**CAPITAL MARKETS RESEARCH**

**Derek Holt** (416) 863-7707
derek_holt@scotiacapital.com

**Karen Cordes** (416) 862-3080
karen_cordes@scotiacapital.com

# Daily Points

*— Tracking the numbers*

## On Deck for Friday, February 5

| | Date | ET | Indicator | Period | Actual | BNS | Consensus | Latest |
|---|---|---|---|---|---|---|---|---|
| CA | 02/05 | (07:00) | Employment (000s m/m) | Jan | 43.0 | 20.0 | 15.0 | -28.3 |
| CA | 02/05 | (07:00) | Unemployment Rate (%) | Jan | 8.3 | 8.5 | 8.5 | 8.4 |

| | Date | ET | Indicator | Period | BNS | Consensus | Latest |
|---|---|---|---|---|---|---|---|
| US | 02/05 | (08:30) | Employment Report (000s m/m) | Jan | 50 | 20 | -85 |
| US | 02/05 | (08:30) | Unemployment Rate (%) | Jan | 10.0 | 10.0 | 10.0 |
| US | 02/05 | (08:30) | Average Hourly Earnings (m/m) | Jan | 0.3 | 0.2 | 0.2 |
| US | 02/05 | (08:30) | Average Weekly Hours | Jan | 33.2 | 33.2 | 33.2 |
| US | 02/05 | (15:00) | Consumer Credit ($ bn m/m) | Dec | -- | -9.5 | -17.5 |

KEY POINTS:

- Canada gains 43,000 jobs – flattener play gets more support
- Worse US nonfarm revisions will raise the odds of future job growth
- Will we get that one million nonfarm month after all?
- There are many good reasons for risk to be taken off the table
- US consumer credit pay down is a positive
- Goldilocks third-tier Asian data
- German industrial production flat in Q4
- Spanish factories continue to falter
- France's trade deficit narrowed but on weaker imports
- UK producer input prices unexpectedly soared but output prices remained contained
- Italian CPI still tame

### CANADA GAINS JOBS, BUT DETAILS LESS ENCOURAGING

net change (000s)/unemployment rate:
Actual: 43.0 / 8.3%
Consensus: 15.0 / 8.5%
Scotia: 20.0 / 8.5%
Prior: -28.3 / 8.4% (revised from -2.6 / 8.5%)

- All of January's headline job creation was in part-time jobs and the service sector, and they were fairly narrowly based across provinces. Private sector jobs grew by 53,700. On net, this makes the income translation from the headline job print relatively weaker than the headline suggests.

- That said, the trend is right, if albeit volatile. A see-saw pattern of job gains and losses over recent months has the net picture coughing up job growth,

## BoC Events

**BoC Overnight Lending Rate**
**Current Rate:** 0.25%
**Next Move:** March 2 @ 0.25%
**Bias:** Dovish

## Fed Events

**February 5**

- St. Louis Fed President Bullard to speak at Washington University on "Monetary Policy amid Economic Turbulence" (17:15 ET).

**Fed Funds Target Rate**
**Current Rate:** 0-0.25%
**Next Move:** March 16 @ 0-0.25%
**Bias:** Dovish

## Key International Events

**ECB**
**Current Rate:** 1.00%
**Next Move:** March. 4 @ 1.00%
**Bias:** Dovish

**BoE**
**Current Rate:** 0.50%
**Next Move:** March 4 @ 0.50%
**Bias:** Dovish

**BoJ**
**Current Rate:** 0.10%
**Next Move:** February 18 @ 0.10%
**Bias:** Dovish

... 2

**Scotia Economics**

Scotia Plaza 40 King Street West, 63rd Floor
Toronto, Ontario Canada M5H 1H1
Tel: (416) 866-6253 Fax: (416) 866-2829
Email: scotia_economics@scotiacapital.com

warts and all. It is a further piece of evidence that the economy is transitioning away from the need for emergency levels of stimulus.

- Most importantly, Governor Carney's speech yesterday emphasized that strong job creation isn't what would motivate policy tightening. Weak productivity growth is a bigger factor in that it lowers the speed limit of the economy and raises the inflation risks over the longer haul.

- Public sector jobs were up 13,400 against private sector job gains of 53,700 and a loss of 24,000 self-employed positions.

- Full time jobs were fairly flat (1,400), and part-time jobs grew by 41,500.

- The sector details point to narrowly based gains, with the service-producing sector adding 66,100 workers while the goods-producing sector shed a further 23,100 during the month. In addition, within the service-producing sector, trade accounted for about 35% of the gains, although finance& insurance, management, information, accommodation/food and public administration also registered an increase in employment in January. On the goods-producing side, only forestry and fishing added jobs in December, while manufacturing and agriculture shed 15,700 and 10,400 workers, respectively.

- The unemployment rate fell back down to 8.3% in January despite a gain of 18,900 workers to the labour force as employment jumped 43,000.

