ON DECK FOR MONDAY, DECEMBER 16

Country	Date	Time	Event	Period	BNS	Consensus	Latest
CA	12/16	08:30	International Securities Transactions (C$ bn)	Oct	--	--	4.8
US	12/16	08:30	Empire State Manufacturing Index	Dec	--	4.0	2.9
CA	12/16	09:00	Existing Home Sales (m/m)	Nov	--	--	0.0
US	12/16	10:00	NAHB Housing Market Index	Dec	--	70.0	70.0
US	12/16	16:00	Total Net TIC Flows (US$ bn)	Oct	--	--	-37.6
US	12/16	16:00	Net Long-term TIC Flows (US$ bn)	Oct	--	--	49.5

KEY POINTS:

- **Risk-on continues after UK election, US-China trade deal…**
- **…as a relief rally that tariffs and hard Brexit were avoided**
- **The US-China trade deal's math looks very fishy**
- **China macro reports suggest China is coping with trade tensions**
- **Eurozone composite PMI holds flat, signals little to no growth**
- **UK PMIs disappoint and it's unclear if that's transitory**
- **CDN Fiscal update to be released this morning**
- **CDN home sales likely slipped**
- **US Empire, Markit PMIs on tap**
- **Global Week Ahead**

Please see the Global Week Ahead here. Key risks this week will include:

- US-China trade details
- Brexit preparations
- Carney's successor
- CBs: BoE, BoJ, PBOC, Riksbank, Norges…
- …Banxico, BanRep, BoT, BI, CBCT
- Inflation: US, Canada, Japan, UK
- Eurozone: PMIs, IFO
- CDN fiscal update
- CDN macro: mfrg, retail, home sales, ADP
- US macro: consumption, incomes, claims…
- …home resales, starts, industrial readings
- Brazil's Inflation Report, minutes
- Australian jobs
- GDP: NZ, Argentina

INTERNATIONAL

Global markets continue to build castles in the air this morning. That made Keynes rich when he did it, but largely because he knew when to jump off! The math behind the US trade deal with China is highly suspect but it may take some time for that to sink in (see the US section below).

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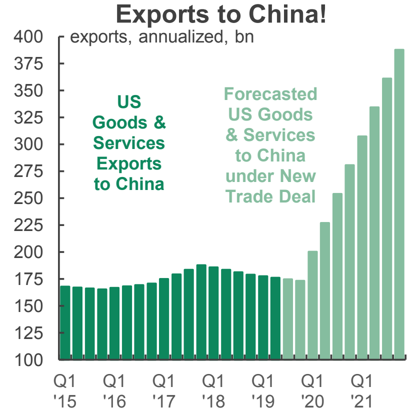
Good Luck Doubling US Exports to China!



Sources: Scotiabank Economics, US Congressional Research Service.

- US equity futures are up by between ¼% and ½%. TSX futures are up by about ¼%. European cash markets are in the green with London leading the way (+2¼%), Paris up by half that and the Dax up by about ¾%.

- The USD is being left out in the cold this morning. Most crosses are appreciating against it as safe haven demand erodes. The yen is little changed to the dollar but also losing its safe haven appeal to most other crosses. Commodity oriented crosses including CAD and the A$ are among the leaders.

- Oil prices are little changed. WTI is flat at US$60, and Brent is up by about 20 cents to about US$65½.

- Sovereign bonds are mixed. US Treasury yields are up by about 2bps across the curve. Canada is cheapening a bit more aggressively over longer maturities with its curve bear steepening a touch. The gilts curve is a bit funky with the front end cheaper by about 3bps the longer end richening by about 2bps in an overall flattener. 10 year EGBs and JGBs are little changed except for spread widening in Italy.

Does China really need this US trade deal to work? Overnight macro releases would suggest perhaps not. Industrial production was up by 6.2% y/y (5.0% consensus, 4.7% prior). Retail sales were up by 8.0% y/y (7.6% consensus, 7.2% prior). Fixed asset investment climbed by 5.2% and was on consensus and unchanged. New home prices climbed again (+0.3% m/m) and have not fallen since April 2015. Also, the jobless rate held steady at 5.1% and has been little changed this year. You might want to have a salt shaker handy when pouring over the figures in your own time, but on the surface it seems that things were tickety-boo in November at least by these readings.

