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GLOBAL ECONOMICS

DAILY POINTS

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Contributors

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On Deck for Tuesday, January 9

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	01-09	08:30	Building Permits (m/m)	Nov	--	-1.4	-3.9
CA	01-09	08:30	Merchandise Trade Balance (C$ bn)	Nov	--	2.0	1.6
US	01-09	08:30	Trade Balance (US$ bn)	Nov	-65.5	-64.9	-63.2
US	01-09	12:00	Fed's Barr Speaks on Bank Regulation				

KEY POINTS:

- **Markets are largely passing time until US CPI, US bank earnings**
- **The economics behind why the Democrats may well lose**
- **ECB official leans toward earlier easing**
- **Tokyo core CPI will reinforce a cautious stance by the Bank of Japan**
- **Canadian net trade is lifting Q4 GDP growth**

Minor developments are passing the time in markets before US CPI and bank earnings later in the week.

Overnight developments into the North American session were very light. EGBs are underperforming US Ts and Canadas so far this morning despite comments from ECB Governing Council Member Centeno who intimated that policy easing could arrive before May and that recent data "have obviously brought the moment of easing closer to us" with easing coming "sooner than we thought until recently." Heavy government and corporate debt issuance continues to pressure supply including through European auctions this morning. The dollar is flat. Stocks are playing defence with mild losses. Chinese equities shook off yesterday's PBOC guidance that a cut to required reserve ratios may be coming, perhaps because it has been expected for so long and because it also needs loan demand in order to work.

Tokyo core CPI landed at 0.2% m/m SA in December. That continues the cooling trend partly because the lagging transmission effects of prior yen depreciation and oil price increases are maturing (chart 1). Service prices were particularly soft at 0% m/m SA with goods up 0.3% after a prior drop of 0.5%. This trend will result in a cautious bias at the BoJ when it weighs in on January 23rd on the path toward the Spring wage negotiations.

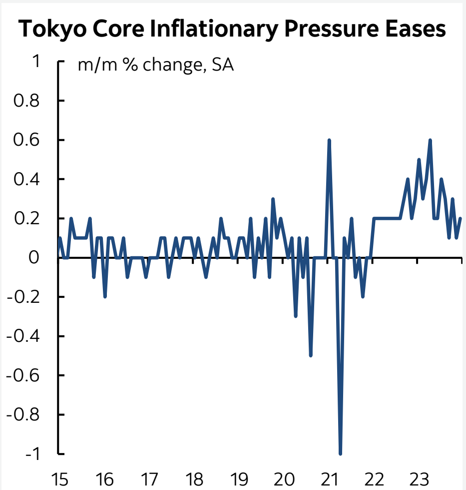
Lighter data including weaker than expected German industrial output for November (-0.7% m/m SA, +0.3% consensus) and stronger than expected Australian retail sales during November (+2% m/m SA, 1.2% consensus).

Mexico released one of two CPI reports before Banxico's next policy decision on February 8th. Core inflation ebbed to 5.1% y/y as expected with a rise of 0.4% m/m. Timing Banxico's rate cuts will depend upon further evidence combined with what the Fed does plus movement in MXN that has appreciated since the end of October.

The US trade deficit unexpectedly narrowed a touch primarily because of a wider services surplus.

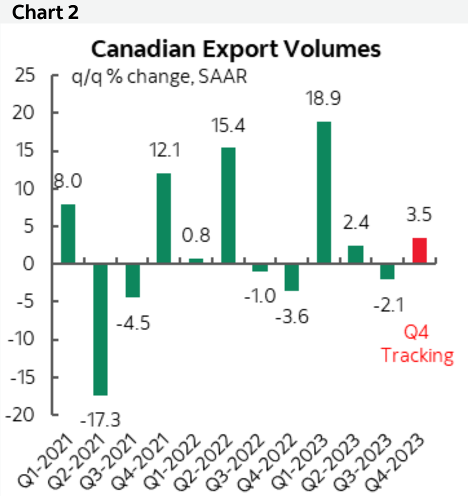
Canada's trade numbers were constructive to Q4 GDP growth. Key is what is shown in charts 2 and 3. Export volumes are tracking a material rise in Q4 over Q3 while import volumes are lower which signals a lower import leakage effect on GDP. The combined effects will positively contribute to Q4 GDP.

Chart 1



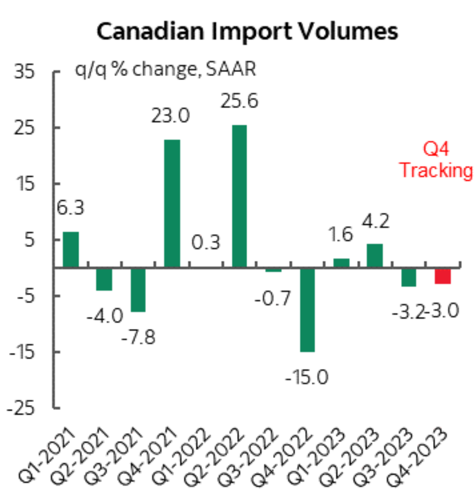
Sources: Scotiabank Economics, Bloomberg.

