Scotiabank.

GLOBAL ECONOMICS

DAILY POINTS

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Contributors

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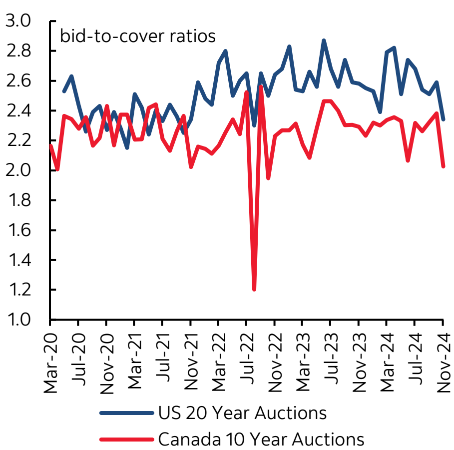
Chart 1

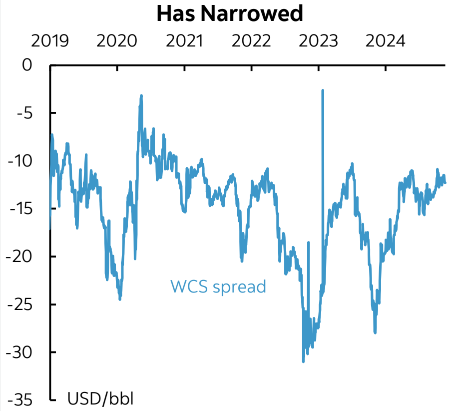
Disappointing US, Canadian Auctions



Sources: Scotiabank Economics, Bloomberg.

Chart 2

The WCS Oil Discount Has Narrowed



Sources: Scotiabank Economics, Bloomberg.

On Deck for Thursday, November 21

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	11/21	08:30	IPPI (m/m)	Oct	--	--	1.2
CA	11/21	08:30	Raw Materials Price Index (m/m)	Oct	--	--	3.8
US	11/21	08:30	Initial Jobless Claims (000s)	Nov/16	225	220.0	213.0
US	11/21	08:30	Continuing Claims (000s)	Nov/09	1900	1880.0	1908.0
US	11/21	08:30	Philadelphia Fed Index	Nov	--	8.0	-5.5
US	11/22	08:45	Fed's Hammack				
US	11/21	10:00	Existing Home Sales (mn a.r.)	Oct	4.00	3.95	3.84
US	11/21	10:00	Existing Home Sales (m/m)	Oct	4.2	2.9	-1.0
US	11/21	10:00	Leading Indicators (m/m)	Oct	--	-0.3	-0.5
US	11/22	12:25	Fed's Goolsbee				
US	11/22	12:30	Fed's Hammack				
US	11/22	16:40	Fed's Barr				

KEY POINTS:

- **Risk appetite shakes off tech earnings, Russian ICBM, weak US & Cdn auctions**
- **BoJ's Ueda lights up the yen, yields by declaring December to be 'live'**
- **A$ outperforms as RBA cut pricing pushed out**
- **Canadian tax cut to temporarily lower CPI…**
- **…but stimulus cheques and the likelihood of a permanent GST cut…**
- **…could raise longer-run spending and inflation and complicate the BoC's job…**
- **…while raising the deficit**
- **Trump camp reignites Keystone XL speculation, but it may be too late**
- **Dovish ECB-speak**
- **Light US data, Fed-speak on tap**

Stocks are mostly higher and sovereign bond yields mostly lower so far this morning. NA equity futures and European cash markets are broadly higher. Sovereign bonds are mostly bid with yields marginally lower by 1–4bps across most major benchmarks but with Canadian govies underperforming perhaps on lagging effects of CPI and federal stimulus plans (see below). JGBs and Australia's curve are exceptions while the yen and A$ outperform, both on central bank developments. ECB-speak was relatively dovish overnight. Nvidia's revenue disappointment and Russia's first use of an ICBM in combat after firing one at Ukraine are having little to no effect on broad markets while yesterday's soft US and Canadian auctions are a distant memory (chart 1). Oil is up 2%.

