Scotiabank.

GLOBAL ECONOMICS

THE GLOBAL WEEK AHEAD

January 24, 2025

Contributors

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

With thanks for research support from: Jaykumar Parmar.

Next Week's Risk Dashboard

- **Tariffs could arrive at the end of the week**
- **BoC to cut, but there is a case not to…**
- **…and expect a reminder that rates could go up**
- **FOMC to hold fire**
- **ECB to cut amid tariff threats**
- **The significance of Ontario's election call**
- **The stock bump is about earnings, not Trump**
- **Most of the 'Magnificent 7' release earnings this week**
- **Canada's economy may have ended 2024 on a high note**
- **US Q4 GDP to keep pushing economy into excess demand**
- **Mexico's economy may give back some growth**
- **Another subpar quarter for the Eurozone's economy**
- **Fed's preferred inflation gauge was probably subdued**
- **Eurozone core CPI to start the path to the March meeting**
- **Japanese inflation won't determine much**
- **Australian inflation could make or break February cut pricing**
- **Sweden's Riksbank is a close call**
- **BCRP will probably hold**
- **BanRep may cut again**
- **Brazil is hiking toward a new peak**
- **SARB to cut as inflation approaches lower bound**
- **Other global indicators are mostly about the US**

How Central Banks Confront Tariffs Could Surprise You

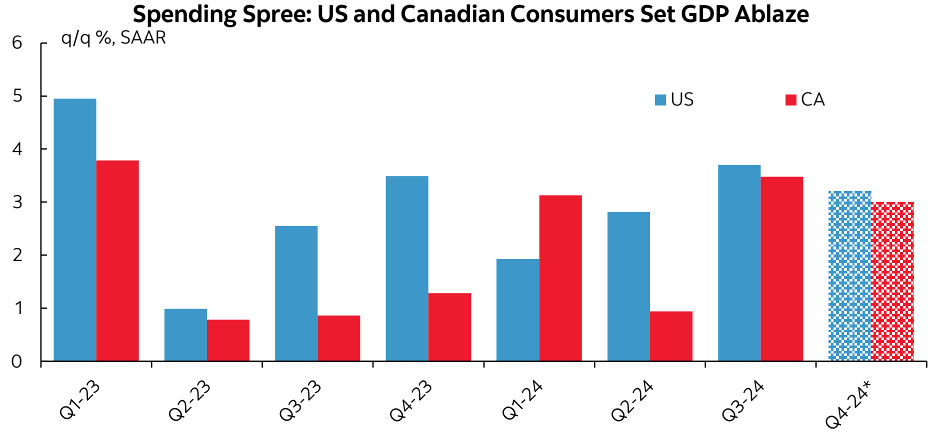
- Introduction 2
- BoC—Yes, Tariffs Mean Rates Could Go Up 2–4
- FOMC—How to Get Lower Rates 4–5
- ECB—Cut and Cross Your Fingers 5
- Riksbank—Might be Done 5
- BCRP—Listen to What they Said 6
- BanRep—Most Expect a Cut 6
- Brazil CB—Toward a New Peak 6
- SARB—Tumbling Inflation 6
- Earnings—The Bump is from Earnings, not Trump 6
- Global Growth—The US Does Not Need Stimulus 7
- Canada—Solid End to the Year? 7
- United States—Q4 to Push US Further Into Excess Demand 7
- Eurozone—Yet Another Subpar Quarter 7
- Mexico—Hard to Repeat 7
- Global Inflation—Informing Next Steps at the Fed, ECB, BoJ and RBA 7–8
- US—Just a Placeholder on the Long Path to the Next FOMC 7
- Eurozone-A Post-Decision Tease 8
- Japan—Onto the Next Meeting! 8–9
- Australia—Could Make or Break a Cut 9
- The Significance of Ontario's Election Call 9
- Other Global Macro—Mostly the US 9–10

FORECASTS & DATA

- Key Indicators A1–A3
- Global Auctions Calendar A4
- Events Calendar A5
- Global Central Bank Watch A6

Chart of the Week

Spending Spree: US and Canadian Consumers Set GDP Ablaze



* Bloomberg consensus and other estimates.
Sources: Scotiabank Economics, BEA, Statistics Canada.

Chart of the Week: Prepared by: Jaykumar Parmar, Economic Analyst.

January 24, 2025

How Central Banks Confront Tariffs Could Surprise You

Welcome to tariff week. Or maybe it's global central bank week. Or growth and inflation week. Or how about earnings week. If you think January has been exhausting—and I have some sympathy for that—then it's not going to release its grip on you just yet as the final week of the month is jam-packed with expected developments. Developments that may fan enormous market volatility.

Eight central banks will weigh in with their first decisions of the new year this week including the Federal Reserve, the ECB, the Bank of Canada, and several regional central banks including in Latin America. I suspect that all the confident voices saying that tariffs must obviously drive the BoC's policy rate lower will end the week less confident. A wave of key GDP and inflation readings also lies ahead. So do earnings reports from several members of the US 'Magnificent Seven.' And we need to appreciate the politically strategic decision to call an Ontario election this week and how it fits into the bigger picture.

And just as the week is ending next Saturday there may be the start of a trade war between the US, Canada, Mexico and China. Trump has threatened to apply tariffs on Canada on Saturday February 1st. Multiple daily and weekly notes have explained the potential consequences and what I think Canada should do in response.

But Trump's most recent claim is that the US doesn't need Canada. Millions of American consumers and businesses who buy Canadian products would beg to differ. Canada has what you need and a little spare capacity to ensure an ability to provide it. Canada's economy has some slack, the US does not. That's hardly the rallying cry for Canadian pride but try replacing what you'd lose from Canada when your economy is running more than full tilt. Canada has the slack—and key products—to feed the beast that is the insatiable appetite for growth in the US economy. Cut off all that you get from Canada including vehicles and parts and a whole host of key commodities including many critical minerals, lumber, and oil, and your supply chains will be in disarray with retaliation (more likely) or without retaliation.

The sun will still rise and set if Trump acts foolishly against Canada (and Mexico), and markets across a whole range of goods and services will still eventually clear—at higher prices. The higher prices for which former President Biden was blamed and Trump portrayed as the fixer.

Naturally, the patriotic 'America First' thing to do be for American companies to hike prices—on their fellow Americans. That's why they're all tripping over themselves to be your Valentine in classic mercantilist fashion that's hardly a surprise to anyone who knows anything about history or who might have heard of a fella named Adam Smith. Consumers might not think likewise. Consumers might not be so forgiving when they get the bill.

BOC—YES, TARIFFS MEAN RATES COULD GO UP

I bet Macklem and Co are just thrilled to have to deliver a monetary policy decision potentially days before tariffs and other policy measures begin to rip and complicate the picture. Then again, maybe they're feeling relieved for selfish reasons in that they can deliver a statement, offer scenarios they've promised, claim that they don't have facts yet on what may change insofar as tariffs are concerned, and not come back until the next decision on March 12th—that is unless emergency circumstances merit an intermeeting move.

The Bank of Canada will probably cut by 25bps on Wednesday. I maintain that I wouldn't, but it would be the easy thing to do given it is priced. I have more of a bone to pick with folks who claim it's obvious that the BoC would be slashing its policy rate in trade wars and I'll focus upon that in a moment.

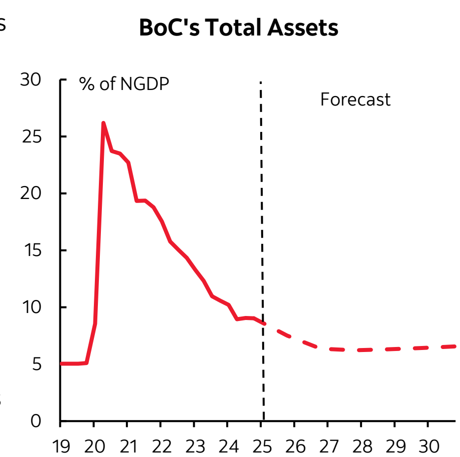
There will be a statement, full Monetary Policy Report including fresh forecasts, and a press conference held by Governor Macklem and SDG Rogers. Customary other appearances in the press will follow.

A 25bps cut would be a step down from the back-to-back 50bps cuts and consistent with Governor Macklem's guidance in December when he said:

> "Going forward, I expect Governing Council will be considering further reductions in the policy rate, but with the policy rate now a lot lower, I anticipate we'll be taking a more gradual approach. That means more gradual than 50bps at the last two meetings. That's a pretty wide zone. That's deliberate. We'll take our decisions one at a time."

It's also possible that we will learn more about plans to end Quantitative Tightening. Deputy Governor Gravelle's recent speech indicated that this would be announced some time over

Chart 1



Sources: Scotiabank Economics, Bank of Canada, Statistics Canada.

2025H1 but would not nail down a meeting. That might suggest a lack of urgency to do so at this meeting. My attempt at providing projections for the BoC's balance sheet were offered **here** and summarized in chart 1.

