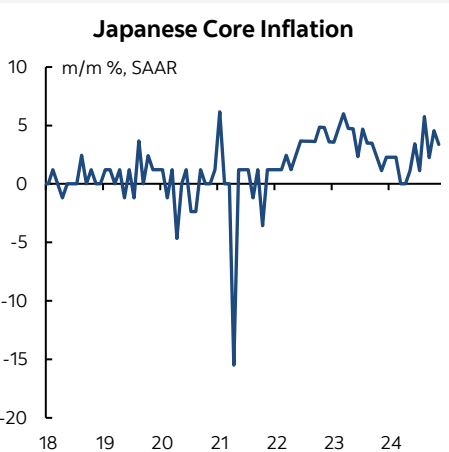


Contributors

Derek Holt

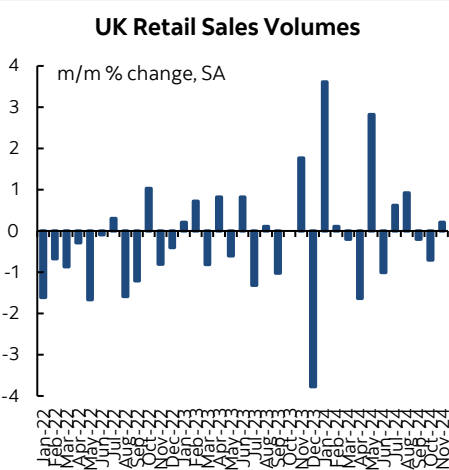
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Chart 1



Sources: Scotiabank Economics, Ministry of Internal Affairs and Communications.

Chart 2



Sources: Scotiabank Economics, UK ONS.

On Deck for Friday, December 20

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	12-20	08:30	Retail Sales (m/m)	Oct	0.7	0.7	0.4
CA	12-20	08:30	Retail Sales ex. Autos (m/m)	Oct	0.3	0.4	0.9
US	12-20	08:30	PCE Deflator (m/m)	Nov	0.2	0.2	0.2
US	12-20	08:30	PCE Deflator (y/y)	Nov	2.5	2.5	2.3
US	12-20	08:30	PCE ex. Food & Energy (m/m)	Nov	0.2	0.2	0.3
US	12-20	08:30	PCE ex. Food & Energy (y/y)	Nov	2.9	2.9	2.8
US	12-20	08:30	Personal Spending (m/m)	Nov	0.5	0.5	0.4
US	12-20	08:30	Personal Income (m/m)	Nov	0.3	0.4	0.6
US	12-20	10:00	U. of Michigan Consumer Sentiment	Dec F	--	74.2	74.0

KEY POINTS:

- **Trump drives global risk-off tone in bonds and equities**
- **Trump threatens EU with tariffs**
- **A US government shutdown is likely to arrive after today...**
- **...and it might be disruptive to holiday travel plans**
- **US core PCE expected to post a mild rise**
- **Solid expected gains in US consumer spending and incomes**
- **Tracking Q4 Canadian retail sales**
- **UK retail sales missed expectations**
- **Japanese core inflation followed the Tokyo measure higher**
- **Russia's central bank surprised with a hold**
- **BanRep expected to cut 50bps**

Four more years of this stuff folks, and he hasn't even taken office yet. Four years of chasing volatile and erratic policy threats and measures with real consequences for markets and the global economy. It is allies and economic partners that are among the prime targets of the incoming Trump administration. On display this morning is further evidence of the protectionist bias of the incoming US administration and how Trump's fiscal policies are magnifying policy uncertainty.

Equities have a soft tone and sovereign bonds are mildly bid in bull steepener fashion. US equity futures are down about 1% or so across the measures with TSX futures not far behind. European exchanges are down by about 1% across the board. US Treasury yields are down by about 4bps toward the front end and a little less further out. A similar pattern is displayed across EGBs and gilts.

Why? Trump's actions are now threatening tariffs against Europe and driving what is likely to be a U.S. government shutdown after tonight.

TRUMP THREATENS EUROPE WITH TARIFFS

This is what Trump said last evening:

"I told the European Union that they must make up their tremendous deficit with the United States by the large scale purchase of our oil and gas. Otherwise, it is TARIFFS all the way!!!" with his emphasis applied.

Trump's deeply flawed understanding of trade balances and drivers is being applied once again and to a degree this kind of thing was expected by the EU and others. Many have pointed out that the US doesn't have the near-term capacity to meet such demand and that it is tied into domestic and international contracts for oil and gas. Further, despite it

December 20, 2024

making strategic sense to shift away from Russian aggression over time, there could also be potential conflicts and repercussions toward taking further steps toward replacing Russian natural gas with US product. Also watch for guidance on potential retaliation by the EU.

US GOVERNMENT SHUTDOWN WILL PROBABLY START TONIGHT AND MAY AFFECT TRAVEL

Furthermore, the US House of Representatives convincingly defeated the last-minute hastily arranged funding deal that the GOP's House members devised in isolation by a vote of 235–174 including 38 Republicans that rejected it.

