Scotiabank

GLOBAL ECONOMICS

DAILY POINTS

June 11, 2024 @ *8:25 EST*

Contributors

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

On Deck for Tuesday, June 11

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	06-11	08:30	Building Permits (m/m)	Apr	--	5.0	-11.7
US	06-11	10:00	FOMC Begins Two-Day Meeting				

KEY POINTS:

- **Havens in demand as politics rattles risk appetite**
- **BoE August pricing boosted by UK job market readings**
- **French spreads widen over bunds on political risk**
- **MXN drops as Sheinbaum moves quickly on judicial reform**
- **US to auction 10s after yesterday's soft 3s outcome**
- **Canada's alternative to raising taxes: try saying 'no'**

Risk-off sentiment is putting downward pressure on global equities, a slightly firmer USD, and rallies in havens like US Ts and bunds. European and Mexican politics plus UK data are the main drivers of regional divergences ahead of more US debt sales.

UK job market readings drove slightly stronger pricing for BoE pricing. MXN is depreciating after President-elect Sheinbaum signaled that her strong electoral outcome will first be put to work in addressing judicial reform. French bond spreads are about 9bps wider in 10s over bunds and 7bps in 2s as the aftermath of Macron's election call and the rumour mill on his (denied) resignation risk should his party lose the snap election work through markets. French spreads are relatively wide compared to history and by contrast to Italian and Spanish spreads (chart 1).

Chart 1

Source: Scotiabank Economics, Bloomberg.

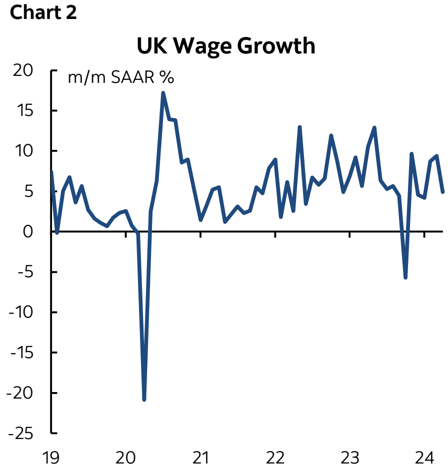
There is also a US$39 billion 10s reopening today (1pmET) that may test Treasury appetite in light of payrolls and yesterday's soft 3s auction that yielded the lowest 3s bid-to-cover ratio since December. This morning's rally may help.

UK Job Market is Slowly Rebalancing

UK jobs and wages matter, but CPI the day before the BoE's decision on June 20th may matter more to determining market pricing for no action then, and little action that is priced for the August meeting. The slightly softer than expected tone to the labour market readings added a few basis points to August BoE pricing which now sits at about 11bps of a cut priced. Gilts are somewhat dearer, but sterling has shaken off the figures following the initial reaction.

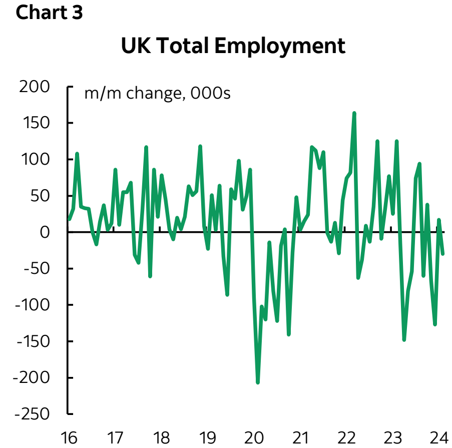
- UK wage growth ebbed but remains too hot (chart 2). Wages were up by 4.9% m/m SAAR in April which is the softest since January, while the 3mo MA sits at 7.7% m/m

Chart 2



Sources: Scotiabank Economics, UK Office for National Statistics.

Chart 3



Sources: Scotiabank Economics, UK ONS.

SAAR. In year over year terms, wages were up by 5.8%, or 6% on a 3mo MA basis.

- Total employment lags to April and fell by 30k for the third decline in the first four months of 2024. 207k jobs have been lost so far this year. Chart 3.
- payroll employment fell by a modest 3k in May and is now down by about 14k ytd. Chart 4.

Chart 5 shows the ongoing mild rebalancing of the UK job market that has seen a gradual decline in the job vacancy rate but a fairly sticky unemployment rate that still portrays the job market as on the tighter side of history. There is no question that total employment and payroll employment are on slowing trends. Key is whether lagging wages are next or will prove sticky for much longer.

