Global Economics

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The Global Week Ahead

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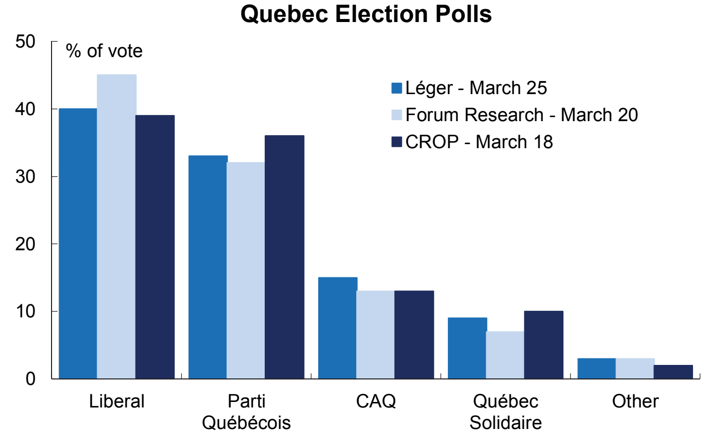
Beware April Fool's Pranks

Canada — Eye On Marquee Releases Ahead Of Quebec's Election

It's one week to go before the April 7th provincial election in Quebec that will help determine the path Canada is on by way of political risk. The accompanying chart depicts the latest poll results and shows the provincial Liberal party in the lead ahead of the separatist PQ, but with three caveats. One is that we don't yet have a poll following the last leadership debate on Thursday night so watch for that into the weekend. Two is that the body count means less than the riding count in terms of shaping expectations for the vote measured in number of seats. Three is that support for another Quebec referendum that may be pursued in the wake of a possible PQ victory remains weak in Quebec such that voters appear to be separating sovereignty issues from all else. Nevertheless the risk to markets is upon how key data risk next week may be overshadowed by election bets.

Quebec Election Polls



Source: Léger, Forum Research, CROP, Scotiabank Economics.

In the meantime, data risk will shape the tone of the market for CAD and the curve but less so for equities which are more of a global resource play. **We expect data risk to put a bid to CAD and result in front-end curve cheapening as marquee releases book-end the week — notwithstanding developments in Quebec and globally. The fun starts with GDP for the month of February on Monday morning.** We're expecting a decent gain even though a few of the month's readings were pretty bad. One reason to expect a gain is the old edict that what goes down… well ….sometimes goes up the next time around. Recall that the economy shrank 0.5% m/m in December and that was principally due to weather effects. That took the form of an ice storm that gripped the country from Ontario eastward on the prime shopping weekend just before Christmas and to the disappointment of retailers, and weather in other parts of the country was also worse than usual including Alberta which experienced the worst snow storm in a century. We already know that some of the biggest weather hits to the economy reversed into January as evidenced by solid gains in retail sales (+1.4% m/m), manufacturing shipments (+0.7%) that were also partly weather affected, a 0.4% rise in the volume of wholesale shipments, and a rise in hours worked. The rest of the picture is less encouraging. Housing starts fell by 4%, and resales were down 3.3% m/m signaling seasonally adjusted housing market softness that may also negatively affect related ancillary services like lawyers, mortgage processing and real estate agents.

Now here's the rub — trade was a big drag on the economy in January. The volume of exports fell 5.4% m/m and the volume of imports fell by a smaller but still large 2.7% m/m. The overall effect was a sharp drop in net exports. Can we expect a rebound from such weakness when February's trade figures arrive on Thursday? Maybe. But the point remains that Canada persistently fails to gain traction on trend growth in the volume of exports partly due to its massive competitiveness imbalance. You think only the Eurozone has such imbalances and that they can only exist in the context of a common currency artificially overlaid upon a disparate array of regional economies? Think again, as floating currencies in North America mask enormous rigidities that are behind a large and long-lived erosion of Canada's cost competitiveness measured by unit labour cost comparisons between the three countries.

