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BMO CAPITAL MARKETS ECONOMICS

Focus

A weekly financial digest

Douglas Porter, CFA, Chief Economist, BMO Financial Group

March 29, 2019

Feature Article
Page 9

Brazil: Can Bolsonaro Deliver on Reforms?

Canada GDP Snaps Back in January

U.S./China Trade Talks "Constructive"

Brexit Deal Defeated

Global Bond Yields Tumble

Forecast changes:

- **No more rate hikes for BoC or Fed through 2020**
- **Cdn Q1 and 2019 real GDP growth revised up**

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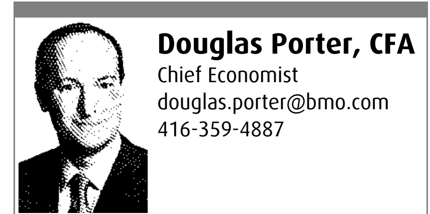
The Madness of March Markets



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> *"Markets can remain irrational longer than you can remain solvent."*
> —JM Keynes
>
> *"Every once in a while, the market does something so stupid it takes your breath away."*
> —JJ Cramer

I seldom doubt the deep wisdom of financial markets, since it represents the weighted collective views of all participants. But, every so often, the market can do things that are tough to reconcile—to put a gentler spin on Mr. Cramer's quote—and even tougher to discern its underlying message. As a prime example, consider what has just transpired in Q1 and even for the month of March alone. **While the Treasury yield curve inversion and relentless rally in bonds revived recession chatter, almost all other financial markets simply refused to listen to that siren song.**

Which of these things doesn't belong? For all of Q1, the **S&P 500** was up almost 13% and the **MSCI World index** more than 11%. **CRB Futures** rose more than 8%, while the **GSCI** was up 16% on a blistering 30% gain in oil prices. **Corporate spreads**, from BBB to junk, tightened sharply. **Gold** was about the only commodity price that didn't rally forcefully. And, **government bond yields** plunged, with 5s and 10s leading the Treasury charge with declines of more than 25 bps, while GoCs plummeted more than 30 bps in the quarter. *Wait… what*—a massive bond rally in the face of a uniform risk-on move everywhere else? Making the move even more curious is the fact that the slide in yields was heavily concentrated in a steep drop in real yields, as the implied inflation component (not surprisingly) held up on the comeback in oil prices.

While much of the risk-on rally was concentrated in the first two months of the year, March didn't exactly break the spell. If anything, **the government bond rally gathered momentum**, even as each of stocks, credit and commodities firmed a bit further in the month. So, while much of the chattering class has focussed on the loud message that the bond market is sending, through the flat and occasionally inverted yield curve, almost all other markets are saying something quite different about the outlook.

Attempting to circle this Rubik's cube of contradictory messages, we can put some of the spirited rally in equities and commodities down to a rebound from the overly negative move in Q4. As well, the extreme dovish pivot by the Fed, the BoC, the ECB, and others, helped fuel some of the rally in both stocks and bonds. **However, the fact that the divergence in stocks and bond yields widened further in March is tougher to explain.** Broadly, the combined market message appears to be that growth globally will keep grinding ahead, but it has taken a big step down from above potential in the past two years to below potential, probably for a few years. In turn, underlying price pressures will ebb, even with the snap-back in oil prices. These combined forces suggest that **we are indeed looking at a long pause for policy interest rates**, possibly among all major central banks. (See Michael's Thought for small revisions to our official rate call, but—*spoiler alert*—**we are removing the one rate hike we had in 2019/20 for both the Fed and the BoC**.)

No central bank is going to rush to do anything with rates after a noisy first quarter, for both markets and the economy. The U.S., in particular, was whipped around by the government shutdown, wicked winter weather, and delayed data. Even something as

straightforward as consumer confidence couldn't deliver an unambiguous message, as the Conference Board reported an unnerving pullback in March (notably on job prospects), while the University of Michigan told us sentiment hit a five-month high the same month. At the same time, housing starts retreated sharply in February even as new home sales roared back to life. Balancing out these diverging trends, we suspect GDP growth will do well to meet our 1.2% call in Q1, after the middling 2.2% pace in Q4.

In reality, we and policymakers likely need to get a much better bead on how the economy fares in the spring. By then, we should have a cleaner read on underlying growth. But, circling back to the opening quotes, let's bring in a real market legend himself for the final word. In a startling bout of clarity and simplicity, Warren Buffett opined on both the economic outlook and the stock/bond divergence this week, and may just have hit the nail on the head.

"It appears that the pace of U.S. economic growth has slowed down". While the use of the word "down" is redundant (can you slow up?), there are two key messages here: No doubt that, after a stimulus-fuelled spurt last year, growth is cooling, but also no talk of recession.

"The lower long bond yields go, the more attractive stocks are as a long-term investment." And, thus, Mr. Buffett helps explain in one simple sentence the riddle of plunging yields and resilient stocks that we have seen through the first quarter.

In recent weeks, I must allow that thoughts of gloom and foreboding have swept in around the local outlook—and, no, I am not just talking about the Leafs' playoff prospects or the next 161 Blue Jay games. Instead, it was the seemingly darkening outlook for the Canadian economy, what with the plunge in bond yields, the inverted curve, trade actions by China, the uncertain fate of the USMCA, a tired consumer, and a struggling housing market. But January's GDP report cut through this deepening fog like a high-powered beam, with a hearty 0.3% advance (0.349% to be precise). Instead of printing a third consecutive monthly decline as some (*ahem*) had expected, on mandated oil production cuts in Alberta, 18 of the other 19 sectors posted growth, led by towering gains in both construction and manufacturing.

This is one time when we are delighted to have been—let's not sugar-coat it—dead wrong on a monthly call. Given that it kicks off the quarter and the year, January is simply the most important month of the year for the annual estimate of GDP. Thus, the large high-side surprise prompted us to **revise up our GDP growth call for both Q1** (from zero to a 0.7% annualized gain) **and for 2019** (from 1.3% to 1.5%). Last week's stimulus in the federal budget added a bit of support for the upgrade, alongside the ongoing strength in oil prices, tempered somewhat by China blocking canola imports and the Fiat-Chrysler job losses in Windsor later this year.

