Scotiabank.

GLOBAL ECONOMICS

DAILY POINTS

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Contributors

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Chart 1

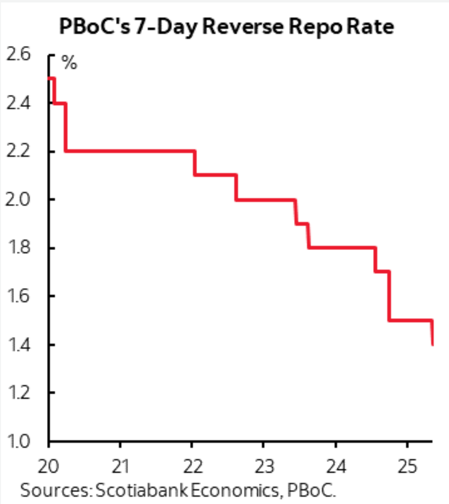
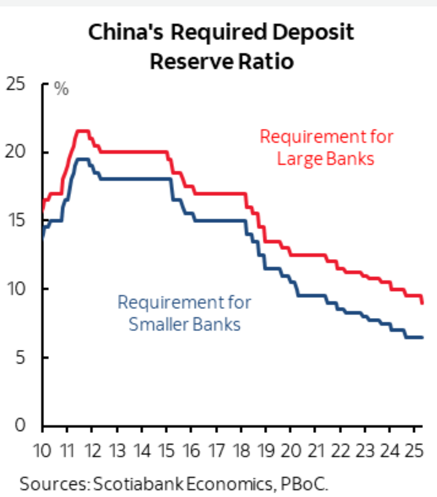


Chart 2



On Deck for Wednesday, May 7

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	05-07	07:00	MBA Mortgage Applications (w/w)	May 02	--	--	-4.2
US	**05-07**	**14:00**	**FOMC Interest Rate Meeting (%)**	**May 7**	**4.50**	**4.50**	**4.50**
US	05-07	15:00	Consumer Credit (US$ bn m/m)	Mar	--	9.4	-0.8

KEY POINTS:

- **Markets weigh FOMC expectations and China headlines**
- **PBOC cuts policy rate, reduces reserve requirements**
- **Bessent's blindingly obvious realization sets low expectations for China talks**
- **FOMC to keep policy unchanged today…**
- **…as Powell continues to emphasize patience…**
- **…that will likely lean against rate cut pricing**

Developments out of China and expectations into this afternoon's FOMC communications are the main focal points in markets. Risk appetite is mixed with US and Canadian equity futures rallying by over ½% but European benchmarks down by up to ¾%. Chinese equities rallied in response to the PBOC's moves last evening and trade headlines, but quickly pared some of that initial gain. India's Sensex was little changed after a further escalation of India-Pakistan tensions. The dollar is slightly firmer. Sovereign bonds are also mixed with mild cheapening of US Ts but mild rallies across European curves. Brazil's central bank is expected to downshift the pace of hikes to +50bps (5:30pmET).

PBOC EASES MONETARY POLICY

China's central bank unexpectedly cut the 7-day reverse repo rate by 10bps to 1.4% effective tomorrow and reduced the reserve requirement ratio for large banks by 50bps to 9% effective one week from tomorrow. Both measures have been on sharply downward trajectories for years (charts 1, 2).

Key is the question of signalling. Are the moves toward trade talks (next, below) combined with monetary policy easing relatively positive signals, or, conversely, do they signal that China is easing in order to brace for difficult and lengthy talks that might merely cease escalating tensions?

EXCESS OPTIMISM ON US-CHINA TRADE TALKS

US Treasury Secretary Bessent and US Trade Representative Greer will meet with Chinese Vice Premier He Lifeng in Switzerland in coming days. Bessent set expectations low when he said that the talks will focus upon de-escalation but not a deal. He stated the blindingly obvious when he noted that current tariff rates are unsustainable and that they amount to a trade embargo that halts trade outright. That was obvious from day one. The US administration has seriously mismanaged its trade relationships with all trading partners and massively overplayed its hand.

POWELL TO PUSH BACK AGAINST RATE CUT EXPECTATIONS

Today's communications only include the statement at 2pmET and press conference 30 minutes later. The next Summary of Economic Projections including a fresh dot plot will be delivered at the June 17th–18th meeting.

