

Weekly Bottom Line

January 24, 2025

Highlights

Canada

- The inaugural week of Trump's presidency reminded markets how quickly sentiment can shift. The looming threat of tariffs could raise costs for businesses and consumers on both sides of the border.
- For now, inflation is easing. December inflation data moved closer to the Bank of Canada's target, with consumer inflation expectations anchoring around historical norms.
- Retail sales were weak in November, but December's rebound in the flash estimate suggest stronger year-end activity, supporting a more gradual 25-basis-point cut next week.

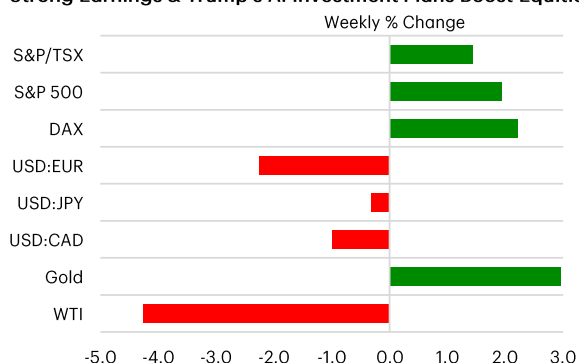
U.S.

- President Donald Trump was sworn in as 47th President on Monday and wasted no time signing a barrage of executive orders.
- While President Trump did not impose any tariffs in Week 1, he threatened Canada and Mexico with a 25% tariff (and later China with a 10% tariff) as early as February 1st.
- But without any immediate action, financial markets breathed a sigh of relief, though this could be short lived as the February 1st deadline quickly approaches.

| This Week in the Markets | | | | |
|------------------------------|----------|----------|--------------|-------------|
| | Current* | Week Ago | 52-Week High | 52-Week Low |
| Stock Market Indexes | | | | |
| S&P 500 | 6113 | 5997 | 6119 | 4846 |
| S&P/TSX Comp. | 25429 | 25068 | 25692 | 20585 |
| DAX | 21369 | 20903 | 21412 | 16859 |
| FTSE 100 | 8496 | 8505 | 8565 | 7512 |
| Nikkei | 39932 | 38451 | 42224 | 31458 |
| Fixed Income Yields | | | | |
| U.S. 10-yr Treasury | 4.63 | 4.63 | 4.79 | 3.62 |
| Canada 10-yr Bond | 3.31 | 3.30 | 3.87 | 2.87 |
| Germany 10-yr Bund | 2.57 | 2.54 | 2.69 | 2.03 |
| UK 10-yr Gilt | 4.64 | 4.66 | 4.89 | 3.75 |
| Japan 10-yr Bond | 1.23 | 1.20 | 1.26 | 0.67 |
| Foreign Exchange Cross Rates | | | | |
| C\$ (USD per CAD) | 0.70 | 0.69 | 0.75 | 0.69 |
| Euro (USD per EUR) | 1.05 | 1.03 | 1.12 | 1.02 |
| Pound (USD per GBP) | 1.25 | 1.22 | 1.34 | 1.22 |
| Yen (JPY per USD) | 155.8 | 156.3 | 161.7 | 140.6 |
| Commodity Spot Prices** | | | | |
| Crude Oil (\$US/bbl) | 74.5 | 77.9 | 86.9 | 65.8 |
| Natural Gas (\$US/MMBtu) | 3.97 | 9.33 | 9.33 | 1.22 |
| Copper (\$US/met. tonne) | 9117.8 | 9081.9 | 10800.8 | 8065.0 |
| Gold (\$US/troy oz.) | 2783.9 | 2703.3 | 2787.6 | 1992.3 |

*As of 10:40 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

Strong Earnings & Trump's AI Investment Plans Boost Equities



Note: Data as of 10:41 AM ET, Friday, January 24, 2025.
Source: Bloomberg, TD Economics.

| Global Official Policy Rate Targets | |
|-------------------------------------|----------------|
| Central Banks | Current Target |
| Federal Reserve (Fed Funds Rate) | 4.25 - 4.50% |
| Bank of Canada (Overnight Rate) | 3.25% |
| European Central Bank (Refi Rate) | 3.15% |
| Bank of England (Repo Rate) | 4.75% |
| Bank of Japan (Overnight Rate) | 0.50% |

Source: Bloomberg.