To be sure, 1.5% GDP growth is only scraping the very low end of the range of the BoC's estimate of potential, is barely keeping up with Canada's population growth, and would still be a step down from last year's 1.8% advance. But, it's a far cry from recession, it clipped talk of possible BoC rate cuts, and it's a nice break to actually be revising *up* a growth forecast. Now, if we can only do something about the Leafs' defence and the Jays' offence…

The *(Policy)* World Is Flat

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In the wake of last week's dovish Fed policy pronouncements, we are modifying our Federal Reserve and Bank of Canada calls. **The one rate hike we were projecting at year-end on both sides of the border has been pulled.** Policy rates now remain at current levels indefinitely, with the fed funds target range at 2.25%-to-2.50% (2.375% midpoint) and the BoC's overnight target at 1.75%. And, for at least the next while, we see the risks surrounding these projections weighing more heavily on the downside.

On March 20, we got a picture of what **the Fed** being *"patient"* might look like, after January's policy pivot. The new Summary of Economic Projections (SEP) sported a median forecast for no rate hikes in 2019, down from two in December's SEP, and only one move in 2020 as before. The FOMC's policy pivot and pared rate hike projections reflected the reaction to *"global economic and financial developments"* and *"muted inflation pressures"*. We now judge that neither of these two factors will evolve in a manner that will compel the Fed to raise rates, and the net risk is that they will unfold in a fashion that causes it to cut rates.

Although U.S. and global financial conditions have improved meaningfully since late last year (e.g., the S&P 500 is up about 20% from its Christmas Eve low), the key risks to the global economic outlook have not subsided commensurately. Recall, these risks, along with signs of slowing global growth on the ground, were catalysts for the sell-off in the first place. Although U.S./China trade talks seem to be making some progress (thus, the hike in U.S. tariffs to 25% from 10% has been postponed indefinitely), a deal could still be months away. And, a cloud of uncertainty is gathering over forthcoming formal U.S./EU trade talks given the tangible threat of U.S. automotive tariffs (a decision is expected by May 18). Meanwhile, the Brexit saga continues; the EU has given the U.K. an extension to at least April 12 and, today, the U.K. Parliament rejected another Brexit bill. And, EU elections are approaching (May 23-26). If global developments sour to the potential detriment of the U.S. economy and financial markets, the Fed wouldn't hesitate to ease; it has done it before.

Core PCE inflation was 1.8% y/y in January, back at the bottom of the 1.8%-to-2.0% range it has tracked for the past 11 months, and with the shorter-term trends hinting at a break below (the 6-month trend was 1.5% annualized or 1.7% for 3 months). The Fed's formal target is 2.0% but officials have indicated that they want to see inflation running slightly above 2% for a while before concluding that the target has been achieved. We are still expecting core inflation to drift up, to a 2.0%-to-2.2% range with the top hit for a few months early next year. However, we now judge that the Fed will interpret this as insufficient evidence, and respond by keeping policy rates at their current level indefinitely, below the FOMC's 2.5%-to-3.5% range of neutral projections. Indeed, if inflation fails to accelerate to at least 2.0% in the months ahead, we would not be surprised to see the Fed cut rates. It will likely take a core inflation run of at least 2.4% (which would begin pushing real policy rates negative again) to get the Fed thinking rate hikes again.

The Bank of Canada had a subtler policy pivot, moving from talking about rates needing *"to rise into a neutral range"* (also 2.5%-to-3.5%) to talking about

"increased uncertainty about the timing of future rate increases", as it watches closely *"developments in household spending, oil markets, and global trade policy"*. There is still a directional bias here, likely reflecting the fact that policy rates are still negative in real terms. But, we judge the Bank will still have a Fed-comparable desire to keep policy rates unchanged given the weak end to 2018 (just 0.4% annualized real GDP growth), the substantial risk to future growth posed by higher interest rates given a record-high household debt-to-income ratio, global headwinds, and trade uncertainty. And, average core inflation has yet to stabilize at the 2.0% target. The reasons why the Fed would cut rates would only compound these factors, and we reckon the Bank would follow the Fed in short order. MJG

Won't Win Any Races, But Still Running

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Before writing off the U.S. economy for dead, this week's data provided some much needed clarity on its status. And, although you wouldn't know it from the raging Treasury rally, the **economy still retains a pulse**, even if it's beating slower than last year.

Real GDP **had less momentum heading into 2019 than earlier thought**, with the BEA carving its initial tally of Q4 growth to 2.2% from 2.6%, marking a material step back from the 3.4% pace in Q3 and 4.2% in Q2. But strong nonresidential investment (5.4%) suggests companies are still feasting on tax reform and not overly fussed about tariffs. However, the economy's big driver, consumers, downshifted last quarter, and barely opened their wallet in January after losing it in December. The sugar high from tax cuts is fading, while the government shutdown and equity trauma also clamped down on confidence and spending. Given the weak start to Q1, spending growth will do well to top 1%, and the economy will have a hard time growing much faster.

Still, **growth should perk up to 2.5% in Q2**. The interest-sensitive housing market is already showing signs of life due to the adrenaline shot from lower mortgage rates—the near one-percentage-point decline since November is the most in a decade. As rising rates were blamed for stalling the seven-year housing expansion last year, it stands to reason that a two-thirds reversal will support a recovery this year. Despite one of the snowiest February's on record, **new home sales jumped 4.9%** to 11-month highs after a big upward revision the prior month. Pending home sales retraced only a small portion of an earlier big gain, and should rebound in March according to a spike in mortgage applications. Although housing starts slid 8.7% in February amid bad weather in the Midwest, this didn't fully retrace January's increase, and building permits remain lofty.

Consumers will benefit from lower borrowing costs, too. Though auto loan rates haven't fallen yet, auto sales stand to benefit, and they led January's weakness. According to the University of Michigan, consumer confidence rose for a third straight month in March, reflecting the snapback in equities. Although the Conference Board's measure moved in the complete opposite direction, this was due to a surprising decline in job prospects, albeit from high levels. A welcome dip in initial jobless claims (211,000) toward the 45-year lows mined last year helped dispel fears of a softening labour market. The insured jobless rate also held to its lowest

level (1.2%) since at least 1971. While personal income disappointed in February, rising just 0.2% after slipping the prior month, this was largely due to a drop in interest income (the downside of lower interest rates). Meantime, wages grew 0.3% for a second straight month, and are up a solid 4.2% y/y. Given mild inflation (core 1.8%), purchasing power is well supported.

All eyes will turn to next week's payrolls report after it backfired last month. An expected decent gain (170,000) should help consumers carry this long-running expansion into the record books this summer.

