

DAILY POINTS

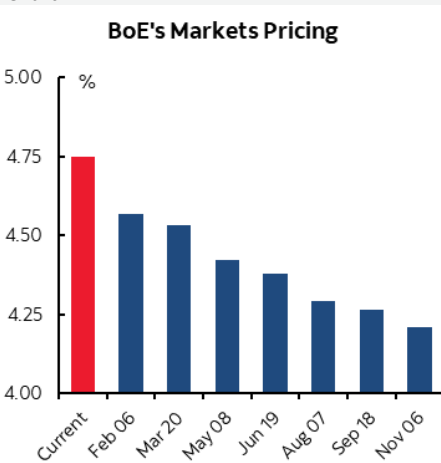
December 19, 2024 @ 9:00 EST

Contributors

Derek Holt

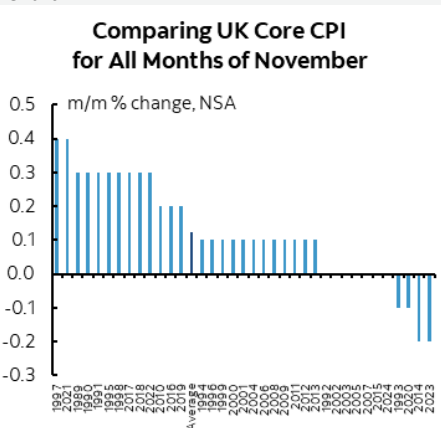
VP & Head of Capital Markets Economics
Scotiabank Economics
416.863.7707
derek.holt@scotiabank.com

Chart 1



Sources: Scotiabank Economics, Bloomberg.

Chart 2



Sources: Scotiabank Economics, UK Office for National Statistics.

On Deck for Thursday, December 19

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	12-19	08:30	GDP (q/q a.r.)	3Q T	2.8	2.8	2.8
US	12-19	08:30	GDP Deflator (q/q a.r.)	3Q T	--	1.9	1.9
US	12-19	08:30	Initial Jobless Claims (000s)		220	230.0	242.0
US	12-19	08:30	Continuing Claims (000s)		1890	1891.5	1886.0
US	12-19	08:30	Philadelphia Fed Index	Dec	--	2.8	-5.5
US	12-19	10:00	Existing Home Sales (mn a.r.)	Nov	4.15	4.1	4.0
US	12-19	10:00	Existing Home Sales (m/m)	Nov	4.8	3.0	3.4
US	12-19	10:00	Leading Indicators (m/m)	Nov	--	-0.1	-0.4
US	12-19	16:00	Total Net TIC Flows (US\$ bn)	Oct	--	--	398.4
US	12-19	16:00	Net Long-term TIC Flows (US\$ bn)	Oct	--	--	216.1

KEY POINTS:

- **FOMC impact continues to reverberate through global markets...**
- **...as some calm returns to the US**
- **Trump and Musk torpedo funding bill...**
- **...driving high risk of a government shutdown after tomorrow**
- **US GDP revised up: good for growth, pouring salt in the wound of rate cut hopes**
- **US jobless claims stabilized following temporary surge, volatile Philly tanks**
- **US home resales expected to rise**
- **Canadian lagging payrolls dip, but wages soared**
- **BoE holds, more dissenters wanted a cut now, guidance more dovish than markets**
- **Bank of Japan held and sounded like a hike may be a long way off**
- **Norges held, guides skip in January, cut in March**
- **Riksbank cuts 25bps and sounds like it's almost done**
- **Banxico expected to cut 25bps**
- **BSP cuts, guides less cutting than previously**

The aftermath of the FOMC's more hawkish pivot continues to reverberate through global markets. US equity futures are a little more stable with small gains this morning and the US yield curve is slightly bull steepening in the wake of yesterday's sell off across the curve. The rest of the world is catching up to the decision in their own trading hours. EGBs are broadly cheaper on the carry implications. Australia's curve sold off by double digit basis points. European equities are down by 1%+ after broadly based softness across Asian exchanges. The USD is mostly softer against a variety of crosses except the yen post BoJ.

While the aftermath of the FOMC is dominant, twists on the narrative are derived from a slew of decisions by global central banks, Trump's antics around government funding and the debt ceiling, and mostly positive US data.

