Scotiabank

GLOBAL ECONOMICS

DAILY POINTS

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Contributors

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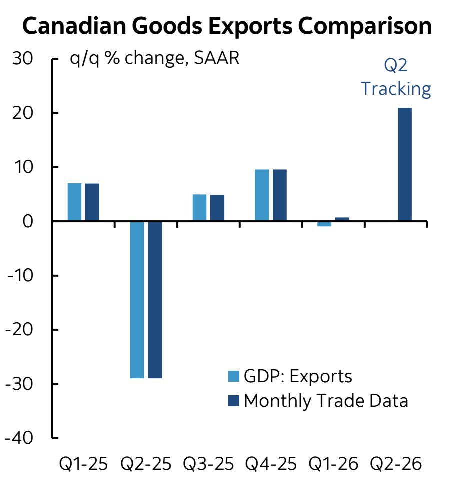
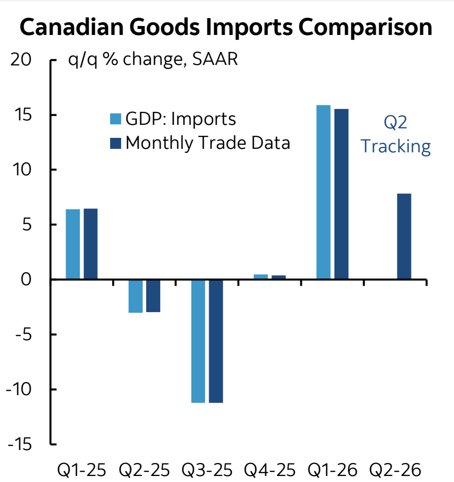
Chart 1



Sources: Scotiabank Economics, Statistics Canada.

Chart 2



Sources: Scotiabank Economics, Statistics Canada.

On Deck for Tuesday, July 7th

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	07-07	08:30	Merchandise Trade Balance (C$ bn)	May	--	2.5	2.7
US	07-07	08:30	Trade Balance (US$ bn)	May	-78.0	-78.5	-55.9

KEY POINTS:

- **Chips weigh on (some) stock indices**
- **Oil up after Qatari ship hit**
- **Tracking Canada's trade rebound…**
- **…and why trade negotiations are an overstated threat**
- **US trade deficit to widen before it narrows…**
- **…and why it has narrowed over time but remains higher than pre-pandemic**
- **Light overnight developments: German IP, Asia-Pacific inflation**

Relatively minor movements are sweeping through global asset classes this morning. Sovereign bond yields are a little higher across the US and Europe. Stocks are mixed with TSX futures up, as US equity futures down and led by the Nasdaq. European indices are a blend of ups and downs after a sea of red across Asian indices led by a 5% plunge by the Kospi with firms like Samsung (earnings) and Hanwa Ocean (lost sub deal) leading decliners. Currencies are mixed with the main outlier move versus the dollar coming from the won.

There were very few drivers overnight. Oil is up a bit after a Qatari LNG ship was hit in the Strait of Hormuz. Calendar-based developments were light including a strong gain by German factory output (0.9% m/m SA) and mixed Asian inflation readings as the Philippines surprised lower while Taiwanese CPI surprised higher.

Tracking Canada's Trade Rebound

Canada refreshes trade figures for May this morning that will further inform tracking of a Q2 rebound. Export volumes have been tracking a powerful surge in Q2 based on Q1 and April data which is highly tentative but encouraging (chart 1) while import volume are ebbing which implies less of an import leakage effect from GDP accounting (chart 2). The combination points to a stronger contribution to Q2 GDP growth that is tracking significantly above 2% q/q SAAR using monthly production-side accounts that do an incomplete job of capturing trade and inventory effects.

Canadian export volumes have been trending higher since 2025Q3 after a pattern of order front-running into Trump's trade war with the world then gave way to a '25Q2 retrenchment. Why the rebound?

For one, the vast majority of Canadian exports are tariff-free because of the CUSMA carve-out that says if one is compliant with the agreement, then no tariffs are charged; 85–90% of exports are compliant and tariff free into the US. For another, the price competitiveness of Canadian exports into the US has strongly improved as USDCAD went from taking 1.2 Canadian dollars to buy one USD in 2021 to over 1.42 now. Third is the strength of the US economy that has generated a solid pull effect on Canadian exports. Further, Canada may be benefitting from an improvement in competitiveness relative to other countries and trade diversion effects because effective US tariffs (taking account of CUSMA compliance) have been lower than applied by the US against other trade partners.

All of this is a big part of why I'm still of the belief that a) trade uncertainty is an overstated shock to the Canadian economy, and b) the misguided US trade wars are likely to divert global trade around the US as new partnerships are secured.

As for investment effects, foreign direct investment into Canada has long been surging including from the US but led by the rest of the world. Foreigners are more bulled up on Canada than Canadian businesses that are yet again underinvesting.

