

Weekly Bottom Line

February 14, 2025

Highlights

Canada

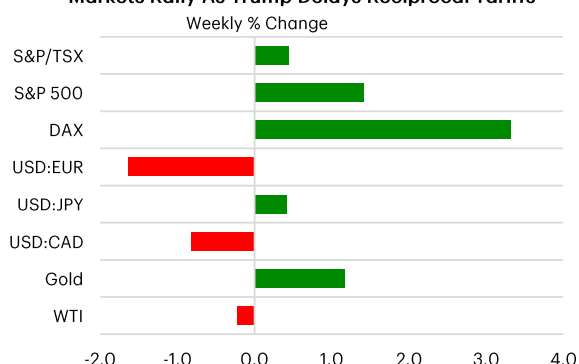
- President Trump announced the re-imposition of steel and aluminum tariffs. This time both metals will face a 25% tariff starting March 12th, with no carve-outs.
- The Bank of Canada's Summary of Governing Council Deliberations highlighted concerns that tariff threats could dampen business investment.
- On inflation, policymakers noted that the BoC might look through a one-time price shock impact but warned on the risk that higher import prices could spill over into other costs, amplifying price pressures.

U.S.

- President Trump announced a universal 25% tariff on all steel and aluminum imports, effective March 12th.
- January CPI came in hotter than expected, with core inflation rising at its fastest monthly pace since March 2024.
- Speaking at a semiannual congressional hearing, Chair Powell emphasized that policymakers were in no rush to cut rates.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	6121	6026	6121	4967
S&P/TSX Comp.	25577	25443	25808	21172
DAX	22498	21787	22612	17047
FTSE 100	8726	8701	8807	7598
Nikkei	39149	38787	42224	31458
Fixed Income Yields				
U.S. 10-yr Treasury	4.45	4.49	4.79	3.62
Canada 10-yr Bond	3.08	3.08	3.87	2.87
Germany 10-yr Bund	2.42	2.37	2.69	2.03
UK 10-yr Gilt	4.50	4.48	4.89	3.76
Japan 10-yr Bond	1.36	1.30	1.36	0.69
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.71	0.70	0.74	0.69
Euro (USD per EUR)	1.05	1.03	1.12	1.02
Pound (USD per GBP)	1.26	1.24	1.34	1.22
Yen (JPY per USD)	152.1	151.4	161.7	140.6
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	71.0	71.0	86.9	65.8
Natural Gas (\$US/MMBtu)	4.43	3.32	9.33	1.22
Copper (\$US/met. tonne)	9434.9	9287.6	10800.8	8223.0
Gold (\$US/troy oz.)	2901.1	2861.1	2928.2	2004.4

Markets Rally As Trump Delays Reciprocal Tariffs



Note: Data as of 11:20 AM ET, Friday, February 14, 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)	3.00%
European Central Bank (Refi Rate)	2.90%
Bank of England (Repo Rate)	4.50%
Bank of Japan (Overnight Rate)	0.50%

Source: Bloomberg.

Canada – Another Week of Tariffs, And Counting.

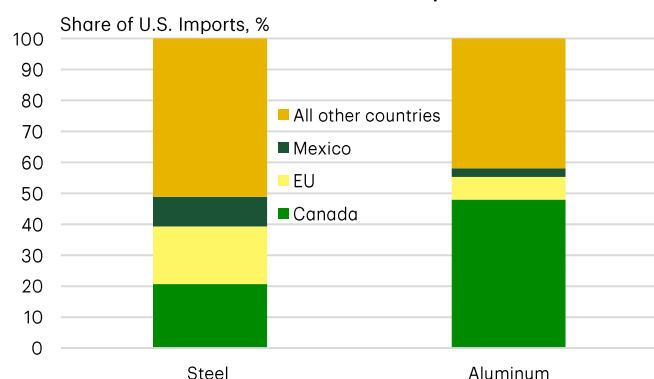
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Four weeks into the new U.S. administration, the continued stream of tariff orders has made assessing their economic impact feel like a Sisyphean task – every time progress is made, new complexities roll in to take its place. On Monday, President Trump announced the re-imposition of [steel and aluminum tariffs](#), originally implemented in 2018 at 25% and 10%, respectively. This time both metals will face a 25% tariff starting March 12th, with no carve-outs. If Canada and Mexico fail to meet U.S. demands on border security and drug trafficking, these tariffs will be stacked on top of the [previously announced blanket tariffs](#), pushing steel and aluminum to 50% each. Market reaction was mixed. Steel prices rose slightly, while stock and bond markets remained relatively numb to tariff news, focusing on the hotter-than-expected U.S. CPI data.