Chart 2



Sources: Scotiabank Economics, Statistics Canada.

Chart 3



Sources: Scotiabank Economics, Statistics Canada.

And in Canada, I know it's wishful thinking, but gosh, wouldn't it be nice if taxpayers had a seat at this table given the pattern of getting fleeced over and over again while the benefits have flowed to foreign shareholders, sometimes foreign workers, and at an enormous subsidized cost per job created (**here**).

THE ECONOMICS OF TRUMP VERSUS BIDEN

Who could possibly lose to Trump? Let's not underestimate how much skill is involved here. It takes quite a lot of skill to be in this position, given Trump's rather well understood and appalling character defects and several of his policy stances. Well, it seems that the answer is only this particular bunch of Dems could lose to Trump including the likes of Biden, Warren, Sanders, A.O.C. etc. If Trump wins in November, then the Dems will deserve a big part of the blame and may make themselves irrelevant.

Let me preface what follows by saying that it is certainly not to be taken as an endorsement of Trump's candidacy. I think he's dangerous to the economic outlook and unfit to govern in so many respects. What follows is more of an attempt at seeking to understand why he is perhaps curiously polling so well relative to Biden and I think it's a function of how Americans look at the relative economics they get out of both candidates, whether correctly so or not and whether or not I agree.

While I think many of Trump's policies are misguided and dangerous, one can say the same about the Biden administration's policy biases. Where the rub lies, however, is that while I think most Americans have a very poor understanding of how dangerous Trump could be on multiple touch points, they understand how Biden's policies could well slam their personal finances and they want nothing to do with that.

Biden's Crushing Tax Proposals

Enter the first set of points. Trump says he'd retain the Tax Cuts and Jobs Act Corporate Income Tax rate cut from 35% to 21% but abandon his earlier pledge to cut it further down to 15%, while making permanent the individual tax cuts that included a large increase in basic exemptions and lowered PIT rates.

Biden, on the other hand, and as per his earlier proposals, would seek to hike PIT rates, double the top capital gains tax, tax unrealized gains with a 25% minimum tax, raise the CIT rate 7 points to 28%, quadruple stock buyback taxes to 4% which shouldn't exist anyway etc etc. For recaps of the TCJA provisions and the Biden proposals go **here** and **here**.

There is no question in my mind that the stock market wins under Trump's tax policies and potentially by a lot which is why I don't necessarily believe in some of the gloomy calls on the street in the context of Trump's polling. If Biden wins, then watch out. There is also no question that after-tax incomes and corporate profits would suffer if Biden's proposals went through.

Spending Plans

The US has a rising debt problem and so higher tax revenues under Biden's proposals could assist, right? Maybe that's what is driving the Biden administration's tax policies and if so then the bond market could benefit, right? Wrong.

After all, the US federal government is running a deficit equal to 6.3% of GDP even now after the US economy has been booming. Federal government public debt now stands at US$34 trillion which is about 50% higher than just before the pandemic. There has been no attempt to rein in deficits or public debt. As a share of nominal GDP, US federal public debt stands at 120%, or about 15% higher than before the pandemic.

The Biden administration had a chance to contain government spending and repair deficits in the good times and it went in the opposite direction. Instead, the Biden administration maintained current spending at a level that is about one-third higher than before the pandemic and rising (chart 4).

Chart 4

The US Has a Spending Problem

Sources: Scotiabank Economics, BEA.

The added problem is that the Biden administration would probably spend the proposed tax revenues in future and thwart any chance at an improved fiscal outlook. The Biden administration has a very clear bias toward raising the size of government and with that its tax revenues and spending. CBO baseline projections show the US federal government's deficit to GDP ratio stuck at 5–6% for years to come and then rising toward the 7–10% range in the long term albeit one should take their projections with a mountain of salt.

The Rest

As for the rest of the comparison, Biden's stance on trade policy isn't that much better than Trump's. Yes, it's less punitive, but Biden is certainly no friend to free traders either.

It's not entirely clear who would have the biggest impact upon inflation, the Fed, and term premia but I suspect Biden. Trump widened the deficit and extending TCJA measures would do likewise for longer. Biden's policies to date have translated into bigger and more frequent auctions, more supply pressures on the bond market and greater pressure on the term structure of interest rates. In plain language, that means Biden is partly responsible for the rise in the 30-year fixed mortgage rate because his policies have contributed to inflation and because of the supply pressures on the bond market.

