TD Economics

Weekly Bottom Line

August 21, 2026

Highlights

Canada

- A tentative Canada-U.S. trade agreement boosted the loonie and lowered tariff risks, while Canadian bond yields climbed alongside a global rise in long-term interest rates.
- July inflation came in slightly hotter than expected, but easing gasoline prices and fading one-off influences suggest price pressures should moderate in August.
- Despite a firmer headline figure, well-behaved core inflation should allow the Bank of Canada to remain on hold at its September meeting.

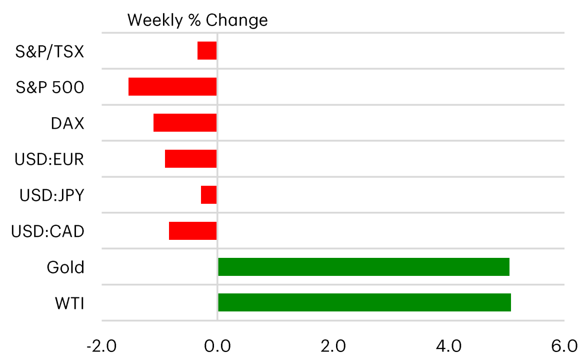
U.S.

- Longer-term Treasury yields continued to climb this week, despite the Treasury Department's announcement to increase longer-duration debt buybacks.
- Elevated interest rates continue to weigh on housing activity, with housing starts plummeting 12.4% m/m to 1.2 million units in July.
- Minutes from the July 28-29 FOMC meeting showed policymakers' concerns about inflation have deepened, with "several" participants ready to raise interest rates.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	7666	7786	7799	6344
S&P/TSX Comp.	36610	36730	36759	28055
DAX	26148	26440	26440	22301
FTSE 100	10828	10750	10911	9117
Nikkei	66016	68714	72366	41939
Fixed Income Yields				
U.S. 10-yr Treasury	4.72	4.69	4.73	3.94
Canada 10-yr Bond	3.76	3.68	3.76	3.04
Germany 10-yr Bund	3.25	3.20	3.26	2.55
UK 10-yr Gilt	5.05	5.04	5.17	4.23
Japan 10-yr Bond	2.89	2.89	2.96	1.57
Foreign Exchange Cross Rates				
C$ (USD per CAD)	0.73	0.72	0.74	0.70
Euro (USD per EUR)	1.17	1.16	1.20	1.14
Pound (USD per GBP)	1.36	1.35	1.38	1.30
Yen (JPY per USD)	158.9	159.3	163.9	146.5
Commodity Spot Prices**				
Crude Oil ($US/bbl)	86.53	82.40	113.0	55.3
Natural Gas ($US/MMBtu)	2.83	2.78	33.80	0.26
Copper ($US/met. tonne)	14113.2	14576.3	14594.0	9643.5
Gold ($US/troy oz.)	4597.3	4376.4	5417.2	3338.7

*As of 10:25 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

Greenback Falls Amid a Turbulent Week for Bonds



Note: Data as of 10:25 AM ET, Friday, August 21, 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: BoC to Remain Patient Amid Potential Trade Pact

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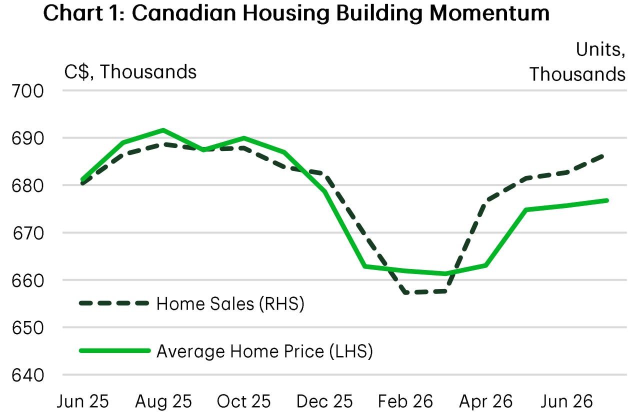
There was a lot for markets to digest this week. The main event was the 11th hour Canada-U.S. trade agreement struck to avert new U.S. tariffs. It's not a done deal, as President Trump extended the deadline for the new tariffs to kick in from Wednesday to tonight, and negotiators are still working through issues. Reports suggest that the Canadian government will ask provinces to end their bans on U.S. alcohol purchases. In exchange, Canada will see tariff rates on steel/aluminum halved to 25% and autos dropped by 10 percentage points to 15%. Despite it not being fully finalized, the pending agreement was enough for the Canadian dollar to catch a bid, climbing about half a cent to near $0.73USD this week. Canadian bond yields were up again this week, riding the wave of a global uptrend, driven by fiscal concerns, and rate hike expectations. The Canadian benchmark 10-year bond yield rose to around 3.75% as of writing - matching highs last seen in 2024.