A US Government Shutdown Seems Likely

Last evening, Trump rejected the bipartisan bill to fund the US government and avert a shutdown that would occur after Friday night. He wants concessions to the Democrats to be nullified and a deal to raise the debt ceiling with explicit guidance to pin it on the Dems before the new red swept Congress convenes in January. The unelected Musk was an instigator behind Trump's move and threatened to undermine GOP members who agreed with the deal probably by using his funds to coordinate alternate candidates the next time around. Musk wants a government shutdown if the concessions to the Dems are not

removed; that's hundreds of billions talking relative to the lives that would be affected. Time is obviously very tight and so the risk of a government shutdown just before Christmas is high. Next steps are unclear ahead of the January 1st reimposition of the debt ceiling, but don't say I didn't warn you about expecting four years of attention-seeking drama and its effects on markets and the economy! And at US\$36 trillion and counting, whatever happened to the Trump who railed against raising the ceiling without severe spending cuts? Meant rhetorically of course...

BoE Held, Sounded More Dovish Than Markets

The Bank of England held Bank Rate unchanged at 4.75% as widely expected. As written in daily notes, my interpretation of UK data since last Friday has been on the more dovish side relative to how markets saw it and so I wasn't surprised to hear a more dovish tone from Governor Bailey et al relative to what was priced for next year. There were three dissenters in favour of a cut at this meeting (Ramsden, Taylor, Dhingra) which is two more than previously (Dhingra). Markets reacted in somewhat muted fashion as sterling slipped a little following the communications, 2-year gilts were only maybe 2bps richer, and OIS pricing moved a little above two cuts for 2025 but remains Market pricing is shown in chart 1 while chart 2 is a reminder of the ongoing softness of core CPI.

BoJ's Uncertainty Drives Weaker Yen

The Bank of Japan held its target call rate unchanged at 0.25% as widely expected, but it was the cautious bias that sank the yen as it moved from about 154.6 to the dollar before the decisions to 156.7 this morning (chart 3). The 8–1 vote to hold included one dissenter who preferred a hike at this meeting. It was Governor Ueda's comments in the press conference that struck a tone marked by a potentially lengthy pause. Ueda said "Needless to say, on both Japan's wage outlook and the impact of Trump's policies, it will take a long time to grasp the entire picture." He elaborated by noting that the BoJ will hike if the outlook is realized, but that he wants to see more evidence on the move toward Spring wage talks, wants more data, is uncertain about the global outlook, and wants to see what policies the incoming US administration implements and is uncertain about their impact on inflation. Ueda was noncommittal toward the next meeting on January 24th, saying that he's not sure they'll have enough information by then. Some think that the government's push toward applying stimulus and perhaps uncertainty over whether Japan would retaliate if US tariffs are applied were added constraints on Ueda's flexibility now.

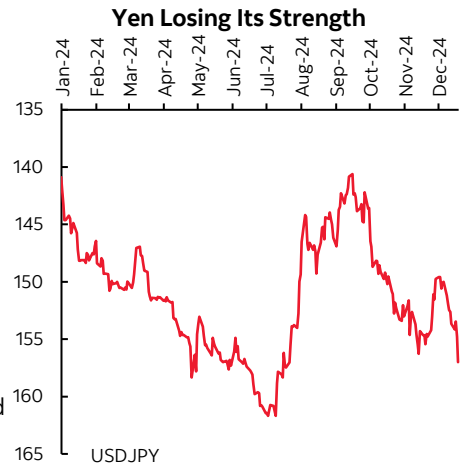
Norges Bank Held, Guides a Little Less Easing

Norges Bank held its deposit rate unchanged at 4.5% as widely expected because they basically said so in advance. Fresh guidance says "the policy rate will most likely be reduced in March 2025" which means skipping again on January 23rd. The cumulative pace of easing in the freshened guidance was lowered from previously (chart 4). Norges noted that "Higher tariffs will likely dampen global growth, but the implications for price prospects in Norway are uncertain." The krone was already appreciating to the dollar before the decision and was little changed afterward. The already low pricing for January's meeting was trimmed a little further and the already priced cut in March was retained with little change.

Riksbank Cut, Sounds Like It's Almost Done

Sweden's Riksbank cut its policy rate by 25bps as widely expected but sounded like it's almost done cutting. Forward guidance said that if the outlook is realized then "the policy rate may be cut once again during the first half of 2025." Uncertainty around this was marked by the comment that they will "carefully evaluate the need for future interest rate adjustments" given cuts to date and changes in inflation risk and the broader outlook including "particular uncertainty regarding developments abroad" insofar as geopolitical tensions, trade policy and governmental crises are concerned. The Riksbank's explicit forward rate guidance has one more cut and then holding through to the end of 2027 (chart 5).

