

ON DECK FOR FRIDAY, MAY 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>
CA	05/22	08:30	Retail Sales (m/m)	Mar	-10.0	-10.5	0.3
CA	05/22	08:30	Retail Sales ex. Autos (m/m)	Mar	-3.0	-4.8	0.0

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KEY POINTS:

- Risk-off sentiment on China tensions, US holiday liquidity
- China elevated tensions with HK and the world
- BoJ rolls out ¥30 trillion small business program
- Canadian retail sales probably fell by a record amount
- UK pandemic hoarding stops, sales plunge
- China adds its name to those abandoning forecasting business
- Early close in US bond market today

INTERNATIONAL

Risk-off sentiment is driven by increasing concern surrounding global and regional tensions with China and may be fanned by liquidity constraints as Americans check out early today, officially or not. The dominant consideration was China's step to further subvert democracy in Hong Kong and associated risks to not only the region but also in terms of global tensions as the move is sure to motivate increased global condemnation.

Other more tangential considerations include that China opted out of the forecasting business by abandoning state targets for things like 2020 GDP growth. Add them to the growing list of folks refusing to forecast during a time of uncertainty that also includes the Fed and the Bank of Canada. Dang, life would have been so much easier around here if no one expected us to forecast and formulate views on policy developments and market directions, but that's the difference in the private sector where we have paying clients to serve! The BoJ offered little surprise overnight as it rolled out a ¥30 trillion (US\$280 billion) small business program while leaving its main policy variables unchanged. The US bond market will close early at 2pmET and there is no official early close for equities ahead of Memorial Day on Monday. Here's wishing our American friends a well deserved—and healthy—long weekend.

- US and Canadian equity futures are all down by about ¼% or so. European cash markets are mixed with London down ¾%, Paris and Frankfurt down ¼%, but Spain up ¼% and Italy up by almost 1%. Asian equities sold off across the board and were led by a 5 ½% drop in Hong Kong on tensions with China.
- US and Canadian sovereign curves are slightly bull flattening with 10s down 2bps and relatively anchored front ends. EGBs are little changed. Hong Kong's bond yields spiked higher in a bear flattener with 2s up 31bps and 10s up 12bps as risks overhanging the credit increased. Australia's curve bull flattened in 2s10s with the 10 year yield down 5bps. China's curve did likewise with the 10 year down 8bps.

- Oil prices are down by about 5% or so in terms of both WTI and Brent.
- The USD is picking up flows from almost everywhere except for the yen that is also gaining. The weakest crosses are generally the commodity-related and China-related ones like the Scandies, A\$, won and CAD. The euro and sterling are also depreciating.

China's plan to impose a national security and anti-sedition law on Hong Kong criminalizes protests against the state and enables Chinese security forces to enforce it in Hong Kong. It imposes a high level of control on Hong Kong liberties and its legal system by elevating the whims of China's uni-party state over the rule of an independent legal system. It confirms suspicion all along that China would ultimately drop the two systems one country approach after the UK returned Hong Kong to China in 1997. It's a serious affront to Hong Kong's liberties and risks bringing the same degree of human rights violations that regularly occur on the mainland into Hong Kong while striking a major blow against democracy in Hong Kong. It also risks escalated violence through protests against the measure and potential capital flight. Perhaps more important in a bigger picture sense is that it confirms China is an increasingly emboldened state.