UK purchasing managers' indices disappointed expectations this morning. The December releases showed the composite PMI falling more deeply into contraction at 48.5 (49.3 prior) and particularly through the manufacturing PMI (47.4, 48.9 prior). The services PMI slipped by less (49.0, 49.3 prior). This might have been due to apprehension ahead of the UK general election, but it's not clear that is temporary. A hard Brexit scenario has been averted but the UK will still leave the EU and needs a trade agreement that will maintain uncertainty over the rules of the export and investment complex throughout 2020 on the path to the year-end deadline.

Eurozone PMIs also disappointed. The composite PMI held flat at 50.6 to signal no improvement and that signals little to no growth, while the manufacturing PMI fell a full point to 45.9 that signals a deeper contraction and the services PMI increased by half a point to 52.4 (51.9 prior). The manufacturing PMIs fell in Germany (43.4, 44.1 prior) and France (50.3, 51.7 prior). The services PMI increased in both countries by only by three-tenths in German to 52.0, and two-tenths in France to 52.4.

UNITED STATES

The US will focus upon the Markit purchasing managers' indices for December (9:45amET) and the Empire manufacturing report for December that held flat at 3.5 (2.9 prior) and that kicks off the round of regional surveys on the path to the next ISM-manufacturing report.

The math behind the US-China is fishy to say the least. You could say that the degree to which the figures are downright unattainable through reasonable means in keeping with the spirit of the agreement is 'uuuge' and 'unprecedented' and so in that respect Trump is not wrong!

Guidance from the USTR (here and here) stipulates that China has agreed to raise imports of goods and services from the US by "no less than US$200 billion" from the level that existed at the end of 2017 and to do so over a two year period by the end of 2021 with no agreement or target thereafter. Of this amount, China is to increase its total purchases of agricultural products to US$40–$50 billion over *each* of the next two years. The USTR has stated that no further breakdown of the quotas will be provided. Good luck!

The US exported $188 billion of goods and services to China in 2017 which is the benchmark year for the agreement. Raising that amount by at least $200 billion would target US$388 billion in exports of goods and services by the end of 2021 or a 2.1 fold increase. If instead we started from the present level of exports to China which was roughly US$175 billion, then getting to the target would mean a roughly 2¼ fold increase. That's extraordinarily ambitious notwithstanding the fact that the USTR's Lighthizer emphasized that both countries agreed to do so. The accompanying chart vividly portrays what would have to happen to US exports of goods and services to China by the end of 2021 using linear interpolation of the target off the 2017 benchmark year. It may not be a linear path—it could ramp up more quickly before the US election, or more slowly given lags in making trade adjustments—but this approach makes the point about the enormity of the task that lies ahead.

The agricultural targets are even more ambitious. The US exported about US$9.2 billion in total agricultural products to the US in 2018 (here) and is tracking less than that this year. To achieve US$40–50 billion in agricultural exports to China in *each* of the next two years would require expanding the total by 4–5 times by the end of 2021. The aggregate export targets are ambitious as noted above, but I've run out of superlatives that aren't profanities when it comes to describing the goal for agricultural exports.

The following points are offered on the feasibility of this aggregate export target path and the agricultural exports path, and ways in which they could be manipulated.

1. One obvious possibility is that China will simply fail to hit these amounts. It may make some front-loaded progress on the path to the US election next November by loading up boatloads of soybeans and hogs, but ultimately fail thereafter and gamble that the political tone in Washington may become less combative. As argued in the Global Week Ahead, that is indeed a big gamble since the twin deficits are likely to keep climbing over time including the US trade deficit through the lagging effects of US dollar strength upon global supply chains. What this could nevertheless achieve for China is to buy more time to re-align supply chains.

2. Another possibility is that China could stockpile goods by over purchasing and placing them in inventory for future needs. After the two year period, imports from the US could plunge as efforts turn toward destocking and there is nothing in the apparent agreement other than an expectation that exports to China will continue to rise.

3. China could import more from the US and re-export it elsewhere. Other countries imports of US goods could simply wind up in transit through Chinese ports but there doesn't appear to be anything in the agreement that would guard against this happening. China could strike side arrangements with multiple other countries to meet their demands for US goods and all that winds up happening is that it appears as if the US exports more to China but comparably less to other countries.

4. China could reallocate purchases away from other countries in order to meet the quotas for US goods. This is a dangerous scenario for the world economy as it further weakens growth elsewhere through beggar-thy-neighbour zero-sum trade policies. That might put America first in the short-run, but if it weakens the rest of the world economy then the US could pay a price by way of growth prospects in other markets.

