

DAILY POINTS

March 4, 2025 @ 8:35 EST

Contributors

**Derek Holt**  
 VP & Head of Capital Markets Economics  
 Scotiabank Economics  
 416.863.7707  
[derek.holt@scotiabank.com](mailto:derek.holt@scotiabank.com)

On Deck for Tuesday, March 4

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	03-04	10:30	PM Trudeau's Address on the Tariff Response				
US	03-04	14:20	Fed's Williams Speaks at Bloomberg Invest Forum				
US	03-04	21:00	Trump's Joint Address to Congress				

KEY POINTS:

- Risk off, as the US declares economic war on Canada, Mexico, and China
- Five reasons why the market response is somewhat limited thus far
- What the US did and how Canada is retaliating...
- ...with more announcements on tap this morning
- Canada to extend critical minerals tax credit today; watch for other potential remarks
- BoC likely to cut next week but stagflation will limit forward guidance...
- ...and its macroeconomic scenarios assume sustained tariffs which may not be true
- Trump and Lutnick are lying through their teeth about fentanyl. Here's why.
- US industrial policy: Subsidize and protect behind a tariff wall...
- ...as reflected in Trump's pathetic re-announcement of Biden's subsidy to TSMC
- Anything goes as Trump to address Congress tonight

Equities are playing defence with TSX futures down by another nearly 1%+, while US futures are about ¾% lower, and European cash markets are down by 1–3% across the exchanges except for London (-¼%). Asian equities fell by 1¼% in Tokyo, ¼% in HK and Seoul, but were up a bit in mainland China. Sovereign bonds are rallying with the US curve bull steepening a touch, the Canada curve performing likewise, while gilts and EGBs are broadly richer. The dollar is slightly weaker including against CAD but MXN is losing further ground.

As for market drivers, it's all about tariffs. There is nothing else to consider by way of material calendar-based risks anywhere other than tariffs and the response with further developments on tap today.

The US has declared economic war on Canada, Mexico and China. Friends, allies and economic partners no more, the gloves are off with this administration that demands respect but gives none whatsoever. It is clear that Trump prefers tariffs and that everything about border controls is absolute rubbish; this means negotiation won't work, hitting back twice as hard might be the only option. Clearly this is a pugilistic bunch of bullies in the US administration with the tone set by Trump's litigious, divisive and extraordinarily dishonest ways. Lutnick is possibly worse ([here](#)) and the immature conduct, standards and qualifications of the rest of Trump's cabinet are equally unimpressive with maybe the odd exception. That's true not just on trade, but also on the effects of his fiscal policies and also in terms of his geopolitical policy bias including the fresh news that he has asked Putin to broker a nuclear deal with Iran (Putin!!). I stand completely by what I've written in the past about the dangers of a Trump presidency that are unfortunately coming true ([here](#)).

**So Why Have Markets Responded in Tepid Fashion?**

The market response is clear, but why is it not greater? There may be five reasons.

One reason is that some of this was being priced in advance. Still, the cumulative effect on markets if tariff macro scenarios really were to unfold is small thus far.

Another reason is because what we don't know is duration and that's key. Trump is a showboater and self-promoter with zero scruples and so for all we know he put these tariffs on just in order to be able to point to them in his speech tonight but they may not last. If they do last, then the effects on the N.A. economy and markets will be much larger. That might not take long, given guidance from the auto sector that shift cancellations and plant closures could begin within roughly a week after arriving.

Another reason the response may be limited is that the retaliatory responses fall shy of what the US enacted—so far. China responded with another 15% tariffs on US chicken, wheat, corn and cotton products and another 10% on sorghum, soybeans, pork, beef, seafood, fruits, vegetables and dairy products. These tariffs go in on March 10<sup>th</sup>. The implied point is that China is signalling ongoing willingness to negotiate, although negotiation may be fruitless given Trump's twisted, ill-informed logic that tariffs will encourage great things for the US economy by way of attracting investment. Trump romanticizes earlier eras of tariffs like the Tariff Act of 1890 that he thinks created growth that was instead fed by surging immigration and not having tariffs would have led to even stronger growth at the time in a totally different era for the world economy.

