

CANADIAN STAGFLATION?

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Next Week's Risk Dashboard

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Chart of the Week

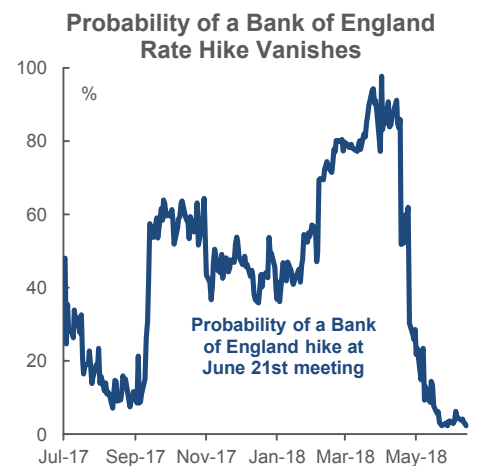


Chart of the Week: Prepared by: Daniel Ostry, Analyst, Summer Intern.

Canadian Stagflation?

CANADA—THE BANK OF CANADA'S RISING STAGFLATION RISK

All of next week's action on the domestic calendar will have to wait until Friday. CPI inflation and retail sales will be released on Friday. Before that day arrives, Canadian markets will be influenced by developments abroad, notably the potential for a further escalation of trade tensions between the US and China in the wake of this past week's expected developments. CPI's influences on the currency and rates complexes will, however, be intermingled with the outcome of Friday's OPEC meeting in Vienna amid widespread expectations for increased production that could surprise in either direction. As an aside that informs Canada's refreshed posture in the context of the NAFTA negotiations, I highly recommend that a moment or two of your time be spent reading [this](#) excellent speech by Canada's Minister of Foreign Affairs, Chrystia Freeland. It reflects a level of erudition and clear-headedness that is absent from the US administration—while simultaneously informing Canada's pivot in NAFTA negotiations.

Fasten your seatbelts into Friday's Canadian CPI report. I'm estimating that inflation will hit a rate not seen since just over six years ago in early 2012 and possibly the highest since late 2011. I figure inflation could reach 2.6–2.7% y/y (2.2% prior) with the average of the core measures ticking up again to 2.1% y/y. The rise is based upon a combination of overall base effects, rebasing to the May 2017 Ontario electricity price cuts, gas price increases that were up almost as much in month-ago percentage terms during May as in April, typical seasonality, and minimum wage pass-through effects. Some of these effects would and should be looked through by the BoC. Some of the increases are more durable and reflect tightening capacity in the overall economy and labour markets. Some of them—like gas and minimum wages—offer second round pass-through effects deeper into the CPI basket (child care, home services, transportation, retail prices, etc.).

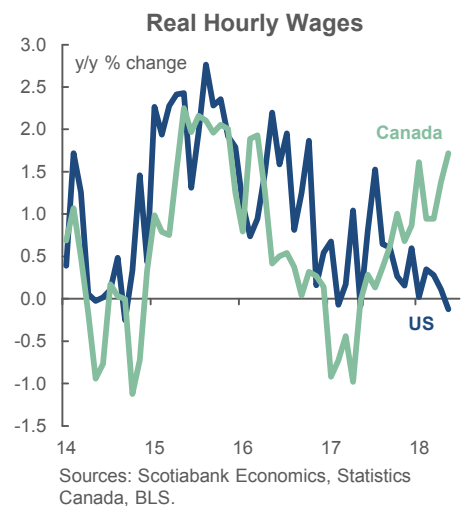
Further upward pressure on inflation could easily be forthcoming not only due to the aforementioned drivers but also due to currency and tariff adjustments. The currency's sharp depreciation from around 1.21 on a USDCAD basis last September to about 1.32 today will also carry modest pass-through consequences into import prices and then the CPI basket. Scotia's René Lalonde estimates that a *persistent* 10% depreciation in the currency adds 0.6% to CPI within six months and 0.1% to the average of the core inflation measures. It is typically treated as a transitory development but one that can span spillover effects across items within the basket.

The consequence is that inflation is pushing deeper into the upper half of the BoC's 1–3% target range and could well keep rising. One cannot dismiss the risk that inflation breaches the upper end of the BoC's 1–3% “flexible” target range by year-end. Now combine that with last Friday's acceleration in wage pressures that are exceeding inflation (chart 1) and the message is that the wage and price dynamic is at serious risk of putting the BoC behind its inflation mandate.

There are two related considerations. **One is that growth is disappointing.** Current tracking for Q2 GDP growth is only about 1.4% at a very preliminary stage. This follows actual Q1 growth of 1.4% on a quarterly expenditure accounts basis. It means that growth is roughly trending slightly below the BoC's estimated 1.5–2.1% range for the economy's potential growth rate. Some of this disappointment in early Q2 tracking may be transitory ([here](#), for instance) but a combination of weak growth and persistent varying transitory factors nevertheless leave behind continued growth disappointments. The risk of further escalation of retaliatory tariffs could also well prove to be a growth headwind.

