

Financial HARTbeat

USA/China deal?
May 12th 2025



Good Morning,




Does USA/China have a deal? Seems a short term slightly better one than was in place as of Friday..Ultimately, is it better..looks like another 90 days to find out!

Do you think this is a sell the news type of event?

Will drug prices come under pressure now....Trump issues executive order to cut...

Catch the playback of our Weekly Roundup [click here](#)..

Chart of the Day: Forward guidance has been the most volatile year I can remember...

	 Bank of Canada	 Federal Reserve	 European Central Bank
Rates			
President / Chair	Tiff Macklem	Jerome Powell	Christine Lagarde
Policy rate	Overnight rate	Fed Funds rate	Deposit facility rate
Current policy rate	2.75%	4.50%	2.25%
Next meeting			
Next meeting date	June 4, 2025	June 18, 2025	June 5, 2025
Market-implied policy rate*	2.60%	4.47%	2.04%
Spread vs. current rate	-15 bp	-3 bp	-21 bp
Probability of...			
... hike	0%	0%	0%
... hold	39%	88%	15%
... cut	61%	12%	85%
Rate cuts			
25bps cuts priced in over...			
... next 3 months	1.1	0.7	1.2
... next 6 months	-	2.0	1.8
... next 12 months	-	3.8	-

*Derived from OIS (Bank of Canada, European Central Bank) and Fed Funds Futures (Federal Reserve).



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Top News

U.S. stock markets were set to open sharply higher today as the United States and China have agreed to temporarily slash reciprocal tariffs in a deal that surpassed expectations as the world's two biggest economies seek to end a damaging trade war that has stoked fears of recession and roiled financial markets. The U.S. will cut extra tariffs it imposed on Chinese imports in April this year to 30% from 145% and Chinese duties on U.S. imports will fall to 10% from 125%.

The new measures are effective for 90 days. Striking a conciliatory tone towards China, U.S. Treasury Secretary Scott Bessent speaking alongside U.S. Trade Representative Jamieson Greer after the weekend talks in Switzerland said, "The consensus from both delegations this weekend is neither side wants a decoupling", and "what had occurred with these very high tariffs ... was the equivalent of an embargo, and neither side wants that. We do want trade." The tariff dispute had brought nearly \$600 billion in two-way trade to a standstill, disrupting supply chains, sparking fears of stagflation and triggering some layoffs. Bessent said the deal did not include sector-specific tariffs and that the U.S. would continue strategic rebalancing in areas including medicines, semiconductors and steel where it had identified supply chain vulnerabilities.

The U.S. president Donald Trump levied the tariffs in part after declaring a national emergency over fentanyl entering the United States, and Greer said conversations over curbing the deadly opioid were "very constructive" though on a separate track. In markets, the CBOE Volatility Index, Wall Street's "fear gauge", briefly slipped below the 20-point threshold for the first time since late March, levels last seen before U.S. President Donald Trump announced reciprocal tariffs against most trading partners on April 2, which he dubbed Liberation Day. In Europe, shares in firms hit by the trade war rallied strongly after the deal, shipping company Maersk was the biggest gainer, up more than 12%. It warned last week that container volumes between the U.S. and China had plunged due to the dispute.

Meanwhile, shares in luxury firms LVMH and Gucci-owner Kering were up about 7% each.

Crude oil prices also surged close to 4% after the U.S.-China announcement, lifting shares of top producers such as Chevron and Exxon Mobil. Bucking the day's positive trend, pharmaceutical stocks dropped after Trump said he would cut prescription drug prices by 59%, closer to the level paid by other



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high-income countries. Investors will now pay extra attention to the several Federal Reserve officials, including Chair Jerome Powell, scheduled to make public remarks over the week, to see if the trade announcement will change the monetary policy outlook.

According to data compiled by LSEG, traders expect the Fed to deliver two 25-basis-point rate cuts by the end of 2025, compared with three cuts seen at the start of May. Back home, futures for Canada's main stock index also surged this morning despite gold prices dropping 3%. Canadian Prime Minister Mark Carney's new cabinet will be sworn in on Tuesday.

A Range of Options in Sovereign Debt Yields (Argus)

The benchmark U.S. 10-year Treasury bond yield is back near 4.3%, up from 3.6% last fall but still below the current cycle highs near 5.0% in October 2023. Interest rates have surged in part due to President Trump's tariff and trade-war rhetoric. Sovereign fund investors see less of a need to prop up U.S. Treasury prices if the country is going to be purchasing fewer of the goods they produce. Other sovereign rates generally have headed in the same direction, with UK's benchmark yield near 4.5%, up from 3.9% last summer, and the debt of Australia, which we view as a proxy for China growth, at 4.3%. But not all have climbed. For example, sovereign-debt yields for Japan and Switzerland remain near their pandemic lows at sub-1.5% levels. And China has maintained its interest rate near or below 2.0% as well. Elsewhere around the globe, tariff worries in Mexico and political uncertainty in Brazil are keeping their sovereign-debt interest rates near 10%. Russian debt yields are around 16%, up 300 basis points from a year ago, as the conflict with Ukraine drags on and inflation runs at a 9.5% rate.

Looking ahead, if U.S. inflation once again starts to moderate, the Federal Reserve may well follow the lead of the European Central Bank, as well as the banks of England and Canada, and resume its strategy of lowering short-term interest rates in order to keep the U.S. economy growing. Should that occur, and tax cuts kick in, longer-term U.S. Treasury yields may stay in the 4.0%-5.0% range as the domestic economy continues to grow. That's not a bad return, with inflation moderating.



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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	2.83%	7.3
CDA Prime	4.95%	0.0	CDA 10 year	3.22%	6.5
CDA 3 month T-Bill	2.63%	0.5	CDA 20 year	3.46%	4.4
CDA 6 month T-Bill	2.61%	1.5	CDA 30 year	3.51%	4.0
CDA 1 Year	2.58%	4.0			
CDA 2 year	2.59%	5.9			
US Key Rate	Last	Change bps	US Key Rate	Last	Change bps
US FED Funds	4.25-4.50%	0.0	US 5 year	4.08%	9.1
US Prime	7.50%	0.0	US 10 year	4.44%	6.2
US 3 month T-Bill	4.26%	3.0	US 30 year	4.87%	3.6
US 6 month T-Bill	4.28%	3.3	5YR Sovereign CDS	57.00	
US 1 Year	4.15%	8.3	10YR Sovereign CDS	59.95	
US 2 year	3.97%	9.2			
Preferred Shares Indicators			Last	Daily %	YTD
S&P Preferred Share Index			635.34	0.07%	-0.01%
BMO Laddered Preferred Shares (ETF)			10.96	0.69%	0.09%

Source: LSEG

Things are looking up! Have a great day!

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