Key will be the BoC's updated tariff scenarios that were loosely promised when Macklem said in December that they are updating the ones they did in the July 2019 MPR (**here**) the last time Trump was sparking trade mischief. The BoC staffers and Governing Council under former Governor Poloz demonstrated some clairvoyant powers at the time by including as one scenario a 25% tariff imposed by the US on all countries including Canada and a reciprocal 25% retaliation by Canada. Here's what they said:

> "The direct effects of the tariffs on import prices, combined with a weaker Canadian dollar and lower productivity, put temporary upward pressure on inflation. This pressure is only partially offset by weaker aggregate demand. The peak impact on year-over-year consumer price index (CPI) inflation is about 3 percentage points and occurs after about 1 year. Assuming inflation expectations remain anchored at the 2 percent inflation target, inflation returns to 2 percent after about 2 years. If expectations were to follow actual inflation and drift higher, then inflation would persist above the target for longer."

They also acknowledged that the economy would suffer greatly with "an overall decline of about 6 percent in Canadian GDP" as both exports and investment get hit. This is important; the supply side and the demand side suffer.

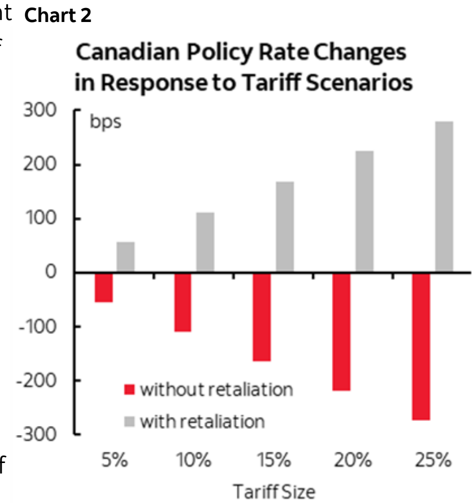
Expect some variation of this to be offered again, along with other upside and downside scenarios. And yet, with Trump threatening a 25% tariff on Canadian imports as soon as three days after the BoC decision, the scenario that will grab the attention is the one noted above.

What we don't know from the BoC's scenario is how their policy rate would respond and hence what is embedded within their scenarios because they don't publish their reaction function. That would be the money question in this week's press conference that could have reporters elbowing and kneeing each other to be first to ask.

But we can form reasonable expectations. The BoC conducts monetary policy over a 12–24 month monetary policy horizon. A surge of inflationary pressure over this period that stems from this trade shock would not be ignored. At a minimum it likely rules out easing as the BoC focuses upon its 2% inflation target. It may—and probably would—come to drive further policy tightening if the assumptions of 25% tariffs on both sides prove to be valid.

Therefore, chief among the risks now are trade wars. Global supply chains remain at only a nascent stage of being revamped while posing structural long-run inflation risk. There is a small amount of excess capacity. Tariffs imposed on Canadian exports with no carve-outs for a meaningful period of time and—this is key—with no retaliation by Canada invite further easing. The economy would be tossed into recession, unemployment would rise, pricing power would be crushed, taking inflation down with it. That's a recipe for combined monetary, fiscal and regulatory easing. The Canadian dollar would tumble. In such a case, the policy rate could easily go below neutral and below anybody's present forecast depending in part on the degree of fiscal easing. This is what I was saying last Fall.

Chart 2



Sources: Scotiabank Economics.

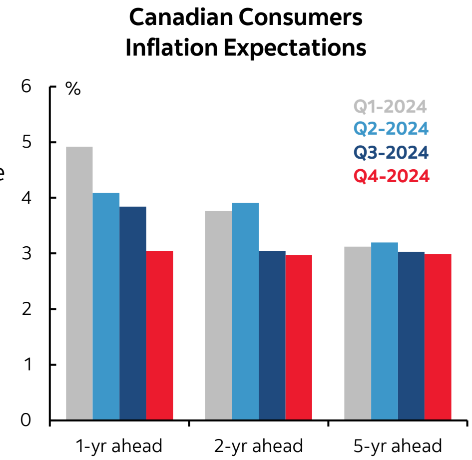
With retaliation? Now that's a different tale and a much bigger threat over time, depending upon the form of retaliation. Import tariffs applied by Canada would raise prices paid by Canadians. A greater tumbling by the currency would add price pressures. Supply chains that are still at a nascent stage of being revamped at home and globally would be severely disrupted in a version of the pandemic. Tariffs rippling through US industry in the context of capacity pressures would result in pass through stateside and create trickle through effects across supply chains into Canada. The outcome would strain the ability of the BoC to achieve 2% inflation, thereby requiring incremental tightening especially with signs core inflation and wages remain hot at the margin (chart 2). Export taxes instead of import tariffs could change the calculus somewhat depending upon what happens with the proceeds.

If trade wars persist for a lengthy period—à la McKinley, or Smoot-Hawley—then it is probably long-term deflationary. Maybe Ben Bernanke can help out Mr. Trump with a lesson on the various factors leading up to the Great Depression. We are assuming that the so-called 'the art of the deal' will settle long before then; hello mid-terms. The intervening path requires the Bank of Canada to maintain maximum optionality.

As for why I wouldn't move this meeting? It's partially because of the uncertainty around the tariff issue. It's also because the BoC's core measures of inflation are too hot to merit adding to the 175bps of easing to date (**here**), the job market is strong and no it's not just the public sector (here), and the consumer is responding to rate cuts (here). Most of the consumption growth in Canada is coming from services that comprise 57% of total consumer spending and autos. Prior arguments about pent-up demand, the lagging effects of immigration into housing markets, massive hoarding of household net worth above trend line projections across all income quintiles, solid job markets, fiscal stimulus and easier mortgage rules all still hold.

And as for how inflation expectations would respond? They're already still at the upper end of the BoC's 1–3% inflation target range (chart 3). With wage growth disconnected from tumbling trend productivity, the combined effects of which pose inflation risk. Consumers don't need additional reasons to up their wage demands relative to their productivity and to increase their inflation expectations, yet tariffs might do just that.

Chart 3



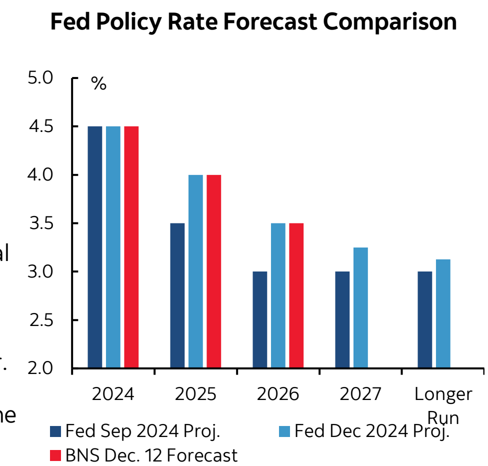
Sources: Scotiabank Economics, Bank of Canada.

FOMC—HOW TO GET LOWER RATES

The Federal Open Market Committee issues its latest decision on Wednesday—hours after the Bank of Canada. This one will just be a statement at 2pmET followed by a press conference at 2:30pmET. The next Summary of Economic Projections including a revised dot plot will arrive with the March 19th communications.

No change is expected. Markets are priced for nothing. They are also priced for very little chance of a rate move at the March meeting against guidance from some Fed officials like Governor Waller to preserve optionality. The next meeting in May only has half of a quarter point cut price. Consensus is unanimous on a hold this time.

Chart 4

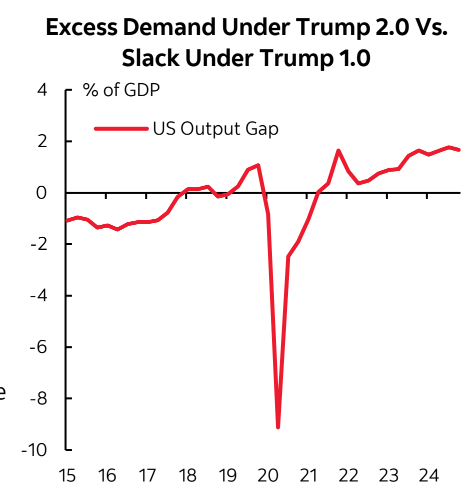


Sources: Scotiabank Economics, Federal Reserve Summary of Economic Proj. (Dec. 18, 2024).

Why? The FOMC delivered a hawkish 25bps cut in December that included language that indicated a preference to take a bit of a breather. The statement replaced "in considering additional adjustments" to the policy rate with "in considering the extent and timing of additional adjustments." A dissenter—Cleveland's Hammack—emerged in favour of a hold. The dot plot slashed projected easing over the forecast horizon (chart 4). Instead of a full percentage point of further easing in 2025, the Committee shifted to half that—across the eight meetings of the year.

It's not just what they're saying, mind you, versus the reasons for saying so. Data has been strong. The US economy will probably post growth closer to 3% q/q SAAR again in Thursday's Q4 figures which could make it three quarters in a row. The string of readings well above estimates of the economy's potential rate of growth is pushing the US economy further and further into excess demand marked by a positive output gap (chart 5). The longer-run correlations between GDP growth and employment growth help to explain resilient hiring with three of the past four months registering payroll gains of over 200k/month. Core inflation has recently softened, but issues with factors like distorted seasonal adjustments require much more evidence especially given excess demand.

