

DAILY POINTS

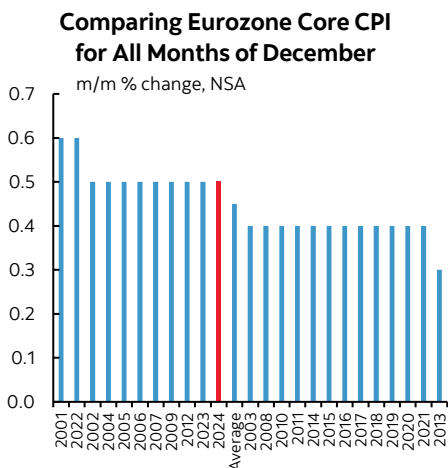
January 7, 2025 @ 10:30 EST

Contributors

Derek Holt

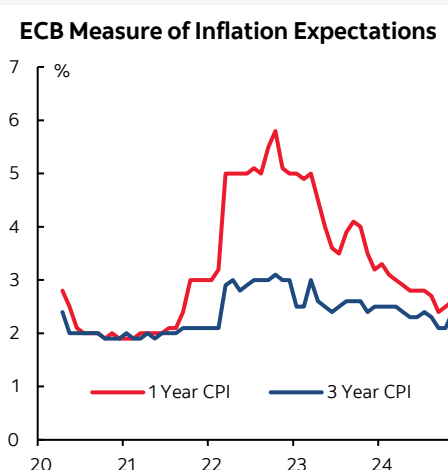
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Chart 1



Sources: Scotiabank Economics, Eurostat.

Chart 2



Sources: Scotiabank Economics, ECB.

On Deck for Tuesday, January 7

Country	Date	Time	Indicator	BNS	Consensus	Latest
US	01-07	08:00	Fed's Barkin Speaks to Raleigh Chamber			
CA	01-07	08:30	Merchandise Trade Balance (C\$ bn)	--	-0.9	-0.3
US	01-07	08:30	Trade Balance (US\$ bn)	-78.1	-78.3	-78.2
US	01-07	10:00	ISM Non-Manufacturing Composite	53.0	53.5	54.1
US	01-07	10:00	JOLTS Job Openings (000s)	--	7740.0	8098.0

KEY POINTS:

- **Strong US ISM-services and JOLTS push yields higher on reduced Fed easing**
- **How Canada's election matters—and how it may just not matter at all**
- **Eurozone core inflation remains tame, keeping ECB on track to cut again**
- **Eurozone inflation expectations edge slightly higher**
- **Gilts underperform on supply fears after a weak 30s auction**
- **US trade deficit widens**
- **Canada's trade figures look decent, but may be very unreliable**

Markets were off to a somewhat quieter start this morning compared to yesterday until strong US data hit. Off-calendar headline risk is low but that could well change. Overnight calendar-based risk was inconsequential but heated up by mid-morning in the N.A. session. Eurozone CPI was neither here nor there and elicited nothing more than a shrug by EGBs and the euro. The USD and safe havens like the yen and CHF had a softer tone before US data but that data reignited appetite for dollars and turned small equity gains into losses on reinforced bets that the Fed would be cutting less than hoped for in markets. Sovereign yields up by a few basis points across US and Canadian curves and the only other semi-notable development is mildly higher yields on gilts across the curve which is being motivated in part by supply concerns punctuated by a relatively soft 30-year auction this morning.

EUROZONE CORE INFLATION KEEPS AN ECB CUT ON TRACK

Eurozone CPI landed on the screws after all. It was up by 0.4% m/m NSA, matching consensus. That was despite higher than expected readings out of Germany and Spain in the lead up to the figures and because both France (0.2% m/m, 0.3% consensus) and Italy (0.1% m/m, 0.3% consensus) came in lower than expected in offsetting fashion earlier this morning.

