

DAILY POINTS

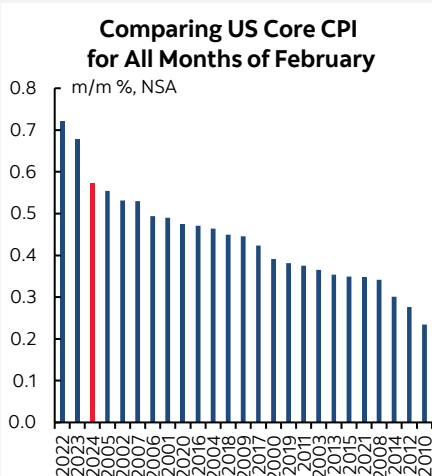
March 12, 2025 @ 7:15 EST

Contributors

Derek Holt

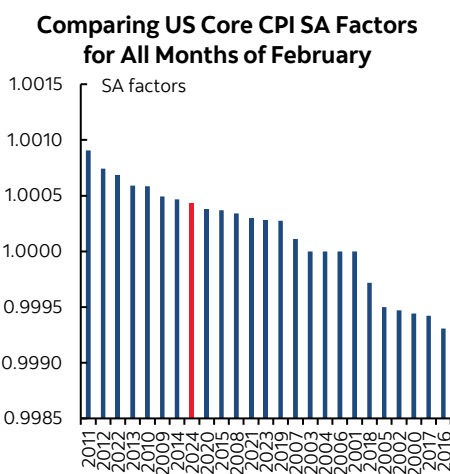
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Chart 1



Sources: Scotiabank Economics, BLS

Chart 2



Sources: Scotiabank Economics, BLS

On Deck for Wednesday, March 12

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	03-12	07:00	MBA Mortgage Applications (w/w)	Feb 28	--	--	20.4
US	03-12	08:30	CPI (m/m)	Feb	0.3	0.3	0.5
US	03-12	08:30	CPI (y/y)	Feb	2.9	2.9	3.0
US	03-12	08:30	CPI (index)	Feb	--	319.3	317.7
US	03-12	08:30	CPI ex. Food & Energy (m/m)	Feb	0.3	0.3	0.4
US	03-12	08:30	CPI ex. Food & Energy (y/y)	Feb	3.2	3.2	3.3
CA	03-12	09:45	BoC Interest Rate Announcement (%)	Mar 12	2.75	2.75	3.00
CA	03-12	10:30	BoC's Macklem Press Conference				
US	03-12	14:00	Treasury Budget (US\$ bn)	Feb	--	-308.0	-128.6

KEY POINTS:

- **Reduced tariff jitters lift risk appetite with US inflation, BoC pending**
- **The BoC is expected to cut with a neutral/hawkish bias...**
- **...as data to date doesn't support easing...**
- **...while crazy US trade policy carries competing effects on demand and supply...**
- **...with fiscal and regulatory supports ahead**
- **US core CPI will only incrementally inform the Fed's 'patience'**
- **Will the post-pandemic Q1 effect again dominate upside risks to core CPI?**
- **Trump is dead wrong on Canadian dairy tariffs**

Yesterday's nuttiness on US trade policy is being unwound across markets. What happens today will be driven more by US CPI and perhaps the Bank of Canada's management of tariff-induced uncertainties. The BoC will be the proverbial canary-in-the-coalmine across global central banks before next week's deluge of decisions, and by way of the signals it sends on how to manage tariff effects on inflation from both the demand and supply sides. We've seen moments when BoC actions can spill over into market implications abroad and this could be one of them as a central bank in a trade-dependent economy weighs in on how to manage tariffs.