The US Trade Deficit Will Widen Before it Narrows Again

The US also refreshes trade figures for May this morning (8:30amET). The deficit is expected to widen largely on higher oil prices back then, but it should narrow once again as oil prices have fallen. The deficit has narrowed over the past year but I think a main driver has been that there was so much pre-tariff order front-running early last year that drove the deficit to be much wider that there was less need to subsequently import as much. Another driver has been China's dirty-managed currency peg's inability to play a shock absorber role against tariffs which is why the bilateral US-China trade deficit sharply narrowed (chart 3). The chart also shows that China found workarounds as its surplus with the rest of the world increased which was partly driven by finding a back door into the US and partly driven by pursuing opportunities elsewhere.

Chart 3

Sources: Scotiabank Economics, Customs General Administration PRC.

Regardless, the US trade deficit is still tracking wider than it was in the years before the pandemic and likely will continue to do so, tariffs or not as cheating doesn't pay (in trade and elsewhere…). US policies are harming global growth—such as tariffs, the effects of uncertainty, and foreign policy moves—which mean less of a pull effect on US exports from elsewhere. US policies are offering mixed effects on domestic growth but it is generally cooling with GDP up only ½% q/q SAAR in Q4 and 1½% q/q SAAR in Q1 which could carry the offsetting effect of less import growth into the US. If anything bails out the US from misguided trade policies, then it may be its role as one of two epicenters for tech- and AI-driven growth in new products and services over coming years. This serendipitous development

Also on tap in the US will be the weekly ADP private payrolls gauge which in my opinion is utterly useless. I don't like ADP's practice of skipping the weekly estimates when it updates the monthly figures in which it tends to bury major revisions to prior weeks, making the weekly gauge unreliable as a guide to the monthly estimate which itself is usually not helpful as a guide to nonfarm payrolls.

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.	4.14	4.11	4.18	4.23	4.20	4.23	4.50	4.47	4.47	5.00	4.99	4.95
CANADA	2.75	2.73	2.74	3.06	3.03	3.01	3.45	3.42	3.38	3.86	3.84	3.78
GERMANY	2.58	2.55	2.53	2.69	2.66	2.60	2.97	2.95	2.86	3.55	3.53	3.42
JAPAN	1.41	1.39	1.37	1.96	1.94	1.90	2.86	2.83	2.68	4.08	4.08	3.94
U.K.	4.13	4.13	4.15	4.33	4.31	4.30	4.81	4.79	4.76	5.55	5.54	5.47
	Spreads vs. U.S. (bps):											
CANADA	-139	-138	-143	-117	-117	-121	-105	-105	-109	-114	-115	-118
GERMANY	-157	-157	-165	-155	-154	-163	-152	-152	-161	-145	-145	-153
JAPAN	-273	-272	-281	-227	-226	-233	-164	-164	-178	-92	-90	-101
U.K.	-1	1	-2	9	11	7	31	32	29	55	55	52

Equities	Level		% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	35212	-62.5	-0.2	0.7	2.3	30.3
Dow 30	53056	155.8	0.3	2.3	4.3	19.5
S&P 500	7537	54.2	0.7	2.5	2.1	21.0
Nasdaq	26121	288.5	1.1	3.3	1.6	28.0
DAX	25657	-160.5	-0.6	2.6	3.6	6.6
FTSE	10672	20.1	0.2	1.7	2.9	21.2
Nikkei	68257	-1480.7	-2.1	-2.6	2.5	72.4
Hang Seng	23497	-119.4	-0.5	2.0	-5.9	-1.6
CAC	8498	18.2	0.2	1.1	3.4	10.0
Commodities	**Level**		**% change:**			
WTI Crude	69.46	0.91	1.3	-1.8	-23.3	2.3
Natural Gas	3.32	0.07	2.2	4.3	2.7	-2.8
Gold	4133.06	-32.17	-0.8	3.1	-4.6	23.9
Silver	60.69	-1.36	-2.2	3.6	-11.0	65.1
CRB Index	362.31	9.28	2.6	2.9	-3.7	21.1
Currencies	**Level**		**% change:**			
USDCAD	1.4212	0.0007	0.0	0.1	1.9	3.9
EURUSD	1.1433	-0.0008	-0.1	0.1	-0.9	-2.4
USDJPY	161.92	-0.1700	-0.1	-0.4	1.1	10.9
AUDUSD	0.6947	-0.0008	-0.1	0.4	-1.4	7.0
GBPUSD	1.3384	-0.0008	-0.1	0.9	0.3	-1.6
USDCHF	0.8065	0.0014	0.2	-0.2	1.1	1.0

Central Banks	
Current Rate	
Canada - BoC	2.25
US - Fed	3.75
England - BoE	3.75
Euro zone - ECB	2.40
Japan - BoJ	1.00
Mexico - Banxico	6.50
Australia - RBA	4.35
New Zealand - RBNZ	2.25
Next Meeting Date	
Canada - BoC	Jul 15, 2026
US - Fed	Jul 29, 2026
England - BoE	Jul 30, 2026
Euro zone - ECB	Jul 23, 2026
Japan - BoJ	Jul 31, 2026
Mexico - Banxico	Aug 06, 2026
Australia - RBA	Aug 11, 2026
New Zealand - RBNZ	Jul 07, 2026