

DAILY POINTS

June 10, 2024 @ 8:00 EST

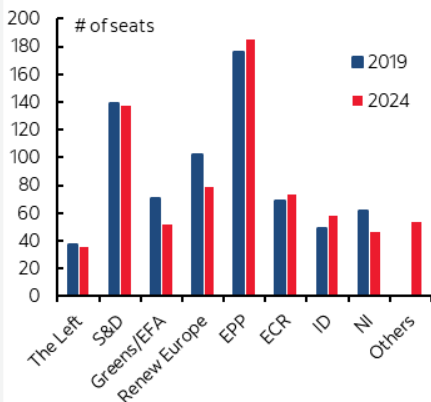
Contributors

Derek Holt

VP & Head of Capital Markets Economics
 Scotiabank Economics
 416.863.7707
derek.holt@scotiabank.com

Chart 1

European Parliamentary Elections



Sources: Scotiabank Economics, Verian for the European Parliament.

On Deck for Monday, June 10

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	06-10	11:00	NY Fed 1-Yr Inflation Expectations	May	--	--	3.3

KEY POINTS:

- **Bonds and stocks cheapen...**
- **...driven by European politics, N.A. jobs spillovers, week ahead expectations**
- **European Parliamentary elections, France's snap election jolt markets**
- **Freeland to introduce vague capital gains tax hike plan...**
- **...and the real reason she's plowing ahead with the ill-advised measure**
- **Global Week Ahead—More Daisies Please!**

European parliamentary elections are giving markets a jolt this morning. This may be adding to ongoing spillover effects from Friday's dual US and Canadian jobs reports that showed strong figures for the US and solid figures for Canada including a sharp rise in wages and solid input to Q2 GDP tracking (recaps [here](#) and [here](#)). Some of the market action could also be in anticipation of the week's key expected developments like US CPI and the FOMC on Wednesday plus the BoJ on Friday.

France's Macron Rolls the Dice

In Europe's Parliamentary elections, conservative parties gained ground in line with the polls and the three main centrist groups continue to hold majorities. The gains by the right including France's National Rally (formerly National Front) prompted French President Macron to call a snap parliamentary election in two stages on June 30th and July 7th. His job is not directly on the line, but the ability to execute policy changes between now and the 2027 Presidential election when his term limit arrives could be impacted along with whomever his PM may be in a few weeks.

It also cannot be lost on anyone that the scope for political surprises of consequence to markets is very high so many elections this year from India to Europe, the UK and US, Canada next year and so forth. A significant theme is that center-left governments in places like Europe, the US and Canada are performing poorly in the polls on topics as varied as immigration to managing the economy, security and fiscal policy. The UK is an exception as polls indicate that Labour seems likely to return in its election on July 4th as the Conservatives and Reform UK split the center-right vote perhaps because the Conservatives under Truss and May looked anything but like conservatives ([here](#)).

Preliminary results are available [here](#) and the provisional change in the number of seats held by party from the 2019 election to now is shown in chart 1. For instance, Macron's Renew Europe Group and the Greens lost notable numbers of seats.

Markets don't like uncertainty and so equities are broadly lower and led by France's 1.6% drop. Sovereign bonds are broadly cheaper as EGB spreads widen over cheaper. The euro is depreciating from about 1.08 to 1.0755 to the dollar.

We also have some ECB-speak to consider this morning that is leaning toward requiring more data by the September meeting before deciding next steps.

Some of the volatility may be driven by uncertainty ahead of the week's other key developments including US CPI, the Fed and the BoJ.

Canada Talk Tax Hikes Today

Canadian Finance Minister Freeland will introduce in Parliament today what sounds like just a ways and means motion that provides limited further information on the planned

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hike in the capital gains inclusion rate from 50% to two-thirds. Vague intent was announced in the Budget way back on April 16th and the government has offered nothing since then. That doesn't sound like formal legislation versus a mere political rallying cry for the foolish capital gains tax hike. PM Trudeau says there will be a vote in Parliament on it later this week which is more about politics to force parties to formally stake out a position.

From what I understand, it seems unlikely that formal legislation will be introduced before Parliament enters summer recess on June 21st but that the government is sticking to its June 25th implementation date. That begs the question how can you implement something without really saying what it's all about in terms of the devil being in the details? Legislation might arrive later this summer or some time after Parliament returns on September 16th.

The shambolic nature in which this government and Finance are pursuing this initiative is just stunning. But what's the real motive? It's not fairness, as many articles such as [this](#) one by one of Canada's foremost tax experts argues including the point about that at least 1.26 million Canadians are likely to be affected versus the government's politically lowballed estimate in the mere thousands or tens of thousands. If it was really about tax fairness, then they'd use the proceeds to cut personal income taxes particularly for the middle-income households, rather than spending the proceeds on pet social programs.

Rather, the motive is undeniably the fact that the government is desperate for revenue. After potentially misleading Canadians in the Federal Budget that all fiscal targets would be hit including deficits, figures released on May 31st in the Fiscal Monitor showed that the deficit for the FY2023–24 fiscal year is tracking C\$50.9 billion instead of the \$40.1B that the Budget claimed. There may be revisions for asset valuations and the full tax year's haul and possible gimmickry before we see the final numbers this Fall, but thus far, deficit tracking appears to be 27% higher than shown in the Budget.

