TD Economics

Weekly Bottom Line

July 17, 2026

Highlights

Canada

- The Bank of Canada left rates unchanged at 2.25% but struck a more constructive tone on the near-term economic outlook, projecting a sharp rebound in Q2 growth.
- Inflation remains the key source of uncertainty, though the removal of references to potential "consecutive" rate hikes suggests policymakers are growing more comfortable that energy-led price pressures are not spreading broadly.
- This week's data broadly supported the Bank's outlook, with strength in manufacturing, wholesale trade, and home sales pointing to an economy that is gradually regaining traction.

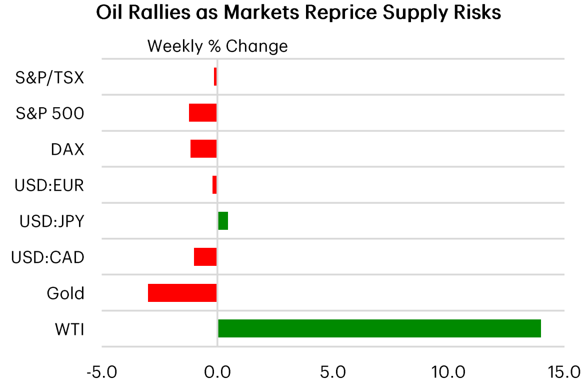
U.S.

- Tensions in the Middle East continued to escalate this week, pushing WTI prices back above $80 per-barrel.
- Inflation pressures cooled more than expected in June. Though the recent U-turn in oil prices raises concerns over the durability of the disinflationary dynamics.
- Retail sales remained decently strong in June, suggesting consumer spending regained some momentum in Q2 after stalling in Q1.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	7476	7575	7610	6238
S&P/TSX Comp.	35245	35305	35416	27020
DAX	24773	25067	25818	22301
FTSE 100	10566	10497	10911	8973
Nikkei	64141	68558	72366	39775
Fixed Income Yields				
U.S. 10-yr Treasury	4.53	4.56	4.67	3.94
Canada 10-yr Bond	3.53	3.51	3.70	3.04
Germany 10-yr Bund	3.12	3.07	3.19	2.55
UK 10-yr Gilt	4.95	4.87	5.17	4.23
Japan 10-yr Bond	2.70	2.74	2.88	1.47
Foreign Exchange Cross Rates				
C$ (USD per CAD)	0.71	0.71	0.74	0.70
Euro (USD per EUR)	1.14	1.14	1.20	1.14
Pound (USD per GBP)	1.34	1.34	1.38	1.30
Yen (JPY per USD)	162.4	161.7	162.6	146.5
Commodity Spot Prices**				
Crude Oil ($US/bbl)	81.40	71.41	113.0	55.3
Natural Gas ($US/MMBtu)	2.84	2.77	33.80	0.26
Copper ($US/met. tonne)	13554.4	13418.6	14109.5	9560.2
Gold ($US/troy oz.)	3999.2	4119.9	5417.2	3275.2

*As of 10:58 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

Oil Rallies as Markets Reprice Supply Risks



Note: Data as of 10:56 AM ET, Friday, July 17, 2026.
Source: Bloomberg, TD Economics.

Global Official Policy Rate Targets	
Central Banks	Current Target
Federal Reserve (Fed Funds Rate)	3.50 - 3.75%
Bank of Canada (Overnight Rate)	2.25%
European Central Bank (Refi Rate)	2.40%
Bank of England (Repo Rate)	3.75%
Bank of Japan (Overnight Rate)	1.00%

Source: Bloomberg.

