

DAILY POINTS

January 6, 2025 @ 9:55 EST

Contributors

Derek Holt

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

On Deck for Monday, January 6

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	01-06	09:15	Fed's Cook Speaks on Economic Outlook, Financial Stability				
US	01-06	10:00	Durable Goods Orders (m/m)	Nov F	--	-0.3	-1.1
US	01-06	10:00	Durable Goods Orders ex. Trans. (m/m)	Nov F	--	0.3	-0.1
US	01-06	10:00	Factory Orders (m/m)	Nov	-0.6	-0.3	0.2

KEY POINTS:

- **Dollar weakens, equities gain, global bonds more cautious**
- **CAD being whipped around by Trudeau and tariff headlines**
- **Trudeau expected to resign this morning, prorogued Parliament**
- **Trump refutes signals from advisers that he is scaling back tariff plans**
- **German CPI adds to upside risk to tomorrow's expected Eurozone tally**
- **Mixed signals from China's economy**
- **Global Week Ahead highlights: nonfarm, Cdn jobs, EZ CPI, FOMC minutes, BCRP, global inflation**
- **A recap of what happened over the holiday period**

I fear that this morning is a bad omen for what to expect over the coming year. I was at my desk at the usual 5:30amET with a draft of some of this note in chat rooms by an hour later. Every time the fuller note was almost done I had to redraft portions of it on volatile headlines. Welcome to 2025!

And on that note, the rumour mill is back to being dominant as the first full week of the new year kicks off. Key are reports over the weekend into this morning about Trump's tariff plans and Canadian PM Trudeau's likely resignation. Data risk is low with just a bigger than expected increase in German CPI to consider. The dollar is broadly softer against most major crosses except for the yen. Sovereign yields are little changed but volatile on tariff headlines with implications for inflation risk across major markets. Equities are mildly bid outside of London.

I'll also provide a recap of key developments over the holiday period that may be of use to folks who were tuned in a little less than regularly, plus a brief outline of the key developments on tap for this week in lieu of a full Global Week Ahead publication.

CAD Volatile on Trudeau, Tariff and Trump Headlines

Few should be shocked by the weekend series of reports in media outlets like the Globe and Mail and Reuters that quoted Liberal insiders. Trudeau is expected to make an announcement by 10:45amET and news reports indicate that he will hang on as PM for now, prorogue parliament until March 24th while a new Liberal leader is chosen at which point he will resign. Everything in Ottawa will be on ice while the Liberals sort themselves out. Further details on the path forward are all highly uncertain. The drama was put on ice during the holidays but has returned as expected in the new year. Insiders in the media pointed to expectations that Trudeau will announce his resignation as soon as today or before Wednesday's Liberal national caucus meeting that many think will push him to resign after the population-heavy caucuses across the eastern half of the country pulled their support. It's basically a replay of the old you-can't-fire-me-because-I-quit-first game.

CAD is being whipped around in all directions on tariff, Trump and Trudeau headlines. It was slightly outperforming other majors relative to the USD before headlines appeared that maybe Trump's tariff plans were being scaled back, then lost ground when Trump refuted this.

January 6, 2025

Proroguing parliament rules out a confidence vote until some time after March 24th. The situation is fluid and an election lies ahead.

And please, dear American media, quit saying this is all because of Trump. That's just ignorant and indicates that the American press has paid scant attention to Canadian developments over recent years. Informed observers understand that Trudeau's problems started long before Trump and there were multiple drivers such as a soft economy, botched immigration policy, various scandals, etc etc. It's just not all always about you America!

Trump Tariff Plans

Always treat reports on what Trump's aides are discussing with high caution given Trump's history of not listening to them anyway! Sure enough, it didn't take long for Trump to refute a WAPO report out this morning that indicated his aides are considering plans to scale back tariff plans to something that might be a little less nutty, though even that isn't clear. The article said they are considering universal tariffs on every country only on sectors deemed critical to national or economic security. That still covers a lot as the aides indicated it could include metals (key to Canada), critical medical supplies and energy production. The latter's definition is unclear in that batteries, rare earth minerals and solar panels were mentioned in the article but oil and gas were not. The aides also indicated it isn't clear that such a universal tariff plan would rule out implementation of Trump's absurd 25% tariffs on all Canadian and Mexican imports. Are aides punching above their weight again? Or providing cover for a potentially dramatic de-escalation of Trump's threats? Trump's social media post provided the answer at least for now by basically indicating that his advisers went rogue.

Eurozone CPI Faces Upside Risk After Germany's Release

German national CPI was up by 0.7% m/m on an EU-harmonized basis (consensus 0.5%). Normally we would have the individual German states just before the national print but not with the first reading of the new year as most of them will report tomorrow and on Thursday. The lagging releases by the individual states may pose higher revision risk.