So what is the BoC to do when confronted with the risk of stagflation? Respect its mandate is one approach, but tread carefully from decision to decision. We continue to forecast a rate hike in July. There may be rising pressure into an election year for fiscal and regulatory policies to mitigate the distribution effects across sectors of various trade-related risks. Yet not acting to tighten monetary policy in the face of rising wage and price pressures risks unmooring inflation expectations and causing greater longer-term risks to the economy and financial system. That, in turn, risks disavowing the BoC's role in the building price pressures.

Chart 1



A second related consideration involves how to view broad monetary conditions. Overall, headline CPI's rise would push the real policy rate more deeply negative to around -135bps from its present level that is already among the lowest in the world. Left unchecked, Canada's real policy rate would become lower than the Eurozone's and much lower than Japan's. The real policy rate is what matters to any attempt to forecast real GDP growth and the broad framework for spare capacity and inflationary pressures. Governor Poloz has hiked three times to date in order to keep conditions from easing on a real rate basis, with the real policy rate staying roughly constant at around -100bps. Monetary conditions have not tightened when judged correctly through this lens. Canadian dollar depreciation, tight credit spreads in products like mortgage and provincial bonds, as well as elevated high-yield debt indices continue to point to easy if not easing broader financial conditions.

Whether or not any of this is addressed in Deputy Governor Lynn Patterson's speech on Monday is unclear but unlikely. That's because her topic is "Rebooting Reference Rates" which will address interest rate benchmarks. The text will be available by 12:45pmET but there will be no press conference.

A pair of other expected releases usually doesn't influence the market tone and include ADP private payrolls for May (Thursday) and wholesale trade for April (Thursday). Wholesale will be the last piece of the puzzle for a monthly GDP estimate following the retail figures.

Canada auctions 10s on Wednesday.

UNITED STATES—STRESSED!

After a wild ride this past week, US markets should benefit from somewhat of a respite at least by way of what's on the formal domestic calendar. **The main event will be next Thursday's release of the Federal Reserve's stress tests on large banks that will be followed one week later by the Comprehensive Capital Analysis and Review.** The pass/fail results and capital recommendations always carry risk to the individual banks that will be the focus of bank analysts.

Modest data risk and additional Fed-speak will be the other main developments. The wild card risk concerns US-China trade relations. The latest salvos should have been already known to markets given they represent the formal implementation of actions started about two months ago. **At issue, however, is whether China's likely retaliation of "equal scale, equal intensity" will prompt another round of escalation after President Trump stated the US will "pursue additional tariffs if China engages in retaliatory measures".** It's unclear if that reinforces a move toward applying tariffs on the next list of US\$100 billion of Chinese imports that is already under study or something further.

Data risk will be confined to the following line-up:

- **Housing starts:** May's tally on Tuesday is expected to rebound partly due to a weak hand-off given the 3.7% drop in the prior month. The recent noisy monthly pattern continues to position new homebuilding activity at the highest levels since 2007.
- **Existing home sales:** Resales have been on a flatter profile than new builds for the past two and a half years. Like starts, they are cruising around the highest levels since 2007 and May's tally is expected to rebound from April's softness when it is released on Wednesday.
- **Philly Fed:** Thursday's June reading for the outlook survey's measure of general conditions will serve as input to the next ISM-manufacturing call. Recall that the May reading of this indicator soared by about eleven points to its highest readings since last summer. Along with the Richmond Fed's measure, the two regional surveys are the best correlated with ISM-manufacturing and offer an advance guide to national conditions.

Fed-speak may figure prominently in what is otherwise a light domestic calendar. Then again, what more can the Fed say after its recent communications ([here](#)). Chair Powell will speak on Wednesday on a panel titled "Monetary Policy At A Time of Uncertainty and Tight Labour Markets" at the ECB Forum on Central Banking in Portugal. ECB President Draghi, BoJ Governor Kuroda and RBA Governor Lowe will also be on the star-studded panel (by market standards!).

Federal Reserve Bank of New York President William Dudley speaks on Monday in his first day off the job. He officially retires this Sunday and hands the baton to incoming President John Williams from the San Francisco Federal Reserve on Monday. Dudley speaks at a bank culture conference on Monday morning. Incoming NY Fed President Williams will also speak at the same event.

The US auctions 30 year TIPS in a \$5 billion reopening on Thursday.

LATIN AMERICA—TESTING MEXICAN PATIENCE

Four main influences upon Latin American markets will emphasize the uncertainty over Banxico's upcoming policy decision and guidance. The other three main developments are probably fairly low risk and largely priced in.

The second and final round of Colombia's Presidential election is this Sunday.

Current polling continues to indicate that it is Iván Duque's election to lose (chart 2). Recent polls have indicated he will get between 45% and 57% of the popular vote, left wing candidate Gustavo Petro will poll between 35–40% of the vote and with the remainder undecided. A major issue will be how voter sentiment is expressed with respect to support for a former guerilla group member in the wake of the contentious peace deal with the Revolutionary Armed Forces of Colombia (a.k.a. Farc) that has divided voters, given Petro's past involvement with an alternate guerilla group.

