

DAILY POINTS

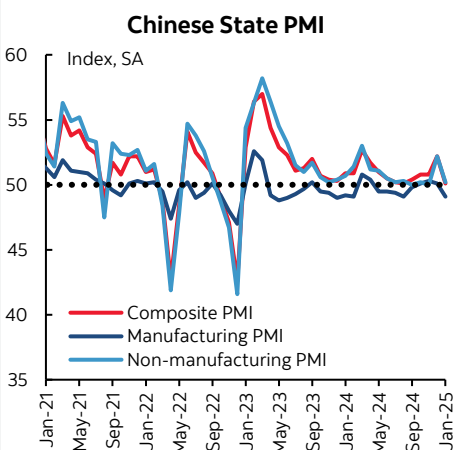
January 27, 2025 @ 7:25 EST

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Chart 1



Sources: Scotiabank Economics, China Federation of Logistics & Purchasing.

On Deck for Monday, January 27

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	01-27	09:00	Building Permits (000s a.r.)	Dec F	--	--	1483.0
US	01-27	10:00	New Home Sales (000s a.r.)	Dec	670	672.0	664.0
US	01-27	10:30	Dallas Fed. Manufacturing Activity	Jan	--	-3.0	3.4

KEY POINTS:

- **US tech stocks slammed by Chinese AI competitor**
- **Some competition for US tech isn't all bad**
- **Other risk drivers may include a packed week ahead, weaker Chinese PMIs**
- **Chinese PMIs weakened amid mixed drivers**
- **German businesses entered the new year a little more confident**
- **Light calendar risk in N.A. session**
- **Global Week Ahead—How Central Banks Confront Tariffs Could Surprise You ([here](#))**

It's an ugly start to a jam-packed week and the main driver is an off-calendar curveball. Stocks are broadly lower with US tech leading the way. S&P futures are down 2½%, Nasdaq futures are off by about 4%, TSX futures are ¾% lower, and stocks in Europe are down by between ¼% and 1¼% in Germany's case. Sovereign bonds are picking up the flow as yields are broadly lower and led by safe haven seeking in US Treasuries that has yields down by 8–11bps in a slight bull flattener. Canadian yields are performing similarly to US Ts. EGBs and gilts are also rallying but underperforming the US. Currency safe havens like the yen and Swiss franc are leading the way.

A CHINESE COMPETITOR TO US AI DOMINANCE ISN'T ALL BAD

The culprits? It could be the weekend narrative about Chinese AI startup DeepSeek that is viewed as an open-source technology competitor to the US tech cos at lower cost and able to run on less advanced chips than ones provided by Nvidia that is tumbling ahead of the open. That is also impacting stocks like Siemens on a similar AI narrative as the biggest downward effect on the DAX.

DeepSeek indicates the vulnerabilities of sky-high US tech valuations that are behind the S&P's 25 times price-to-forward-earnings ratio on a one-year ahead basis, and the Nasdaq's 36 times measure. DeepSeek—backed by Chinese hedge fund High-Flyer—has become the highest-rated free app on Apple's app store, overtaking ChatGPT. Its DeepSeek-V3 model was released on January 10th and is viewed as a direct threat to US AI dominance at a lower cost by using Nvidia's less expensive chips than the ones US tech export controls have restricted. Speaking as an economist amid the market turmoil, I'd say that competition is welcome and both businesses and consumers can benefit from challenging the oligopolistic/monopolistic structure of the biggest US tech cos that have been dominating the market.

Other narratives are likely well behind the DeepSeek one. Risk-off sentiment could also be about apprehension ahead of a key week for developments including several of the 'Magnificent Seven' that are about to release earnings.

OTHER NARRATIVES BEHIND THE SELLOFF

This is also the week when we may find out whether tariffs against Canada, Mexico and China will be imposed by the US on Saturday or whether it's just more hot air. It's also a key week for global central banks from the Fed to the ECB and the BoC plus several regional central banks, as well as top shelf GDP and inflation data.

The weekend spat between the US and Colombia also may have rattled market confidence by demonstrating how vulnerable the tariffs issue is to emotional leaders in both countries. Colombia refused US flights that included returning migrants, the US threatened an immediate 25% tariff on Colombian exports, and some how they figured out a compromise that means no tariffs for now. In the end, Overnight data was mixed and did not seem to sway market reactions upon release.

CHINA'S STATE PMIS WEAKENED AMID MIXED DRIVERS

China's state purchasing managers' indices fell. The composite PMI slipped 2.1 points to 50.1 which is ever so slightly in expansion territory. The non-manufacturing PMI fell by the most (50.2 from 52.2) as the manufacturing PMI fell one point to 49.1. Much of the weakness came through the new orders and new export orders components.

