

# 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.

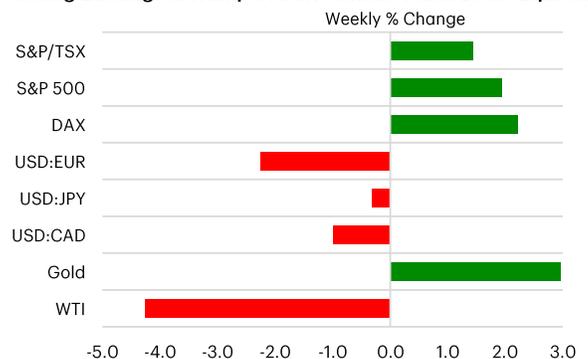
### U.S.

- 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
<b>Stock Market Indexes</b>				
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
<b>Fixed Income Yields</b>				
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
<b>Foreign Exchange Cross Rates</b>				
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
<b>Commodity Spot Prices**</b>				
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

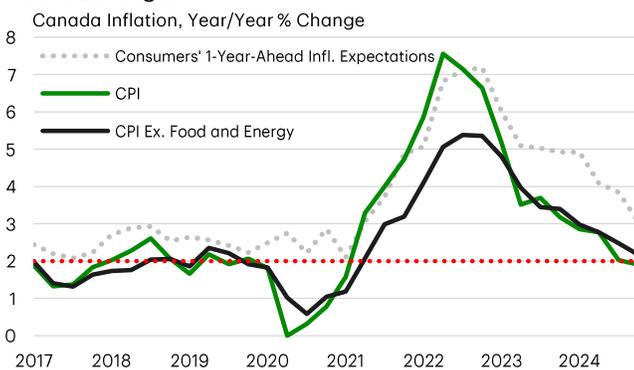
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If the inaugural week is anything to go by, the next four years of Trump's presidency promise to be a roller coaster for Canada. Volatility in the Canadian dollar underscores how quickly sentiment can shift: reports of delayed tariffs early Monday 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.

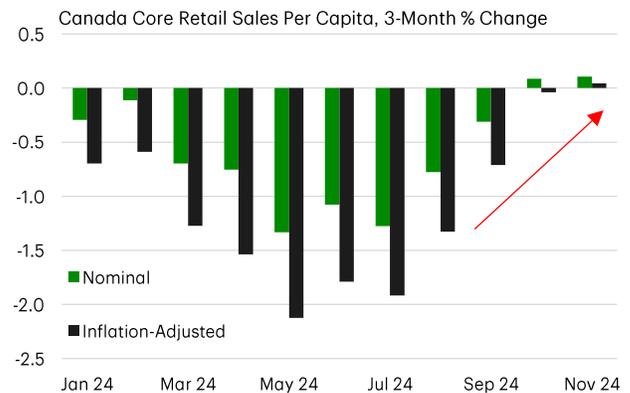
A full-blown trade war remains an outlier scenario, but even targeted tariffs could undermine consumer demand on both sides of the border. The Bank of Canada's recent [Business Outlook Survey](#), sheds light on how firms perceived these risks in the fourth quarter of last year. Conducted after the presidential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

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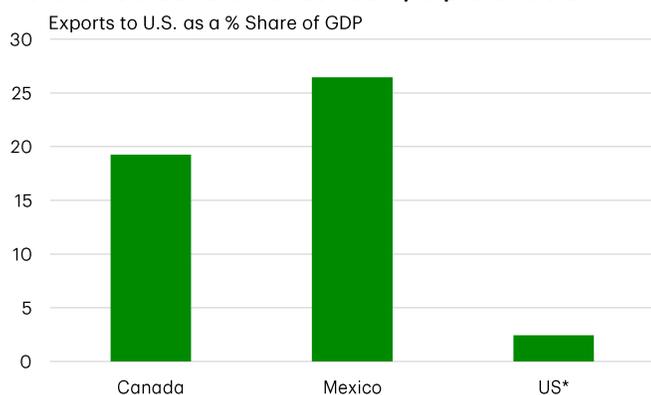
President Trump started his second term in office with a blitz of executive orders targeted at overhauling border and energy policies, pulling out of the global tax deal, unwinding signature Biden administration policies, and imposing a temporary freeze on federal hiring. But perhaps the most surprising 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). Heightened 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
<b>United States</b>					
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
<b>Canada</b>					
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
<b>International</b>					
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
<b>United States</b>						
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>				
<b>Canada</b>						
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
<b>International</b>						
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.

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