Banxico issues its latest policy decision on Thursday. Consensus is somewhat divided on the call with some forecasting a 25bps hike in the overnight rate to 7.75%, a few +50bps and some—like Scotia's Ed Suarez—are forecasting no change. The central bank last raised rates in February. Notwithstanding the deceleration in inflation from a peak of 6.8% y/y in December to 4.5% in May, the renewed concern is that the peso's 15% depreciation versus the USD since mid-April may re-ignite another round of imported inflation given high import propensities. Some of the peso weakening has been due to diverging central bank policies between the US and Mexico and some has been due to NAFTA headline risks. Should Banxico decide to hike next week, it would risk raising rates just ahead of the July 1st Presidential election absent hard evidence that inflation is on a renewed upswing just yet, in the face of uncertainty regarding the degree and permanence of the peso's weakening. That may counsel preserving optionality until later decisions.

Banco Central do Brasil is likely to stay on hold on Wednesday, leaving the Selic rate at 6.5% where it has remained since March. The rate sits at a record low and the focus is upon nurturing growth conditions given that GDP growth is only running at about 1.2% y/y. Further easing off a record low policy rate is unlikely just as inflation at 2.9% y/y is not crying out for tighter monetary policy relative to the 3–6% policy target range.

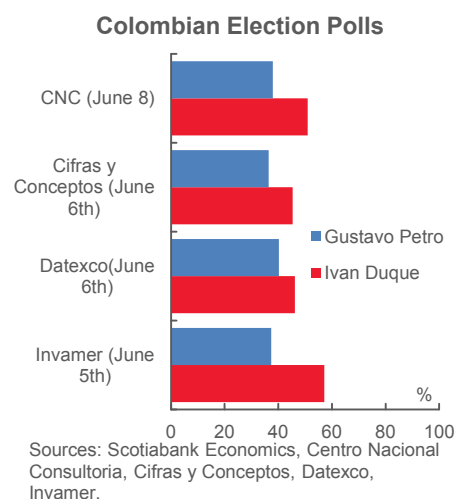
Data risk will be focused upon Argentina's Q1 GDP report on Tuesday. The economy is forecast to have decelerated a touch to about 3.3% y/y growth in Q1 from a recent peak of just over 4% in 2017Q3. The Argentine peso has lost about 40% of its value relative to the USD since the end of April and about two-thirds of its value since mid-December. Soaring inflation that hit 26% y/y in May has prompted the central bank to hike by 12 ¾ percentage points over about the past two months. That has lifted the 7 day repo reference rate to 40% in an effort to stem the currency's slide and mitigate imported inflation but it will come at the expense of growth and President Mauricio Macri's reform agenda. So far, the IMF's US\$50 billion rescue stabilization package that was recently granted has at best stabilized the peso's slide while coming at the potential expense of Macri's domestic stature given the country's history with the IMF.

ASIA-PACIFIC—EM DIFFERENTIATION

A pair of central bank decisions will be the main focal points alongside any further developments in US-China trade tensions.

Bangko Sentral Ng Pilipinas is expected to hike its policy overnight borrowing rate again on Wednesday. This would follow up on the hike last month which was the first rate move in two years. Inflation has been skyrocketing from -0.4% y/y in September

Chart 2



2015 to shaking off the soft base effect once inflation was stabilizing around 3% early last year before going on a renewed upward tear (chart 3). At 4.6% y/y, inflation has jumped by 1.7 points so far this year alone. That puts inflation well above the 2–4% inflation target range. Governor Nestor Espenilla recently remarked that the Fed's recent communications will be an influence: "As a small, open economy, we can't really be oblivious to Fed actions. It is a relevant development to consider when the Monetary Board reviews the policy stance."

The Bank of Thailand, by contrast, isn't expected to do anything in its policy decision next Wednesday. Again. With inflation running at just 1.5% y/y and well within the 1–4% target range, the Thailand versus Philippines relative central bank story will be very much one that emphasizes the importance of differentiating across emerging markets rather than treating them as a broadly uniform asset class.

Data risk will be confined to range-bound and very low Japanese CPI inflation on Thursday, Malaysian CPI inflation on Wednesday (bouncing up off bottom), Japanese exports (Monday), New Zealand's Q1 GDP report on Wednesday that is likely to remain around 2¾% y/y and Monday's minutes to the RBA's policy meeting on June 5th.

EUROPE—GOOD THINGS COME IN THREES

Three central banks issue policy decisions next week and none of them are expected to alter policy just yet. All of them are thought to be possible candidates for raising rates as soon as later in the year and so the bias they provide will inform the timing of such expectations.

Thursday's Bank of England communications will be confined to a statement-only affair, but with a late evening twist. The May decision brought out the quarterly Inflation Report ([here](#)) with the next full forecast update not due until August. While Governor Carney won't hold a press conference with this decision, he will deliver his annual Mansion House speech that evening. No policy changes are expected next week but Carney's annual speech has often carried significant market effects. The text will be available by 9:15pm London time ([here](#)). Inflation has been ebbing to 2.4% in April and May from a peak of 3.1% in November but still above the central bank's 2% inflation target. Most forecasters see inflation continuing to cool toward target by late year or early next and for the policy rate to increase as soon as the August meeting. OIS markets are roughly 50–50 on the odds of a hike at that point with the balance not tilting more decisively toward a hike until the November meeting. A challenge on the bias that Carney may indicate is that recent growth activity readings have improved, though not uniformly so. Consumers have charged back with rapid back-to-back increases in retail sales during April and May but in the context of uncertainty surrounding durability of the gains given weak real wage growth. Employment gains are moderate but have been a little better than expected, nominal wage growth ticked lower to 2.8% y/y and industrial production fell in April.