I expect the overall tone to continue to reflect patience on the Committee and for Powell to probably indicate that the next meeting would likely be too soon to have enough information to decide upon next policy steps.

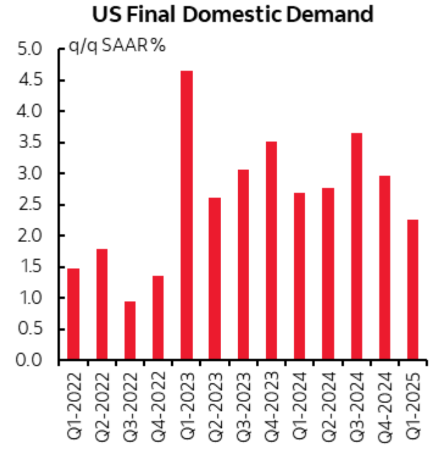
No policy changes are expected. Little change is expected in the statement's wording other than to refresh guidance on roll-off plans after they reduced the monthly redemption cap by $20B to $5B per month and implemented it last month.

As for the presser, I'm expecting Chair Powell to repeat some variant of "we're not going to be in any hurry to move. We're well positioned to wait for further clarity." That's what he said at the April meeting about this meeting, and he has a case to basically rule out a June cut with similar language. Markets once had about 40bps of a cut priced by June and have backed off to less than 10bps now. That still sounds like too much. Why? Because of data, and there is no reason to alter his stance on forward risks to the dual mandate.

On data, he can point to a still-resilient job market as the unemployment rate remains low at 4.2% after 177k nonfarm payroll positions were created in April.

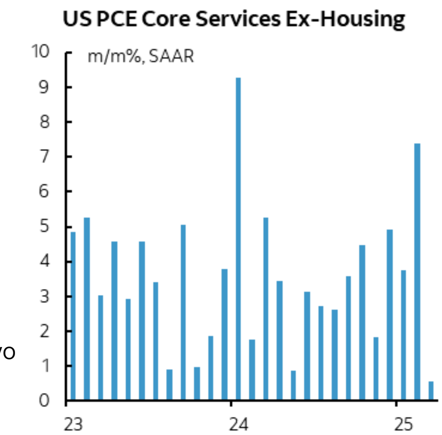
He's also likely to discount Q1 GDP softness of -0.3% q/q SAAR by correctly noting that it was distorted by tariff front-running with a massive import leakage effect from GDP accounts that knocked about five percentage points off of GDP growth. Instead, he's likely to point to Final Domestic Demand that remains resilient (chart 3). In essence, final domestic demand continues to grow in excess of potential GDP.

Chart 3



Inflation was soft in March at 0% m/m SA for the preferred core PCE reading, but that's fresh off readings of 0.5% in February and 0.3% in January and the Committee is likely to smooth through volatile data. The Fed has a particularly close eye on PCE core services inflation ex-housing that has been trending hot before a one-month soft patch (chart 4) while goods inflation is likely to begin taking off effective with the May reading in June.

Chart 4



On forward risks to the dual mandate, I still think arguments laid out a few weeks ago remain valid (**here**). Powell reinforced them at his April 16th appearance in Chicago.

Tariffs will negatively impact employment while raising inflation. Where the balance between the two lies is highly uncertain. As Chair Powell has noted, the FOMC would respond to a shock that poses conflicting influences on its dual mandate of price stability and full employment by being adherent to what it said in its Statement on Longer-Run Goals and Monetary Policy Strategy (**here**). Paragraph six spells out how they would act in such an instance:

"The Committee's employment and inflation objectives are generally complementary. However, under circumstances in which the Committee judges that the objectives are not complementary, it takes into account the employment shortfalls and inflation deviations and the potentially different time horizons over which employment and inflation are projected to return to levels judged consistent with its mandate."

As Powell put it, "You think about how far each variable is from its goal and how long it would take to get back. Then ask what do you need to do. If one of them is further away, then you would focus on that one." In plain English, they would dovishly pivot toward easing if job market conditions deviate from their estimated longer-run 4% neutral unemployment rate and broader assessment of labour market conditions more than inflation deviates from their 2% target. By contrast, they would pivot hawkishly if the opposite were to happen. Should the two be in equal opposition to one another, then the FOMC may be forced into a position that does nothing for some time.