Then on regs, Trump would likely be more favourable to multiple sectors relative to Biden. Examples include oil and gas and financials. Some believe that Trump's lightened banking regulations contributed to some of the regional banks' issues, but some disagree with that view. Then again, Trump could look at this and say that the lesson from the regional banks' issues in the aftermath of a lighter regulatory touch was that the Fed will smother the consequences with its various tools. There are huge moral hazard issues here, but if you're a politician, you might figure you'll further deregulate and then expect the Fed to deal with any messy side effects.

As for the Fed, both Biden and Trump pose risks. The Dems are no friends to Powell. Senator Warren has been a vicious critic of Powell's. Trump probably soon regretted appointing Powell based upon his frequent attacks on the Fed. Neither leader is likely to favour appointing someone with hawkish views and with that, the risk with either one of them may be higher inflation for longer. Trump is crass, vulgar and explicit in his attacks on the Fed, but my point is that both options pose risks.

So where does all of this leave us? Americans are not necessarily irrational in driving favourable polling numbers for Trump despite his many, many shortcomings and the risks that some of his proposals represent. Americans are probably taking a bird in hand is worth two in the bush approach here. They have a vague understanding (perhaps…) of the dangers Trump pose, but they fully understand what could happen to their take home pay and investments, to after-tax profits, to the regulatory burden they would face and to the potential effects on the cost of borrowing and inflation. It's likely too late for the Dems to pivot on any of these matters as they risk losing and losing badly.

Fixed Income	Government Yield Curves (%):											
	2-YEAR			5-YEAR			10-YEAR			30-YEAR		
	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk
U.S.	4.37	4.38	4.32	3.97	3.99	3.91	4.01	4.03	3.93	4.17	4.19	4.07
CANADA	4.03	4.04	3.95	3.33	3.34	3.24	3.22	3.23	3.18	3.14	3.15	3.10
GERMANY	2.60	2.55	2.45	2.13	2.08	1.99	2.18	2.14	2.07	2.41	2.37	2.31
JAPAN	0.03	0.04	0.05	0.19	0.21	0.21	0.59	0.61	0.61	1.61	1.63	1.63
U.K.	4.20	4.22	4.05	3.71	3.73	3.54	3.77	3.77	3.64	4.37	4.39	4.27
	Spreads vs. U.S. (bps):											
CANADA	-34	-34	-37	-64	-65	-67	-79	-80	-75	-103	-105	-97
GERMANY	-177	-183	-187	-184	-191	-192	-183	-190	-186	-176	-183	-176
JAPAN	-434	-433	-427	-378	-378	-371	-342	-342	-332	-256	-257	-244
U.K.	-17	-16	-27	-26	-26	-37	-24	-26	-29	20	19	20

Equities	Level		% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	20949	-126.1	-0.6	0.4	3.0	5.5
Dow 30	37419	-263.5	-0.7	-0.8	3.2	11.6
S&P 500	4741	-22.1	-0.5	-0.0	3.0	21.8
Nasdaq	14787	-56.3	-0.4	0.1	2.7	39.0
DAX	16675	-41.6	-0.2	-0.6	-0.5	12.7
FTSE	7686	-8.6	-0.1	-0.5	1.7	-0.5
Nikkei	33763	385.8	1.2	0.2	4.5	29.0
Hang Seng	16190	-34.4	-0.2	-3.6	-0.9	-24.1
CAC	7426	-24.0	-0.3	-1.4	-1.3	7.5
Commodities	**Level**		**% change:**			
WTI Crude	71.90	1.13	1.6	2.2	0.9	-3.7
Natural Gas	3.11	0.13	4.3	21.0	20.4	-20.5
Gold	2032.65	4.58	0.2	-0.5	1.4	8.6
Silver	22.85	-0.14	-0.6	-4.0	-4.0	-2.6
CRB Index	261.65	-4.26	-1.6	-0.4	-0.4	-2.6
Currencies	**Level**		**% change:**			
USDCAD	1.3395	0.0047	0.4	0.6	-1.3	0.0
EURUSD	1.0923	-0.0027	-0.2	-0.2	1.5	1.8
USDJPY	144.33	0.1000	0.1	1.6	-1.3	9.4
AUDUSD	0.6684	-0.0036	-0.5	-1.1	1.8	-3.3
GBPUSD	1.2703	-0.0045	-0.4	0.7	1.2	4.3
USDCHF	0.8523	0.0042	0.5	0.2	-3.0	-7.5

Central Banks	
Current Rate	
Canada - BoC	5.00
US - Fed	5.50
England - BoE	5.25
Euro zone - ECB	4.50
Japan - BoJ	-0.10
Mexico - Banxico	11.25
Australia - RBA	4.35
New Zealand - RBNZ	5.50
Next Meeting Date	
Canada - BoC	Jan 24, 2024
US - Fed	Jan 31, 2024
England - BoE	Feb 01, 2024
Euro zone - ECB	Jan 25, 2024
Japan - BoJ	Jan 23, 2024
Mexico - Banxico	Feb 08, 2024
Australia - RBA	Feb 05, 2024
New Zealand - RBNZ	Feb 27, 2024