Chart 5



Sources: Scotiabank Economics, CBO.

And the FOMC—try as it may to varying degrees while being lectured by the President to cut rates—cannot ignore the elephant in the room. The impact of potential policy shifts by the new US administration could have profound effects on the economy and in a way that challenges the Fed's dual mandate.

On that note, a core part of my thesis for many months has been that Trumponomics 2.0 is behaving like it's still 2016. Back then, the output gap was negative (ie: the US economy had slack). Today it's firmly in excess aggregate demand with a positive output gap. The last thing the US economy needs from an inflation standpoint now is to add stimulus through some combination of fiscal policy and easier regulations, and to boot masses of workers that we're assuming will drive small net shrinkage of the US population each year throughout Trump's presidency. Demand stimulus and supply curtailment do not mix well for an inflation recipe given the starting points.

Imposing tariffs in this environment also maximizes pass through risk into prices. Your competitor in the US who is across the street doesn't have the slack to take market share to restrain price hikes and so consumers are more likely to pay more if the starting point is one of excess demand.

The way that inflation gets thwarted is through market tightening (hello yields and USD) and less Fed easing that stays well above neutral on the policy rate. If Trump wants lower rates, he won't get it by decree and should adjust his policies.

ECB—CUT AND CROSS YOUR FINGERS

It's the guidance and the forecasts that will matter on Thursday morning more than what they actually do that day. The ECB is universally expected to cut its key policy rates by 25bps. That's true of consensus and it is fully priced.

Even traditional hawks are open to the idea of cutting, including Governor Holzmann of Austria's central bank who recently said "I can be persuaded if there are good arguments." President Lagarde recently remarked that "We are on this sort of regular, gradual path" of easing and rejected assertions the ECB is behind the curve.

There is room to ease given Governing Council's confidence it is on track toward achieving 2% inflation in the near term and with the 3% deposit rate about 100bps about a neutral rate estimate.

Two key risks will probably be further informed fairly soon. First is whether Trump carries through on his recent threat to impose tariffs on the EU and how the EU responds. His video appearance at Davos claimed "The European Union is very, very bad to us. So they're going to be in for tariffs." Germany is particularly vulnerable with the biggest export exposure which is why Trump & Co are bashing that economy and its political leaders (chart 6).

No timeline was offered, versus his explicit warning that tariffs would be applied against Canada, Mexico and China on February 1st. We could charitably call it a negotiating tactic, or dismiss it as the usual noise. Either way, the ambiguity could give the ECB room to evaluate at their next meeting on March 6th.

The uncertainty hanging over their updated inflation forecasts will suffer in the meantime. No retaliation, and tariffs against the EU that damage growth would probably be disinflationary with little spillover effect from higher prices in the US through supply chains. That could merit further easing. Retaliate and we enter further uncertainty around degree, how, and for how long, but the effects could raise inflation risk and limit room for further easing.

A second—and nearer term risk—is that the four new wage indicators will be published the following Wednesday. Governing Council will want to see continued progress on slowing wage growth (chart 7).

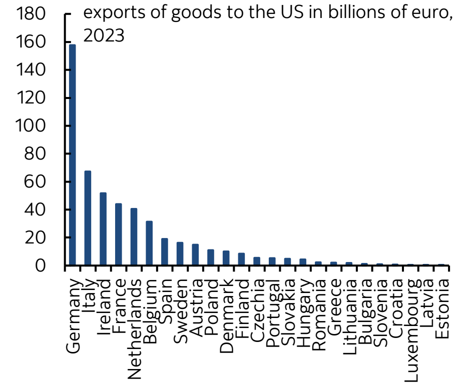
RIKSBANK—MIGHT BE DONE

Sweden's Riksbank is widely expected to reduce its policy rate by 25bps to 2.25% on Wednesday. Markets are mostly priced for a cut, but with significant room for a surprise hold. Inflation earlier this month could support a cut. Headline CPI was 0% m/m (0.2% consensus) and underlying inflation was a tick lower than expected at 0.3% m/m.

Why pause? Forward guidance provided at the last meeting said that if the outlook is realized then "the policy rate may be cut once again during the first half of 2025." There are four meetings over 2025H1. Uncertainty around this was marked by the comment that they will "carefully evaluate the need for future interest rate adjustments" given cuts to date and changes in inflation risk and the broader outlook including "particular uncertainty regarding developments abroad" insofar as geopolitical tensions, trade policy and governmental crises are concerned. The Riksbank's explicit forward rate guidance has one more cut and then holding through to the end of 2027 (chart 8).

Chart 6

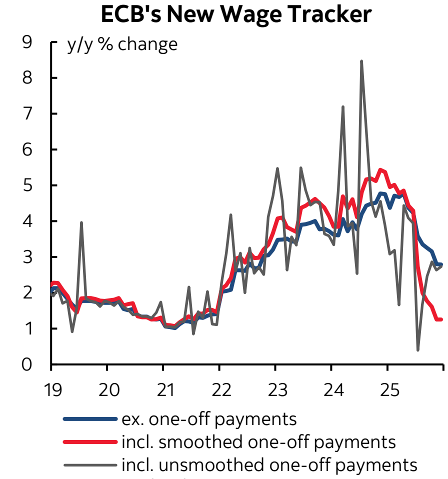
US Tariffs on Eurozone Could Deepen the Wounds of Germany's Fragile Economy



Sources: Scotiabank Economics, European Commission.

Chart 7

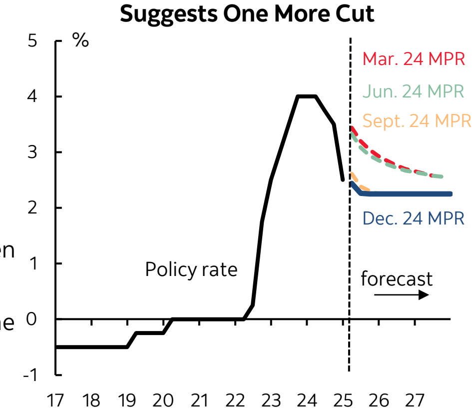
ECB's New Wage Tracker



Sources: Scotiabank Economics, ECB.

Chart 8

Riksbank's Forward Guidance Suggests One More Cut



Sources: Scotiabank Economics, Riksbank.

BCRP—LISTEN TO WHAT THEY SAID

Chile's central bank is unanimously expected to hold its overnight rate at 5% on Tuesday. BCRP said in December in its last statement that "the Board will steadily accumulate information regarding the progress of the economy in order to assess the timing for MPR cuts in the coming quarters" which was a change from previously explicitly saying that "the MPR will see further reductions to meet its neutral level."

BANREP—MOST EXPECT A CUT

Colombia's central bank faces a somewhat mixed consensus. Most expect BanRep to cut by another 25bps on Friday. A minority—including our Bogota-based economist Jackeline Piraján Diaz—think they could whiff and stay at 9.5%. Core inflation continues to decline to just over 5½% y/y but perhaps more significant is that the peso has been appreciating to its firmest level to the dollar since early October which may provide comfort to ease.

BRAZIL CB—TOWARD A NEW PEAK

Consensus unanimously expects Brazil's central bank to hike the Selic Rate by 100bps on Wednesday. That's because the Committee said they'd do it again the last time they hiked by 100bps in December. Recall they said "the Committee anticipates further adjustments of the same magnitude in the next two meetings, if the scenario evolves as expected." If BCB delivers three 100bps hikes in a row then the result by the March meeting will be a Selic rate of 14.25% that would eclipse the peak post-pandemic rate peak and hit the highest since 2016. A chief concern is soaring inflation expectations (chart 9).

SARB—TUMBLING INFLATION

The South African Reserve Bank is widely expected to cut its policy rate by 25bps on Thursday. That would bring cumulative easing that began in September to 75bps from a starting point of 8 ¼%. Inflation is making progress with CPI at 3% y/y and core CPI at 3.6%—both toward the lower bound of the 3–6% target range.

EARNINGS—THE BUMP IS FROM EARNINGS, NOT TRUMP

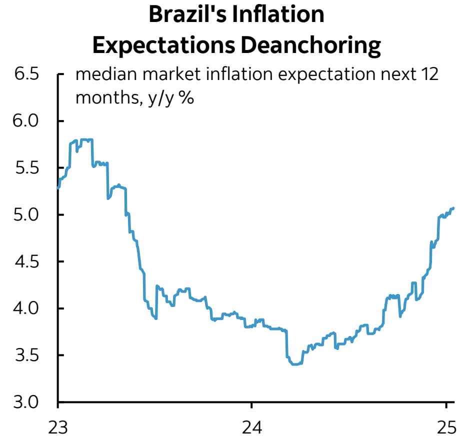
US earnings season swings into high gear. 101 firms will release quarterly earnings throughout the week and the list includes several high impact tech names that account for the bulk of equity returns.

Key names will include Apple, Amazon, Meta Platforms, Microsoft, Intel, GM, Tesla, several energy companies, Visa, Mastercard, Boeing, and Caterpillar.