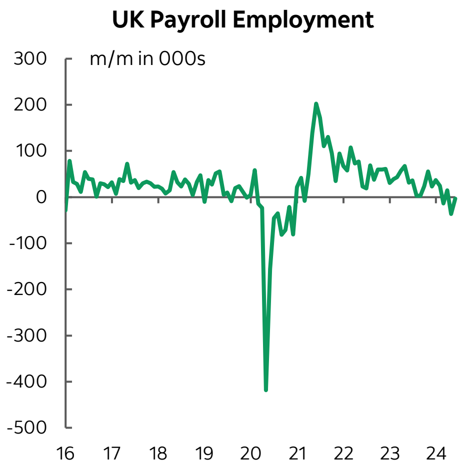
Other than the US reopening there is nothing material on tap into the N.A. session.

Canada's Alternative to Tax Hikes — Try Saying 'No'

Canadian finance minister Freeland said during yesterday's defence of the capital gains tax grab that rejected all legitimate concerns expressed by many opponents that she could fund her government's expansionist programs with more debt, but that this would be irresponsible and hence why they chose higher taxes. That's rich. Really rich. But I've got an alternative responsible solution.

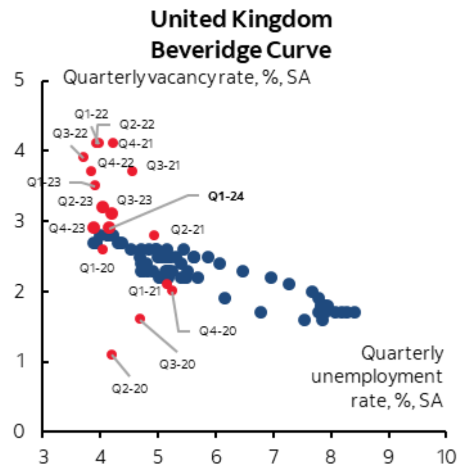
They could reduce spending, immigration and the size of the civil service as all three have added significant pressure on the economy, inflation and rates while sowing future risks. Of course, fiscal expansionists will say that now is not a good time to reduce spending, but there is never a good time to them and that's how you wind up along the path of serial increases in debt and debt servicing — until the music stops. Program spending ex- the temporary covid supports has risen by about 35% now compared to the fiscal year just before the pandemic struck and the Budget shows it would rise another nearly 30 points to a 63% cumulative rise by FY28–29 compared to FY19–20 (chart 6). The two-thirds expansion of government in under a decade grossly outpaces the cumulative population rise of 8% over the period since the pandemic. If not for excessive program spending the BoC probably wouldn't have had to hike as much and might have been able to ease more by now.

Chart 4



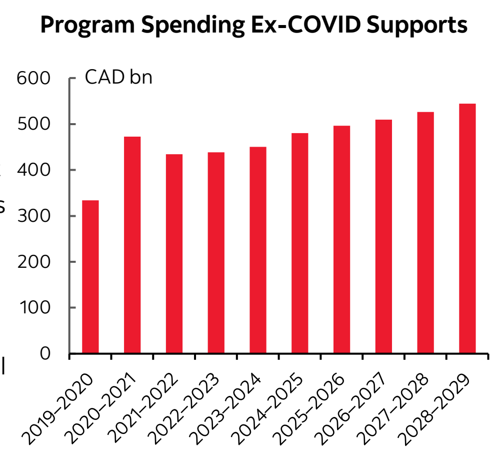
Sources: Scotiabank Economics, UK ONS.

Chart 5



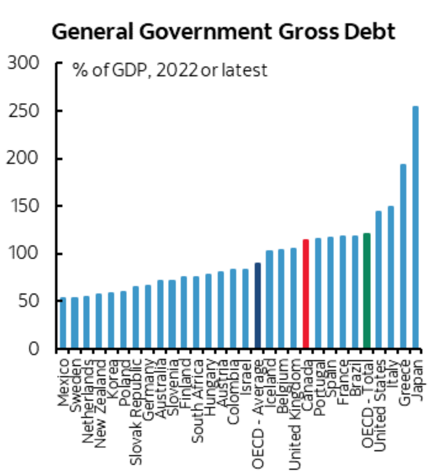
Sources: Scotiabank Economics, UK ONS.

