The Global Week Ahead: Markets Go Back to School

Scotiabank Economics · 2026-09-04 · English original

- Canada-US tariff war could escalate…
- …as Canada builds investment momentum
- Canada needs a budget!
- Canadian banks — getting the facts straight
- US CPI — Make it or break it time
- FOMC blackout
- ECB to hike, then what?
- BCCh — growth over inflation
- BCRP — hawkish hold?
- Turkey's central bank — hold with hike risk
- Russian central bank — hawkish shift?
- Global macro — UK data dump, global inflation
- Canadian, US markets shut on Monday

It's back to school time after once last Labour Day long weekend hurrah. Kids may groan, but the adults may rejoice—or will they?

For economy-watchers and market participants, the answer all depends upon the outcome of a jam-packed week of relatively high-risk developments. After a nonfarm payrolls print that I frankly do not trust (recap here), what might settle September hike risk at the Federal Reserve could be Friday's CPI reading and the previous day's producer prices. Putting major releases on a Friday is apparently the new method of tormenting economists.

There is also the risk that the trade war started by the Trump administration against Canada could flare anew. Either way, the Carney administration is pivoting toward an investment focus that will gather increasing momentum.

Several central banks will weigh in with the most impactful one being the European Central Bank that is expected to hike on Thursday and to deliver fresh forecasts that may inform the future path.

What follows also addresses the line-up of global indicators and sets the facts straight on misperceptions about Canada's banking system.

On Tuesday, Canada is expected to follow-through on imposing tariffs of 15%, 25% and 50% on about

C$28 billion of US imports. Chart 1 shows the shares of US imports into Canada by tariff bracket. Chart 2 shows the breakdown of the tariffs the US imposes on Canada before talks collapsed and since. The US has threatened to retaliate against Canada's retaliation which was against the US imposing 50% tariffs on about C$28 billion of imports from Canada equal to about 5% of Canada's exports to the US.

May one side or the other blink? It is difficult to judge possible developments behind the scenes.

A more constructive parallel development lies ahead and we will likely begin to hear more about it this coming week. Even though the Canada Investment Summit takes place in Toronto the following week on September 14th–15th, pre-announcements are expected to build momentum. Think of it as Canada moving on by turning the other cheek, so to speak.

The goal is to attract C$1 trillion in investments over the next five years with a focus upon infrastructure, energy, critical minerals and nation-building projects. An estimated 250 power hitters from investment firms, sovereign wealth funds, pension funds and others representing over two dozen countries will arrive.

That sounds like a big number, so is this goal achievable? Why not. A significant amount has been pledged since September 2025. Canada has already seen foreign direct investment rise by over $1½ trillion over the past five years (chart 3). This has happened as the US has continued to invest more but its share has declined from about two-thirds of all FDI into Canada in the 1990s to under 50% now (chart 4). The rest of the world has already been beating a path to Canada's door. Further, Canada sees over C$600B of total business investment per year.

Since we're talking nominal investment, we need to compare this goal to nominal GDP—the value of all goods and services produced by Canada in a given year. That stands at about C$3½ trillion. Grown at about a 4% per year pace, Canada's nominal GDP could rise to about C$4¼ trillion in five years. Total nominal GDP over the next five years could sum to over C$23 trillion. $1 trillion wouldn't be bad, but it's not going to blow the lights out especially since it's unclear how much of this would have happened in any event.

Against such numbers, the $1 trillion in investments over the next five years could, dare we say, be even more ambitious? Perhaps the Carney administration is abiding by the maxim that it's better to under-promise and over-deliver.

The government's aim is to seed this $1 trillion with government inducements totalling $280 billion. It is employing the Productivity Super-Deduction to offer enhanced tax incentives and immediate expensing of cap-ex. This results in a relatively attractive corporate tax regime for such purposes (chart 5). This is being steered through the Major Projects Office that has been announcing several projects in the areas of LNG, nuclear power, critical minerals and transportation infrastructure such as ports totalling $126 billion of potential investments across 15 projects and a half dozen transformative strategies. There are several areas of focus. One is the so-called Defence Industrial Strategy to build out the domestic defence industry.

