CAPITAL MARKETS RESEARCH

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# Daily Points

***— Tracking the Numbers***

## PUBLICATION ALERT

Please be advised that we will resume publishing Daily Points on Monday February 13th. We apologize for any inconvenience this may cause.

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# Daily Points

***— Tracking the Numbers***

## On Deck for Tuesday, January 24

| Country | Date | Time | Event | Period | BNS | Consensus | Latest |
|---|---|---|---|---|---|---|---|
| CA | 01/24 | 08:30 | Retail Sales (MoM) | NOV | -0.3 | 0.2 | 1.0 |
| CA | 01/24 | 08:30 | Retail Sales Less Autos (MoM) | NOV | -0.1 | 0.2 | 0.7 |
| US | 01/24 | 10:00 | Richmond Fed Manufact. Index | JAN | - - | 6.0 | 3.0 |
| US | 01/24 | 10:00 | IMF Releases Updated Economic, Financial Forecasts | | | | |
| US | 01/24 | 21:00 | 2012 State of the Union Address | | | | |

**KEY POINTS**:

- Risk off, on Greek stalemate...
- ...and despite encouraging European fundamentals and…
- ….a very well bid Spanish bill auction
- Canada snoozes into the holiday season
- Will the Richmond Fed build upon improvement?
- RBI cuts reserve ratio
- Obama's State of the Union Address to be a back door assault on Romney
- BoJ sees deflation and warns on yen
- US to auction 2s today
- IMF to release update to economic forecast

**CANADA**

Canada will finally get a clue about how holiday season sales performed when this morning's **retail sales** figures land (8:30amET). The US has the full holiday season figures and even weekly chain store sales figures into January. Germany released November data back in early January. But here comes Canada the slow poke with an historical November print that many gave up caring about long ago. It escapes me how virtually every other developed country on the planet can be more timely in its data releases. As we've already guided, consensus is looking for a small gain in both headline and core sales, but we're part of the minority that thinks sales might have slipped. We already know that auto sales fell in volume terms, and so did auto prices when normal seasonal price hikes as new models hit showrooms are adjusted for seasonality. Combine that with lower gas prices, and there is cause for a decline in about 35% of the retail sales basket. Then all we have to go with are broader price effects, and we know that they were soft in the November CPI release. Lastly, a high base effect from the prior month's 1% m/m gain could put some downside risk into this morning's numbers. That could also be true for inflation adjusted spending since they were up 0.6% in October.

**UNITED STATES**

There are no major domestic swing factors to consider today so US markets will follow the broad global tone. Only the **Richmond Fed manufacturing survey** (10:00amET) is due out and the key here is whether a one month improvement in manufacturing conditions in the southeast will build upon itself.

## BoC Events

**BoC Overnight Lending Rate**
**Current Rate:** 1.0%
**Next Move:** March 8 @ 1.0%
**Bias:** Neutral

## Fed Events

**Fed Funds Target Rate**
**Current Rate:** 0-0.25%
**Next Move:** Jan. 25 @ 0-0.25%
**Bias:** Dovish

## Key International Events

**BoJ**
**Current Rate:** 0.10%
**Next Move:** Feb. 13 @ 0.10%
**Bias:** Dovish

**BoE**
**Current Rate:** 0.50%
**Next Move: Feb**. 09 @ 0.50%
**Bias:** Dovish

**ECB**
**Current Rate:** 1.00%
**Next Move: Feb. 09** @ 1.00%
**Bias:** Neutral

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Tonight's **State of the Union address** by President Obama (9:00pmET) may well be a back door attack on the GOP.  Expect the speech to be peppered with talk of millionaires and billionaires who don't pay their fair share, even though proposed tax hikes usually cut to the middle class households with combined annual income in the lower six digits.  Markets will be looking for some clarity on fiscal exits, but are likely to be disappointed in an election year.  Maybe that's why a famous coffee chain will now be starting your mornings with a buzz instead of a jolt.

The US will auction $35 billion in 2s today at 1pmET.

**INTERNATIONAL**

Global equities are in the red this morning on concern that a hard default by Greece is a rising threat.  European benchmarks are off by just over 1%, and Dow futures are pointing to a modest drop at the open.  The USD is feeling loved again, as most major crosses are lower.  Even on a multi-year trend basis, the USD on a DXY basis has defied the greenback's doomsayers.  Yields on Treasuries and bunds are only slightly lower so some of the flows are likely going into cash with commodities also generally lower.  Technical bursts in a longer term bear market may well be where we're still left in equity land as binary-event policy risk and fiscal drag on global growth remains the dominant macro theme.

