

DAILY POINTS

January 30, 2025 @ 7:40 EST

Contributors

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Chart 1

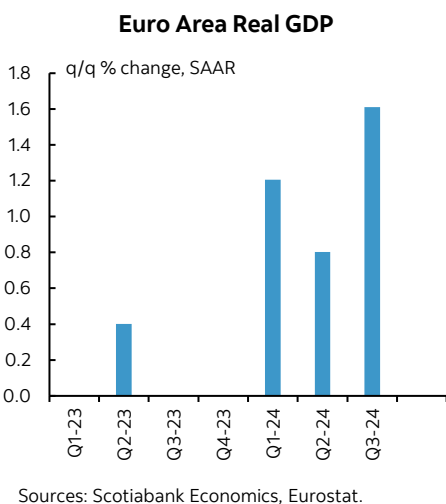
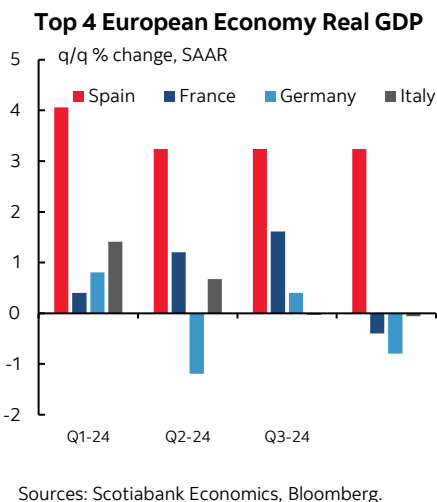


Chart 2



On Deck for Thursday, January 30

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
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	225.0	223.0
US	01-30	08:30	Continuing Claims (000s)	Jan 18	1920	1901.5	1899.0
US	01-30	10:00	Pending Home Sales (m/m)	Dec	--	0.0	2.2

KEY POINTS:

- **EGB yields fall on weak GDP ahead of ECB**
- **ECB to cut, and stay on easing path amid uncertainties**
- **Eurozone GDP disappointed across all major economies**
- **The key to Lutnick's remarks was to offer Trump a face-saving offramp...**
- **...though 'show us some respect' was rather rich!**
- **Spanish core CPI signalled warmer pressures at the margin**
- **Macklem held his punches yesterday to avoid disrupting Canada's tariff response**
- **US GDP may face downside risk, but key will be final domestic demand**
- **US core PCE inflation probably picked up in Q4 ahead of December's reading**
- **Mexico's economy shrank more than expected in Q4**
- **Canadian small businesses signal resilient hiring and inflation expectations**
- **More 'Magnificent 7' earnings on tap**

EGB yields are lower and outperforming US Treasuries as they fell in the wake of disappointing Eurozone GDP figures but be careful with Spain's core CPI that kicked off Eurozone estimates. The euro is underperforming most other major crosses as well and ahead of the ECB's expected cut. Stocks are resilient and posting gains everywhere despite mixed but generally soft results from US 'Magnificent 7' stocks in yesterday's aftermarket. There is no follow through from yesterday's [FOMC](#) and [BoC](#) decisions but I think Macklem held his punches for political reasons (see below).

Today's heavy line up is going to be dominated by the ECB's expected cut and forward guidance, US Q4 GDP that is likely to be strong, US Q4 core PCE that is expected to pick up ahead of the next day's December reading, Mexican GDP and more 'Magnificent 7' earnings from Apple, but also with Intel out.