Canada – Tariff Threat Looms Just as Economy Shows Improvement

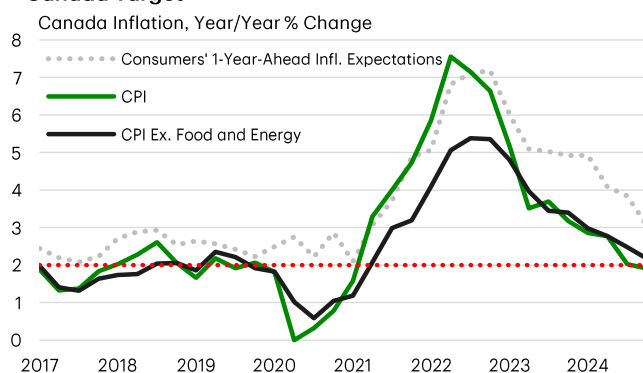
Maria Solovieva, CFA, Economist
416-380-1195

If the inaugural week is anything to go by, the next four years of Trump's presidency promise to be a roller coaster for Canada. Volatility in the Canadian dollar underscores how quickly sentiment can shift: reports of delayed tariffs early Monday lifted the Loonie by more over 1%, only for it to erase those gains later in the day, when Trump announced plans for tariffs as high as 25% on Mexico and Canada by February 1st. At the time of writing, the exchange rate has stabilized around \$0.698 per CAD, about a percent higher than last week.

As history shows tariffs beget tariffs. The Canadian government warned that if imposed, these tariffs will trigger retaliatory measures on up to C\$150 billion worth of U.S. goods. Our [report](#) this week sets the record straight: Canada is America's largest export market, with nearly US\$350 billion goods and services crossing Canada's border over the first three quarters of 2024. The negative impact of tariffs would ripple through business supply chains, raising costs and creating inflationary pressures at the retail level – far from the economic relief Trump promised during his campaign.

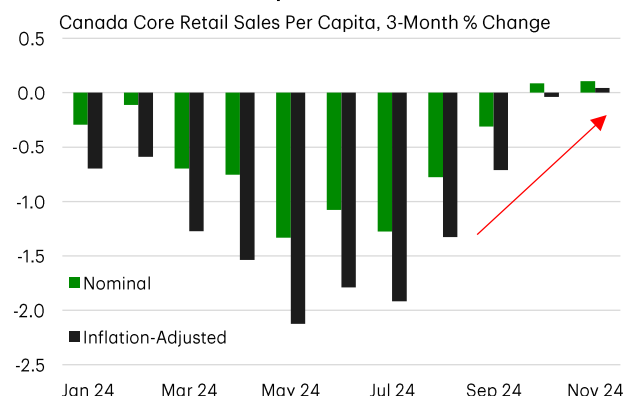
A full-blown trade war remains an outlier scenario, but even targeted tariffs could undermine consumer demand on both sides of the border. The Bank of Canada's recent [Business Outlook Survey](#), sheds light on how firms perceived these risks in the fourth quarter of last year. Conducted after the presidential election but before Trump's 25% tariff threat on Canada and Mexico

Chart 1: Inflation and Expectations Align with Bank of Canada Target



Source: Statistics Canada, TD Economics. Last Observation: December 2024.

Chart 2: Canada Per Capita Retail Sales Return to Growth



Source: Statistics Canada, TD Economics.

in late November, businesses reported concerns over potentially higher input costs due to trade tensions. These costs, if realized, are likely to be passed on to consumers to some extent.

