

# Weekly Bottom Line

May 23, 2025

## Highlights

### Canada

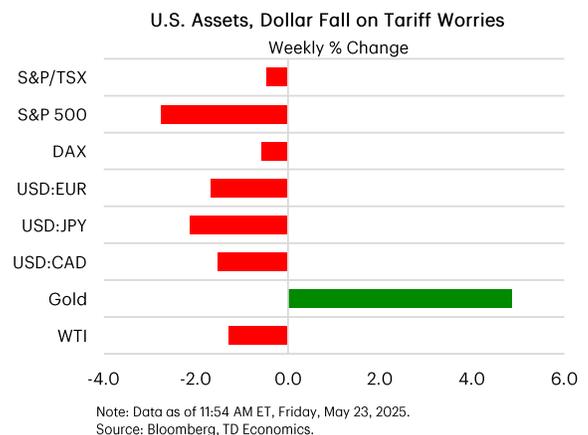
- The Canadian dollar firmed against the USD, gaining over 1.0% and is currently sitting at 72.7 cents U.S. in this holiday shortened week.
- April data for Canada's economy were generally healthy, suggesting Q1's solid momentum continued into the second quarter.
- Outlays on cars and parts helped to support strong retail spending in March, though tariff front-running was likely a factor, suggesting some giveback in the months ahead.

### U.S.

- The U.S. House of Representatives passed its version of the reconciliation bill, which includes major tax cuts and expands the U.S. deficit over the next ten years.
- U.S. government bond yields moved up this week, likely due to a combination of the market response to higher deficits and expectations of higher inflation.
- Expectations for U.S. interest rates have moved higher this week, as data start to show signs of price pressures.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
<b>Stock Market Indexes</b>				
S&P 500	5782	5958	6144	4983
S&P/TSX Comp.	25810	25972	26056	21517
DAX	23652	23767	24122	17339
FTSE 100	8714	8685	8871	7679
Nikkei	37160	37754	42224	31137
<b>Fixed Income Yields</b>				
U.S. 10-yr Treasury	4.52	4.48	4.79	3.62
Canada 10-yr Bond	3.35	3.17	3.76	2.83
Germany 10-yr Bund	2.57	2.59	2.90	2.03
UK 10-yr Gilt	4.70	4.65	4.89	3.76
Japan 10-yr Bond	1.54	1.46	1.59	0.79
<b>Foreign Exchange Cross Rates</b>				
C\$ (USD per CAD)	0.73	0.72	0.74	0.69
Euro (USD per EUR)	1.13	1.12	1.15	1.02
Pound (USD per GBP)	1.35	1.33	1.35	1.22
Yen (JPY per USD)	142.7	145.7	161.7	140.6
<b>Commodity Spot Prices**</b>				
Crude Oil (\$US/bbl)	61.6	62.5	83.9	57.1
Natural Gas (\$US/MMBtu)	3.01	3.03	9.33	1.22
Copper (\$US/met. tonne)	9516.4	9479.0	10380.8	8571.4
Gold (\$US/troy oz.)	3359.2	3203.7	3431.8	2293.8

\*As of 11:16 AM on Friday. \*\*Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.



Global Official Policy Rate Targets	
Central Banks	Current Target
Federal Reserve (Fed Funds Rate)	4.25 - 4.50%
Bank of Canada (Overnight Rate)	2.75%
European Central Bank (Refi Rate)	2.40%
Bank of England (Repo Rate)	4.25%
Bank of Japan (Overnight Rate)	0.50%

Source: Bloomberg.

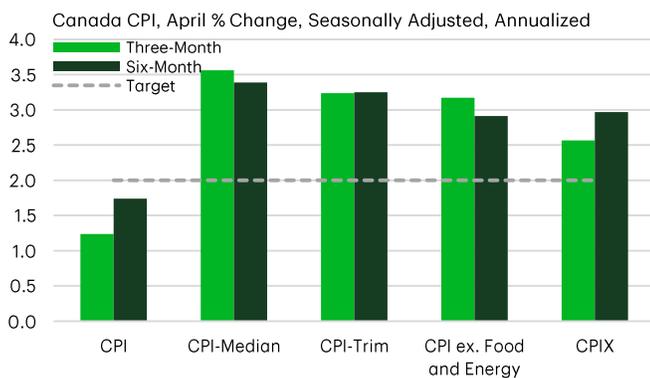
## Canada – Economic Data Support CAD Rally

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A bit of a muddy picture for markets this week, with renewed tariff threats from south of the border arresting this week's sell-off in government bonds. However, with new tariff threats and some evidence of inflationary pressures heating up, the Canadian dollar firmed against the USD, gaining over 1.0% and currently sitting at 72.7 cents U.S. Looking beyond the headlines to close out the week, the April data for Canada's economy were surprisingly healthy, pointing to continued momentum heading into the second quarter.