Tell Me What You Want, What You Really, Really Want

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> *"Today, therefore, I am writing to give effect to the democratic decision of the people of the United Kingdom. I hereby notify the European Council in accordance with Article 50(2) of the Treaty on European Union of the United Kingdom's intention to withdraw from the European Union."*
> —March 29, 2017, British PM May's letter to the EU's Donald Tusk

That was exactly two years ago. Now, after months and months of debate about what Britain wants to achieve from leaving and what Brussels will be agreeable to, the resulting Withdrawal Agreement was rejected for the third (and final?) time by the majority of British lawmakers. The common answer has been 'the people of Britain voted to leave and this deal will tie us to the EU forever'; and, the oft-used, 'this is a democracy; you can't ignore what the people voted for' retort.

We will never see all eligible voters checking the same box (to leave or to remain). That would be too easy… and freaky. The **2016 referendum** had a 72.2% turnout and was narrowly split down the middle (52% voted to leave). The focus was on having the ability to negotiate its own trade deals without being bound to EU laws, on stopping the contributions made to the EU budget, on having control over its own rules/laws and not following the ECJ, and on controlling immigration.

Now, **33 months later**, citizens have a better idea of what else is involved that would impact their daily lives. Issues such as losing the ease of border crossings (Brussels announced this week that passports will be needed), or logistics such as disruptions at key ferry ports (Dover, Calais, though Eurotunnel's Getlink just announced it was *"ready no matter what"*). Customs officials would need to check products and cargo moving in/out of the United Kingdom. Labour markets are tight and there is a shortage of various workers as net migration of EU citizens slowed to the lowest level in almost a decade (though that was offset by more non-EU citizens coming in). How about Northern Ireland? Will the Good Friday Agreement be upheld? Will there be a hard border with the Irish Republic?

Clearly there are valid reasons for both Leavers and Remainers but they were not apparent back then. Same can be said about the rest of the EU. Recall the day after the referendum, Italy's Salvini tweeted, *"Thanks UK; now it's our turn"*, while the Netherlands' Wilders said, *"Hurrah for the British! Now it is our turn"*. That was

before Europe began months of excruciatingly painful debate and negotiations. It's pretty quiet now in the lineup to leave the EU.

The days of the U.K. remaining in the EU seem to be numbered, given the deadlock in Parliament. But some offer another option that should be given more consideration. Revoke Article 50, hold a general election (who thinks they can do a better job at negotiating?), then propose a 2nd referendum. At the end, a new vote will likely be not far from 2016's result. But, at least lawmakers will have the comfort of knowing that the votes were cast by citizens armed with a much better understanding of what Brexit means. There will be less finger-pointing and blame, as it would be clearer what people want and lawmakers would act on their behalf. JLee

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	Good News	Bad News
Canada ▪ Solid January GDP suggests stronger Q1 growth ▪ China bans Canadian canola seed imports	**Real GDP at Basic Prices** +0.3% (Jan.) **Industrial Product Prices** +0.3%; **Raw Material Prices** +4.6% (Feb.) **Province of Nova Scotia** projects a $33.6 mln surplus (FY19/20)	**Merchandise Trade Deficit** narrowed slightly to $4.2 bln (Jan.)—second highest on record **SEPH Wages** slowed to +2.7% y/y (Jan.)
United States ▪ U.S. trade talks with China were *"constructive"*… another round next week in Washington ▪ Weak consumer spending points to downside risk to Q1 GDP growth	**New Home Sales** +4.9% to 667,000 a.r. (Feb.) **Pre-Tax Corporate Profits** +7.4% y/y (Q4) **Goods & Services Trade Deficit** narrowed to $51.1 bln (Jan.) **Initial Claims** -5k to 211k (Mar. 23 week) **U of M Consumer Sentiment** revised up to 98.4 (Mar.)—a 5-month high	**Real GDP** revised down to +2.2% a.r. (Q4) **Real Personal Spending** +0.1% (Jan.)—below expected **Personal Income** +0.2% (Feb.)—weak **Core PCE Deflator** +1.8% y/y (Jan.) **Housing Starts** -8.7% to 1.162 mln a.r. (Feb.) **Building Permits** -1.6% to 1.296 mln a.r. (Feb.) **Pending Home Sales** -1.0% (Feb.) **S&P Home Prices** slowed to +3.6% y/y (Jan.) **FHFA House Prices** slowed to +5.6% y/y (Jan.) **Current Account Deficit** widened to $134.4 bln (Q4) **Chicago Fed National Activity Index** -0.29 (Feb.) **Chicago PMI** -6.0 pts to 58.7 (Mar.) **Conference Board's Consumer Confidence Index** -7.3 pts to 124.1 (Mar.)
Japan ▪ BoJ Summary of Opinions highlights concerns of global slowdown	**Retail Sales** +0.2% (Feb. P) **Industrial Production** +1.4% (Feb. P) **Jobless Rate** -0.2 ppts to 2.3% (Feb.)	**All-Industry Activity Index** -0.2% (Jan.)
Europe ▪ ECB looks to help troubled Euro Area banks ▪ Parliament rejects PM May's Brexit deal even after she pledges to resign	**Euro Area—Private Sector Credit** +3.2% y/y (Feb.) **Germany—Retail Sales** +0.9% (Feb.) **Germany—Jobless Rate** -0.1 ppts to 4.9% (Mar.) **Germany—ifo Business Climate** +0.9 pts to 99.6 (Mar.) **France—Real GDP** revised up to +1.0% y/y (Q4) **France—Consumer Confidence** +1 pt to 96 (Mar.) **France—Business Confidence** +1 pt to 104 (Mar.) **Italy—Consumer Prices** steady at +1.1% y/y (Mar. P) **U.K.—Real GDP** revised up to +1.4% y/y (Q4) **U.K.—GfK Consumer Confidence** steady at -13 (Mar.) **U.K.—Nationwide House Prices** +0.2% (Mar.)	**Euro Area—Economic Confidence** -0.7 pts to 105.5 (Mar.) **Germany—Consumer Prices** slowed to +1.5% y/y (Mar. P) **Germany—GfK Consumer Confidence** -0.3 pts to 10.4 (Apr.) **France—Consumer Spending** -0.4% (Feb.) **France—Consumer Prices** slowed to +1.3% y/y (Mar. P) **Italy—Consumer Confidence** -1.2 pts to 111.2 (Mar.)

Other

- China signs new trade deals with Italy and France
- RBNZ on hold and signals next move could be a cut
- Mexico on hold

Indications of stronger growth and a move toward price stability are good news for the economy.