Key, however, was that core Eurozone CPI was, well, call it unspectacular. Core was up by 0.5% m/m NSA which matched the historical average for like months of December as the reference point since it's seasonally unadjusted data (chart 1). Core CPI readings in m/m terms were below average in each of the prior four consecutive months so for December to match the average continues to demonstrate progress toward lower trend core inflation at the margin versus dwelling over the fact that year-ago base effects pushed up the headline (2.4%, 2.2% prior) reading while core held steady at 2.7% y/y.

As a result, markets didn't budge an inch off of pricing for another 25bps ECB cut on January 30th.

ECB inflation expectations moved up a touch in November (chart 2). The 1-year gauge ticked higher to 2.6% and the 3-year measure moved up three-tenths to 2.4%. Watch this in the context of trade tensions, but so far the wiggles aren't much to fuss over.

STRONG U.S. DATA DRIVES HIGHER YIELDS, TRUMP TO SPEAK, IGNORE CDN TRADE

US data came on very strong this morning. First, ISM-services indicated faster growth in the services sector by rising to a 54.1 reading from 52.1, thus further above the 50 dividing

line for growth. Chart 3 shows both manufacturing and non-manufacturing are accelerating. The jump was driven by quicker growth in new orders (54.2, 53.7 prior) that drove higher prices paid (64.4, 58.2). Chart 4 shows prices paid picking up in services and chart 5 shows how the weighted ISM-price measures from both reports tends to somewhat lead actual y/y inflation. Higher inflation may lie ahead even before tariffs.

Chart 6 shows that JOLTS job vacancies also increased to 8.098 million in November from 7.839 million previously that was revised higher from 7.744. This signals more hiring appetite among US employers. Now bring on Friday’s nonfarm payrolls.

Also updated was the US trade deficit that widened by just under US\$5B to –US\$78.2 billion, matching expectations largely because we already knew the merchandise component.

Also note that Trump will hold a press conference at 11amET this morning; it may be to attack the likely release of Jack Smith’s Special Counsel Report on him but be mindful toward any potential tariff headlines etc.

Canada released somewhat unreliable trade figures this morning. They recorded a 0.5% m/m SA rise in export volumes but a new system of collection is driving unreliable estimates on the import side due to “delays in the receipt of merchandise import data at Statistics Canada” that led them to impose their own estimates and assumptions on the data. Hopefully they sort this out before we get the full Q4 set of national accounts. Take the tracking of Q4 figures in chart 7 with a lot of salt.

MAPPING OUT CANADA’S ELECTION TIMELINE—WHY IT MATTERS AND WHY IT MAY NOT

Political risk is front and center in terms of the job of a forecaster assessing prospects for the macroeconomic and market environment and advising clients in this environment. It’s simply naïve to assume otherwise and hide under a rock. It cannot be ignored as it is central to the high stakes around potential policy options at home and abroad.

On that note, despite all of the high drama in Canadian politics, in my opinion, external risks to Canada far outweigh domestic political developments by way of the potential consequences. A US-led global trade war would tie the hands of any future Canadian government and anything that domestic politicians could do going forward regardless of their political stripe.

Why? If Trump imposes 25% across-the-board tariffs on Canadian exports for a meaningful period of time—and it’s not a certainty he will—then Canada will be in recession likely within 6–12 months and the unemployment rate will rise by several percentage points. Barring retaliation, inflation would get crushed and the Bank of Canada would be pushed into significantly greater policy easing. If Canada retaliates—or more appropriately, how—then it’s more complicated. Retaliation by imposing meaningful tariffs on US exports to Canada would raise the price level and inflation at least in the short- to medium-term which could thwart prospects for additional monetary easing if not reverse it. Charts 8–11 repeat our macroeconomic scenarios that were previously presented and also see the summary table I tossed in at the back of this publication.