Why invest in Canada? It's cheap, for one thing. CAD is probably around a dime undervalued, maybe more in a purchasing power parity sense. Equity valuations are still attractive even as Canada's stock market has outperformed the US since the US election (chart 6). The TSX's one-year forward price-earnings ratio stands at about 17¼; it's 28 times on the Nasdaq and 21 times on the S&P500. Funding is attractive with a base rates curve that remains well below the US. And if you don't take my word, then how about chart 7 that shows Canada is ranked #2 behind only the US in terms of attractiveness as an investment destination.

Throughout all of these developments, however, we have a job as a street shop serving clients who pay taxes, work in many parts of the economy, borrow and invest, to question developments in balanced fashion. There are caveats and concerns aplenty that I don't think are getting addressed. For example, $4.7 billion on passenger rail cars at a cost of nearly $7 million per job for the 700 employees is small in a big picture sense, but it's part of a growing number of such announcements.

Canada needs a budget and needs it soon given the speed with which money is flying out the door under the present state capitalism model that is being employed. We need to see a refreshed funding and debt management plan. We need to see the implications for taxes, other spending programs, deficits, and debt issuance.

Another CPI inflation reading could be impactful to expectations for monetary policy actions just days before the FOMC meets the following week. At present, about 17bps of a quarter point rate hike are priced for the September 16th decision. Notwithstanding recent progress, an upside shock could further tip the balance toward pricing a hike that Chair Warsh's deference to markets would probably find irresistible, whereas another soft reading may not.

Friday's total CPI is estimated to rise by 0.4% m/m SA. Core CPI (excluding food and energy) is expected to have risen by 0.3%. If such estimates are on the mark—and I'm a tick higher than consensus on core—then it could reinforce market pricing for a September hike.

Among the ingredients to the estimate are slightly firmer gasoline prices in August over July. Rent and OER are expected to put slightly milder upward pressure on prices than in July and neither primary rent nor owners' equivalent rent are looking like a source of heat (charts 8, 9). Vehicle prices are not expected to be a material contribution. It's the same for food prices. There is expected to be further passthrough of cost pressures into core goods prices and moderate growth in core services prices (ex-housing and energy services).

The producer price index for August will be refreshed the day before CPI and some of its components will serve as input into expectations for core PCE inflation along with what we learn from CPI after adjusting for methodological differences.

Still, the trend in core services and core goods inflation remains soft. Pending August's update and any revisions, the three-month moving averages are 1% and 0% for core services and core goods respectively.

Not much of this is filtering into what used to be the Fed's preferred inflation gauge, core PCE inflation. This measure has been running at a 3% m/m SAAR pace on average over the past three months. Part of the reason could be that PCE updates weights more frequently than CPI and may be capturing more of the AI-related inflation at a quicker pace as the spending weight rises. Further, as chart 10 shows, software and portfolio management services are responsible for about a half percentage point of the overall y/y rise in core PCE and responsible for pushing it over 3%.

Much of this is because of narrowly based price gains. As evidence of this point we have the Dallas Fed's trimmed mean PCE measure that has been running at a 2.2% m/m SAAR pace on a 3mo moving average basis. Charts 11 and 12 shows trimmed and official measures for CPI and PCE respectively.

The rub lies in the fact that we don't know how the FOMC views core inflation under Chair Warsh and namely whether that may change as one of the areas under investigation by one of five taskforces he has established. Market patience for an answer to this fundamental question may be tested if it lasts much longer.

This is part of the uncertainty that is keeping upward pressure on the term premium which is reinforcing the recent increases in longer-term TIPS breakevens as a market guide to inflation expectations.

So is the ongoing question marks surrounding US data quality not just on this past Friday's nonfarm payrolls report, but also toward the record high share of the CPI basket being estimated through proxy methods instead of direct data (chart 13).

