

ON DECK FOR FRIDAY, JULY 20

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest	
US	07/20	08:20	Fed's Bullard Speaks on Economy and Monetary Policy					
CA	07/20	08:30	Core CPI - Common (y/y)	Jun	--	1.9	1.9	
CA	07/20	08:30	Core CPI - Median (y/y)	Jun	--	--	1.9	
CA	07/20	08:30	Core CPI - Trim (y/y)	Jun	--	--	1.9	
CA	07/20	08:30	CPI, All items (m/m)	Jun	0.2	0.0	0.1	
CA	07/20	08:30	CPI, All items (y/y)	Jun	2.5	2.3	2.2	
CA	07/20	08:30	CPI, All items (index)	Jun	--	133.4	133.4	
CA	07/20	08:30	Retail Sales (m/m)	May	1.2	1.0	-1.2	
CA	07/20	08:30	Retail Sales ex. Autos (m/m)	May	0.7	0.5	-0.1	

KEY POINTS:

- Trump rattles markets again...
- ...but his China tariffs remarks is not 'news'...
- ...and he can't do much of anything about the Fed
- Will CDN CPI move higher this time?
- A better month for Canadian consumers?
- Falling Japanese CPI ex-food and energy
- A record high positive US earnings beat ratio

INTERNATIONAL

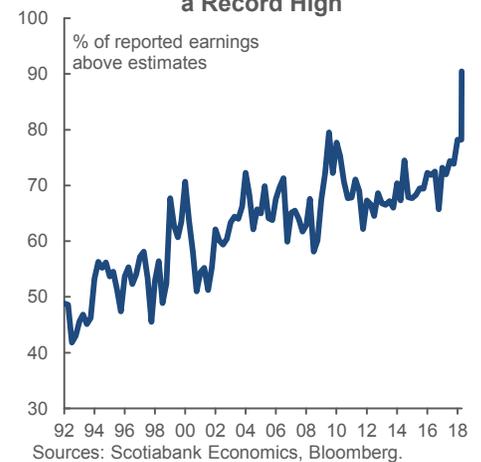
Global asset classes are marked by a slightly softer USD, slightly higher sovereign yields, a slight risk-off tone in equities and flat commodities. President Trump's comments on the Fed

- The USD is somewhat weaker this morning. Leading appreciating crosses include the rand, NZ\$, CAD and pound sterling while the won, peso and Taiwan dollar underperform. Overall, the DXY is marginally softer. Overall, there isn't any additional follow through on Trump's remarks about the Fed yesterday that he repeated on CNBC this morning.
- US equity futures are down ¼% except for the Nasdaq that is trading a bit higher while TSX futures are flat. European cash markets are down by up to ½% in Paris and a little more in Milan. Tokyo closed down ¼% but China's stock exchanges all rallied with the Shanghai composite up 2%, Shenzhen up 1% and HK up by ¾%. Overnight volatility in China's stocks and the yuan was fed by mixed developments including reports of dollar selling by Chinese banks, speculation that the PBOC may be growing concerned about disorderly currency depreciation and interested in moderating it, as well as broader policy speculation on possible regulatory easing.
- Sovereign bond yields are under slight upward pressure in the US, Canada, UK and core Europe but the stand-out is spread widening in Italy on concerns surrounding the future of Italy's Finance Minister that the Finance Ministry has publicly countered as a "pure invention."
- Oil prices are on the positive side of being little changed on balance. So are gold prices.

Japanese CPI was generally weaker than expected in the overnight release for June but the yen didn't really care. Headline was unchanged from the prior month's 0.7% y/y (0.8% consensus). Core that excludes fresh food was up 0.8% (0.7% prior, 0.8% consensus) but that small up-tick was just because of energy prices. CPI ex food and energy slipped to 0.2% (0.4% consensus, 0.3% prior). CPI ex food and energy has fallen from a peak of 0.5% in March as some of the

CONTACTS

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

Earnings Surprises Near a Record High


small improvement from a trough of -0.1% y/y in March of last year is being reversed.