Chart 6



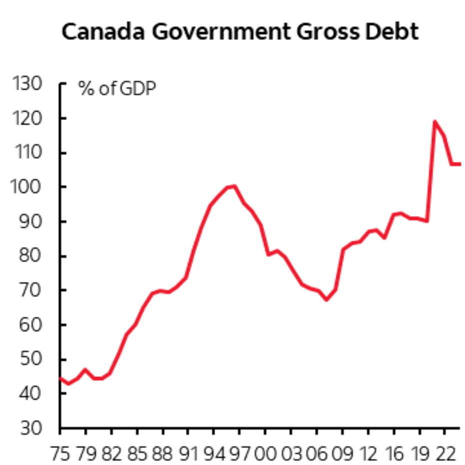
Sources: Scotiabank Economics, Federal Budget 2023 FES.

Chart 7



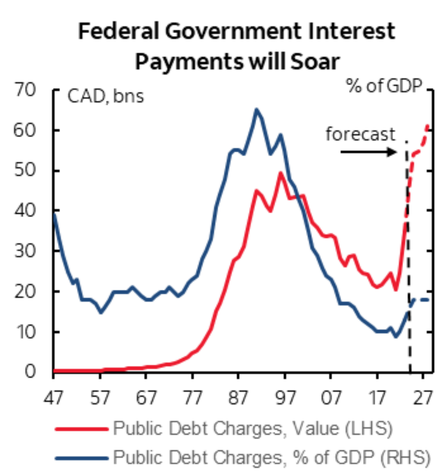
Sources: Scotiabank Economics, OECD.

Chart 8



Sources: Scotiabank Economics, Department of Finance Canada.

Chart 9



Sources: Scotiabank Economics, Bloomberg.

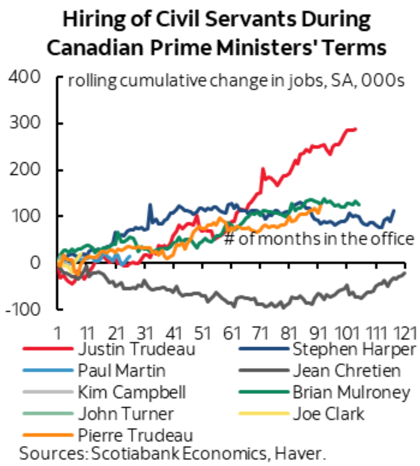
The issue is not that deficit-to-gdp ratios are out of whack. The issue is the serial pattern and Canada never adjusted to the post-pandemic world by repairing finances. Cumulative debt-to-GDP in Canada sits at 113% using full year 2022 figures for all governments in Canada combined and that's above the OECD average (chart 7) and toward historic highs (chart 8). Some of the countries against which Canada is a little lighter—like the US—have other advantages that a modestly sized market like Canada does not, like reserve currency status (US) or a relatively more closed bond market (Japan). It's also higher now and will move higher yet. One cost to this is less budget flexibility in future as interest expense soars to the tens of billions of dollars per year just at the Federal level (chart 9), crowding out room for future initiatives and adding to structural deficits. Toss in an unexpected shock and Canada's not sitting so pretty. What if, say, the US fiscal position really blows out if a free wheeling and heavy spending administration takes power in November and then takes the global bond market with it, thereby raising the cost of debt servicing even more?

As for immigration, since demand from immigration comes first as supply catches up later, Canada has had shelter cost inflation to beat the band, thereby also limiting the BoC's flexibility. BoC Governor Macklem is too charitable to the government when describing immigration's effects on demand and supply as coincident to one another.

And the size of the total Canadian public sector workforce in Canada has been exploding over many years (charts 10, 11) while driving private sector worker shortages.

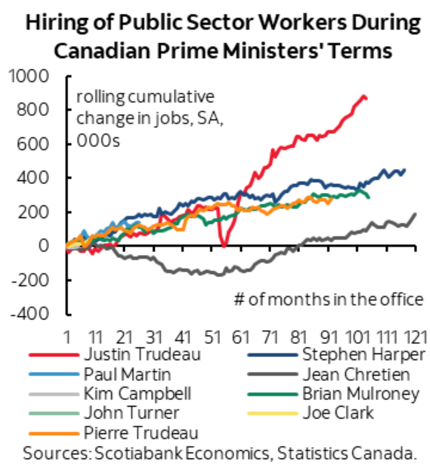
Simply put, there is more public policy choice in Canada to raising ill-advised taxes with fallacious logic and issuing more debt. That choice requires knowing when to say no which appears to be an underutilized word in Ottawa these days. Got a cause? We've got a cheque. Bigger government solves everything. That's the mantra, and there's never a spending proposal that doesn't sound appealing as government bullies its way further and further into private markets. Get used to more of this into an election year.