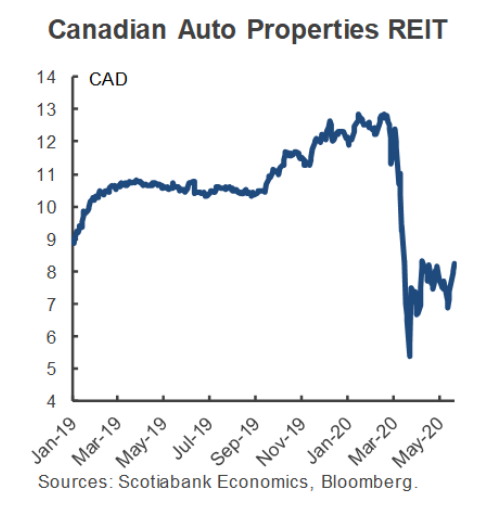
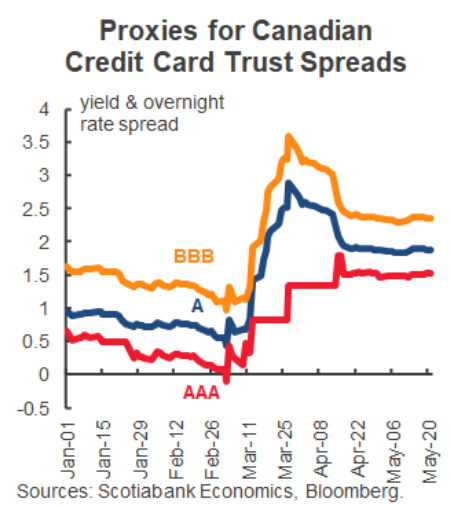
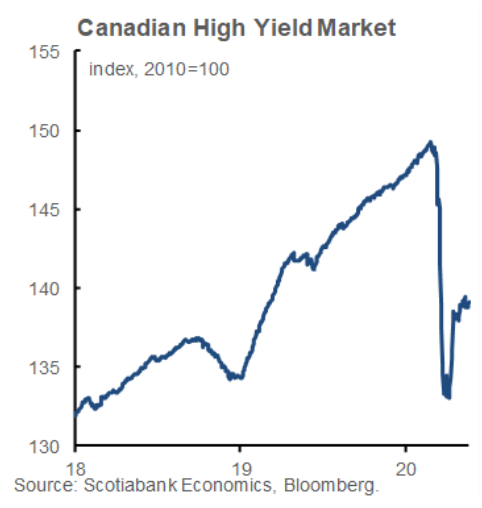
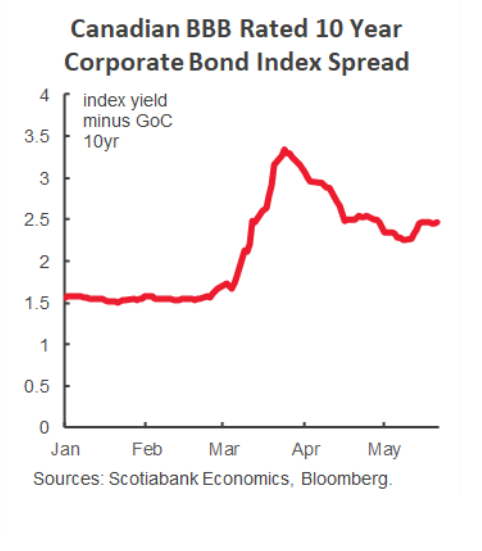
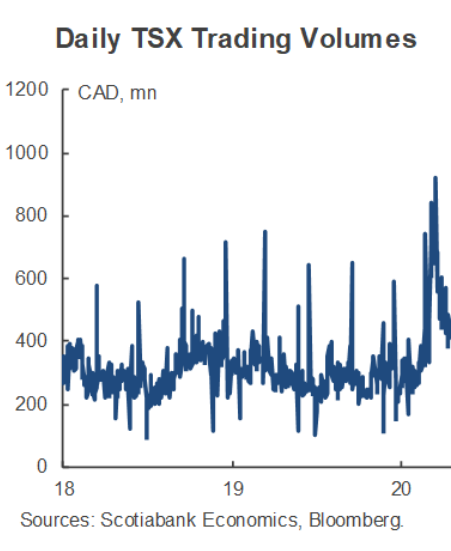
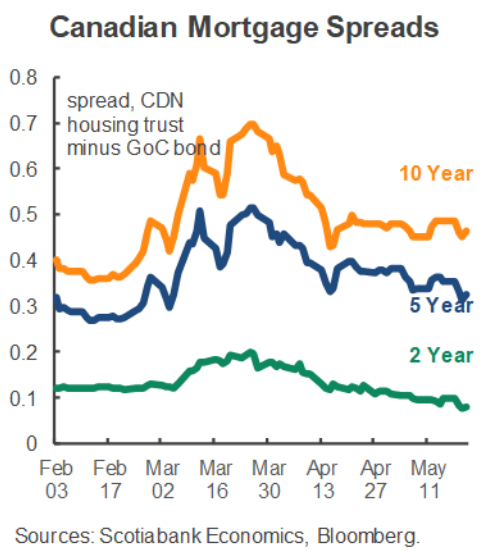
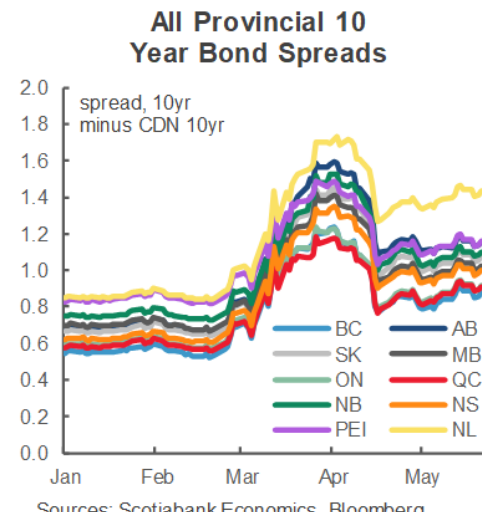
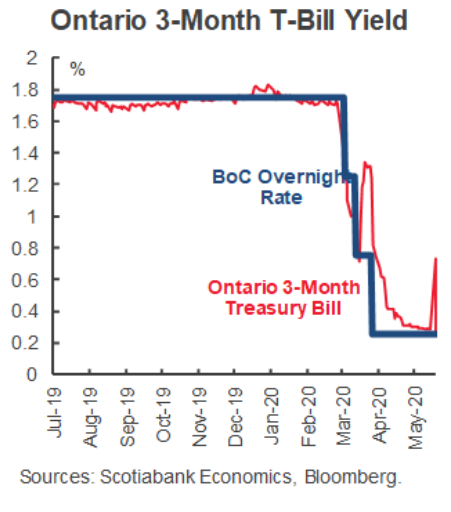
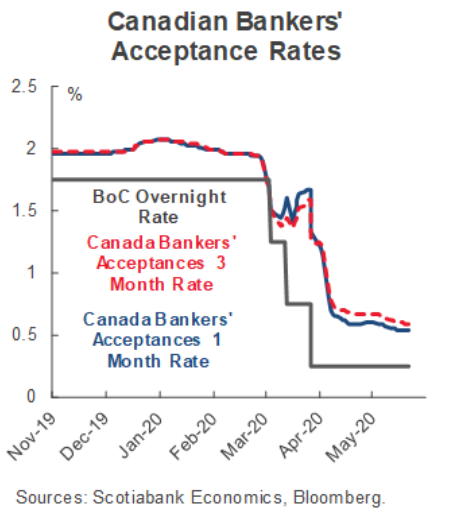
UK consumers retrenched in a big way last month. Retail sales fell 18.1% m/m after previously falling by 5.2%. Excluding fuel, sales were down 15.2% m/m. Both results were in the ballpark of expectations. Pandemic-related stockpiling petered out as food store sales fell by 4.1% m/m after rising by 10.1% in March. Non-food retailers saw a much larger 41.7% decline in sales after a 19.5% drop in March.