US CPI—INCREMENTALLY INFORMING THE FED'S PATIENCE

CPI arrives at 8:30amET. Most forecasters expected 0.3% m/m SA for core CPI. This time I'm on consensus as Scotia's house call in consensus surveys is 0.3% m/m. All core CPI estimates are between 0.2–0.4% m/m with very thin tails in the 0.2 (including a few credible shops), and 0.4 (not very widely watched shops) camps. The Cleveland Fed's 'nowcast' for core CPI rounds up to 0.3%. Outside of that range isn't impossible but is playing random noise given high data deficiencies.

Downside risk is partly informed by the high base effect stemming from the strong 0.4% core CPI rise in January that may have had some distortions with considerations including weather and LA fires. Some mean reversion from the large spike in core services ex-housing in January is possible. Shelter inflation has been range bound over recent months and that is expected to continue. There were also big gains in categories like home and auto insurance premiums, used vehicle prices, recreation services, and drug prices during January that could soften.

Upside risk is partly informed by the pattern over recent years whereby seasonally unadjusted core CPI in m/m terms starts off higher than historically normal (chart 1) against which an average to slightly above average SA factor in the post-pandemic era is applied (chart 2) before we start to see SA factors overinflate readings in future months. New seasonal product lines will rotate into retailers' offerings and each year that happens

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in the post-pandemic environment has entailed notable price spikes reflecting the past year's cost pressures. There could be ongoing effects of harsh weather and LA fires on several categories. Big declines in January's clothing prices could rebound as seasonal offerings rotate.

What does it all matter? Not much. It's CPI, and we also need tomorrow's PPI to inform expectations for the Fed's preferred core PCE gauge that arrives at month-end—after next week's FOMC. The Fed is very clear in signalling patience versus extreme data sensitivities to one or two reports. It's also forward-looking and that's the right way to play an economy that is still in excess aggregate demand that is toying with adding tariffs as an upside risk to inflation. Key will be the extent to which the Trump administration's policies harm growth but also while curtailing the supply side via less appetite to invest and more restrictive immigration policy.

BANK OF CANADA—CUT, HOLD YOUR CARDS CLOSE

This one is a statement-only affair (9:45amET), sans forecasts/MPR, and will be followed by the BoC's press conference (10:30amET). -25bps is priced and widely expected with only two shops including one of the major Canadian banks in the hold camp which seems like a stretch to me! In the other direction, upsizing again would go against everything Macklem has said to date.

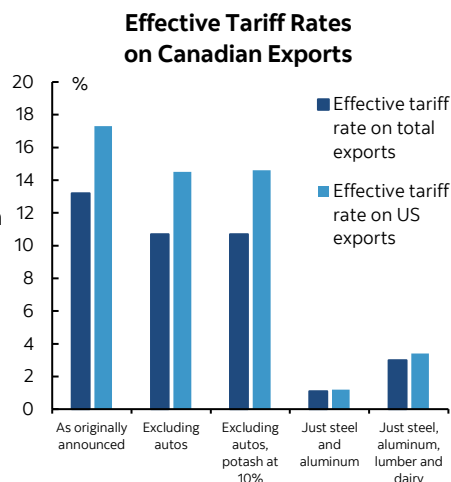
Data to date does not merit easing as argued in my weekly. Everything from GDP to jobs to consumer spending to final domestic demand and, of course, core inflation all says don't cut, to the extent to which backward-looking data matters against forward-looking risks. The narrative that the consumer has been dead for a long time is belied by the actual data; consumption in inflation-adjusted terms fell by 3.6% q/q SAAR last Q1, then 1% in Q2, then 4.2% in Q3 and a whopping 5.6% in Q4. The response to lower rates and immigration's lagging effects plus pent-up demand and pent-up financing supports is readily apparent in the data despite the popular street narrative that the consumer is dead in the water while grappling with mortgage resets. That's just not true.

