

Contributors

Derek Holt

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

Chart 1

Fed Policy Rate Forecast Comparison

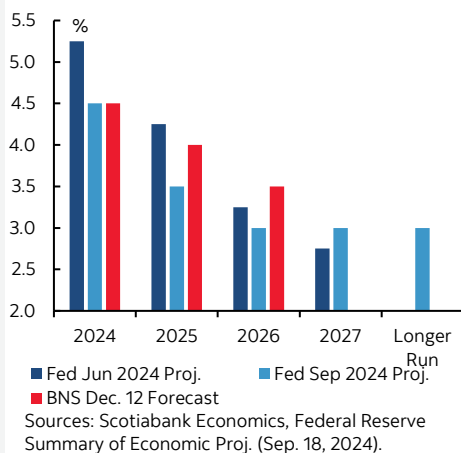
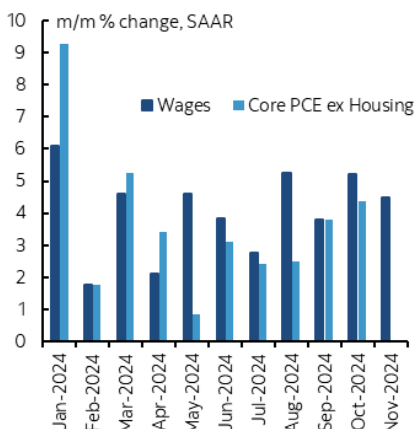


Chart 2

Fed Chair Powell's New Fear



On Deck for Wednesday, December 18

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	12-18	07:00	MBA Mortgage Applications (w/w)		--	--	5.4
US	12-18	08:30	Building Permits (000s a.r.)	Nov	--	1430.0	1416.0
US	12-18	08:30	Current Account (US\$ bn)	3Q	--	-287.1	-266.8
US	12-18	08:30	Housing Starts (000s a.r.)	Nov	1330	1345.0	1311.0
US	12-18	08:30	Housing Starts (m/m)	Nov	1.5	2.6	-3.1
US	12-18	14:00	FOMC Interest Rate Meeting (%)	Dec 18	4.50	4.50	4.75
US	12-18	14:30	Fed's Powell Press Conference				

KEY POINTS:

- **It feels like a typical FOMC day in the markets**
- **FOMC Preview: Cut, and just ignore the rest...**
- **...as the January meeting will incorporate key post-inauguration information**
- **UK CPI: Ignore the base effects, core inflation was weak again**
- **Four days of UK data should embolden the BoE's doves tomorrow...**
- **...as my reading of the data differs from traders**
- **Canada calendar quiet, with the focus on the order of operations**
- **BoT, BI hold as expected**

This feels like a typical FOMC day by way of a generally cautious market tone. Equities are slightly bid across most benchmarks, sovereign bonds are not doing much, and currencies are mixed. In my opinion, this FOMC meeting is just about ticking the box in order to buy time until Committee members have more vital information at the next meeting post-inauguration. Otherwise, UK core inflation was soft unless we still haven't learned the lesson about not being fooled by base effects, and a pair of Asian central banks held policy rates as expected (BoT, BI).

There is nothing calendar-based to consider in Canada but expect ongoing intense speculation around a potential cabinet shuffle, whether PM Trudeau will stay on, and the exact order of operations behind the G&M's story mid-day yesterday about how Trudeau demoted Freeland to appoint Carney which either jumped the gun on Trudeau's part or Carney changed his mind. Or the sources are incorrect with a whole lot of political finger pointing going on which is also possible in the small gossipy world of Ottawa.

FOMC PREVIEW—CUT, IGNORE THE REST FOR NOW

See the section in my Global Week Ahead that was issued last Friday for a more thorough Fed preview (online [here](#)).

The Statement and full Summary of Economic Projections arrives at 2pmET followed by Chair Powell's presser 30 minutes later.

A -25bps cut is widely expected and priced. The dots are likely to remove one or two cuts from the median projection for the fed funds target rate by the end of 2025 with chart 1 showing our best guess compared to the prior FOMC projection. One key reason for doing so is that recent data has been more resilient than they thought it was going to be including GDP growth, wages, core PCE and the unemployment rate with some of that shown in chart 2. Powell was fooled by seasonal adjustment problems in inflation and jobs data in my opinion.