CANADA

Canada updates retail sales for March this morning (8:30amET). It's the end of May and we're finding out about March, whereas the US and UK have both released April figures with other countries like Germany and France to do so next week. Hellooo Canada. A steep decline is likely. I've guesstimated a drop of around -10% m/m for headline sales and a more modest -3% or so for sales ex-autos but I'm sure there will be scope for surprises given the nature of this report. This should be a record monthly decline as the previously worst reading was a -4.5% m/m drop in January 1998.

Wide brackets exist around both estimates, but basically grocery spending and maybe health and personal care products should help offset some of the broader weakness in sales ex-autos. That's what also happened in the UK during March before this morning's April figures that registered an end to such pandemic-related hoarding. Gas prices fell by 16% m/m in March with a 10% weight on gas station sales and the uncertainty is around the unknown volume of gasoline that was sold as well as ancillary sales at gas stations. New car dealers have a 22% weight and new auto sales fell 47% m/m seasonally adjusted with prices down by about 1% m/m which knocks another ten percentage points off of retail sales in weighted terms with uncertainty focused upon used auto sales, parts and service. Food and beverage store sales climbed sharply over March, however, when compared to the same month last year, and—with a 21% weight in overall retail sales—that likely accounted for about a +5 percentage point m/m lift to overall retail sales. The other half of sales are estimated to have dropped by 10% so that knocks a weighted 5% off total sales.