Chart 10 illustrates the dominance of the so-called 'Magnificent 7' that include Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla. It shows Bloomberg's price return index for the 'magnificent 7' compared to the price return index for the rest of the large cap stocks. Hence, for some time now, index buyers have really been buying the seven best performing stocks that comprise about one-third of the S&P's market capitalization and especially the three highest weighted stocks (Apple, Microsoft, Nvidia) that account for about one-fifth of the index.

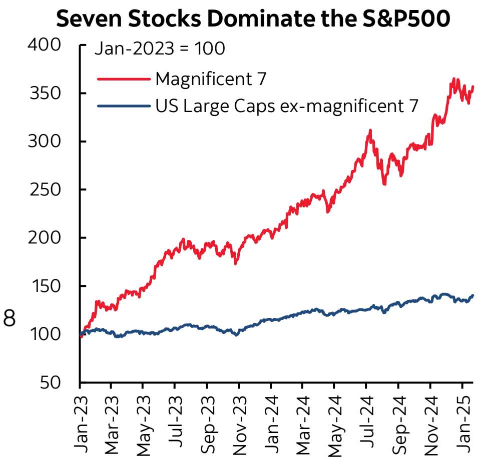
So far, the US earnings season is doing very well and that probably goes a long way to explaining equity resilience versus crediting other factors. The earnings beat ratio stands at about 80% and the revenue beat ratio is at about 55% but it's still early in the season with about 78 firms reporting and heavily slanted toward financials. If the current earnings beat ratio stands through the rest of the season, then it would be among the highest earnings beat ratios on record with the only material exceptions being in the initial stages of the pandemic when analysts were left sticking wet fingers in the air to predict earnings (chart 11).

Chart 9



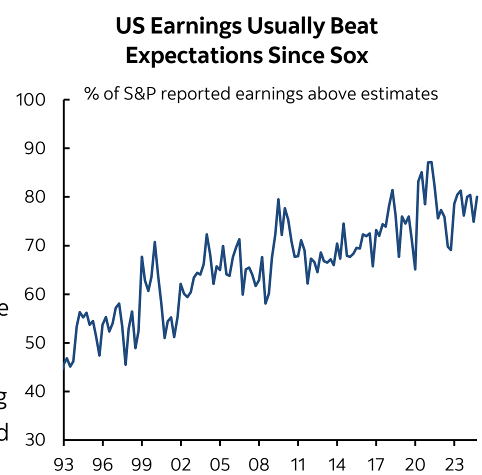
Sources: Scotiabank Economics, Banco Central do Brasil.

Chart 10



Sources: Scotiabank Economics, Bloomberg.

Chart 11



Sources: Scotiabank Economics, Bloomberg.

GLOBAL GROWTH—THE US DOES NOT NEED STIMULUS

A whole mess of countries will refresh GDP growth estimates over the back half of the week. The main ones follow.

Canada—Solid End to the Year?

Canada updates GDP for November and December on Friday. Initial guidance for November was provided back on December 23rd and stated that the economy slipped by -0.1% m/m SA. With indicators since then I figure GDP will be flat. More important may be the preliminary estimate for December that may be strong. Hours worked were up by 0.5% m/m SA in December and since GDP is hours times labour productivity that bodes well for the GDP estimate. Retail sales were also strong on the month as an indication of the consumer's resilience. Q4 GDP growth could be tracking around 2% q/q using monthly GDP accounts and perhaps higher on the conventional expenditure-accounts basis.

United States—Q4 to Push US Further Into Excess Demand

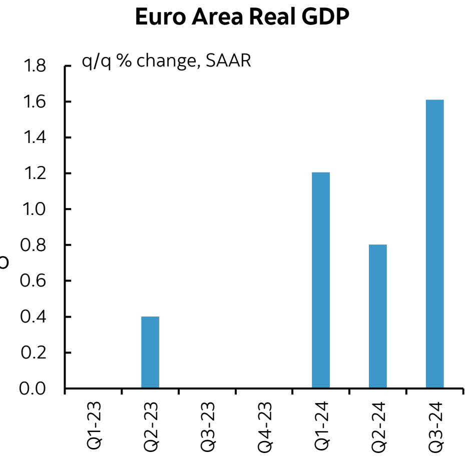
Another quarter of solid US GDP growth is expected on Thursday when Q4 estimates arrive. My estimate is 2.8% q/q SAAR. The Atlanta Federal Reserve's 'nowcast' for growth in Q4 stands at 3%. If it's in that range—and there are significant uncertainties across multiple components such as inventories—then it would be the third straight quarter of growth above estimates for the potential rate of growth. Ergo the US economy continues to push further into excess aggregate demand and capacity constraints as indicated by the output gap.

The implications for inflation and policy risks are significant. An economy in excess aggregate demand does not need fiscal stimulus, does not need monetary easing, and imposing tariffs raises the risk of greater passthrough absent slack in the economy.

Eurozone—Yet Another Subpar Quarter

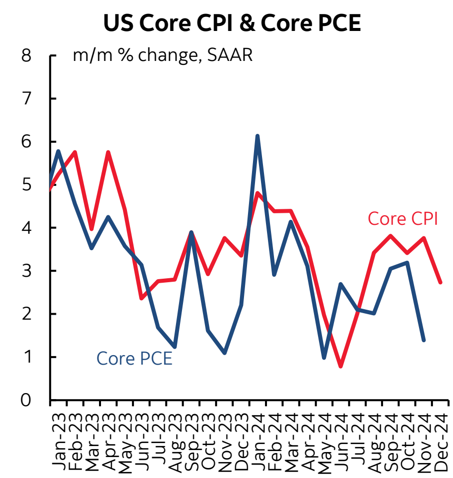
Eurozone Q4 GDP will be released on Thursday. Spain releases the day before and each of Germany, France and Italy release on Thursday morning. Muted growth is expected to be around ¼% q/q SA nonannualized, or up to 1% annualized. That would extend the pattern of subdued growth and underperformance to the US (chart 12).

Chart 12



Sources: Scotiabank Economics, Eurostat.

Chart 13



Sources: Scotiabank Economics, BLS, BEA.

Mexico—Hard to Repeat

Also on Thursday will be Mexico's Q4 GDP estimate. The key here is whether the surge to 1.1% q/q SA nonannualized growth the prior quarter—the strongest since 2022Q1—might set up some payback to end the year as the economy transitions to uncertain trade frictions and domestic policy developments.

GLOBAL INFLATION—INFORMING NEXT STEPS AT THE FED, ECB, BOJ AND RBA

Fresh inflation readings will come from the US, Eurozone and Japan this week. They may partially inform the path to the next distant decisions by their respective central banks in March since they all arrive after the latest decisions.

US—Just a Placeholder on the Long Path to the Next FOMC

Friday's PCE price deflator is the Fed's preferred inflation gauge and December's update lands on Friday. The FOMC will have a good idea of what to expect when it delivers its decision two days before, but there will be one more reading before the next decision and forecasts on March 19th and two more CPI and PPI readings to inform a second PCE reading that arrives after the March FOMC.

Chart 14

US CPI & PCE Weights Comparison

	CPI	CPI m/m % change	PCE	Diff in weight	Diff in m/m % change
Goods					
Durable Goods					
Motor Vehicles & Parts	7.47	0.7	4.19	-3.28	-0.02
Furnishings	4.93	-0.2	2.76	-2.18	0.00
Recreational Goods	2.46	-0.5	3.81	1.35	-0.01
Nondurables					
Clothing & Footwear	3.15	0.1	2.94	-0.20	0.00
Services					
Housing & Utilities					
Rent	9.68	0.3	4.05	-5.62	-0.02
Homeowner Equivalent Rent	33.95	0.3	13.38	-20.57	-0.06
Water & Garbage Collection	1.39	0.1	0.78	-0.60	0.00
Health Care	8.17	0.2	18.91	10.74	0.02
Transportation Services	8.23	0.5	3.63	-4.59	-0.02
Recreation Service	4.06	0.4	4.42	0.36	0.00
Total:				-24.60	-0.10

Sources: Scotiabank Economics, BLS, BEA

My estimates are for PCE to be 0.3% m/m SA and 2.6% y/y (2.4% prior) and for core PCE excluding food and energy to rise by 0.2% m/m SA and an unchanged 2.8% y/y.

There are four ingredients to the estimates. First, we have a bit of a running head start with CPI that was up 0.4% m/m SA and with core up 0.2% m/m SA. Second, core PCE typically rides below core CPI (chart 13). Third, we can convert the CPI outcome to PCE expectations by first calculating the effects of the different basket weights in the two measures; the result in chart 14 nets out to shaving CPI by 0.1% to get a first pass at PCE of 0.3% and to leverage that up for core PCE's different weights to imply a 0.1% core PCE reading. Fourth, the components in the producer price index that are included in PCE are estimated to add back 0.1% m/m SA after generous rounding to headline PCE and closer to +0.1% for core PCE (chart 15).

