

DAILY POINTS

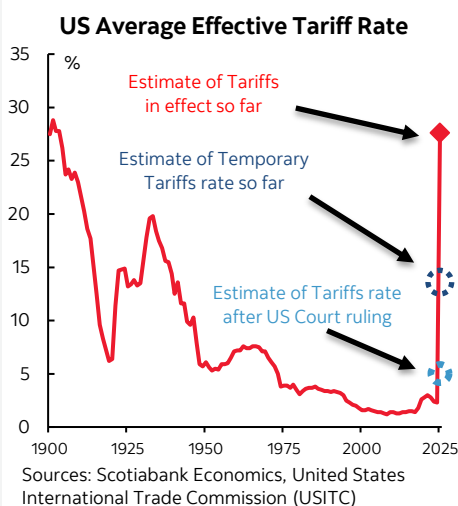
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Contributors

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Chart 1



On Deck for Thursday, May 29

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	05-29	08:30	Payroll Employment Change - SEPH	Mar	--	--	-49.0
CA	05-29	08:30	Current Account (C\$ bn a.r.)	1Q	--	-3.2	-5.0
US	05-29	08:30	GDP (q/q a.r.)	1Q S	-0.3	-0.3	-0.3
US	05-29	08:30	GDP Deflator (q/q a.r.)	1Q S	--	3.7	3.7
US	05-29	08:30	Initial Jobless Claims (000s)	May 24	230	230.0	227.0
US	05-29	08:30	Continuing Claims (000s)	May 17	1890	1893.0	1903.0
US	05-29	08:30	Fed's Barkin Participates in Fireside Chat				
US	05-29	10:00	Pending Home Sales (m/m)	Apr	--	-1.0	6.1
US	05-29	10:40	Fed's Goolsbee Participates in Moderated Q&A				
US	05-29	14:00	Fed's Kugler Gives Opening Remarks				
US	05-29	16:00	Fed's Daly Speaks in a Fireside Chat				
US	05-29	20:25	Fed's Logan Gives Remarks, Speaks in Q&A				

KEY POINTS:

- **Moderate risk-on sentiment driven by trade ruling, tech earnings**
- **US federal court strikes down use of IEEA tariffs...**
- **...but a lengthy appeal process lies ahead...**
- **...and so does a possible game of Tariff Whack-a-Mole**
- **The effective average tariff rates just plummeted**
- **End game: Other countries' retaliatory tariffs could go down, but why negotiate now?**
- **If tariff de-escalation sticks, Canada is at risk of overdoing it on fiscal policy...**
- **...as an added reason for a neutral/hawkish policy bias at the BoC**
- **Nvidia's earnings are helping 6% of the S&P**
- **Canada's big bank earnings season wraps up**
- **BoK cut, SARB may be next**
- **US core PCE inflation may be revised up within GDP revisions**
- **US pending home sales, Canada's stale payrolls survey on tap**
- **US to auction 7s this afternoon**

Yesterday was a nasty day for Taco man and markets are liking it, but not exactly loving it. A positive step against Trump's insane tariffs was undertaken but raises further questions and uncertainties as well as a potentially complicated set of knock-on effects that I'll explain. US equity futures are up by about 1% or a little more for the Nasdaq and benefiting from last evening's trade ruling but also from Nvidia's earnings after the close given its 6.3% weight in the S&P500. TSX futures are up by ¼% and European cash markets are mostly rallying by ¼% to ¾% except for London that is flat. Sovereign bond yields are under mild upward pressure across maturities in the US and Canada but are little change across EGBs and the UK except for a small decline in the gilts front-end. The dollar is mixed but currency moves are generally small. Gold is little changed and oil is up a few dimes.

TARIFF WHACK-A-MOLE MAY BE ABOUT TO BEGIN

I'll reiterate key points made during last evening's coverage of the US trade court ruling for staff and clients.

What happened is that the US Court of International Trade—a federal court—ruled that Trump's use of International Emergency Economic Powers Act provisions to impose tariffs