Brazil: Can Bolsonaro Deliver on Reforms?

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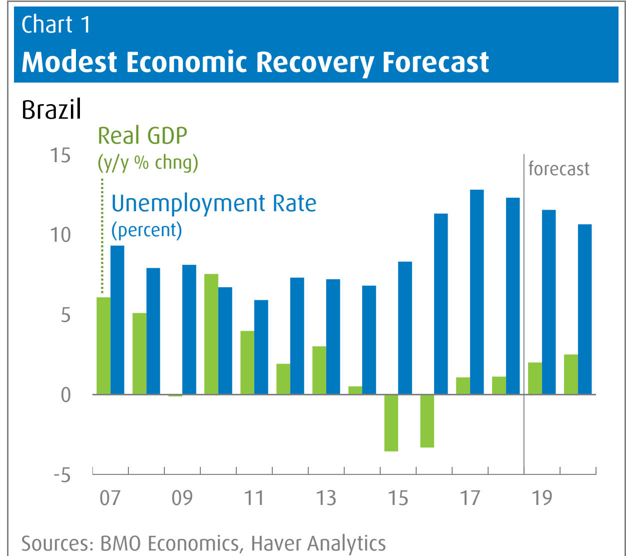
Brazil's economic prospects have brightened following a tumultuous five years. This included the impeachment of President Dilma Rousseff in August 2016 and an extended period of policy paralysis, which contributed to a steep, prolonged recession, a significant increase in public debt and multiple downgrades to its sovereign rating. While growth has partially recovered, stocks have surged, and interest rates have tumbled, the country is not completely out of the woods yet. The long-term strength of the economy and, in tandem, the ability to stabilize its public finances will ultimately depend on the pace of structural reforms.

Still Stagnant

Although we expect Brazil's modest recovery to continue, this is largely because the economy is operating with a high degree of slack. Real GDP grew by an average of 1.1% in 2017-18 (*Chart 1*), which leaves it roughly 5% below its pre-crisis level in 2014. Meanwhile, the unemployment rate remains elevated, standing at 12.4% in February, though this is below the recent peak of 13.7% in March 2017.

This stagnant economic backdrop explains why investors, both domestic and foreign, remain focussed on the prospect of structural reforms. The importance is reflected in the wide range of estimates of Brazil's medium-term potential growth rate, from as high as 4.0% (assuming the implementation of a fiscal adjustment that stabilizes public debt and microeconomic reforms that improve the investment climate) to as low as 1.5% (without any adjustments).

Chart 1
Modest Economic Recovery Forecast

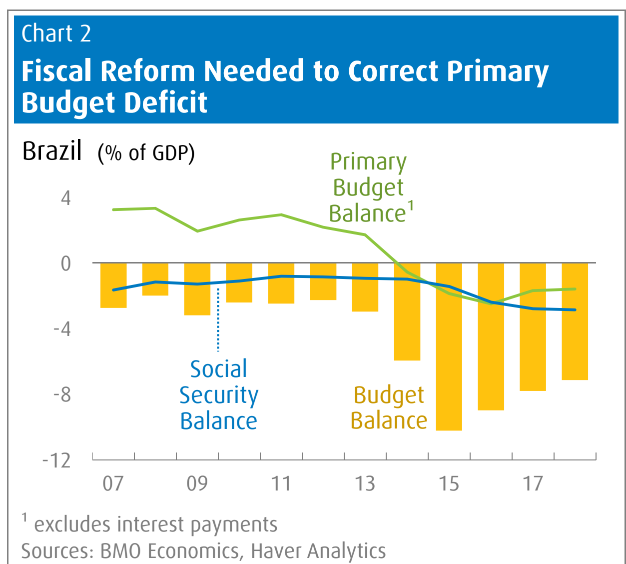


Sources: BMO Economics, Haver Analytics

Bolsonaro has a Tough Road Ahead

The election of a centrist/market-friendly president may not be enough to revive Brazil's economic fortunes. President Jair Bolsonaro and his Partido Social Liberal (PSL) party simply do not have enough seats and/or support in the lower house—the Chamber of Deputies—to implement new legislation. The PSL holds just 52 of the lower house's 513 seats, which are distributed among 30 parties. Bolsonaro needs at least three-fifths of the lower house to approve major bills, such as pension reform. Further complicating matters, Bolsonaro has chosen not to engage in the traditional 'horse-trading' tactics of his predecessors (e.g., distributing key cabinet positions to other parties to build alliances).

Chart 2
Fiscal Reform Needed to Correct Primary Budget Deficit



[1] excludes interest payments
Sources: BMO Economics, Haver Analytics

Pension Reform Badly Needed...

It appears that there is a consensus, even among Brazil's most hardened centre-left politicians, that the government's social security costs must be reduced, but to what degree and under what conditions remain uncertain. As it stands, the social security system is financially unsustainable as it pays high replacement rates—pensions relative to working-age incomes—and at a relatively

young age (53 years for women and 56 years for men). In 2018, social security spending accounted for 8.6% of GDP (vs 6.8% in 2014), which pushed the social security deficit to 2.9% of GDP (vs 1.0% in 2014) (*Chart 2*).

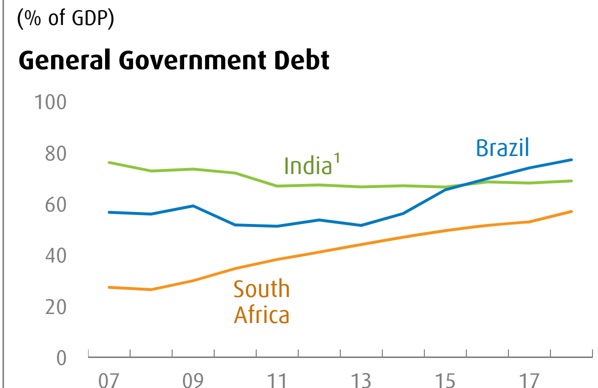
Bolsonaro has proposed an ambitious pension reform plan, which if implemented, should help lower/stabilize future budget deficits. According to the government's estimates, the proposal, which includes raising the retirement age (to 62 for women and 65 for men), increasing contributions paid by higher-income workers and limiting the ability of pensioners to collect more than one benefit, would provide savings of BRL1.2 trillion in the first 10 years after approval, equivalent to 17% of nominal 2018 GDP.