Canada's tariffs are also not 'dollar for dollar' in the combined rounds that are being delivered. They match the 25% rate, but on a smaller volume of US imports into Canada than Canadian imports into the US. Here too the implied point is to leave the door open for negotiation perhaps without retaliation, but the other point is to limit the shock to the domestic economy and inflation.

And another reason is that stimulus announcements are likely to be forthcoming. The Bank of Canada is likely to cut next week as tariffs tip the balance in that direction, but expect a very measured bias given the potential effect of tariffs on supply chains and inflation. Charts 1–4 use data drawn from Governor Macklem's recent speech that estimated the outcome of the specific US measures and Canadian counter-measures and were assembled by my colleague Rebekah Young. They clearly show the hits to GDP, exports, business investment and consumption, but also the sustained lift to inflation.

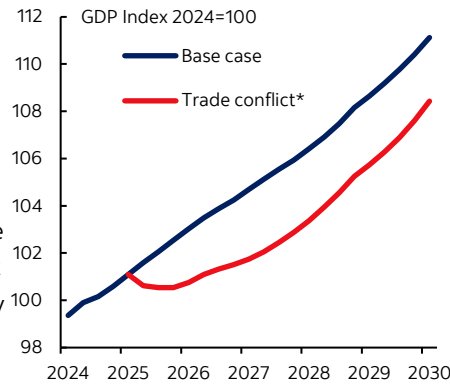
Canada also has full power through agencies like the EDC and BDC to announce targeted measures of support. Provinces are fully able to announce any supports. Federal measures require parliament to pass but can be announced with the situation being fluid into elections.

Finally, there is a bidirectional force built into the market response. Tariffs are bad for risk appetite, but some believe that souring risk appetite may provoke a pivot on trade policy by the Trump administration. If so, then the market response would price tariffs but also de-escalation; if that doesn't happen, then markets are very vulnerable.

**Canada to Announce Other Steps This Morning**

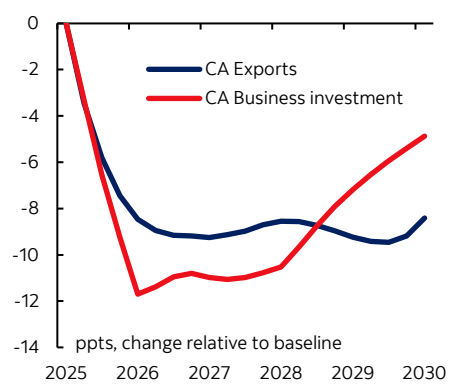
Canadian PM Trudeau will further address the tariff response in a press conference this morning at 10:30amET. He will be joined by FinMin LeBlanc, Foreign Affairs Minister Joly, and Minister of Public Safety McGuinty. We already know that the first round of retaliatory tariffs has kicked in at 12:01amET and applies a 25% tariff on \$30 billion of imports from the US; we've had the list of affected imports for a month and it's the OJ and cheap bourbon list of items for which substitutes are available or that don't materially affect anyone. The next round of 25%

**Chart 1**  
**Impact of a Global Trade War on CA GDP**



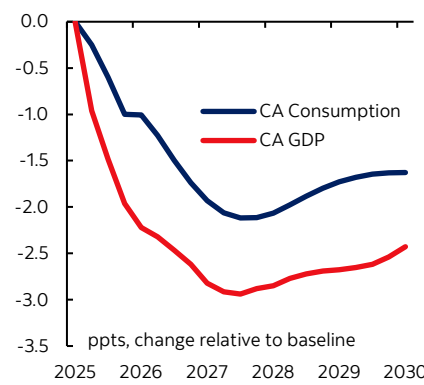
Sources: Scotiabank Economics, BoC (MPR January 2025).  
\*Assumes 25% retaliatory global trade war.

**Chart 2**  
**Impact of a Global Trade War**



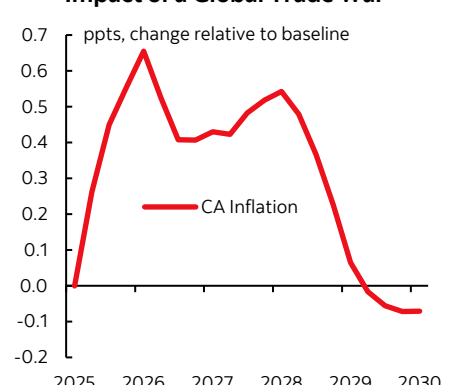
Sources: Scotiabank Economics, BoC (MPR January 2025).  
\*Assumes 25% retaliatory global trade war.

