

Contributors

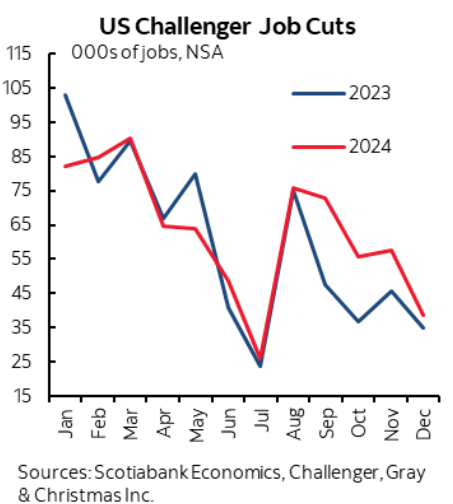
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Chart 1



Chart 2



On Deck for Thursday, January 9

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	01-09	07:30	Challenger Job Cuts YoY	Dec	--	--	26.8
US	01-09	09:00	Fed's Harker Speaks on Economic Outlook				
US	01-09	09:05	Fed's Collins Speaks on US Economy				
US	01-09	12:45	Fed's Barkin Speaks to Virginia Bankers Association				
US	01-09	13:30	Fed's Schmid Speaks to Economic Club of Kansas City				
US	01-09	13:35	Fed's Bowman Reflects on 2024 in Speech				

KEY POINTS:

- **N.A. yields settle down ahead of tomorrow's duelling jobs reports**
- **NYSE shut & early US bond close today**
- **Canada takes a step toward spelling out retaliatory measures, with more possible**
- **How Trump's tariffs on Canada could profoundly weaken hemispheric security**
- **US job cuts ebbed in seasonal fashion, but the next round may be bigger**
- **Yen gains on safe haven appeal, wage developments**
- **Bunds cheapen as German CPI likely to be revised up & industrial data was strong**
- **China's core CPI puts in strong back-to-back gains**
- **Rising UK and US borrowing costs have a lot in common**
- **Mexican CPI offered no surprises**
- **A\$ underperforms on extended CPI reaction as other data was mixed**

Wait for it. Any moment now. If the pattern so far this week holds, then it's only a matter of time until some off-calendar tape bomb strikes and with the incoming US administration usually to blame. Maybe a much needed touch of class will lower that risk on the national day of mourning for Jimmy Carter's passing that has the NYSE shut and US Ts closing at 2pmET.

Key moves this morning include slightly lower US and Canadian bond yields absent material new information until tomorrow's two jobs reports and with less client engagement given the US holiday. Gilts are a little calmer, while EGBs underperform partly on data. US equity futures are a bit lower, but the same caution about holiday effects applies there too. The yen is outperforming and the dollar is holding a gain. CAD is softer but a middle of the pack performer notwithstanding tariff developments.

Calendar-based risk is fairly light but there have been some interesting overnight developments. Other than that, it will probably feel like a classic day before nonfarm payrolls kinda day (and Canadian jobs for local content).

Canada Inches Toward Spelling Out Retaliation

At the top of the list is that Canada is making it clearer that it intends to retaliate if the US imposes tariffs. As shared yesterday, an anonymous senior government official spilled some of the beans on what will be targeted ([here](#), [here](#)). Steel products from swing states, Florida orange juice, ceramics, glassware, plastics etc are on the list but the full list is not available yet. What, no Teslas?! Bwah. The official noted that Cabinet is divided on whether to release it now before a (likely) US tariff announcement out of fear they may provoke Trump. Too late, the horse has already left the barn folks, just get it out. You can't provoke a grand provocateur! There is also some discussion around how to leverage energy exports in order to dissuade Trump, but it's being debated and there are no details on offer.

Canada's strategy seems to be an escalated version of what it did the last time. Instead of across-the-board retaliatory tariffs, it is indicating a preference for measures targeted at swing states and politically sensitive regions and industries of the US while trying to minimize the damage to Canadians. OJ is the new Bourbon. I'm not sure that's enough in order to be effective in terms of impacting thinking in Trump's inner circle.

US Job Cuts Seasonally Normal, But Likely to Spike in January

US job cuts fell to 38,792 in December from 57,727 the prior month (chart 1). They are not seasonally adjusted though and they often decelerate in December as Scrooge lightens up into the holiday season. Monthly job cuts during 2024 followed the same pattern as the prior year (chart 2). January's figures will be more interesting. Scrooge returns as the corporate fiscal year turns over and rightsizing occurs to front-load changes in the new year. This is why we're seeing some individual company announcements that always heat up in the US during January. In a strong job market coming out of the pandemic, the pattern has generally been to right size at the start of the year. We saw layoffs jump in January last year, in 2023, and in 2021, but not 2022.