Chart 3

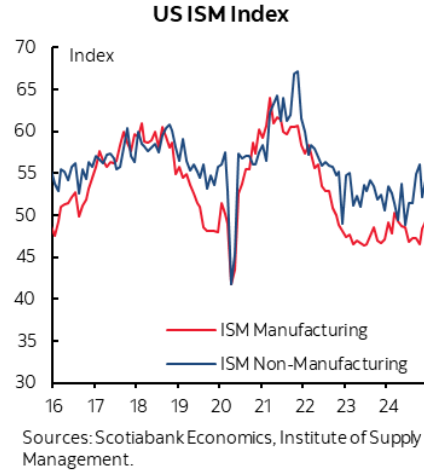


Chart 4

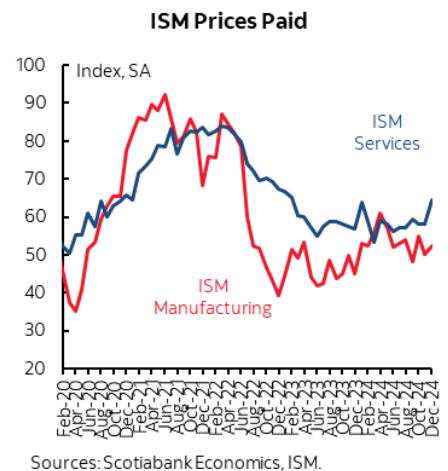


Chart 5

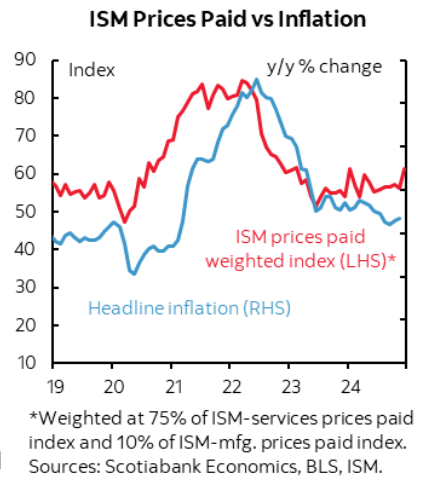
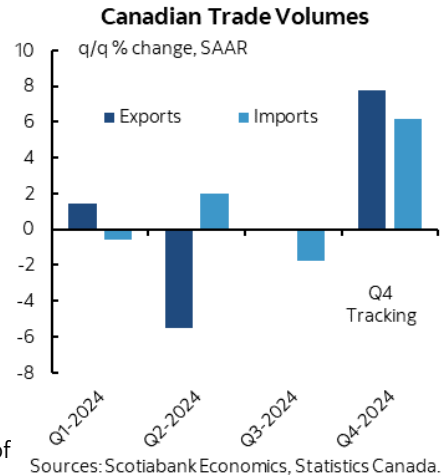


Chart 6



Chart 7



In that context, a tariff-driven deep recession would blow out the federal deficit (chart 12) and pose additional complications to what is already slated to be a high amount of debt rollover in the near-term (chart 13). I've previously estimated that the GDP sensitivities of the budget deficit on their own would easily add \$20–30B to the annual deficit solely through automatic stabilizer effects. Then layer on fiscal supports such as targeted industry assistance, maybe new and improved supports for unemployed folks, maybe stimulus cheques etc etc.

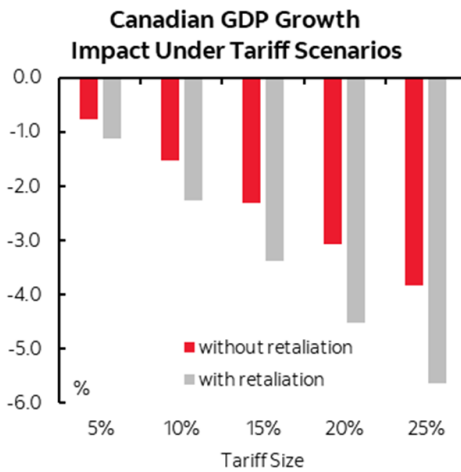
In other words, politicians can promise and opine on whatever they wish, but the deficit implications stemming from tariff wars—if they arise—would thwart prospects for any meaningful policy measures other than to respond to tariff effects regardless of who wins an election.

