

DAILY POINTS

January 17, 2025 @ 7:10 EST

Contributors

Derek Holt

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

Chart 1

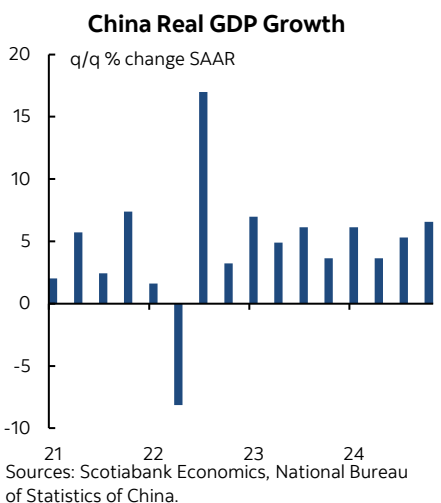


Chart 2



On Deck for Friday, January 17

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	01-17	08:30	International Securities Transactions (C\$ bn)	Nov	--	--	21.5
US	01-17	08:30	Building Permits (000s a.r.)	Dec P	--	1460.0	1493.0
US	01-17	08:30	Housing Starts (000s a.r.)	Dec	1350	1327.0	1289.0
US	01-17	08:30	Housing Starts (m/m)	Dec	4.7	3.0	-1.8
US	01-17	09:15	Capacity Utilization (%)	Dec	77.1	77.0	76.8
US	01-17	09:15	Industrial Production (m/m)	Dec	0.3	0.3	-0.2
US	01-17	16:00	Total Net TIC Flow s (US\$ bn)	Nov	--	--	203.6
US	01-17	16:00	Net Long-term TIC Flow s (US\$ bn)	Nov	--	--	152.3

KEY POINTS:

- **Positive risk appetite awaits week #1 for Trump**
- **China nailed its GDP target which may be tough to believe...**
- **...but it got last minute help from tariff front-running and stimulus...**
- **...while data indicates momentum into trade tensions**
- **UK retail sales offered the latest support for a BoE cut...**
- **...with BoE's Bailey on tap**
- **BoC to offer pandemic-era policy lessons for future crises**
- **Spitballing the BoC's balance sheet and rate risks into trade wars**
- **Quiet US calendar**
- **No inflation risk?? We're here to help Treasury Secretary-designate Bessent**

Risk appetite is on decent footings this morning which puts us on the eve of when the sparks may fly as Trump takes office next week. Equities are broadly higher across N.A. futures and with European cash markets hovering around 1% gains across the bourses. Sovereign bonds have a richening bias led by gilts on more soft data ahead of Bailey's talk. The dollar isn't doing much overall with significant moves confined to some slippage by sterling post-data and the yen. China released some constructive data, if you believe it, ahead of the BoC's policy review and very light US data.

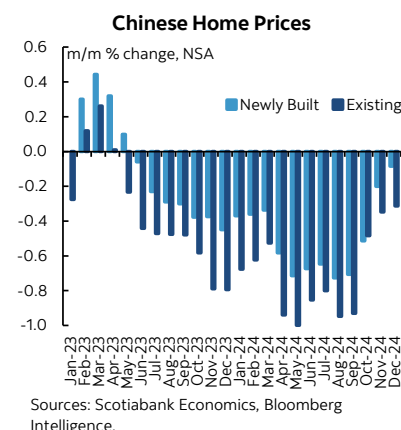
China's Momentum Into Trade Tensions

It's a miracle! Hallelujah! China said GDP growth in 2024 would be 5%, and gosh they're good because GDP growth landed precisely on 5.0%. Pfff. They are the quickest of major economies to release GDP figures, they used to be criticized for never revising them, and now if they do then the revisions are minor, and at a sensitive moment for the outlook China miraculously hit to the decimal point what the administration said they'd hit.

Chart 3



Chart 4



January 17, 2025

Believe it? Up to you. Maybe a combination of stimulus and a rush to get exports out the door before tariffs were behind the Q4 acceleration (chart 1).

Depending on your trust for Chinese macro data, they also reported a more robust than expected end to Q4 which gives momentum in the math for Q1 (charts 2–4). Industrial production was up 6.2% y/y (5.4% consensus). Retail sales were up 3.7% y/y (3.6% consensus). The jobless rate did tick up to 5.1%, and house prices continue to decline with resales down -0.3% m/m and new home prices off by -0.1%.

UK Retail Sales Add to BoE Cut Pricing Ahead of Bailey

UK retail sales sharply missed expectations. They fell -0.6% m/m (+0.3% consensus) and sales ex-gas fell -0.3% m/m (+0.4% consensus). The recent pattern has not been inspiring (chart 5).

So, that was the capper on a week of data that generally supported pricing for a BoE cut on February 6th. Does Governor Bailey agree? Is he ok with the current priced path for 2025 that has just under 75bps of cuts priced? We may find out today, but only after the close when he speaks at 4pmET.

BoC to Offer Pandemic-Era Lessons

The BoC releases its review of pandemic-era policies that promises to “highlight lessons that will shape the Bank’s response in future crises.” The review is done by a panel of independent external experts and includes a response from Governing Council. There will be no presser and the embargo lifts at 11amET.

That was then, this is now. In your inboxes should be a note titled *Spitballing the Evolution of the Bank of Canada’s Balance Sheet and Rate Sensitivities in Trade Wars*. It offers an attempted projection of how the balance sheet is forecast to evolve to 2030 using a combination of assumptions drawn from the BoC’s speech yesterday and my own assumptions. It is an attempt. I’m sure there will be a plethora of surprises along the way, so emphasize some of the broad takeaways more than point estimates. Also included is another reminder that tariffs applied against Canada don’t necessarily mean that the BoC will be cutting. I find that other voices in consensus sound like they’re making the same mistake they made in forecasting the BoC during the pandemic era.