Norges Bank is expected to remain on hold on Thursday. Recent inflation slipped to 2.3% y/y due to a decline in underlying inflation that excludes energy and tax changes to 1.2% y/y. The inflation undershoot lessened market confidence in Norges Bank's guidance that it may start to raise rates "after the summer" and whether it may firm up such guidance in next week's communications.

The Swiss National Bank is not expected to change policy on Thursday and is significantly hitched to the ECB's timing of exit plans. A comparison of such exit plans to the Fed's is provided in the accompanying table. ECB-speak will figure prominently and particularly at the aforementioned ECB Forum on Central Banking (agenda [here](#)) that will bring out President Draghi on Monday and several other ECB officials over the three day event.

Friday's OPEC meeting in Vienna will be closely scrutinized in terms of whether the cartel is able to engineer production increases that meet, beat or fall short of market expectations. OPEC meetings often carry influences for limited periods of time and this time may well prove to be more limited than most. Countries like Canada face pipeline bottlenecks on land-locked reserves in western Canada that won't be addressed until the Keystone XL, Line 3 and TransMountain pipelines hopefully become operational around a 2020–21 time frame. Iranian production is sliding following the abrogation of the nuclear sanctions deal by

Chart 3

Soaring Inflation in the Philippines



President Trump. Libyan and Venezuelan production rates are also impaired, obviously more so in the latter's case. Whether or not there is agreement to increase targeted output for the first time since the November 2016 curtailment, there will still be issues such as OPEC's limited role in world production and challenges elsewhere that will inform a more complete picture for energy markets.

Data risk will be confined to Friday's purchasing managers' indices for the Eurozone. The composite PMI has been falling from a peak of 58.8 in January to 54.1 in the May report. This has been one of the major signals that growth momentum in the Eurozone economy has ebbed into the new year. Any further downside will continue to call into question timing surrounding the ECB's exit plans across the variety of conventional and unconventional instruments.

| Comparing Central Bank Playbooks | |
|---|---|
| Federal Reserve | ECB |
| Tapering of Asset purchases | |
| Announced tapering of QE3 purchases in June 2013, to be implemented September 2013 Held off in the famous no-taper September 2013 decision partly on fiscal contraction/shutdown issues Implemented tapering at the December 2013 meeting | Announced first tapering of the APP in October 2017, implemented January Announced second tapering of the APP in June 2018, implemented in September |
| Normalization Plans | |
| Policy normalization plans outlined in September 2014 | Policy normalization plans laid out in June 2018 |
| End of QE | |
| Ended new asset purchases October 2014 | New asset purchases scheduled to end in December 2018 |
| Reinvestment Plans | |
| Announced plans to reduce reinvestment at the June 2017 FOMC Began reducing reinvestment in October 2017, announced in September | Currently guides reinvestment will continue for as long as necessary |
| Policy Rate Plans | |
| Further details provided about plans to raise rates at the March 2015 FOMC meeting First rate hike December 2015 | Currently guides first rate hike after Summer 2019 at the earliest |
| Other Policies | |
| IOER changes June 2018 (as discussed in May) | n/a |

Key Indicators for the week of June 18 – 22

NORTH AMERICA

| Country | Date | Time | Indicator | Period | BNS | Consensus | Latest |
|---------|-------|-------|--------------------------------------|---------------|-------------|-------------|-------------|
| US | 06/18 | 10:00 | NAHB Housing Market Index | Jun | -- | 70.0 | 70.0 |
| US | 06/19 | 08:30 | Building Permits (000s a.r.) | May | -- | 1350 | 1364 |
| US | 06/19 | 08:30 | Housing Starts (000s a.r.) | May | 1310 | 1313 | 1287 |
| US | 06/19 | 08:30 | Housing Starts (m/m) | May | 1.8 | 2.0 | -3.7 |
| US | 06/20 | 07:00 | MBA Mortgage Applications (w/w) | JUN 15 | -- | -- | -1.5 |
| US | 06/20 | 08:30 | Current Account (US\$ bn) | 1Q | -- | -129.0 | -128.2 |
| US | 06/20 | 10:00 | Existing Home Sales (mn a.r.) | May | 5.6 | 5.5 | 5.5 |
| US | 06/20 | 10:00 | Existing Home Sales (m/m) | May | 2.5 | 1.4 | -2.5 |
| CA | 06/21 | 08:30 | Wholesale Trade (m/m) | Apr | -- | 0.3 | 1.1 |
| US | 06/21 | 08:30 | Initial Jobless Claims (000s) | JUN 16 | 225 | 222 | 218 |
| US | 06/21 | 08:30 | Continuing Claims (000s) | JUN 9 | 1700 | 1712 | 1697 |
| US | 06/21 | 08:30 | Philadelphia Fed Index | Jun | 30.0 | 29.0 | 34.4 |
| US | 06/21 | 10:00 | Leading Indicators (m/m) | May | -- | 0.4 | 0.4 |
| MX | 06/21 | 14:00 | Overnight Rate (%) | Jun 21 | 7.50 | 7.75 | 7.50 |
| CA | 06/22 | 08:30 | Core CPI - Common (y/y) | May | -- | 2.0 | 1.9 |
| CA | 06/22 | 08:30 | Core CPI - Median (y/y) | May | -- | 2.1 | 2.1 |
| CA | 06/22 | 08:30 | Core CPI - Trim (y/y) | May | -- | 2.1 | 2.1 |
| CA | 06/22 | 08:30 | CPI, All items (m/m) | May | 0.5 | 0.4 | 0.3 |
| CA | 06/22 | 08:30 | CPI, All items (y/y) | May | 2.7 | 2.6 | 2.2 |
| CA | 06/22 | 08:30 | CPI, All items (index) | May | -- | 133.9 | 133.3 |
| CA | 06/22 | 08:30 | Retail Sales (m/m) | Apr | 0.1 | 0.0 | 0.6 |
| CA | 06/22 | 08:30 | Retail Sales ex. Autos (m/m) | Apr | 0.5 | 0.6 | -0.2 |
| MX | 06/22 | 09:00 | Bi-Weekly Core CPI (% change) | Jun 15 | 0.2 | 0.2 | 0.2 |
| MX | 06/22 | 09:00 | Bi-Weekly CPI (% change) | Jun 15 | 0.1 | 0.2 | 0.3 |
| MX | 06/22 | 09:00 | Global Economic Indicator IGAE (y/y) | Apr | 2.6 | 4.2 | -0.8 |