Recall that Spain already release CPI last week and it increased faster than consensus expected (0.4% m/m, 0.3% consensus) with core CPI up 2.6% y/y (2.4% consensus). The Eurozone composite gets updates tomorrow right after Italy and France report, but so far it seems that the consensus EZ CPI expectation of 0.4% may face upside risk given the Spanish and German readings.

Mixed Signals from China's Economy

China's economy improved in December according to both the state and private PMIs. The state composite PMI was released a week ago and increased by 1.4 points to 52.2 which, being further above the 50 dividing line, signals quicker growth. The non-manufacturing sector drove the improvement. Since the state PMIs are more heavily slanted toward the SOEs, there is also useful information within the private PMIs that were released overnight and confirmed the gain in non-manufacturing sectors but this was offset by a bigger decline in the manufacturing sector such that the composite private PMI fell 0.7 points to 51.4.

Other Stuff

Israel's central bank stayed on hold at 4.5% as widely expected. The US updates factory orders for November (10amET) that are expected to fall given we already have durables that fell by -1.1% m/m and just need the nondurables part. Canada will update its little-watched PMIs (9:30amET).

GLOBAL WEEK AHEAD HIGHLIGHTS

Here is a brief outline of key expected developments this week in lieu of a full Global Week Ahead that will return late this week covering next week.

Nonfarm payrolls: December's labour market readings arrive Friday. I figure a gain of about 200k is in the cards. I expect the unemployment rate to tick lower because it's derived from the household survey and I think the 355k drop in that survey's measure of jobs for the second big decline is likely to bounce back more than the labour force's 193k decline is likely to do. It's possible that other readings before then could influence expectations including JOLTS (tomorrow), ISM-services-employment (tomorrow), ADP (Wednesday) and Challenger job losses (Thursday). I'm also expected about a 0.4% m/m SA gain in wages.

Canadian jobs: Canada's jobs report for December also arrives on Friday. I went with a gain of 15k and a downtick in the UR as I expect some retrenchment from the 138k drop in the labour force in November—the biggest gain since September 2021 when the economy was still rotating in the early stages of recovery mode. Wage growth may sharply bounce back from the anomalous -5.5% m/m SAAR drop in November.

January 6, 2025

Eurozone CPI: We get the tally for December tomorrow along with the ECB's 1- and 3-year measures of inflation expectations for November. The 0.4% m/m increase in Spanish and 0.7% increase in German CPI were both greater than expected which may point to upside risk to the consensus expectation for Eurozone CPI to rise by 0.4%. Key will be the core reading in m/m terms to see if it signals traction.

China CPI: December's reading arrives Wednesday evening (ET) and is expected to continue to hover just above 0% y/y.

Australian CPI: November's reading arrives tomorrow evening (ET) and is expected to tick higher to 2.2% y/y.

FOMC Minutes: They arrive on Wednesday for the December 17th–18th FOMC meeting. That decision was a hawkish 25bps cut along with a dot plot that scaled back the Committee's expectations for future easing. Key may be projections from the Fed's staff economists that get released with the minutes and whether they more fully incorporate policy expectations for the incoming Trump administration than the Committee may have incorporated in December's Summary of Economic Projections including the dot plot.

Global inflation: Several other countries release CPI figures this week including Chile (Wednesday), Mexico and Colombia (Thursday), Sweden (Wednesday), Norway (Friday), Philippines and Taiwan (tomorrow), and Brazil (Friday).

BCRP: The lone central bank decision this week (after Israel) will come from Peru that is expected to cut by another 25bps on Thursday.

RECAP OF THE HOLIDAY PERIOD

Here is a summary of developments over the holiday period, much of which is transcribed from messy notes banged into my phone at some of the duller points during the break. Maybe it's of use to you.

Here is a brief recap of key market developments since Friday December 20th until the end of last week:

- US 2s10s bear steepened as the US 10-year yield rose by about 8bps and the 2-year yield fell by about 3bps.
- Canada 2s10s bull steepened as the 2-year yield fell by about 12bps and the 10s yield fell by about 4bps.
- The S&P500 did nothing on net over the holidays while the TSX rallied by about 2%.
- WTI increased by about US\$4/barrel
- Gold increased a bit, by roughly US\$17/oz.
- the USD broadly strengthened against all major currencies by between about ½% (Ye, CAD, A\$ etc) to as much as 2¾% against MXN.