...but Likely to be Watered Down

But recent debate in Congress suggests that the odds of Bolsonaro's proposal being approved in its current form are slim, and, thus, it will likely be watered down. Most private-sector analysts expect it to be diluted to BRL600-800 bln, which may still be an acceptable outcome. If the proposed pension bill is watered down significantly, say to under BRL500 bln of savings, then it will eventually begin to impact the government's ability to spend on other essential services, due in large part to the 20-year public spending cap (introduced in 2016), which limits the rise in federal non-interest spending to the previous year's inflation rate.

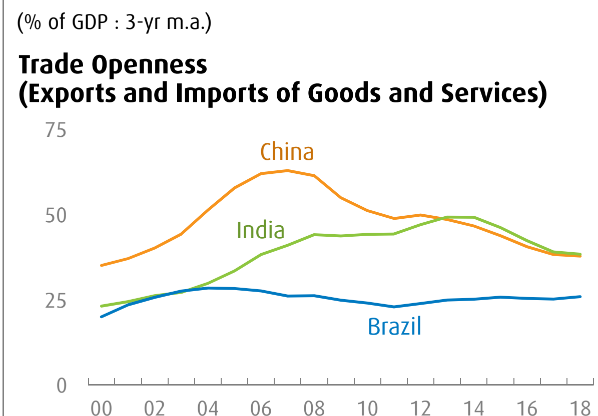
The public spending cap is not necessarily a 'hard budget constraint', which means that, without a significant cut in social security spending or other major fiscal savings measures, the prospect of the cap being breached cannot be fully discounted. This could lead to an unsustainable rise in general government debt (*Chart 3*).

Chart 3
Public Debt Approaching Unsustainable Levels



[1] based on the financial year-end (end-March)
Sources: BMO Economics, Haver Analytics, Reserve Bank of India

Chart 4
A Closed Market by Emerging Market Standards



Sources: BMO Economics, Haver Analytics

Improving Competitiveness on the Backburner

We doubt that Bolsonaro will be able to focus on revamping Brazil's economic model—where the legacy of import-substitution and protectionist policies implemented as far back as the 1950s continues to stifle potential growth—until pension reform has been resolved. Even then, reforming the financial sector and labour market, or opening Brazil's closed economy to more competition by reducing both tariff and non-tariff trade barriers, will face stiff opposition, given deeply rooted vested interests (*Chart 4*).

Key Takeaways

History has proven that implementing major structural reforms in Brazil is not easy. Nonetheless, we think that Bolsonaro will be able to obtain enough support to push through a pension reform bill that is able to move the country's public finances in the right direction and keep the credit rating agencies at bay. Or put another way, Brazil's politicians—no matter where they sit on the political spectrum—have reached a point where they can no longer 'kick the can down the road'.

Economic Forecast Summary for March 29, 2019

BMO Capital Markets Economic Research

	2018				2019				Annual		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2017	2018	2019
CANADA											
Real GDP (q/q % chng : a.r.)	1.3	2.6	2.0	0.4	0.7 ↑	2.3 ↓	2.2	1.5 ↓	3.0	1.8	1.5 ↑
Consumer Price Index (y/y % chng)	2.1	2.3	2.7	2.0	1.5	1.8	1.7	1.9	1.6	2.3	1.7
Unemployment Rate (percent)	5.8	5.9	5.9	5.7	5.8	5.8	5.7	5.7	6.3	5.8	5.7
Housing Starts (000s : a.r.)	224	218	197	217	202	211	206	200	220	214	205
Current Account Balance ($blns : a.r.)	-69.0	-63.4	-40.4	-61.9	-56.8 ↑	-57.0 ↑	-58.2 ↑	-60.0	-60.1	-58.7	-58.0 ↑
Interest Rates					(average for the quarter : %)						
Overnight Rate	1.25	1.25	1.50	1.75	1.75	1.75	1.75	1.75 ↓	0.71	1.44	1.75 ↓
3-month Treasury Bill	1.14	1.21	1.47	1.66	1.65	1.65	1.65	1.65 ↓	0.69	1.37	1.65 ↓
10-year Bond	2.24	2.28	2.28	2.32	1.85 ↓	1.60 ↓	1.70 ↓	1.80 ↓	1.78	2.28	1.75 ↓
Canada-U.S. Interest Rate Spreads					(average for the quarter : bps)						
90-day	-44	-66	-61	-70	-79	-76 ↑	-76 ↑	-76 ↑	-26	-60	-77 ↑
10-year	-52	-64	-65	-72	-80	-83 ↑	-82 ↓	-80 ↓	-55	-63	-81 ↓
UNITED STATES											
Real GDP (q/q % chng : a.r.)	2.2	4.2	3.4	2.2	1.2	2.5	2.1 ↑	1.9	2.2	2.9	2.3
Consumer Price Index (y/y % chng)	2.2	2.7	2.6	2.2	1.6	1.6	1.7	1.8	2.1	2.4	1.7
Unemployment Rate (percent)	4.1	3.9	3.8	3.8	3.9	3.7	3.5	3.5	4.4	3.9	3.6
Housing Starts (mlns : a.r.)	1.32	1.26	1.23	1.19	1.21 ↓	1.24	1.24 ↑	1.22 ↑	1.21	1.25	1.23
Current Account Balance ($blns : a.r.)	-496	-414	-506	-538	-506 ↑	-526 ↑	-538 ↑	-548 ↑	-449	-488	-530 ↑
Interest Rates					(average for the quarter : %)						
Fed Funds Target Rate	1.46	1.71	1.96	2.21	2.38	2.38	2.38	2.38 ↓	1.00	1.83	2.38 ↓
3-month Treasury Bill	1.58	1.87	2.08	2.36	2.45	2.45	2.45	2.45 ↓	0.95	1.97	2.45 ↓
10-year Note	2.76	2.92	2.93	3.03	2.65 ↓	2.40 ↓	2.50 ↓	2.60 ↓	2.33	2.91	2.55 ↓
EXCHANGE RATES					(average for the quarter)						
US¢/C$	79.1	77.5	76.5	75.7	75.2	74.8	75.1	75.4	77.1	77.2	75.1
C$/US$	1.27	1.29	1.31	1.32	1.33	1.34	1.33	1.33	1.30	1.30	1.33
¥/US$	108	109	112	113	110	111	110	110	112	110	110
US$/Euro	1.23	1.19	1.16	1.14	1.14 ↑	1.13	1.14	1.15	1.13	1.18	1.14
US$/£	1.39	1.36	1.30	1.29	1.30	1.31 ↓	1.31 ↓	1.30 ↓	1.29	1.34	1.31