CENTRAL BANKS—ONE HIKE, THREE WHIFFS AND A BLACKOUT

The sub header could almost be taken as the outcome of a fight night! Alas, we're talking about the much more sedate world of central banking.

The FOMC goes into communications blackout on Saturday through to the September 15th–16th meeting and therefore don't expect officials to react to the inflation report. In any event, it would be against Chair Warsh's anti-guidance I've-got-a-secret mantra to find a clandestine way to put out a message through the media.

Banco Central de Chile is first up and will probably remain on hold at an overnight policy rate of 4½% on Tuesday. It has held at every meeting so far this year. Inflation is running at 4.3% y/y which is above the 3% target, but core CPI is tamer at 2.5% although rising. Another reading is due just hours before the decision. The bias for now may be to support growth that has vapourized as GDP was flat in Q2 after contracting in Q1.

The European central bank is fully priced to hike its deposit rate by 25bps on Thursday. The question then becomes what next in terms of guidance relative to market pricing for a probable skip in October and then another hike in December.

The ECB's present 2.25% deposit rate is at or close to neutral, unlike some other central banks like the Federal Reserve and Bank of England that we think are still mildly restrictive. This affords less room for error at the ECB in delivering on its price stability mandate.

That's important alongside other differences. A key one is that second-round effects of the commodity—namely energy—price shocks are more material in Europe than elsewhere. Some of the reason for this is because of how its labour markets operate. The dominance of collective bargaining and wage responses to price changes is a bigger consideration than, say, in Canada where one-third of the workforce is unionized and especially compared to the US where only 10% of workers are unionized. US wages set in real time more so than second-round and subsequent effects in Europe.

Enter the evidence. The ECB's wage tracker has been creeping up again (chart 14). You don't get less inflation by paying people more.

Another key reason for leaning against commodity influences on Eurozone inflation is that the Eurozone depends heavily on imported energy and will soon be going into the peak heating season across northern areas.

An additional point is that there is an immaterial amount of economic slack in Europe according to IMF estimates and other estimates show no slack or slight excess demand (chart 15). Faced with a surge in costs, this means that other companies are less likely to be in a position to raise output from a position of slack to take away market share from anyone who tries hiking prices.

All of this information ultimately goes into refreshed forecasts that are due at this meeting. The higher for longer commodity—namely energy—surge means that inflation projections will likely be raised.

Recall that those projections shared four scenarios—shown in Table 4 here—which depended upon the magnitude, length and severity of the energy price shock. Each of their scenarios pointed to the need to tighten monetary policy and it’s hard to argue that the Eurozone isn’t moving into the adverse or worse scenarios.

Banco Central de Reserva del Perú is likely to hold its policy rate at 4.25% on Thursday. It has been there since September of last year. Higher for longer oil prices contribute to a cautious stance by BCRP as inflation remains high. CPI in August rose to 4.4% y/y and core CPI is up 4.5% y/y. Nevertheless, growth is slowing, as GDP was up 2.6% y/y in Q2 (3.6% in Q1). Persistent energy price shocks may increasingly challenge the bias of policymakers who consider these pressures temporary but into El Nino risks.

The Central Bank of Turkey is expected to leave its benchmark repo rate unchanged at 37% on Thursday but don’t discount the risk of renewed tightening or guidance in that direction from this volatile central bank. The lira continues to tumble on what has been a straight-line depreciating path to the dollar. That matters in a country with high import propensities. So do higher-for-longer energy prices. That adds to inflation worries. Inflation is down from the peak rates over 70% and even nearly 90% coming out of the pandemic, but progress has stalled out at 32% y/y.

Following a surprise 25 bp rate cut in July, the Central Bank of Russia is expected to leave its one-week auction rate unchanged on Friday after signalling that “a more gradual reduction in the key rate is required.” That could give way to a more neutral-hawkish approach this time with oil higher for longer on the Iran conflict. The ruble has been a one-way train-wreck ever since June, having lost one-fifth of its value to the dollar. Combined with higher for longer oil prices, the case for continued easing lacks merit.

