

# Viewpoint

## Our Thoughts

- How Can You Mend a Broken Trade?

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## How Can You Mend a Broken Trade?



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Central banks can't do much to fix the damage from a trade war. That was the key theme from this week, **as Fed Chair Powell continued to preach patience, and the Bank of Canada hit pause for the first time in a year.** And both monetary authorities openly fretted about the potential for inflation to spark up again in a world of higher tariffs and kinked supply chains. Equity markets decided they didn't like that message, and headed lower again this week after the jagged recovery last week. This time, there was no finger pointing at the bond market, as Treasury yields spent most of the week in a slow-motion descent, with 10s easing 20 bps to below 4.3%—no drama there. Currencies were also unusually calm this week, with the dollar barely changed on net against the euro and loonie, but a bit weaker versus the pound and yen.

But just because bonds and currencies were well behaved **doesn't mean the week was drama-free.** Apparently, the Fed's patience message wasn't particularly well received at the White House, with the President posting in response that the Fed was *"too late"* and that *"Powell's termination cannot come fast enough"*. This blast came a day after Powell spoke about the critical importance of an independent Fed. For the record, the Chair's term expires in May 2026, although a footnote is that his term as Governor runs until 2028. It's rare, but not unheard of, for a Chair to stay on the Fed Board (and thus still have a say and a vote on policy)—the last one to do that was Marriner Eccles from 1948-51. We'll just note that the Fed's HQ building in Washington is named after Mr. Eccles.

Notably, not every Fed voter is sounding as tough on holding the line. Governor Waller earlier in the week indicated that rates are likely headed lower amid a trade war, either the easy way—inflation stays mild—or the hard way—inflation temporarily jumps, but a much weaker economy eventually suppresses prices. But one area of agreement among most Fed officials is that the U.S. economy is in a *"very good place"*, to which we would add *"for now"*. All of the economic data need to be viewed through the lens of pre-trade-war preparation. A prime example was the hearty 1.4% pop in U.S. retail sales last month, the biggest rise in more than two years, albeit flattered by a wave of auto buying. But **sentiment surveys are mostly crumbling**, with the Philly Fed diving to -26.4 in April; for perspective, there has only been one case in the past 60 years when this metric was this low without the economy being in recession (spring 2023). Consumer confidence is even weaker, with the UofM survey probing 70-year lows.

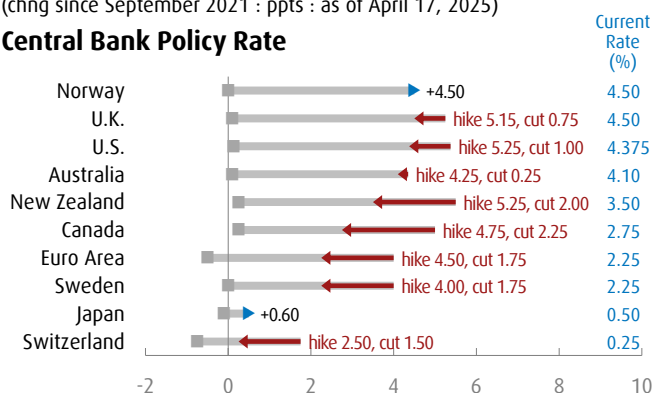
**Notwithstanding Powell's caution, we and market pricing expect the Fed to begin cutting again by the summer. Our official view is for three trims this year, beginning in July,** with markets currently leaning to a little earlier (June) and a little more (closer to four trims). Besides the intense complication of the roiling trade war, the U.S. fiscal position is also still up in the air, with Senate and House Republicans not on the same page on the appropriate mix of tax relief and spending restraint. Our working assumption has been that fiscal policy will end up being about a wash for the economic outlook, with any tax cuts balanced by spending trims elsewhere. The great limiter on tax cut ambitions is the groaning \$2.07 trillion budget deficit over the past 12 months, equal to nearly 7% of current GDP. For the record, customs duties were just over \$8 billion in March, up 35% y/y.

**Every central bank is dealing with the complications arising from the trade war, a six-sigma event.** (As an aside, Treasury Secretary Bessent complained this week that all of the focus is on tariffs, while proposed tax changes and deregulation are getting short shrift. The obvious retort is that the change in trade policy is outer-worldly and is fully upon us, while tax and regulation changes are run-of-the-mill.) And the response to the tariff uncertainty varies depending on how sensitive the economy is to U.S. trade, and the respective starting points for growth and inflation.