Blocked areas represent BMO Capital Markets forecasts

Up and down arrows indicate changes to the forecast ↑↓

Spreads may differ due to rounding

Canada

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BoC Governor Poloz speaks in Iqaluit, Nunavut
Monday, 2:55 pm

We'll hear from Governor Poloz on Monday afternoon in Nunavut. The surprisingly strong January GDP report takes some of the edge off this speech, as Q1 GDP now appears to be on track to come close to the BoC's 0.8% forecast, which previously looked like a real long shot. It's still early in Q1, but fear that the Canadian economy is crumbling should be tempered and gives Governor Poloz the opportunity to deliver some soothing words. The last couple of months have brought a non-stop run of more-dovish-than-expected central bankers, which includes Poloz. While it seems less likely after the GDP report, there's still a chance the Governor could drop his very mild tightening bias at this speech. We don't believe this is the right forum for such a shift (given the proximity to the April MPR), but we won't rule anything out given the Bank's recent dovish lurch.

Employment
Friday, 8:30 am

Mar. (e)	**+0.1% (+20,000)**
Consensus	*-0.1% (-10,000)*
Feb.	+0.3% (+55,900)
	Unemployment Rate
Mar. (e)	**5.8%**
Consensus	*5.8%*
Feb.	5.8%
	Average Hourly Wages
Mar. (e)	**+2.3% y/y**
Feb.	+2.3% y/y

We've effectively thrown in the towel in forecasting the unforecastable employment report. With no bias either way, we'll go with a 20,000 job gain in March. It's been quite the run for jobs in Canada, surging 290k in the six months to February, the best spurt since 2002. The caveat to that big jump in jobs is that population growth has surged over the past year, boosted by booming immigration. Indeed, the labour force has also seen its largest six-month increase since 2002. That means job growth needs to be around 20k-to-30k to keep the jobless rate steady. On a sector basis, public administration stands out as ripe for some payback, but there is nothing particularly notable otherwise. We'd like to stress that it's just a matter of time before we see a negative jobs print, and that's especially the case with the run we've had over the past six months.

Our call for jobs is expected to keep the jobless rate steady at 5.8%. Wage growth looks to be flat at 2.3% y/y. However, there have been solid wage gains over the past three months and we'll be watching if that becomes a trend.

United States

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Retail Sales
Monday, 8:30 am

		Ex. Autos
Feb. (e)	**+0.2%**	**+0.3%**
Consensus	*+0.3%*	*+0.4%*
Jan.	+0.2%	+0.9%
	Ex. Autos/Gas	
Feb. (e)	**+0.2%**	
Consensus	*+0.3%*	
Jan.	+1.2%	

Soft chain-store sales and a further slip in autos suggest retail sales rose just 0.2% in February, though slightly more excluding cars. Midwest floods and snowstorms didn't help the cause. A fuel-driven increase in service station receipts will pad the headline number, though this implies a weak 0.2% "core" print which, even with January's gain, won't fully reverse December's big dive. Like the economy, consumer spending has slowed amid fading support from tax cuts. However, sound fundamentals—wealth, debt, income and now lower interest rates—should limit the downshift in the economy's biggest driver.

Manufacturing ISM (PMI)
Monday, 10:00 am

Mar. (e)	**54.2**
Consensus	*54.4*
Feb.	54.2

A month before the 10% tariff on $200 billion of Chinese goods started in September, the ISM index stood at 60.8, the highest level in more than 14 years. By February, it had fallen to 54.2 (a 28-month low), matching the worst six-month slide since the Great Recession. The downshift in factory activity was prodded by fears of an escalating trade war with China, an evident slowdown in the U.S. and global

economies, uncooperative climate conditions and labour shortages (factory job openings topped a record-high 500k in the period). With the spectre of U.S. automotive tariffs lurking and Midwestern flooding affecting the area's food processors, we doubt the manufacturing sector pulled out of its funk and look for an unchanged ISM index in March. Among the regional factory surveys, the headline indices have been mixed but mostly down.

Durable Goods Orders

Tuesday, 8:30 am

		Ex. Transport
Feb. (e)	**-1.8%**	**+0.4%**
Consensus	*-1.7%*	*+0.3%*
Jan.	+0.3%	-0.2%

	Nondef. Capital Goods ex. Air
Feb. (e)	**+0.3%**
Consensus	*+0.3%*
Jan.	+0.8%

A hefty fall in February Boeing bookings is likely going to drag down total durable goods orders by 1.8%, but they should record a modest 0.4% rise excluding the transportation sector. Despite a 0.9% jump in January, nondefense capital goods orders (excluding aircraft) declined in four of the five final months of last year (for a cumulative 2.2%), as business confidence waned owing to worries over the escalating trade war with China and dimming growth prospects in the U.S. and global economies (exacerbated by Q4's stock market plunge). The subsequent rebound in stocks and indefinite postponement of higher tariffs on Chinese goods should help stabilize (if not improve) confidence, but the lift for core capital goods orders should prove limited (+0.3%), with recession fears still being fanned.

Non-manufacturing ISM (NMI)

Wednesday, 10:00 am

Mar. (e)	**59.0**
Consensus	*58.0*
Feb.	59.7

A strong Philly Fed services index should limit an expected pullback in the national NMI measure in March to 59.0 after February's big bounce that was led by new orders and production. Oil output is also probing new highs of 12 million barrels per day, while lower mortgage rates are lifting the housing market. However, consumer spending on services has slowed amid ebbing support from tax cuts. Despite the expected modest retreat in March, the ISM index remains consistent with above-potential GDP growth, suggesting the economy will improve in the spring after a soggy start to the year.

Nonfarm Payrolls

Friday, 8:30 am

Mar. (e)	**+170,000**
Consensus	*+175,000*
Feb.	+20,000

	Unemployment Rate
Mar. (e)	**3.9%**
Consensus	*3.8%*
Feb.	3.8%

	Average Hourly Earnings	
Mar. (e)	**+0.3%**	**+3.4% y/y**
Consensus	*+0.2%*	*+3.4% y/y*
Feb.	+0.4%	+3.4% y/y

Payrolls likely sped up in March after hitting a speed bump due to bad weather in February. We look for a 170,000 increase after February's 20,000 advance, which barely kept the longest string of monthly advances alive at 101. The increase would mark a moderate step back from the six-month mean of 190,000, consistent with a slower economy. The unemployment rate is expected to edge up to 3.9%, as the Conference Board's survey reported a sharp slide in job prospects. In addition, more discouraged workers are returning to the workforce, lifting the participation rate the most in the past five months since 1992. The "all-in" jobless rate should also reverse a bit after sliding to 18-year lows of 7.3% in February. Amid a tight labour market, average hourly earnings are expected to rise a solid 0.3%, which should hold the yearly rate at a cycle-high 3.4%, supporting personal spending.