Yen Outperforms on Safe Haven Appeal, Wage Developments

On reason for yen outperformance this morning (other than safe haven appeal) is that Japanese wage growth picked up to 3 y/y (2.6% prior, 2.7% consensus). Having said that, real wages are still subdued at -0.3% y/y and the prior was revised lower to -0.4% y/y (from 0%). Chart 3. This was accompanied by a quarterly summary of BoJ branch managers' comments that said "Overall, many chiefs reported that the awareness of the need for sustained wage increases is permeating through a wide range of industries and businesses of various sizes." That seemed to indicate rising confidence that wage growth is gaining traction. That said, the spring Shunto round is still ahead with expectations for a third straight strong gain after gains in each of the past two years (chart 4). If the BoJ feels this is the case, then it lends confidence to hiking as soon as January 24th but more likely afterward. Zigging while the Fed is zagging hasn't always worked out so well for the BoJ even in the absence of potential tariff wars.

German CPI Poised for Upward Revision

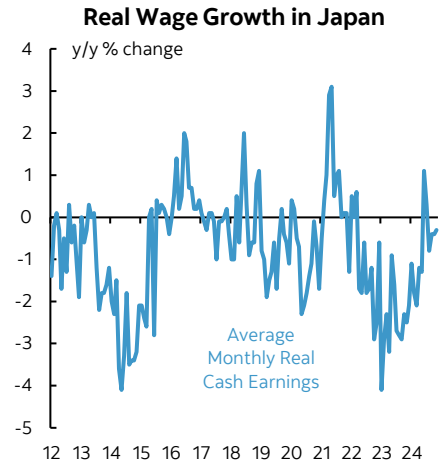
German states released CPI figures this morning that point to potential upward revisions to the national tally. Bunds cheapened in the aftermath of the figures. Of the five states that released this morning, four of them landed at 0.5% m/m and one was 0.4%. National CPI that was reported on Monday came in at 0.4% and so it's likely that the revisions due out next Thursday will push a tick higher. Normally the national estimate follows the individual states but not for the first estimate of the year.

Just before those figures, Germany refreshed industrial production that strongly beat expectations (chart 5). It was up by 1.5% m/m SA in November, tripling consensus expectation, and despite a higher than expected jumping off point as the prior month was revised to a smaller drop of -0.4% m/m instead of -1%. Industrial production offered mild relief in the wake of miserable figures earlier this week on retail sales and factory orders. Still, it's lagging data and the focus is on forward-looking risks.

Gilts Keep Selling Off; Common Drivers With the US

Gilts were selling off again earlier this morning but are a bit more stable now. They've been doing so almost in lock step to the sell-off in US Ts since September. The US 10-year Treasury yield and the 10-year gilt yield are both up by just over 100bps since September. The common threads are supply related to fiscal policy developments and expectations, and inflation concerns. Along with supply, the 10-year UK inflation break-even has increased by about 30bps since September's low. Perhaps Mr. Musk's strident attacks (to put it politely...) on PM Starmer should be equally applied to his Mar-a-Lago buddy.

Chart 3



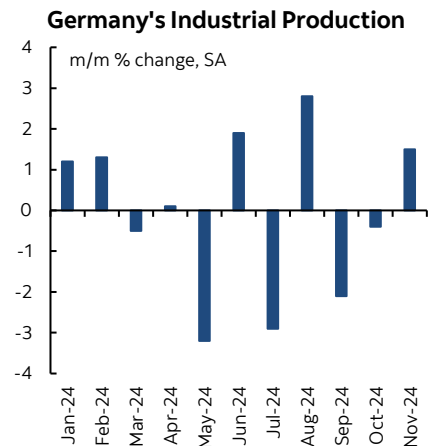
Source: Scotiabank Economics, Ministry of Health, Labour and Welfare, Japan.

Chart 4



Sources: Scotiabank Economics, Ministry of Health, Labor & Welfare.

Chart 5



Sources: Scotiabank Economics, Deutsche Bundesbank

January 9, 2025

Chinese Core CPI Surged Again

China's inflation stats came and went with little fanfare, but should have attracted more attention which I'll explain. CPI was on the screws at 0.1% y/y (0.2% prior) and PPI was close at -2.3% y/y (-2.4% consensus, -2.5% prior). Nevertheless, core inflation at the margin was much warmer and for a second consecutive month. Core CPI was up by 2.5% m/m SAAR after a 2.3% rise the prior month (chart 6). This follows a series of soft readings dating back to March as five of the eight months between March and September were negative. Disinflationary pressures are ebbing at the margin, but with obvious risks overhanging the picture going forward and namely trade tensions.