Canada is the most exposed to these tariffs as the largest supplier of U.S. steel and aluminum, accounting for nearly 50% of aluminum and 20% of steel imports (Chart 1). However, these metals make up only 6% of Canada's total merchandise exports. Regionally, Quebec dominates aluminum, while Ontario leads in steel exports, making both provinces most exposed.

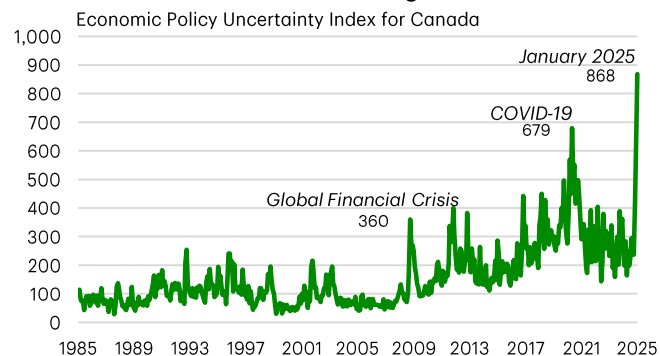
During the 2018 tariffs, Canada's steel exports fell sharply and output only recovered to 2018 levels by early 2022. Aluminum exports fell by a smaller magnitude, however its output remained largely unaffected. The overall economic impact of steel and aluminum tariffs was limited last time both for Canada and the

Chart 1: Canada Supplies a Large Share of U.S. Steel and Aluminum Imports



Source: U.S. Census Bureau, TD Economics.

Chart 2: Canada's Economic Policy Uncertainty Hits Record High



Source: 'Measuring Economic Policy Uncertainty' by Scott Baker, Nicholas Bloom and Steven J. Davis at www.PolicyUncertainty.com, TD Economics.

U.S., though they temporarily pushed U.S. consumer prices higher. This time, the backdrop is different. The higher aluminum tariff this round could have a more detrimental effect on Canada's exporters. Additionally, inflation was subdued in 2018, while now it's a primary concern.

Meanwhile, the uncertainty surrounding U.S. trade policy is already weighing on Canada's economy. The Economic Policy Uncertainty Index for Canada hit a record high in January, before the first tariff announcement (Chart 2). Research suggests that heightened policy uncertainty discourages business investment, as firms delay or scale back capital expenditures. The Bank of Canada's Summary of Governing Council Deliberations, released Wednesday, reinforced this concern, noting that tariff threats "would almost certainly damage business investment in Canada".

Tariffs also increase inflation risks. Canada will likely respond with countermeasures, raising prices for imported goods. While the Bank of Canada might look through a one-term impact, policymakers warned that "given the size of the shock, there was a risk that higher import prices could feed into other prices". Supply chain disruptions could further exacerbate these pressures, though a weaker global trade environment might curb demand and lower oil prices. Meanwhile, a weaker Loonie could help offset export losses but would also make imports more expensive. With these competing forces at play, the BoC faces a delicate balancing act, just like the rest of Canada, bracing for another week of tariff threats.

U.S. – Hot CPI + Trade Uncertainties = Extended Fed Pause

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Tariffs remained the policy focus of the new administration this week, with President Trump announcing a universal 25% [tariff on all steel and aluminum imports](#) into the U.S., effective March 12th. Financial markets were largely unperturbed by the announcement, perhaps because the more targeted measures hinted towards a broader pivot on how the administration planned to implement its tariff agenda. But a hotter-than-expected CPI reading for January and a firm commitment from Chair Powell that policymakers were in no hurry to cut rates, helped to temporarily sour the mood by mid-week. Treasury yields across the curve briefly pushed higher only to completely retrace on Thursday, as President Trump's threat of announcing further reciprocal tariffs showed no immediate action. The S&P 500 ended the week 1.6% higher, while Treasury yields were largely unchanged, with the 10-year currently sitting at 4.47% (Chart 1).