Chart 10



Sources: Scotiabank Economics, Haver.

Chart 11



Sources: Scotiabank Economics, Statistics Canada.

Fixed Income	2-YEAR Last	2-YEAR 1-day	2-YEAR 1-wk	5-YEAR Last	5-YEAR 1-day	5-YEAR 1-wk	10-YEAR Last	10-YEAR 1-day	10-YEAR 1-wk	30-YEAR Last	30-YEAR 1-day	30-YEAR 1-wk
Government Yield Curves (%):												
U.S.	4.84	4.88	4.77	4.44	4.48	4.35	4.44	4.47	4.33	4.57	4.60	4.47
CANADA	3.97	3.99	4.05	3.50	3.52	3.50	3.48	3.50	3.45	3.41	3.42	3.32
GERMANY	3.02	3.09	2.99	2.66	2.71	2.58	2.64	2.67	2.53	2.80	2.79	2.68
JAPAN	0.37	0.38	0.38	0.60	0.61	0.61	1.03	1.04	1.03	2.18	2.19	2.21
U.K.	4.36	4.41	4.35	4.16	4.20	4.09	4.29	4.32	4.18	4.74	4.76	4.61
Spreads vs. U.S. (bps):												
CANADA	-87	-89	-72	-94	-96	-84	-95	-96	-88	-116	-117	-115
GERMANY	-182	-180	-178	-178	-178	-177	-179	-180	-179	-177	-180	-180
JAPAN	-447	-450	-439	-384	-387	-374	-341	-342	-330	-239	-241	-227
U.K.	-48	-47	-42	-28	-28	-26	-15	-15	-15	17	16	14

Equities	Level: Last	Level: Change	% change: 1 Day	1-wk	1-mo	1-yr
S&P/TSX	22070	62.8	0.3	-0.2	-1.1	10.9
Dow 30	38868	69.1	0.2	0.8	-1.6	14.7
S&P 500	5361	13.8	0.3	1.5	2.6	24.7
Nasdaq	17193	59.4	0.3	2.2	5.2	29.7
DAX	18359	-135.6	-0.7	-0.3	-2.2	15.1
FTSE	8153	-75.1	-0.9	-1.0	-3.3	7.8
Nikkei	39135	96.6	0.2	0.8	2.4	20.7
Hang Seng	18176	-190.6	-1.0	-1.2	-4.2	-6.3
CAC	7804	-89.6	-1.1	-1.7	-5.0	8.2
Commodities	**Level**		**% change:**			
WTI Crude	77.44	-0.30	-0.4	5.7	-1.0	10.4
Natural Gas	3.01	0.10	3.6	16.4	33.7	33.5
Gold	2314.19	3.32	0.1	-0.6	3.8	18.0
Silver	29.68	-0.59	-1.9	-2.3	3.6	22.1
CRB Index	291.39	1.53	0.5	0.8	0.7	11.8
Currencies	**Level**		**% change:**			
USDCAD	1.3777	0.0018	0.1	0.7	0.8	3.1
EURUSD	1.0729	-0.0036	-0.3	-1.4	-0.6	-0.3
USDJPY	157.02	-0.0200	-0.0	1.4	0.5	12.5
AUDUSD	0.6597	-0.0013	-0.2	-0.8	-0.2	-2.3
GBPUSD	1.2737	0.0006	0.0	-0.3	1.4	1.8
USDCHF	0.8969	0.0004	0.0	0.8	-1.3	-1.3

Central Banks	
Current Rate	
Canada - BoC	4.75
US - Fed	5.50
England - BoE	5.25
Euro zone - ECB	4.25
Japan - BoJ	-0.10
Mexico - Banxico	11.00
Australia - RBA	4.35
New Zealand - RBNZ	5.50
Next Meeting Date	
Canada - BoC	Jul 24, 2024
US - Fed	Jun 12, 2024
England - BoE	Jun 20, 2024
Euro zone - ECB	Jul 18, 2024
Japan - BoJ	June 14, 2024
Mexico - Banxico	Jun 27, 2024
Australia - RBA	Jun 18, 2024
New Zealand - RBNZ	Jul 09, 2024