TD Economics

Weekly Bottom Line

August 14, 2026

Highlights

Canada

- Canada and the U.S. are negotiating ahead of the August 19th deadline for the latest U.S. tariff threat. Details remain limited and the outcome could materially affect sector activity, investment, and business confidence.
- A solid Canadian labour market report and benign U.S. CPI have narrowed Canada-U.S. rate differentials, supporting the Canadian dollar's rally to around 72 cents U.S.
- July inflation is expected to register around 2.9% on higher gasoline prices. Core inflation and any trade update could influence yields, Bank of Canada expectations, and the economy's recovery path.

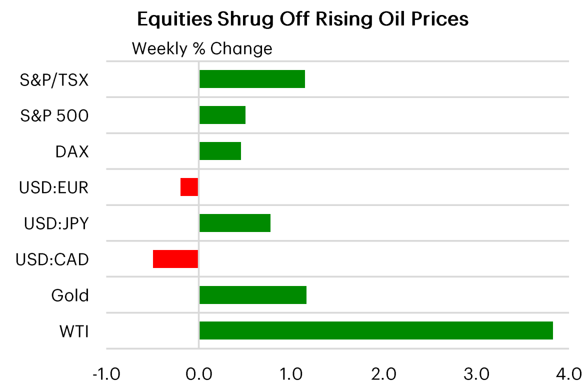
U.S.

- Markets found their footing after Wednesday's CPI inflation report showed inflation pressures continued to ease, pushing equities higher.
- Retail sales declined in July, but the shift in timing of Amazon Prime Days likely overstated the weakness.
- Fed commentary remained cautious, making next week's FOMC minutes an important signal of how officials were weighing inflation and policy risks before this week's CPI relief.

This Week in the Markets

	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	7800	7758	7800	6344
S&P/TSX Comp.	36788	36381	36788	27824
DAX	26451	26319	26451	22301
FTSE 100	10764	10901	10911	9117
Nikkei	68714	65607	72366	41939
Fixed Income Yields				
U.S. 10-yr Treasury	4.66	4.65	4.73	3.94
Canada 10-yr Bond	3.65	3.64	3.72	3.04
Germany 10-yr Bund	3.19	3.13	3.21	2.55
UK 10-yr Gilt	5.01	4.92	5.17	4.23
Japan 10-yr Bond	2.89	2.81	2.89	1.55
Foreign Exchange Cross Rates				
C$ (USD per CAD)	0.72	0.72	0.74	0.70
Euro (USD per EUR)	1.16	1.16	1.20	1.14
Pound (USD per GBP)	1.36	1.35	1.38	1.30
Yen (JPY per USD)	159.0	157.8	163.9	146.5
Commodity Spot Prices**				
Crude Oil ($US/bbl)	81.44	78.18	113.0	55.3
Natural Gas ($US/MMBtu)	2.75	2.56	33.80	0.26
Copper ($US/met. tonne)	14394.1	14190.6	14394.1	9595.2
Gold ($US/troy oz.)	4385.9	4341.6	5417.2	3315.8

*As of 10:20 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.



Note: Data as of 10:25 AM ET, Friday, August 14, 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: Tick, Tock, Tick, Tock

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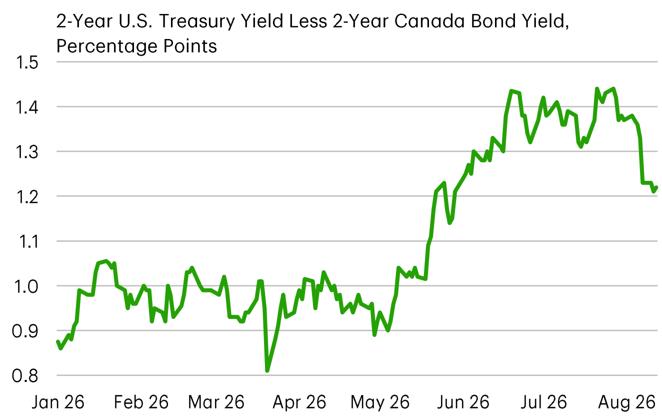
With the August 19th deadline looming for the latest U.S. tariff threat (see commentary), negotiators continue to discuss a potential trade deal. Of course, the devil will be in the details (that remain scant) and economic uncertainty remains elevated. Markets meanwhile have been digesting a relatively well-behaved U.S. CPI print and last week's Canadian labour market outperformance. The data has helped narrow the gap between Canadian and U.S. interest rates, extending the loonie's rally to 72 cents U.S. at the time of writing. Whether the loonie's run will continue likely comes down to how trade negotiations play out, and Monday's Canadian inflation report.