EUROPE

| Country | Date | Time | Indicator | Period | BNS | Consensus | Latest |
|---------|-------|-------|------------------------------------|---------------|-------------|-------------|-------------|
| RU | 06/18 | 09:00 | Real GDP (y/y) | 1Q P | -- | 1.3 | 1.3 |
| EC | 06/19 | 04:00 | Current Account (€ bn) | Apr | -- | -- | 32.0 |
| IT | 06/19 | 04:00 | Current Account (€ mn) | Apr | -- | -- | 3408 |
| GE | 06/20 | 02:00 | Producer Prices (m/m) | May | -- | 0.4 | 0.5 |
| NO | 06/21 | 04:00 | Norwegian Deposit Rates (%) | Jun 21 | -- | 0.5 | 0.5 |
| UK | 06/21 | 04:30 | PSNB ex. Interventions (£ bn) | May | -- | 6.3 | 7.8 |
| UK | 06/21 | 04:30 | Public Finances (PSNCR) (£ bn) | May | -- | -- | -9.7 |
| UK | 06/21 | 04:30 | Public Sector Net Borrowing (£ bn) | May | -- | 5.0 | 6.2 |
| UK | 06/21 | 07:00 | BoE Asset Purchase Target (£ bn) | Jun | -- | 435 | 435 |
| UK | 06/21 | 07:00 | BoE Policy Announcement (%) | Jun 21 | 0.50 | 0.50 | 0.50 |
| EC | 06/21 | 10:00 | Consumer Confidence | Jun A | -- | 0.0 | 0.2 |
| FR | 06/22 | 02:45 | GDP (q/q) | 1Q F | -- | 0.2 | 0.3 |
| FR | 06/22 | 03:00 | Manufacturing PMI | Jun P | -- | 54.0 | 54.4 |
| FR | 06/22 | 03:00 | Services PMI | Jun P | -- | 54.2 | 54.3 |
| GE | 06/22 | 03:30 | Manufacturing PMI | Jun P | -- | 56.2 | 56.9 |
| GE | 06/22 | 03:30 | Services PMI | Jun P | -- | 52.1 | 52.1 |
| EC | 06/22 | 04:00 | Composite PMI | Jun P | -- | 53.9 | 54.1 |
| EC | 06/22 | 04:00 | Manufacturing PMI | Jun P | -- | 55.0 | 55.5 |
| EC | 06/22 | 04:00 | Services PMI | Jun P | -- | 53.8 | 53.8 |

