Scotiabank™

GLOBAL ECONOMICS

DAILY POINTS

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Contributors

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On Deck for Friday, August 14th

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	08-14	08:30	Manufacturing Shipments (m/m)	Jun	-0.1	-0.1	1.3
CA	08-14	08:30	Wholesale Trade (m/m)	Jun	2.7	2.7	0.0
US	08-14	08:30	Retail Sales (m/m)	Jul	0.2	0.1	0.2
US	08-14	08:30	Retail Sales ex. Autos (m/m)	Jul	0.3	0.2	-0.2
US	08-14	10:00	Business Inventories (m/m)	Jun	--	0.1	0.3
US	08-14	10:00	U. of Michigan Consumer Sentiment	Aug P	54.0	54.9	55.2

KEY POINTS:

- **Dollar broadly under pressure**
- **What could Bessent mean by 'unprecedented' actions on Iran?**
- **Bessent's warning could trigger global retaliation and systemic risk**
- **US retail sales, UMich on tap**
- **Light Canadian data includes manufacturing, wholesale activity**

Oil is up by a few dimes at most this morning which could be missing the point about what may be ahead. US Treasury Secretary Bessent threatened "measures like have never been seen in the history of economic isolation on a country" would be imposed upon Iran next week (see below). If that means what I think it could mean, then it could effectively remove all Iranian oil from leaking through the shadow system and that could just be the tip of the iceberg in terms of effects. Markets don't necessarily understand what Bessent's words could mean as a vulnerability into next week. So, for now, sovereign bond yields are little changed with a slight cheapening and steepening bias. Stocks are mixed with US futures flat to a smidge higher, TSX futures a touch lower, and Europe mostly little changed except for a ¾% DAX rally.

The dollar is broadly weaker against all major crosses partly as the lagging effects of diminished Fed bets work their way through alongside reports that the BoJ may be moving toward quicker policy tightening. BoJ pricing for September moved up a couple of points overnight to 20bps.

WHAT COULD BESSENT MEAN?

What could Bessent do to economically isolate Iran further and that has 'never been seen'?

- Target China and India: China is the main buyer of Iranian oil and is involved in undermining US sanctions. The US sanctions some individual Chinese entities and in April announced sanctions against Chinese "Teapot" refineries (**here**). The US could up the actions by sanctioning all—this time including large—Chinese banks and blocking access to the US and global financial systems. That would push China further away from the SWIFT system and block access to correspondent and other forms of banking. It could block access to US dollar funding markets. This would very likely enrage China and risk multiple forms of retaliation and escalation.

- Broaden the scope of sanctions on Iran: This would extend the scope to any global group, company or entity that is involved in buying, financing, insuring or shipping Iranian oil. Looking at you, global banks, currency exchanges, commodity traders, shippers etc. Actions under this category would aim to entirely thwart the sale of oil from Iran to China in yuan and converted to dollars and other currencies via exchange houses in Iran and elsewhere. You target other Middle Eastern nations facilitating this trade by blocking their access to dollar funding and global banking markets. Like Dubai's one-foot-in-and-one-foot-out stance on the war that continues to facilitate Iranian transactions. Dubai fancies itself as a financial center; you destroy such ambitions.

- Target Iranian crypto assets: **This** Treasury announcement last month targeted individuals and entities under a specific Iranian person's name. The US could broaden this action to include freezing access to all Iranian global holdings of crypto, gold, real estate, foreign accounts etc.
- Target global ports: Anyone foreign port that facilitates trade and transactions with shipping companies that transited Iranian ports could be targeted.

And there may well be other creative options in scale and scope. The broad point is to escalate the economic and financial blockade of the Iranian economy and financial system by enveloping all parts of the global economy—namely China—and global financial system that allow Iran to continue to sell oil and access funding markets.

Would it work? I'm not sure. Iran knows suffering. Iran is used to be a pariah. Iran still has friends in low places. Iran has its own means of escalating including unleashing unspeakable terror.

The consequences to the global economy and financial system could also limit or entirely thwart chances at success. I'm sure they know the risks, but Treasury would sharply amplify tensions with China (and India) and could potentially cripple individual banks while not ruling out increased systemic risk within the broader financial system. Cutting off access to dollar funding markets could destabilize major players in the financial system. The spillover effects through a complicated web of connections shouldn't be treated lightly.