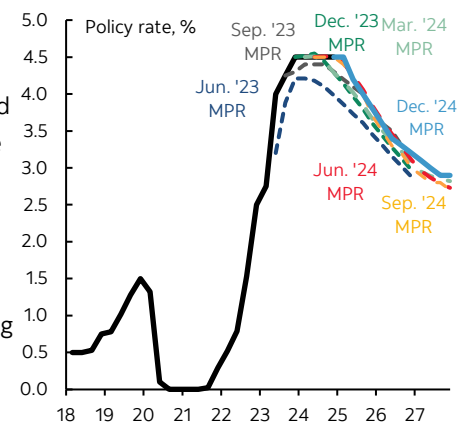
Chart 3



Sources: Scotiabank Economics, Bloomberg.

Chart 4

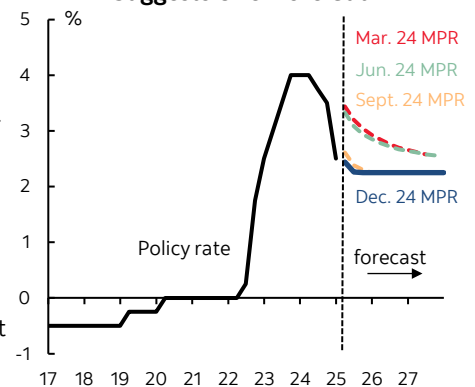
Norges Bank Policy Rate Projections



Sources: Scotiabank Economics, Norges Bank.

Chart 5

Riksbank's Forward Guidance Suggests One More Cut



Sources: Scotiabank Economics, Riksbank.

BSP Cut, Trims Forward Guidance

The central bank of the Philippines cut 25bps as widely expected, making that 75bps of cuts since August. Further easing was guided to be ahead as Governor Remolona indicated “a measured approach to monetary easing” and that “Maybe 100 basis points over 2025 will be too much, but zero will be too little” in reference to prior guidance that was more aggressive on cutting. Rates moved up several basis points and the peso outperformed most other Asian crosses overnight.

CBCT Held, Nervous Toward Tariffs

The Central Bank of China Taiwan held its benchmark rate unchanged at 2% as widely expected. Inflation at 2.1% y/y is near the 2% target. They forecast inflation to be 1.9% in 2025 but noted this does not include assumptions on US tariffs or the impact on Taiwan’s growth.

Banxico to Cut—But Will It Upsize?

Banxico weighs in this afternoon and is expected to but by another 25bps but a substantial minority thinks -50bps (2pmET). Inflation has continued to decline, hitting 4.6% y/y in November with core CPI falling to 3.6% y/y. A continued easing bias was conveyed in the last decision on November 14th—after the US election—when the statement said “Looking ahead, the Board expects that the inflationary environment will allow further reference rate adjustments.” A 50bps cut may be delivered if Banxico wishes to pre-judge US tensions including prospects for a disinflationary surge in Mexico’s labour supply as migrants return but may be avoided until greater clarity emerges on prospects for US tariffs and how Mexico may retaliate.

The Good News/Bad News Angle on US Growth Continues

US Q3 GDP got revised up three-tenths to 3.1% q/q SAAR. The drivers were higher contributions from consumption (3.7% q/q SAAR instead of 3.5%) as shown in chart 6, and slightly less of a drag from inventories and net exports as the positive contribution from gross exports was revised up. Investment figures were left intact. This is a good news-bad news story. Stronger than previously reported growth is great. But it means more capacity pressures and hence even less evidence that the US is even beginning to take a step along the path toward creating disinflationary slack that would embolden the Fed to cut. Chart 7 shows the strength of the domestic economy more clearly.

The Philly Fed measure tanked, -16.4 from -5.5, signallign weaker manufacturing in the Philly Fed district. It’s a highly volatile gauge.

Initial jobless claims stabilized at 220k, down from 242k. The spike is 'ovah', ha. Or not.

Existing home sales during November are expected to rise in light of what we know about pending home sales that typically close within 30-90 days after inking the contracts (10amET).

Canada’s Lagging Payrolls

Canada’s SEPH payrolls report included some mixed nuggets. The -21k lost payroll jobs isn’t great, but it’s a wonky and severely lagging series that over time tends to converge with LFS jobs but excludes self-employment which is huge in Canada.

On the flip side, average weekly earnings were up 0.5% m/m SA, or 6.5% m/m SAAR and 5.3% y/y. This measure of wage pressures intensified (chart 8).

