

ON DECK FOR TUESDAY, APRIL 7

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	04/07	10:00	JOLTS Job Openings (000s)	Feb	--	6500	6963
US	04/07	15:00	Consumer Credit (US\$ bn m/m)	Feb	--	14.0	12.0

KEY POINTS:

- Another risk-on rally in stocks...
- ...has further to run on a relative valuation basis
- RBA's optimism rocks Australian bonds
- Stale German industrial output advanced
- Light US, Canadian calendar-based risks

INTERNATIONAL

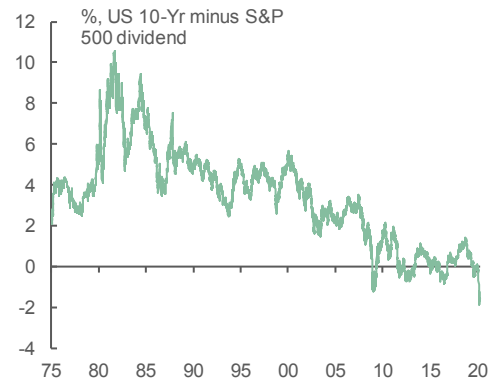
Yet another risk-on start to the trading day is sweeping up all major asset classes and taking them along for the ride amidst otherwise light developments. Yes the worst fundamentals and human tolls lie ahead, so what's steering this ship? The fundamental drivers of the improved market tone include at least the following: a) rebound expectations being priced in on the other side of a transitory COVID-19 shock without knowing exactly how transitory; b) massive dollops of stimulus-fed liquidity that are unprecedented in scale, scope and speed and with ongoing reference to further stimulus actions; c) improving financial system functioning; d) mandates to invest with cash earning zip; e) relatively attractive equity versus sovereign bond valuations. On this last point, the S&P dividend yield at 2¼% compares to a yield of ¾% for US 10s. That differential has narrowed somewhat from its widest point of 185bps on March 24th to 153bps now, but it remains toward the widest in modern market history (chart 1). Yes there is room for the aggregate dividend yield to revert lower through the earnings season that commences next week, but much of that may be priced into valuations. And on the sovereign yields, unless you think the Fed's new *nominal* long-run neutral policy rate is zero or close to it, then the whole sovereign bond complex is overvalued in a longer-run sense.

Markets are putting the above considerations above not knowing what to make of conflicting COVID-19 models and advice. They are also downplaying future exit challenges from all of this stimulus. The predicted number of cases is nearing a peak; nope, absolutely ginormous numbers lie ahead. Don't wear masks they won't help; well ok, wear masks made out of ripped bed sheets. Any time someone tells me economics is just a soft science, I point to medicine that masquerades about under the cloak of conducting educated guesswork. That's ok in the sense that almost by definition, any field that is worth pursuing in the first place is going to be marked by high uncertainty.

- Stocks are rallying yet again. US equity futures are up by 2½% – 3¼%. TSX futures are rising by just under 2 ½%. European cash markets are up by between 2¾% and 3½%. Asian equities closed higher by 1 ¾%–3%.
- Sovereign bonds continue to cheapen. US Treasury yields are up by 2–6bps in a 2s10s bear steepener. European 10s are up by as little as 2bp

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Spread Between US 10-Yr Bond and S&P 500 Dividend


Sources: Scotiabank Economics, Bloomberg.

(gilts) to 3–6bps with bunds leading the cheapening. The gilts curve is a touch more cautious partly as it monitors PM Johnson's condition. Australia's longer term bond yields led the global cheapening in the RBA's wake.

- Oil is up by around 2% in terms of the WTI and Brent benchmarks. Although yesterday was a down day, today might build somewhat upon the rise in Canada Western Select from a trough of about US\$3.8 at the end of March to about \$9 now.
- The USD is depreciating across all major crosses and by about ¾% to over 2% against individual currencies.

The RBA left policy intact overnight and following the massive stimulus but its more encouraging tone shook the Australian bond market. The RBA noted that markets are performing better than when they added stimulus and that it might reduce bond purchases if such conditions continue to improve. Australia's 10 year bond yield jumped 14bps to 0.9% overnight.

German industrial output climbed 0.3% m/m in February (consensus -0.8%) and the prior month's large 3.0% gain was revised two-tenths higher. Manufacturing output was up 0.4% after rising 2.9% in January. Moving on, more stale data that had no influence upon markets.