Another angle on election risk to Canada is that it's less than obvious what the consequences could be to markets, the economy and the Bank of Canada at least in terms of the impact of past elections. See charts 14–19 that review what happened to GDP growth, markets and the BoC leading into and out of past elections along with the BoC table summarizing actions leading up to past elections at the back of this note. Every election is different, and this could be a very different outcome in terms of the policy mixture, but there is little to nothing to be gleaned from past elections by way of any obvious effects. Then, as argued, we're left with assessing what flexibility a future administration would have in the face of the potential threat of a Canada-US trade war and a broader US-led global trade war. At that point, you'll need to convince me that a future administration would handle it any better than what I thought to be the extreme competence of the government's handling of the tariff threat during Trump 1.0.

All that said, here are the timelines and the implications for the federal budget and the tariff response.

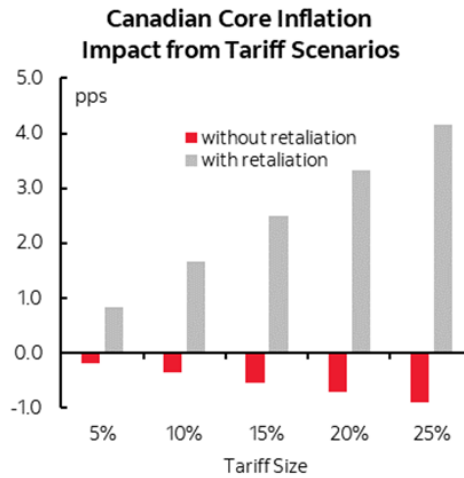
Parliament has been prorogued until March 24th which puts a stop to any further legislative actions.

Chart 8



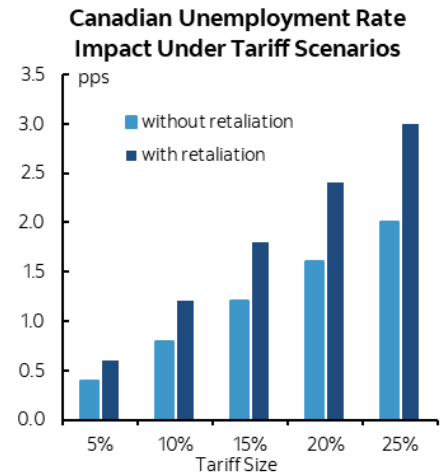
Sources: Scotiabank Economics.

Chart 9



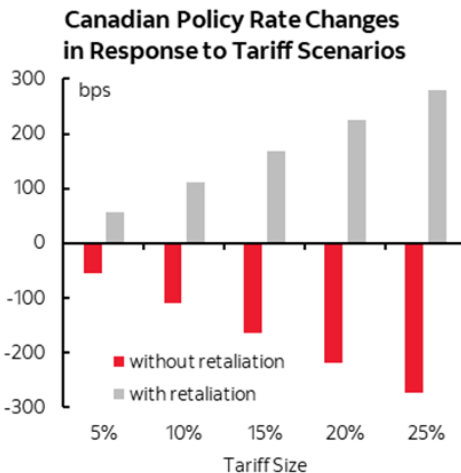
Sources: Scotiabank Economics.

Chart 10



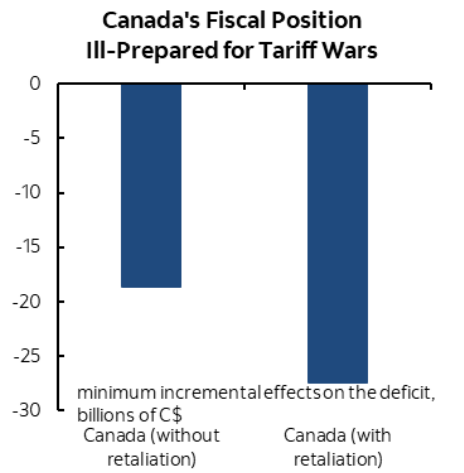
Sources: Scotiabank Economics.

