

**ON DECK FOR WEDNESDAY, APRIL 29**

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	04/29	07:00	MBA Mortgage Applications (w/w)	Apr 24	--	--	7.3
US	04/29	08:30	GDP (q/q a.r.)	1Q A	-7.0	-4.0	2.1
US	04/29	08:30	GDP Deflator (q/q a.r.)	1Q A	--	1.0	1.3
US	04/29	10:00	Pending Home Sales (m/m)	Mar	--	-13.6	2.4
US	04/29	14:00	FOMC Interest Rate Meeting (%)	Apr 29	0.25	0.25	0.25

**KEY POINTS:**

- Risk-on bias across asset classes ahead of the Fed
- What the Fed could do today
- US GDP: how bad Q1 was could further inform Q2 weakness
- Australian CPI inflation picks up one last time
- German CPI continues downward trend

**INTERNATIONAL**

A risk-on bias is sweeping through global asset classes ahead of a Fed meeting that is expected to have a dovish tone and possibly new easing efforts. German inflation decelerated by a little less than consensus expected, but the path forward is clearly lower in any event. Australian CPI picked up in a backward looking assessment ahead of the Q2-onward downward trend in pricing power.

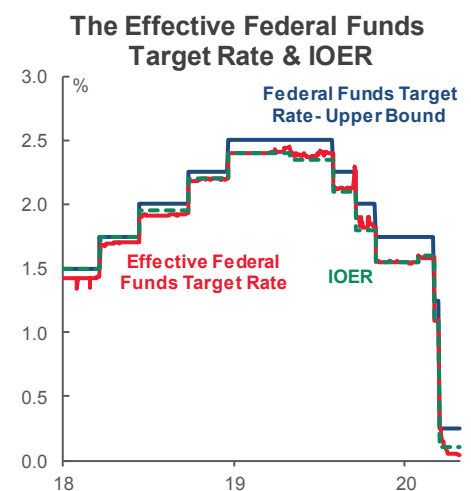
- US equity futures are tracking another gain of about ¾% to 1% across the exchanges. TSX futures are up by over 1%. European cash markets are trading between little changed (Paris) to gains of about 1% or slightly better in London and Milan. Japanese markets are shut for Golden Week starting with Showa Day today. Stocks rallied in Seoul (+¾%), HK (+¼%), India (1.9%) and were mixed across mainland China's main exchanges with Shenzhen down 0.1% and Shanghai up ½%.
- Sovereign bond yields are rallying into US GDP and the Fed. US Treasury yields are down by 2–3bps. Canada's curve is slightly bull flattening with 10s down 2bps. Gilts are rallying more toward the long-end (-3bps). 10 year EGBs are rallying by 1–3bps except in Italy (+5bps).
- Oil prices are up with WTI gaining \$2 to US\$14 for the June contract and Brent up \$1 to US\$21½.
- Most currencies are gaining against the USD except for sterling and ahead of the possibility of further easing by the Fed.

**German CPI inflation fell across individual states**, but not by as much as consensus expects for the national add-up that gets disclosed at 8amET. Headline inflation fell back to between 0.8–1.2% y/y across the states that have disclosed thus far. That should leave nationwide inflation tracking somewhat above the 0.7% consensus estimate but further below the prior month's 1.4% rate and the recent peak of 1.7% in February with further downside ahead. The

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Chart 1



Sources: Scotiabank Economics, Bloomberg.

German 5 year inflation break-even market estimate sits at 0.3%. The German figures come ahead of the Eurozone aggregate CPI reading tomorrow.

**Australian inflation moved up in Q1, but probably for transitory reasons ahead of a sharp downdraft in pricing power.**

Nationwide headline inflation climbed to 2.2% y/y (1.8% prior) with both the trimmed mean (1.8%, 1.6% prior) and weighted median (1.7%, 1.3% prior) core measures moving higher as well. The combined effects of the bush fires, drought and pandemic related hoarding drove several categories higher, but the disinflationary COVID-19 shock to the Australian and global economies is likely to begin reversing this in the next batch of quarterly inflation readings. All of the main subcomponents to the overall CPI index accelerated by a few tenths over the prior quarter such that there was high breadth to the gain.

## UNITED STATES

**GDP for Q1 will offer a backward-looking teaser ahead of the main show this afternoon when the Federal Reserve's latest communications take over.**

**There is an unusually wide range of estimates within consensus for Q1 GDP (8:30amET).** The range of estimates runs starts at about -1% to as much as -10% with Scotia's estimate at about 7%. One part of the uncertainty lies in the fact that the services sector is taking COVID-19 hard across the global economy, but we have more limited tracking ability for services until the final revisions for GDP ahead of which we'll get the quarterly services spending figures that we don't have at present. Another uncertainty is the speed with which the economy went down over the back half of March. Revision risk is always high as today's print will be subsequently revised twice until we get a more accurate picture and so in that sense, whatever the estimate is today will just serve as a placeholder in the discussion. Further, the peak hit is likely to be in Q2 such that Q1 growth is a backward-looking assessment.

**The FOMC statement arrives at 2pmET and will be followed by Chair Powell's press conference at 2:30pmET.** Parsing the statement for subtle changes to the description of current and expected future conditions is not likely to be a major focal point this time around as the last one on March 23<sup>rd</sup> and the truncated statement on March 31<sup>st</sup> are no longer timely assessments in what is expected to be a full re-write.