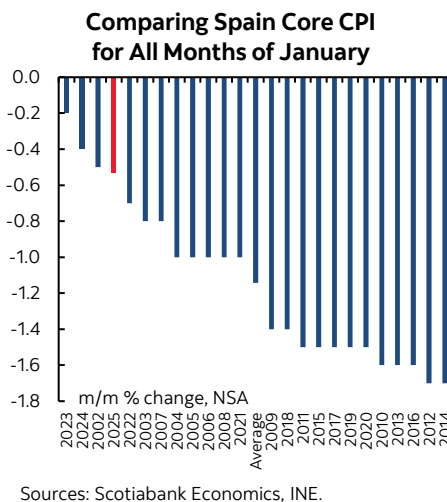
The Eurozone Economy Stalled Out in Q4

Eurozone GDP disappointed by coming in flat in Q4 (0% q/q SA, 0.1% consensus). Chart 1 shows the first zippo reading in a year. France (-0.1%, 0% consensus), Germany (-0.2%, -0.1% consensus) and Italy (0%, 0.1% consensus) were all weaker than expected (chart 2).

Spain Kicked Off Eurozone CPI Tracking in Mixed Fashion

Spanish CPI kicked off Eurozone tracking ahead of France and Germany tomorrow and then the Eurozone tally on Monday. Spanish core inflation was a touch lower than expected (2.4% y/y, 2.5%

Chart 3



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consensus) but in m/m terms the -0.4% NSA drop was warmer than for a usual month of January which suggests firmer pressures at the margin (chart 3).

Mexico's Economy Contracted More than Expected

Mexico's economy contracted by triple the expected pace in Q4. GDP was down -0.6% q/q SA nonannualized (consensus -0.2%). That's the first contraction since 2021Q3 but it follows the 1.1% q/q SA nonannualized surge in Q3 and so some give back was expected (chart 4).

ECB to Cut, Probably Signal Further Easing

The ECB is universally expected to cut this morning (8:15amET). It's the guidance and forecasts that will matter particularly including what comes out of Lagarde's press conference (8:45amET). 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 above a neutral rate estimate. With growth stumbling, an easing bias is likely to persist today. Trump's threat that "they're going to be in for tariffs" hangs over confidence in their inflation forecasts and will be reassessed at the March 6th meeting. So may next week's wage figures to be published on Wednesday.

US Q4 GDP May Disappoint on Inventories, Imports—Watch FDD

Yesterday's inventory and trade figures threw a bit of a spanner into the works insofar as estimates for today's Q4 US GDP are concerned (8:30amET). Consensus sits at 2.6% q/q SAAR and Scotia's estimate is 2.8%. The range runs from 0.9% to 3.2% with most clustered in the 2–3% zone. The Atlanta Fed's 'nowcast' was updated yesterday to reflect the inventory and trade figures and was revised sharply lower to 2.3% from 3.2% as inventories fell and the US trade deficit ballooned. The nowcast doesn't always get it right. Key may be to cut to the Final Domestic Demand figure that focuses upon the health of the domestic economy excluding inventory and net trade figures and that is expected to reveal solid growth in consumption which may matter the most. FDD has been very strong for the past seven and possibly eight quarters (chart 5).

US Core PCE Inflation Expected to Pick Up

Also keep an eye on US Q4 core PCE for Q4 (8:30amET). I'm at 2.4% with consensus at 2.5%. That's using my 0.2% m/m core PCE estimate we'll get tomorrow and assuming no revisions which there may well be. Because of possible embedded monthly revisions, you can never really tell if a surprise in core PCE on a quarterly basis tells you anything about December's estimate that arrives tomorrow.

Canadian Small Businesses Signal Resilient Hiring and Inflation Expectations

Canadian CFIB small business confidence slipped a bit (54.6, 56.5 prior) but hiring and price plans were steady. Businesses expect to hike prices by 2.6% over the coming year which is unchanged, and the net hiring intentions measure improved with 14.3% saying they intend to hire more (14.7 prior) while 12.7% say they intend to decrease staffing (down from 16.8%). The inflation reading is fresher than the BoC's gauges and signals persistent pressures (chart 6).

Canada also updates the SEPH payrolls measure for November (8:30amET). It's a lagging indicator and only reflects payrolls which in Canada means it misses many small businesses. The wage figure will be the one to watch.

