

DAILY POINTS

November 22, 2024 @ 7:40 EST

Contributors

Derek Holt

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

Chart 1

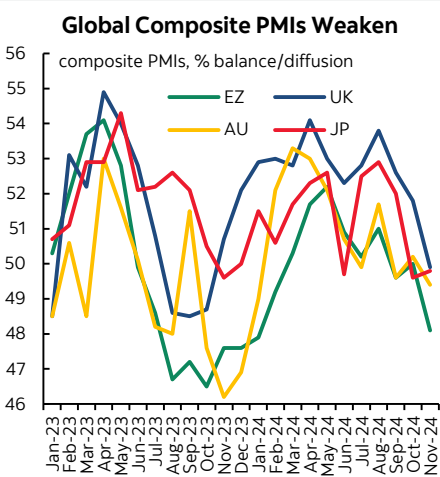
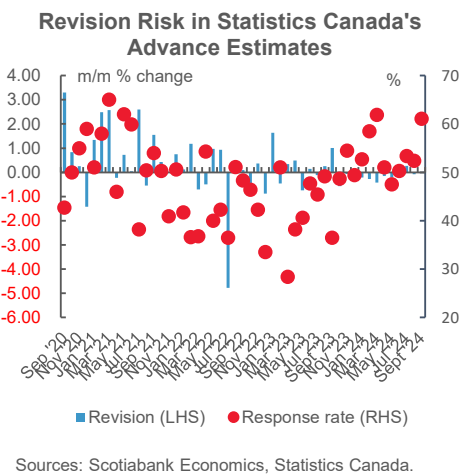


Chart 2



On Deck for Friday, November 22

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	11/22	08:30	Retail Sales (m/m)	Sep	0.5	0.4	0.4
CA	11/22	08:30	Retail Sales ex. Autos (m/m)	Sep	--	0.4	-0.7
US	11/22	09:45	S&P Composite PMI	Nov	--	54.3	54.1
US	11/22	10:00	U. of Michigan Consumer Sentiment	Nov F	--	73.9	73.0
US	11/22	18:15	Fed's Bowman on AI				

KEY POINTS:

- **Intensified ECB easing bets driving global markets...**
- **...after sharply disappointing Eurozone PMIs that signal weaker economies...**
- **...in a possible overreaction**
- **UK PMIs and retail sales weaken, driving richer gilts**
- **Canadian retail sales the last piece of the GDP puzzle...**
- **...as there are signs the consumer is being unfairly slugged**
- **Are US S&P PMIs still outperforming the rest of the world?**
- **Yen gains, JGBs mildly cheapen...**
- **...after firmer core CPI, little changed PMIs**
- **Aussie yields dip on weaker PMI Down Under**
- **India bucks the global deterioration on faster growth in services**

The main market driver this morning comes to us from the Eurozone where a sharp weakening in the PMIs has prompted accelerated bets on ECB policy easing. Pricing for the December 12th ECB meeting increased by about 9 bps to 38bps and hence closer to a half point reduction. The whole EGBs front-end is rallying with the biggest economies' 2-year yields down by about 12–13ps in bull steepener fashion. All of which seems like a bit of an overreaction to soft, sentiment-based data drawn from purchasing managers and with more data still ahead of the ECB's next move including another CPI report.

Some of that rates movement is trickling across the pond as the US Treasury yield curve and Canada's bond yields are being dragged modestly lower. Stocks are not taking the data too badly given the rate offset but are broadly lower. The dollar is broadly stronger along with the yen after Japanese core inflation surprised higher. The N.A. session will bring out Canadian retail sales for September and October, plus the US PMIs.

Global PMIs Signal Broad Sentiment-Based Weakening Post US Election

Here's a run down of the global PMIs, all of which were weak with the lone exception being India as the biggest economies broadly weakened (chart 1):

- The Eurozone economy slipped into contraction according to November's PMIs. The composite gauge fell 1.9 points to 48.1 and hence well below the 50-dividing line. Both services (down 2.4 points) and manufacturing (down 0.8 points) weakened.
- Within the Eurozone the biggest deterioration was in France where the composite fell by 3.3 points to 44.8, led by weaker services but also weaker manufacturing. Germany's composite fell 1.3 points to 47.3 and that was entirely led by services.
- The UK composite PMI declined by 1.9 points to 49.9 and hence marginally into contraction, led by a 2 point drop in services.
- Australia's composite PMI slipped down to 49.4 from 50.2 and hence into sub-50 contraction territory. The manufacturing sector contracted at a slower pace (49.4, 47.3 prior) but services fell (49.6 from 51).

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- Japan's composite PMI was little changed and remains slightly in contraction territory (49.8, 49.6 prior). The services PMI was up half a point to 50.2 but the manufacturing PMI fell slightly to 49.
- India's composite PMI was the only one to post a small gain (59.5, 59.1 prior). That was entirely due to faster growth in services.
- US S&P PMIs are due out this morning at 9:45amET. Other than India, they have been the only ones that have been outperforming the rest and so we'll see if that continues in the wake of the US election which it may well, at least for now.

Yen Appreciates on Firmer Core Inflation

Japanese core inflation surprised a tick higher than expected at 3.4% y/y (2.2% consensus). That was because core CPI was up 0.4% m/m SA. The JGBs front-end is the only one that is mildly cheaper and the yen is leading the pack of global currencies.

UK Consumers Retreat

On top of its weak PMIs, UK consumer spending was weak last month. Retail sales volumes fell by 0.7% m/m (-0.3% consensus) with negative revisions (0.1% prior instead of 0.3). Excluding fuel, sales volumes fell 0.9% m/m (-0.4% consensus) with similar negative revisions.

Canadian Consumers Resilient?