Canada – The Rebound Gains Credibility

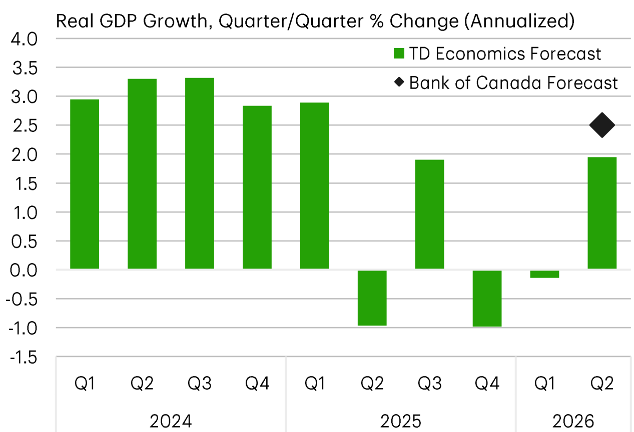
Marc Ercolao, Economist
416-983-0686

The Bank of Canada interest rate decision was the main event this week, but the decision itself wasn't the main story. Indeed, the Bank left the overnight rate unchanged at 2.25% for a sixth consecutive meeting, which was universally expected by markets. The more notable development came in the Bank's updated economic outlook, which struck a somewhat more constructive tone on the economy and suggested that the soft patch weighing on growth may be starting to ease.

Following back-to-back quarters of no growth, the Bank now projects GDP to rebound at a 2.5% annualized pace in Q2, supported by stronger exports, resilient consumer spending, and tentative signs of stabilization in housing markets (Chart 1). To be sure, excess supply remains and labour market conditions are still described as soft. Though the overall growth outlook remains unchanged, recent data have increased policymakers' confidence that the economy is moving off the bottom rather than slipping further into weakness.

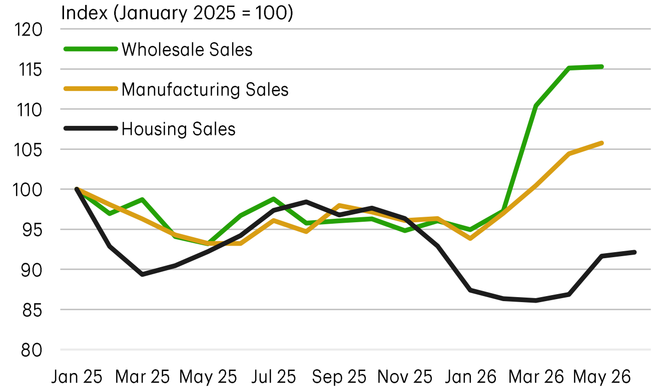
The economy may be showing more signs of life, but the Bank's policy stance remains firmly in wait-and-see mode. Inflation remains the key source of uncertainty, with headline CPI still running above 3% due largely to higher energy costs stemming from the conflict in the Middle East. The Bank continues to expect inflation to moderate over the coming quarters, though higher crude prices since the forecast cut-off date add a modest upside risk. With next week's CPI release we will be watching closely for signs that headline inflation is peaking, and that energy-related price pressures are beginning to fade.

Chart 1: Canadian Real GDP Set To Accelerate in Q2



Source: Bank of Canada, TD Economics.

Chart 2: Canadian Weekly Data Flow Pointing to Stronger Underlying Momentum



Source: Statistics Canada, CREA, TD Economics.

All told, it appears policymakers are becoming somewhat more comfortable with the inflation backdrop. In its recent statement, the Bank dropped its previous reference to the possibility of "consecutive" rate hikes if inflation pressures broadened, reflecting confidence that higher energy costs have yet to meaningfully spill into underlying inflation. Financial markets took that as confirmation that the Bank remains firmly on hold. Bond yields were little changed, the Canadian dollar gained a cent on the U.S. dollar, and market pricing continues to imply low odds of a policy move by the end of the end of the year. Recall, at the onset of the U.S.-Iran conflict, markets priced in as many as three quarter-point rate hikes by December.

This week's economic data broadly backed up the Bank's assessment. Manufacturing sales rose for a fourth consecutive month by 1.3% m/m in May, reaching a record high and wholesale activity remained elevated following several months of gains (Chart 2). Home sales increased for a third consecutive month in June, although housing starts were somewhat softer, suggesting the recovery remains uneven across sectors. Still, the broader signal from this week's releases is one of an economy that is gradually regaining traction after a difficult start to the year.