Why Macklem Held his Punches

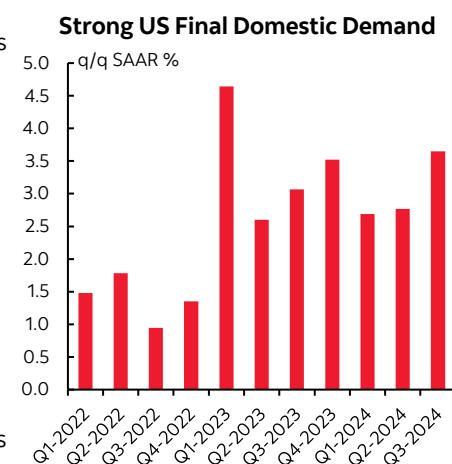
With the benefit of some distance now I'm of the view that despite doing a good job in describing the ambiguities around how tariffs will impact the BoC, Governor Macklem held his punches. He was not as direct on the direction of rate risk in a tariff scenario as he could or arguably should have been because he didn't want to disrupt Canada's strategy in response to potential US tariffs. The headline he likely sought to avoid was about not cutting as much, if at all, and

Chart 4



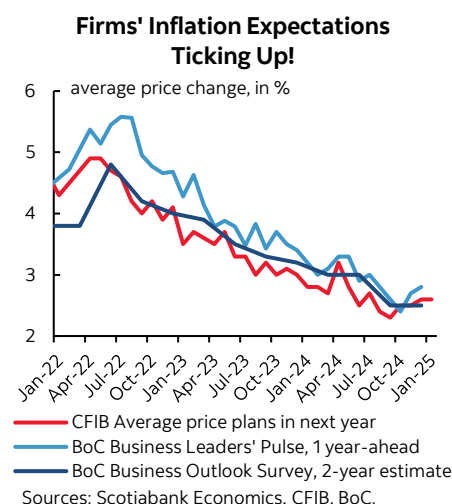
Sources: Scotiabank Economics, INEGI, Bloomberg.

Chart 5



Sources: Scotiabank Economics, BLS.

Chart 6



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possibly hiking everyone's borrowing costs if Canada retaliates in a big way and drives a surge of inflationary pressures. That might have undermined Canadian unity into the tariff threat.

At the end of the day, from one Governor to another, the BoC will always err on the side of partnering with the Canadian government based on years of monitoring their actions.

Lutnick Attempted to Provide a Face-Saving Tariff Offramp for Trump

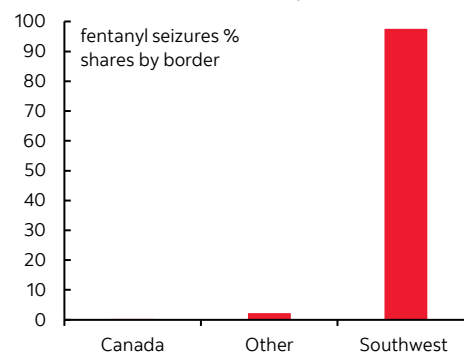
Well, that was rich. US Commerce Secretary Lutnick has the nerve to tell Canada "Show us the respect, shut your border." Respect hasn't exactly been a word that I would use to describe anything his boss has shown my country, though we have a lot of company in that regard. Further, the US can and should address its own northern border issues, like tightening inspections to stop the flood of illegal guns coming into Canada, and spending money on its own surveillance and enforcement. The US does a poor job of managing its own side of the border and is merely trying to offload costs onto Canada.

And yet I think the main takeaway from Lutnick's remarks yesterday was that he may have been trying to set up a face saving offramp for Trump to back off his ruinous tariff plans. He claimed that the 25% tariff threat this weekend is oriented toward getting Canada to stop the flow of fentanyl into the US. Regular readers know that's absolute rubbish as Canada is a trivial source of this problem for the US using US data (chart 7)! Regardless, Lutnick said "And as far as I know, they are acting swiftly, and if they execute it, there will be no tariff." Fine, we'll spend more on border toys so you don't have to in addressing a largely made-up concern. The rest of what he had to say sounded like his best impression of Trump's trade victim hogwash and warned tariffs could still be imposed later into Spring.