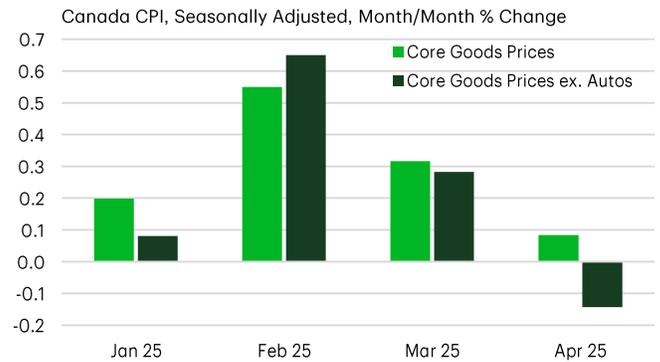
Headline inflation for April came in on the softer side, with the consumer price index falling well below the Bank of Canada's (BoC) inflation target. However, this was largely due to the repeal of the consumer carbon tax, which helped to push energy prices meaningfully lower last month. Meanwhile, measures of core inflation showed signs of heating up. Both of the BoC's preferred core measures shot north of 3.0% when measured on a year-on-year basis, while traditional core price trackers (CPIX and CPI excluding food and energy) rose to 2.6% y/y. Importantly, the rise is being driven by near-term momentum in inflation, as both three- and six-month annualized rates of change accelerated last month (Chart 1). Amid still high economic uncertainty, and a labour market that has been slowing significantly in recent months, the uptick in price pressures is an unwelcome development for policymakers. Financial markets appear to be putting more weight on the inflation data, as evidence by the probability of a June rate cut falling to just 30% (from 70% ahead of the

Chart 1: Core Inflation Heats Up



Source: Statistics Canada, TD Economics.

Chart 2: Rising Car Prices Prop Up April Goods Inflation



Source: Statistics Canada, TD Economics.

inflation release). Making the decision on any further cuts to the policy rate in an environment where inflation is accelerating may force them to carefully weigh the trade-offs between further stoking inflation and supporting an economy that, in some respects, looks to be losing momentum.

Luckily for rate setters at the BoC, today's retail sales data supported the notion that the price gains in past months could be the result of an economy with a bit more verve than the softening labour market suggested. Retail spending rose 0.8% from February to March (0.9% after stripping out price effects), powered by spending on motor vehicles and parts. Tariff front-running is likely part of the story for the strong print, but the flash estimate for April's spending is showing another healthy gain, and this is even though vehicle sales were soft in April.

Moving forward, one key to monitor is for strength in spending outside of the automotive sector. Vehicle prices were a key driver of consumer goods price gains last month (Chart 2) and outside of cars and gasoline, real spending only advanced 0.1% in March. If the momentum in the sector is solely being driven by tariff front-running, then we're likely to see a sharp reversal in spending activity in the coming months. From our lens, the economy is not out of the woods yet, and policymakers will have space to deliver two more cuts in 2025, providing the economy a bit more of a tailwind amid still-elevated economic uncertainty.