Chart 15

Category in PCE	Weight	PPI Components for PCE	m/m % change	Contribution to PCE (m/m % change)
Air transportation	0.9	Airline Passenger services	7.2	0.067
Portfolio management & investment advice services	1.5	Portfolio management	0.2	0.003
Outpatient Serv	8.0	Hospital outpatient care	0	0.000
- Physician Services	4.0	Physician care	0.2	0.008
- Home Health Care	0.9	Home health, hospice care	0.2	0.002
Hospital & Nursing Home Serv	8.9	Hospital inpatient care	0	0.000
- Nursing Homes	1.3	Nursing Home care	0.4	0.005
Total	**19.3**			**0.07**

All totalled, CPI of 0.4% and core CPI of 0.2% probably translates into 0.3% for headline PCE and 0.2% for core PCE. There are other methodological differences between the two readings, but this approach gives a fair degree of comfort. Nowcasts such as the Cleveland Fed's also lean in the direction of our estimate.

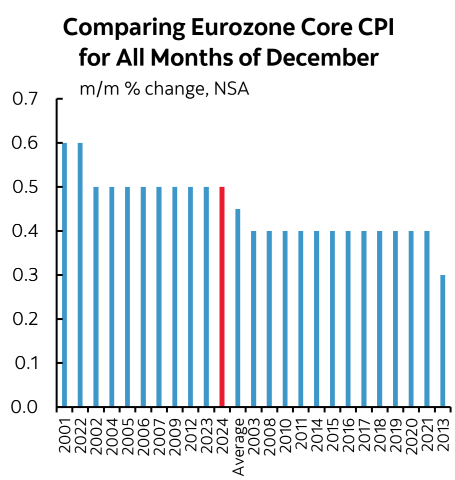
Eurozone—A Post-Decision Tease

Inflation traders will be teased but not fully pleased by Eurozone CPI readings this week. For starters, most of them will arrive after the ECB's decision and therefore serve as more of a footnote to the meeting. For another, the overall Eurozone tally that incorporates all member countries arrives the following Monday.

First up will be Spain a few hours before the ECB's decisions on Thursday morning. France and Germany follow the next day, and then Italy releases the following Monday at the same time as the Eurozone's measure that includes the major states that release in advance and the rest.

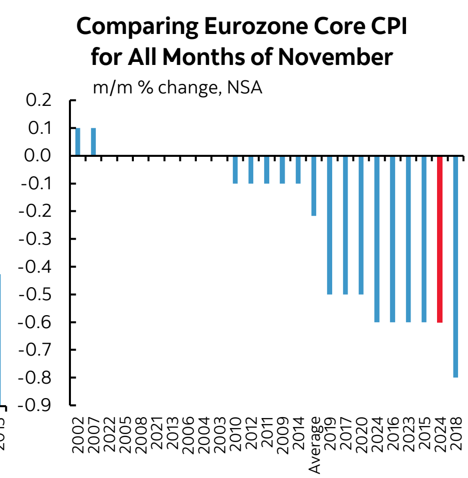
Key will be to watch the core readings and components where available and how they serve as input into core Eurozone CPI. Recent readings have been mixed as December's core CPI rise of 0.5% m/m NSA was a smidge above what is seasonally normal on average (chart 16) and November's was weaker than seasonally normal (chart 17).

Chart 16



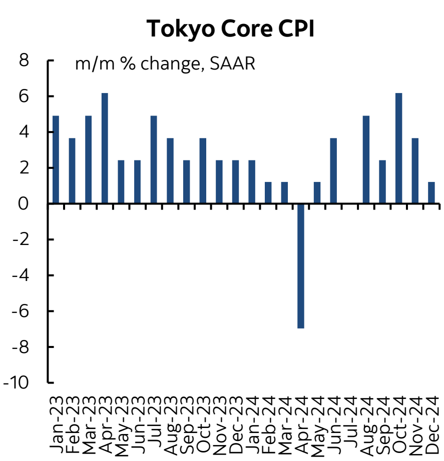
Sources: Scotiabank Economics, Eurostat.

Chart 17



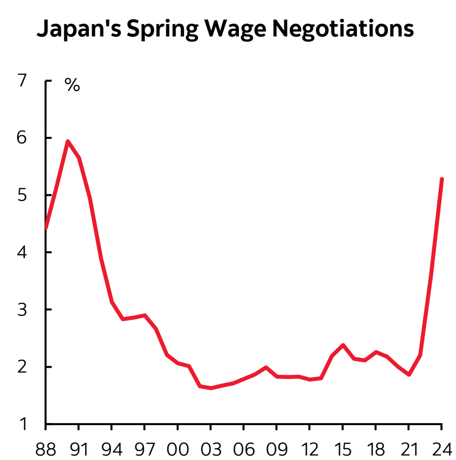
Sources: Scotiabank Economics, Eurostat.

Chart 18



Sources: Scotiabank Economics, Ministry of Internal Affairs and Communications.

Chart 19



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

Japan—Onto the Next Meeting!

So you hiked. Now what? Well, the Bank of Japan's guidance when it raised its target rate by 25bps this past week indicated rising confidence toward achieving its policy goals, that further tightening would be delivered if the outlook was realized, but that next steps would be informed by data and developments. Nothing is presently priced for the March 19th BoJ meeting as markets think some space will be preferred before possibly returning with another cut in the Summer.

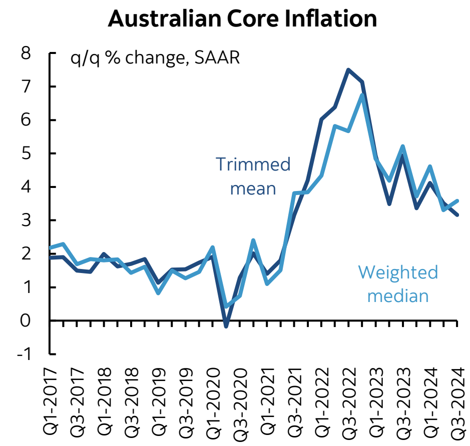
Cue January's Tokyo inflation reading (Thursday). The year-over-year core reading is expected to hang around 2½%, but key will be evidence at the margin. The inflated peak was two months ago and since then the rate has been ebbing (chart 18).

Going forward, achieving the BoJ's upwardly revised inflation projections over the whole forecast horizon will depend upon several factors. One is sustained Shunto spring wage gains into what is expected to be a third buoyant round (chart 19). Another is more evidence of pass through into broader wage pressures since unionized workers account for less than 20% of overall wages. Also important are lagging effects of yen depreciation over recent months, oil prices that have been gently rising of late, and, of course, the prospect of a US-led global trade war.

Australia—Could Make or Break a Cut

Australian core inflation has been ebbing but high frequency measures remain at or above the Reserve Bank of Australia's 2–3% inflation target range (chart 20). Tuesday evening (ET) brings an important update for Q4 ahead of the next RBA decision that isn't due until February 18th. Consensus expects some further progress that could bring the reading into the target bands. If so, then this could reinforce pricing for an RBA cut at the coming meeting that is already almost 80% priced.

Chart 20



Sources: Scotiabank Economics, Australian Bureau of Statistics.

THE SIGNIFICANCE OF ONTARIO'S ELECTION CALL

Ontario Premier Ford is expected to call an election on Wednesday of this week for February 27th given the province's requirement for a 28-day election period. The significance is to clear the decks on election uncertainty in Canada ahead of dealing with US trade aggression.

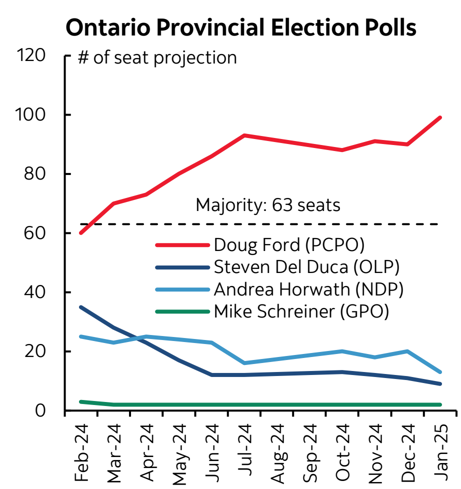
I don't blame him for doing so. Capitalize on his polling (chart 21) amid low voter familiarity with the opposition in order to secure another 4-year mandate ahead of whatever mess is coming Ontario's way with the protectionist US administration.

So that would mean fresh mandates for Canadian governments to ride out through the US 2026 mid-terms while dealing with trade talks. The political cycle favours more patience through negotiations in Canada. A federal election in May and Ontario's election in a month's time from now then wouldn't be followed by elections in the larger provinces until Quebec (October 2026), BC (probably 2028) and Alberta (probably 2027).

The significance is that key Canadian governments face later electoral cycle risks than the US into the campaigning toward the November 2026 midterm elections that will likely begin in greater earnest early next year. Dig in, accept the shorter-term costs to resisting a bad deal you could be stuck with for years or possibly decades and let the US administration be the first to explain the consequences to voters should the result be some combination of inflation, lost jobs, cancelled shifts and plant closures across key states that trade a lot with Canada.

