Financial HARTbeat

Oh Canada…
Aug 29th 2025

Good Morning,

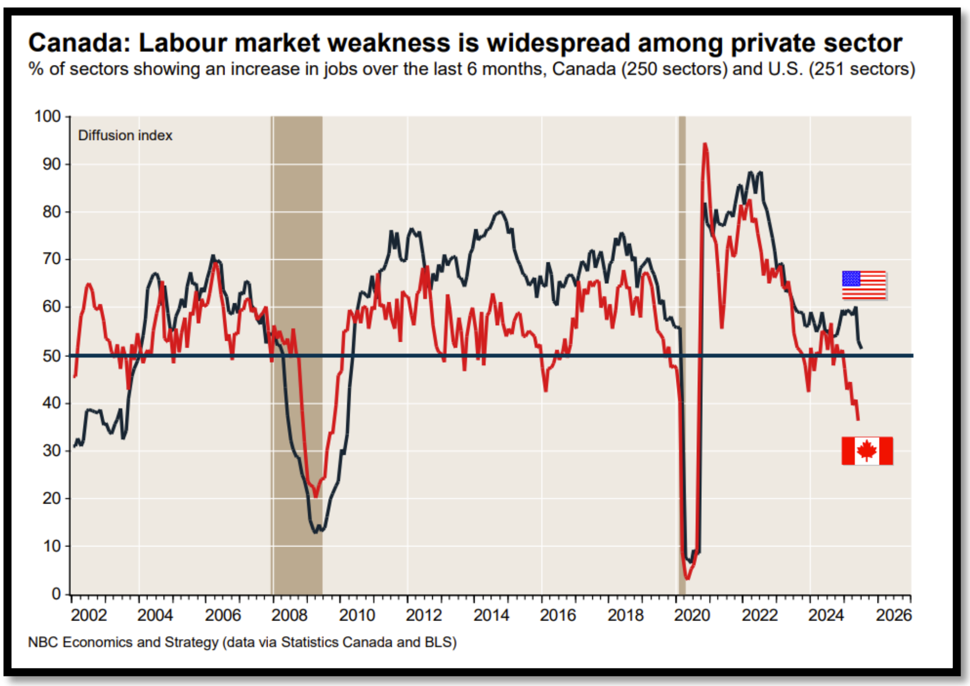
US consumer continues to be resilient….spending solid and CPI slightly higher because of tariffs…likely has no impact on FOMC cutting rates in September…

Trump might still have the ability to fire Cook…judge is deciding on this as we speak..

GDP is Canada stalling….

Catch the playback of our Weekly Roundup [***Click here***]

Chart of the Day: Canada deteriorating faster then the US…why rates likely to continue lower



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Top News

Global equities pulled back from their latest tech-led record highs on Friday ahead of U.S. inflation data that will feed the Federal Reserve's crucial - and increasingly politicised - interest rate plans. Traders were squaring up after another bullish month for global equities that has come despite brewing bond market worries over U.S. President Trump's move to fire Fed policymaker Lisa Cook, and renewed political strife in France.

Europe’s Stoxx 600 index and the euro were down on the day and heading for their first weekly losses in four. U.K. equities declined, dragged down by heavyweight banking stocks after an independent think tank recommended taxing interest they receive from reserves held at the central bank. Asia had been mixed overnight with Chinese shares clocking up their best month in almost a year with a more than 10% gain on hopes that its economy, especially the tech sector, is picking up.

Japan's Nikkei ended down on the day, although it too has jumped 4% in August.

U.S. stock index futures pared losses on Friday as investors assessed an inflation report that was in line with economists' expectations, and paving the way to a likely interest rate cut in September by the Federal Reserve. The Personal Consumption Expenditures Price index – the Fed’s preferred inflation metric - rose 0.2% in July and was up 2.6% on an annual basis. The core PCE index increased 0.3% and was up 2.9% on a year-on-year basis against estimates of 2.9%. Following the report, traders added slightly to bets the Fed will start a series of gradual rate cuts next month. Traders on Friday put about a 90% probability on a September Fed rate cut, up from about 85% before the data. Separate data showed the U.S. trade deficit in goods widened sharply in July as imports surged, suggesting trade could be a major drag on economic growth in the third quarter. The U.S. trade deficit in goods widened 22.1% to US$103.6 billion in July, well above economists expectations for the deficit to widen to US$87.7 billion. Economists said that imports rose ahead of the White House's Aug. 1 tariff deadline.