Chart 6

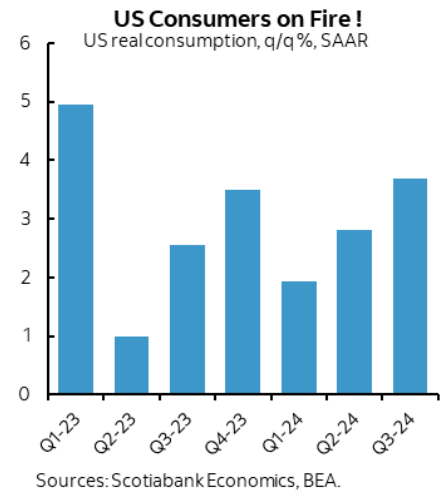


Chart 7

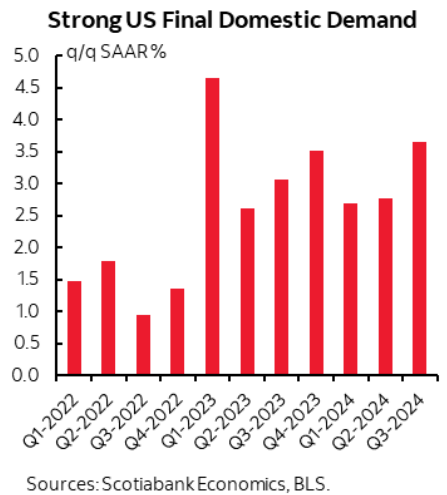


Chart 8



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.	4.31	4.36	4.19	4.39	4.40	4.18	4.54	4.52	4.33	4.72	4.68	4.55	Canada - BoC	3.25
CANADA	3.06	3.06	2.98	3.08	3.05	2.94	3.29	3.22	3.15	3.33	3.27	3.24	US - Fed	4.50
GERMANY	2.06	2.03	2.02	2.12	2.07	2.04	2.30	2.25	2.21	2.53	2.48	2.45	England - BoE	4.75
JAPAN	0.60	0.60	0.58	0.73	0.73	0.72	1.08	1.08	1.05	2.28	2.29	2.25		
U.K.	4.45	4.46	4.27	4.39	4.39	4.18	4.59	4.56	4.36	5.12	5.06	4.93		
	Spreads vs. U.S. (bps):													
CANADA	-125	-129	-121	-132	-136	-124	-125	-129	-118	-139	-141	-131	Euro zone - ECB	3.15
GERMANY	-225	-233	-217	-228	-233	-215	-224	-227	-212	-220	-220	-210	Japan - BoJ	-0.10
JAPAN	-370	-376	-361	-366	-367	-346	-346	-343	-328	-244	-239	-230		
U.K.	15	11	8	-0	-1	-0	5	4	3	40	39	39	Mexico - Banxico	10.25
Equities	Level						% change:							
	Last	Change			1 Day	1-wk	1-mo	1-yr						
S&P/TSX	24557	-562.7			-2.2	-4.3	-1.8	17.8					Australia - RBA	4.35
Dow 30	42327	-1123.0			-2.6	-4.1	-2.2	12.7					New Zealand - RBNZ	4.25
S&P 500	5872	-178.5			-2.9	-3.5	-0.8	23.1						
Nasdaq	19393	-716.4			-3.6	-3.2	2.1	29.3						
DAX	20047	-196.0			-1.0	-1.9	5.2	19.7						
FTSE	8117	-81.8			-1.0	-2.3	0.2	6.3						
Nikkei	38814	-268.1			-0.7	-2.6	1.2	15.3					Canada - BoC	Jan 29, 2025
Hang Seng	19753	-112.0			-0.6	-3.2	0.2	18.9					US - Fed	Jan 29, 2025
CAC	7302	-82.6			-1.1	-1.6	1.0	-3.6						
Commodities	Level						% change:							
		Change			1 Day	1-wk	1-mo	1-yr						
WTI Crude	71.12	0.54			0.8	1.6	2.5	-3.2					England - BoE	Dec 19, 2024
Natural Gas	3.49	0.11			3.4	1.0	16.3	40.0					Euro zone - ECB	Jan 30, 2025
Gold	2597.91	12.55			0.5	-3.1	16.5	27.3					Japan - BoJ	Dec 19, 2024
Silver	30.36	0.05			0.1	-4.2	-1.3	26.8						
CRB Index	292.01	1.08			0.4	-0.6	2.4	9.1						
Currencies	Level						% change:							
		Change			1 Day	1-wk	1-mo	1-yr						
USDCAD	1.4367	-0.0080			-0.6	1.0	2.9	7.8					Mexico - Banxico	Dec 19, 2024
EURUSD	1.0404	0.0051			0.5	-0.6	-1.8	-5.3						
USDJPY	157.01	2.2100			1.4	2.9	1.5	9.2					Australia - RBA	Feb 17, 2025
AUDUSD	0.6259	0.0041			0.7	-1.7	-4.2	-7.5						
GBPUSD	1.2596	0.0022			0.2	-0.6	-0.7	-1.1					New Zealand - RBNZ	Feb 18, 2025
USDCHF	0.8974	-0.0037			-0.4	0.6	1.7	4.2						

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.