There are also material Canadian policy developments via the potential resurrection of Keystone XL and mild tax cuts, both flagged below.

BoJ's Ueda Keeps December a Live Meeting

BoJ Governor Ueda rattled the yen and JGBs overnight. He didn't say he would hike at the December meeting, but he didn't say he wouldn't either and markets took that to mean that the meeting was 'live'. His exact comment was:

"It's impossible to predict the outcome of the meeting at this point. The next meeting is December, but there's still a month to go. The vast amount of data and information will become available between now and then."

The yen appreciated from about 155.20 to the dollar before his comments to about 154.40 now and is leading gainers over majors. And so as you were, back to watching data and developments between now and December 19th.

RBA Cut Bets Pushed Out

The A$ is also outperforming while Australia's curve is underperforming others after a local bank pushed out its forecast for RBA cuts to begin to February. What took so long, could be one's retort, as nothing the RBA has been saying has indicated any openness toward cutting any time soon and the data has been reinforcing that bias. Markets and some forecasters have been routinely misjudging the RBA's policy stance in the context of a ripping job market and persistent wage and price pressures. Wakey wakey, eggs and bakey folks.

Trump Camp Reignites Keystone XL Speculation

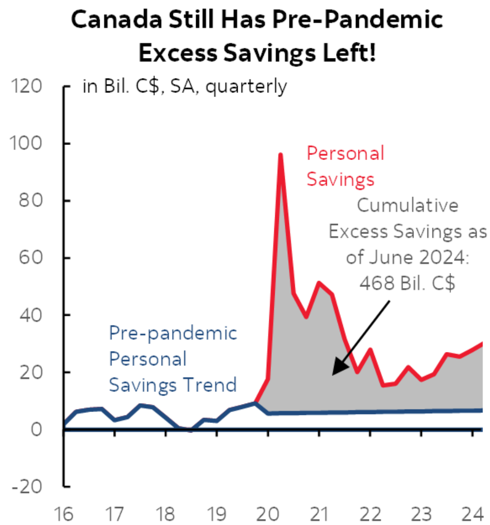
So, anonymous folks associated with the Trump camp are indicating he wants to revive the Keystone XL pipeline on day 1 of his Presidency as reported by Politico (**here**). Ok, so how excited should everyone get especially on the Canadian side and especially Alberta?

Recall this thing got bogged down for a bunch of reasons. There were state issues, and foot dragging by environmental and indigenous groups. President Biden ultimately killed it. Trump can say he'll revive Keystone XL, but I would think that's only one step. Then it also has to be resurrected by the company if they still want to pursue it after shelving its construction. And they'd have to act fast through it all and have confidence that the next administration wouldn't kill it again and wipe out even more cap-ex left to rust in fields.

It's a big regulatory mess and perhaps the need is less pressing now with the Trans Mountain pipeline twinning. The Western Select spread to WTI has narrowed from a peak of -US$30/barrel below WTI in 2022 to -$12 below now which is around estimates of the higher cost of extracting oil from heavy bitumen reserves versus light sweet costs (chart 2). It's unclear that Keystone XL would play the same role in driving smaller discounts on Canadian oil due to pipeline bottlenecks that have been substantially alleviated.

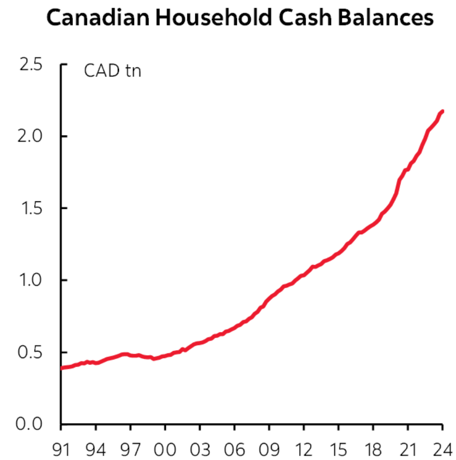
A side signal here may be further indication that the Trump administration would carve out energy from any possible tariffs. To resurrect Keystone XL but apply tariffs would be almost comedic.