The US is finally getting that it can't just bash and bomb its way to victory against Iran. I'm not sure it gets the limitations and risks that could be associated with escalating broader measures at an all-encompassing global level. It could well take a bungled war that the US and Israel went into without much thought, without a strategy, and without an exit plan while not consulting Congress or allies and compound the missteps even further and potentially more seriously.

N.A. DATA ON TAP

As for more mundane, transactional considerations, we have some US and Canadian data on tap. The US is the bigger risk.

US retail sales in July (8:30amET) are expected to post a small nominal, value advance but shrink in real terms adjusted for inflation. UMich consumer sentiment for August follows up (10amET) and we could see initial reactions to the spike in energy prices since UMich's improvement in July alongside the effects of the deteriorating US job market.

Canada offers up manufacturing and wholesale reports for June this morning (8:30amET). Manufacturing sales in dollar terms are expected to be little changed as petro prices drags down gains in other manufacturing sectors but watch volumes and breadth. Wholesale activity is expected to sharply advance based on prior guidance from Statcan (8:30amET).

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.	4.13	4.14	4.20	4.31	4.32	4.35	4.65	4.64	4.65	5.23	5.21	5.20
CANADA	2.92	2.93	2.96	3.23	3.23	3.26	3.63	3.62	3.64	4.05	4.04	4.03
GERMANY	2.77	2.77	2.75	2.89	2.87	2.86	3.16	3.13	3.13	3.68	3.64	3.64
JAPAN	1.67	1.65	1.61	2.14	2.13	2.08	2.89	2.89	2.81	4.03	4.03	3.93
U.K.	4.31	4.31	4.28	4.51	4.50	4.47	4.97	4.95	4.92	5.72	5.70	5.67
	Spreads vs. U.S. (bps):											
CANADA	-121	-122	-123	-108	-109	-109	-102	-102	-101	-118	-117	-117
GERMANY	-136	-137	-145	-142	-145	-149	-149	-151	-151	-155	-157	-156
JAPAN	-246	-249	-258	-217	-219	-227	-175	-176	-184	-120	-119	-127
U.K.	18	16	8	20	18	12	33	31	27	49	48	46

Equities	Level		% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	36759	97.2	0.3	1.7	4.1	31.7
Dow 30	53840	69.7	0.1	-0.1	2.5	19.9
S&P 500	7799	50.5	0.7	1.2	3.4	20.6
Nasdaq	26803	214.5	0.8	1.7	2.7	23.5
DAX	26496	196.6	0.7	0.7	5.4	8.7
FTSE	10769	-3.4	-0.0	-1.2	2.3	17.3
Nikkei	68714	405.2	0.6	4.6	1.4	61.1
Hang Seng	25117	-279.7	-1.1	-2.1	3.2	-1.6
CAC	8657	6.0	0.1	-0.7	3.5	10.0
Commodities	Level		% change:			
WTI Crude	81.62	0.37	0.5	4.4	2.9	27.6
Natural Gas	2.75	0.02	0.8	3.2	-5.4	-3.3
Gold	4361.74	11.35	0.3	0.5	7.6	30.8
Silver	64.96	0.46	0.7	2.2	10.7	70.9
CRB Index	388.37	-4.82	-1.2	3.0	2.9	31.6
Currencies	Level		% change:			
USDCAD	1.3882	-0.0049	-0.4	-0.4	-1.3	0.5
EURUSD	1.1569	0.0041	0.4	0.1	1.3	-0.7
USDJPY	159.12	-0.3800	-0.2	0.9	-1.9	7.7
AUDUSD	0.7082	0.0023	0.3	0.2	1.5	9.0
GBPUSD	1.3540	0.0053	0.4	0.4	1.1	0.1
USDCHF	0.8119	-0.0022	-0.3	0.5	0.3	0.5

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	2.50
Next Meeting Date	
Canada - BoC	Sep 02, 2026
US - Fed	Sep 16, 2026
England - BoE	Sep 17, 2026
Euro zone - ECB	Sep 10, 2026
Japan - BoJ	Sep 18, 2026
Mexico - Banxico	Sep 24, 2026
Australia - RBA	Sep 29, 2026
New Zealand - RBNZ	Sep 01, 2026