All eyes are focused on the trade negotiations. Canada's Minister for Canada-U.S. Trade Dominic Leblanc and Chief Trade Negotiator Janice Charette have been shuttling back and forth from meetings with their U.S. counterparts. As of Friday morning, U.S. officials have said both President Trump and Prime Minister Carney are due to be presented with "options". The reality is that details on any possible deal remain few and far between. The scale and scope of any tariff relief on sector-specific Section 232 levies (i.e. the 50% on steel & aluminum, 25% on autos, etc.) could have a meaningful impact on sector-level activity and investment activity. Any knock-on improvements to business sentiment would also be welcome at a time that the economy is showing some bounce-back after stalling out in the winter months.

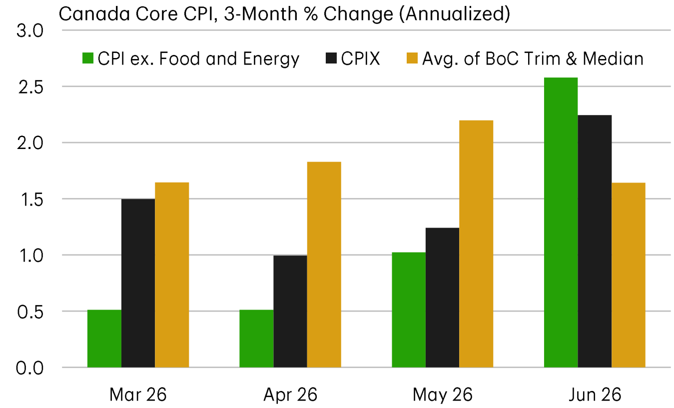
The flip side is that the 50% tariffs come into effect on August 19th. We have already discussed the potential direct macroeconomic impact, but the risk of escalating tensions, new retaliation, and a hit to business confidence, could further undercut the economy's tentative recovery.

Chart 1: Recent Data Narrow U.S.-Canadian Rate Differentials



Source: Bank of Canada, Federal Reserve Board, TD Economics.
Last Observation: August 12, 2026.

Chart 2: Core CPI Has Remained Close to Target



Note: CPIX = CPI excluding 8 most volatile components and indirect taxes.
Source: Statistics Canada, TD Economics.

The Bank of Canada cited an increase in trade frictions as a possible reason to reduce interest rates. However, recent data have showcased some of Canada's economic resilience (pushing Canadian yields higher) and dampened some of the market pricing for rate hikes from the Fed. This has helped narrow the differentials on two-year borrowing costs by over 20 basis points, bringing them to their lowest level since June (Chart 1).

Monday could then have a doubly important impact if an update on trade negotiations arrives as July's CPI data are released. Headline inflation is likely to register around 2.9%, owing to the rise in gasoline prices for the month. However, the focus will be on what the core measures show (Chart 2). With better-than-expected recent economic data, an upside surprise on the core measures could push near-term yields higher. However, an upside surprise to core inflation wouldn't be entirely unexpected. Energy prices remain materially higher than in February, and some degree of pass-through to other goods and services is reasonable.

As we look to next week, the data will give us an idea of where the economy stood ahead of the August 19th deadline, but the path forward will hinge on whether the recent flurry of negotiations will avert another trade shock.