A\$ Underperforms Despite Mixed Data

Australian data was generally robust, but bonds rallied and the A\$ is underperforming anyway. Retail sales were up 0.8% m/m (1% consensus) for a small miss and with a downtick to the prior month's estimate that is now 0.5% m/m. Still, sales have risen for eight consecutive months. Exports surged by 4.8% m/m for a second straight strong gain alongside a decent import gain (1.7% m/m) which signals domestic strength as a pull effect. Market sentiment is probably continuing to play on the prior day's inflation figures and favourable positioning toward an RBA cut next month.

Mexican CPI Was On the Screws

Monthly Mexican CPI landed on the screws at 0.4% m/m with core also matching expectations at 0.5% m/m. Gosh, what a surprise. Mexican monthly CPI usually offers little intrigue because the country releases bi-weekly figures that offer local forecasters a big running head start for their estimates.

LatAm Developments

This evening we'll get a decision by Peru's central bank and Colombian CPI. BCRP is expected to cut by another 25bps to 4.75% (6pmET) but a significant minority thinks it might whiff. Colombian CPI (6pmET) is expected to be up by 0.4% m/m NSA with core matching in somewhat seasonally normal fashion.

Incongruencies to Trump's Demands on Canada

Trump demands that allies—howsoever he seems to define them—should spend 5% of NGDP on defence. Canada spends about 1¼%. It should spend more and live up to its NATO commitment to spend 2%, maybe a touch more. But 5%? And over what time period?

Someone tell me how you do this when tariffs are crushing the economy and blowing out the deficit. Canada presently spends around C\$40 billion/year on defence. To raise this to 2% using the estimate for 2024 NGDP would equal over \$60B/year if implemented overnight, whereas Canada has pledged to do so only by 2032. If NGDP rises at a trend rate of 4% on average (2% in real terms plus 2% inflation) over the next eight years then the annual defence budget by that point will have to rise to over \$80B to hit the 2% pledge.

If 3% were to be targeted, then it would mean \$90B/year if implemented overnight, or \$125B/year if achieved by 2032. If Trump's 5% demand were to be met, it would mean an astounding \$150B/year spent on defence is implemented overnight versus about \$210B/year if implemented by 2032.

In other words, whether implemented overnight or phased in by 2032, Canada's defence spending over a full decade would have to rise to between \$1.5–2.0 trillion. That in what is presently about a \$3 trillion economy in nominal GDP terms. Not gonna happen.

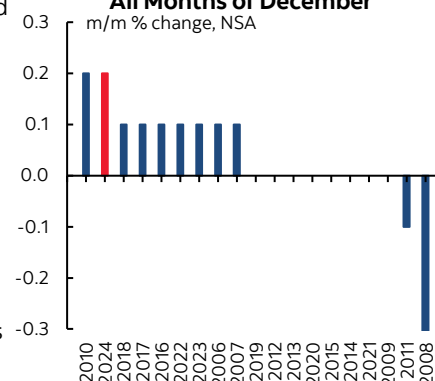
It's especially not going to happen if crushing tariffs are implemented. The deficit would blow out by tens of billions per year as explained in notes over recent months. All hands would be on deck in crisis management mode with no room for defence. In fact, the risk is more pointed toward putting defence on the chopping block in a dire tariff scenario. Jobs over guns.

So, Mr. Trump, your tariff plans would make this hemisphere less safe. Less secure. More vulnerable. I'm reminded of the childhood sketch books that start off with lots of dots that upon connecting together form a bunny rabbit. Please have someone in your incoming administration connect the dots and spot the bunny rabbit!

Or maybe it's a ploy to make Canada's fiscal deficit (just over 1% of NGDP) as bad as America's (>7%). Yet Canada doesn't have America's advantages like reserve currency status that is increasingly abused by the US, and Canadians well remember past episodes when the deficit

Chart 6

Comparing Core China CPI for All Months of December



Sources: Scotiabank Economics, China National Bureau of Statistics.

was blown out and the ensuing painful consequences. I well remember that period because the debt crisis and Quebec referendum unfolded at the start of my career. Canada should retain its AAA rating, its debt advantage, and the benefits that accrue through significantly lower borrowing costs across the curve.

For that matter, in my opinion, I think there are mixed motives for his demands. Canada should indeed live up to its commitments and has been pressured by many of its allies to step up. The issue is how much and at what pace. The world is indeed becoming a more dangerous place. But alongside those considerations is that Mr. Trump would no doubt like to see all other countries buy more stuff from US defence firms and drive growth in the US military-industrial complex. Further, my bias is that it isn't clear that more spending for more toys by everyone the world over makes the world a safer place if it proves too tempting to use them!