Chart 3



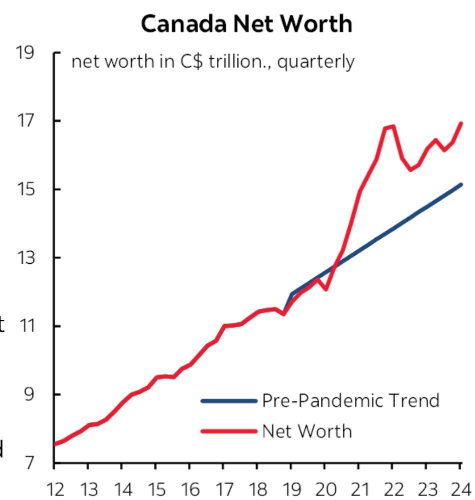
Sources: Scotiabank Economics, Statistics Canada.

Chart 4



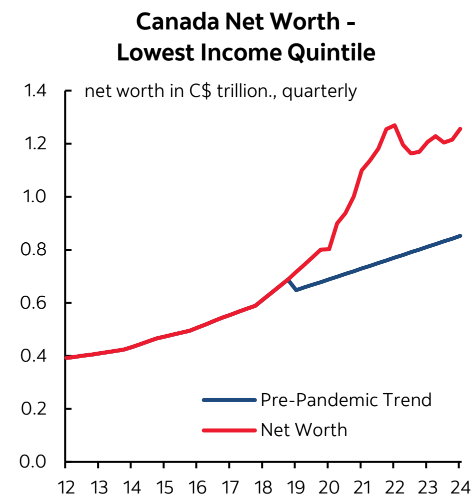
Sources: Scotiabank Economics, Statistics Canada.

Chart 5



Sources: Scotiabank Economics, Statistics Canada.

Chart 6



Sources: Scotiabank Economics, Statistics Canada.

Canada Engaged in Fiscal Pump Priming

The federal government is expected to deliver a multibillion-dollar package of stimulus measures. PM Trudeau and DPM Freeland will make the formal announcement in a press conference at a grocery store today. This is obviously about politics with the federal government facing election risk at some point and seeking to curry favour with the electorate while also trying to break a logjam in parliament over a funding scandal that has ground developments to a halt.

One measure is expected to include means-tested stimulus cheques that will be handed out in Spring. We don't know the amounts or who is eligible and so costing it depends upon the details that we may get later today. Giving people more money through handouts from the feds and some provinces like Ontario is no way to fight inflation and might marginally complicate the BoC's easing efforts if the amounts are spent. The latter assumption is key, since Canadians are hoarding a tonne of excess savings and soaring cash balances (charts 3, 4 and 5) including across all income quintiles such as the lowest 20% of earners (chart 6) and faced with a lot of uncertainty around trade tensions and other challenges to the outlook.

The measures are also expected to include partial and “temporary” (more on that in a moment) GST relief for two months without means testing that would be impossible to apply but results in the tax cut going to some folks who really don’t need it as opposed to the government’s “middle class” rhetoric. Details are required, but the relief may extend to items like grocery-store items not already exempt from the GST, heating, cellphone and internet bills and baby items. Details will be important; for example, it’s unclear if everything at grocery stores like lower-end electronics and pharmaceuticals and booze, and everything on a cellphone bill like purchases of smart phones and watches will be included in the tax relief.

If applied starting in December, then we’ll need to see those details and calculate the weighted implications for December CPI as a one-off dip in December that will have to be removed from the figures when we get them in January. Then January CPI should stabilize, but February CPI is likely to spike higher when the GST cut is removed. I’m doubtful that the Feds would want prices to spike higher again in February when an election is probably closer at hand, which makes describing this as a “temporary” measure pretty far fetched especially since the Libs count on the NDP’s support and the latter wants a permanent reduction.