- Ontario (30,300), Quebec (6,200), Manitoba (8,400) and B.C. (12,000) accounted for all of the employment gains in January, with Saskatchewan (-2,300), Nova Scotia (-5,000) and Alberta (-7,700) experiencing a decline on the month, while Newfoundland, PEI and New Brunswick were roughly unchanged from November.

- Total hours worked continued to increase although the pace of growth slowed to 0.2% m/m, much weaker than the pace seen in the U.S.

- In addition, average hourly wages moderated to 1.8% y/y, the slowest pace of growth since June 2003, suggesting income gains will moderate going forward as well.

**UNITED STATES**

This could be the second positive month in the past three for nonfarm payrolls. But the inability of the birth-death model to accurately capture turning points in job market cycles will be the reason for downward job revisions to nonfarm payrolls this morning. A year ago, we had argued that other job market indicators were supportive of a monthly print for a million jobs lost which would have been the worst monthly job loss tally in about six decades. This morning's revisions will likely show that this was indeed achieved, and could easily add an extra 1-1.5 million extra unemployed to the rolls for the whole period. That will grab the spotlight more than any print for January itself. But it will also make it even more likely to turn toward job growth for two reasons. One is technical -- the birth-death model may do as lousy a job by overstating gains on the upswing as it underestimated losses on the downswing. That means a nonfarm call for a particular month entails approaching it with a sense of humour. The second reason is base effects. The lower jobs fell, the more likely they under shot what was needed for a recovery, and that means job growth partly on distorted base effects during a just-in-time production cycle response that was overly harsh as excess inventories couldn't be financed so everything else was cut even more aggressively including jobs.

**INTERNATIONAL**

There are many global forces tied up in current market concerns that have risk being taken off the table, some more credible than others and several inter-woven. First, markets took levels of risk appetite too far too fast on what we labeled as being "priced for perfection" on the longer run growth outlook that was likely to ultimately disappoint. We're within the bound of that longer-run outlook being priced in 6-9 months in advance. Second, monetary policy exits will not be swayed, within reason, by the fact that risk is being taken off the table. That's a chicken-and-egg argument that reverses the order of causality between discount rate expectations and market valuations. Risky assets will adjust in part before exceptional levels of stimulus are withdrawn, paving the way for the end game to be delivered. It's a tad counter-intuitive to argue that a market correction would rule out monetary policy exits, again, within reason. Third, sovereign debt woes are not going away either. We think markets are over reacting to the PIGS challenges, and too comfortable with assuming that US states can have massive funding shortfalls that are handled within the union, but Europe cannot. The interplay between monetary policy exits and sovereign credit worthiness is finely ex-

**Scotia Economics**

Scotia Plaza 40 King Street West, 63rd Floor
Toronto, Ontario Canada M5H 1H1
Tel: (416) 866-6253 Fax: (416) 866-2829
Email: scotia_economics@scotiacapital.com

pressed in this FT article on the role played by collateral changes at the ECB (http://www.ft.com/cms/s/0/49d36c86-11b7-11df-bceb-00144feab49a.html). The monetization of public debt through quantitative easing is not to be indefinitely extrapolated, and that reality is getting repriced. But these economies are the thin edge of the wedge on challenges to sovereign credit worthiness that will only mount further over coming years. But at the moment, this is a test of European unity, and that test is more likely to pass with major powers like Germany having recently received fresh voter mandates that enable the right thing to be done with little near-term worry over voter angst. Finally, we believe jobs will be delivered such that today's worries of a jobless recovery will transition toward gradually fewer worries on a relatively mild pace of job market expansion.

Third tier **Asian inflation and trade figures** offered a mildly positive mixture overnight. Inflation ebbed during January in the Philippines as headline CPI grew at a slower pace than the prior month, and Thai inflation flattened out at the same rate. Malaysia's trade surplus widened as export growth outpaced import growth albeit with better than expected strength in both.

**German** production data continued to disappoint overnight as the just-in-time production and inventory lift seen in Canada, the U.S. and Asia in Q4 remains more muted on trend in Europe. **Industrial production** plunged 2.6% m/m in December versus an expected 0.6% m/m gain, in line with yesterday's dismal factory orders report. Weakness was broadly based with every component faltering. As a result, industrial production was flat in Q4, a main reason why Q4 GDP expectations are quite mild, with consensus looking for a 0.8% q/q (annualized) gain, much below that seen in the U.S. and that expected in Canada.

**Spanish industrial production** also continued to deteriorate, falling over 11% in December as consumer, capital and intermediate goods production all fell to the lowest levels since August 2009.

**France's trade deficit narrowed** as expected in December but not because of export growth. Rather, imports fell 2.1% m/m while exports were unchanged after rising almost 2% m/m in November.