The principal news out of Europe is… no news. The Greek government and those who hold Greek sovereign paper continue their negotiations over the restructuring of **Greece's debt**. As a reminder to readers, the negotiations seem to be taking the form of a routine restructuring negotiation, with the creditors having formed a creditors committee (led by the Institute for International Finance) to negotiate with the government of Greece. Leaks made by each side to the financial press imply that the negotiations are centering on the size of the coupon payments that will be attached to the restructured Greek bonds. According to Bloomberg, the creditors are demanding 4% coupons and the European governments have told Greece that it should not pay out a coupon materially higher than 3%. If this is indeed the extent of the disagreement between the two sides, then it's reasonable to expect that a negotiated settlement will be forthcoming shortly. Perhaps that's why Greece's Finance Minister Evangelos Venizelos told Bloomberg that "We have the green light of the euro group to close the deal with the private sector in the next few days." We're keeping our fingers crossed that the 'orderly default' that seemed improbable and even paradoxical 12 months ago might actually occur versus the hard default scenario in which talks fully break down and grander European influences don't step in.

The risk off tone is despite otherwise encouraging European data.  **German factories** slipped back into expansion mode with the advance January prints for regional purchasing managers' indices.  A 50.9 print for Germany's manufacturing PMI just barely crept across the 50 line that divides expansion from contraction, but it builds favourably upon the bottom that was reach in November.  Germany's services sector also beat expectations as the pace of growth accelerated again and built favourably upon an upward trend that has been in place since the lone sign of contraction that was evident in the September results.  **France did not fare as well**, as manufacturing continues to contract in line with expectations but services beat expectations and accelerated the pace of expansion.  For the broad Eurozone, manufacturing is still contracting but services are slightly expanding.

**European industrial orders** fell, but not by as much as expected.  The 1.3% m/m decline in November was a touch better than the 2.2% call, but the prior month's figures were also revised a little lower.  The European order book remains soft in aggregate with November's drop cancelling October's comparable gain and both following in the wake of the steep drop in September.

If one were looking for a sign that a policy-driven calming of the European situation is plausible, one would point to the continued resilience of Spanish and Italian bonds this year. **Spain auctioned bills** overnight, with maturities of 4/20/2012 and 7/20/2012. Both were exceedingly well taken up with bids to cover of 4.32 and 6.87 and average yields were 1.28% and 1.84% respectively. While there is no way to know just who was lining up to buy the offerings, we do know that, according to Bloomberg, "long term refinancing operations" conducted by the Banco de España ticked up markedly in December, rising to a level of €85.3B from €51.3B in November just as the Banco de España's borrowing from the ECB increased by €26.1B (from €106.3B to €132.4B). This is a decent proxy for the amount of liquidity that Spanish banks have sought from ECB by way of their own central bank. Is at least some of that money being put to work by Spanish banks on very near-term Spanish paper?  It's hard to imagine who else would be lining up to buy the stuff.

Broad **European bank liquidity**, however, is back to being idled.  Figures released today for yesterday's bank deposits held at the ECB were down only slightly from Friday's levels and remain in the €490 billion range which is up from the €395 billion trough last Wednesday but still below the peak of €528 billion last Tuesday.

The **Reserve Bank of India** unexpectedly cut its required reserve ratio by 50bps to 5.5% overnight.  This marks the first change since April 2010 when India was tightening monetary policy. Only five within the twenty-one who populate the Bloomberg consensus had expected this move.

The **Bank of Japan's Policy Board** issued its **Statement on Monetary Policy** overnight. It came as no surprise that the **BoJ held rates at 0.0-0.1%** but the shocker was that it downgraded its forecasts for growth and pointed to backward revisions, stating that "Compared with the forecasts presented in the October 2011 *Outlook for Economic Activity and Prices*, growth prospects will likely be lower for fiscal 2011, due to the revision of past GDP statistics in addition to the slowdown in overseas economies." The implication is that Japan's already deep 2011 recession is actually deeper than previously reported and the recovery will be more muted than otherwise hoped. The causes that the BoJ pointed to for Japan's slow economic recovery are a) "the slowdown in overseas economies," b) "the yen's appreciation" and c) "the remaining effects of the flooding in Thailand." The statement was coupled with a discussion of Japan's CPI, which "is expected to remain at around 0 percent for the time being." Japan's Prime Minister Noda and Finance Minister Azumi simultaneously issued statements to the effect that Japan must tackle deflation and that the government and BoJ need to improve their "coordination on the Yen and deflation". BoJ Governor Masaaki Shirakawa pointed out that the costs of the appreciated Yen outweigh the benefits. Note that EURJPY is at a very strong all-time high.