U.S. – Cooler Inflation Quiets Calls for a July Hike

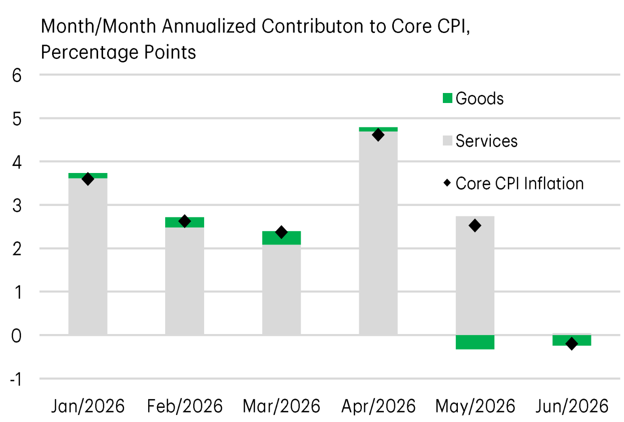
Thomas Feltmate, Director & Senior Economist
416-944-5730

Despite a relatively busy week on the economic data calendar, market attention remained focused on renewed tensions in the Middle East. Earlier in the week, Iranian forces attacked multiple oil vessels transiting the Strait of Hormuz, prompting the U.S. to resume strikes on various military targets across Iran and reimpose its naval blockade. Tanker traffic through the vital passageway has again come to a halt, pushing WTI prices back above $80 per barrel.

The renewed upward pressure on oil prices helped to temper the market response to an otherwise very encouraging inflation report. Headline CPI declined by 0.4% m/m in June – it's first pullback since June 2024 and largest since April 2020 – pushing the 12-month change down to 3.5% (see commentary). A sharp drop in gasoline prices was largely responsible for last month's decline, though even after removing these effects there were plenty of positive developments. Core inflation was flat for the month, as both goods and services were little changed (Chart 1). Importantly, many of the categories where tariffs had been adding to price pressures over the past year, including appliances, medical goods and apparel were all lower on the month – suggesting the worst of the tariff passthrough is now in the rearview mirror. Also encouraging was the fact that there was little evidence of higher energy prices bleeding into core inflation.

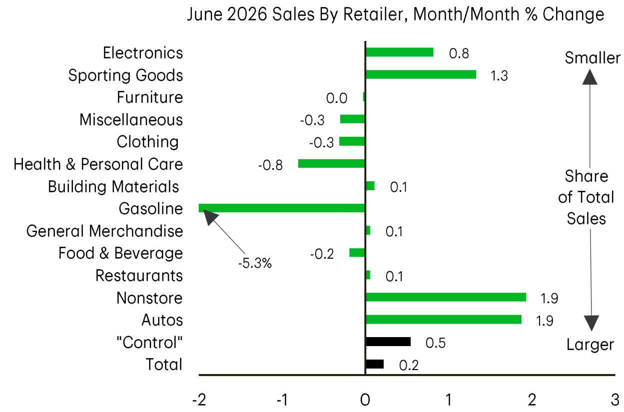
The disinflationary dynamics were further reinforced by a soft producer price index reading, which helped to remove speculation of a Fed rate hike later this month. That said, Fed futures are still priced for a little more than one rate hike by year-end, as the U-turn in oil prices is already raising concerns on the durability of the disinflationary dynamics.

Chart 1: U.S. Inflation Cools in June



Source: U.S. Bureau of Labor Statistics, TD Economics.

Chart 2: U.S. Retail Sales Remain Resilient in June



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

Retail sales for the month of June provided further confirmation that households continue to shrug off the effects of higher energy prices (Chart 2). While the headline figure posted only a modest gain, that was partly related to a sharp drop in nominal sales at gasoline stations –owing to price effects (see commentary). Focusing on the control group, which removes volatile categories, it showed a much healthier gain in spending while revisions to the prior month were a bit higher. This reinforces the view that consumer spending regained some momentum in Q2, after sputtering in Q1. However, the spend dynamics remain K-shaped, with lower-and-middle income consumers increasingly price sensitive and hesitant to spend on discretionary items – something that was highlighted in this week's Fed Beige Book.

Anyone hoping that Fed Chair Warsh would relent and provide some forward guidance during his first Congressional testimony this week was sorrily disappointed. Instead, Warsh restated the Committee's unwavering commitment to return price stability, but provided no hints on the Fed's next move. Several other policymakers spoke this week and perhaps the biggest takeaway is that while all were encouraged by last month's softer inflation figures, one data point does not make a trend. Several more months of easing inflation will be required to convince officials that price pressures are moving in the right direction. If this were to occur, expectations for rate hikes should fade, leading to some downward pressure on yields.