U.S. – Softer Inflation, Softer Spending

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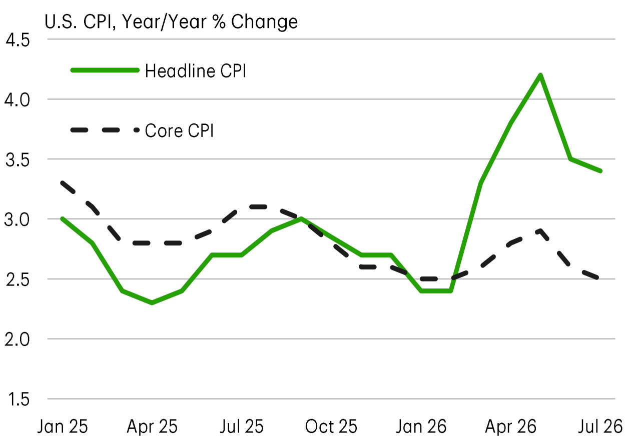
The week's story was a turn in sentiment. After a choppy start dominated by lingering concerns over oil prices, tariffs, and whether the Fed might need to lean more hawkish, Wednesday's CPI report offered the relief valve that everyone was looking for. Equities continued to push higher, with the S&P 500 and Nasdaq benefiting from a renewed "soft landing" bid as investors took comfort that inflation showed further signs that it is no longer moving in the wrong direction. Treasury yields steadied as the data flow veered toward a goldilocks zone: growth has cooled enough to reduce inflation pressure, but not enough to undermine risk appetite.

The week's data were encouraging, but not uniformly. Two releases helped the soft-landing case: CPI provided the biggest market relief, while the NFIB Small Business Optimism Index rose 2.4 points in July to 99.8, its highest level since August 2025, with hiring and capital spending plans pointing to better Main Street confidence. Even so, uncertainty remained elevated and labor quality re-emerged as the top concern, keeping the survey from looking like an all-clear signal. With respect to the CPI release, headline prices rose just 0.1% month-on-month in July, while core prices increased 0.2%, both in line with expectations. As we noted in our commentary, underlying inflation trends are moving in the right direction: headline inflation eased to 3.4% year-on-year and core inflation stepped back to its pre-Iran conflict pace of 2.5% (Chart 1).

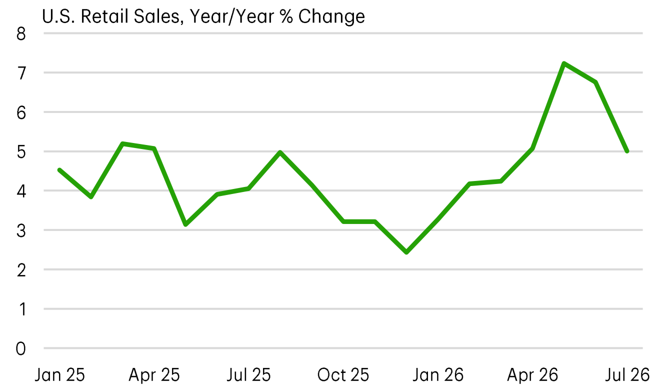
The softer piece of the week's data flow came from retail sales (Chart 2). However, July's decline was largely because of a pullback in vehicle sales and a sharp decline in online shopping. The latter was likely driven by Amazon Prime Days happening in late June this year, as opposed to its normal timing of mid-July. Outside of these categories, spending held up reasonably well, suggesting the pullback in retail spending was less dire than implied by the headline print. Overall, we still expect consumer spending to expand by +2% in the third quarter, a moderation from Q2's 3.2% but still a healthy pace nonetheless.

Chart 1: U.S. Inflation Continued to Ease in July



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

Chart 2: U.S. Retail Sales Softened in July After Two Strong Months



Source: U.S. Census Bureau, TD Economics

Softer inflation and a stable labor market suggest the FOMC is likely to remain on hold for the time being. That's exactly what we've seen in Fed futures pricing, with a September hike now only 29% priced, compared to 52% at the beginning of the week. That said, Cleveland Fed President Beth Hammack and Richmond Fed President Tom Barkin remained cautious in their messaging this week, acknowledging better inflation news but stopping short of declaring victory. We suspect the data this week argue for the Fed to remain in wait-and-see mode, particularly with one more jobs report and another CPI print still to come before the September meeting. Next week's July FOMC minutes pre-date this week's CPI release, but could still contain useful information about how worried officials were about tariff and energy risks before this week's better inflation news.