Chart 11



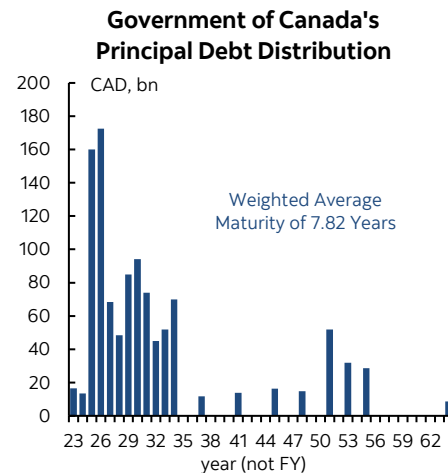
Sources: Scotiabank Economics.

Chart 12



Sources: Scotiabank Economics, Budget 2024.

Chart 13



Sources: Scotiabank Economics, Bloomberg.

Technically parliament could be prorogued again, extending parliament's suspension as explained in [this](#) note. That has happened before, like 1961, and former PM Chretien prorogued for over a year. If the Libs aren't ready and or if exigent circumstances—like tariff wars—necessitate, then all of these timelines could well be pushed out.

A confidence vote is likely to be held after March 24th if parliament reconvenes. Trudeau said so yesterday and there is the previous NDP commitment to hold a vote on their support on March 28th unless they back down, so expect a vote any time from March 24th to 31st.

The government is very likely to fall at that point, thus triggering a writ of election.

The election campaign must be between 37 and 51 days long, meaning that the election would be held sometime between the very end of April until May 21st. Barring serial prorogation that would probably only impose further damage upon the Liberal Party's prospects, a Spring election is highly likely and hence well before the October semi-deadline. I say semi-deadline because the elections act offers some wiggle room under truly exigent circumstances.

If polling is accurate—and I'll leave views on their global usefulness to you—then Conservative leader Pierre Poilievre is very likely to become PM. That could change over the months ahead either because of developments or huge polling inaccuracies, but there is a very high bar set against an alternative outcome at this point. The key then becomes what a Conservative election platform would look like. It's not well laid out right now with mostly generalities to go by. It's a grassroots, populist form of a Conservative Party not particularly well aligned with the interests of big business and closer to labour and particularly organized labour. It could be that the Conservatives will wait until they see the outcome of the Liberal leadership contest before more fully informing Canadians about concrete policy measures that they would pursue rather than just general talk about more efficiency and better growth. That's because some of the candidates could differ markedly from one another in terms of their policy bias. At present, however, all of the potential Liberal leadership candidates would lose to the Conservatives in [this](#) small sample poll.

What this period will do is put on ice a Federal budget until some time after an election and hence no earlier than summer. Canada can still respond effectively to tariff threats. That doesn't require parliament. It did not in the earlier episode. In fact there is some consideration being given toward pre-emptively spelling out what Canada would target in retaliatory tariffs ([here](#)).