We may hear more about adjusting the ON RRP facility rate to equal the bottom of the target range for fed funds but actual adjustment is more likely in January or maybe later given the November minutes' reference to "at a future meeting."

The SEP may upgrade near-term forecasts for 2024 GDP growth and inflation and lower the UR estimates. See charts 3–6 that compare our fresh estimates and projections to the FOMC’s September SEP.

Nevertheless, as argued in my weekly, the SEP will be DOA.

Why? We’ll hear Powell hem and haw about tariffs and all the stuff they don’t know about the probability, scope, duration and retaliation plus the things they don’t know about other prospective changes in US fiscal and regulatory policy. On that, there may be a bit of a divergence between staff forecasts and the forecasts submitted by Committee participants. Staff projections may lean further toward incorporating some assumptions than the Committee members.

Because of this massive uncertainty surrounding the incoming administration’s policies, what effect they may have on markets and data, when such effects may arise, and how other countries may respond, the SEP and the dot plot shouldn’t be treated with much seriousness at this point. The bigger focus will be upon how the FOMC shifts at the next decision on January 29th—nine days after inauguration day—and in the next SEP and dot plot in March.

Ergo, for now, cut, waffle, hem, haw, and wish everyone a happy new year. The FOMC is as much in the dark as I am right now staring out my window at pitch black skies with the shortest day in the northern hemisphere just three days away. There will be more light by the end of January.

UK CPI—IGNORE BASE EFFECTS, CORE INFLATION WAS WEAK

Ahead of tomorrow’s BoE decision, gilts and sterling largely ignored UK inflation that came in soft in terms of underlying pressures at the margin.

Key is that core CPI was flat at 0% m/m NSA which is a touch weaker than a normal month of November and among the weakest months on record when comparing like months of November. If you squint when looking at chart 7, then you may notice that the 2024 reading hugs the axis way over to the right. Headlines were all