Canadian retail sales are due out this morning (8:30amET) and were previously guided by Statcan to have risen by 0.5% m/m in September, but revision risk is often high given the partial sampling of the initial flash (chart 2), and we'll also get a first estimate for October when auto sales were strong. These will be the last pieces of the puzzle for next Friday's round of GDP figures that I'll discuss in my week ahead article along with my take on the implications of yesterday's announcements from Ottawa on cash hand-outs and GST/HST cuts for inflation, GDP, the BoC and Ottawa's deficit. Key is that the temporary reduction of the GST/HST is very likely to turn permanent and blow through Ottawa's finances.

On that note, there is too much negativity toward the Canadian consumer. Real spending was up by 3.3% q/q SAAR in 2023Q4, 3.8% in Q1, slowed to 0.6% in Q2. We'll find out Q3 next Friday, but retail sales volumes are tracking a rise of about 3½% q/q SAAR in Q3.

Soaring auto sales have been playing a big part in that. Home sales have been rising sharply for several months including the large 7.7% m/m SA nonannualized jump last month. Some indicators of service sector activity are buoyant, such as air travel that is tracking much higher than pre-pandemic levels for this time of the year. Some companies/industries are faring less well than others in this environment, so take the totality of the evidence all together.

Going forward, I think the amount of stimulus through regulatory and fiscal easing that is being thrown at the Canadian consumer on top of rate cuts will paint a better picture into 2025 and potentially an explosive Spring environment. Recall that easier mortgage finance rules kick in on December 15th, one day after the planned GST/HST cuts. Ontario is handing out \$3B to residents in January through Ford Bucks. Trudeau Bucks equal to \$4½ billion land in April. \$2.5 billion of Federal carbon rebates are going out to small businesses in December. All of which rests against the backdrop of pent-up savings, pent-up demand, and the lagging effects of immigration on demand.

Mexico's Economy Ends Q3 on a Positive Note

Mexico's economic activity index for September—a GDP proxy—increased by 0.2% m/m and was revised up a touch to show a slightly slower contraction the prior month (-0.2% m/m). Q3 GDP growth was revised up a tick to 1% q/q SA nonannualized.

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.	4.33	4.35	4.31	4.27	4.30	4.31	4.39	4.42	4.44	4.58	4.60	4.62	Canada - BoC	3.75
CANADA	3.35	3.38	3.15	3.28	3.30	3.10	3.42	3.45	3.28	3.46	3.49	3.30	US - Fed	4.75
GERMANY	1.99	2.11	2.12	2.05	2.14	2.18	2.25	2.32	2.36	2.49	2.54	2.57	England - BoE	4.75
JAPAN	0.59	0.58	0.55	0.75	0.75	0.71	1.09	1.10	1.07	2.30	2.29	2.30		
U.K.	4.33	4.38	4.40	4.24	4.30	4.33	4.38	4.44	4.47	4.86	4.91	4.92		
	Spreads vs. U.S. (bps):													
CANADA	-98	-97	-115	-99	-100	-121	-96	-97	-116	-112	-112	-132	Euro zone - ECB	3.40
GERMANY	-234	-224	-218	-222	-216	-213	-214	-210	-208	-209	-206	-204	Japan - BoJ	-0.10
JAPAN	-373	-377	-375	-352	-355	-360	-330	-332	-337	-228	-231	-232		
U.K.	-0	3	9	-3	-1	2	-0	2	3	28	31	31	Mexico - Banxico	10.25
Equities	Level						% change:							
	Last		Change		1 Day		1-wk		1-mo		1-yr			
S&P/TSX	25391		354.2		1.4		1.4		2.7		26.2		Australia - RBA	4.35
Dow 30	43870		461.9		1.1		0.3		2.2		24.4			
S&P 500	5949		31.6		0.5		-0.0		1.7		30.6		New Zealand - RBNZ	4.75
Nasdaq	18972		6.3		0.0		-0.7		2.1		33.0			
DAX	19212		65.6		0.3		0.0		-1.1		20.4			
FTSE	8223		73.4		0.9		2.0		-1.0		10.1			
Nikkei	38284		257.7		0.7		-0.9		1.0		13.9		Canada - BoC	Dec 11, 2024
Hang Seng	19230		-371.1		-1.9		-1.0		-6.6		9.5		US - Fed	Dec 18, 2024
CAC	7220		6.7		0.1		-0.7		-4.2		-0.6			
Commodities	Level						% change:							
WTI Crude	69.46		-0.64		-0.9		3.6		-3.6		-9.9		England - BoE	Dec 19, 2024
Natural Gas	3.25		-0.09		-2.8		15.0		40.5		12.0		Euro zone - ECB	Dec 12, 2024
Gold	2700.45		30.73		1.2		5.4		21.1		35.7		Japan - BoJ	Dec 19, 2024
Silver	31.07		0.20		0.6		3.6		-8.6		32.0			
CRB Index	288.32		2.08		0.7		2.8		1.4		4.8			
Currencies	Level						% change:							
USDCAD	1.3995		0.0021		0.2		-0.7		1.3		2.3		Mexico - Banxico	Dec 19, 2024
EURUSD	1.0406		-0.0068		-0.6		-1.3		-3.6		-4.4			
USDJPY	154.49		-0.0500		-0.0		0.1		2.3		3.3		Australia - RBA	Dec 09, 2024
AUDUSD	0.6499		-0.0012		-0.2		0.6		-2.7		-0.7			
GBPUSD	1.2506		-0.0083		-0.7		-0.9		-3.7		0.1		New Zealand - RBNZ	Nov 26, 2024
USDCHF	0.8901		0.0034		0.4		0.3		2.9		0.7			

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