This disruption comes just as the Canadian economy shows signs of recovery. December's [inflation data](#) moved closer to the Bank of Canada's 2% target (Chart 1). While some price categories were temporarily affected by GST tax break, others, like shelter inflation, have seen relief from lower rates. In addition, consumer inflation expectations – as measured by the Canadian Survey of Consumer Expectations – are settling around historical norms, reinforcing confidence in the Bank's ability to instill price stability.

Consumer demand, though soft, continues to recover. November's [retail sales](#) data showed core retail sales (excluding autos and gas) declined by a sizeable 1.0%, but the three-month trend in real core retail sales per capita continued to recover (Chart 2). Spending at restaurants also saw robust gains in November, suggesting consumers are increasing outlays on discretionary areas. Furthermore, the strong flash estimate for December is encouraging, as the GST tax break would weigh on nominal spending tallies as they include GST receipts. On balance, this week's data suggests that the Bank of Canada still needs to continue easing its key rate but proceed more cautiously, with a 25-basis-point cut next week. Markets will also scrutinize the accompanying Monetary Policy Report for insights into how the Bank is incorporating trade risks to its outlook.

U.S. – A Wild First Week

Thomas Feltmate, Director & Senior Economist
416-944-5730

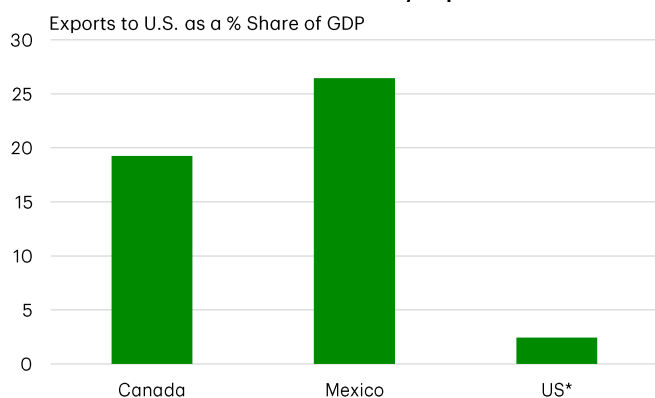
President Trump started his second term in office with a blitz of executive orders targeted at overhauling border and energy policies, pulling out of the global tax deal, unwinding signature Biden administration policies, and imposing a temporary freeze on federal hiring. But perhaps the most surprising development of the week was what didn't materialize – an executive order to impose universal tariffs on major trading partners.

However, President Trump did put Canada and Mexico (and later China) on notice, threatening each with a 25% tariff (10% on China) as early as February 1st, citing increased illegal immigration and drug flows as the primary motive. In addition, the President directed federal agencies to investigate “unfair and unbalanced” trade practices with the U.S. and has set a deadline of April 1st for specific policy recommendations. For now, President Trump has said “he isn't ready to move ahead with universal tariffs on goods from around the world”, but his actions this week suggest that the tariff threats shouldn't be taken lightly.

Financial markets appeared to breath a sigh of relief, with the S&P 500 ending the week 2% higher. However, longer-term Treasury yields were little changed on the week, with the 10-year Treasury yield at 4.65% at the time of writing. Fed funds futures also remained largely unchanged, with 40 bps of cuts priced in by year-end.

Should President Trump follow through on his tariff threats to Canada and Mexico, he would likely have to invoke the International Emergency Economic Powers

Chart 1: Canada and Mexico Heavily Exposed to U.S.



*US exports to Mexico and Canada. Source: Census Bureau, Statistics Canada, National Institute of Statistics and Geography, TD Economics.

Chart 2: Consumers' Expectations on Inflation Have Risen Sharply in Recent Months



Source: University of Michigan, TD Economics.

Act due to both the tight timeline and the fact that he's tying the tariffs to non-trade related issues. But we view this scenario as unlikely and see the tariff threats as a way of applying pressure to extract concessions. This would include tighter border security from its neighbors and perhaps and early reopening of the North American Trade deal ahead of the scheduled 2026 joint review.