Which narrative comes to dominate is an empirical and data dependent matter with significant uncertainty. That's why Chair Powell recently stated "It's just too soon to say what would be the appropriate monetary policy response. We're waiting for greater clarity before considering further adjustments."

It's still too soon. It will remain too soon next month. Expect that message to resonate loud and clear once more. Even the relatively dovish Governor Waller does not have a leg to stand on in terms of his bias toward easing should job markets begin to crater as there is no real evidence that's happening thus far. Waller dissented at the last meeting because the Committee tapered the pace at which maturing Treasury holdings were allowed to run-off but may be regretting that now. He has a habit of mistiming things like when he guided rate cuts by March 2023. No dissenters are expected this time.

Also see the Global Week Ahead's section on the FOMC **here**.

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.	3.81	3.78	3.60	3.91	3.89	3.73	4.32	4.30	4.16	4.80	4.80	4.68
CANADA	2.54	2.52	2.47	2.75	2.74	2.68	3.15	3.14	3.09	3.48	3.47	3.44
GERMANY	1.74	1.74	1.69	2.05	2.06	1.99	2.51	2.54	2.44	2.96	3.00	2.88
JAPAN	0.62	0.61	0.68	0.85	0.83	0.89	1.31	1.26	1.32	2.90	2.77	2.71
U.K.	3.81	3.83	3.80	3.95	3.97	3.92	4.48	4.51	4.44	5.26	5.31	5.21
	Spreads vs. U.S. (bps):											
CANADA	-127	-126	-113	-116	-115	-105	-117	-116	-107	-132	-133	-124
GERMANY	-207	-204	-192	-187	-183	-174	-181	-176	-172	-184	-179	-180
JAPAN	-319	-317	-293	-306	-307	-283	-301	-303	-285	-190	-202	-197
U.K.	0	5	20	4	8	19	16	22	28	46	51	53

Equities	Level		% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	24975	21.2	0.1	0.4	9.3	12.0
Dow 30	40829	-389.8	-0.9	0.7	7.5	5.0
S&P 500	5607	-43.5	-0.8	0.8	10.8	8.1
Nasdaq	17690	-154.6	-0.9	1.3	13.4	8.3
DAX	23222	-27.9	-0.1	3.5	17.3	26.0
FTSE	8570	-27.2	-0.3	1.3	11.3	3.1
Nikkei	36780	-51.0	-0.1	3.0	18.1	-5.3
Hang Seng	22692	29.2	0.1	3.3	14.4	22.8
CAC	7649	-48.2	-0.6	1.2	10.4	-5.3
Commodities	Level		% change:			
WTI Crude	59.57	0.48	0.8	2.3	-1.9	-24.0
Natural Gas	3.56	0.09	2.7	6.9	-2.7	61.2
Gold	3391.37	-40.40	-1.2	-0.9	52.1	46.6
Silver	33.03	0.66	2.0	-0.6	5.4	24.6
CRB Index	292.23	3.88	1.3	-0.7	3.3	0.9
Currencies	Level		% change:			
USDCAD	1.3786	0.0008	0.1	-0.1	-3.2	0.4
EURUSD	1.1370	0.0000	0.0	0.4	4.2	5.7
USDJPY	143.23	0.7800	0.5	0.1	-3.1	-7.4
AUDUSD	0.6480	-0.0015	-0.2	1.2	8.3	-1.8
GBPUSD	1.3352	-0.0017	-0.1	0.2	4.9	6.7
USDCHF	0.8234	0.0014	0.2	-0.3	-4.2	-9.4

Central Banks	
Current Rate	
Canada - BoC	2.75
US - Fed	4.50
England - BoE	4.50
Euro zone - ECB	2.40
Japan - BoJ	0.50
Mexico - Banxico	9.00
Australia - RBA	4.10
New Zealand - RBNZ	3.50
Next Meeting Date	
Canada - BoC	Jun 04, 2025
US - Fed	May 07, 2025
England - BoE	May 08, 2025
Euro zone - ECB	Jun 05, 2025
Japan - BoJ	Jun 17, 2025
Mexico - Banxico	May 15, 2025
Australia - RBA	May 20, 2025
New Zealand - RBNZ	May 27, 2025