Exhibits

Release Date		Economic Indicator/Event	Data for Period	Units	Current	Prior
Recent Key Economic Indicators: Aug 10 - 14, 2026						
United States						
Aug 11		NFIB Small Business Optimism	Jul	Index	99.8	97.4
Aug 11		Existing Home Sales	Jul	Mlns	4.06	4.13
Aug 12		Consumer Price Index	Jul	M/M % Chg.	0.1	-0.4
Aug 12		Consumer Price Index	Jul	Y/Y % Chg.	3.4	3.5
Aug 13		Initial Jobless Claims	Aug 08	Thsd	209.0	200.0
Aug 13		PPI Final Demand	Jul	M/M % Chg.	0.0	-0.1
Aug 13		PPI Ex Food and Energy	Jul	M/M % Chg.	0.2	0.4
Aug 14		Retail Sales Advance	Jul	M/M % Chg.	-0.6	0.2
Aug 14		Retail Sales Ex Auto and Gas	Jul	M/M % Chg.	-0.2	0.4
Canada						
Aug 14		Manufacturing Sales	Jun	M/M % Chg.	0.1	1.6
International						
Aug 13	UK	Gross Domestic Product	Q2	Y/Y % Chg.	1.2	0.9
Aug 14	EZ	Gross Domestic Product SA	Q2	Y/Y % Chg.	1.0	1.0
Aug 14	EZ	Employment	Q2	Y/Y % Chg.	0.5	0.5

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Aug 17 - 21, 2026							
Release Date	Time*		Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States							
Aug 17	8:30		Empire Manufacturing	Aug	Index	10.0	15.6
Aug 17	10:00		NAHB Housing Market Index	Aug	Index	33.0	34.0
Aug 18	8:30		Building Permits	Jul	Thsd	1370.0	1374.0
Aug 18	8:30		Housing Starts	Jul	Thsd	1350.0	1427.0
Aug 18	9:15		Capacity Utilization	Jul	%	76.3	76.1
Aug 18	9:15		Industrial Production	Jul	M/M % Chg.	0.3	0.1
Aug 19	14:00		*FOMC Meeting Minutes (July 29th)*				
Aug 20	8:30		Initial Jobless Claims	Aug 15	Thsd	210.0	209.0
Aug 21	9:45		S&P Global US Composite PMI	Aug	Index	-	54.5
Aug 21	9:45		S&P Global US Manufacturing PMI	Aug	Index	53.7	53.9
Aug 21	9:45		S&P Global US Services PMI	Aug	Index	53.9	54.6
Canada							
Aug 17	8:30		Consumer Price Index	Jul	Y/Y % Chg.	3.0	2.8
Aug 17	8:30		Consumer Price Index NSA	Jul	M/M % Chg.	0.5	-0.4
Aug 17	8:30		CPI-Median	Jul	Y/Y % Chg.	2.0	1.9
Aug 17	8:30		CPI-Trim	Jul	Y/Y % Chg.	1.8	1.8
Aug 18	5:00		Existing Home Sales	Jul	M/M % Chg.	-	0.5
Aug 18	8:15		Housing Starts	Jul	Thsd	247.5	239.0
Aug 20	7:00		CFIB Business Barometer	Aug	Index	-	58.3
Aug 20	8:30		Industrial Product Price Index	Jul	M/M % Chg.	-	-1.4
Aug 21	8:30		Retail Sales	Jun	M/M % Chg.	0.4	1.0
Aug 21	8:30		Retail Sales Ex Auto	Jun	M/M % Chg.	0.4	1.2
International							
Aug 18	2:00	UK	ILO Unemployment Rate (3 Mths.)	Jun	%	4.8	4.9
Aug 19	2:00	UK	Consumer Price Index	Jul	Y/Y % Chg.	2.9	2.6
Aug 19	2:00	UK	Core Consumer Price Index	Jul	Y/Y % Chg.	2.5	2.6
Aug 19	5:00	EZ	Consumer Price Index	Jul	Y/Y % Chg.	2.9	2.9
Aug 19	5:00	EZ	Core Consumer Price Index	Jul	Y/Y % Chg.	2.5	2.5
Aug 20	19:30	JN	National Consumer Price Index	Jul	Y/Y % Chg.	1.9	1.6
Aug 20	20:30	JN	S&P Global Japan Composite PMI	Aug	Index	-	52.7

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