UNITED STATES

President Trump remarked on CNBC this morning that he is “ready to go to” tariffs on US\$505 billion of Chinese goods imports. Markets fluttered when the news hit. The remark, however, is not news and certainly not indicating an extra \$505 billion of Chinese goods is now being targeted. [This FT article](#) that can be viewed by subscribers does a decent job of summarizing the timelines and amounts of the tariff announcements to date. His remark on applying tariffs to \$505B of Chinese goods is just the add-up of old news and prior announcements after taking account of some of the overlap in the announcements. We're in this recurring cycle whereby markets repeatedly react, then react again, then react yet again to the same announcements/guidance without knowing or tracking the context. This is a classic summertime market albeit with August coming early in that it's a headline driven market that shoots first and thinks later, if at all.

President Trump also repeated his Fed-meddling remarks on CNBC this morning after rattling the USD with identical references yesterday. Please see the piece titled “Can Trump Directly Influence The Fed?” that I put out last evening and that will be posted to our web site later this morning.

North American earnings reports should play a minor role today. None are due out in Canada. Twelve S&P500 firms release with all in the pre-market, being a Friday. All of the significant names such as GE have beaten analyst estimates for EPS growth in Q2. Check out the accompanying chart for the share of earnings reports thus far in the season that have beaten analysts' expectations. It's at an all-time record high. A strong season was expected but this one is off the charts compared to already bullish expectations. The aftermath of the dot-com period ushered in an era of persistent upside beats as SOX, other industry regs and the three of prosecution or being professionally pilloried turned analysts much more conservative in their earnings calls, but the current beat ratio is an upside outlier nonetheless.

CANADA

It's a big day for Canadian data. Sort of. Except for the fact that BoC Governor Poloz says he doesn't really care about short-term data including his remark that “the little picture is the bumps and wiggles.” Markets care, however, and so should scorecard keepers in terms of evaluating how the evolving data fits into the BoC's narrative, the consensus narrative and our relatively more hawkish narrative on BoC risks.

CPI for June (8:30amET) is expected to tick higher in year-ago terms. Out of 19 forecasters, four see it remaining at the prior month's 2.2% y/y rate and none see it slipping. Eight anticipate 2.3% and seven including Scotia expect a rise to either 2.4% or 2.5%. There are several drivers of an expected up-tick but of course recall that the prior month's humble pie was rather unpalatable.

One is that while June is normally a fairly benign month for seasonal price changes, the fact that May's seasonally unadjusted month-ago price gain was very much on the lighter side of a traditional May could magnify the risk of a more-powerful-than-normal rise in June.

One reason for this is that food prices in particular performed unusually in May. Food prices fell 0.1% m/m in May versus the recent same-month pattern of around +½% gains. The fact that food prices undercut expectations was a major contributing factor to May's inflation undershoot that markets over-reacted to in tamping down the drop in rate hike expectations weeks before the recent decision. So much so that CPI would have risen to about 2.5% y/y and closer to consensus estimates had food prices behaved more typically for the month. It's unlikely that new sources of competition in food retailing over the years had a sudden profound influence in May and so the inclination is to look through some of May's softness toward a rebound in June.

Also note, however, that gasoline prices are likely to have been a fairly similar influence upon the year-ago inflation rate in June compared to May. Tariff effects will likely further exacerbate upward pressure upon inflation after [this](#) list of countervailing tariffs on imports from the US took effect on July 1st.

Weather—or more specifically, the delayed start of Spring and Summer—may have also sapped more normal pricing power in May but the arrival of seasonally more normal weather in June and July may have restored some of that.

Based upon the above arguments, I'm assuming the average of the BoC's three core inflation measures ticks higher and back to the 2% target.