**Inflation in Italy** remained well contained as Italian CPI grew at an even slower pace than expected in January at 0.1% m/m, lifting the year-over-year rate to a mere 1.3%. **In the UK**, however, pipeline pressures continue to mount as producer input prices soared 2.0% m/m in January (although these are not seasonally-adjusted data) while December's report was revised up from 0.1% m/m to 0.6% m/m. This puts the year-over-year rate at 8.4% although looking back historically, this is close to the average over the past 5 years. Nonetheless, output prices remain tame, rising 0.4% m/m, only slightly faster than expected but still slower than in December, suggesting producer are still unable to pass higher prices on to their customers. While inflation remains a top worry in the UK after an unexpectedly high CPI print in December, some of the gain can be explained by distortions via the VAT, while slower growth and excess supply will likely continue to contain price growth going forward.

| 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. | 0.77 | 0.81 | 0.82 | 2.26 | 2.30 | 2.33 | 3.58 | 3.61 | 3.59 | 4.52 | 4.55 | 4.49 |
| CANADA | 127 | 128 | 133 | 2.41 | 2.45 | 2.45 | 3.34 | 3.36 | 3.35 | 3.98 | 4.00 | 3.95 |
| GERMANY | 0.99 | 106 | 112 | 2.16 | 2.23 | 2.28 | 3.12 | 3.16 | 3.20 | 3.84 | 3.92 | 3.93 |
| JAPAN | 0.17 | 0.17 | 0.16 | 0.54 | 0.55 | 0.50 | 137 | 139 | 133 | 2.33 | 2.34 | 2.30 |
| U.K. | 113 | 117 | 126 | 2.87 | 2.91 | 2.76 | 3.86 | 3.90 | 3.91 | 4.36 | 4.39 | 4.39 |
| | Foreign - U.S. Spreads (bps): | | | | | | | | | | | |
| CANADA | 50 | 47 | 51 | 15 | 14 | 13 | -23 | -24 | -24 | -54 | -56 | -54 |
| GERMANY | 21 | 26 | 30 | -10 | -8 | -5 | -46 | -45 | -39 | -68 | -63 | -56 |
| JAPAN | -61 | -64 | -65 | -172 | -175 | -183 | -220 | -222 | -226 | -219 | -221 | -219 |
| U.K. | 36 | 37 | 44 | 61 | 61 | 44 | 28 | 29 | 33 | -16 | -16 | -10 |

| Equities | | | % change: | | | |
|---|---|---|---|---|---|---|
| | Last | Change | 1 Day | 1-wk | 1-mo | 1-yr |
| S&P/TSX | 11128.76 | -261.70 | -2.3 | -1.3 | -6.4 | 25.6 |
| Dow 30 | 10002.18 | -268.37 | -2.6 | -1.2 | -5.4 | 24.0 |
| S&P 500 | 1063.11 | -34.17 | -3.1 | -2.0 | -6.5 | 25.7 |
| Nasdaq | 2125.43 | -65.48 | -3.0 | -2.5 | -7.9 | 37.5 |
| DAX | 5059.30 | -80.01 | -1.6 | -2.5 | -8.4 | 19.6 |
| FTSE | 5471.74 | -61.50 | -1.1 | -2.4 | -9.3 | 21.3 |
| Nikkei | 10057.09 | -298.89 | -2.9 | -1.4 | -5.8 | 26.5 |
| Hang Seng | 19665.08 | -676.56 | -3.3 | -2.3 | -11.7 | 49.2 |
| CAC | 3609.44 | -79.81 | -2.2 | -3.5 | -10.1 | 17.7 |
| Commodities | | | % change: | | | |
| WTI Crude | 73.16 | 0.02 | 0.0 | 0.4 | -10.5 | 77.7 |
| Natural Gas | 5.52 | 0.11 | 2.0 | 7.6 | -2.0 | 19.0 |
| Gold | 1083.25 | -32.00 | -2.9 | -0.4 | -3.4 | 19.7 |
| Silver | 15.17 | -0.96 | -6.0 | -6.9 | -13.7 | 18.5 |
| CRB Index | 263.67 | -6.91 | -2.6 | -1.5 | -8.9 | 19.1 |
| Currencies | | | % change: | | | |
| USDCAD | 1.0735 | -0.0009 | -0.1 | 0.3 | 3.3 | -12.9 |
| EURUSD | 1.3689 | -0.0034 | -0.2 | -1.3 | -4.7 | 7.0 |
| USDJPY | 89.4400 | 0.3900 | 0.4 | -0.9 | -2.5 | -2.0 |
| AUDUSD | 0.8654 | 0.0008 | 0.1 | -2.1 | -5.1 | 32.6 |
| GBPUSD | 1.5685 | -0.0069 | -0.4 | -1.9 | -1.9 | 7.4 |
| USDCHF | 1.0730 | 0.0062 | 0.6 | 1.2 | 3.8 | -8.3 |

*Source: Bloomberg. All quotes reflect Bloomberg data as at the time of publishing.*
*While this source is believed to be reliable, Scotia Capital cannot guarantee its accuracy.*

**Scotia Economics**

Scotia Plaza 40 King Street West, 63rd Floor
Toronto, Ontario Canada M5H 1H1
Tel: (416) 866-6253 Fax: (416) 866-2829
Email: scotia_economics@scotiacapital.com