

DAILY POINTS

April 7, 2025 @ 7:45 EST

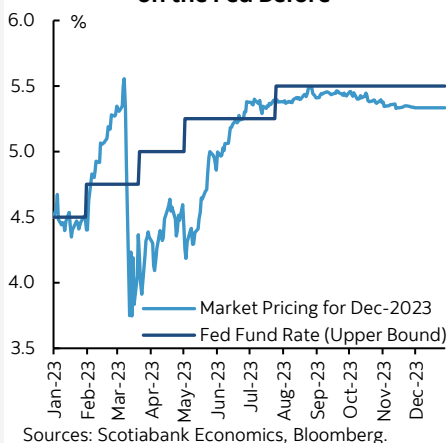
Contributors

Derek Holt

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

Chart 1

Markets Have Been Dead Wrong on the Fed Before



On Deck for Monday, April 7

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	04-07	10:30	Business Outlook Future Sales	1Q	--	--	31.0
US	04-07	10:30	Fed's Kugler Speaks on Inflation Dynamics, Phillips Curve				
US	04-07	15:00	Consumer Credit (US\$ bn m/m)	Feb	--	15.0	18.1

KEY POINTS:

- **Risk-off continues as Trump's tariffs destroy wealth...**
- **...but there are signs of moderation into the N.A. open**
- **Trump and his inner circle dig in and should either stop talking...**
- **...or fix the mess they created**
- **Cuts? Remember 2023 if you think markets always get the Fed right**
- **Fed Governor to speak on inflation today**
- **BoC to deliver stale surveys**
- **Global Week Ahead—Why the Fed's Not Coming to the Rescue (reminder [here](#))**

Trump's tariff wars continue to destroy wealth but there are very tentative signs that markets are pulling back from a bleak overnight session as N.A. begins to come in.

ASSESSING THE DAMAGE

US Treasury yields are clawing their way back from a steep drop as Asia came in last night. The US two-year yield was 22bps lower at first and is now 10bps lower since Friday. US 10s were down 13bps at the Asian open and are now down 2bps to Friday. All Asia-Pacific curves rallied hard, led by August's double-digit declines in yields across maturities. Gilts and EGBs are bull steepening, led by German 2s that are about 12bps lower.

US equity futures are down by around 2% after opening down by 3–4% last evening. TSX futures are down by 1½% after opening down 3%. Stocks in Tokyo fell by nearly 8% with Seoul down by 5½%, HK by 13% as it caught up from a holiday, and Taiwan by 10% as it also caught up. European exchanges are presently down by around 4% which is bad, but not nearly as bad as the 10% drop by the DAX at its open.

Oil is down by about 2% with gold little changed. The dollar is not benefitting. The CHF and yen are leading the pack with the euro holding its own to the USD as the latter isn't really picking up notable flows other than against higher beta and more commodity-driven crosses. CAD is slightly weaker at 1.425.

The S&P is back to where it was in January of last year. If futures hold, then we may either get very close to or cross a 20% drop from the February peak. The 'Magnificent 7' US stocks may be down toward 30% from their December peak. Tariffs are dominating, but buried behind the headlines is the unwinding of a tech bubble that is also aggravated because they are most likely to be in the crosshairs of potential retaliatory measures including from Europe.

Amid such signs, markets are clawing back somewhat into the N.A. session, I still want to see the fuller N.A. session. Asian markets were catching up to all of Friday's developments after they went home and that the US market had already digested and some of the Asian markets were on holidays throughout key developments at the end of the week. That included China's retaliation against the US, solid US payrolls, comments from Trump and his advisers that indicated they were digging in, and then Powell's continued message of policy patience.

TRUMP ADMINISTRATION COMMENTS ARE MAKING IT WORSE

The attitude of the US administration did not, however, show signs of wavering over the weekend. After rolling out his advisers on Friday, we heard from more Trump administration officials through the weekend into this morning. They dug in on tariffs, including Treasury Secretary Bessent who said:

“I see no reason that we have to price in a recession. “

“We get these short-term market reactions from time to time. The market consistently underestimates Donald Trump.”

“We’re going to have to see what the countries offer and if it’s believable. I think we are going to have to see the path forward.

Well, Mr. Bessent, I can think of 24 good reasons to price in a US recession, each one representing the average effective tariff rate that your government imposed upon itself and the world.

Trump said this over the weekend and into this morning:

“Forget markets for a second—we have all the advantages. Sometimes you have to take medicine to fix something.”

“Some day people will realize that Tariffs, for the United States of America, are a very beautiful thing!”

“There is NO Inflation, and the long time abused USA is bringing in Billions of Dollars a week from the abusing countries on Tariffs that are already in place. Make America Great Again!”

We also saw infighting as Musk attacked Navarro including his academic credentials with Navarro taking a swipe back at Musk for his vested interests.

None of which is confidence inspiring. Frankly, it’s an administration in chaos and we’re not even at the first 100 days yet.

TRUMP’S PLEA TO THE FED MAY WELL GO UNANSWERED

Markets are piling into central bank rate cuts. Fed funds futures are pricing about half a 25bps cut on May 7th, inching toward two by the June 18th meeting, and 100–125bps of cuts by year end after entering the Asian session pricing 125–150bps of cuts. OIS markets are pricing about 60% odds of a BoC cut on April 16th and about 75bps of cuts by year-end.