Markets also took the hotter-than-expected inflation report as a sign to push yields higher. Last month, Canadian inflation hit 3% year-on-year, a bit stronger than expected while the Bank of Canada's (BoC) preferred core inflation measures also warmed a touch. While these trends certainly caught our attention, we'd note that gasoline prices are off a smidge so far this month and the World Cup is now a memory. Accordingly, these forces should ease back this month.

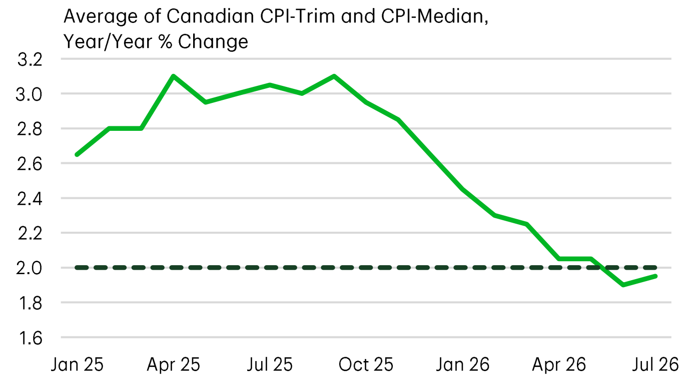
One of the main drags on inflation continues to be shelter prices. Rents are rapidly cooling, and that trend

Chart 1: Canadian Housing Building Momentum



Source: CREA, TD Economics

Chart 2: Despite a July Uptick, Core Inflation is Well Behaved



Source: Statistics Canada, TD Economics

probably has further room to run given Canada's notably weak population growth. However, conditions appear to be strengthening in the nation's resale market. This week offered fresh signs that housing's nascent recovery is continuing with both Canadian home sales and average home prices rising in July (Chart 1). Although home sales and average prices have risen for four straight months, the market is still far from strong. Sales levels remain low and prices are flat year-on-year.

Retail spending data was the other major data point this week and it was a mostly positive report. Retail volumes jumped 1.5% month-on-month (the strongest gain since March 2025) on broad-based gains, adding more fuel to the view that second quarter GDP growth was very strong. On the other hand, Statcan's preliminary estimate points to a notable pullback in July.

All told, the Canada-U.S. trade deal probably adds a modest tailwind to BoC hike odds. However, we'd note that even with July's uptick, core inflation generally remains well behaved. Indeed, the BoC's measures averaged an (upwardly rounded) 2% last month (Chart 2). What's more, the breadth of inflation is not raising alarm bells. Also important, the pact doesn't fully eliminate trade risks given that CUSMA negotiations lie ahead and that the deal to avert tariffs has yet to be finalized. Accordingly, we think the Bank of Canada can afford to be patient on rates (see our latest outlook here), with no move likely at the September 2nd meeting.