Enter the capital gains tax hike. The government claims it will bring in C\$19.4B of revenue over five years. Others reject this estimate as something that is unlikely to be achieved. Canada faces a Federal election by no later than October of 2025. Governments doing as badly in the polls as the left's Liberal-NDP quasi-coalition is performing don't spend less into election years. Badly polling governments of all stripes—such as Harper's government into the 2015 election—roll out all manner of vote-grabbing proposals for the crowd that likes someone else to pay for their hand-outs even if they themselves wind up paying for the poorly understood incidence effects.

Overnight data was inconsequential and there is nothing material on tap into the N.A. session. We only get the NY Fed's 1-year inflation expectations gauge for May (11amET).

As a reminder, please go [here](#) to see the Global Week Ahead—More Daisies Please! The summary deck is in subscribers' inboxes. Key topics include:

- Powell likely to retain cautious optimism on inflation
- US CPI: one of four before our September cut call
- FOMC: it's all in the dots
- The Fed's balance sheet is back on autopilot
- BoC's Macklem to speak after violating own guidance, solid jobs
- BoJ may reduce bond purchases
- BCRP expected to cut again
- UK wages still running hot?
- Is Australia's job market cooling?
- CPI: China, India, Brazil, Colombia, Norway, Sweden
- BoT, CBCT likely to hold

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.	4.88	4.89	4.81	4.48	4.46	4.41	4.46	4.43	4.39	4.59	4.56	4.54	Canada - BoC	4.75
CANADA	4.00	3.98	4.10	3.54	3.50	3.56	3.51	3.46	3.50	3.43	3.38	3.35	US - Fed	5.50
GERMANY	3.09	3.08	3.03	2.71	2.68	2.62	2.67	2.62	2.58	2.79	2.73	2.71	England - BoE	5.25
JAPAN	0.38	0.35	0.40	0.61	0.56	0.64	1.04	0.98	1.07	2.19	2.10	2.25		
U.K.	4.42	4.40	4.36	4.20	4.15	4.12	4.32	4.26	4.22	4.74	4.69	4.67		
Spreads vs. U.S. (bps):														
CANADA	-88	-91	-71	-94	-96	-84	-95	-97	-89	-116	-117	-118	Euro zone - ECB	4.25
GERMANY	-180	-180	-178	-177	-178	-179	-179	-181	-181	-180	-183	-183	Japan - BoJ	-0.10
JAPAN	-450	-454	-441	-387	-391	-377	-342	-346	-332	-240	-246	-229		
U.K.	-47	-49	-45	-28	-32	-29	-14	-17	-17	16	13	13	Mexico - Banxico	11.00
Equities	Level			Change			% change:							
	Last						1 Day	1-wk	1-mo	1-yr				
S&P/TSX	22007			-222.1			-1.0	-1.2	-1.4	10.6			Australia - RBA	4.35
Dow 30	38799			-87.2			-0.2	0.3	-1.8	14.5			New Zealand - RBNZ	5.50
S&P 500	5347			-6.0			-0.1	1.3	2.4	24.4				
Nasdaq	17133			-40.0			-0.2	2.4	4.8	29.2				
DAX	18460			-97.3			-0.5	-0.8	-1.7	15.7				
FTSE	8221			-24.2			-0.3	-0.5	-2.5	8.7				
Nikkei	39038			354.2			0.9	0.3	2.1	21.0			Canada - BoC	Jul 24, 2024
Hang Seng	18367			-109.8			-0.6	1.6	-3.1	-5.3			US - Fed	Jun 12, 2024
CAC	7875			-126.6			-1.6	-1.5	-4.2	9.2			England - BoE	Jun 20, 2024
Commodities	Level			Change			% change:							
WTI Crude	76.02			0.49			0.6	2.4	-2.9	8.3			Euro zone - ECB	Jul 18, 2024
Natural Gas	3.03			0.11			3.8	9.9	34.5	34.4			Japan - BoJ	June 14, 2024
Gold	2305.20			11.42			0.5	-1.9	3.4	17.5				
Silver	30.27			-0.03			-0.1	-3.2	11.0	28.3			Mexico - Banxico	Jun 27, 2024
CRB Index	289.86			-2.56			-0.9	-0.1	0.1	11.3			Australia - RBA	Jun 18, 2024
Currencies	Level			Change			% change:							
USDCAD	1.3767			0.0003			0.0	1.0	0.7	3.0			New Zealand - RBNZ	Jul 09, 2024
EURUSD	1.0755			-0.0046			-0.4	-1.4	-0.1	-0.0				
USDJPY	156.89			0.1400			0.1	0.5	0.7	12.4				
AUDUSD	0.6593			0.0011			0.2	-1.4	-0.2	-2.3				
GBPUSD	1.2716			-0.0003			-0.0	-0.7	1.5	1.7				
USDCHF	0.8960			-0.0006			-0.1	0.0	-1.2	-1.4				

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