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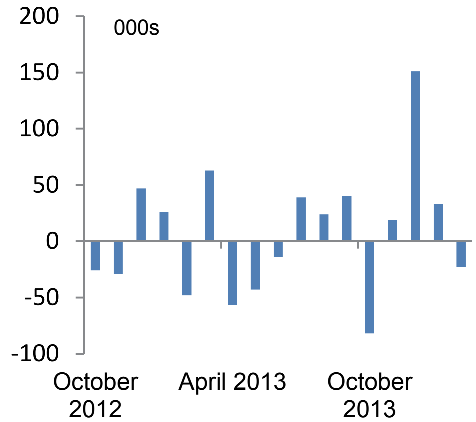
The week ends with the monthly jobs lottery. **We think this could well be a more buoyant jobs print.** Recall that jobs fell by a modest 7,000 in February. This combined with the suspect details lead us to think that we could be staring at upsides to job growth in March. That's because we simply cannot explain how the public sector lost about 51,000 jobs in February as a sharp weight against the 35,000 rise in private sector jobs and about a 9,000 rise in self-employed jobs. We didn't think public sector jobs were among the most volatile in the country or most other countries for that matter, and so while revisions are not a factor here we'd instead look for a jobs bounce higher on potential mean reversion in the error rates.

United States — Will The Momentum Continue?

A variety of US economic indicators has generally been impressive as a signal that temporary economic weakness over the winter is shaking out of the numbers. Recent readings for consumer confidence, ISM-manufacturing, nonfarm payrolls, Q4 GDP revisions, durable goods orders, retail sales, total consumer spending, vehicle sales, the Philly Fed, industrial production and housing starts have all improved in the latest batch of prints while there have been a few disappointments including ISM-services, core capital goods orders, and one flat print in existing home sales. **Next week we start the next round of updates from the front of the cue all over again and it will be a test of whether or not this improved data tone was just a one-month wonder or something with sticking power.**

ADP & Nonfarm Can Diverge Quite a Bit

Initial ADP less Nonfarm Payrolls



Source: Scotiabank Economics, ADP, BLS

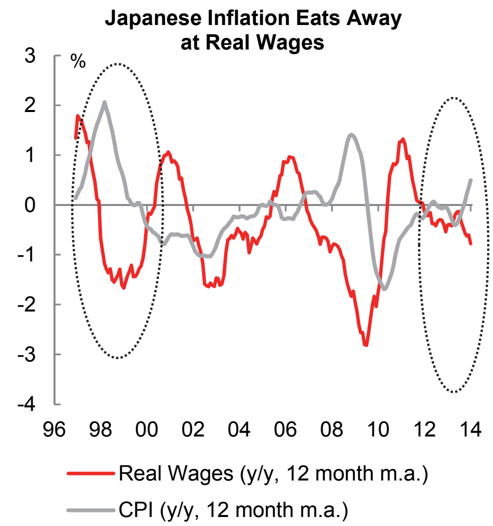
April Fool's Day brings out the first test and we hope it passes or else releasing on that day will prove to have been rather apropos. **ISM manufacturing** is expected to post another improvement, in part because some regional surveys like the Philly Fed improved. A small gain in construction spending is also expected, and a healthy rise in vehicle sales might begin to show pent-up demand being unleashed following crippling storms in January and February. Wednesday's factory orders should follow durable goods orders higher and fill in the blank on nondurable goods, and ADP will be watched as a teaser ahead of **Friday's nonfarm payrolls print** that we expect to rise above 200,000 in the potential release of pent-up hiring activity following temporary disruptions to the economy. As the accompanying chart demonstrates, ADP has had a weak track record in terms of cuing up expectations for private nonfarm payrolls. Since ADP revised its methodology in October 2012, the initial ADP print has missed the initial private nonfarm payrolls print by as much as 82,000 to the downside and as much as 151,000 to the upside. Given that nonfarm is the more complete measure because it also includes government payrolls and is more widely followed, the limited forecasting ability of ADP often results in it getting discounted by initial market reaction. Lesser releases on the week (from a market standpoint) will include trade and services Thursday.

