Scotiabank™

GLOBAL ECONOMICS

DAILY POINTS

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Contributors

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On Deck for Tuesday, January 13th

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	01-13	08:30	Building Permits (m/m)	Nov	--	-5.5	14.9
US	01-13	08:30	CPI (m/m)	Dec	0.3	0.3	0.3
US	01-13	08:30	CPI (y/y)	Dec	2.6	2.7	2.7
US	01-13	08:30	CPI (index)	Dec	--	324.2	324.1
US	01-13	08:30	CPI ex. Food & Energy (m/m)	Dec	0.3	0.3	0.2
US	01-13	08:30	CPI ex. Food & Energy (y/y)	Dec	2.7	2.7	2.6
US	01-13	10:00	New Home Sales (000s a.r.)	Sept	700	715	800.0
US	01-13	10:00	New Home Sales (000s a.r.)	Oct	700		
US	01-13	14:00	Treasury Budget (US$ bn)	Dec	--	-155.0	-173.3
US	01-13	10:00	Fed's Musalem Speaks on MNI Webcast				
US	01-13	16:00	Fed's Barkin in Moderated Conversation				

KEY POINTS:

- **Japan returns from holiday to rock bond markets**
- **PM Takaichi moving toward surprise election call…**
- **…in attempt at securing control to advance more activist policy**
- **Fed's Williams makes it clear that the FOMC is on hold for a while…**
- **…even if his confidence on the current policy stance is expressed on a lark…**
- **…while several Board members may dissent in favour of easing this month**
- **Another fake US CPI report on tap**
- **Why Trump will scoff at foreign central banks rising in defence of Powell**
- **It's hardly surprising that US bank earnings are beating again**

Japan is back from a holiday and rocking global markets ahead of US CPI and bank earnings. The yen is underperforming, JGBs are bear steepening with the 10-year yield up 9bps and the Nikkei rallied by over 3%. The effects are reverberating across global bond markets through the diminishing carry trade. Sovereign yields are gently higher outside of Japan with N.A. equity futures and European equity cash markets playing defence.

The catalyst is that local news reports that PM Takaichi will dissolve the lower house and call a snap election for as soon as February 8th or 15th. Her aim is the build on the momentum since becoming PM in October to try to secure a single-party majority for the Labour Democratic Party. A disciple of the late former PM Shinzo Abe, Takaichi promotes aggressive fiscal stimulus which puts upward pressure on yields given Japan's heavy indebtedness.

Markets have put the Trump-Fed spat on the back burner. Trump is very likely to ignore this morning's **statement** in support of the Fed by a gaggle of foreign central banks (notably except for the BoJ). For one thing, they fall outside of the purview of 'America First' rhetoric. For another, he could turn and say they've all done a lousy job which, in fairness, they did when it came to managing inflation in the pandemic. That's not the same as saying monetary policy would be conducted better by politicians, but these central bankers have little to fall back on by way of their collective performance.

FED'S WILLIAMS CEMENTS A HOLD

NY Fed President Williams delivered a speech last evening (**here**) that made it clear the FOMC will pass on a rate move on January 28th—which has already been priced—and set a high bar for actions at other nearer term meetings such as March.

His speech was more balanced than the immediate flashes that crossed newswires. He acknowledged that labour demand is waning faster than supply and that various measures point to “increasing slack in the labour market” albeit “without signs of a sharp rise in layoffs or other indications of rapid deterioration.” Perhaps, though I think the labour situation is weakening more rapidly than he let on and after multiple under-the-hood considerations behind the headline numbers. Williams also expressed the opinion that the labour market should improve later in the year. His views on the full employment side of the dual mandate don’t make it sound like he’s in a rush to ease. We’ll see how that evolves and frankly I didn’t find any meat to back up his assertions on the outlook for jobs amid the various uncertainties (cycle, policy changes, AI etc).

On inflation, Williams expressed the view that “we’re seeing no signs of broader inflationary pressures.” He stated that tariffs have added around ½% to inflation of around 2¾% y/y while “the upside risks to inflation have lessened somewhat.” Williams expects inflation to peak around 2 ¾% to 3% y/y over 2026H1 and then fall back to 2% into 2027. I’d maintain that the inflationary forces across global supply chains are more insidious and longer-term in nature than more dovish views are anticipating.

Overall, Williams’ remark that “Monetary policy is now well positioned to support the stabilization of the labour market and the return of inflation to the FOMC’s longer-run goal of 2 percent” and his emphasis upon resilience are code language for a pause.