**Chart 3**  
**Impact of a Global Trade War**



Sources: Scotiabank Economics, BoC (MPR January 2025).  
\*Assumes 25% retaliatory global trade war.

**Chart 4**  
**Impact of a Global Trade War**



Sources: Scotiabank Economics, BoC (MPR January 2025).  
\*Assumes 25% retaliatory global trade war.

tariffs will kick in within 21 days and will apply against another \$125B of imports from the US; we may get that list today. Also watch for discussion of other potential measures that have Federal jurisdiction, such as export taxes and restrictions.

### Trump to Speak Tonight

Then Trump speaks at 9pmET to deliver his joint address to Congress. This is a State of the Union address that can't technically be called that because it follows too closely to his inauguration, yet treat it as a SOTU speech by the old man regardless. That means it will be replete with divisive, bombastic, bellicose rhetoric and countless lies that are expected anytime he speaks. The US President is drastically harming respect for Americans. Initial guidance is that he will speak about policy priorities like tariffs, taxes, immigration, Ukraine etc, but it's Trump and so he's prone to go off script if he has one.

### Trump and Lutnick are Downright Liars on Fentanyl

Lutnick went on CNN yesterday to attack Canada on fentanyl as the justification for tariffs. Recall that Canada is an immaterial source of fentanyl into the US and that there are serious question marks concerning US data quality on the matter ([here](#)). Canada accounts for 0.2% of US fentanyl imports (chart 5). That doesn't matter because Trump and Lutnick are totally fabricating the issue so that they can declare a national security crisis. Doing so enables them to apply tariffs in a way that bypasses Congress that typically has domain over trade policy. The Trump administration has no respect for Congress in this regard and it is abusing the past pieces of US legislation that enable it to proceed with tariffs by executive order because of Trump's twisted logic on tariffs.

Unfortunately, however, the US made Canada pointlessly jump through hoops on border controls when it was all for naught. Trump humiliated Canada while Americans did little to nothing about it and that will never be forgotten. Friends no more.

Further, the border concerns are more acute in the other direction. The US fails to ever address the flood of illegal guns that get exported from its country into Canada due to its absurdly lax controls. US migration into Canada is picking up and likely to rise further as it did during Trump 1.0 but now especially with the more restrictive US migrant policies.

### Canada to Make Critical Minerals Announcement Today

Canada will be making a critical minerals announcement at 1:30pmET today ([here](#)). It is expected to repeat the extension of a \$110 million tax credit on mineral exploration for two more years as this announcement was expected to be delivered at today's Prospectors & Developers Association of Canada conference in Toronto. There may be bolt-on announcements or comments on other issues.

One could be if Minister of Energy and Natural Resources broaches the topic of export controls applied to critical minerals.

### Trump's Pathetic Re-Announcement of Biden's Chips Subsidy

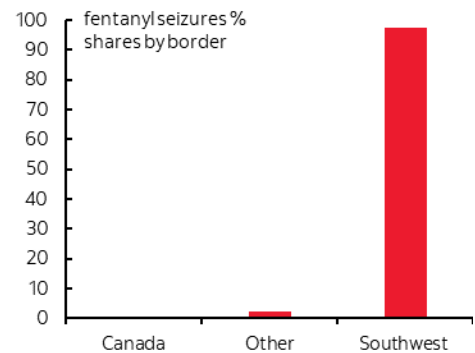
Trump's 'big' announcement yesterday was to repeat Biden's announcement that was delivered back in November that TSMC of Taiwan would receive \$6.6 billion in subsidies to invest in a chip plant in Arizona. Biden passed the CHIPS Act in 2022 and since then it has handed out tens of billions in subsidies. Like I've said, the US is a subsidy sinkhole that is Making Taxpayers Pay Again. We saw this through Trump 1.0 and it's happening again under 2.0. US industrial strategy under Trump is to erect protectionist walls and apply subsidies which any economist worth his or her salt would tell you is going to damage US competitiveness over time.