A joint agreement between the GOP and Dems to keep the government opened was previously scuttled by opposition from Musk who influenced Trump, prompting demands to remove concessions to the Dems that were necessary to achieve agreement and to eliminate or at least materially raise the debt ceiling before it becomes binding again in January.

The GOP deal that was shot down attempted to do so including a two-year increase in the debt ceiling that drew howls of protest from Dems and a significant number of more fiscally hawkish GOP members. Eliminating the debt ceiling makes sense, but the transition point is dicey. Trump's sudden support for the idea is purely meant to pave the way for a large further expansion of US debt to fund his tax cuts given that achieving spending cuts of a big enough magnitude would be nearly impossible especially on short order. US\$36 trillion of Treasury debt has risen by \$5 trillion in just the past eighteen months since the debt ceiling was last suspended. Trillions and trillions more lie ahead.

Defeating the House GOP bill means high odds that the government will have to begin shutting down after midnight tonight when funding arrangements expire. A temporary funding arrangement through a continuing resolution may be achieved, but Trump is opposed to that too. A shutdown could affect a whole range of services including travel in the US at a critical time during the holidays so make contingency plans if you can at this late stage.

The other lesson here serves as a reminder that the GOP is a highly divided party with a significant minority of members that will offer checks and balances against at least some of what Trump attempts to do.

LIGHT OVERNIGHT DEVELOPMENTS

Other overnight developments were trivial compared to tariff threats and a looming government shutdown.

Japanese inflation largely just followed the earlier release of the Tokyo measure. National CPI moved up to 2.9% y/y from 2.3%, thus posting a similar jump to the Tokyo measure's move from 1.8% to 2.6%. Core national CPI ex-fresh food and energy ticked higher to 2.4%, just as the Tokyo core measure moved up a tick to 1.9%. Month-over-month annualized Japanese core inflation continues to run at an elevated rate (chart 1).

UK retail sales missed expectations (chart 2). Sales were up by 0.5% m/m in November (1% consensus) and were revised a little lower in October (2.0% from 2.4%). Sales ex-fuel with up 0.3% (0.5% consensus) after a -0.9% decline the prior month.

Russia's central bank surprised all but two out of twelve forecasters by keeping its key rate unchanged at 21%. Others had expected a hike of between 100–300bps. It guided it will consider a hike at the next meeting.

China left its 1- and 5-year Loan Prime Rates unchanged as widely expected at 3.1% and 3.6% respectively.

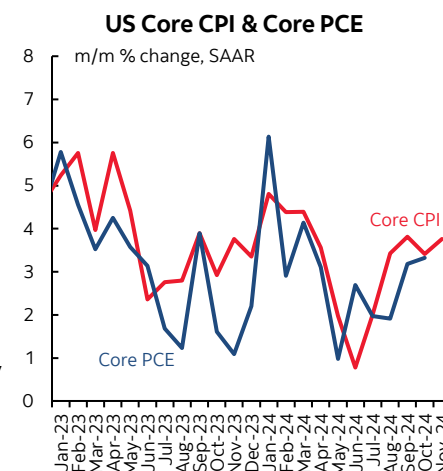
CORE PCE THE STAR OF THE N.A. LINE-UP

On tap into the N.A. session will be some modest data risk.

The main focus will be upon core PCE for November (8:30amET). A mild rise of 0.2% m/m SA is expected but with a lot of other folks in the 0.1% camp. The Cleveland Fed's 'nowcast' sits at 0.26% m/m SA. I went with 0.2%. We know that core CPI was up 0.31% m/m SA but that core producer prices were up by less (0.2%) and the categories within core PPI that are used as input into core PCE won't make a material contribution to core PCE. Core PCE tends to track beneath core CPI (chart 3).

We'll also get a fuller read on what happened to US consumption last month to kick off the holiday shopping season (8:30amET). A gain of around ½% m/m SA is widely expected and would follow a 0.7% rise in total retail sales and 0.4% m/m rise in the key control group that serves as input into total consumption. What's missing is how services consumption performed. Decent income growth is also expected.

Chart 3



Sources: Scotiabank Economics, BLS, BEA.

UPDATE ON CANADA'S CONSUMERS

Canada updates retail sales for October and November this morning (8:30amET). Statcan's guidance was for October to post a 0.7% m/m SA rise in nominal sales, but this flash estimate is often revised in either direction and we'll get details like volumes and the sector break down. November's flash estimate will not be accompanied by any details. Together, they will further inform tracking of Q4 retail sales that are roughly 40% of total consumer spending. To date, retail sales volumes have been tracking the strongest back-to-back quarterly gains in about a decade at roughly 5% q/q SAAR in each of Q3 and Q4 (chart 4).