Chart 3
US Real GDP Forecast Comparison

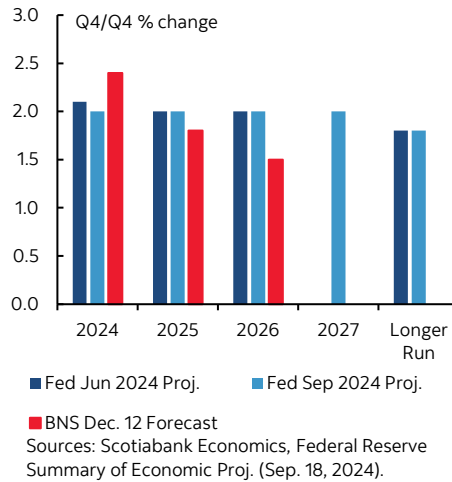


Chart 4
US PCE Inflation Forecast Comparison

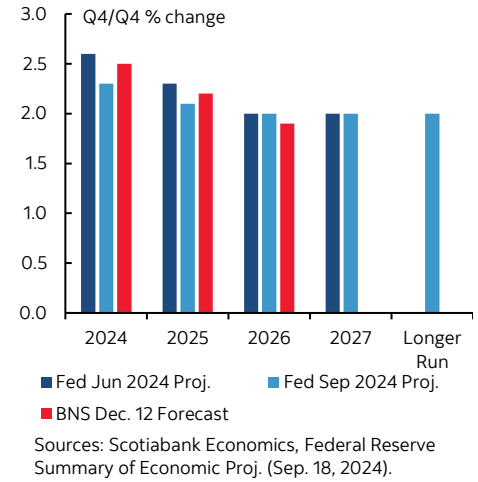


Chart 5
US Core PCE Inflation Forecast Comparison

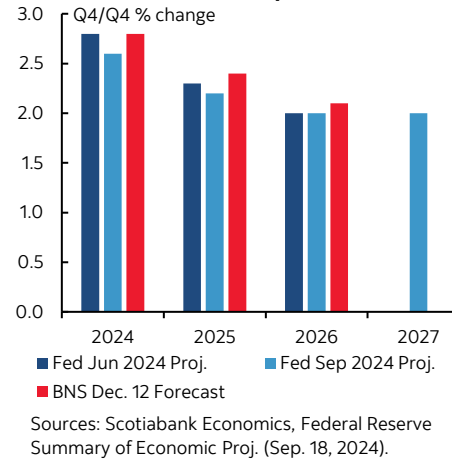


Chart 6
US Unemployment Rate Forecast Comparison

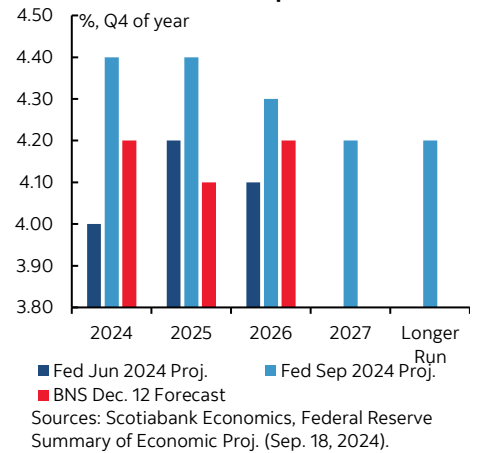


Chart 7
Comparing UK Core CPI for All Months of November

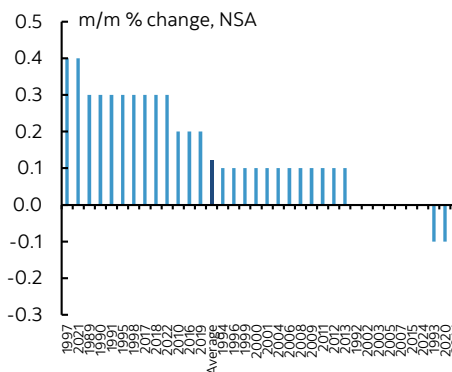
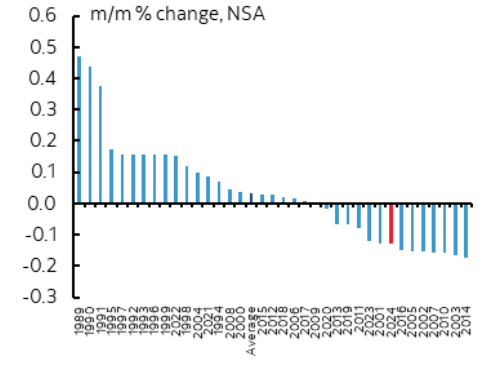


Chart 8
Comparing UK Services CPI for All Months of November



about a rise in the y/y rates, but they're driven by base effects, including headline (2.6% y/y from 2.3% prior) and core (3.5% y/y from 3.3% prior).

We get the same picture with services inflation that in y/y terms held at 5%, but in m/m NSA terms comparing like months of November across time posted one of the weakest months of November on record (chart 8).

And so the picture since last Friday has involved a series of updates that have been mostly dovish in nature in my opinion including today's core CPI print. GDP unexpectedly shrank in November and this was driven by softness in services and a contraction in industrial output and construction. Wage growth was solid again in m/m SAAR terms, but total employment was only up by 21k in October after 1k the prior month while payrolls fell 35,364 in November as a bad omen for the next total employment reading for November.

The BoE has a tendency to surprise, but the more likely outcome tomorrow is they meet everyone's expectation for a hold but more explicitly tee up a cut in January and we'll hear from a more emboldened dissenter. This is predicated upon my very different reading of the data we have gotten of late than how traders have been looking at the measures. There is nothing in the wide swath of data updates since last Friday that should sway the BoE away from the gradual cut guidance provided by Bailey and if anything it may support doing more than he guided. Like the FOMC, however, we'll learn more about how bad disruptions to global trade may become in the new year and that matters a lot to a trading nation like the UK.

For now, BoE guidance that policy adjustments will be 'gradual' is interpreted to mean it's time to skip as the next step in the oscillating hike-skip pattern. Governor Bailey's recent FT interview that guided 4 cuts over 8 meetings in 2025 signals an extension of this kind of pattern.