### HERE IS WHAT THE US IS DOING

- The US made [this](#) entry in the Federal Register yesterday. It implements tariffs.
- This measure enacts what was previously issued in [this](#) Executive Order a month ago. It utilized the International Emergency Economic Powers Act, the National Emergencies Act, section 604 of the Trade Act of 1974, and section 301 provisions. This is consistent with expectations about what tools would be used to create a national security rationale for imposing tariffs.
- The US is imposing 25% tariffs on all Canadian and Mexican imports except a 10% tariff on Canadian oil, electricity and natural gas.
- The US will impose a 10% extra tariff on China above current tariff levels for a total tariff of 20%.

Chart 5

#### Canada Is a Negligible Share of America's Fentanyl Imports



\*Share Jan 2024 to Jan 2025

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

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- The US is studying further tariffs on Canadian lumber that would be ruinous to the sector and raise lumber prices for Americans which we're already seeing (chart 6). The US has lost in multiple appeals but never respected the outcomes and it is breaking the law again by threatening combined duties of up to 50%. This will hit hard US lumber prices both directly and through arbitrage effects as competition is reduced. The costs will be paid by homebuyers and businesses.
- The US is revoking the de minimis exemption on Canada-US shipping.
- There is a provision in the US executive order that will escalate tariffs if Canada responds. Of course there is, he doesn't want retaliation.

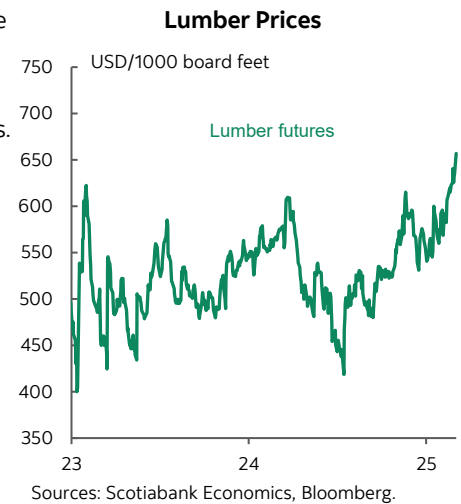
#### HERE IS HOW THE CANADIAN GOVERNMENT WILL RETALIATE

- PM Trudeau issued [this](#) statement last evening. It announced that retaliatory tariffs go into effect today.
- Canada issued [this](#) release on February 1<sup>st</sup> announcing a 25% tariff on \$155 billion of US goods. It still applies but was postponed when the US postponed its tariffs.
- The first tranche of 25% tariffs will apply to \$30B of US goods. [Here](#) is that list. The first tranche of retaliatory tariffs is similar in nature to the goals of the 2018–19 tariffs that aim for red states (Harleys, OJ, booze etc). This list becomes effective now.
- Further tariffs on \$125B of goods will be applied. The list is not yet available and these tariffs will go into effect in 21 days. The guidance for the second list is that "It will include products such as passenger vehicles, trucks and buses, steel and aluminum products, certain fruits and vegetables, aerospace products, beef, pork, dairy products, and more."
- The PM also said a month ago that "we are considering several non tariff measures" with provinces. He repeated this last evening by stating "we are in active and ongoing discussions with provinces and territories to pursue several non-tariff measures."
- The purpose to saying this was to make it clear in response to the US threat of further retaliation that Canada would be prepared to retaliate with other measures such as higher tariffs, procurement programs, and perhaps access to critical minerals.
- Trudeau also said a month ago that "we will not be pursuing measures that further divide the country" in commenting upon other possible retaliatory measures. He went on to note that no one region of the country must bear a disproportionate share of the burden of retaliation.
- You could infer from that a signal that regional industry measures that would affect, say, oil, potash, and uranium, may not be impacted but this is unclear nor is the list of items.
- [This](#) may be relevant to clients in terms of seeking relief from Canada's tariffs or refunds. Share and advise as suitable across clients and Scotiabankers especially their commercial and investment banking and equity clients.