Lutnick and Bessent don't call the shots, but it's clear they are trying to delay and defer most of the tariff threat in a way that doesn't totally embarrass their boss's rhetoric. We'll see if Trump does his usual thing by undermining and rejecting their efforts.

Chart 7

Canada Is a Negligible Share of America's Fentanyl Imports



*YTD Share Jan-Oct 2024

Sources: Scotiabank Economics, U.S. Customs and Border Protection.

Fixed Income	Government Yield Curves (%):												Central Banks	
U.S. CANADA GERMANY JAPAN U.K. CANADA GERMANY JAPAN U.K.	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	Canada - BoC	3.00
	4.20	4.22	4.29	4.30	4.33	4.45	4.49	4.53	4.64	4.73	4.77	4.87		
	2.79	2.79	2.95	2.83	2.86	3.03	3.14	3.17	3.32	3.30	3.33	3.46		
	2.21	2.28	2.25	2.31	2.38	2.35	2.51	2.58	2.55	2.75	2.80	2.78		
	0.72	0.70	0.70	0.89	0.87	0.88	1.22	1.20	1.21	2.27	2.24	2.27		
4.26	4.33	4.33	4.26	4.32	4.34	4.55	4.62	4.64	5.11	5.18	5.19	England - BoE	4.75	
Spreads vs. U.S. (bps):													Euro zone - ECB	3.15
CANADA	-141	-142	-134	-147	-147	-142	-135	-136	-132	-143	-144	-141		
GERMANY	-198	-194	-205	-199	-195	-210	-198	-195	-209	-198	-197	-209		
JAPAN	-348	-351	-359	-341	-346	-357	-327	-333	-344	-245	-253	-260		
U.K.	7	11	3	-4	-1	-12	6	9	-1	38	41	32	Japan - BoJ	-0.10
Equities	Level						% change:						Mexico - Banxico	10.00
S&P/TSX Dow 30 S&P 500 Nasdaq DAX FTSE Nikkei Hang Seng CAC	Last	Change					1 Day	1-wk	1-mo	1-yr	Australia - RBA	4.35		
	25473	53.8					0.2	0.6	3.5	20.0				
	44714	-136.8					-0.3	1.3	5.0	16.2				
	6039	-28.4					-0.5	-0.8	2.2	22.6				
	19632	-101.3					-0.5	-1.9	0.7	26.6				
	21693	55.8					0.3	1.3	9.0	27.8				
	8598	40.5					0.5	0.4	5.9	12.2				
	39514	99.2					0.3	-1.1	-1.0	8.9				
	20225	27.3					0.1	0.6	2.4	30.2				
	7916	43.9					0.6	0.3	8.2	3.1				
Commodities	Level						% change:						England - BoE	Feb 06, 2025
WTI Crude	72.46	-0.16					-0.2	-2.9	2.1	-6.9				
Natural Gas	3.19	0.02					0.5	-19.2	-19.0	53.4				
Gold	2779.55	20.19					0.7	0.9	24.7	36.5				
Silver	30.44	0.29					1.0	-1.2	2.7	32.3				
CRB Index	307.59	1.36					0.4	-0.6	3.7	12.3				
Currencies	Level						% change:						Mexico - Banxico	Feb 06, 2025
USDCAD	1.4412	-0.0007					-0.0	0.2	0.4	7.6				
EURUSD	1.0397	-0.0024					-0.2	-0.2	-0.1	-4.1				
USDJPY	154.31	-0.9100					-0.6	-1.1	-1.6	4.5				
AUDUSD	0.6226	-0.0005					-0.1	-0.9	0.1	-5.7				
GBPUSD	1.2432	-0.0020					-0.2	0.6	-0.9	-2.1				
USDCHF	0.9081	0.0013					0.1	0.1	0.5	5.4	New Zealand - RBNZ	Feb 18, 2025		

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