The steel and aluminum tariffs announced on Monday come just a week after Canada and Mexico were able to get a 30-day delay on the blanket 25% tariffs that were supposed to go into effect on February 1st. But unlike those tariffs, the administration has some historical precedence for the steel and aluminum tariffs, with President Trump having enacted similar measures back in 2018/19. For most countries, the previous tariffs had been lifted. However, this week's announcement would reinstate the 25% tariff on steel and ups the tariff on aluminum to 25% (previously 10%), with no country exemptions.

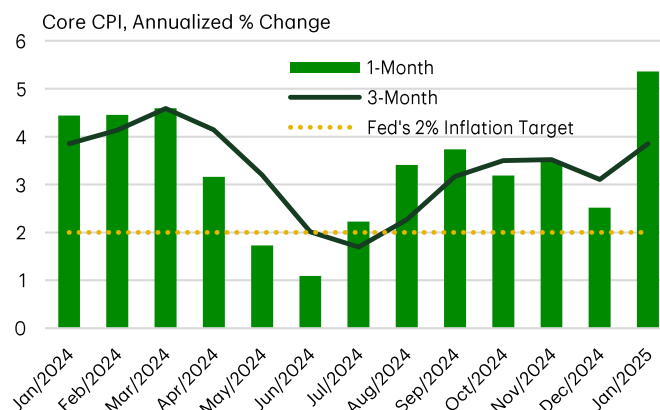
The ratcheting up of trade tensions has come at particularly challenging time for policymakers, as the Fed's fight to return price stability has hit a wall. [The January](#)

Chart 1: Treasury Yields Briefly Push Higher On Hot CPI Data



Source: Federal Reserve Board, TD Economics. *As of Friday, February 14th 2025 at 10am.

Chart 2: Inflationary Pressures Heat Up in January



Source: Bureau of Labor Statistics, TD Economics.

[CPI reading](#) showed headline inflation rising at its fastest monthly pace in nearly a year and a half, while core inflation's gain was the largest since March 2024 (Chart 2). Residual seasonality looks to be at least partially responsible for January's uptick – as it was in the early months of last year. This appears to be a legacy issue stemming from the pandemic.

Historically, businesses tend to build in big price adjustments at the beginning of each year, which would normally be corrected for with appropriate seasonal factors. But during the COVID pandemic, firms were much faster to pass on price increases, distorting the seasonal patterns, and biasing the January inflation readings higher in recent years.

But it's unlikely that residual seasonality is telling the whole story. Consumer spending remained incredibly strong through the second half of last year – averaging an impressive 3.6% annualized. Moreover, spending on both goods and services was very healthy in Q4, helping to explain the breadth of price pressures last month. While the January retail sales data point to a sharp slowing in spending, those figures were likely impacted by inclement weather and the California wildfires – suggesting some giveback in spending in February.

At this point, the Fed appears to have plenty of runway to maintain its current policy rate and wait for more clarity on the inflation front. This is unlikely to come with just the next few inflation readings, which means the Fed is on hold until at least the summer.

Exhibits

Recent Key Economic Indicators: Feb 10 - 14, 2025					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Feb 11	NFIB Small Business Optimism	Jan	Index	102.8	105.1
Feb 12	Consumer Price Index	Jan	M/M % Chg.	0.5	0.4
Feb 12	Consumer Price Index Ex Food and Energy	Jan	M/M % Chg.	0.4	0.2
Feb 12	Consumer Price Index	Jan	Y/Y % Chg.	3.0	2.9
Feb 12	Consumer Price Index Ex Food and Energy	Jan	Y/Y % Chg.	3.3	3.2
Feb 13	PPI Final Demand	Jan	M/M % Chg.	0.4	0.5
Feb 13	PPI Ex Food and Energy	Jan	M/M % Chg.	0.3	0.4
Feb 13	Initial Jobless Claims	Feb 08	Thsd	213.0	220.0
Feb 14	Retail Sales Advance	Jan	M/M % Chg.	-0.9	0.7
Feb 14	Retail Sales Ex Auto and Gas	Jan	M/M % Chg.	-0.5	0.5
Feb 14	Industrial Production	Jan	M/M % Chg.	0.5	1.0
Feb 14	Capacity Utilization	Jan	%	77.8	77.5
Feb 14	Manufacturing (SIC) Production	Jan	M/M % Chg.	-0.1	0.5
Feb 14	Business Inventories	Dec	M/M % Chg.	-0.2	0.1
Canada					
Feb 14	Manufacturing Sales	Dec	M/M % Chg.	0.30	0.80
International					
Feb 13	UK Gross Domestic Product	4Q	Y/Y % Chg.	1.4	1.0
Feb 14	EZ Gross Domestic Product SA	4Q	Y/Y % Chg.	0.9	0.9
Feb 14	EZ Employment	4Q	Y/Y % Chg.	0.6	1.0