Chart 1

**G10 Policy Rates: Different Strokes...**

(chng since September 2021 : ppts : as of April 17, 2025)

**Central Bank Policy Rate**

Sources: BMO Economics, Haver Analytics

Even economies that appear to be similar on the surface could be traveling on very different rate paths. For example, **New Zealand** just cut rates again by 25 bps to 3.5% last week, bringing cumulative cuts to 200 bps, while **Australia** has trimmed but once to 4.1%. That has transformed RBNZ/RBA spreads from +115 bps a year ago to -60 bps now, even as their inflation rates have nearly tracked tick-for-tick. Similar story, **Sweden** has chopped 175 bps in the past year while **Norway** has held fast. Meanwhile, Thursday's 25 bp clip by the **ECB** brings their cumulative cuts to 175 bps, while the **BoE** has cautiously cut by only 75 bps, widening out those spreads to the highest since 2008. The point is that no one is quite sure what the right response is to the trade war.



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*Indications of stronger growth and a move toward price stability are **good news** for the economy.*

## United States

- Fed Chair Powell says he's still in wait-and-see mode; President Trump not happy
- U.S. dollar index stays at lowest level since 2022 amid tariff angst

## Canada

- BoC on hold amid tariff uncertainty
- Quebec downgraded by S&P for the first time since 1990s

## China

- Economy was on better-than-expected footing before trade headwinds picked up

## Japan

- Yen heads to 142/dollar; trade negotiations with the U.S. look encouraging

## Europe

- ECB cuts rates by 25 bps as "tariffs represent a negative demand shock"
- U.S. President Trump guarantees an EU tariff deal

## Other

- WTI stays below \$65 as EIA cuts global demand outlook
- IMF slashes global growth forecast to 2.2% amid tariff headwinds

### Good News

**Retail Sales** +1.4% (Mar.)—tariff front-loading  
**Import Prices** eased to +0.9% y/y (Mar.)  
**Foreign Investors** bought a net \$142.7 bln in U.S. securities (Feb.)  
**Building Permits** +1.6% to 1.48 mln a.r. (Mar.)—but subdued  
**NAHB Housing Market Index** +1 pt to 40 (Apr.)—but still low  
**Empire State Manufacturing** +0.6 pts to a still-low 49.3 (Apr.)—ISM-adjusted  
**Initial Claims** -9k to 215k (Apr. 12 week)

**Consumer Prices** +2.3% y/y (Mar.)  
**Core Wholesale Trade Volumes** +0.2% (Feb.)  
**Residential Mortgage Credit** +4.5% y/y (Feb.)

**Real GDP** +5.4% y/y (Q1)  
**Exports** +12.4% y/y (Mar.)  
**Retail Sales** +5.9% y/y (Mar.)  
**Industrial Production** +7.7% y/y (Mar.)  
**Aggregate Yuan Financing** 15.2 trln (Jan.-to-Mar.)—and **New Yuan Financing** 9.8 trln

**Exports** +3.9% y/y; **Imports** +2.0% y/y (Mar.)  
**Core Machine Orders** +4.3% (Feb.)

**Euro Area—Industrial Production** +1.1% (Feb.)  
**U.K.—Employment** +206k (3 mths to Feb.)  
**U.K.—Jobless Rate** steady at 4.4% (3 mths to Feb.)  
**U.K.—Consumer Prices** +2.6% y/y (Mar.)—and **Core** slows to +3.4%

**Australia—Employment** +32,200 (Mar.)—but **Jobless Rate** edged up to 4.1%

### Bad News

**Industrial Production** -0.3% (Mar.)  
**Housing Starts** -11.4% to 1.32 mln a.r. (Mar.)  
**Philly Fed Index** -6.9 pts to an ISM-adjusted 43.6 (Apr.)

**New Motor Vehicle Sales** -8.1% y/y (Feb.)  
**Existing Home Sales** -4.8% (Mar.)  
**MLS Home Prices** -2.1% y/y (Mar.)  
**Housing Starts** fell to 214,155 a.r. (Mar.)  
**Foreign Investors** sold a net \$6.5 bln Canadian securities (Feb.)