CANADIAN BANKS—GETTING THE FACTS STRAIGHT

The spreading of false information about Canada’s banking sector is a casualty in trade negotiations gone sour. The record needs to be set straight.

It is untrue that Canada does not allow US banks to operate within the country. This is a decent external summary of the regulations and why such assertions are incorrect. They also note that US banks have had opportunities to acquire domestic franchises but chose not to. Folks who levy mistruths toward Canadian banks simply do not know what they are talking about.

Foreign—including US—banks have been permitted to operate in Canada for about half a century. There are many of them and you can search the list of 343 federally regulated financial institutions here. Often times they have a reputation in the Canadian market for lacking commitment in that they can exploit niches and suddenly retreat.

There are multiple reasons why Canadian banks find the US market to be attractive. Among them is that there has been in a longstanding pattern of consolidation as the US banking market has been slowly getting Canadianized from a comparative advantage standpoint. The McFadden Act of 1927 prohibited interstate branching which resulted in a severe overabundance of banks operating at low economies of scale and scope. Regional banking pacts in the 1970s and the arrival of monolines began to chip away at this framework and then the Riegle-Neal Act of 1994 eliminated interstate banking and branching barriers. The US banking market’s concentration cannot be measured using nationwide asset concentration shares or Herfindahl indices because so much of its concentration remains at the local market level.

A light global calendar will focus upon some UK macro reports, and inflation readings from China, Scandinavian countries and some Latin American markets.

There are no releases due out for Canada this week. Canadian markets will be shut on Monday for Labour Day after which tariffs may re-enter the dialogue as noted.

The only real focus on the US calendar will be the aforementioned inflation data. Otherwise, it's just about existing home sales during August (Thursday), Friday's UMich consumer sentiment, and weekly estimates for ADP private payrolls (Wednesday) and jobless claims (Thursday).

Latin American markets face a pair of CPI readings. Colombia goes first with August's reading (Monday) which is the last inflation reading before BanRep's decision on September 30th. Then Chile releases August's print (Tuesday) just hours before what is expected to be a hold decision by BCCh. Mexico refreshes CPI on Wednesday and here too it is a marker on the path to an expected hold by Banxico on September 24th.

The Bank of England's next move on September 17th is widely expected to be a hold at Bank Rate of 3.75%, but markets are pricing a high probability of a hike in either November or December. Monthly readings for GDP, industrial production, services output and trade during July on Friday are unlikely to swing the decision but will probably reflect some payback for June's 0.3% m/m gain that was fed by weather, tourism and football that helped propel services output.

China basically has no consumer inflation and August's updates on Tuesday night (ET) won't change anything in that regard. CPI has been running at about ½% y/y with core inflation under 1%. That should give the PBOC some room to ease after not hitting its 3% headline inflation target once since early 2020 which in turn was the first time since just after the Global Financial Crisis. Even prior reductions in required reserve ratios have yet to drive a convincing acceleration of domestic currency loan growth (chart 16). It's not an unreasonable question to ask why China is not stimulating its domestic economy to help arrest falling property prices and unleash more consumer supports to the benefit of the world economy. Currency instability as the dirty-managed yuan peg to the dollar falls to its weakest since 2022 and early 2023 is a constraint in that monetary easing could create more widespread financial instability.

Sweden (Monday) and Norway (Thursday) could be worth watching as they update inflation readings. The Riksbank had tamped down nearer term hike pricing at its latest meeting on August 20th which probably ruled out going on September 24th but continued to guide that a rate hike remained a possibility before year-end. Norges Bank's next decision is also on September 24th after holding on August 13th and ahead of fresh forecasts and guidance to be shared this month.

Otherwise, the global calendar is pretty lightly populated with European trade and industrial output figures, Chinese trade data for August.

Source: https://www.scotiabank.com/ca/en/about/economics/economics-publications/post.other-publications.global-week-ahead.september-4--2026.html