Another incongruent aspect of US demands is the quest for more secure access to critical minerals from the select regions of the world that have them—like Canada—while also threatening tariffs. If America is no longer a reliable economic partner to Canada, then it will have to get investment and growth from elsewhere. Seems to me the world could beat a path to Canada's door to make such investments. China is smelling blood in this regard ([here](#)). Ideally that shouldn't mean opening the door to regimes lacking transparency and market driven forces amid competing geopolitical, economic and democratic goals, but necessity and desperation can motivate change. At some point, things begin to get a little more practical in a dollars and sense way. The prime responsibility of a nation's political leaders is to put bread on the table for their constituents. For some reason I've got Johnny Cash's 'Ring of Fire' playing in my head right now....

Think, America, about what you may wind up forcing to unfold on your northern doorstep. Or southern one for that matter if crushing Mexico's economy ironically turns them more toward China. Surely to heaven someone in this incoming administration may begin to see how to connect the dots compared to what is so far a very destabilizing, shoot from the hip and not very well thought out framework. Again, spot the dang bunny!

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.	4.25	4.28	4.24	4.43	4.46	4.37	4.65	4.69	4.56	4.88	4.93	4.78	Canada - BoC	3.25
CANADA	2.92	2.95	2.93	3.02	3.04	2.95	3.32	3.34	3.22	3.43	3.45	3.33		
GERMANY	2.21	2.20	2.10	2.31	2.30	2.17	2.54	2.55	2.38	2.76	2.76	2.62	US - Fed	4.50
JAPAN	0.65	0.65	0.61	0.82	0.81	0.75	1.18	1.18	1.10	2.34	2.34	2.30		
U.K.	4.50	4.52	4.41	4.50	4.52	4.38	4.79	4.80	4.60	5.35	5.36	5.17	England - BoE	4.75
Spreads vs. U.S. (bps):														
CANADA	-133	-134	-131	-141	-142	-142	-133	-135	-134	-145	-148	-145	Euro zone - ECB	3.15
GERMANY	-204	-208	-214	-212	-216	-220	-210	-214	-218	-213	-217	-216	Japan - BoJ	-0.10
JAPAN	-360	-363	-364	-361	-365	-363	-346	-351	-346	-255	-260	-248		
U.K.	24	23	17	7	6	1	14	10	4	47	42	39	Mexico - Banxico	10.00
Equities	Level						% change:							
	Last			Change			1 Day	1-wk	1-mo	1-yr				
S&P/TSX	25052			121.8			0.5	0.6	-2.2	19.5			Australia - RBA	4.35
Dow 30	42635			106.8			0.3	0.2	-3.6	13.1				
S&P 500	5918			9.2			0.2	0.6	-1.9	23.7			New Zealand - RBNZ	4.25
Nasdaq	19479			-10.8			-0.1	0.9	-1.1	30.1				
DAX	20344			14.4			0.1	1.6	-0.0	21.9				
FTSE	8322			70.8			0.9	0.7	-0.4	8.3				
Nikkei	39605			-376.0			-0.9	-1.7	0.6	15.0			Canada - BoC	Jan 29, 2025
Hang Seng	19241			-39.0			-0.2	-1.9	-5.3	19.5			US - Fed	Jan 29, 2025
CAC	7500			47.8			0.6	1.4	0.3	1.0				
Commodities	Level						% change:							
WTI Crude	73.86			0.54			0.7		1.0	8.0		2.2	England - BoE	Feb 06, 2025
Natural Gas	3.73			0.08			2.2		1.9	17.3		17.0		
Gold	2673.76			11.82			0.4		0.6	19.9		31.7	Euro zone - ECB	Jan 30, 2025
Silver	30.14			-0.10			-0.3		4.3	-3.1		31.9	Japan - BoJ	Dec 19, 2024
CRB Index	297.39			-1.89			-0.6		0.2	2.9		12.4		
Currencies	Level						% change:							
USDCAD	1.4400			0.0024			0.2		-0.0	1.6		7.5	Mexico - Banxico	Feb 06, 2025
EURUSD	1.0309			-0.0009			-0.1		0.4	-2.3		-5.7		
USDJPY	157.75			-0.6000			-0.4		0.2	4.3		9.2	Australia - RBA	Feb 17, 2025
AUDUSD	0.6200			-0.0016			-0.3		-0.0	-3.7		-7.3		
GBPUSD	1.2305			-0.0058			-0.5		-0.6	-3.5		-3.2	New Zealand - RBNZ	Feb 18, 2025
USDCHF	0.9114			0.0003			0.0		-0.1	3.7		6.9		

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