At the time, Canadian provincial premiers announced their own measures:

- BC Premier Eby said a month ago that "it's a declaration of economic war." He announced that BC will stop buying American liquor from red states. He will direct crown corporations and government agencies to stop buying American. Eby gave full support for comprehensive tariffs by the Canadian government. He also announced that BC will expedite mining, renewable energy and natural gas projects and accelerated permit approvals on critical mining and low carbon projects. Watch for Eby to repeat these remarks.
- Ontario Premier Ford will speak at about 11:30amET today so watch for further measures. He had pulled American alcohol from the LCBO stores and restaurant catalogues a month ago, put them back when the US tariffs were postponed, and is likely to announce these measures again. He also announced the cancellation of a Starlink contract.
- N.S. Premier Houston had announced a month ago that the NSLC will remove all American alcohol from the United States, not just red states, limit access by American firms to provincial procurement, and double tolls on US commercial vehicles at the Cobequid Pass. Watch for these measures to be reapplied.
- Quebec Premier Legault said a month ago that his province will penalize American firms bidding on procurement and left further measures to the PM. He may weigh in again with similar guidance.

Chart 6



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.	3.90	3.95	4.10	3.93	3.96	4.13	4.13	4.16	4.30	4.45	4.45	4.56	Canada - BoC	3.00		
CANADA	2.45	2.48	2.64	2.50	2.53	2.70	2.81	2.83	2.99	3.06	3.07	3.19	US - Fed	4.50		
GERMANY	2.01	2.07	2.07	2.15	2.21	2.22	2.47	2.49	2.46	2.80	2.80	2.72	England - BoE	4.50		
JAPAN	0.84	0.83	0.80	1.07	1.05	1.03	1.43	1.41	1.37	2.38	2.37	2.33				
U.K.	4.14	4.21	4.17	4.18	4.25	4.18	4.49	4.56	4.51	5.08	5.13	5.10				
	Spreads vs. U.S. (bps):															
CANADA	-145	-147	-145	-142	-144	-143	-132	-132	-130	-139	-138	-136	Euro zone - ECB	2.90		
GERMANY	-189	-188	-203	-177	-175	-192	-167	-167	-184	-165	-165	-183	Japan - BoJ	0.50		
JAPAN	-306	-312	-330	-286	-291	-311	-271	-274	-292	-207	-208	-223				
U.K.	24	26	8	26	29	5	36	40	21	63	68	55	Mexico - Banxico	9.50		
Equities	Level						% change:									
	Last	Change					1 Day	1-wk	1-mo	1-yr						
S&P/TSX	25002	-391.9					-1.5	-0.6	-1.1	16.1	Australia - RBA					4.10
Dow 30	43191	-649.7					-1.5	-0.6	-3.1	10.8	New Zealand - RBNZ					3.75
S&P 500	5850	-104.8					-1.8	-2.2	-3.1	14.0						
Nasdaq	18350	-497.1					-2.6	-4.9	-6.6	13.2						
DAX	22516	-631.3					-2.7	0.5	4.7	27.1						
FTSE	8807	-64.5					-0.7	1.6	2.8	15.3						
Nikkei	37331	-454.3					-1.2	-2.4	-3.9	-6.9	Canada - BoC					Mar 12, 2025
Hang Seng	22942	-64.5					-0.3	-0.4	11.4	41.9	US - Fed					Mar 19, 2025
CAC	8056	-143.7					-1.8	0.1	1.9	1.3	England - BoE					Mar 20, 2025
Commodities	Level						% change:									
WTI Crude	67.50	-0.87					-1.3	-2.1	-7.2	-14.3	Euro zone - ECB					Mar 06, 2025
Natural Gas	4.23	0.11					2.6	1.3	30.0	120.8	Japan - BoJ					Mar 19, 2025
Gold	2924.71	31.98					1.1	0.3	31.2	38.3						
Silver	31.53	0.39					1.3	-3.0	0.8	38.8						
CRB Index	300.28	-1.55					-0.5	-2.6	-2.9	8.3						
Currencies	Level						% change:									
USDCAD	1.4443	-0.0039					-0.3	0.9	0.8	6.4	Mexico - Banxico					Mar 27, 2025
EURUSD	1.0540	0.0053					0.5	0.2	1.6	-2.9	Australia - RBA					Mar 31, 2025
USDJPY	148.41	-1.0900					-0.7	-0.4	-3.8	-1.4	New Zealand - RBNZ					Apr 08, 2025
AUDUSD	0.6230	0.0005					0.1	-1.8	-0.4	-4.3						
GBPUSD	1.2733	0.0032					0.3	0.5	2.0	0.3						
USDCHF	0.8900	-0.0068					-0.8	-0.3	-1.7	0.6						

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