**Imports** -4.3% y/y (Mar.)

**Germany—ZEW Survey** -65.6 pts to -14.0 (Apr.)

**New Zealand—Consumer Prices** picked up to +2.5% y/y (Q1)

## Economic Forecast Summary for April 17, 2025

|  |                     | 2024  |       |       |       | 2025    |         |         |         | Annual |         |         |
|--|---------------------|-------|-------|-------|-------|---------|---------|---------|---------|--------|---------|---------|
|  |                     | Q1    | Q2    | Q3    | Q4    | Q1      | Q2      | Q3      | Q4      | 2024   | 2025    | 2026    |
| <b>UNITED STATES</b>   |                     |       |       |       |       |         |         |         |         |        |         |         |
| Real GDP   | (q/q % chng : a.r.) | 1.6   | 3.0   | 3.1   | 2.4   | 0.4     | 0.5     | 0.6     | 1.1     | 2.8    | 1.4     | 1.4     |
| Consumer Price Index   | (y/y % chng)        | 3.2   | 3.2   | 2.7   | 2.7   | 2.7     | 2.8     | 3.8     | 4.0     | 3.0    | 3.3     | 3.3     |
| Unemployment Rate  | (percent)           | 3.8   | 4.0   | 4.2   | 4.2   | 4.1     | 4.4     | 4.7     | 4.9     | 4.0    | 4.5     | 5.0     |
| Housing Starts   | (mlns : a.r.)       | 1.41  | 1.34  | 1.33  | 1.39  | 1.39    | 1.39    | 1.40    | 1.40    | 1.37   | 1.40 ↓  | 1.42    |
| Current Account Balance  | (\$trlns : a.r.)    | -0.97 | -1.11 | -1.24 | -1.22 | -1.34 ↓ | -1.19 ↑ | -1.22 ↑ | -1.24 ↑ | -1.13  | -1.25 ↑ | -1.26 ↑ |
| <b>Interest Rates</b> (average for the quarter : %)                      |                     |       |       |       |       |         |         |         |         |        |         |         |
| Fed Funds Target Rate  |                     | 5.38  | 5.38  | 5.21  | 4.63  | 4.38    | 4.38    | 4.04    | 3.79    | 5.15   | 4.15    | 3.04    |
| 3-month Treasury Bill  |                     | 5.45  | 5.47  | 5.22  | 4.58  | 4.34    | 4.35 ↑  | 4.10    | 3.75    | 5.18   | 4.15 ↑  | 3.05    |
| 10-year Note   |                     | 4.16  | 4.44  | 3.95  | 4.28  | 4.45    | 4.25 ↑  | 4.10 ↑  | 3.95 ↑  | 4.21   | 4.20 ↑  | 3.80    |
| <b>EXCHANGE RATES</b> (average for the quarter)                          |                     |       |       |       |       |         |         |         |         |        |         |         |
| C\$/US\$   |                     | 1.35  | 1.37  | 1.36  | 1.40  | 1.43    | 1.40 ↓  | 1.41    | 1.40    | 1.37   | 1.41    | 1.38    |
| ¥/US\$   |                     | 149   | 156   | 149   | 152   | 152     | 144     | 142 ↓   | 141     | 151    | 145     | 139     |
| US\$/Euro  |                     | 1.09  | 1.08  | 1.10  | 1.07  | 1.05    | 1.12    | 1.14    | 1.15    | 1.08   | 1.11    | 1.17    |
| US\$/£   |                     | 1.27  | 1.26  | 1.30  | 1.28  | 1.26    | 1.31 ↑  | 1.32 ↑  | 1.33 ↑  | 1.28   | 1.31 ↑  | 1.34 ↑  |
| <b>CANADA</b>  |                     |       |       |       |       |         |         |         |         |        |         |         |
| Real GDP   | (q/q % chng : a.r.) | 1.8   | 2.8   | 2.2   | 2.6   | 1.5     | -2.5    | -1.5    | 1.0     | 1.5    | 0.7     | 1.0     |
| Consumer Price Index   | (y/y % chng)        | 2.8   | 2.7   | 2.0   | 1.9   | 2.3     | 1.9 ↓   | 1.9 ↓   | 1.8 ↓   | 2.4    | 2.0 ↓   | 2.0     |
| Unemployment Rate  | (percent)           | 5.9   | 6.3   | 6.5   | 6.7   | 6.6     | 7.2     | 7.6     | 7.7     | 6.4    | 7.3     | 7.5     |
| Housing Starts   | (000s : a.r.)       | 244   | 250   | 238   | 248   | 223     | 220 ↓   | 228 ↓   | 228 ↑   | 245    | 225 ↓   | 225     |
| Current Account Balance  | (\$blns : a.r.)     | -8.9  | -19.0 | -14.5 | -20.0 | -11.0   | -49.0   | -57.3   | -58.8   | -15.6  | -44.0   | -56.0   |
| <b>Interest Rates</b> (average for the quarter : %)                      |                     |       |       |       |       |         |         |         |         |        |         |         |
| Overnight Rate   |                     | 5.00  | 4.92  | 4.42  | 3.58  | 2.92    | 2.67    | 2.42    | 2.17    | 4.48   | 2.54    | 2.00    |
| 3-month Treasury Bill  |                     | 4.94  | 4.81  | 4.27  | 3.46  | 2.85    | 2.55 ↑  | 2.35    | 2.10    | 4.37   | 2.50 ↑  | 1.95    |
| 10-year Bond   |                     | 3.43  | 3.58  | 3.14  | 3.21  | 3.12    | 3.05 ↑  | 2.95    | 2.90    | 3.34   | 3.00    | 2.80 ↓  |
| <b>Canada-U.S. Interest Rate Spreads</b> (average for the quarter : bps) |                     |       |       |       |       |         |         |         |         |        |         |         |
| 90-day   |                     | -52   | -66   | -95   | -112  | -149    | -176 ↑  | -175 ↑  | -165 ↓  | -53    | -166 ↑  | -109    |
| 10-year  |                     | -73   | -87   | -80   | -107  | -133    | -118 ↓  | -114 ↓  | -109 ↓  | -87    | -119 ↓  | -99 ↓   |