US calendar-based risks are very low with just February JOLTS job openings on tap (10amET) and consumer credit figures for February at 3pmET.

Canada's calendar-based risks should be low with just the Ivey PMI (10amET) and then the daily press briefings by Federal ministers and health officials at 12pmET.

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.	0.29	0.27	0.25	0.49	0.44	0.38	0.75	0.67	0.67	1.35	1.28	1.32	Canada - BoC	0.25		
CANADA	0.46	0.44	0.42	0.66	0.64	0.58	0.80	0.76	0.76	1.31	1.28	1.30	US - Fed	0.25		
GERMANY	-0.64	-0.65	-0.69	-0.57	-0.61	-0.65	-0.36	-0.43	-0.47	0.05	-0.02	0.03	England - BoE	0.10		
JAPAN	-0.10	-0.11	-0.14	-0.08	-0.09	-0.09	0.02	0.02	0.02	0.46	0.44	0.43	Euro zone - ECB	0.00		
U.K.	0.13	0.11	0.14	0.19	0.17	0.21	0.36	0.33	0.36	0.82	0.80	0.83	Japan - BoJ	-0.10		
	Spreads vs. U.S. (bps):															
CANADA	17	18	17	17	20	20	5	9	9	-3	-0	-2	Mexico - Banxico	6.50		
GERMANY	-92	-91	-94	-106	-105	-103	-111	-110	-114	-130	-130	-130	Australia - RBA	0.25		
JAPAN	-39	-38	-38	-57	-53	-47	-73	-65	-65	-89	-84	-89	New Zealand - RBNZ	0.25		
U.K.	-16	-16	-11	-30	-27	-17	-39	-34	-31	-53	-48	-50				
Equities	Level						% change:						Next Meeting Date			
	Last	Change		1 Day	1-wk	1-mo	1-yr									
S&P/TSX	13593	654.4		5.1	4.3	-16.0	-17.1							Canada - BoC	Apr 15, 2020	
Dow 30	22680	1627.5		7.7	1.6	-12.3	-14.2							US - Fed	Apr 29, 2020	
S&P 500	2664	175.0		7.0	1.4	-10.4	-7.9							England - BoE	May 07, 2020	
Nasdaq	7913	540.2		7.3	1.8	-7.7	-0.3							Euro zone - ECB	Apr 30, 2020	
DAX	10404	328.7		3.3	4.7	-9.9	-13.4							Japan - BoJ	Apr 28, 2020	
FTSE	5725	142.8		2.6	0.9	-11.4	-23.1							Mexico - Banxico	May 14, 2020	
Nikkei	18950	373.9		2.0	0.2	-8.7	-13.1							Australia - RBA	Apr 07, 2020	
Hang Seng	24253	504.2		2.1	2.8	-7.2	-19.0							New Zealand - RBNZ	May 12, 2020	
CAC	4451	104.8		2.4	1.2	-13.4	-18.7									
Commodities	Level						% change:									
	Level		Change		1 Day	1-wk	1-mo	1-yr								
WTI Crude	26.41		0.33		1.3	29.0	-36.0	-58.1							England - BoE	May 07, 2020
Natural Gas	1.81		0.08		4.8	10.6	6.2	-31.9							Euro zone - ECB	Apr 30, 2020
Gold	1659.19		-1.78		-0.1	5.2	-0.9	28.4							Japan - BoJ	Apr 28, 2020
Silver	14.56		0.17		1.1	3.6	-16.7	-4.2							Mexico - Banxico	May 14, 2020
CRB Index	130.22		2.15		1.7	6.9	-16.4	-30.6							Australia - RBA	Apr 07, 2020
Currencies	Level						% change:									
	Level		Change		1 Day	1-wk	1-mo	1-yr								
USDCAD	1.4002		-0.0109		-0.8	-0.4	2.2	5.2							New Zealand - RBNZ	May 12, 2020
EURUSD	1.0908		0.0115		1.1	-1.1	-4.7	-3.2								
USDJPY	108.92		-0.3000		-0.3	1.3	6.4	-2.3								
AUDUSD	0.6204		0.0116		1.9	1.2	-5.8	-13.0								
GBPUSD	1.2373		0.0142		1.2	-0.4	-5.7	-5.3								
USDFHF	0.9709		-0.0079		-0.8	1.0	4.9	-2.8								

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