While a full blown North American trade war would benefit no one, it's clear that the northern and southern neighbors would feel the brunt of the impact. Measured as a share of GDP, exports from Canada and Mexico to the U.S. account for roughly 19% and 26% of their economies. However, combined U.S. exports to these two countries account for little more than 2% of its GDP (Chart 1). But beyond the hit to growth, there's also the inflation impact to consider. Nearly 60% of the oil & gas imported into the U.S. comes from Canada. Should the U.S. impose a 25% tariff on these imports, or Canada restrict its oil exports as a retaliatory measure, then that alone would have an immediate price impact on U.S. consumers. Beyond the energy dependencies, the North American auto supply chain is also heavily intertwined. Disentangling the production process would be a costly endeavor.

Recent surveys of consumer confidence have already shown a growing unease on the future economic outlook and a jump in inflation expectations (Chart 2). Heighten inflation played a huge role in getting President Trump reelected, and it'll likely serve as a governor on how far the Republicans are willing to push on tariffs.

Exhibits

| Recent Key Economic Indicators: Jan 20 - 24, 2025 | | | | | |
|---|---------------------------------|-----------------|------------|---------|-------|
| Release Date | Economic Indicator/Event | Data for Period | Units | Current | Prior |
| United States | | | | | |
| Jan 23 | Initial Jobless Claims | Jan 18 | Thsd | 223.0 | 217.0 |
| Jan 24 | S&P Global US Manufacturing PMI | Jan | Index | 50.1 | 49.4 |
| Jan 24 | S&P Global US Services PMI | Jan | Index | 52.8 | 56.8 |
| Jan 24 | S&P Global US Composite PMI | Jan | Index | 52.4 | 55.4 |
| Jan 24 | Existing Home Sales | Dec | MIns | 4.24 | 4.15 |
| Canada | | | | | |
| Jan 21 | Consumer Price Index NSA | Dec | M/M % Chg. | -0.4 | 0.0 |
| Jan 21 | Consumer Price Index | Dec | Y/Y % Chg. | 1.8 | 1.9 |
| Jan 22 | Industrial Product Price | Dec | M/M % Chg. | 0.2 | 0.6 |
| Jan 23 | Retail Sales | Nov | M/M % Chg. | 0.0 | 0.6 |
| Jan 23 | Retail Sales Ex Auto | Nov | M/M % Chg. | -0.7 | -0.1 |
| International | | | | | |
| Jan 21 | UK ILO Unemployment Rate | Nov | % | 4.4 | 4.3 |
| Jan 23 | JN Natl Consumer Price Index | Dec | Y/Y % Chg. | 3.6 | 2.9 |
| Jan 23 | JN Jibun Bank Japan PMI Mfg | Jan | Index | 48.8 | 49.6 |