Key Indicators for the week of June 18 – 22

ASIA-PACIFIC

| Country | Date | Time | Indicator | Period | BNS | Consensus | Latest |
|---------|-----------|-------|---|---------------|--------------|-------------|-------------|
| JN | 06/17 | 19:50 | Merchandise Trade Balance (¥ bn) | May | -- | -205.2 | 624.6 |
| JN | 06/17 | 19:50 | Adjusted Merchandise Trade Balance (¥ bn) | May | -- | 144.1 | 550.0 |
| JN | 06/17 | 19:50 | Merchandise Trade Exports (y/y) | May | -- | 7.5 | 7.8 |
| JN | 06/17 | 19:50 | Merchandise Trade Imports (y/y) | May | -- | 8.0 | 5.9 |
| SI | 06/17 | 20:30 | Exports (y/y) | May | -- | 4.6 | 11.8 |
| AU | 06/18 | 21:30 | House Price Index (y/y) | 1Q | -- | 1.7 | 5.0 |
| HK | 06/19 | 04:30 | Unemployment Rate (%) | May | 2.8 | 2.8 | 2.8 |
| PH | JUN 18-19 | | Balance of Payments (US\$ mn) | May | -- | -- | -270.0 |
| MA | 06/20 | 00:00 | CPI (y/y) | May | 1.7 | 1.8 | 1.4 |
| TH | 06/20 | 03:05 | BoT Repo Rate (%) | Jun 20 | 1.50 | 1.50 | 1.50 |
| SK | 06/20 | 17:00 | PPI (y/y) | May | -- | -- | 1.6 |
| NZ | 06/20 | 18:45 | GDP (y/y) | 1Q | -- | 2.7 | 2.9 |
| TH | 06/20 | 23:30 | Customs Exports (y/y) | May | -- | 10.1 | 12.3 |
| TH | 06/20 | 23:30 | Customs Imports (y/y) | May | -- | 15.7 | 20.4 |
| TH | 06/20 | 23:30 | Customs Trade Balance (US\$ mn) | May | -- | -88.1 | -1283.3 |
| HK | 06/20 | | Composite Interest Rate (%) | May | -- | -- | 0.40 |
| TA | JUN 20-21 | | Benchmark Interest Rate | Jun 21 | 1.375 | -- | 1.375 |
| JN | 06/21 | 01:00 | Supermarket Sales (y/y) | May | -- | -- | -1.2 |
| JN | 06/21 | 02:00 | Machine Tool Orders (y/y) | May F | -- | -- | 14.9 |
| PH | 06/21 | 04:00 | Overnight Borrowing Rate (%) | Jun 21 | 3.50 | 3.50 | 3.25 |
| TA | 06/21 | 04:00 | Export Orders (y/y) | May | -- | -- | 9.8 |
| HK | 06/21 | 04:30 | CPI (y/y) | May | 2.0 | 2.2 | 1.9 |
| JN | 06/21 | 19:30 | National CPI (y/y) | May | 0.6 | 0.6 | 0.6 |
| JN | 06/21 | 20:30 | Markit/JMMA Manufacturing PMI | Jun P | -- | -- | 52.8 |
| JN | 06/22 | 00:30 | All Industry Activity Index (m/m) | Apr | -- | 0.9 | 0.0 |
| JN | 06/22 | 01:30 | Nationwide Department Store Sales (y/y) | May | -- | -- | 0.7 |
| TA | 06/22 | 04:00 | Unemployment Rate (%) | May | 3.7 | -- | 3.7 |
| HK | 06/22 | 04:30 | BoP Current Account (HK\$ bns) | 1Q | -- | -- | 16.0 |

LATIN AMERICA

| Country | Date | Time | Indicator | Period | BNS | Consensus | Latest |
|---------|-------|-------|------------------------------|---------------|-------------|-------------|-------------|
| CO | 06/20 | 11:00 | Trade Balance (US\$ mn) | Apr | -- | -- | -384.0 |
| BZ | 06/20 | | SELIC Target Rate (%) | Jun 20 | 6.50 | 6.50 | 6.50 |
| BZ | 06/21 | 08:00 | IBGE Inflation IPCA-15 (m/m) | Jun | -- | 0.8 | 0.1 |
| BZ | 06/21 | 08:00 | IBGE Inflation IPCA-15 (y/y) | Jun | -- | 3.3 | 2.7 |

Global Auctions for the week of June 18 – 22

NORTH AMERICA

| <u>Country</u> | <u>Date</u> | <u>Time</u> | <u>Event</u> |
|----------------|-------------|-------------|---|
| CA | 06/20 | 12:00 | Canada to Sell CAD2.2 Bln 2% 2028 Bonds |

EUROPE

| <u>Country</u> | <u>Date</u> | <u>Time</u> | <u>Event</u> |
|----------------|-------------|-------------|--|
| BE | 06/18 | 05:30 | Belgium to Sell Bonds |
| GE | 06/19 | 05:30 | Germany to Sell EUR5 Bln 0% 2020 Bonds |
| DE | 06/20 | 04:30 | Denmark to Sell Bonds |
| GE | 06/20 | 05:30 | Germany to Sell EUR1.5 Bln 2.5% 2044 Bonds |
| UK | 06/20 | 05:30 | U.K. to Sell Bonds |
| SP | 06/21 | 04:45 | Spain to Sell 0.35% 2023 Bonds |
| SP | 06/21 | 04:45 | Spain to Sell 5.15% 2044 |
| SP | 06/21 | 04:45 | Spain to Sell 1.6% 2025 |
| FR | 06/21 | 04:50 | France to Sell 0% 2021 |
| FR | 06/21 | 04:50 | France to Sell 3% 2022 |
| FR | 06/21 | 04:50 | France to Sell 2024 Bonds |
| FR | 06/21 | 05:50 | France to Sell I/L Bonds |
| IC | 06/22 | 06:30 | Iceland to Sell Bonds |