Cash hand outs and the likelihood of a permanent GST cut will only further aggravate pressures on the federal deficit when—barring dipping into pension billions—the deficit is already blowing through fiscal anchors like the $40 billion threshold that without funny math seems to be unrealistic given current tracking and these new measures. Again, we need details to do the math on the deficit implications.

Absent details, all we can indicate at this point is that the first effect of a GST cut may lower CPI by around a half of a percentage point in December, maybe a little more or little less. That could complicate some of the inflation calculations including core measures.

For example, we can easily remove changes in indirect taxes from overall CPI. Removing that from core measures is more complicated. CPI-ex-8 and indirect taxes may become more closely watched. Traditional core CPI ex-food and energy may be relatively easy to adjust for the temporary tax cut. The BoC’s preferred core measures may be more difficult to adjust and this could leave the central bank swimming in muddied waters in terms of being able to evaluate inflationary pressures at the margin through its preferred gauges. Trimmed mean CPI would probably kick the affected basket items into the lower 20% tail of the distribution of prices and thus remove the tax cut’s effects that way, but that could affect the whole distribution of prices in the other 80% of the basket by punting what would otherwise be lower-inflation components into the middle 60% and pushing higher inflation items into the upper 20% of the basket; the net effect could be to distort trimmed mean inflation to being a little lower but in a way that could make it difficult to read. Weighted median CPI may be least likely to be affected by a GST cut but could also be biased a touch lower. If the measures are temporary, then all of these effects would reverse thereafter.

The NDP had wanted permanent elimination of the GST on such items and for provinces to follow suit with PST relief; if they take the bait—with Ontario in its own election mode—then the effects on inflation measures could be much more significant given PST rates are higher than the GST. If pressures to make the GST—and any bolt-on PST—cut permanent take hold then the only direct implication for inflation is a one-off drop in December which is a price level adjustment.

There is a big part of this that is playing politics in the House in an attempt to get through a logjam caused by the government’s refusal to release documents related to a green fund spending scandal. It’s also abundantly clear that Canada faces a federal election by next October but with flexibility to call one before then and with wiggle room in the Elections Canada Act that allows for going later if circumstances warrant doing so (maybe like a major crisis or shock).

The bigger picture issue here is that election politics is sweeping through fiscal plans at the Federal and provincial levels (eg Ontario’s $200/person handouts to everyone). Giving people more money to spend through tax relief—especially if ultimately made permanent—could mildly complicate the inflation outlook. Tax cut effects would be removed from inflation, but reallocating the savings to other types of spending and spending those stimulus cheques could raise spending overall and hence — all else equal—raise inflation risk. The price to pay may take the form of less monetary easing than would otherwise be the case, though trade tensions will also figure into the expectations for monetary policy.

Light Other Developments

Overnight ECB-speak was relatively dovish in nature. Bank of France Governor Villeroy dismissed inflation risk from US tariffs and said the central bank should remain on an easing path. Governing Council member and Bank of Greece Governor Stournaras said the ECB should cut at every meeting until it reaches a neutral setting of “about 2%” from 3.25% at present, which is roughly in line with market pricing to get there by April/June, although his bias may lean toward being a little quicker. These comments follow more measured ones yesterday from ECB VP Guindos who said it’s “crystal clear” that further cuts are ahead but that trade tensions and geopolitical risks mean “you have to be extremely prudent."

There is a lot more central bank talk coming today across the ECB and Fed.

Turkey's central bank held its policy rate at 50% as widely expected.

SARB cut 25bps this morning, also as widely expected.

Light US data is coming through this morning. Initial jobless claims fell slightly to 213k from 219k the prior week and are very low through the reference period and reference week for the nonfarm and household survey respectively. The Philly Fed measure fell to –5.5 from +10.3 which takes it back to about where the volatile gauge was in August. The US will also update existing home sales for October (10amET) and they are expected to rise in lagging fashion to pending home sales.