U.S. – Long Yields, Short Relief

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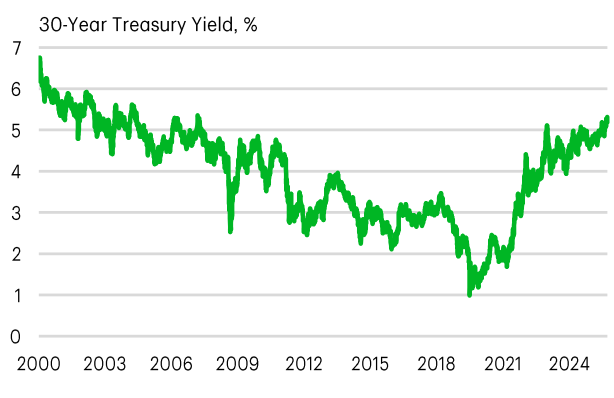
It was a quiet week on the economic data calendar, but a very active one in financial markets. Longer-term Treasury yields continued their relentless climb, with the 30-year yield briefly touching a 19-year high on Monday (Chart 1). Some relief came Wednesday, when the Treasury Department announced it would temporarily increase longer-duration debt buybacks to improve market liquidity. However, the move does nothing to change the broader fiscal backdrop, and at best only modestly alters the composition of debt holdings. With total U.S. government debt topping $40 trillion this week, bond markets quickly refocused on the troubling fiscal trajectory, leading yields to retrace most of Wednesday's decline. Equity markets also came under pressure this week, despite multiple major retailers lifting earnings guidance. At the time of writing, the S&P500 is down 1.5%, while the NASDAQ is lower by 2.4%.

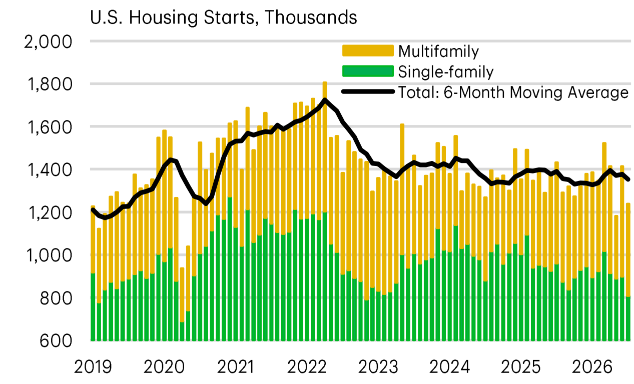
As we noted in our Quarterly Q&A, most of the recent increase in longer-term yields reflects two forces: shifting expectations for Fed policy and a higher term premium. While the precise drivers are difficult to isolate, fiscal supply concerns appear to be a major contributor to the rise in the term premium. With the U.S. expected to run annual deficits of +6% of GDP for the foreseeable future, the Treasury Department will need to issue a growing volume of securities. As issuance rises, investors are left to absorb more duration risk, which typically requires a higher term premium. Viewed through that lens, the solution will not come from adjusting the maturity mix of Treasury issuance, but rather from reducing the overall debt burden through fiscal consolidation.

Chart 1: 30-Year Treasury Yield Hits 19-Year High



Source: Federal Reserve Board, TD Economics.

Chart 2: Homebuilding Has Been Flat Since 2023



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

Turning to the real economy, few sectors have felt the impact of higher rates more acutely than housing. Data released this week reinforced that point, with housing starts falling 12.4% m/m to 1.2 million units—their second-lowest level outside the pandemic since March 2019. The deterioration was broad based, with declines across both single- and multifamily segments. Looking through the month-to-month volatility, homebuilding activity has effectively moved sideways since 2023 (Chart 2).

At this point, relief from lower policy rates looks unlikely. Minutes from the last FOMC meeting underscored policymakers' growing concern over persistently elevated inflation. The minutes noted that "many participants assessed that policy tightening would likely be necessary if inflation did not decline," while "some" viewed the recent tightening in financial conditions as insufficient to restore price stability. Admittedly, CPI data released after the July 28–29 FOMC meeting showed some further cooling in price pressures. But that may already feel somewhat backward-looking amid renewed tensions in the Middle East. WTI prices traded 5% higher this week and are now sitting at a four-week high of $86/bbl. More concerning is the growing tightness in refined product markets, particularly diesel and jet fuel. While Chair Warsh may touch on these developments in next week's Jackson Hole speech, the focus is likely to lean more toward the "big questions" facing monetary policy than a near-term policy discussion. Without additional guidance, markets' risk being left underwhelmed, potentially adding further upward pressure on longer-term yields.

