yield is up by about 2bps and so is the Canada 10 year yield, but 10 year gilt and bund yields are leading upward pressures (+4bps). Italian debt spreads are compressing with the 10 year yield down 8bps. Yesterday's strong sell-off in Italian debt stabilized later in the day into this morning when President Sergio Mattarella is reported to have cautioned the leaders of the Five Star Movement and League about their fiscal plans.
- US equity futures are up by ¼% - ½% along with TSX futures (¼%) as European cash markets range from little changed in London, Paris and Frankfurt to rallies in Italy and Spain with an overall slightly positive bias across Europe.

UNITED STATES

The US only updates the **Richmond Fed's manufacturing gauge** for May (10amET). It will be used to firm up ISM-manufacturing expectations ahead of the June 1st decision. The other main regional gauge used for predicting ISM is the already released and volatile Philly Fed metric that soared to its highest reading in a year.

1. Trade tensions between the US and China appear to be calming, at least for now. Here is an outline of the major catalysts over the weekend and through the overnight session. Throughout it all it is apparent that Peter Navarro has been largely sidelined within the administration which is constructive from a market standpoint.
2. Saturday's joint statement by the US and China on trade consultations ([here](#)) noted China's vague plan to buy more US goods particularly focused upon US agriculture and energy to be accompanied by discussions on other items while strengthening cooperation on intellectual property protections. Notably, the statement flagged that "both sides agreed to encourage two-way investment." That may suggest that Mnuchin's expected list of possible investment restrictions on Chinese activities may not be acted upon by Trump.
3. US Treasury Secretary Mnuchin noted on Sunday that the US would not apply new tariffs on Chinese goods which avoids a looming skirmish over the US ITC's recommended list of Chinese tariffs that would have sparked Chinese retaliation.
4. China announced (again) that it would ease tariffs on imported cars from 25% to 15% effective on July 1st which matters more to higher end luxury brands largely from Europe than US brands. European and Japanese brands take the six top spots for Chinese auto imports and 9 out of the top ten seven of which are European brands. China made this offer about a month ago.
5. The WSJ reported overnight ([here](#)) that the US and China have agreed on a plan to rescue China's ZTE Corp that would include lifting a US ban on selling hardware and software to ZTE after it was found to have violated the earlier Iranian sanctions and in exchange there may be management and board changes plus fines.
6. US President Trump unilaterally proclaimed this week to be "World Trade Week" which would make it highly ironic if he applied punitive measures against China this week or thereafter. For that matter, it also lessens concerns over the NAFTA dialogue.

CANADA

Canada only issues wholesale trade figures for March (8:30amET). It would take a massive swing to materially impact estimates for March GDP growth that my regression model currently estimates to come in at 0.3% m/m on May 31st.

There was nothing material by way of NAFTA negotiations over the Canadian long weekend. The next several weeks will push the deadline for a vote in the current Congress by late December or very early January. The more likely scenario is no deal this year as negotiations and a possible vote in the next session of Congress occur next year. The risk of abrogating the agreement is probably next to nil. The endless sequence of false guidance that an imminent deal is in the works has been with us for months now but is succumbing to the consensus view that is pushing out negotiating and approval deadlines into next year.

Overall, in my opinion, lessened trade policy risks between the US and China and pushed out NAFTA timelines give the BoC the green light to focus on the fundamentals and current financial conditions next week and should raise the implied market odds of a hike on May 30th.

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.	2.57	2.57	2.58	2.91	2.90	2.92	3.07	3.06	3.07	3.21	3.20	3.20	Canada - BoC	1.25		
CANADA	2.04	2.03	2.04	2.32	2.30	2.31	2.51	2.48	2.48	2.51	2.49	2.51	US - Fed	1.75		
GERMANY	-0.60	-0.62	-0.55	-0.08	-0.11	0.01	0.56	0.52	0.65	1.26	1.23	1.32	England - BoE	0.50		
JAPAN	-0.14	-0.13	-0.13	-0.10	-0.10	-0.09	0.06	0.06	0.06	0.77	0.76	0.75				
U.K.	0.83	0.80	0.84	1.20	1.16	1.21	1.52	1.48	1.52	1.92	1.89	1.92				
	Spreads vs. U.S. (bps):															
CANADA	-53	-54	-54	-59	-60	-61	-57	-58	-59	-70	-71	-69	Euro zone - ECB	0.00		
GERMANY	-318	-319	-312	-298	-300	-291	-251	-254	-243	-195	-197	-188	Japan - BoJ	-0.10		
JAPAN	-271	-270	-271	-301	-299	-301	-302	-300	-301	-244	-244	-245				
U.K.	-174	-177	-174	-171	-174	-171	-156	-158	-156	-129	-131	-129	Mexico - Banxico	7.50		
Equities	Level						% change:									
	Last			Change			1 Day		1-wk		1-mo		1-yr			
S&P/TSX	16162			18.8			0.1		1.1		4.4		4.6		Australia - RBA	1.50
Dow 30	25013			298.2			1.2		0.5		2.2		19.7			
S&P 500	2733			20.0			0.7		0.1		2.4		14.2		New Zealand - RBNZ	1.75
Nasdaq	7394			39.7			0.5		-0.2		3.5		20.5			
DAX	13132			54.2			0.4		1.2		4.7		3.9			
FTSE	7880			20.8			0.3		2.0		6.9		5.1			
Nikkei	22960			-42.0			-0.2		0.6		3.6		16.7		Canada - BoC	May 30, 2018
Hang Seng	31234			186.4			0.6		-1.0		2.7		23.0		US - Fed	Jun 13, 2018
CAC	5644			6.9			0.1		1.6		4.3		6.0			
Commodities	Level						% change:									
WTI Crude	72.42			0.18			0.2		1.6		5.9		42.8		England - BoE	Jun 21, 2018
Natural Gas	2.84			0.03			1.0		0.1		3.6		-14.8		Euro zone - ECB	Jun 14, 2018
Gold	1294.17			1.57			0.1		0.3		-3.1		2.7		Japan - BoJ	Jun 15, 2018
Silver	16.34			-0.05			-0.3		-1.8		-4.5		-2.6			
CRB Index	205.69			2.00			1.0		0.9		1.9		10.5			
Currencies	Level						% change:									
USDCAD	1.2778			-0.0011			-0.1		-0.8		-0.6		-5.4		Mexico - Banxico	Jun 21, 2018
EURUSD	1.1806			0.0015			0.1		-0.3		-3.3		5.1			
USDJPY	110.93			-0.1200			-0.1		0.5		2.0		-0.3		Australia - RBA	Jun 05, 2018
AUDUSD	0.7592			0.0010			0.1		1.6		-0.2		1.5			
GBPUSD	1.3449			0.0022			0.2		-0.4		-3.5		3.5		New Zealand - RBNZ	Jun 27, 2018
USDCHF	0.9956			-0.0017			-0.2		-0.6		1.8		2.3			

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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