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.	4.24	4.25	4.15	4.26	4.26	4.13	4.40	4.40	4.27	4.59	4.59	4.48	Canada - BoC	3.25			
CANADA	3.00	3.00	2.94	2.96	2.95	2.89	3.14	3.14	3.10	3.22	3.22	3.20	US - Fed	4.75			
GERMANY	2.04	2.05	1.95	2.07	2.07	1.96	2.25	2.23	2.13	2.48	2.45	2.38	England - BoE	4.75			
JAPAN	0.60	0.60	0.59	0.73	0.74	0.74	1.08	1.08	1.08	2.29	2.30	2.27	Euro zone - ECB	3.15			
U.K.	4.46	4.45	4.25	4.39	4.37	4.13	4.55	4.52	4.32	5.07	5.05	4.88	Japan - BoJ	-0.10			
	Spreads vs. U.S. (bps):																
CANADA	-124	-125	-121	-130	-132	-125	-126	-126	-117	-137	-137	-129	Mexico - Banxico	10.25			
GERMANY	-221	-220	-220	-219	-220	-218	-215	-217	-215	-211	-214	-211	Australia - RBA	4.35			
JAPAN	-364	-365	-356	-353	-352	-340	-332	-332	-320	-231	-229	-222	New Zealand - RBNZ	4.25			
U.K.	21	21	10	12	11	-0	15	12	4	48	46	39					
Equities	Level						% change:						Next Meeting Date				
	Last	Change			1 Day	1-wk	1-mo	1-yr									
S&P/TSX	25120	-27.5			-0.1	-1.5	0.6	21.8	Canada - BoC						Jan 29, 2025		
Dow 30	43450	-267.6			-0.6	-1.8	0.1	16.5	US - Fed						Dec 18, 2024		
S&P 500	6051	-23.5			-0.4	0.3	2.7	27.6	England - BoE						Dec 19, 2024		
Nasdaq	20109	-64.8			-0.3	2.1	7.0	34.9	Euro zone - ECB						Jan 30, 2025		
DAX	20304	57.2			0.3	-0.5	5.8	21.9	Japan - BoJ						Dec 19, 2024		
FTSE	8207	11.7			0.1	-1.1	1.2	7.8	Mexico - Banxico						Dec 19, 2024		
Nikkei	39082	-283.0			-0.7	-0.7	2.3	19.3	Australia - RBA						Feb 17, 2025		
Hang Seng	19865	164.1			0.8	-1.4	1.5	19.5	New Zealand - RBNZ						Feb 18, 2025		
CAC	7386	20.5			0.3	-0.5	1.5	-2.4									
Commodities	Level						% change:										
	Level			Change			1 Day	1-wk	1-mo	1-yr							
WTI Crude	70.59			0.51			0.7	0.4	2.1	-2.6	England - BoE						Dec 19, 2024
Natural Gas	3.37			0.06			1.7	-0.4	13.2	34.4	Euro zone - ECB						Jan 30, 2025
Gold	2646.26			-0.57			-0.0	-2.6	18.7	30.5	Japan - BoJ						Dec 19, 2024
Silver	30.31			-0.35			-1.1	-5.0	-1.1	25.3	Mexico - Banxico						Dec 19, 2024
CRB Index	290.93			-2.29			-0.8	0.2	2.4	9.4	Australia - RBA						Feb 17, 2025
Currencies	Level						% change:										
	Level			Change			1 Day	1-wk	1-mo	1-yr							
USDCAD	1.4327			0.0017			0.1	1.2	2.2	6.9	Mexico - Banxico						Dec 19, 2024
EURUSD	1.0497			0.0006			0.1	0.0	-1.0	-3.9	Australia - RBA						Feb 17, 2025
USDJPY	153.66			0.2000			0.1	0.8	-0.6	7.6	New Zealand - RBNZ						Feb 18, 2025
AUDUSD	0.6314			-0.0023			-0.4	-0.9	-3.0	-5.9							
GBPUSD	1.2706			-0.0004			-0.0	-0.4	0.2	0.5							
USDCHF	0.8938			0.0010			0.1	1.1	1.2	3.1							

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including: Scotiabank Europe plc; Scotiabank (Ireland) Designated Activity Company; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorized by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, and Scotia Inverlat Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.