		Mar 29 [1]	Mar 22	Week Ago	4 Weeks Ago	Dec. 31, 2018
					(basis point change)	
Canadian Money Market	Call Money	1.75	1.75	0	0	0
	Prime Rate	3.95	3.95	0	0	0
U.S. Money Market	Fed Funds (effective)	2.50	2.50	0	0	0
	Prime Rate	5.50	5.50	0	0	0
3-Month Rates	Canada	1.67	1.64	3	0	3
	United States	2.40	2.44	-5	-3	4
	Japan	-0.17	-0.17	0	1	-2
	Eurozone	-0.31	-0.31	0	0	0
	United Kingdom	0.85	0.83	2	0	-6
	Australia	1.77	1.81	-4	-10	-32
2-Year Bonds	Canada	1.56	1.53	3	-20	-30
	United States	2.26	2.32	-6	-29	-23
10-Year Bonds	Canada	1.64	1.60	4	-30	-33
	United States	2.41	2.44	-3	-34	-27
	Japan	-0.09	-0.08	-2	-8	-9
	Germany	-0.06	-0.02	-4	-24	-30
	United Kingdom	1.02	1.01	1	-28	-26
	Australia	1.78	1.83	-6	-38	-54
Risk Indicators	VIX	13.8	16.5	-2.7 pts	0.2 pts	-11.6 pts
	TED Spread	20	17	4	3	-25
	Inv. Grade CDS Spread [2]	67	67	0	7	-21
	High Yield CDS Spread [2]	359	347	12	14	-91
					(percent change)	
Currencies	US¢/C$	74.87	74.47	0.5	-0.4	2.1
	C$/US$	1.336	1.343	—	—	—
	¥/US$	110.86	109.92	0.9	-0.9	1.1
	US$/€	1.1235	1.1302	-0.6	-1.1	-2.0
	US$/£	1.303	1.321	-1.4	-1.3	2.1
	US¢/A$	70.92	70.83	0.1	0.2	0.6
Commodities	CRB Futures Index	184.29	184.15	0.1	1.5	8.5
	Oil (generic contract)	59.98	59.04	1.6	7.5	32.1
	Natural Gas (generic contract)	2.69	2.77	-2.9	-6.0	-8.6
	Gold (spot price)	1,295.28	1,313.70	-1.4	0.1	1.0
Equities	S&P/TSX Composite	16,138	16,089	0.3	0.4	12.7
	S&P 500	2,827	2,801	1.0	0.8	12.8
	Nasdaq	7,716	7,643	1.0	1.6	16.3
	Dow Jones Industrial	25,826	25,502	1.3	-0.8	10.7
	Nikkei	21,206	21,627	-1.9	-1.8	6.0
	Frankfurt DAX	11,535	11,364	1.5	-0.6	9.2
	London FT100	7,277	7,208	1.0	2.4	8.2
	France CAC40	5,354	5,270	1.6	1.7	13.2
	S&P ASX 200	6,181	6,195	-0.2	-0.2	9.5

[1] = as of 10:30 am [2] = One day delay

Global Calendar
April 1 – April 5

BMO Capital Markets®

Japan

Monday April 1

Tankan Large Mfg Index
Q1 (e) **13**
Q4 19

Manufacturing PMI
Mar. F (e) **48.9**
Feb. 48.9

Tuesday April 2

Wednesday April 3

Services PMI
Mar.
Feb. 52.3

Composite PMI
Mar.
Feb. 50.7

Thursday April 4

Friday April 5

Household Spending
Feb. (e) **+1.9% y/y**
Jan. +2.0% y/y

Euro Area

Monday April 1

EURO AREA

Consumer Price Index
Mar. A (e) **+1.5% y/y**
Feb. +1.5% y/y

Core CPI
Mar. A (e) **+0.9% y/y**
Feb. +1.0% y/y

Jobless Rate
Feb. (e) **7.8%**
Jan. 7.8%

Manufacturing PMI
Mar. F (e) **47.6**
Feb. 49.3

FRANCE

Jobless Rate [D]
Feb. P
Jan. 8.8%

ITALY

Jobless Rate
Feb. P (e) **10.5%**
Jan. 10.5%

Tuesday April 2

EURO AREA

Producer Price Index
Feb. (e) **+0.2%** **+3.1% y/y**
Jan. +0.4% +3.0% y/y

Wednesday April 3

EURO AREA

Services PMI
Mar. F (e) **52.7**
Feb. 52.8

Composite PMI
Mar. F (e) **51.3**
Feb. 51.9

Retail Sales
Feb. (e) **+0.2%** **+2.3%y/y**
Jan. +1.3% +2.2% y/y

Thursday April 4

EURO AREA

ECB Minutes

GERMANY

Factory Orders
Feb. (e) **+0.3%** **-3.1% y/y**
Jan. -2.6% -3.9% y/y

Friday April 5

GERMANY

Industrial Production
Feb. (e) **+0.5%** **-1.4% y/y**
Jan. -0.8% -3.3% y/y

FRANCE

Trade Deficit
Feb. (e) **€4.7 bln**
Jan. €4.2 bln

U.K.