What drove the declines in the Chinese PMIs? There are a lot of strong words being offered, but it's unclear to me. One possibility is that the surge in these readings in December pulled forward activity from January either because they got their tariff front-running out of the way early and/or because they advanced orders ahead of the Lunar New Year. The Spring festival is relatively early this year (this week) and so the world's largest annual migration of workers back to their hometowns occurred earlier this year with the associated business closures. Another possibility is that it reflects apprehension into possibly greater trade conflicts. A third possibility is that since the smoothed trend over recent months has been soft this demonstrates little effectiveness of stimulus to date. I would agree with the latter as falling house prices mean rate cuts may be less effective in a catch-the-falling-knife issue for prospective homebuyers still facing a glut of properties.

OTHER LIGHT DEVELOPMENTS

German IFO business confidence edged a touch higher in January with the composite up 0.4 points to 85.1 and entirely led by a higher current assessment (86.1, 85.1 prior) as expectations slipped two-tenths.

There is very little on tap into the N.A. session with just US new home sales for December due out (10amET) after the Chicago Fed's national activity index for December (8:30amET).

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.	4.18	4.27	4.28	4.32	4.43	4.43	4.52	4.62	4.63	4.76	4.85	4.86	Canada - BoC	3.25
CANADA	2.84	2.91	2.92	2.89	2.98	2.99	3.18	3.28	3.28	3.33	3.42	3.40	US - Fed	4.50
GERMANY	2.23	2.29	2.22	2.32	2.38	2.33	2.51	2.57	2.53	2.73	2.79	2.76	England - BoE	4.75
JAPAN	0.70	0.72	0.68	0.88	0.91	0.86	1.21	1.23	1.20	2.26	2.28	2.28		
U.K.	4.29	4.33	4.38	4.29	4.34	4.39	4.58	4.63	4.66	5.14	5.19	5.21		
	Spreads vs. U.S. (bps):													
CANADA	-134	-135	-136	-143	-144	-144	-133	-135	-135	-143	-143	-146	Euro zone - ECB	3.15
GERMANY	-195	-198	-206	-200	-205	-211	-201	-205	-210	-203	-206	-210	Japan - BoJ	-0.10
JAPAN	-349	-355	-360	-343	-352	-358	-330	-339	-343	-250	-257	-258		
U.K.	11	6	9	-3	-9	-5	6	1	3	38	34	35	Mexico - Banxico	10.00
Equities	Level						% change:							
	Last	Change		1 Day		1-wk		1-mo		1-yr				
S&P/TSX	25468	34.4		0.1		1.6		2.7		20.6		Australia - RBA	4.35	
Dow 30	44424	-140.8		-0.3		2.9		3.3		16.6		New Zealand - RBNZ	4.25	
S&P 500	6101	-17.5		-0.3		2.8		2.2		24.7				
Nasdaq	19954	-99.4		-0.5		3.2		1.2		29.1				
DAX	21165	-230.3		-1.1		0.8		5.9		24.8				
FTSE	8485	-17.4		-0.2		-0.4		4.1		11.1				
Nikkei	39566	-366.2		-0.9		1.7		-1.8		10.7		Canada - BoC	Jan 29, 2025	
Hang Seng	20198	131.6		0.7		1.4		0.5		26.6		US - Fed	Jan 29, 2025	
CAC	7870	-57.7		-0.7		1.8		7.0		3.1				
Commodities	Level						% change:							
WTI Crude	74.08	-0.58		-0.8		-4.9		4.9		-5.0		England - BoE	Feb 06, 2025	
Natural Gas	3.77	-0.26		-6.4		-4.6		7.2		38.9				
Gold	2762.00	-8.59		-0.3		2.0		23.9		36.8		Euro zone - ECB	Jan 30, 2025	
Silver	30.84	0.37		1.2		0.7		4.6		35.4				
CRB Index	309.84	0.48		0.2		-0.5		6.3		13.3		Japan - BoJ	Dec 19, 2024	
Currencies	Level						% change:							
USDCAD	1.4361	0.0020		0.1		0.4		-0.4		7.1		Mexico - Banxico	Feb 06, 2025	
EURUSD	1.0513	0.0016		0.2		0.9		0.8		-3.0				
USDJPY	154.18	-1.8200		-1.2		-0.9		-2.3		4.5		Australia - RBA	Feb 17, 2025	
AUDUSD	0.6301	-0.0013		-0.2		0.4		1.4		-4.7				
GBPUSD	1.2501	0.0017		0.1		1.4		-0.6		-1.6		New Zealand - RBNZ	Feb 18, 2025	
USDCHF	0.8985	-0.0074		-0.8		-0.9		-0.4		4.3				

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