Chart 14

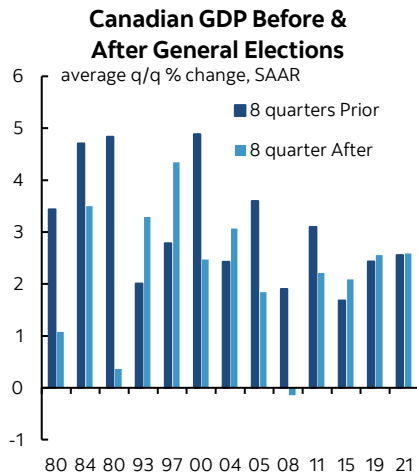


Chart 15

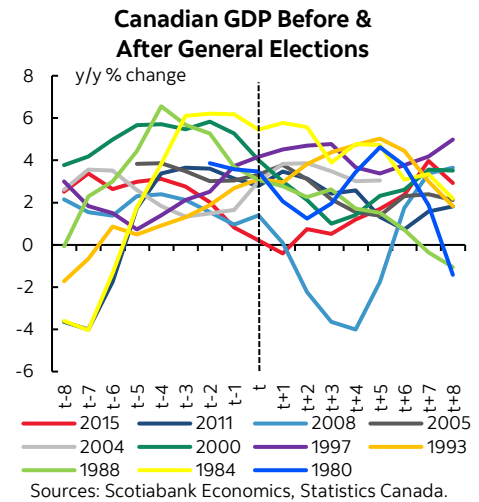


Chart 16

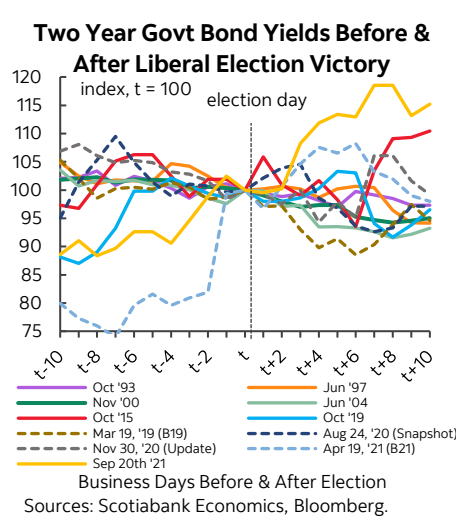


Chart 17

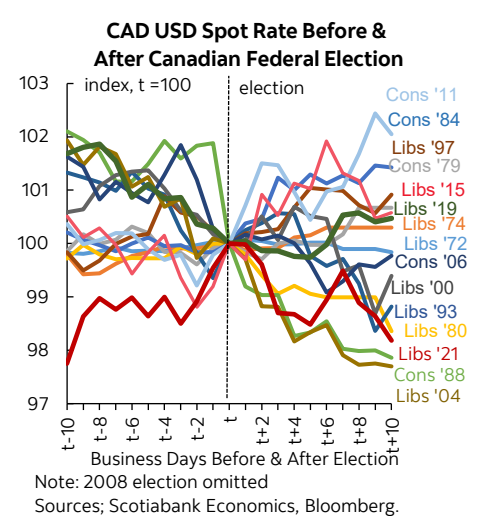


Chart 18

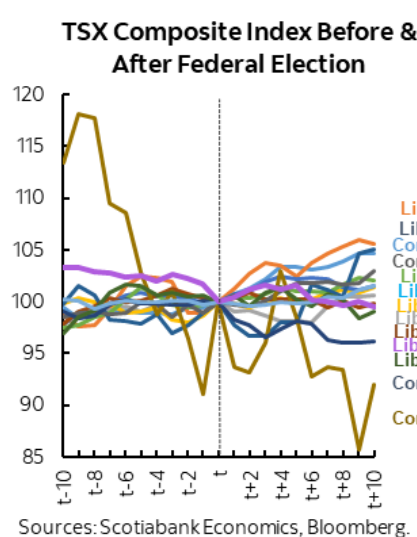


Chart 19

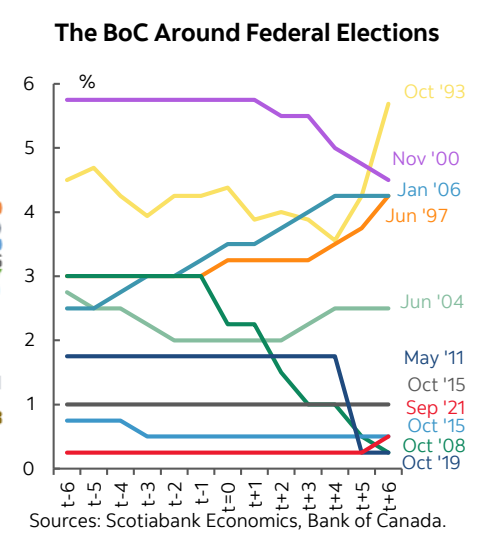


Chart 20

Estimating the Impact of 25% US Tariffs on All Goods Imported from Canada																
Tariff	US								Canada (without retaliation)							
	GDP, %	GDP, long-run, %	Core PCE, pps	Policy Rate, bps	Exchange Rate, %	FX impact by 25q4	Unemployment, pps		GDP, %	GDP, long-run, %	Inflation, pps	Policy Rate, bps	Exchange Rate, %	FX impact by 25q4	Unemployment, pps	
5%	-0.2	-0.1	0.2	11	1.7	0.8	0.1		-0.8	-0.5	-0.2	-55	3.9	2.1	0.4	
timing	2026Q2	2028Q4	2025Q2	2025Q3	2025Q1	2025q4	2026Q4		2026Q4	2028Q4	2026Q3	2026Q4	2025Q1	2025q4	2025Q3	
10%	-0.3	-0.2	0.4	22	3.4	1.6	0.1		-1.5	-1.1	-0.4	-110	7.8	4.2	0.9	
15%	-0.5	-0.3	0.6	32	5.1	2.5	0.2		-2.3	-1.6	-0.5	-164	11.6	6.3	1.3	
20%	-0.7	-0.4	0.7	43	6.7	3.3	0.3		-3.1	-2.2	-0.7	-219	15.5	8.4	1.7	
25%	-0.9	-0.5	0.9	54	8.4	4.1	0.4		-3.8	-2.7	-0.9	-274	19.4	10.5	2.2	
Tariff	Canada (with retaliation)								Canada (half retaliation)							