Further, the tariff threat may be subsiding. We only have steel and aluminum tariffs so far, and while there is no economic rationale for those tariffs, they translate into a minimal impact on the weighted average tariff rate on overall Canadian exports that remains well under what we have incorporated as a shock within our forecasts. Chart 3 shows that the weighted average tariff effect from steel and aluminum tariffs is very small and that the US would have to apply tariffs in other categories in order to meaningfully raise the average tariff shock which it has not done to date compared to the rhetoric. The US administration was very clearly seeking an off-ramp from its ruinous trade policies until provoked, and both sides have backed down again. Macklem is unlikely to commit to future easing in part because of the prospect that US trade rhetoric is so far in a pattern of getting repeatedly pushed out and tamped down. I remain of the view that Trump and the GOP won't wish to be fighting widespread trade wars once midterm election campaigning starts later this year into next and that Trump is frontloading his mischievous and thoroughly unwise trade frictions.

As for dairy tariffs, gimme a break. The US dairy producers pay no tariffs when exporting into Canada because the tariff rates on dairy products from the US coming into Canada kick in at very high levels and US exports are at a fraction of those caps (charts 4, 5). The US uses the same protective system and they were included in Trump's greatest, best ever, more fabulous I-did-it-all CUSMA/USMCA trade deal. And if we want to talk about distorting agricultural sector policies, then any day, Trump; start by ending the hundreds of billions of dollars in subsidies your government grants corporate farms each year through the wasteful Farm Bill.

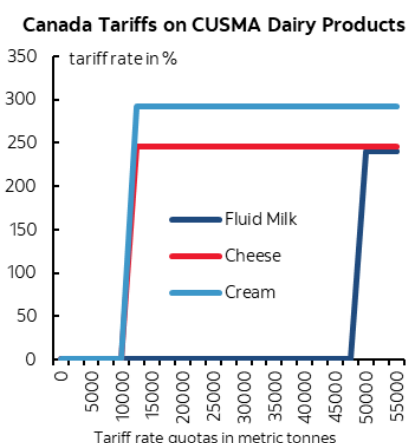
The BoC is already essentially at neutral, as Macklem has previously stated, unless anyone believes we can estimate the precise level. I don't, so the argument you cut in order to land on neutral doesn't hold water. The BoC's neutral rate range runs from 2.25% to 3.25% and the current policy rate of 3% lies within that range.

Chart 3



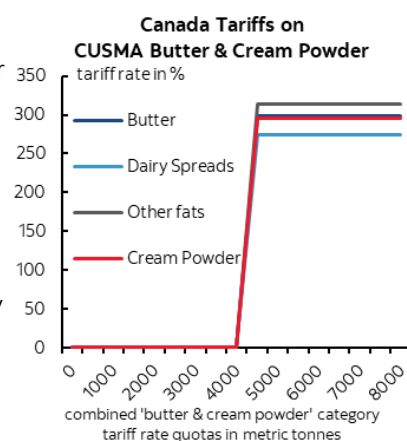
Sources: Scotiabank Economics.

Chart 4



Sources: Scotiabank Economics, CBSA, GoC.

Chart 5



Sources: Scotiabank Economics, CBSA, GoC.

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The easy thing to do would be to give the market its cut, since the confidence hit to spending and investment is already probably invoking damage on both the supply and demand sides that is yet to show up in most of the data. The key lies in terms of where the balance of the effects sits in terms of spare capacity. Reduced confidence and high uncertainty may reduce appetite to spend and take on debt. But it's also restricting the supply side through damaging appetite to invest and by roiling supply chains and by now we know full well how that could impact inflation.

On the bias, I expect Macklem to be very careful in keeping with his prior multiple speeches dating back to September on how the BoC could deal with a trade war. He won't pre-judge potential tariff moves not least of which given how extremely unglued and volatile Trump can be and given the small actions to date. He will repeat the line about how they can help the economy adjust in a trade war—versus the tariff tiffs to date—but that there is a limit given the damage that could be done to the supply side. He also has some help from a weaker currency and fiscal policy measures, both actual to date and potential future measures.