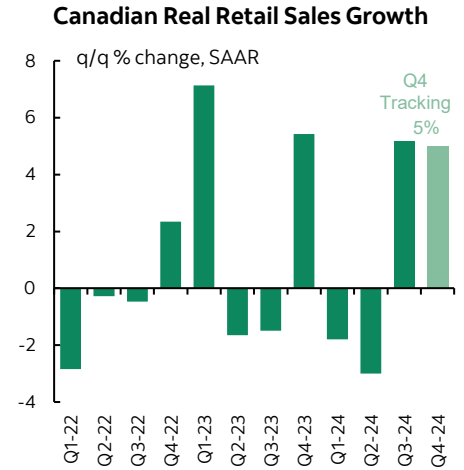
Canada is also expected to see a cabinet shuffle today amid ongoing speculation around the Prime Minister's future.

BANREP EXPECTED TO CUT

Colombia's central bank is almost unanimously expected to cut its policy rate by 50bps (1pmET). Our Bogota-based economist Jackeline Piraján Diaz is among the forecasters who are leaning that way.

BanRep has cut by 50bps at each of the past six decisions and so the trend is your friend here. Still, at 9.75%, the policy rate remains elevated as inflation has continued to decline and growth has recently disappointed with Q3 GDP up by just 0.2% q/q SA, or half of consensus.

Chart 4



Sources: Scotiabank Economics, Statistics Canada.

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.	4.27	4.32	4.25	4.37	4.42	4.25	4.54	4.56	4.40	4.73	4.74	4.60	Canada - BoC	3.25
CANADA	3.06	3.09	3.02	3.10	3.13	2.97	3.33	3.34	3.18	3.38	3.39	3.27	US - Fed	4.50
GERMANY	2.02	2.05	2.07	2.09	2.11	2.09	2.30	2.31	2.26	2.54	2.53	2.48	England - BoE	4.75
JAPAN	0.58	0.60	0.57	0.72	0.73	0.70	1.06	1.08	1.04	2.27	2.28	2.25	Euro zone - ECB	3.15
U.K.	4.38	4.42	4.31	4.33	4.37	4.24	4.55	4.58	4.41	5.10	5.11	4.97	Japan - BoJ	-0.10
Spreads vs. U.S. (bps):														
	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk		
CANADA	-121	-123	-123	-128	-130	-128	-121	-122	-122	-135	-135	-133	Mexico - Banxico	10.00
GERMANY	-225	-227	-218	-228	-231	-216	-224	-226	-214	-219	-220	-212	Australia - RBA	4.35
JAPAN	-369	-371	-368	-366	-369	-355	-347	-349	-336	-246	-246	-235	New Zealand - RBNZ	4.25
U.K.	12	11	6	-4	-6	-2	2	1	1	37	38	36	Next Meeting Date	
Equities	Level						% change:							
	Last	Change			1 Day	1-wk	1-mo	1-yr						
S&P/TSX	24414	-143.1			-0.6	-3.9	-2.5	18.5	Canada - BoC	Jan 29, 2025				
Dow 30	42342	15.4			0.0	-3.6	-2.5	14.2	US - Fed	Jan 29, 2025				
S&P 500	5867	-5.1			-0.1	-3.0	-0.8	24.9	England - BoE	Feb 06, 2025				
Nasdaq	19373	-19.9			-0.1	-2.7	2.1	31.1	Euro zone - ECB	Jan 30, 2025				
DAX	19665	-304.8			-1.5	-3.6	3.5	17.5	Japan - BoJ	Dec 19, 2024				
FTSE	8032	-73.1			-0.9	-3.2	-0.7	4.1	Mexico - Banxico	Feb 06, 2025				
Nikkei	38702	-111.7			-0.3	-1.9	0.9	14.9	Australia - RBA	Feb 17, 2025				
Hang Seng	19721	-31.8			-0.2	-1.3	0.1	18.7	New Zealand - RBNZ	Feb 18, 2025				
CAC	7205	-89.8			-1.2	-2.8	0.1	-5.0						
Commodities	Level						% change:							
	Last	Change			1 Day	1-wk	1-mo	1-yr						
WTI Crude	68.74	-0.64			-0.9	-3.6	-0.2	-7.4						
Natural Gas	3.66	0.08			2.2	11.7	14.8	49.7						
Gold	2605.14	11.13			0.4	-1.6	16.8	28.2						
Silver	29.49	-0.87			-2.8	-7.5	-5.7	23.3						
CRB Index	290.21	-1.80			-0.6	-1.0	1.4	8.9						
Currencies	Level						% change:							
	Last	Change			1 Day	1-wk	1-mo	1-yr						
USDCAD	1.4386	-0.0012			-0.1	1.1	2.9	7.6						
EURUSD	1.0397	0.0034			0.3	-1.0	-1.4	-5.0						
USDJPY	156.70	-0.7400			-0.5	2.0	0.8	9.1						
AUDUSD	0.6231	-0.0008			-0.1	-2.1	-4.2	-7.4						
GBPUSD	1.2511	0.0009			0.1	-0.9	-1.1	-1.0						
USDCHF	0.8934	-0.0053			-0.6	0.1	1.0	3.6						

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