So, are markets correct? Chart 1 serves as a reminder of how markets can severely misread the Fed in the wake of sudden shocks. Fed funds futures were pricing over 150bps of cuts within months of the March 2023 regional bank flare up. The Fed not only delivered no cuts, it instead hiked by 75bps while relying upon tools to assist market functioning and targeted measures, like repo activity and its Bank Term Funding Program.

If the FOMC feels that it must do something in the present context—which is not at all clear—then they have a vast toolkit to call upon including more generous financing terms to banks through repo activity, discount window tweaks, targeted funding programs etc. Rate cuts would not be the first go-to tool.

This shock is different from others and it’s unclear how inflation and unemployment trade-off as both dual mandate goals deteriorate. I wrote about this with empirical estimates in my weekly. There are also massive moral hazard issues for the Fed to bail-out US policy ineptitude; doing so could only embolden Trump’s severely misguided trade policies. They have multiple policy tools to address market dysfunction if severe enough as opposed to price discovery.

LIGHT CALENDAR-BASED DEVELOPMENTS INTO THE N.A. SESSION

Enter Fed Governor Kugler who speaks on inflation dynamics and the Phillips curve today (10:30amET) which may be topical to the current situation. Watch for further developments out of Europe that, in my view, will be, well, Europe—dithering, neither agreeing on retaliation, nor signalling any agreed upon desire to beat a path to Trump’s door to negotiate. So, of the two most powerful blocs, China retaliated, and the US administration doesn’t understand European dysfunction.

We’ll also get the Bank of Canada’s lagging consumer and business surveys including measures of inflation expectations this morning, but they’ll hardly matter in the present context (10:30amET).

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 US - Fed England - BoE Euro zone - ECB Japan - BoJ Mexico - Banxico	2.75 4.50 4.50 2.65 0.50 9.00
	3.59	3.66	3.89	3.67	3.71	3.95	3.99	4.00	4.21	4.44	4.41	4.57		
	2.33	2.36	2.46	2.48	2.50	2.61	2.88	2.88	2.97	3.21	3.19	3.22		
	1.72	1.83	2.05	2.04	2.13	2.34	2.52	2.58	2.74	2.93	2.98	3.09		
	0.58	0.64	0.84	0.74	0.85	1.10	1.12	1.22	1.49	2.28	2.31	2.53		
3.88	3.93	4.20	4.00	4.02	4.28	4.46	4.45	4.68	5.16	5.12	5.28			
CANADA GERMANY JAPAN U.K.	Spreads vs. U.S. (bps):												Euro zone - ECB Japan - BoJ	2.65 0.50
	-127	-129	-143	-119	-121	-134	-111	-112	-124	-123	-122	-135		
	-187	-183	-184	-163	-158	-161	-148	-142	-147	-152	-143	-148		
	-301	-301	-305	-293	-286	-285	-288	-278	-272	-216	-211	-204		
29	28	31	33	31	33	47	45	47	72	71	71	Australia - RBA New Zealand - RBNZ Canada - BoC US - Fed England - BoE Euro zone - ECB Japan - BoJ Mexico - Banxico Australia - RBA New Zealand - RBNZ	4.10 3.75 Apr 16, 2025 May 07, 2025 May 08, 2025 Apr 17, 2025 May 01, 2025 May 15, 2025 May 20, 2025 Apr 08, 2025	
Equities	Level						% change:							
	Last	Change			1 Day	1-wk	1-mo	1-yr						
S&P/TSX	23193	-1142.3			-4.7	-6.3	-6.3	4.2						
Dow 30	38315	-2231.1			-5.5	-7.9	-10.5	-1.5						
S&P 500	5074	-322.4			-6.0	-9.1	-12.1	-2.5						
Nasdaq	15588	-962.8			-5.8	-10.0	-14.3	-4.1						
DAX	19770	-871.6			-4.2	-10.8	-14.1	8.8						
FTSE	7702	-352.8			-4.4	-10.3	-11.3	-2.6						
Nikkei	31137	-2644.0			-7.8	-12.6	-15.6	-20.9						
Hang Seng	19828	-3021.5			-13.2	-15.4	-18.2	18.5						
CAC	6951	-324.0			-4.5	-10.8	-14.4	-13.8						
Commodities	Level						% change:							
WTI Crude	60.56	-1.43			-2.3	-15.3	-9.7	-30.3						
Natural Gas	3.85	0.01			0.2	-6.7	-12.6	115.4						
Gold	3037.25	-0.99			-0.0	-2.8	36.2	30.4						
Silver	31.34	-1.14			-3.5	-8.9	-1.8	16.1						
CRB Index	288.46	-15.09			-5.0	-6.0	-4.8	-3.1						
Currencies	Level						% change:							
USDCAD	1.4247	0.0028			0.2	-1.0	-0.9	5.0						
EURUSD	1.0948	-0.0008			-0.1	1.2	1.1	0.8						
USDJPY	146.47	-0.4600			-0.3	-2.3	-1.1	-3.5						
AUDUSD	0.6037	-0.0003			-0.0	-3.4	-4.3	-8.6						
GBPUSD	1.2814	-0.0073			-0.6	-0.8	-0.8	1.3						
USDCHF	0.8553	-0.0055			-0.6	-3.3	-2.8	-5.5						

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including: Scotiabank Europe plc; Scotiabank (Ireland) Designated Activity Company; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorized by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, and Scotia Inverlat Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.