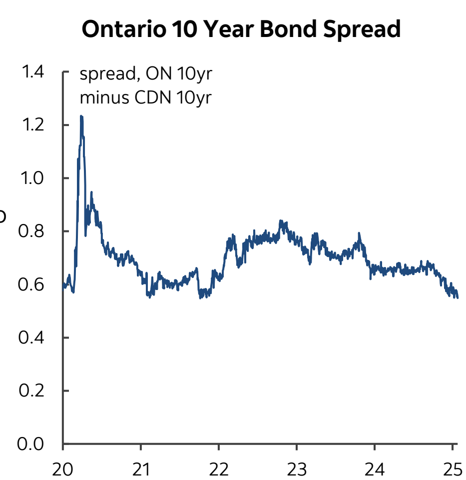
Having said that, market participants will also need to be mindful toward the risks trade tensions bring to fiscal balances, debt issuance, and the province's attractive debt spreads (chart 22).

Chart 21



Sources: Scotiabank Economics, 338canada.com

Chart 22



Sources: Scotiabank Economics, Bloomberg.

OTHER GLOBAL MACRO—MOSTLY THE US

Chart 23 summarizes what hasn't been covered so far. Most of it is dominated by other US macro releases and Japan's monthly data dump on Thursday evening (ET). Key will be the Q4 Employment Cost Index, consumer confidence, and how Q4 ended with December's consumer spending figures that capture the holiday season.

On the US list are the following in chronological order:

- New home sales (Monday): December's reading will probably post a modest gain given evidence such as a gently rising trend in model home foot traffic. One key may be whether new homebuyers in the US may buy pre-emptively to get ahead of potential tariffs that may sharply raise the cost of imported content like lumber.

- Durable goods orders (Tuesday): Boeing orders secured 142 plane orders in December versus 49 the prior month. That rise might be enough to drive a solid gain in total orders for durable goods with economic lives of three years or more. More important may be core capital goods orders ex-defence and air that have posted no trend growth over much of the past three years (chart 24).
- Consumer confidence (Tuesday): Confidence suffered a setback in December against an otherwise rising trend in October and November. Spin the wheel on this humbling gauge, but I'll be interested to see how the words perform during a month that has seen developments like a mild drop in the 30-year fixed mortgage rate versus highest gasoline prices. More interesting will be to see how actions line up with the sentiment.
- Repeat-sale home prices (Tuesday): With the S&P/Case-Shiller gauge extent the streak of monthly gauges to 22 in a row in November's reading? The pace is slowing to around the 4% y/y range.
- Pending home sales (Thursday): If rising mortgage rates have hurt home sales then someone should tell the folks who tally this measure. December's reading might be the beginning of a softening trend, or later. It's the leading indicator for completed existing home sales that lag by 30–90 days.
- Employment Cost Index (Friday): A pick-up back to a 1% q/q SA rise could follow firmer average hourly earnings growth during Q4. IF so, then it would reverse the mild improvements over the prior couple of quarters and add to the market's assessment of evolving US inflation risk.
- Personal incomes and spending (Friday): What we already know by way of the 0.7% m/m SA rise in the retail sales control group during December should—given it serves as input—held to drive a solid ½% m/m SA rise in nominal consumer spending and a mild gain in inflation-adjusted spending. That might be enough to clock another quarter of around 3% q/q SAAR consumption growth but we'll find that out the day before in the GDP accounts.

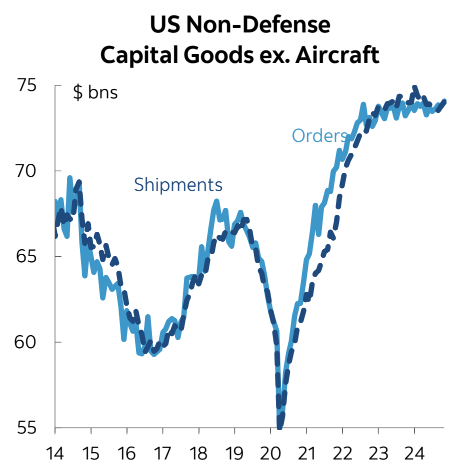
Chart 23

Other Global Macro Indicators (January 27th - January 31st)

US	CA	CPI	Other Macro
		Monday	
New Home Sales			MX Trade
Buildng Permits			GE IFO Survey, Retail Sales
Dallas Fed. Manf. Activity			
		Tuesday	
Durable Goods Orders		AU	SP UR
S&P Home Price Index			IR GDP
Consumer Confidence Index			
Richmond Fed. Manf. Index			
		Wednesday	
MBA Mortgage App.			MX Unemployment Rate
Wholesale Inventories			SP GDP
			JN Consumer Confidence
		Thursday	
GDP		SP	MX GDP
Claims		Tokyo	FR Consumer spending, GDP
Pending Home Sales			GE GDP
			IT GDP
			EC Economic Confidence, GDP, IP, UR
			UK Nationwide House Prices
			JN Jobless Rate, Retail Trade
			CH Pvt. PMI
		Friday	
Employment Cost Index	GDP	FR	CL IP, Retail Sales, UR
PCE		GE	CO UR
Personal Spending & Income			GE UR

Sources: Scotiabank Economics, Bloomberg.

Chart 24



Sources: Scotiabank Economics, US Census Bureau.

Key Indicators for the week of January 27 – 31

NORTH AMERICA

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
MX	01-27	07:00	Trade Balance (US$ mn)	Dec	--	3494.0	-133.0
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	670.0	664.0
US	01-27	10:30	Dallas Fed. Manufacturing Activity	Jan	--	--	3.4
US	01-28	08:30	Durable Goods Orders (m/m)	Dec P	1.0	0.8	-1.2
US	01-28	08:30	Durable Goods Orders ex. Trans. (m/m)	Dec P	0.3	0.4	-0.2
US	01-28	09:00	S&P/Case-Shiller Home Price Index (m/m)	Nov	0.3	0.3	0.3
US	01-28	09:00	S&P/Case-Shiller Home Price Index (y/y)	Nov	4.5	--	4.2
US	01-28	10:00	Consumer Confidence Index	Jan	105.5	105.6	104.7
US	01-28	10:00	Richmond Fed Manufacturing Index	Jan	--	--	-10.0
MX	01-29	07:00	Unemployment Rate (%)	Dec	--	--	2.6
US	01-29	07:00	MBA Mortgage Applications (w/w)	Jan 24	--	--	0.1
US	01-29	08:30	Wholesale Inventories (m/m)	Dec P	--	--	-0.2
CA	**01-29**	**09:45**	**BoC Interest Rate Announcement (%)**	**Jan 29**	**3.00**	**3.00**	**3.25**
US	**01-29**	**14:00**	**FOMC Interest Rate Meeting (%)**	**Jan 29**	**4.50**	**4.50**	**4.50**
MX	01-30	07:00	GDP (q/q)	4Q P	--	-0.1	1.1
MX	01-30	07:00	GDP (y/y)	4Q P	--	1.1	1.7
US	01-30	08:30	GDP (q/q a.r.)	4Q A	2.8	2.6	3.1
US	01-30	08:30	GDP Deflator (q/q a.r.)	4Q A	--	2.5	1.9
US	01-30	08:30	Initial Jobless Claims (000s)	Jan 25	225	--	223.0
US	01-30	08:30	Continuing Claims (000s)	Jan 18	1920	--	1899.0
US	01-30	10:00	Pending Home Sales (m/m)	Dec	--	-1.0	2.2
CA	01-31	08:30	Real GDP (m/m)	Nov	0.0	-0.1	0.3
US	01-31	08:30	Employment Cost Index (q/q)	4Q	1.0	1.0	0.8
US	01-31	08:30	PCE Deflator (m/m)	Dec	0.3	0.3	0.1
US	01-31	08:30	PCE Deflator (y/y)	Dec	2.6	2.5	2.4
US	01-31	08:30	PCE ex. Food & Energy (m/m)	Dec	0.2	0.2	0.1
US	01-31	08:30	PCE ex. Food & Energy (y/y)	Dec	2.8	2.8	2.8
US	01-31	08:30	Personal Spending (m/m)	Dec	0.5	0.5	0.4
US	01-31	08:30	Personal Income (m/m)	Dec	0.4	0.4	0.3
US	01-31	09:45	Chicago PMI	Jan	--	39.7	36.9

EUROPE

Country	Date	Time	Indicator	Period	Consensus	Latest
GE	01-27	03:00	Retail Sales (m/m)	Dec	0.1	-0.1
GE	01-27	04:00	IFO Business Climate Survey	Jan	84.8	84.7
GE	01-27	04:00	IFO Current Assessment Survey	Jan	85.4	85.1
GE	01-27	04:00	IFO Expectations Survey	Jan	85.0	84.4
SP	01-28	03:00	Unemployment Rate (%)	4Q	11.1	11.2
IR	01-28	06:00	Real GDP (q/q)	4Q P	--	3.5
SP	01-29	03:00	Real GDP (q/q)	4Q P	0.6	0.8
SW	**01-29**	**03:30**	**Riksbank Interest Rate (%)**	**Jan 29**	**2.3**	**2.50**
FR	01-30	01:30	Consumer Spending (m/m)	Dec	0.2	0.3
FR	01-30	01:30	GDP (q/q)	4Q P	0.0	0.4
GE	01-30	02:00	Real GDP (q/q)	4Q P	-0.1	0.1
SP	01-30	03:00	CPI (m/m)	Jan P	0.1	0.5
SP	01-30	03:00	CPI (y/y)	Jan P	2.9	2.8
SP	01-30	03:00	CPI - EU Harmonized (m/m)	Jan P	-0.2	0.4
SP	01-30	03:00	CPI - EU Harmonized (y/y)	Jan P	2.8	2.8
IT	01-30	04:00	Real GDP (q/q)	4Q P	0.1	0.0
UK	01-30	04:00	Nationwide House Prices (m/m)	Jan	0.3	0.7
PO	01-30	04:30	Real GDP (q/q)	4Q P	--	0.20
UK	01-30	04:30	Net Consumer Credit (£ bn)	Dec	1.0	0.9

Forecasts at time of publication.
Sources: Bloomberg, Scotiabank Economics.