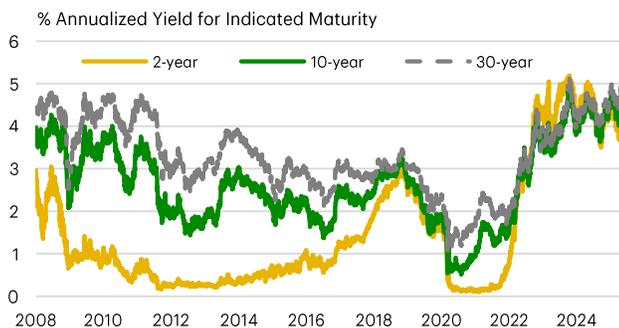
## U.S. – One Big, Beautiful Deficit

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If we've got our eyes trained on one thing this week, it is the House of Representatives reconciliation bill, which has been officially dubbed the "One Big Beautiful Bill Act". The bill still must go through the Senate and so nothing is set in stone, but early estimates show the bill in its current state could add over \$3 trillion to the U.S. deficit over the next ten years. The main culprit behind the expanded deficits are the promised tax cuts, including the extension of President Trump's 2017 Tax Cuts & Jobs Act in addition to several new tax breaks for households. These are paired with some spending cuts, but not enough to cover the tax cuts and added interest payments. The bond market has already started to show some reservations to the prospects of higher deficits, with term-yields pushing notably higher this week (Chart 1). The 2-year and 10-year government bond yields have also been backing up in the past few weeks, reflecting some increased premium on government bonds and higher rate expectations for the Federal Reserve. These moves precede today's threat from President Trump of even higher tariffs on the EU.

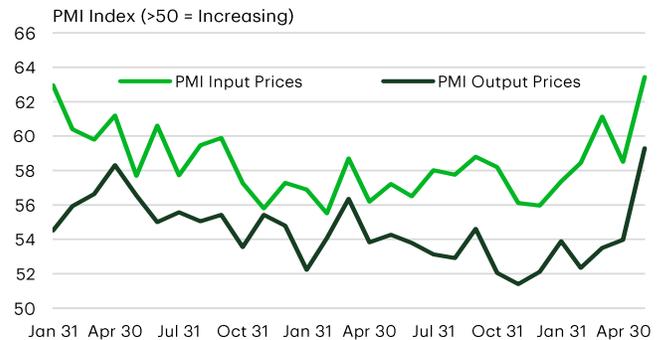
Government bond yields aren't the only thing heating up. We are also seeing early signs of a build-up in price pressures in recent survey data, including yesterday's release of the Purchasing Manager Index (PMI) for April. These PMIs are surveys of industry that provide a timely indicator of business activity during the survey period and can also shed light on how prices fared. The April PMIs, shown in Chart 2, showed a large concurrent rise in input and output prices. We had expected that higher tariffs would have an impact on firms costs

**Chart 1: The U.S. 30-Year Government Bond Yield Reached its Highest Level in Two Years**



Source: Federal Reserve Board, TD Economics.

**Chart 2: PMI Shows Price Pressures Rising in April**



Source: S&P Global, TD Economics.

and their prices to consumers. Several large U.S. companies have been indicating that they will be increasing their prices, anecdotally confirming what the data is pointing to – that the U.S. is heading to a world of higher interest rates and prices.

The rise in government bond yields will be filtering through to the rest of the economy, and this will have an impact on consumers. We noted in our [commentary](#) yesterday that existing home sales took a hit in April and March. The housing market, already on weak footing, now has to contend with mortgage rates that have risen back above 7%, on the back of a higher U.S. Treasury yields. For those held back by current rates, interest rate relief may not be coming quickly for U.S. households. St. Louis Fed President Musalem, who is a voting member on the FOMC, said that monetary policy is in a good place, mirroring sentiment expressed in the last set of minutes that FOMC members are in a wait-and-see mode about inflation before cutting rates further.

We look ahead to next week to see how the budget talks continue to unfold. The ball is now in the Senate's court and since the bill was controversial among Republican House members, we do not take the Senate's acquiescence to its current form as a given. Their stated goal is to have the bill passed by July 4, which gives Congressional Republicans and the White House time to iron out disagreements. On the data side, most important is the April personal spending and price data, which come at the end of next week and will be an early indicator of what impact April's tariff increases had.