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Feb 17 - 21, 2025						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Feb 17	9:30	<i>Fed's Harker Speaks on the Economic Outlook</i>				
Feb 17	10:20	<i>Fed's Bowman Speaks to American Bankers Association</i>				
Feb 17	18:00	<i>Fed's Waller Gives Speech on Economic Outlook</i>				
Feb 18	8:30	Empire Manufacturing	Feb	Index	-1.0	-12.6
Feb 18	10:00	NAHB Housing Market Index	Feb	Index	47.0	47.0
Feb 18	10:20	<i>Fed's Daly Speaks to American Bankers Association</i>				
Feb 18	13:00	<i>Fed's Barr Discusses AI, Financial Stability</i>				
Feb 19	8:30	Housing Starts	Jan	Thsd	1394.0	1499.0
Feb 19	8:30	Building Permits	Jan	Thsd	1448.0	1482.0
Feb 19	14:00	FOMC Meeting Minutes	Jan 29			
Feb 19	17:00	<i>Fed's Jefferson Speaks on Household Balance Sheet</i>				
Feb 20	8:30	Initial Jobless Claims	Feb 15	Thsd	-	213.0
Feb 20	9:35	<i>Fed's Goolsbee Speaks in Moderated Q&A</i>				
Feb 20	12:05	<i>Fed's Musalem Speaks to Economic Club of New York</i>				
Feb 20	14:30	<i>Fed's Barr Speaks on Supervision and Regulation</i>				
Feb 20	17:00	<i>Fed's Kugler Speaks on Inflation, Phillips Curve</i>				
Feb 21	9:45	S&P Global US Manufacturing PMI	Feb	Index	-	51.2
Feb 21	9:45	S&P Global US Services PMI	Feb	Index	-	52.9
Feb 21	9:45	S&P Global US Composite PMI	Feb	Index	-	52.7
Feb 21	10:00	Existing Home Sales	Jan	Mlns	4.15	4.24
Feb 21	11:30	<i>Fed's Jefferson Speaks on Central Bank Communication</i>				
Canada						
Feb 17	8:15	Housing Starts	Jan	Thsd	250.0	231.5
Feb 18	8:30	Consumer Price Index NSA	Jan	M/M % Chg.	0.1	-0.4
Feb 18	8:30	Consumer Price Index	Jan	Y/Y % Chg.	1.9	1.8
Feb 18	8:30	CPI-Median	Jan	Y/Y % Chg.	2.4	2.4
Feb 18	8:30	CPI-Trim	Jan	Y/Y % Chg.	2.6	2.5
Feb 18	9:00	Existing Home Sales	Jan	M/M % Chg.	-	-5.8
Feb 20	8:30	Industrial Product Price	Jan	M/M % Chg.	-	0.2
Feb 21	8:30	Retail Sales	Dec	M/M % Chg.	1.6	0.0
Feb 21	8:30	Retail Sales Ex Auto	Dec	M/M % Chg.	-	-0.7
Feb 21	12:30	<i>BoC's Macklem Speaks to Mississauga Board of Trade & Oakville Chamber of Commerce</i>				
International						
Feb 18	2:00	UK ILO Unemployment Rate (3 Mths.)	Dec	%	4.5	4.4
Feb 19	2:00	UK Consumer Price Index	Jan	Y/Y % Chg.	2.8	2.5
Feb 20	18:30	JN National Consumer Price Index	Jan	Y/Y % Chg.	4.0	3.6
Feb 20	19:30	JN Jibun Bank Japan PMI Mfg	Feb	Index	-	48.7
Feb 20	19:30	JN Jibun Bank Japan PMI Services	Feb	Index	-	53.0
Feb 21	2:00	UK Retail Sales Ex Auto Fuel	Jan	Y/Y % Chg.	0.5	2.9
Feb 21	7:00	MX Gross Domestic Product NSA	4Q	Y/Y % Chg.	-	0.6

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

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