	GDP, %	GDP, long-run, %	Inflation, pps	Policy Rate, bps	Exchange Rate, %	FX impact by 25q4	Unemployment, pps		GDP, %	GDP, long-run, %	Inflation, pps	Policy Rate, bps	Exchange Rate, %	FX impact by 25q4	Unemployment, pps	
5%	-1.1	-0.9	0.8	56	4.2	2.2	0.6		-0.9	-0.7	0.4	16	4.0	2.1	0.5	
timing	2027Q1	2028Q4	2025Q3	2025Q3	2025Q1	2025q4	2025Q4		2026Q4	2028Q4	2025Q2	2025Q3	2025Q1	2025q4	2025Q4	
10%	-2.3	-1.8	1.7	112	8.4	4.4	1.2		-1.9	-1.4	0.8	33	8.1	4.3	1.0	
15%	-3.4	-2.7	2.5	168	12.6	6.5	1.8		-2.8	-2.2	1.2	49	12.1	6.4	1.5	
20%	-4.5	-3.6	3.3	224	16.8	8.7	2.4		-3.8	-2.9	1.6	65	16.1	8.6	2.0	
25%	-5.6	-4.5	4.1	280	20.9	10.9	3.0		-4.7	-3.6	2.0	82	20.2	10.7	2.5	

Chart 21

	BoC Policy Trajectory Prior to Elections					
	Full Year			Quarter Before Election		
	Cut	Flat	Raise	Cut	Flat	Raise
22-May-79			X		X	
18-Feb-80			X		X	
04-Sep-84	X*		X*	X		
21-Nov-88			X			X
25-Oct-93	X			X		
02-Jun-97	X				X	
27-Nov-00			X		X	
28-Jun-04	X			X		
23-Jan-06			X			X
14-Oct-08	X			X		
02-May-11			X		X	
19-Oct-15	X			X		
21-Oct-19			X		X	
20-Sep-21		X			X	
	6	1	8	5	7	2

* Rates were both lowered and increased in the one-year leading to the '84 election.