Postponed Extraordinary Measures: Treasury Secretary Yellen announced that extraordinary measures to address the reimposition of the debt ceiling that took effect last week won't have to be triggered until mid-January instead of by now and thanks to a redemption of securities held by a federal trust fund that gives a little more wiggle room beneath the debt ceiling. See my Global Week Ahead covering the two-week holiday period that contained a section on the debt ceiling. The earlier passage of a funding bill will keep the government operational until at least the March 14th expiration while Treasury draws on extraordinary measures to fund operations until an 'x-date' of at least Spring/Summer.

Canada's Economy is humming along. GDP for October was up 0.3% m/m SA, matching my estimate that was the highest in consensus. September was revised up a tick to a gain of 0.2% m/m. And yet the spin by some newswires emphasized the flash guidance for November GDP (-0.1% m/m) despite the considerably stronger momentum and despite the fact that the flash estimates are random guesses subject to high revision risk given little available data; October's beat compared to the flash estimate for that month offered the latest proof. Q4 GDP is now tracking a gain of 1.7% q/q SAAR after 1.2% growth in Q3 which isn't great but keeps the economy growing.

The Bank of Canada may be setting up a change in balance sheet plans. This is indicated by the fact that Deputy Governor Gravelle will speak on balance sheet normalization plans next week on January 16th. He's the BoC's financial markets guy who tees up potential shifts in balance sheet plans before they are implemented. The next BoC meeting is on January 29th and it is a full meeting including updated forecasts within a fresh MPR.

The BoC's Summary of Deliberations reinforced the point from the December decision and press conference about how the back-to-back 50 points cuts are over with and the path forward is unclear. They did so by emphasizing that Governing Council was divided on the need for another half point cut last month as "some members suggested that policy could be patient while the full effects of past interest rate cuts became clearer" and that the half point cut was "a close call."

January 6, 2025

There was more wacky talk from the Trump camp about taking over countries and territories like they're tacky casinos. Meh, paws off, we're priceless and not for sale, pal.

Looney Talk of a Currency Union: Furthering on the latter point was silly talk from vested interests looking for a trade about how Canada and the US could form a union with a common currency. Sounds rather traitorous to me. Ironically, informed Canadians should be well aware of the fact that a Nobel prize in Economics was granted to a Canadian—Robert Mundell—whose work can be drawn upon to show that a common US-Canadian currency would be a disaster waiting to happen. And peg at today's exchange rate? Oh that would be brilliant... can't wait for a return of rampant inflation in Canada. And when a shock of greater relative importance to Canada than the US strikes—like a hypothetical collapse in commodity prices—the loss of the flexible C\$ exchange rate would mean the full force would drive a much higher unemployment rate and deeper recession in Canada than would otherwise be the case. A floating currency is vital to a trade dependent and commodity-sensitive country like Canada. Maybe there should be mandatory Econ 101 training for business leaders before they overreach on policy advice!

On the lighter side of the rumour mill, Wayne Gretzky as PM?? Now that's a funny one and purely one on the entertaining side of developments. First, Trump proposed it, ergo it's dead in Canada. Second, Gretzky is a strong supporter of Trump despite what his policies could do to Canada which is a second reason it's going nowhere in Canada. Third, I really enjoyed watching him when he was a supremely talented hockey player; not sure about his other qualifications. Fourth, his candidacy would have a strong whiff of Michael Ignatieff about it since for decades now Canadians have only really seen Gretzky in commercials; returning 'saviours' tend not to go over well decades after they opted out of their home country. Fifth, Gretzky retired from hockey twenty-five years ago in 1999 and would be unfamiliar to many within today's younger generation and given changed immigration patterns. Loved him as a hockey player but don't tarnish your image.

RBA minutes offered nothing new compared to the already known communications that were provided at the December meeting. The RBA is gaining confidence that inflation can durably land on the 2–3% inflation target range but isn't there yet. Markets are pricing a decent chance at a cut on February 18th and a full cut and then some on April 1st.

US second- and third-tier releases were relatively tame but on the weaker side of things. Durable goods orders fell 1.1% m/m in November mainly due to weaker orders in the transportation sector. New home sales increased by 5.9% m/m in November (9.7% consensus) but the miss was mostly due to an upward revision to October (-14.8% m/m instead of -17.3%). Consumer confidence fell in December and primarily due to the expectations component as consumers turned more negative on the outlook perhaps as they digested the likely consequences of crazy tariff plans. Initial jobless claims remained low and range-bound. The advance merchandise trade deficit widened slightly ahead of this week's fuller trade figures. Pending home sales beat expectations for November (2.2% m/m, 0.8% light consensus). House prices continued to advance with the FHFA index up 0.4% and S&P's repeat sales measure up 0.3% m/m, both for October. ISM-mfrg improved a bit but continues to signal a retreating manufacturing sector (49.3, 48.4 prior) as the new order book accelerated. Vehicle sales increased again to 16.8 million SAAR from 16.5 prior (17.1 Scotia, 16.5 consensus).