Canadian retail sales are also due out for the prior month of May (8:30amET). This should provide a more upbeat picture of consumer health than the prior month's drop of 1.2% in the dollar value of sales. Consensus expects +1% m/m for headline sales and +1/2% for sales ex-autos (Scotia similar at +1.2%, 0.7%). There is always a wide bracket around a retail sales estimate given the paucity of advance tracking signals. As for the drivers, unlike in June, monthly average gasoline prices jumped higher by over 4% m/m, unadjusted and non-annualized and with about an 11% weight on gasoline stations. That should help buoy the dollar value of sales, but not singlehandedly. Also recall that poor weather in April and a delayed start to Spring may have played a role in depressing key spending categories. Eight of eleven retail categories fell in April led by auto sales, building materials and related stores, clothing stores and sporting goods and each of these categories is at least partly weather-driven. I'm factoring in a

significant rebound in May but it's possible that the turn in weather postpones much of the pent-up spending until later.

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.	2.60	2.59	2.58	2.74	2.73	2.73	2.85	2.84	2.83	2.97	2.96	2.93	Canada - BoC	1.50
CANADA	1.94	1.93	1.94	2.03	2.02	2.05	2.12	2.11	2.13	2.17	2.16	2.19	US - Fed	2.00
GERMANY	-0.63	-0.63	-0.63	-0.30	-0.30	-0.31	0.34	0.33	0.34	1.00	1.01	1.01	England - BoE	0.50
JAPAN	-0.12	-0.13	-0.13	-0.11	-0.10	-0.10	0.04	0.04	0.04	0.69	0.69	0.69		
U.K.	0.73	0.73	0.74	0.97	0.97	1.03	1.20	1.19	1.27	1.67	1.66	1.73		
Spreads vs. U.S. (bps):														
CANADA	-66	-66	-64	-71	-72	-68	-73	-73	-70	-80	-80	-74	Euro zone - ECB	0.00
GERMANY	-322	-322	-321	-304	-304	-303	-251	-251	-249	-197	-195	-192	Japan - BoJ	-0.10
JAPAN	-272	-272	-271	-285	-284	-283	-282	-280	-279	-228	-227	-225		
U.K.	-187	-186	-184	-177	-177	-170	-165	-165	-156	-130	-130	-120	Mexico - Banxico	7.75
Equities	Level			Change			1 Day			% change:				
	Last													
S&P/TSX	16543			65.6			0.4	-0.1		0.7			Australia - RBA	1.50
Dow 30	25065			-134.8			-0.5	0.6		1.6			New Zealand - RBNZ	1.75
S&P 500	2804			-11.1			-0.4	0.2		1.3				
Nasdaq	7825			-29.1			-0.4	0.0		0.6				
DAX	12621			-65.4			-0.5	0.6		-0.6				
FTSE	7666			-18.2			-0.2	0.1		0.5				
Nikkei	22698			-66.8			-0.3	2.3		0.6			Canada - BoC	Sep 05, 2018
Hang Seng	28224			213.6			0.8	-1.1		-5.0			US - Fed	Aug 01, 2018
CAC	5389			-28.2			-0.5	-0.7		0.3			England - BoE	Aug 02, 2018
Commodities	Level			Change			1 Day			% change:				
WTI Crude	69.83			0.37			0.5	-1.7		5.5			Euro zone - ECB	Jul 26, 2018
Natural Gas	2.77			-0.00			-0.0	0.6		-6.6			Japan - BoJ	Jul 31, 2018
Gold	1224.87			1.96			0.2	-1.3		-3.4				
Silver	15.26			-0.18			-1.2	-3.7		-6.7			Mexico - Banxico	Aug 02, 2018
CRB Index	191.76			0.34			0.2	-1.0		-1.7			Australia - RBA	Aug 07, 2018
Currencies	Level			Change			1 Day			% change:				
USDCAD	1.3231			-0.0042			-0.3	0.5		-0.6			New Zealand - RBNZ	Aug 08, 2018
EURUSD	1.1666			0.0024			0.2	-0.2		0.8				
USDJPY	112.24			-0.2300			-0.2	-0.1		1.7				
AUDUSD	0.7379			0.0018			0.2	-0.6		0.1				
GBPUSD	1.3047			0.0033			0.3	-1.3		-0.9				
USDCHF	0.9970			-0.0017			-0.2	-0.5		0.1				

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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