5. Since the purchase targets are in nominal US$ terms, one way of contributing toward their achievement could be through prices and exchange rate effects. China might simply pay a lot more for US exports in the short run instead of achieving the quotas in volume terms. Recall that while China has somewhat clamped down on the practice, it's history of fake invoicing problems with exporters is well known. The state is likely to pressure Chinese importers to hit the US quotas and those same importers may well at least partly fudge the invoices to keep the Communist Party smiling.

CANADA

Canada updates existing home sales before the Finance Minister's Fall economic and fiscal update this morning.

Canadian Finance Minister Morneau will begrudgingly release the Fall economic and fiscal update when the press embargo lifts at 10:45amET at which point he will host a press conference (advisory here). See Rebekah Young's preview here.

Canada updates existing home sales for November this morning (9amET). As noted in the Global Week Ahead, seasonally adjusted sales in Toronto and Vancouver slipped in November and could drag down the national totals (not all local boards report in advance). That would be the second straight month of weakness and suggest that momentum is waning from the rebound that occurred from March through August. The next main batch of home sales figures of relevance, however, is likely to be the key Spring market given how seasonal the Canadian housing market is over the year.

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.	1.63	1.61	1.62	1.68	1.65	1.66	1.85	1.82	1.82	2.27	2.25	2.25
CANADA	1.69	1.66	1.66	1.63	1.59	1.60	1.62	1.58	1.59	1.72	1.68	1.70
GERMANY	-0.62	-0.62	-0.64	-0.55	-0.53	-0.57	-0.30	-0.29	-0.31	0.22	0.23	0.22
JAPAN	-0.12	-0.13	-0.12	-0.11	-0.12	-0.09	-0.01	-0.02	0.00	0.42	0.43	0.45
U.K.	0.57	0.55	0.57	0.59	0.59	0.57	0.77	0.79	0.76	1.26	1.28	1.27
	Spreads vs. U.S. (bps):											
CANADA	6	5	5	-6	-6	-6	-23	-25	-23	-55	-57	-56
GERMANY	-225	-222	-225	-223	-219	-222	-215	-211	-213	-205	-202	-203
JAPAN	-175	-173	-174	-180	-178	-175	-186	-184	-182	-186	-182	-180
U.K.	-106	-106	-104	-110	-107	-109	-107	-103	-106	-101	-97	-99

Equities	Level		% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	17003	56.2	0.3	0.0	-0.1	16.5
Dow 30	28135	3.3	0.0	0.4	0.5	16.7
S&P 500	3169	0.2	0.0	0.7	1.5	21.9
Nasdaq	8735	17.6	0.2	0.9	2.3	26.4
DAX	13386	102.9	0.8	2.1	1.1	23.2
FTSE	7525	171.8	2.3	4.0	3.0	9.9
Nikkei	23952	-70.8	-0.3	2.2	2.8	12.1
Hang Seng	27508	-179.7	-0.6	3.8	4.5	5.4
CAC	5988	68.9	1.2	2.6	0.8	23.4
Commodities	Level		% change:			
WTI Crude	60.15	0.08	0.1	1.9	4.2	17.5
Natural Gas	2.32	0.02	1.0	3.9	-13.7	-39.4
Gold	1478.73	2.39	0.2	1.2	0.7	19.3
Silver	16.94	0.07	0.4	-0.0	-0.1	15.4
CRB Index	184.67	0.86	0.5	1.9	2.0	2.4
Currencies	Level		% change:			
USDCAD	1.3117	-0.0049	-0.4	-0.9	-0.7	-2.2
EURUSD	1.1148	0.0027	0.2	0.8	0.7	-1.8
USDJPY	109.42	0.0400	0.0	0.8	0.7	-3.0
AUDUSD	0.6894	0.0018	0.3	1.0	1.2	-4.0
GBPUSD	1.3352	0.0021	0.2	1.6	3.1	5.8
USDCHF	0.9825	-0.0017	-0.2	-0.6	-0.7	-1.0

Central Banks	
Current Rate	
Canada - BoC	1.75
US - Fed	1.75
England - BoE	0.75
Euro zone - ECB	0.00
Japan - BoJ	-0.10
Mexico - Banxico	7.50
Australia - RBA	0.75
New Zealand - RBNZ	1.00
Next Meeting Date	
Canada - BoC	Jan 22, 2020
US - Fed	Jan 29, 2020
England - BoE	Dec 19, 2019
Euro zone - ECB	Jan 23, 2020
Japan - BoJ	Dec 19, 2019
Mexico - Banxico	Dec 19, 2019
Australia - RBA	Feb 03, 2020
New Zealand - RBNZ	Feb 11, 2020

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.