Financial HARTbeat

Pivot ahead?
July 10th 2025

Good Morning,

While we continue to receive conflicting data…the forward curve on overnight rates is telling us cuts on the horizon but not imminent…yet the USD disagrees…which one is it…

Long end of most bond curves showing the best yields we have seen in a decade…could this help with portfolio construction and provide the ballast we need if markets correct…

Bank of Canada and FOMC both saying no cuts this month…However, lots of data between now and then could easily change that…stay on your toes...

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

Chart of the Day: We are off consensus….3 more cuts this year in Canada?

Figure 1: Interest rate projections

Quarters	Overnight	5YR	10YR	30YR
Q/2/25	2.75	2.85	3.30	3.55
Q/3	2.50	2.75	3.15	3.45
Q/4	2.00	2.50	3.10	3.40
Q/1/26	2.00	2.55	3.10	3.30
Q/2	2.00	2.70	3.10	3.40
Q/3	2.00	2.75	3.15	3.40
Q/4	2.25	2.85	3.25	3.45
Q/1/27	2.50	2.85	3.25	3.50

Source: NBF

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Top News

U.S. stock futures little changed going into Thursday, cooling after Nvidia's sprint to a $4 trillion valuation supported markets the day before, while investors turn their attention to economic data and trade talks. resident Donald Trump said late Wednesday that a 50% U.S. tariff on imported copper will take effect Aug. 1. Trump also announced a 50% tariff on Brazil partly in retaliation for the current trial against former Brazilian President Jair Bolsonaro for his role in an alleged attempt to overturn the country's 2022 election results. The move was also due to the "very unfair trade relationship" with Brazil, Trump added, saying it has been "far from Reciprocal." Minutes from the Fed's June meeting yesterday that showed most officials said they expect rate cuts will be appropriate later this year, with price shocks from Trump's import taxes expected to be "temporary or modest."

While a July Fed rate cut seems off the table, the odds of a September reduction stand at 67%, up from around 60% before the minutes' release, according to CME Group's FedWatch tool. The number of Americans filing new applications for jobless benefits unexpectedly fell last week, suggesting employers may be holding on to workers despite other indications of a cooling labor market. Initial claims for state unemployment benefits dropped 5,000 to a seasonally adjusted 227,000 for the week ended July 4, the Labor Department said on Thursday. Economists polled by Reuters had forecast 235,000 claims for the latest week. The data included last week's July Fourth holiday and claims tend to be volatile around public holidays. European shares rose on Thursday, buoyed by signs of progress on a potential trade deal between the United States and the European Union.

European Commission President Ursula von der Leyen said the EU is working "non-stop" to reach a low-tariff trade agreement with the U.S. EU trade chief Maros Sefcovic said on Wednesday that good progress has been made on a framework trade agreement, and a deal may be possible within days. Norway's core inflation rate rose slightly more than expected in June, Statistics Norway (SSB) data showed on Thursday, in a sign that the central bank could limit the decline in key interest rates this year.

Japan's Nikkei share gauge slipped on Thursday, stalling ahead of the key 40,000 level, as trade frictions and an upcoming election weighed on investor sentiment. Chip-maker supplier Disco led gains with a 4.3% surge after it raised its first-quarter earnings forecast, citing strong demand related to artificial

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intelligence. TSMC, the world's largest contract chipmaker, reported on Thursday second-quarter revenue of T$933.80 billion, beating market forecasts, as demand for the company's products leaps on surging interest in artificial intelligence applications.

China and Hong Kong stocks rose slightly higher on Thursday, as deflation concerns left investors without clear direction, prompting a shift towards sectors likely to be benefit from government policies. Market participants are closely monitoring any policy stimulus signals after China's producer deflation deepened in June to its worst level in almost two years.

Raising 2Q GDP Forecast (Argus)

We are raising our 2Q 2025 estimate for GDP growth to 1.8% from 1.1%. We still expect 1.0% growth for the year. U.S. consumers have been an engine of growth and that should continue with unemployment low, at 4.1%, and real disposable personal income up a healthy 2.5% in the first quarter. We expect Personal Consumption Expenditures (PCE), which represent about 69% of GDP, to grow by about 1.5% for the year, with spending on services up 1.6%. After a 0.5% revised decline in 1Q, we expect GDP to grow 1.8% in 2Q, 0.9% in 3Q, and 1.9% in 4Q. Our 2026 growth estimate is now 1.7%, up from 1.5%. Based on the most-recent Summary of Economic Projections, the Federal Reserve governors and regional bank presidents expect GDP to grow 1.4% in 2025 and 1.6% in 2026.

Indicators driven by a broad array of data suggest 2Q growth. On July 3, the Federal Reserve Bank of Atlanta's GDP Nowcast was estimating a 2Q GDP increase of 2.6, with PCE projected to grow 1.6%. The trade balance and inventories, which are notoriously difficult to forecast, are likely to be key factors in the near term. In the medium-term, we expect tax cuts in the $3.4 trillion "big beautiful bill" to support discretionary spending, while federal government investment and expenditures boost national defense by $150 billion. Imports of foreign-made goods, which are subtracted from domestic production, reduced 1Q GDP by nearly five points as consumers and businesses made purchases to front-run expected tariffs. Net exports are projected to decline in 2Q, adding about 3.5 points to GDP -- a swing of eight points from 1Q. Inventories added 2.6 points to 1Q GDP because some of the imported goods were held for later in the year. Inventories are projected to decline in 2Q, reducing GDP by 2.1 points.

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On July 3, the Federal Reserve Bank of New York's Staff Nowcast for 2Q called for 1.56% growth, with a 60% probability range of 0.23%-2.89%. The NY Fed's Nowcast for 3Q was projecting growth of 1.78%.

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	2.94%	1.8
CDA Prime	4.95%	0.0	CDA 10 year	3.39%	0.6
CDA 3 month T-Bill	2.67%	-0.8	CDA 20 year	3.63%	1.4
CDA 6 month T-Bill	2.66%	-0.5	CDA 30 year	3.69%	1.4
CDA 1 Year	2.65%	0.0			
CDA 2 year	2.67%	1.3			
US Key Rate	**Last**	**Change bps**	**US Key Rate**	**Last**	**Change bps**
US FED Funds	4.25-4.50%	0.0	US 5 year	3.92%	-0.3
US Prime	7.50%	0.0	US 10 year	4.34%	-0.2
US 3 month T-Bill	4.25%	-0.3	US 30 year	4.87%	-0.6
US 6 month T-Bill	4.28%	-0.6	5YR Sovereign CDS	38.96	
US 1 Year	4.07%	-0.3	10YR Sovereign CDS	42.93	
US 2 year	3.86%	-0.7			

Preferred Shares Indicators	Last	Daily %	YTD
S&P Preferred Share Index	666.81	0.02%	4.94%
BMO Laddered Preferred Shares (ETF)	11.7	0.17%	6.85%

Source: LSEG

Things are looking up! Have a great day!

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