## Exhibits

Recent Key Economic Indicators: May 19 - 23, 2025						
Release Date	Economic Indicator/Event		Data for Period	Units	Current	Prior
<b>United States</b>						
May 22	Initial Jobless Claims		May 17	Thsd	227.0	229.0
May 22	S&P Global US Manufacturing PMI		May	Index	52.3	50.2
May 22	S&P Global US Services PMI		May	Index	52.3	50.8
May 22	S&P Global US Composite PMI		May	Index	52.1	50.6
May 22	Existing Home Sales		Apr	Mlns	4.00	4.02
May 23	New Home Sales		Apr	Thsd	743.0	670.0
May 23	Building Permits		Apr	Thsd	1422.0	1412.0
<b>Canada</b>						
May 20	Consumer Price Index NSA		Apr	M/M % Chg.	-0.1	0.3
May 20	Consumer Price Index		Apr	Y/Y % Chg.	1.7	2.3
May 22	CFIB Business Barometer		May	Index	40.0	34.7
May 22	Industrial Product Price		Apr	M/M % Chg.	-0.8	0.3
May 23	Retail Sales		Mar	M/M % Chg.	0.8	-0.4
May 23	Retail Sales Ex Auto		Mar	M/M % Chg.	-0.7	-1.6
<b>International</b>						
May 19	EZ	Consumer Price Index	Apr	Y/Y % Chg.	2.2	2.2
May 21	UK	Consumer Price Index	Apr	Y/Y % Chg.	3.5	2.6
May 21	JN	Jibun Bank Japan PMI Mfg	May	Index	49.0	48.7
May 22	JN	Natl Consumer Price Index	Apr	Y/Y % Chg.	3.6	3.6
May 23	UK	Retail Sales Ex Auto Fuel	Apr	Y/Y % Chg.	5.3	2.6

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

## Upcoming Economic Releases and Events: May 26 - 30, 2025

Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
<b>United States</b>						
May 27	4:00	<i>Fed's Kashkari Speaks at Bank of Japan Event</i>				
May 27	8:30	Cap Goods Orders Nondef Ex Air	Apr	M/M % Chg.	0.2	-0.2
May 27	8:30	Durable Goods Orders	Apr	M/M % Chg.	-8.2	7.5
May 27	9:00	S&P CoreLogic CS 20-City NSA	Mar	Y/Y % Chg.	-	4.5
May 27	9:00	S&P CoreLogic CS US HPI NSA	Mar	Y/Y % Chg.	-	3.9
May 27	10:00	Conf. Board Consumer Confidence	May	Index	87.0	86.0
May 27	20:00	<i>Fed's Williams Speaks in Moderated Discussion in Tokyo</i>				
May 28	4:00	<i>Fed's Kashkari Participates in Moderated Q&amp;A</i>				
May 28	14:00	FOMC Meeting Minutes	May 7			
May 29	8:30	Gross Domestic Product (Annualized)	1Q	Q/Q % Chg.	-0.3	-0.3
May 29	8:30	<i>Fed's Barkin Participates in Fireside Chat</i>				
May 29	8:30	Initial Jobless Claims	May 24	Thsd	-	227.0
May 29	8:30	Personal Consumption	1Q	Q/Q % Chg.	-	1.8
May 29	10:00	Pending Home Sales	Apr	M/M % Chg.	-1.1	6.1
May 29	10:40	<i>Fed's Goolsbee Participates in Moderated Q&amp;A</i>				
May 29	16:00	<i>Fed's Daly Speaks in a Fireside Chat</i>				
May 29	20:25	<i>Fed's Logan Gives Remarks, Speaks in Q&amp;A</i>				
May 30	8:30	Personal Income	Apr	M/M % Chg.	0.3	0.5
May 30	8:30	Real Personal Spending	Apr	M/M % Chg.	0.0	0.7
May 30	8:30	Advance Goods Trade Balance	Apr	Blns	-140.0	-163.2
May 30	19:30	<i>Fed's Goolsbee on The Interview Show</i>				
<b>Canada</b>						
May 29	8:30	Payroll Employment Change (SEPH)	Mar	Thsd	-	-49.0
May 30	8:30	Gross Domestic Product	Mar	M/M % Chg.	-	-0.2
May 30	8:30	Gross Domestic Product (Annualized)	1Q	Q/Q % Chg.	-	2.6
<b>International</b>						
May 29	19:30	JN Jobless Rate	Apr	%	2.5	2.5
May 29	19:30	JN Tokyo Consumer Price Index	May	Y/Y % Chg.	3.4	3.5
May 29	19:50	JN Retail Sales	Apr	Y/Y % Chg.	2.9	3.1
May 30	6:30	IN Gross Domestic Product	1Q	Y/Y % Chg.	6.8	6.2
May 30	8:00	BZ Gross Domestic Product	1Q	Y/Y % Chg.	-	3.6
May 30	21:30	CH Manufacturing PMI	May	Index	49.5	49.0

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

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