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On the trade front, the U.S. tariff exemption for package shipments valued under $800 ended on Friday, raising costs and disrupting supply chain models for e-commerce companies, small businesses using online marketplaces and consumers alike. The move broadens the Trump administration's cancellation of the 'de minimis' exemption for packages from China and Hong Kong in May.

The European Commission, meanwhile, proposed removing duties on imported U.S. industrial goods in return for reduced U.S. tariffs on European cars. Futures tied to Canada's main stock index slipped on Friday after data showed the domestic economy contracted in the second quarter of the year as exports slumped and business investment declined. GDP fell 1.6% at an annualized rate in the April-to-June period to C$2.445 trillion, Statistics Canada said Friday. Market expectations were for a 0.7% contraction, while the Bank of Canada projected a 1.5% pullback at the time of its last policy meeting in late July. The latest quarter marks the first decline in GDP since the third quarter of 2023 and the sharpest fall in activity since the second quarter of 2020 during the height of the pandemic. June GDP declined 0.1% from the previous month, matching the pace of weakness in April and May. That was weaker than Statistics Canada's advance estimate for GDP to rise 0.1% for the month. StatsCan's preliminary estimate for July that suggests GDP increased 0.1% month over month.

Profit Margins Widening (Argus)

Fed's Favorite Inflation Indicator The Fed's favorite inflation indicator, the PCE Price Index, will be released by the BEA this morning. The index differs from the better-known Consumer Price Index (CPI) because its composition is changed more frequently and it is quicker to reflect real-time pricing. In the most-recent report, PCE inflation increased at a 2.6% rate year over year through June.

By comparison, the latest CPI report had overall inflation rising 2.7%. Core PCE, which removes food and energy prices, had risen at an annual rate of 2.8% in the latest month. Our PCE forecasts call for mostly stable readings for July: 2.6% for the headline number and 2.9% for the core. We think lingering inflation in certain sticky-priced services (transportation and shelter) will combine with tariff impacts to present a challenge for the Fed as it strives for its 2% goal.

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Overall, inflation in this cycle peaked in summer 2022 and has been on a fairly consistent downward trek. We track 20 inflation measures on a monthly basis. On average, they are indicating that prices are rising at a 2.6% rate year over year, flat compared to the month-ago level. The numbers can be distorted by swings within the Producer Price Inflation report. Focusing on core inflation - which we obtain by averaging Core CPI, market-based PCE Ex-Food & Energy, the five-year forward inflation expectation rate, the 10-year TIPs Break-even Interest Rate, and the PCE Price Index -- our reading is 2.63%, down 5 basis points month over month. Given these trends, as well as signals from Chairman Powell, we expect the Fed to implement two rate cuts in 2H24, with the ultimate goal of aligning the fed funds rate to approximately 100-150 basis points above the long-term inflation rate within the next 6-8 quarters.

Bond Yields (bps (basis points) negative means prices up and positive means prices down)

Figure 1: Key Interest Rates (Canada & U.S.)

Canadian Key Rate	Last	Change bps	Canadian Key Rate	Last	Change bps
CDA o/n	2.75%	0.0	CDA 5 year	2.91%	-3.2
CDA Prime	4.95%	0.0	CDA 10 year	3.41%	-2.1
CDA 3 month T-Bill	2.67%	-0.1	CDA 20 year	3.75%	-0.8
CDA 6 month T-Bill	2.64%	-2.5	CDA 30 year	3.85%	-0.8
CDA 1 Year	2.64%	-3.0			
CDA 2 year	2.66%	-3.9			
US Key Rate	**Last**	**Change bps**	**US Key Rate**	**Last**	**Change bps**
US FED Funds	4.25-4.50%	0.0	US 5 year	3.71%	1.9
US Prime	7.50%	0.0	US 10 year	4.23%	2.7
US 3 month T-Bill	4.08%	-0.2	US 30 year	4.91%	4.1
US 6 month T-Bill	4.02%	0.1	5YR Sovereign CDS	39.46	
US 1 Year	3.87%	-0.1	10YR Sovereign CDS	47.38	
US 2 year	3.64%	0.6			
Preferred Shares Indicators			**Last**	**Daily %**	**YTD**
S&P Preferred Share Index			677.35	-0.09%	6.60%
BMO Laddered Preferred Shares (ETF)			11.8	-0.76%	7.76%

Source: LSEG

Things are looking up! Have a great day!

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