We’ll see how this evolves. I find he’s too dismissive toward sustained labour market weakness and sustained inflation risk which still makes what to do in future an empirical question with respect to which side of the mandate deteriorates the most. In my opinion, that’s jobs and I wouldn’t take comfort in any measures of inflation expectations as they’re all flawed and routinely fail to anticipate broad trends in disinflationary or inflationary pressures over the decades.

There is an alternative way of understanding the Committee’s stance. It’s feasible that the FOMC doesn’t wish to embolden bad fiscal, trade and immigration policies or be viewed as willing to wilt under pressure from Trump in defence of the Fed’s independence. It’s also feasible you will see several dissenters at the January 28th meeting including perhaps at least 2–3 on the Board. #divisions.

US CPI WILL BE MEANINGLESS

After Williams’ remarks, it’s pretty clear that this morning’s CPI report for December (8:30amET) won’t matter to any nearer term decisions by the FOMC. That bolsters the case for why this report won’t matter at all. It’s not a ‘clean’ reading precisely in part because the jumping off point from the prior report was not a clean reading.

See my weekly for a preview (**here**). Here's the distribution of forecasts US core CPI by frequency of forecaster:

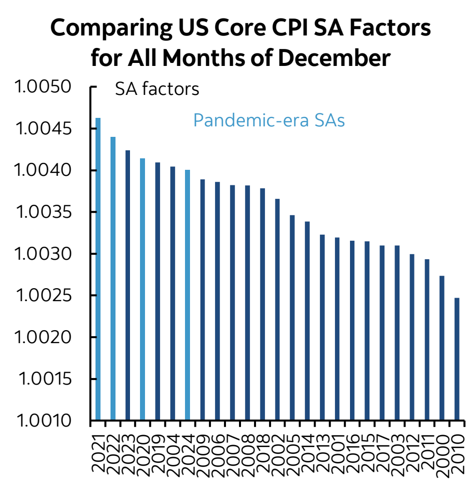
- 2 x 0.5% m/m
- 25 x 0.4%
- 34 x 0.3% (including Scotia)
- 11 x 0.2%

In other words, it's a consensus with no real conviction. If anyone tells you they have high conviction, then count your knuckles after shaking hands with them.

Why? There are too many distortions. It’s garbage data.

- only half a month of price data was collected for November for the most part after most October price data wasn't collected. Some point to that being the period of holiday discounting. The BLS did, however, note that they "attempted to collect data for the entire month of November" so we don't know exactly how much to weight that argument. Plus, maybe the fifth highest November SA factor for core CPI on record wasn't high enough given this, or maybe it was. Watch this month’s SA factor that has tended to be high in recent years (chart 1). Besides, it's not like major categories like OER and rent go on sale.

Chart 1



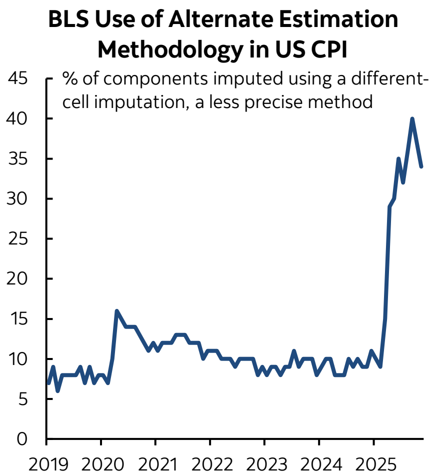
Sources: Scotiabank Economics, BLS

- year-ago CPI and core CPI offered similar issues: if this November was only partially collected in a period of peak discounting compared to full collection during the prior November then the y/y rate may have been artificially depressed in which case we bounce higher by a reset base effect and full collection of data in this December's reading compared to last December’s full month price collection.

- the share of the basket being made up by proxy methods instead of direct collection of price data continues to float around record highs (chart 2).

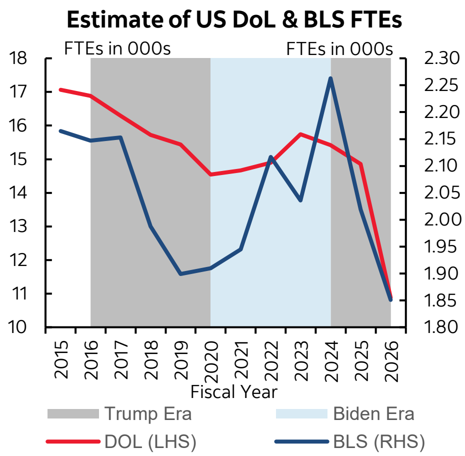
And I don't fundamentally trust the data we're getting from the BLS. Massive staff and resource cuts under Trump 1.0 and 2.0 that Biden attempted to reverse in between both periods carry lasting damage (chart 3). Those cuts affect sampling, data collection, turnaround, revisions, and possibly objectivity.