The bottom line is this: Macklem (hopefully) learned through the pandemic experience that it's not all about the demand-side effects. You must pay close attention to the supply side as tariff uncertainties damage supply chains, and you cannot ignore how other policy levers respond. The risks posed by tariffs are not just on the demand side.

The next decision on April 16th may have more fireworks. We might know the outcome of the April 2nd tariff threat. We'll have a lot more data. The April meeting will have a full forecast revision including revised annual estimates for potential growth (the economy's noninflationary speed limit) and for the neutral rate. And so tomorrow is probably about delivering what's expected, sounding careful on the bias, and see ya in April.

Fixed Income	Government Yield Curves (%):												Central Banks	
U.S. 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
	3.95	3.95	4.01	4.04	4.04	4.08	4.29	4.28	4.28	4.60	4.60	4.57		
	2.52	2.52	2.55	2.64	2.64	2.64	3.01	3.01	2.97	3.27	3.26	3.20		
	2.24	2.20	2.25	2.56	2.52	2.49	2.93	2.90	2.79	3.21	3.19	3.08		
0.85	0.84	0.84	1.13	1.12	1.08	1.52	1.52	1.45	2.59	2.59	2.42	US - Fed	4.50	
4.20	4.17	4.27	4.31	4.29	4.35	4.69	4.67	4.68	5.30	5.28	5.26			
CANADA GERMANY JAPAN U.K. <th colspan="12">Spreads vs. U.S. (bps):</th> <th rowspan="5">Euro zone - ECB</th> <th rowspan="5">2.65</th>	Spreads vs. U.S. (bps):												Euro zone - ECB	2.65
	-143	-142	-146	-140	-139	-144	-128	-127	-131	-133	-133	-138		
	-171	-175	-175	-148	-152	-159	-135	-138	-149	-139	-141	-150		
	-310	-311	-317	-291	-292	-300	-276	-277	-283	-201	-200	-216		
	25	23	27	27	25	27	40	39	40	70	69	69		
Equities	Level						% change:						Mexico - Banxico	9.50
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	4.10				
	24248	-132.5			-0.5	-1.3	-5.1	11.1						
	41433	-478.2			-1.1	-2.6	-6.6	6.2						
	5572	-42.5			-0.8	-3.6	-7.9	7.7						
	17436	-32.2			-0.2	-4.6	-11.3	7.2						
22704	374.8			1.7	-1.6	2.5	26.4	New Zealand - RBNZ	3.75					
8548	52.0			0.6	-2.4	-2.9	10.3							
36819	26.0			0.1	-1.6	-5.5	-5.1							
23600	-181.8			-0.8	0.0	8.0	38.1							
8038	96.0			1.2	-1.7	-0.1	-0.6							
Commodities	Level						% change:						Canada - BoC	Mar 12, 2025
WTI Crude Natural Gas Gold Silver CRB Index	66.90	0.65			1.0	0.9	-6.3	-13.7						
	4.32	-0.14			-3.0	-3.0	21.1	151.9						
	2914.92	-0.98			-0.0	-0.2	30.7	35.1						
	32.55	0.05			0.1	2.0	2.6	33.6						
	302.95	0.63			0.2	0.6	-2.8	8.9						
Currencies	Level						% change:						US - Fed	Mar 19, 2025
USDCAD EURUSD USDJPY AUDUSD GBPUSD USDCHF	1.4413	-0.0022			-0.2	0.5	0.7	6.8						
	1.0911	-0.0008			-0.1	1.1	5.1	-0.1						
	148.73	0.9500			0.6	-0.1	-3.7	0.7						
	0.6293	-0.0005			-0.1	-0.7	0.2	-4.7						
	1.2945	-0.0006			-0.0	0.4	4.0	1.2						
0.8824	-0.0003			-0.0	-1.0	-3.4	0.6	Japan - BoJ	Mar 19, 2025					
Mexico - Banxico	Mar 27, 2025													
		Australia - RBA	Mar 31, 2025											
				New Zealand - RBNZ	Apr 08, 2025									

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