Monday April 1

Manufacturing PMI
Mar. (e) **51.2**
Feb. 52.0

Tuesday April 2

Construction PMI
Mar. (e) **49.8**
Feb. 49.5

Wednesday April 3

Services PMI
Mar. (e) **51.0**
Feb. 51.3

Composite PMI
Mar. (e) **51.2**
Feb. 51.5

Thursday April 4

Friday April 5

Unit Labour Costs
Q4
Q3 +2.8% y/y

Other

Monday April 1

CHINA

	Mfg. PMI	**Nonmfg. PMI**
Mar. (e)	**49.6**	**54.4**
Feb.	49.2	54.3

Composite PMI
Mar.
Feb. 52.4

Caixin Manufacturing PMI
Mar. (e) **50.0**
Feb. 49.9

AUSTRALIA

NAB Business Confidence
Mar.
Feb. 2

Tuesday April 2

AUSTRALIA

Building Approvals
Feb. (e) **-1.8%** **-27.0% y/y**
Jan. +2.5% -28.6% y/y

RBA Monetary Policy Meeting

Wednesday April 3

CHINA

Caixin Services PMI
Mar. (e) **52.3**
Feb. 51.1

Caixin Composite PMI
Mar.
Feb. 50.7

U.S./China Trade Talks Begin in Washington

AUSTRALIA

Retail Sales
Feb. (e) **+0.3%**
Jan. +0.1%

Trade Surplus
Feb. (e) **A$3.7 bln**
Jan. A$4.5 bln

Thursday April 4

INDIA

RBI Monetary Policy Meeting

Friday April 5

CHINA

Markets Closed

[D] = date approximate

Upcoming Policy Meetings | BoE: May 2, June 20, Aug. 1 | ECB: Apr. 10, June 6, July 25

North American Calendar

April 1 – April 5

BMO Capital Markets

Canada

Monday April 1

9:30 am **Markit Manufacturing PMI**
Mar.
Feb. 52.6

2:55 pm **BoC Governor Poloz speaks on "The Importance of Trade", in Iqaluit, Nunavut. Press conference at 4:30 pm**

Dates for previously delayed releases:
Apr. 17: Merchandise Trade Balance (Feb.)
May 9: Merchandise Trade Balance (Mar.)

Tuesday April 2

Auto Sales[D]
Mar.
Feb. -3.7% y/y

10:30 am 3-, 6- & 12-month bill auction $9.0 bln (new cash -$2.7 bln)

Wednesday April 3

Noon 5-year bond auction $4.0 bln

Thursday April 4

10:00 am **Ivey Purchasing Managers Index (s.a.)**
Mar.
Feb. 50.6

2-year bond auction announcement

Friday April 5

8:30 am **Employment**
Mar. (e) **+0.1% (+20,000)**
Consensus *-0.1% (-10,000)*
Feb. +0.3% (+55,900)

8:30 am **Unemployment Rate**
Mar. (e) **5.8%**
Consensus *5.8%*
Feb. 5.8%

8:30 am **Average Hourly Wages**
Mar. (e) **+2.3% y/y**
Feb. +2.3% y/y

United States

Monday April 1

8:30 am	**Retail Sales**	**Ex. Autos**
Feb. (e)	**+0.2%**	**+0.3%**
Consensus	*+0.3%*	*+0.4%*
Jan.	+0.2%	+0.9%

8:30 am **Retail Sales ex. Autos/Gas**
Feb. (e) **+0.2%**
Consensus *+0.3%*
Jan. +1.2%

9:45 am **Markit Mfg. PMI (Mar. F)**

10:00 am **Manufacturing ISM (PMI)**
Mar. (e) **54.2**
Consensus *54.4*
Feb. 54.2

10:00 am **Construction Spending**
Feb. (e) **-1.0%**
Consensus *-0.2%*
Jan. +1.3%

10:00 am **Business Inventories**
Jan. (e) **+0.5%**
Consensus *+0.5%*
Dec. +0.7%

11:30 am 13- & 26-week bill auction $84 bln

Dates for previously delayed releases:
Apr. 8: Factory Orders (Feb.)
Apr. 17: Goods & Services Trade Balance (Feb.), Wholesale Trade (Feb.)
Apr. 18: Retail Sales (Mar.), Bus. Invent. (Feb.)
Apr. 19: Housing Starts, Bldg. Permits (Mar.)
Apr. 29: Pers. Income (Feb.) and Spending (Jan.)
May 3: Adv. Indicators (Mar.) [Jan.-Feb. cancelled]
May 9: Goods & Services Trade (Mar.)

Tuesday April 2

8:30 am	**Durable Goods Orders**	**Ex. Transport**
Feb. (e)	**-1.8%**	**+0.4%**
Consensus	*-1.7%*	*+0.3%*
Jan.	+0.3%	-0.2%

8:30 am **Nondef. Capital Goods ex. Air**
Feb. (e) **+0.3%**
Consensus *+0.3%*
Jan. +0.8%

Ward's Total Vehicle Sales[D]
Mar. (e) **16.8 mln a.r.**
Consensus *16.7 mln a.r.*
Feb. 16.6 mln a.r.

11:00 am 4- & 8-week bill auction announcements

Wednesday April 3

7:00 am **MBA Mortgage Apps**
Mar. 29
Mar. 22 +8.9%

8:15 am **ADP National Employment Report**
Mar. (e) **+170,000**
Consensus *+180,000*
Feb. +183,000

9:45 am **Markit Services/Composite PMI (Mar. F)**

10:00 am **Non-manufacturing ISM (NMI)**
Mar. (e) **59.0**
Consensus *58.0*
Feb. 59.7

U.S./China Trade Talks Begin in Washington

Fed Speakers: Atlanta's Bostic (8:30 am); Minneapolis' Kashkari (5:00 pm)

Thursday April 4

7:30 am **Challenger Layoff Report**
Mar.
Feb. +117.2% y/y

8:30 am **Initial Claims**
Mar. 30 (e) **216k (+5k)**[C]
Mar. 23 211k (-5k)

8:30 am **Continuing Claims**
Mar. 23
Mar. 16 1,756k (+13k)

Fed Speakers: Cleveland's Mester (1:00 pm); Philadelphia's Harker (1:00 pm)

11:00 am 13- & 26-week bill, 3- & 10[R]-year note, 30[R]-year bond auction announcements

11:30 am 4- & 8-week bill auction

Friday April 5

8:30 am **Nonfarm Payrolls**
Mar. (e) **+170,000**
Consensus *+175,000*
Feb. +20,000

8:30 am **Unemployment Rate**
Mar. (e) **3.9%**
Consensus *3.8%*
Feb. 3.8%

8:30 am	**Average Hourly Earnings**	
Mar. (e)	**+0.3%**	**+3.4% y/y**
Consensus	*+0.2%*	*+3.4% y/y*
Feb.	+0.4%	+3.4% y/y

3:00 pm **Consumer Credit**
Feb. (e) **+$17.0 bln**
Consensus *+$17.5 bln*
Jan. +$17.0 bln

Fed Speaker: Atlanta's Bostic (3:30 pm)

[C] = consensus [D] = date approximate [R] = reopening

Upcoming Policy Meetings | Bank of Canada: Apr. 24, May 29, July 10 | FOMC: Apr. 30-May 1, June 18-19, July 30-31

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