Scotiabank

GLOBAL ECONOMICS

DAILY POINTS

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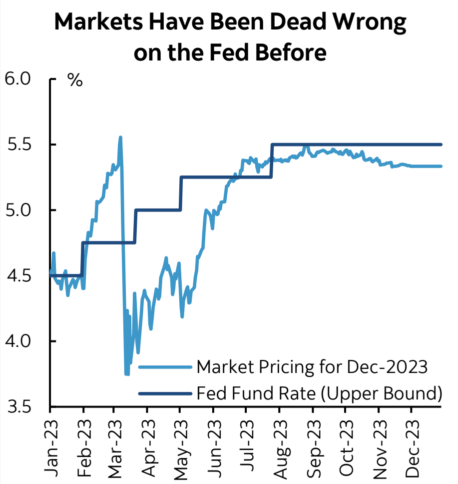
Chart 1



Sources: Scotiabank Economics, Bloomberg.

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 Donal 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 (%):											
	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.	3.59	3.66	3.89	3.67	3.71	3.95	3.99	4.00	4.21	4.44	4.41	4.57
CANADA	2.33	2.36	2.46	2.48	2.50	2.61	2.88	2.88	2.97	3.21	3.19	3.22
GERMANY	1.72	1.83	2.05	2.04	2.13	2.34	2.52	2.58	2.74	2.93	2.98	3.09
JAPAN	0.58	0.64	0.84	0.74	0.85	1.10	1.12	1.22	1.49	2.28	2.31	2.53
U.K.	3.88	3.93	4.20	4.00	4.02	4.28	4.46	4.45	4.68	5.16	5.12	5.28
	Spreads vs. U.S. (bps):											
CANADA	-127	-129	-143	-119	-121	-134	-111	-112	-124	-123	-122	-135
GERMANY	-187	-183	-184	-163	-158	-161	-148	-142	-147	-152	-143	-148
JAPAN	-301	-301	-305	-293	-286	-285	-288	-278	-272	-216	-211	-204
U.K.	29	28	31	33	31	33	47	45	47	72	71	71

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

Central Banks	
Current Rate	
Canada - BoC	2.75
US - Fed	4.50
England - BoE	4.50
Euro zone - ECB	2.65
Japan - BoJ	0.50
Mexico - Banxico	9.00
Australia - RBA	4.10
New Zealand - RBNZ	3.75
Next Meeting Date	
Canada - BoC	Apr 16, 2025
US - Fed	May 07, 2025
England - BoE	May 08, 2025
Euro zone - ECB	Apr 17, 2025
Japan - BoJ	May 01, 2025
Mexico - Banxico	May 15, 2025
Australia - RBA	May 20, 2025
New Zealand - RBNZ	Apr 08, 2025