Source: Scotiabank Economics, Bank of 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.	4.29	4.28	4.24	4.46	4.43	4.38	4.67	4.63	4.57	4.90	4.85	4.78	Canada - BoC	3.25
CANADA	2.95	2.91	2.93	3.00	2.96	2.96	3.29	3.24	3.22	3.40	3.36	3.33	US - Fed	4.50
GERMANY	2.19	2.19	2.08	2.27	2.26	2.15	2.47	2.45	2.37	2.71	2.66	2.60	England - BoE	4.75
JAPAN	0.64	0.63	0.61	0.80	0.80	0.75	1.14	1.14	1.10	2.32	2.32	2.30	Euro zone - ECB	3.15
U.K.	4.46	4.43	4.39	4.43	4.40	4.35	4.67	4.61	4.57	5.23	5.18	5.13	Japan - BoJ	-0.10
	Spreads vs. U.S. (bps):													
CANADA	-135	-137	-131	-145	-147	-142	-138	-139	-135	-150	-149	-145	Mexico - Banxico	10.00
GERMANY	-210	-208	-216	-219	-217	-223	-220	-218	-220	-219	-219	-219	Australia - RBA	4.35
JAPAN	-366	-365	-364	-366	-364	-364	-354	-350	-347	-258	-253	-249	New Zealand - RBNZ	4.25
U.K.	17	16	15	-3	-3	-4	-0	-2	-0	33	33	35		
Equities	Level						% change:						Next Meeting Date	
	Last			Change	1 Day	1-wk	1-mo	1-yr						
S&P/TSX	25042			41.7	0.2	1.7	-2.5	19.6					Canada - BoC	Jan 29, 2025
Dow 30	42791			84.7	0.2	0.5	-4.1	14.2					US - Fed	Jan 29, 2025
S&P 500	5953			-22.2	-0.4	0.8	-2.3	26.7					England - BoE	Feb 06, 2025
Nasdaq	19693			-171.6	-0.9	1.1	-0.8	35.6					Euro zone - ECB	Jan 30, 2025
DAX	20300			84.0	0.4	1.6	-0.4	22.3					Japan - BoJ	Dec 19, 2024
FTSE	8224			-25.8	-0.3	1.3	-1.0	6.9					Mexico - Banxico	Feb 06, 2025
Nikkei	40083			776.3	2.0	2.4	2.5	20.1					Australia - RBA	Feb 17, 2025
Hang Seng	19448			-240.7	-1.2	-3.0	-2.1	19.9					New Zealand - RBNZ	Feb 18, 2025
CAC	7484			38.6	0.5	2.3	0.8	0.9						
Commodities	Level						% change:							
			Change	1 Day	1-wk	1-mo	1-yr							
WTI Crude	74.13		0.57	0.8	4.4	10.3	0.4					England - BoE	Feb 06, 2025	
Natural Gas	3.57		-0.10	-2.8	-9.3	16.0	23.3					Euro zone - ECB	Jan 30, 2025	
Gold	2651.70		15.23	0.6	1.7	18.9	29.6					Japan - BoJ	Dec 19, 2024	
Silver	30.27		0.46	1.5	2.7	-2.7	31.7					Mexico - Banxico	Feb 06, 2025	
CRB Index	298.93		2.16	0.7	2.5	4.4	12.4					Australia - RBA	Feb 17, 2025	
Currencies	Level						% change:							
			Change	1 Day	1-wk	1-mo	1-yr							
USDCAD	1.4344		0.0012	0.1	-0.3	1.2	7.5					New Zealand - RBNZ	Feb 18, 2025	
EURUSD	1.0381		-0.0009	-0.1	0.3	-1.6	-5.2							
USDJPY	158.14		0.5200	0.3	0.6	4.6	9.6							
AUDUSD	0.6254		0.0008	0.1	1.1	-2.9	-6.9							
GBPUSD	1.2508		-0.0012	-0.1	-0.1	-1.9	-1.9							
USDCHF	0.9076		0.0030	0.3	0.0	3.3	7.0							

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