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Chart 2

Review of Trump's Tariff Toolkit

Tools the US President can use to Impose Tariffs without Congress Approval				
Tool	Requirements	Timeline before tariffs can be imposed	Comments	Trump Tariffs 1.0 (2018 - 2019)
Section 232	President finds a threat to national security; Dept. of Commerce has to conduct an investigation	270 days to issue the finding; President then has 90 days to determine the import adjustment	Commerce department investigates whether a product is being imported in the US that threatens to impair national security	25% Tariff on imported steel & 10% Tariff on imported aluminum (March 2018)
Section 201	USITC does an investigation and must submit a finding	120 - 150 days to submit a finding before tariffs can be implemented		Tariffs on washing machine imports for 3 years & solar cell and module imports for 4 years as a result of Section 201 Investigation (January 2018)
Section 301	USTR investigates unfair foreign practices; can cover a wide range of products	Likely months; Remediation actions reviewed every 4 years		25% Tariffs on up to \$60B of imports from China (March 2018). 10% Tariffs on up to \$200B worth of good from China (September 2018). Later increased to 25%. 10% Tariffs on approx. \$300B worth of additional Chinese goods (August 2019)
Section 338 (of Tariff Act)	Allows the President to impose new or additional tariffs of up to 50% from countries that have discriminated against US products; can also be applied to third countries that benefit from the conduct	Quick - via executive order	Can be challenged via the WTO though this is unlikely to be a strong deterrent to using it	
Section 122 (of Trade Act, 1974)	President has right to address large and serious balance of payments deficits via import surcharges of up to 15% and import quotas	Can be done quickly but for maximum of 150 days, so it's a temporary measure; Congress can extend it	Actions taken must apply evenly to every country	
International Emergency Economic Powers Act (IEEPA)	Grants the President the authority to regulate international commerce after declaring a national emergency in response to any unusual and extraordinary threat to the national security, foreign policy, or economy of the US.	Soon after an emergency is declared		

Sources: Scotiabank Economics, Oxford Economics, Tax Foundation.

under fabricated emergency conditions while bypassing Congress exceeded his legal authority and ordered them to be “vacated,” meaning there is an injunction against using the Act to impose tariffs again. The full ruling is available [here](#). This ruling strikes down the ‘Liberation Day’ tariffs against countries all over the world and also strikes down Trump’s ‘fentanyl tariffs’ against Canada, Mexico and China. An accompanying order stipulates that the US administration has ten days to stop collecting tariffs, unless the appeal process lengthens this period.

A first point of caution that I immediately flagged last evening is that the IEEPA is only one tool that Trump can use to impose tariffs while bypassing Congress. He has used other measures and that means some key tariffs will stick. He used a different tool, Section 232 of the Trade Expansion Act, to impose his tariffs on autos and steel and aluminum and they stick for now. He has used Section 201 provisions in the past to impose tariffs on washing machines and solar panels. Section 301 provisions have been used to impose tariffs on China and tariffs on China have also used IEEPA and Section 232 provisions.

A second point of caution is that the US administration has already said it will appeal the federal court ruling. That could take quite a while given how slow the US courts operate which means uncertainty remains high. That could mean that cancelling collection of the tariffs may be suspended as the appeal is considered.

A third point is that if the appeal fails, then this is probably going all the way to the Supreme Court. Who knows along what timeline this may occur, but given the importance of the issue and the money being collected (ultimately from US businesses and consumers) it may be expedited. I'm not familiar with the process around how that could be done. The Court is done with its normal process of hearing oral arguments in cases (April), goes into recess by late June and returns in October. Ergo, if it goes this route, then it could be several months before the Supreme Court weighs in.

Fourth, we could be embarking upon a game of Tariff Whack-a-Mole in which Trump shifts around the tariff tools he is using. Can't use IEEPA? Fine, I'll use the other tools summarized in chart 2. There are, however, seven other lawsuits plus other forms of opposition such that it's possible further court rulings limit or rule against use of those other tools as well. We could be chasing a lot of executive orders that would be conversion announcements that shift tactics as the administration and the courts engage in this dance. The problem with this approach is that it could turn into a game of tariff whack-a-mole; as soon as they convert from IEEPA tariffs to use some other tool, another court could issue another ruling against that other tool and so on.

Fifth, what effect could this have on the effective average tariff rate on all US imports and specifically Canada and Mexico? John McNally in our group has some tentative calculations to consider. He figures the tariff rate on Canadian total exports now drops by 1.2 ppts to 2.6%,

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while the tariff rate on Mexico's exports drops by 2.3 ppts to 2.0%. The tariff rate on all US imports drops by 7 ppts (8.6% if just goods) to 4.2% (5% if just goods). As chart 1 shows, this would be a massive de-escalation from the peak tariff rates that Trump's earlier actions had imposed that had hit 27% for the highest rate since 1904 but is now potentially a fraction of that. Any hike in tariffs is unhelpful and without justification in my opinion, but we're now looking at relatively minor effects.

Sixth, it's a heck of a time to be a forecaster, but if this ruling sticks and depending upon the course of actions from here, then the risk of recession in the US and Canada has been sharply reduced.

Seventh, if this is a real de-escalation of tariff wars that is being triggered by the US courts and it sticks, then it could be impactful to other policy debates. For instance, the Carney administration in Canada may be at risk of overdoing it on fiscal policy. If so, then it's added reason for the Bank of Canada to sit on its hands for now and merely observe.

Eighth, while it's likely to take time for this next point to unfold as other countries wait out the process unfolding in the US courts, there could be two knock-on effects. One is that other countries could ultimately lower their own retaliatory tariffs which mainly means China given it has had the most aggressive counter-punch to date. Two is that other countries might be less motivated to negotiate trade deals with the US administration and therefore they could drag their heels.