Possible changes in the statement were highlighted in the Global Week Ahead ([here](#)). I won't repeat all of it other than to offer highlights:

- hike in IOER: We thought it was premature to hike IOER in February, but the Fed did it anyway and it was generally pulled off successfully at the time along with guidance it was just a technical change. It might do so again today given the effective fed funds rate is tracking beneath the Interest on Excess Reserves (chart 1). The aim is to restore control of short-term rates around the IOER rate.
- forward guidance could be clarified beyond the prior emphasis upon how the target range will remain at 0–0.25% “until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and stability goals.” Expect a stronger reference that indicates a very long period of zero money.
- After Monday's announcement that assistance to municipalities would be expanded toward smaller jurisdictions, the focus now turns to whether the Fed will allow a limited number of governmental entities that issue bonds backed by their own revenue to participate in the Municipal Liquidity Facility as guided in the same statement ([here](#)). Additional measures focused upon this market were flagged as under consideration.
- The Fed already has eleven separate facilities in response to the COVID-19 shock but why not make it an even dozen. Among the candidates could be a mortgage servicers program and/or something for energy firms, but both venture toward targeting specific industries which the Fed has generally avoided doing in the past as opposed to broad markets and asset classes.
- Details to existing programs could be tweaked in terms of scale and scope including greater emphasis upon longer term securities.

Beyond that, it's likely premature to have yield curve targeting with the 10 year at below 60bps as this tool is probably more of a recovery phase instrument. The FOMC has signalled very low interest in negative rates throughout the strategic review period. Ditto for make-up strategies like price level targeting and NGDP targeting, but more openness toward a stronger form of symmetrical inflation targeting.

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.	0.19	0.21	0.22	0.34	0.38	0.37	0.58	0.61	0.62	1.17	1.21	1.22	Canada - BoC	0.25
CANADA	0.32	0.32	0.33	0.41	0.42	0.45	0.55	0.57	0.61	1.14	1.16	1.22	US - Fed	0.25
GERMANY	-0.71	-0.69	-0.66	-0.68	-0.65	-0.61	-0.50	-0.47	-0.41	-0.09	-0.06	-0.01	England - BoE	0.10
JAPAN	-0.17	-0.17	-0.13	-0.16	-0.16	-0.11	-0.04	-0.04	0.00	0.43	0.43	0.45	Euro zone - ECB	0.00
U.K.	0.04	0.05	0.09	0.14	0.16	0.19	0.27	0.29	0.33	0.61	0.64	0.67	Japan - BoJ	-0.10
	Spreads vs. U.S. (bps):													
	13	11	12	7	5	8	-3	-4	-1	-3	-4	1		
CANADA	13	11	12	7	5	8	-3	-4	-1	-3	-4	1	Mexico - Banxico	6.00
GERMANY	-90	-91	-88	-102	-103	-97	-108	-108	-103	-127	-127	-122	Australia - RBA	0.25
JAPAN	-36	-39	-35	-50	-54	-48	-62	-65	-62	-75	-78	-77	New Zealand - RBNZ	0.25
U.K.	-15	-16	-13	-20	-22	-18	-31	-33	-29	-57	-56	-54		
Equities	Level						% change:						Next Meeting Date	
	Last			Change			1 Day	1-wk	1-mo	1-yr				
S&P/TSX	14798			156.2			1.1	6.2	16.6	-10.9			Canada - BoC	Jun 03, 2020
Dow 30	24102			-32.2			-0.1	4.7	11.4	-9.2			US - Fed	Apr 29, 2020
S&P 500	2863			-15.1			-0.5	4.6	12.7	-2.7			England - BoE	May 07, 2020
Nasdaq	8608			-122.4			-1.4	4.2	14.7	5.6			Euro zone - ECB	Apr 30, 2020
DAX	10839			43.3			0.4	4.1	12.5	-12.1			Japan - BoJ	Jun 16, 2020
FTSE	6013			54.2			0.9	4.2	9.1	-19.2			Mexico - Banxico	May 14, 2020
Nikkei	19771			-12.0			-0.1	2.5	2.0	-11.2			Australia - RBA	May 05, 2020
Hang Seng	24644			67.6			0.3	3.1	4.9	-17.6			New Zealand - RBNZ	May 12, 2020
CAC	4568			-2.3			-0.0	3.5	5.0	-18.2				
Commodities	Level						% change:							
	Last			Change			1 Day	1-wk	1-mo	1-yr				
WTI Crude	14.44			2.10			17.0	4.8	-32.9	-77.3			England - BoE	May 07, 2020
Natural Gas	1.94			-0.01			-0.4	0.1	18.8	-25.1			Euro zone - ECB	Apr 30, 2020
Gold	1708.38			0.59			0.0	-0.3	4.9	33.5			Japan - BoJ	Jun 16, 2020
Silver	15.15			-0.06			-0.4	1.2	5.8	1.0			Mexico - Banxico	May 14, 2020
CRB Index	111.08			2.88			2.7	-0.0	-10.3	-39.7			Australia - RBA	May 05, 2020
Currencies	Level						% change:							
	Last			Change			1 Day	1-wk	1-mo	1-yr				
USDCAD	1.3948			-0.0050			-0.4	-1.5	-1.5	3.6			New Zealand - RBNZ	May 12, 2020
EURUSD	1.0845			0.0025			0.2	0.2	-1.8	-3.0				
USDJPY	106.50			-0.3700			-0.3	-1.2	-1.2	-4.6				
AUDUSD	0.6511			0.0020			0.3	3.0	5.5	-7.7				
GBPUSD	1.2395			-0.0031			-0.2	0.5	-0.2	-4.2				
USDCHF	0.9748			-0.0004			-0.0	0.4	1.7	-4.4				

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