US Quiet

US housing starts (8:30amET) and industrial production (9:15amET) are on tap. There are no material earnings reports out today.

We’re Here to Help Treasury-Designate Bessent

Treasury Secretary-designate Bessent’s testimony yesterday had him offering nuggets on a variety of policy considerations. One that stood out was his point that he can’t think of any Trump policies that would boost prices. We’re here to help.

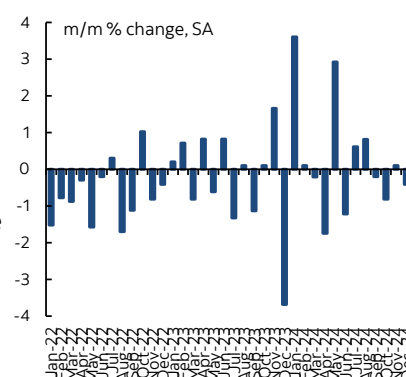
- start with an economy in excess aggregate demand with a positive output gap.
- impose possible tax stimulus.
- fund it via deficits as proportionate spending cuts are extremely unlikely.
- disrupt global supply chains with looney tunes ideas on tariffs and overall trade aggression.
- give the boot to millions of migrant workers.

Nah, can’t possibly imagine any Trump ideas that would boost prices. Now the question is whether Bessent is just delivering political speak, or whether in his mind the chances of doing any/most of that are close to nil, or maybe this is all just because Bessent is not trained and experienced in applied economics like his predecessor. My money’s on #1 and #3.

The likely outcome is that *if* those policy ideas are delivered—which is a very big ‘if’—then the Fed, bonds and FX will probably combine to sterilize it all. They have been already which was a core part of my thesis since last year. Given the Fed’s habit of lagging at every turning point in either direction, however, it’s possible that they (and markets) wind up playing catch-up on a version of the pandemic-era experience. The Fed misread all of inflation’s early warning signs as Chair Powell spoke right through them as it is prone to doing, reacted too late, and boom, had to overtighten.

Chart 5

UK Retail Sales Volumes



Sources: Scotiabank Economics, UK ONS.

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.	4.23	4.23	4.38	4.38	4.40	4.57	4.58	4.61	4.76	4.82	4.86	4.95	Canada - BoC	3.25
CANADA	2.94	2.96	3.07	3.03	3.05	3.16	3.31	3.34	3.44	3.43	3.46	3.53	US - Fed	4.50
GERMANY	2.21	2.23	2.28	2.32	2.35	2.38	2.52	2.55	2.60	2.74	2.78	2.79	England - BoE	4.75
JAPAN	0.69	0.69	0.65	0.87	0.87	0.83	1.20	1.21	1.20	2.29	2.32	2.31		
U.K.	4.33	4.38	4.54	4.35	4.41	4.55	4.62	4.68	4.84	5.17	5.24	5.41		
	Spreads vs. U.S. (bps):													
CANADA	-129	-128	-131	-135	-134	-141	-128	-127	-132	-139	-139	-141	Euro zone - ECB	3.15
GERMANY	-201	-200	-210	-206	-205	-220	-207	-207	-217	-207	-207	-216	Japan - BoJ	-0.10
JAPAN	-354	-354	-373	-351	-352	-375	-338	-341	-356	-253	-253	-264		
U.K.	10	15	16	-3	1	-3	4	7	8	36	39	46	Mexico - Banxico	10.00
Equities	Level						% change:							
	Last	Change			1 Day	1-wk	1-mo	1-yr						
S&P/TSX	24846	56.9			0.2	-0.9	-1.1	20.1					Australia - RBA	4.35
Dow 30	43153	-68.4			-0.2	1.2	-0.7	15.8					New Zealand - RBNZ	4.25
S&P 500	5937	-12.6			-0.2	0.3	-1.9	25.3						
Nasdaq	19338	-172.9			-0.9	-0.7	-3.8	30.2						
DAX	20871	215.7			1.0	3.2	3.1	27.0						
FTSE	8495	103.5			1.2	3.0	3.7	14.1						
Nikkei	38451	-121.1			-0.3	-2.9	-2.3	8.4					Canada - BoC	Jan 29, 2025
Hang Seng	19584	61.2			0.3	2.7	-0.6	28.2					US - Fed	Jan 29, 2025
CAC	7721	86.4			1.1	3.9	4.8	5.5						
Commodities	Level						% change:							
WTI Crude	78.84	0.16			0.2	3.0	12.5	8.7					England - BoE	Feb 06, 2025
Natural Gas	4.10	-0.16			-3.8	2.7	23.8	42.7						
Gold	2710.02	-4.30			-0.2	0.8	21.5	35.1					Euro zone - ECB	Jan 30, 2025
Silver	30.71	0.72			2.4	1.4	0.2	33.2						
CRB Index	311.35	-0.82			-0.3	3.6	7.0	18.4					Japan - BoJ	Dec 19, 2024
Currencies	Level						% change:							
USDCAD	1.4412	0.0017			0.1	-0.1	0.7	6.7					Mexico - Banxico	Feb 06, 2025
EURUSD	1.0301	0.0000			0.0	0.6	-1.8	-5.3						
USDJPY	155.67	0.5100			0.3	-1.3	1.4	5.1					Australia - RBA	Feb 17, 2025
AUDUSD	0.6199	-0.0014			-0.2	0.8	-2.2	-5.4						
GBPUSD	1.2194	-0.0045			-0.4	-0.1	-4.1	-3.8					New Zealand - RBNZ	Feb 18, 2025
USDCHF	0.9118	0.0009			0.1	-0.5	2.1	5.5						

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