EARNINGS—NVIDIA AND CANADIAN BANKS

Nvidia's results after yesterday's close are helping to buoy market sentiment. EPS was US\$0.96 (consensus 93) and the general impression is that its results and guidance were more resilient than expected in light of US-China tensions.

Canada's quarterly bank earnings season is also wrapping up with CIBC beating (EPS \$2.05, consensus \$1.88). RBC missed expectations (EPS \$3.12, consensus \$3.18) yet increased its dividend by 4% and introduced a buyback plan for 35 million shares.

REGIONAL CENTRAL BANKS WEIGHING IN

The first of a pair of regional central banks cut 25bps last evening (Bank of Korea) and the other may join with its own 25bps cut this morning (SARB, 9amET)).

US CORE PCE MAY BE REVISED HIGHER

US Q1 GDP revisions may be more about what happens to core PCE revisions (8:30amET). Based on monthly revisions, I think core PCE could get bumped up a tick or two from 3.5% q/q SAAR. No conviction around possible revisions to the initial estimate of -0.3% GDP; nor does it matter in the face of forward-looking developments.

The US auctions 7s this afternoon (1pmET). We'll also have US pending home sales in April (10amET), weekly initial jobless claims (8:30amET) and Canada's lagging SEPH payrolls report for way back in March (8:30amET) to consider but next Friday's Labour Force Survey for May will be the thing to watch after the BoC. Watch the wage figures from both measures as Canada continues to register real wage gains (chart 3) despite poor trend labour productivity.

Chart 3

Canada Real Wages



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.	4.01	3.99	3.99	4.09	4.06	4.09	4.50	4.48	4.53	4.99	4.98	5.04	Canada - BoC	2.75
CANADA	2.65	2.62	2.70	2.88	2.85	2.96	3.28	3.24	3.37	3.57	3.54	3.66	US - Fed	4.50
GERMANY	1.79	1.80	1.83	2.11	2.11	2.17	2.55	2.55	2.64	3.03	3.03	3.15	England - BoE	4.25
JAPAN	0.76	0.75	0.74	1.05	1.04	1.03	1.53	1.52	1.57	2.99	2.91	3.18		
U.K.	4.06	4.08	4.03	4.20	4.21	4.20	4.72	4.73	4.75	5.47	5.48	5.55		
	Spreads vs. U.S. (bps):													
CANADA	-136	-137	-130	-121	-121	-113	-122	-124	-116	-142	-144	-138	Euro zone - ECB	2.40
GERMANY	-222	-219	-216	-198	-196	-192	-195	-193	-189	-196	-195	-189	Japan - BoJ	0.50
JAPAN	-326	-324	-325	-304	-302	-306	-297	-297	-296	-200	-206	-186		
U.K.	4	8	4	11	14	11	22	25	22	48	50	51	Mexico - Banxico	8.50
Equities	Level						% change:							
	Last			Change			1 Day	1-wk	1-mo	1-yr				
S&P/TSX	26283			14.5			0.1	1.7	5.7	20.0			Australia - RBA	3.85
Dow 30	42099			-245.0			-0.6	-1.4	3.9	9.5			New Zealand - RBNZ	3.25
S&P 500	5889			-33.0			-0.6	-0.9	5.9	11.8				
Nasdaq	19101			-98.2			-0.5	-0.2	9.4	12.9				
DAX	24125			87.1			0.4	0.5	7.6	30.6				
FTSE	8730			4.2			0.0	-0.6	3.2	6.7				
Nikkei	38433			710.6			1.9	3.9	6.6	1.0			Canada - BoC	Jun 04, 2025
Hang Seng	23573			315.1			1.4	0.1	6.6	29.3			US - Fed	Jun 18, 2025
CAC	7847			58.8			0.8	-0.2	3.9	-1.1			England - BoE	Jun 19, 2025
Commodities	Level						% change:							
WTI Crude	62.18			0.34			0.5	1.0	2.9	-21.5			Euro zone - ECB	Jun 05, 2025
Natural Gas	3.54			-0.02			-0.6	5.0	4.4	41.8			Japan - BoJ	Jun 17, 2025
Gold	3300.04			12.56			0.4	-0.9	48.0	41.1			Mexico - Banxico	Jun 26, 2025
Silver	33.29			0.39			1.2	0.4	0.8	5.5			Australia - RBA	Jul 08, 2025
CRB Index	293.26			-1.49			-0.5	-1.7	-0.3	-1.5			New Zealand - RBNZ	Jul 08, 2025
Currencies	Level						% change:							
USDCAD	1.3831			-0.0006			-0.0	-0.2	-0.0	0.8				
EURUSD	1.1269			-0.0023			-0.2	-0.1	-1.0	4.3				
USDJPY	145.09			0.2500			0.2	0.7	1.9	-8.0				
AUDUSD	0.6432			0.0006			0.1	0.3	0.8	-2.7				
GBPUSD	1.3459			-0.0010			-0.1	0.3	0.4	6.0				
USDCHF	0.8288			0.0016			0.2	-0.0	0.6	-9.2				

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