Exhibits

Release Date		Economic Indicator/Event	Data for Period	Units	Current	Prior
Recent Key Economic Indicators: Aug 17 - 21, 2026						
United States						
Aug 17		Empire Manufacturing	Aug	Index	20.6	15.6
Aug 17		NAHB Housing Market Index	Aug	Index	35.0	34.0
Aug 18		Building Permits	Jul	Thsd	1443.0	1374.0
Aug 18		Housing Starts	Jul	Thsd	1239.0	1415.0
Aug 18		Capacity Utilization	Jul	%	76.3	76.2
Aug 18		Industrial Production	Jul	M/M % Chg.	0.2	0.3
Aug 20		Initial Jobless Claims	Aug 15	Thsd	206.0	212.0
Aug 21		S&P Global US Composite PMI	Aug	Index	56.0	54.5
Aug 21		S&P Global US Manufacturing PMI	Aug	Index	53.2	53.9
Aug 21		S&P Global US Services PMI	Aug	Index	56.8	54.6
Canada						
Aug 17		Consumer Price Index	Jul	Y/Y % Chg.	3.0	2.8
Aug 17		Consumer Price Index NSA	Jul	M/M % Chg.	0.5	-0.4
Aug 17		CPI-Median	Jul	Y/Y % Chg.	2.0	1.9
Aug 17		CPI-Trim	Jul	Y/Y % Chg.	1.9	1.9
Aug 18		Existing Home Sales	Jul	M/M % Chg.	0.5	0.5
Aug 18		Housing Starts	Jul	Thsd	229.1	240.8
Aug 20		CFIB Business Barometer	Aug	Index	57.6	58.6
Aug 20		Industrial Product Price Index	Jul	M/M % Chg.	0.6	-1.4
Aug 21		Retail Sales	Jun	M/M % Chg.	0.6	1.1
Aug 21		Retail Sales Ex Auto	Jun	M/M % Chg.	0.5	1.2
International						
Aug 18	UK	ILO Unemployment Rate (3 Mths.)	Jun	%	4.9	4.9
Aug 19	UK	Consumer Price Index	Jul	Y/Y % Chg.	2.9	2.6
Aug 19	UK	Core Consumer Price Index	Jul	Y/Y % Chg.	2.6	2.6
Aug 19	EZ	Consumer Price Index	Jul	Y/Y % Chg.	2.9	2.9
Aug 19	EZ	Core Consumer Price Index	Jul	Y/Y % Chg.	2.5	2.5
Aug 20	JN	National Consumer Price Index	Jul	Y/Y % Chg.	1.9	1.6
Aug 20	JN	S&P Global Japan Composite PMI	Aug	Index	53.4	52.7

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Aug 24 - 28, 2026							
Release Date	Time*		Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States							
Aug 25	10:00		New Home Sales	Jul	Thsd	620.0	628.0
Aug 25	10:00		Conf. Board Consumer Confidence	Aug	Index	90.2	90.8
Aug 25	0:00		Building Permits	Jul	Thsd	-	1443.0
Aug 26	8:30		Personal Income	Jul	M/M % Chg.	0.2	0.2
Aug 26	*8:30*		Real Personal Spending	Jul	M/M % Chg.	0.0	0.4
Aug 26	8:30		Durable Goods Orders	Jul	M/M % Chg.	0.5	0.5
Aug 26	8:30		Gross Domestic Product Annualized	2Q	Q/Q % Chg.	1.5	1.5
Aug 26	8:30		Cap Goods Orders Nondef Ex Air	Jul	M/M % Chg.	1.0	1.2
Aug 26	8:30		Personal Consumption	2Q	Q/Q % Chg.	3.2	3.2
Aug 27	8:30		Advance Goods Trade Balance	Jul	Blns	-99.5	-101.4
Aug 27	8:30		Initial Jobless Claims	Aug 22	Thsd	208.0	206.0
Aug 28	10:00		*Fed's Warsh at Jackson Hole Economic Policy Symposium*				
Canada							
Aug 27	8:30		Payroll Employment Change - SEPH	Jun	Thsd	-	24.1
Aug 28	8:30		Quarterly Gross Domestic Product Annualized	2Q	Q/Q % Chg.	3.3	-0.1
Aug 28	8:30		Gross Domestic Product	Jun	M/M % Chg.	0.2	0.3
International							
Aug 27	19:30	JN	Tokyo Consumer Price Index	Aug	Y/Y % Chg.	1.9	1.8
Aug 27	19:30	JN	Jobless Rate	Jul	%	2.5	2.5

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

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