Key Indicators for the week of January 27 – 31

EUROPE *(continued from previous page)*

Country	Date	Time	Indicator	Period	Consensus	Latest
EC	01-30	05:00	Economic Confidence	Jan	94.2	93.7
EC	01-30	05:00	GDP (q/q)	4Q A	0.1	0.4
EC	01-30	05:00	Industrial Confidence	Jan	-13.7	-14.1
EC	01-30	05:00	Unemployment Rate (%)	Dec	6.3	6.3
EC	**01-30**	**08:15**	**ECB Main Refinancing Rate (%)**	**Jan 30**	**2.90**	**3.15**
FR	01-31	02:45	CPI (m/m)	Jan P	0.0	0.2
FR	01-31	02:45	CPI (y/y)	Jan P	1.5	1.3
FR	01-31	02:45	CPI - EU Harmonized (m/m)	Jan P	0.0	0.2
FR	01-31	02:45	CPI - EU Harmonized (y/y)	Jan P	1.9	1.8
FR	01-31	02:45	Producer Prices (m/m)	Dec	--	3.2
SP	01-31	03:00	Real Retail Sales (y/y)	Dec	--	2.0
GE	01-31	03:55	Unemployment (000s)	Jan	15.0	10.0
GE	01-31	03:55	Unemployment Rate (%)	Jan	6.2	6.1
SP	01-31	04:00	Current Account (€ bn)	Nov	--	4.9
GE	01-31	08:00	CPI (m/m)	Jan P	0.1	0.5
GE	01-31	08:00	CPI (y/y)	Jan P	2.6	2.6
GE	01-31	08:00	CPI - EU Harmonized (m/m)	Jan P	-0.2	0.7
GE	01-31	08:00	CPI - EU Harmonized (y/y)	Jan P	2.8	2.8

ASIA PACIFIC

Country	Date	Time	Indicator	Period	Consensus	Latest
CH	01-26	20:30	Industrial Profits YTD (y/y)	Dec	--	-7.3
CH	01-26	20:30	Manufacturing PMI	Jan	50.1	50.1
CH	01-26	20:30	Non-manufacturing PMI	Jan	52.2	52.2
SI	01-26	21:30	Unemployment Rate (%)	Dec	--	1.9
JN	01-27	00:00	Coincident Index CI	Nov F	--	115.3
JN	01-27	00:00	Leading Index CI	Nov F	--	107.0
JN	01-27	00:00	New Composite Leading Economic Index	Nov F	--	107.0
HK	01-27	03:30	Exports (y/y)	Dec	1.7	2.1
HK	01-27	03:30	Imports (y/y)	Dec	--	5.7
HK	01-27	03:30	Trade Balance (HKD bn)	Dec	-54.9	-43.4
JN	01-28	01:00	Machine Tool Orders (y/y)	Dec F	--	11.2
AU	01-28	19:30	Consumer Prices (y/y)	4Q	2.5	2.8
AU	01-28	19:30	Consumer Prices (q/q)	4Q	0.3	0.2
JN	01-29	00:00	Consumer Confidence	Jan	36.5	36.2
NZ	01-29	16:45	Trade Balance (NZD mn)	Dec	--	-437.5
NZ	01-29	16:45	Exports (NZD bn)	Dec	--	6478.1
NZ	01-29	16:45	Imports (NZD bn)	Dec	--	6915.6
PH	01-29	21:00	Real GDP (q/q)	4Q	2.0	1.7
PH	01-29	21:00	Real GDP (y/y)	4Q	5.6	5.2
PH	01-29	21:00	Annual GDP (y/y)	2024	5.8	5.5
NZ	01-30	16:00	ANZ Consumer Confidence Index	Jan	--	100.2
JN	01-30	18:30	Jobless Rate (%)	Dec	2.5	2.5
JN	01-30	18:30	Tokyo CPI (y/y)	Jan	3.0	3.1
JN	01-30	18:50	Large Retailers' Sales (y/y)	Dec	--	3.5
JN	01-30	18:50	Retail Trade (m/m)	Dec	-0.1	1.9
JN	01-30	18:50	Retail Trade (y/y)	Dec	3.5	2.8
AU	01-30	19:30	Private Sector Credit (m/m)	Dec	0.5	0.5
AU	01-30	19:30	Private Sector Credit (y/y)	Dec	--	6.2
AU	01-30	19:30	Producer Price Index (q/q)	4Q	--	1.0
AU	01-30	19:30	Producer Price Index (y/y)	4Q	--	3.9
PH	01-30	20:00	Bank Lending (y/y)	Dec	--	9.0

Forecasts at time of publication.
Sources: Bloomberg, Scotiabank Economics.

Key Indicators for the week of January 27 – 31

ASIA PACIFIC *(continued from previous page)*

Country	Date	Time	Indicator	Period	Consensus	Latest
CH	01-30	20:45	Caixin Flash China Manufacturing PMI	Jan	50.6	50.5
CH	01-30	20:45	Caixin Manufacturing PMI	Jan	50.6	50.5
JN	01-31	00:00	Housing Starts (y/y)	Dec	-3.9	-1.8
TH	01-31	02:30	Exports (y/y)	Dec	--	9.1
TH	01-31	02:30	Imports (y/y)	Dec	--	2.3
TH	01-31	02:30	Trade Balance (US$ mn)	Dec	--	2023.0
TH	01-31	02:30	Current Account Balance (US$ mn)	Dec	1800.0	2034.0
SK	01-31	19:00	Exports (y/y)	Jan	-11.3	6.6
SK	01-31	19:00	Imports (y/y)	Jan	-10.4	3.3
SK	01-31	19:00	Trade Balance (US$ mn)	Jan	-1065.0	6492.0

LATIN AMERICA

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CL	**01-28**	**16:00**	**Nominal Overnight Rate Target (%)**	**Jan 28**	**5.00**	**5.00**	**5.00**
BZ	**01-29**	**16:30**	**SELIC Target Rate (%)**	**Jan 29**	**13.25**	**13.25**	**12.25**
CL	01-31	07:00	Industrial Production (y/y)	Dec	--	--	0.6
CL	01-31	07:00	Retail Sales (y/y)	Dec	--	5.5	5.7
CL	01-31	07:00	Unemployment Rate (%)	Dec	--	--	8.2
CO	01-31	10:00	Urban Unemployment Rate (%)	Dec	--	9.0	8.0
CO	**01-31**	**13:00**	**Overnight Lending Rate (%)**	**Jan 31**	**9.50**	**9.25**	**9.50**

Forecasts at time of publication.
Sources: Bloomberg, Scotiabank Economics.

Global Auctions for the week of January 27 – 31

NORTH AMERICA

Country	Date	Time	Event
US	01-27	11:30	U.S. To Sell USD69 Bln 2-Year Notes
US	01-27	13:00	U.S. To Sell USD70 Bln 5-Year Notes
US	01-28	11:30	U.S. To Sell USD30 Bln 2-Year FRN
US	01-28	13:00	U.S. To Sell USD44 Bln 7-Year Notes

EUROPE

Country	Date	Time	Event
EC	01-27	05:30	EU to Sell Bonds
NE	01-28	04:00	Netherlands to Sell Up to EU2.5B of 2.5% 2030 Bonds
IT	01-28	05:00	Italy to Sell Up to EU3 Billion of 2.55% 2027 Bonds
GE	01-28	05:30	Germany to Sell EU5 Billion of 2027 Bonds
UK	01-29	05:00	U.K. to Sell GBP3 Billion of 0.875% 2033 Bonds
NO	01-29	05:00	Norway to Sell Bonds
SW	01-29	05:00	Sweden to Sell Bonds
GE	01-29	05:30	Germany to Sell EU4.5 Billion of 2.5% 2035 Bonds

ASIA PACIFIC

Country	Date	Time	Event
SK	01-26	20:10	Bank of Korea to Sell 1 Trillion Won 91-Day Bonds
AU	01-27	19:00	Australia to Sell A$300 Million 4.75% 2054 Bonds
JN	01-28	22:35	Japan to Sell 5-Year Climate Transition Bonds
AU	01-30	19:00	Australia to Sell A$800 Million 2.5% 2030 Bonds
JN	01-30	22:35	Japan to Sell 2-Year Bonds

LATIN AMERICA

Country	Date	Time	Event
No Scheduled Auctions			

Sources: Bloomberg, Scotiabank Economics.