Chart 2



Sources: Scotiabank Economics, BLS.

Chart 3



Sources: Scotiabank Economics, US Department of Labor.

US BANK EARNINGS SEASON BEGINS

US bank earnings season kicks off. JP Morgan beat with adjusted EPS of US$5.23 (consensus Q4 EPS US$5.0) and stronger than expected revenues in aggregate and across most units except investment banking. BoNYM also beat with EPS of US$2.02 (consensus Q4 EPS US$1.99) and stronger than expected revenues.

These beats shouldn't be much of a surprise. You're usually better off betting on a beat given cautious US analysts after the dot-bomb and SOX periods.

OTHER

The US also updates the weekly ADP private payrolls measure (8:15amET), new home sales for October (10amET) that are expected to drop, and the federal budget balance for December (2pmET). There will also be at least two more Fed speakers on tap including St. Louis President Musalem (10amET) and Richmond's Barkin (4pmET), both of whom are nonvoting in 2026.

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.	3.55	3.54	3.46	3.77	3.76	3.71	4.20	4.18	4.17	4.85	4.83	4.87
CANADA	2.57	2.56	2.58	2.95	2.93	2.96	3.41	3.40	3.43	3.86	3.84	3.89
GERMANY	2.11	2.10	2.10	2.42	2.40	2.42	2.86	2.84	2.84	3.47	3.44	3.48
JAPAN	1.17	1.15	1.19	1.61	1.56	1.60	2.17	2.10	2.14	3.50	3.42	3.50
U.K.	3.67	3.66	3.70	3.86	3.84	3.92	4.40	4.37	4.48	5.13	5.11	5.23
	Spreads vs. U.S. (bps):											
CANADA	-98	-97	-88	-83	-82	-76	-79	-78	-74	-100	-99	-98
GERMANY	-144	-144	-136	-136	-136	-129	-133	-134	-133	-139	-139	-139
JAPAN	-238	-238	-228	-216	-219	-212	-202	-208	-204	-135	-141	-136
U.K.	12	12	23	9	9	20	20	20	31	28	28	36

Equities	Level		% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	32875	261.8	0.8	2.0	4.3	34.0
Dow 30	49590	86.1	0.2	1.3	2.3	17.2
S&P 500	6977	11.0	0.2	1.1	2.2	19.6
Nasdaq	23734	62.6	0.3	1.4	2.3	24.3
DAX	25393	-12.4	-0.0	2.0	5.0	26.1
FTSE	10132	-8.7	-0.1	0.1	5.0	23.2
Nikkei	53549	1609.3	3.1	3.3	5.3	36.6
Hang Seng	26848	240.0	0.9	0.5	3.4	42.3
CAC	8313	-45.6	-0.5	0.9	3.0	12.2
Commodities	Level		% change:			
WTI Crude	60.55	1.05	1.8	6.0	5.4	-23.2
Natural Gas	3.46	0.05	1.6	3.4	-15.8	-12.0
Gold	4584.38	-13.13	-0.3	2.0	6.6	72.1
Silver	84.07	5.93	7.6	12.0	30.3	177.0
CRB Index	304.04	2.57	0.9	0.4	1.9	-1.6
Currencies	Level		% change:			
USDCAD	1.3880	0.0001	0.0	0.5	0.8	-3.5
EURUSD	1.1666	-0.0001	-0.0	-0.2	-0.7	13.9
USDJPY	158.89	0.7500	0.5	1.4	2.4	0.9
AUDUSD	0.6702	-0.0009	-0.1	-0.5	0.9	8.5
GBPUSD	1.3470	0.0005	0.0	-0.2	0.7	10.4
USDCHF	0.7984	0.0010	0.1	0.4	0.3	-12.9

Central Banks	
Current Rate	
Canada - BoC	2.25
US - Fed	3.75
England - BoE	3.75
Euro zone - ECB	2.15
Japan - BoJ	0.75
Mexico - Banxico	7.00
Australia - RBA	3.60
New Zealand - RBNZ	2.25
Next Meeting Date	
Canada - BoC	Jan 28, 2026
US - Fed	Jan 28, 2026
England - BoE	Feb 05, 2026
Euro zone - ECB	Feb 05, 2026
Japan - BoJ	Jan 23, 2026
Mexico - Banxico	Feb 05, 2026
Australia - RBA	Feb 02, 2026
New Zealand - RBNZ	Feb 17, 2026