| 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. | 0.24 | 0.23 | 0.22 | 0.90 | 0.91 | 0.78 | 2.05 | 2.05 | 1.86 | 3.13 | 3.13 | 2.90 |
| CANADA | 1.03 | 1.05 | 0.95 | 1.40 | 1.41 | 1.26 | 2.07 | 2.08 | 1.92 | 2.65 | 2.66 | 2.50 |
| GERMANY | 0.20 | 0.20 | 0.18 | 0.93 | 0.92 | 0.77 | 1.97 | 1.97 | 1.79 | 2.63 | 2.61 | 2.41 |
| JAPAN | 0.13 | 0.13 | 0.14 | 0.36 | 0.35 | 0.35 | 1.01 | 1.00 | 0.97 | 1.95 | 1.95 | 1.93 |
| U.K. | 0.45 | 0.43 | 0.40 | 1.14 | 1.14 | 1.00 | 2.17 | 2.16 | 1.96 | 3.15 | 3.16 | 2.97 |
| | Foreign - U.S. Spreads (bps): | | | | | | | | | | | |
| CANADA | 79 | 81 | 73 | 50 | 51 | 48 | 2 | 3 | 6 | -48 | -47 | -40 |
| GERMANY | -4 | -4 | -3 | 2 | 1 | -1 | -8 | -8 | -6 | -50 | -52 | -49 |
| JAPAN | -10 | -10 | -8 | -54 | -55 | -44 | -104 | -105 | -89 | -118 | -118 | -97 |
| U.K. | 21 | 19 | 18 | 24 | 24 | 22 | 12 | 11 | 11 | 2 | 3 | 7 |

| Equities | | | % change: | | | |
|---|---|---|---|---|---|---|
| | Last | Change | 1 Day | 1-wk | 1-mo | 1-yr |
| S&P/TSX | 12521.70 | 124.60 | 1.0 | 2.1 | 5.0 | -6.2 |
| Dow 30 | 12708.82 | -11.66 | -0.1 | 2.3 | 3.4 | 6.1 |
| S&P 500 | 1316.00 | 0.62 | 0.0 | 2.1 | 4.0 | 1.9 |
| Nasdaq | 2784.17 | -2.53 | -0.1 | 2.7 | 6.3 | 2.5 |
| DAX | 6358.07 | -78.55 | -1.2 | 0.4 | 8.2 | -10.0 |
| FTSE | 5729.41 | -53.15 | -0.9 | 0.6 | 3.9 | -3.6 |
| Nikkei | 8785.33 | 19.43 | 0.2 | 3.8 | 4.6 | -15.1 |
| Hang Seng | 20110.37 | 167.42 | 0.8 | 4.7 | 8.0 | -15.8 |
| CAC | 3296.96 | -41.46 | -1.2 | 0.8 | 6.3 | -18.3 |
| **Commodities** | | | % change: | | | |
| WTI Crude | 99.05 | -0.53 | -0.5 | -1.6 | -0.6 | 12.7 |
| Natural Gas | 2.58 | 0.06 | 2.2 | 3.7 | -17.1 | -43.6 |
| Gold | 1675.50 | 22.50 | 1.4 | 2.1 | 4.3 | 24.7 |
| Silver | 31.95 | -0.50 | -1.5 | 5.1 | 9.3 | 15.9 |
| CRB Index | 313.58 | 3.67 | 1.2 | 1.9 | 2.5 | -5.7 |
| **Currencies** | | | % change: | | | |
| USDCAD | 1.0108 | 0.0022 | 0.2 | -0.4 | -0.9 | 1.7 |
| EURUSD | 1.3019 | 0.0006 | 0.0 | 2.2 | -0.3 | -4.5 |
| USDJPY | 77.28 | 0.2600 | 0.3 | 0.6 | -0.9 | -6.4 |
| AUDUSD | 1.0478 | -0.0047 | -0.4 | 1.0 | 3.0 | 5.1 |
| GBPUSD | 1.5578 | 0.0011 | 0.1 | 1.6 | -0.3 | -2.6 |
| USDCHF | 0.9267 | -0.0011 | -0.1 | -2.4 | -1.0 | -2.4 |

*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.*