Fed speak will continue but with an important twist. **Chair Janet Yellen speaks on Monday for the first time since her press conference on March 19th. At issue is the risk of further clarification — one way or the other — of her remark that hikes to the fed funds target could commence as soon as six months following the completion of the Fed's bond purchase program** that we expect to be completed by October. She will be followed by appearances by each of Dallas Fed President Richard Fisher (voting 2014, nonvoting 2015), Atlanta Fed President Dennis Lockhart (alternate 2014, voting 2015), and St. Louis Fed President James Bullard (nonvoting 2014, alternate 2015).

Asia-Pacific — Clearly April Fool's Day Doesn't Carry The Same Meaning In Asia

Japan's national sales tax goes up three percentage points to 8% on none other than April Fool's day which apparently doesn't quite carry the same meaning in Japan. It is slated to go up another two percentage points next year. This will artificially raise Japan's CPI beyond the Bank of Japan's 2% target. Abenomics accomplished? Hardly, as core measures of inflation excluding tax changes, and changes in food and energy prices are still tracking below 1% y/y. Absent wage growth which remains nonexistent in inflation-adjusted terms (see chart) the issue is how ugly the second-round effects on inflation get. The BoJ-induced depreciation in the yen put upward pressure upon import prices including food and, when combined with taking nuclear reactors off-line, resulted in soaring oil, natural gas and electricity prices. When combined with a spike in sales taxes, households will be forced to balance their budget constraints of no wage growth and tight credit access by cutting back on more discretionary purchases. That could well prove to be disinflationary on the second-round effects given much less powerful unions today than in the past, the corporate sector's unwillingness to materially raise wage rates, and the banking system's continued coolness toward driving improved access to credit. This makes next week's other releases including industrial production, housing starts and the Tankan manufacturing survey somewhat of a rearview mirror versus more of a focus upon the forward-looking debates that really matter.

Ahead of that, **watch for China's state version of the purchasing managers' index** for the manufacturing sector. Consensus expects it to be little changed in the wake of the little changed private sector PMI that released last Monday. At issue is the course of developments over Q2. To that effect, we quote from our China and commodities strategist Na Liu: "We believe that China might quietly expedite fiscal spending on key investment projects. We now also call for a 50 basis point cut of the required reserve ratio in the second quarter of 2014. These measures, if implemented, should help boost the near-term sentiment for investors in the global raw materials sectors." If so, then **the possibility of better Chinese trade and PMI data into Spring, once the temporary effects of under-invoicing distortions on the quality of the data and the shifting effects of the Lunar new year dissipate, may be combined with more encouraging developments by way of limited fiscal stimulus and monetary policy stimulus.**



Source: Bloomberg, Scotiabank Economics

The Reserve Bank of Australia is expected to hold its cash target rate at 2.5% for the eighth consecutive meeting on April 1st. Data risk for the week includes new home sales, retail sales, and trade.

More regional developments will focus upon the Reserve Bank of India's latest rate decision (again, on April 1st), Indonesian and South Korean exports, and inflation figures in South Korea and the Philippines.

Europe — Mixed Signals From The ECB

What's the ECB's next move? We'll find out on Thursday. The ECB has been sending highly mixed signals to markets of late, with ECB President Draghi going so far as to characterize the ECB's forward guidance as a commitment "to keep our policy interest rates as low as they are currently or even lower for an extended period of time". This comes even as the ECB has seemingly backed away from the possibility of having a negative deposit rate. Speculation abounds regarding whether or not the ECB would undertake further unconventional easing, but this seems as though it would be a complicated process: which debt would the ECB buy? How would it deal with the varying credit qualities of the European sovereigns? Any kind of unconventional monetary policy in Europe would probably have to centre on the banking sector as opposed to sovereign debt buying - but the ECB already has a huge program like that (the LTRO) and banks are exiting their long term repos. In short, there are few obvious choices for the ECB. Europe-wide CPI (March), jobs (February) and retail sales (February) data will give the ECB a final update on economic conditions ahead of the meeting, and German factory orders on Friday will provide more information on what is shaping up to be a solid Q1 in Germany thus far.

The other major risk hanging over European markets (indeed world markets) is the ongoing response to Russia's annexation of Crimea. With the U.S. President traveling over the weekend and the possibility of an escalation in sanctions still out there, we wouldn't hazard a guess as to how this event will develop — but we would voice concern.