ASIA-PACIFIC

| <u>Country</u> | <u>Date</u> | <u>Time</u> | <u>Event</u> |
|----------------|-------------|-------------|--|
| AU | 06/17 | 21:00 | Australia To Sell AUD800 Mln 2.75% 2029 Bonds |
| CH | 06/17 | 21:30 | Hubei to Sell CNY2.17526 Bln 5Y Bonds |
| CH | 06/18 | 21:30 | Shandong to Sell CNY14.526 Bln 5Y Bonds |
| JN | 06/18 | 23:35 | Japan to Sell 30-Year Bonds |
| CH | 06/19 | 02:00 | Heilongjiang to Sell Bonds |
| AU | 06/19 | 21:00 | Australia To Sell AUD700 Mln 2.25% 2022 Bonds; |
| CH | 06/19 | 22:35 | China to Sell CNY45 Bln 1-Yr Upsized Bonds |
| CH | 06/19 | 22:35 | China to Sell CNY45 Bln 10-Yr Upsized Bonds |
| CH | 06/20 | 02:00 | Tianjin to Sell Bonds |
| CH | 06/20 | 21:30 | Qinghai to Sell Bonds |
| NZ | 06/20 | 22:05 | New Zealand Plans To Sell NZD200Mln 2.75% 2037 Bonds |
| JN | 06/20 | 23:35 | Japan to Sell 5-Year Bonds |
| CH | 06/21 | 02:00 | Zhejiang to Sell Bonds |
| CH | 06/21 | 03:00 | Liaoning to Sell Bonds |
| AU | 06/21 | 21:00 | Australia To Sell AUD300 Mln 3% 2047 Bonds |
| CH | 06/22 | 02:00 | Hainan to Sell Bonds |

Source: Bloomberg, Scotiabank Economics.

Events for the week of June 18 – 22

NORTH AMERICA

| <u>Country</u> | <u>Date</u> | <u>Time</u> | <u>Event</u> |
|----------------|-------------|-------------|---|
| US | 06/18 | 09:00 | Dudley, Duke and Gorman Speak on Culture in Finance Panel |
| US | 06/18 | 13:00 | Fed's Bostic Speaks on Economist and Monetary Policy Outlook |
| US | 06/18 | 15:45 | Fed's Williams Speaks at NY Fed Bank Culture Conference |
| EC | 06/19 | 07:00 | ECB's Lane, St. Louis Fed's Bullard speak in Sintra, Portugal |
| US | 06/19 | | Arkansas Primary Runoff |
| US | 06/19 | | District of Columbia Primary |
| MX | 06/21 | 14:00 | Overnight Rate |
| US | 06/21 | | Fed Releases Results of 2018 Bank Stress Tests |

EUROPE

| <u>Country</u> | <u>Date</u> | <u>Time</u> | <u>Event</u> |
|----------------|-------------|-------------|---|
| EC | 06/18 | 13:30 | ECB's Draghi gives opening remarks at Sintra conference |
| EC | 06/19 | 04:00 | ECB President Draghi speaks in Sintra, Portugal |
| EC | 06/19 | 04:30 | ECB's Peter Praet is chairing a panel in Sintra, Portugal |
| EC | 06/19 | 07:00 | ECB's Lane, St. Louis Fed's Bullard speak in Sintra, Portugal |
| EC | 06/20 | 03:30 | Villeroy Speaks in Paris |
| EC | 06/20 | 04:00 | ECB's Lautenschläger chairs panel in Sintra |
| AS | 06/20 | 04:00 | ECB's Nowotny Presents Austrian Financial Stability Report |
| EC | 06/20 | 05:45 | ECB Governing Council member Knot speaks in Amsterdam |
| EC | 06/20 | 06:30 | ECB's Coeure is chairing a panel in Sintra, Portugal |
| EC | 06/20 | 09:30 | Draghi, Powell, Kuroda and Lowe speak in Sintra, Portugal |
| ES | 06/21 | 03:00 | Banque de France Governor Villeroy to Speak in Paris |
| NO | 06/21 | 04:00 | Deposit Rates |
| EC | 06/21 | 05:45 | Bundesbank President Weidmann Speaks in Paris |
| UK | 06/21 | 07:00 | Bank of England Bank Rate |
| AS | 06/21 | 09:30 | ECB's Nowotny, ECB's Reinesch Speak at Vienna Conference |
| UK | 06/21 | 16:15 | BOE Governor Mark Carney Delivers Mansion House Speech |

ASIA-PACIFIC

| <u>Country</u> | <u>Date</u> | <u>Time</u> | <u>Event</u> |
|----------------|-------------|-------------|-------------------------------------|
| AU | 06/18 | 21:30 | RBA June Meeting Minutes |
| JN | 06/19 | 19:50 | BOJ Minutes of Policy Meeting |
| TH | 06/20 | 03:05 | BoT Benchmark Interest Rate |
| PH | 06/20 | 04:00 | BSP Overnight Borrowing Rate |
| JN | 06/20 | 21:30 | BOJ Funo speaks in Sendai |
| TA | JUN 20-21 | | CBC Benchmark Interest Rate |

LATIN AMERICA

| <u>Country</u> | <u>Date</u> | <u>Time</u> | <u>Event</u> |
|----------------|-------------|-------------|------------------------------------|
| CO | 06/17 | | Presidential election: Runoff vote |
| BZ | 06/20 | | Selic Rate |

Source: Bloomberg, Scotiabank Economics.