Exhibits

Recent Key Economic Indicators: Jul 13 - 17, 2026						
Release Date		Economic Indicator/Event	Data for Period	Units	Current	Prior
United States						
Jul 14		NFIB Small Business Optimism	Jun	Index	97.4	95.3
Jul 14		Consumer Price Index	Jun	M/M % Chg.	-0.4	0.5
Jul 14		Consumer Price Index	Jun	Y/Y % Chg.	3.5	4.2
Jul 15		Empire Manufacturing	Jul	Index	15.6	5.7
Jul 15		PPI Final Demand	Jun	M/M % Chg.	-0.3	0.6
Jul 15		PPI Ex Food and Energy	Jun	M/M % Chg.	0.2	0.1
Jul 16		Retail Sales Advance	Jun	M/M % Chg.	0.2	1.0
Jul 16		Retail Sales Ex Auto and Gas	Jun	M/M % Chg.	0.4	0.8
Jul 16		Initial Jobless Claims	Jul 11	Thsd	208.0	216.0
Jul 16		NAHB Housing Market Index	Jul	Index	34.0	36.0
Jul 16		Business Inventories	May	M/M % Chg.	0.3	0.6
Jul 17		Housing Starts	Jun	Thsd	1427.0	1199.0
Jul 17		Building Permits	Jun	Thsd	1367.0	1410.0
Jul 17		Industrial Production	Jun	M/M % Chg.	0.1	0.1
Jul 17		Capacity Utilization	Jun	%	76.1	76.1
Canada						
Jul 15		Existing Home Sales	Jun	M/M % Chg.	0.5	5.5
Jul 15		Manufacturing Sales	May	M/M % Chg.	1.3	3.9
Jul 15		Bank of Canada Rate Decision	Jul 15	%	2.25	2.25
International						
Jul 14	CH	Retail Sales	Jun	Y/Y % Chg.	1.0	-0.6
Jul 14	CH	Surveyed Jobless Rate	Jun	%	5.0	5.1
Jul 16	UK	Monthly Gross Domestic Product	May	3M/3M % Chg.	0.7	0.7
Jul 17	EZ	Consumer Price Index	Jun	Y/Y % Chg.	2.8	2.8

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Jul 20 - 24, 2026							
Release Date	Time*		Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States							
Jul 23	8:30		Initial Jobless Claims	Jul 18	Thsd	214.0	208.0
Jul 24	8:30		Building Permits	Jun	Thsd	-	1367.0
Jul 24	9:45		S&P Global US Composite PMI	Jul	Index	-	51.9
Jul 24	9:45		S&P Global US Manufacturing PMI	Jul	Index	54.4	53.9
Jul 24	9:45		S&P Global US Services PMI	Jul	Index	-	51.2
Canada							
Jul 20	8:30		Consumer Price Index	Jun	Y/Y % Chg.	3.0	3.2
Jul 20	8:30		Consumer Price Index NSA	Jun	M/M % Chg.	-0.2	1.0
Jul 20	8:30		CPI-Median	Jun	Y/Y % Chg.	-	2.1
Jul 20	8:30		CPI-Trim	Jun	Y/Y % Chg.	-	2.0
Jul 23	7:00		CFIB Business Barometer	Jul	Index	-	49.6
Jul 23	8:30		Retail Sales	May	M/M % Chg.	1.0	0.5
Jul 23	8:30		Retail Sales Ex Auto	May	M/M % Chg.	-	0.1
Jul 24	8:30		Industrial Product Price	Jun	M/M % Chg.	-	1.2
International							
Jul 21	2:00	UK	ILO Unemployment Rate (3 Mths.)	May	%	4.9	4.9
Jul 22	2:00	UK	Consumer Price Index	Jun	Y/Y % Chg.	2.7	2.8
Jul 23	8:15	EZ	ECB Main Refinancing Rate	Jul 23	%	2.40	2.40
Jul 23	19:30	JN	National Consumer Price Index	Jun	Y/Y % Chg.	1.7	1.5
Jul 23	20:30	JN	S&P Global Japan Composite PMI	Jul	Index	-	52.8
Jul 24	2:00	UK	Retail Sales Ex Auto Fuel	Jun	Y/Y % Chg.	3.3	4.6
Jul 24	4:30	UK	S&P Global UK Composite PMI	Jul	Index	49.7	49.3

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

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