Please see the next page's collection of charts depicting the updated state of Canadian financial markets. In general, conditions have retained improvement, but it has stalled out in several areas.



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.	0.16	0.17	0.15	0.33	0.34	0.31	0.66	0.67	0.64	1.37	1.39	1.33	Canada - BoC	0.25
CANADA	0.30	0.30	0.28	0.40	0.41	0.37	0.53	0.55	0.54	1.08	1.10	1.08	US - Fed	0.25
GERMANY	-0.68	-0.69	-0.73	-0.68	-0.68	-0.73	-0.49	-0.50	-0.53	-0.05	-0.07	-0.10	England - BoE	0.10
JAPAN	-0.17	-0.15	-0.15	-0.14	-0.13	-0.11	0.00	0.00	0.00	0.46	0.45	0.48	Euro zone - ECB	0.00
U.K.	-0.04	-0.05	0.00	-0.01	-0.01	0.08	0.17	0.17	0.23	0.58	0.57	0.62	Japan - BoJ	-0.10
Spreads vs. U.S. (bps):														
CANADA	14	13	13	8	7	7	-12	-13	-10	-28	-29	-25	Mexico - Banxico	5.50
GERMANY	-84	-86	-88	-101	-102	-103	-115	-117	-118	-142	-145	-142	Australia - RBA	0.25
JAPAN	-33	-32	-29	-46	-47	-42	-66	-67	-64	-91	-94	-85	New Zealand - RBNZ	0.25
U.K.	-20	-22	-15	-33	-35	-23	-49	-50	-41	-79	-82	-71	Next Meeting Date	
Equities	Level						% change:							
	Last			Change	1 Day	1-wk	1-mo	1-yr						
S&P/TSX	14885			-112.8	-0.8	2.6	4.2	-8.8						
Dow 30	24474			-101.8	-0.4	3.6	4.3	-5.1						
S&P 500	2949			-23.1	-0.8	3.4	5.3	3.2						
Nasdaq	9285			-90.9	-1.0	3.8	9.3	19.8						
DAX	11066			-0.2	-0.0	5.7	6.2	-9.1						
FTSE	5990			-24.8	-0.4	3.3	3.8	-18.3						
Nikkei	20388			-164.2	-0.8	1.8	6.5	-4.2			Canada - BoC Jun 03, 2020			
Hang Seng	22930			-1349.9	-5.6	-3.6	-4.0	-17.2			US - Fed Jun 10, 2020			
CAC	4450			4.6	0.1	4.0	0.9	-17.3			England - BoE Jun 18, 2020			
Commodities	Level						% change:							
WTI Crude	32.35			-1.57	-4.6	9.9	134.8	-47.3			Euro zone - ECB Jun 04, 2020			
Natural Gas	1.71			-0.00	-0.3	3.6	-12.1	-33.0			Japan - BoJ May 21, 2020			
Gold	1733.55			6.55	0.4	-0.6	1.1	36.1			Mexico - Banxico Jun 25, 2020			
Silver	17.21			-0.27	-1.5	10.8	14.9	19.2			Australia - RBA Jun 02, 2020			
CRB Index	128.24			-2.28	-1.7	2.8	15.4	-28.6			New Zealand - RBNZ Jun 23, 2020			
Currencies	Level						% change:							
USDCAD	1.4007			0.0052	0.4	-0.7	-1.1	4.3						
EURUSD	1.0908			-0.0042	-0.4	0.8	0.8	-2.2						
USDJPY	107.53			-0.0800	-0.1	0.4	-0.2	-2.6						
AUDUSD	0.6532			-0.0033	-0.5	1.9	3.3	-5.1						
GBPUSD	1.2177			-0.0046	-0.4	0.5	-1.3	-3.9						
USDCHF	0.9711			0.0006	0.1	-0.0	-0.0	-3.8						

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