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Jan 27 - 31, 2024

| Release Date | Time* | Economic Indicator/Event | Data for Period | Units | Consensus Forecast | Last Period |
|---------------|-------|--|-----------------|------------|--------------------|-------------|
| United States | | | | | | |
| Jan 27 | 8:30 | Building Permits | Dec | Thsd | - | 1483.0 |
| Jan 28 | 8:30 | Cap Goods Orders Nondef Ex Air | Dec | M/M % Chg. | - | 0.4 |
| Jan 28 | 8:30 | Durable Goods Orders | Dec | M/M % Chg. | 0.8 | -1.2 |
| Jan 28 | 9:00 | S&P CoreLogic CS 20-City NSA | Nov | Y/Y % Chg. | - | 4.2 |
| Jan 28 | 9:00 | S&P CoreLogic CS US HPI NSA | Nov | Y/Y % Chg. | - | 3.6 |
| Jan 28 | 10:00 | Conf. Board Consumer Confidence | Jan | Index | 105.6 | 104.7 |
| Jan 29 | 8:30 | Advance Goods Trade Balance | Dec | Blns | -105.5 | -102.9 |
| Jan 29 | 14:00 | FOMC Rate Decision (Upper Bound) | Jan 29 | % | 4.50 | 4.50 |
| Jan 30 | 8:30 | Gross Domestic Product (Annualized) | Q4 | Q/Q % Chg. | 2.6 | 3.1 |
| Jan 30 | 8:30 | Personal Consumption | Q4 | Q/Q % Chg. | 3.1 | 3.7 |
| Jan 30 | 8:30 | Initial Jobless Claims | Jan 25 | Thsd | - | 223.0 |
| Jan 30 | 10:00 | Pending Home Sales | Dec | M/M % Chg. | -1.0 | 2.2 |
| Jan 31 | 8:30 | Core PCE Price Index | Dec | Y/Y % Chg. | 2.8 | 2.8 |
| Jan 31 | 8:30 | Core PCE Price Index | Dec | M/M % Chg. | 0.2 | 0.1 |
| Jan 31 | 8:30 | PCE Price Index | Dec | Y/Y % Chg. | 2.5 | 2.4 |
| Jan 31 | 8:30 | PCE Price Index | Dec | M/M % Chg. | 0.3 | 0.1 |
| Jan 31 | 8:30 | Personal Income | Dec | M/M % Chg. | 0.4 | 0.3 |
| Jan 31 | 8:30 | Real Personal Spending | Dec | M/M % Chg. | - | 0.3 |
| Jan 31 | 8:30 | <i>Fed's Bowman Speaks on Economy, Banks</i> | | | | |
| Canada | | | | | | |
| Jan 29 | 9:45 | Bank of Canada Rate Decision | Jan 29 | % | 3.00 | 3.25 |
| Jan 29 | 9:45 | <i>BoC Releases Monetary Policy Report</i> | | | | |
| Jan 30 | 6:00 | CFIB Business Barometer | Jan | Index | - | 56.4 |
| Jan 30 | 8:30 | Payroll Employment Change (SEPH) | Nov | Thsd | - | -21.1 |
| Jan 31 | 8:30 | Gross Domestic Product | Nov | M/M % Chg. | -0.1 | 0.3 |
| International | | | | | | |
| Jan 30 | 5:00 | EZ Gross Domestic Product SA | Q4 | Y/Y % Chg. | 1.0 | 0.9 |
| Jan 30 | 5:00 | EZ Unemployment Rate | Dec | % | 6.3 | 6.3 |
| Jan 30 | 7:00 | MX Gross Domestic Product NSA | Q4 | Y/Y % Chg. | - | 1.6 |
| Jan 30 | 8:15 | EZ ECB Main Refinancing Rate | Jan 30 | % | 2.90 | 3.15 |
| Jan 30 | 18:30 | JN Jobless Rate | Dec | % | 2.5 | 2.5 |
| Jan 30 | 18:30 | JN Tokyo Consumer Price Index | Jan | Y/Y % Chg. | 3.0 | 3.1 |
| Jan 30 | 18:50 | JN Retail Sales | Dec | Y/Y % Chg. | 3.5 | 2.8 |

*Eastern Standard Time. Source: Bloomberg, TD Economics.

Disclaimer

This report is provided by TD Economics. It is for informational and educational purposes only as of the date of writing, and may not be appropriate for other purposes. The views and opinions expressed may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and should not be considered specific legal, investment or tax advice. The report does not provide material information about the business and affairs of TD Bank Group and the members of TD Economics are not spokespersons for TD Bank Group with respect to its business and affairs. The information contained in this report has been drawn from sources believed to be reliable, but is not guaranteed to be accurate or complete. This report contains economic analysis and views, including about future economic and financial markets performance. These are based on certain assumptions and other factors, and are subject to inherent risks and uncertainties. The actual outcome may be materially different. The Toronto-Dominion Bank and its affiliates and related entities that comprise the TD Bank Group are not liable for any errors or omissions in the information, analysis or views contained in this report, or for any loss or damage suffered.