Tokyo core CPI was up by just 1.2% m/m SAAR and drove the y/y rate to 1.8% from 1.9% previously. Markets are on the fence between a hold and a hike at the next meeting on January 24th and still shy of pricing a quarter point BoJ hike by March.

Peru's CPI inflation rate was up by less than consensus expected (0.1% m/m, 0.3% consensus) which helped to drive the y/y rate down a quarter-point back to 2%. A divided consensus leans toward another 25bps cut by BCRP on Thursday but a significant minority thinks they may hold at 5%.

Turkey's central bank cut by 250bps on December 26th, or 75bps more than consensus expected.

South Korea's inflation rate doubled consensus at 0.4% m/m which drove the y/y rate up to 1.9% (1.5% prior, 1.7% consensus). That may dampen enthusiasm toward another potential cut by the BoK on January 16th.

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.	4.28	4.28	4.24	4.43	4.41	4.36	4.62	4.60	4.53	4.83	4.81	4.75	Canada - BoC	3.25
CANADA	2.93	2.93	2.96	2.98	2.96	2.98	3.25	3.23	3.24	3.37	3.35	3.34	US - Fed	4.50
GERMANY	2.21	2.16	2.08	2.27	2.23	2.15	2.45	2.43	2.37	2.66	2.65	2.60	England - BoE	4.75
JAPAN	0.63	0.61	0.61	0.80	0.75	0.75	1.14	1.10	1.10	2.32	2.30	2.30		
U.K.	4.42	4.42	4.45	4.39	4.39	4.39	4.60	4.59	4.61	5.17	5.16	5.17		
	Spreads vs. U.S. (bps):													
CANADA	-134	-136	-128	-145	-145	-138	-137	-137	-129	-146	-146	-141	Euro zone - ECB	3.15
GERMANY	-207	-212	-216	-216	-218	-221	-217	-217	-217	-217	-216	-215	Japan - BoJ	-0.10
JAPAN	-365	-368	-364	-363	-367	-362	-348	-350	-343	-251	-251	-245		
U.K.	15	14	21	-4	-3	3	-1	-1	8	34	34	42	Mexico - Banxico	10.00
Equities	Level						% change:							
	Last			Change			1 Day	1-wk	1-mo			1-yr		
S&P/TSX	25165			91.6			0.4	1.5	-2.0			20.2	Australia - RBA	4.35
Dow 30	42946			214.3			0.5	-0.1	-3.8			14.6	New Zealand - RBNZ	4.25
S&P 500	5991			48.8			0.8	0.3	-1.6			27.5		
Nasdaq	19919			297.0			1.5	1.0	0.3			37.1		
DAX	20039			133.3			0.7	1.0	-1.7			20.8		
FTSE	8212			-12.0			-0.1	0.8	-1.2			6.8		
Nikkei	39307			-587.5			-1.5	0.7	0.6			17.8	Canada - BoC	Jan 29, 2025
Hang Seng	19688			-72.0			-0.4	-2.0	-0.9			19.1	US - Fed	Jan 29, 2025
CAC	7363			80.3			1.1	0.1	-0.9			-0.8	England - BoE	Feb 06, 2025
Commodities	Level						% change:							
WTI Crude	74.81			0.85			1.1	6.0	11.3			1.4	Euro zone - ECB	Jan 30, 2025
Natural Gas	3.64			0.28			8.4	3.5	18.2			25.7	Japan - BoJ	Dec 19, 2024
Gold	2633.89			-6.34			-0.2	0.5	18.1			28.8		
Silver	29.82			0.41			1.4	0.6	-3.5			28.1		
CRB Index	296.77			-2.21			-0.7	1.8	3.6			11.6		
Currencies	Level						% change:							
USDCAD	1.4326			-0.0121			-0.8	-0.2	1.2			7.3	Mexico - Banxico	Feb 06, 2025
EURUSD	1.0396			0.0088			0.9	-0.1	-1.6			-5.1	Australia - RBA	Feb 17, 2025
USDJPY	157.19			-0.0700			-0.0	0.2	4.8			9.0	New Zealand - RBNZ	Feb 18, 2025
AUDUSD	0.6268			0.0052			0.8	0.8	-1.9			-6.7		
GBPUSD	1.2515			0.0092			0.7	-0.3	-1.8			-1.8		
USDCHF	0.9042			-0.0043			-0.5	0.1	2.9			6.6		

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 in 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.