Events for the week of January 27 – 31

NORTH AMERICA

Country	Date	Time	Event
CA	**01-29**	**09:45**	**Bank of Canada Rate Decision**
US	**01-29**	**14:00**	**FOMC Rate Decision (Upper Bound)**
US	01-31	08:30	Fed's Bowman Speaks on Economy, Banks

EUROPE

Country	Date	Time	Event
HU	01-27		Orban, Lagarde, Holzmann, Kazimir, Vujcic at Hungary Event
SW	01-28	03:00	Riksbank monetary policy meeting
EC	01-28	04:00	ECB Bank Lending Survey
EC	01-28	04:30	ECB's Villeroy speaks in Paris
SW	**01-29**	**03:30**	**Riksbank Policy Rate**
SW	01-30	03:20	Riksbank's Breman Speaks on Monetary Policy
EC	**01-30**	**08:15**	**ECB Deposit Facility Rate**
EC	**01-30**	**08:15**	**ECB Main Refinancing Rate**
EC	**01-30**	**08:15**	**ECB Marginal Lending Facility**
EC	01-30	08:45	ECB President Christine Lagarde Holds Press Conference
EC	01-31	04:00	ECB Survey of Professional Forecasters
EC	01-31	04:00	ECB 3 Year CPI Expectations
EC	01-31	04:00	ECB 1 Year CPI Expectations
SW	01-31	06:30	Riksbank's Jansson Speaks on Monetary Policy

ASIA PACIFIC

Country	Date	Time	Event
PK	**01-26**	**00:00**	**SBP Rate Decision (Target)**
NZ	01-28	17:00	RBNZ Chief Economist Conway Speaks
JN	01-28	18:50	BOJ Minutes of Dec. Meeting
SL	**01-28**	**21:00**	**CBSL Overnight Policy Rate**
AU	01-29	22:20	RBA's Jones-Fireside Chat
JN	01-30	01:10	BOJ Deputy Governor Himino Speech at Hitotsubashi Univ.

LATIN AMERICA

Country	Date	Time	Event
CL	**01-28**	**16:00**	**Overnight Rate Target**
BZ	**01-29**	**16:30**	**Selic Rate**
CO	**01-31**	**13:00**	**Overnight Lending Rate**
DR	**01-31**		**Overnight Rate**

Sources: Bloomberg, Scotiabank Economics.

January 24, 2025

Global Central Bank Watch

NORTH AMERICA

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Canada – Overnight Target Rate	3.25	January 29, 2025	3.00	3.00
Federal Reserve – Federal Funds Target Rate	4.50	January 29, 2025	4.50	4.50
Banco de México – Overnight Rate	10.00	February 6, 2025	9.75	9.75

Bank of Canada (BoC): The Bank of Canada is expected to cut its overnight target rate by 25 basis points on Wednesday at 9:45 AM EST, followed by a press conference at 10:30 AM EST. Additionally, an updated monetary policy report will be published, featuring revised projections. Key aspects to watch will be how the bank assesses the impact of tariffs on the economy and its monetary policy, as well as their analysis of various scenarios. **Federal Reserve (Fed):** The Federal Reserve is expected to hold its federal funds rate at 4.50% on Wednesday at 2pm EST. The bank will release an updated statement at 2pm, followed by Chair Powell's press conference at 2:30pm. Key points to watch include the bank's views on the resilient U.S. economy operating under excess demand with strong household consumption, plus persistent wage and inflation pressures. Additionally, it will be important to see if Powell's comments on the potential impact of proposed tariffs.

EUROPE

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
European Central Bank – Refinancing Rate	3.15	January 30, 2025	2.90	2.90
European Central Bank – Marginal Lending Facility Rate	3.40	January 30, 2025	3.15	3.15
European Central Bank – Deposit Facility Rate	3.00	January 30, 2025	2.75	2.75
Bank of England – Bank Rate	4.75	February 6, 2025	4.50	4.50
Swiss National Bank – Sight Deposit Rate	0.50	March 20, 2025	0.25	0.25
Central Bank of Russia – One-Week Auction Rate	21.00	February 14, 2025	21.00	21.00
Sweden Riksbank – Repo Rate	2.50	January 29, 2025	2.25	2.25
Norges Bank – Deposit Rate	4.50	March 27, 2025	4.50	4.50
Central Bank of Turkey – Benchmark Repo Rate	45.00	March 6, 2025	43.50	43.50

European Central Bank (ECB): The European Central Bank (ECB) is unanimously expected to cut its policy rate for the fifth time on Thursday. Consensus anticipates a 25 basis points reduction, considering the disinflation process is on track. Q4 economic growth, which will be published on the same day, is projected to demonstrate sluggish growth. Although service inflation remains sticky at 4% year-over-year, it is slowing down at the margin. Wages are also expected to decelerate in 2025 compared to elevated levels in 2024, peaking in Q4, based on the December 18th report where the ECB published new wage tracker indicators. **Sweden Riksbank:** Following a fifth reduction in the repo rate, totaling 150 basis points at its last meeting, Riksbank's upcoming meeting on Wednesday is expected to be closely watched. There is a roughly equal 50-50 chance of another 25 basis point rate cut versus holding rates steady. The bank previously indicated, "if the outlook remains unchanged, the policy rate may be cut once again in the first half of 2025." Recent data shows inflation is still controlled while the GDP indicator rebounded with a 1.4% month-on-month growth in November, alongside a 1.1% increase in household consumption. Market expectations currently place a 70-75% chance on a 25 basis point rate cut on Wednesday, while the majority consensus is for a 25 basis point rate cut except for one. Additionally, the last meeting minutes show that the board is also divided between an early rate cut and a delayed rate cut.

ASIA PACIFIC

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Japan – Policy Rate	0.50	March 19, 2025	0.50	0.50
Reserve Bank of Australia – Cash Rate Target	4.35	February 17, 2025	4.35	4.35
Reserve Bank of New Zealand – Cash Rate	4.25	February 18, 2025	3.75	3.75
People's Bank of China – 1-Year Medium-Term Lending Facility Rate	2.00	February 25, 2025	2.00	2.00
Reserve Bank of India – Repo Rate	6.50	February 6, 2025	6.25	6.25
Bank of Korea – Base Rate	3.00	February 25, 2025	2.75	2.75
Bank of Thailand – Repo Rate	2.25	February 26, 2025	2.25	2.25
Bank Negara Malaysia – Overnight Policy Rate	3.00	March 6, 2025	3.00	3.00
Bank Indonesia – BI-Rate	5.75	February 19, 2025	5.75	5.75
Central Bank of Philippines – Overnight Borrowing Rate	5.75	February 13, 2025	5.50	5.50

LATIN AMERICA

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Banco Central do Brasil – Selic Rate	12.25	January 29, 2025	13.25	13.25
Banco Central de Chile – Overnight Rate	5.00	January 28, 2025	5.00	5.00
Banco de la República de Colombia – Lending Rate	9.50	January 31, 2025	9.50	9.25
Banco Central de Reserva del Perú – Reference Rate	4.75	February 13, 2025	4.75	4.75

Banco Central do Brasil: Banco Central do Brasil is unanimously expected to further hike its selic rate by another 100bps on Wednesday as guided by the bank at its last meeting—"In light of a more adverse scenario for inflation convergence, the Committee anticipates further adjustments of the same magnitude in the next two meetings, if the scenario evolves as expected." The key drivers are the further de-anchoring of inflation expectations and the current inflation still exceeding the 3% inflation target. The new governor is expected to stay hawkish to regain investor confidence. **Banco Central de Chile:** Our latam-based economist expects the Banco Central de Chile to maintain its overnight rate at 5% on Tuesday. In its last monetary meeting statement, the bank shifted its forward guidance from "the MPR will see further reductions to meet its neutral level" to "the Board will steadily accumulate information regarding the progress of the economy in order to assess the timing for MPR cuts in the coming quarters" indicating a more cautious approach. The key reason for this change is the shift in the balance of inflation risk to the upside in the short term. Furthermore, the meeting minutes revealed that there was a discussion of a rate cut or rate hold at its last meeting. In addition, the peso has depreciated further since the last meeting. **Banco de la República de Colombia:** Consensus expects a 25bps rate cut, with a small chance of a rate hold. Our latam-based economist, part of the minority expecting a rate hold, anticipates that the Banco de le República de Colombia to hold its lending rate at 9.50% on Friday. This expectation is due to rising inflationary risks driven by local fiscal outlook, a slowdown in the Fed rate cuts, and a higher-than-estimated salary adjustment for 2025 (9.54%).

AFRICA

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
South African Reserve Bank – Repo Rate	7.75	January 30, 2025	7.50	7.50

South African Reserve Bank (SARB): The South African Reserve Bank is expected to deliver a second consecutive quarter-point cut on Thursday, following a greater-than-expected slowdown in both headline and core inflation in December, placing it at the lower end of the SARB's inflation target range of 3-6%. Additionally, the economy contracted by 0.3% q/q in 3Q. However, the rand has depreciated by approximately 2% since the last meeting, which may lead the bank to adopt a more cautious stance.

Sources: Bloomberg, Scotiabank Economics.