Global Central Bank Watch

NORTH AMERICA

| <u>Rate</u> | <u>Current Rate</u> | <u>Next Meeting</u> | <u>Scotia's Forecasts</u> | <u>Consensus Forecasts</u> |
|---|---------------------|---------------------|---------------------------|----------------------------|
| Bank of Canada – Overnight Target Rate | 1.25 | July 11, 2018 | 1.50 | 1.50 |
| Federal Reserve – Federal Funds Target Rate | 2.00 | August 1, 2018 | 2.00 | 2.00 |
| Banco de México – Overnight Rate | 7.50 | June 21, 2018 | 7.50 | 7.75 |

Banxico: Will Banxico hike on Thursday? Consensus is divided with Scotia forecasting a hold. Peso depreciation risks a spurt of inflationary pressures that the central bank may tamp down but the central bank may choose to wait in the face of still soft inflation and uncertainty over the permanence of the peso's more recent volatility.

EUROPE

| <u>Rate</u> | <u>Current Rate</u> | <u>Next Meeting</u> | <u>Scotia's Forecasts</u> | <u>Consensus Forecasts</u> |
|--|---------------------|---------------------|---------------------------|----------------------------|
| European Central Bank – Refinancing Rate | 0.00 | July 26, 2018 | 0.00 | 0.00 |
| Bank of England – Bank Rate | 0.50 | June 21, 2018 | 0.50 | 0.50 |
| Swiss National Bank – Libor Target Rate | -0.75 | June 21, 2018 | -0.75 | -0.75 |
| Central Bank of Russia – One-Week Auction Rate | 7.25 | July 27, 2018 | 7.00 | 7.00 |
| Sweden Riksbank – Repo Rate | -0.50 | July 3, 2018 | -0.50 | -0.50 |
| Norges Bank – Deposit Rate | 0.50 | June 21, 2018 | 0.50 | 0.50 |
| Central Bank of Turkey – Benchmark Repo Rate | 17.75 | July 24, 2018 | 17.75 | -- |

Bank of England: No policy changes are expected and guidance is likely to be cautious in the face of softening inflation pressures and mixed activity readings. Governor Carney's annual Mansion House speech is likely to be more carefully scrutinized.

Neither the **Swiss National Bank** – partly dependent upon the ECB outlook – nor Norway's central bank are expected to change policy. **Norges Bank's** guidance to expect a hike "after the summer" is challenged by soft underlying inflation.

ASIA PACIFIC

| <u>Rate</u> | <u>Current Rate</u> | <u>Next Meeting</u> | <u>Scotia's Forecasts</u> | <u>Consensus Forecasts</u> |
|--|---------------------|---------------------|---------------------------|----------------------------|
| Bank of Japan – Policy Rate | -0.10 | July 31, 2018 | -0.10 | -0.10 |
| Reserve Bank of Australia – Cash Target Rate | 1.50 | July 3, 2018 | 1.50 | 1.50 |
| Reserve Bank of New Zealand – Cash Rate | 1.75 | June 27, 2018 | 1.75 | 1.75 |
| People's Bank of China – Lending Rate | 4.35 | TBA | -- | 4.35 |
| Reserve Bank of India – Repo Rate | 6.25 | August 1, 2018 | 6.25 | 6.25 |
| Bank of Korea – Bank Rate | 1.50 | July 12, 2018 | 1.50 | 1.50 |
| Bank of Thailand – Repo Rate | 1.50 | June 20, 2018 | 1.50 | 1.50 |
| Bank Negara Malaysia – Overnight Policy Rate | 3.25 | July 11, 2018 | 3.25 | 3.25 |
| Bank Indonesia – 7-Day Reverse Repo Rate | 4.75 | June 28, 2018 | 4.75 | 4.75 |

The Bank of Thailand (BoT) will hold a monetary policy meeting on June 20. We expect the central bank to leave the benchmark interest rate at 1.50%. We anticipate that a cautious monetary normalization phase will commence in the final months of 2018. Inflationary pressures have intensified in recent months with prices at the headline level rising 1.5% y/y in May, compared with a 0.4% y/y reading three months earlier.

LATIN AMERICA

| <u>Rate</u> | <u>Current Rate</u> | <u>Next Meeting</u> | <u>Scotia's Forecasts</u> | <u>Consensus Forecasts</u> |
|--|---------------------|---------------------|---------------------------|----------------------------|
| Banco Central do Brasil – Selic Rate | 6.50 | June 20, 2018 | 6.50 | 6.50 |
| Banco Central de Chile – Overnight Rate | 2.50 | July 24, 2018 | 2.50 | 2.50 |
| Banco de la República de Colombia – Lending Rate | 4.25 | June 29, 2018 | 4.25 | 4.25 |
| Banco Central de Reserva del Perú – Reference Rate | 2.75 | July 12, 2018 | 2.75 | 2.75 |

Banco Central do Brasil: No policy change is expected. The central bank is relying upon a record low policy rate to stimulate soft growth while inflation at 2.9% y/y is not crying out for tighter monetary policy relative to the 3-6% policy target range.

AFRICA

| <u>Rate</u> | <u>Current Rate</u> | <u>Next Meeting</u> | <u>Scotia's Forecasts</u> | <u>Consensus Forecasts</u> |
|--|---------------------|---------------------|---------------------------|----------------------------|
| South African Reserve Bank – Repo Rate | 6.50 | July 19, 2018 | 6.50 | 6.50 |

Forecasts at time of publication.
 Source: Bloomberg, Scotiabank Economics.

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