Canadian producer prices were relatively hot in October. Raw materials prices were up 3.8% m/m and industrial prices were up 1.2%. CAD depreciation likely figured prominently into those readings by raising the cost of imported items, given the 3% depreciation to the USD over October amid broad USD strength.

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.	4.31	4.32	4.35	4.27	4.28	4.33	4.40	4.41	4.44	4.60	4.60	4.59
CANADA	3.30	3.27	3.19	3.25	3.22	3.13	3.42	3.38	3.28	3.45	3.43	3.29
GERMANY	2.10	2.13	2.10	2.14	2.18	2.17	2.32	2.35	2.34	2.54	2.55	2.57
JAPAN	0.58	0.56	0.54	0.75	0.72	0.70	1.10	1.08	1.06	2.29	2.29	2.30
U.K.	4.38	4.41	4.42	4.30	4.32	4.35	4.45	4.47	4.48	4.92	4.92	4.92
	Spreads vs. U.S. (bps):											
CANADA	-101	-105	-116	-102	-106	-119	-99	-103	-116	-115	-117	-130
GERMANY	-221	-219	-224	-213	-210	-216	-209	-206	-210	-206	-205	-202
JAPAN	-373	-376	-381	-352	-356	-363	-331	-333	-337	-231	-230	-228
U.K.	7	9	8	3	4	2	4	6	5	32	32	33

Equities	Level		% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	25036	25.7	0.1	0.2	1.3	24.5
Dow 30	43408	139.5	0.3	-1.3	1.1	23.7
S&P 500	5917	0.1	0.0	-1.1	1.1	30.4
Nasdaq	18966	-21.3	-0.1	-1.4	2.3	33.6
DAX	19049	44.2	0.2	-1.1	-2.1	19.8
FTSE	8112	27.1	0.3	0.5	-2.5	8.4
Nikkei	38026	-326.2	-0.9	-1.3	-1.0	13.7
Hang Seng	19601	-103.9	-0.5	0.9	-4.4	10.5
CAC	7177	-21.5	-0.3	-1.8	-4.8	-0.7
Commodities	Level		% change:			
WTI Crude	70.17	1.42	2.1	2.1	-0.6	-9.8
Natural Gas	3.44	0.25	7.7	23.5	48.7	20.8
Gold	2668.96	18.36	0.7	4.1	19.7	33.6
Silver	30.87	-0.42	-1.3	-0.1	-3.9	32.0
CRB Index	286.24	1.14	0.4	2.1	1.8	3.3
Currencies	Level		% change:			
USDCAD	1.3963	-0.0012	-0.1	-0.7	1.0	1.9
EURUSD	1.0525	-0.0019	-0.2	-0.0	-2.7	-3.5
USDJPY	154.43	-1.0100	-0.6	-1.2	2.4	4.1
AUDUSD	0.6521	0.0015	0.2	1.0	-2.1	-0.5
GBPUSD	1.2637	-0.0015	-0.1	-0.2	-2.7	0.8
USDCHF	0.8840	-0.0002	-0.0	-0.7	2.1	0.0

Central Banks	
Current Rate	
Canada - BoC	3.75
US - Fed	4.75
England - BoE	4.75
Euro zone - ECB	3.40
Japan - BoJ	-0.10
Mexico - Banxico	10.25
Australia - RBA	4.35
New Zealand - RBNZ	4.75
Next Meeting Date	
Canada - BoC	Dec 11, 2024
US - Fed	Dec 18, 2024
England - BoE	Dec 19, 2024
Euro zone - ECB	Dec 12, 2024
Japan - BoJ	Dec 19, 2024
Mexico - Banxico	Dec 19, 2024
Australia - RBA	Dec 09, 2024
New Zealand - RBNZ	Nov 26, 2024