Blocked areas mark BMO Capital Markets forecasts; up and down arrows (↑↓) indicate forecast changes; spreads may differ due to rounding

## Key for Next Week



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**Beige Book**

Wednesday, 2:00 pm

The Fed's regional economic report card, prepared for the May 6-7 policy meeting, is unlikely to diverge much from the previous one, which noted that *"economic activity rose slightly"*. The only thing that is likely to change is the number of times the words *"tariff"* and *"uncertainty"* are mentioned (which was already excessive last time). Of keen interest to policymakers is whether more businesses plan to pass the new duties on to customers. Chair Powell recently doubled down on the quest for price stability by ensuring that a tariff-led spike in inflation does not unmoor long-run expectations. He also affirmed that the Fed is *"well positioned to wait for greater clarity"* on the trade file before adjusting rates. The **Beige Book** update will provide little clarity for now, suggesting the FOMC will remain patient this month. — S.G.

**Durable Goods Orders**

Thursday, 8:30 am

|                 | <b>Durable Orders</b> | <b>Core Orders</b> |
|-----------------|-----------------------|--------------------|
| <b>Mar. (e)</b> | <b>+1.3%</b>          | <b>+0.4%</b>       |
| Consensus       | +1.5%                 | +0.2%              |
| Feb.            | +1.0%                 | -0.2%              |

**Durable goods orders** are expected to climb yet again in March, after an unexpected rise in the prior month. The underlying trend has turned up recently, though that is likely a result of tariff front-running. Auto and airplane bookings likely boosted the overall transportation component. Meantime, **core** capital goods orders look to climb 0.4%, while the control measure of core shipments likely also edged up. Overall, the report should showcase that the economy was on solid footing before eye-watering tariffs were announced (then largely pulled back, for now) in April, creating heightened uncertainty and sagging business and consumer confidence. — P.T.

**Existing Home Sales**

Thursday, 10:00 am

|                 |                              |
|-----------------|------------------------------|
| <b>Mar. (e)</b> | <b>4.35 mln a.r. (+2.1%)</b> |
| Consensus       | 4.14 mln a.r. (-2.8%)        |
| Feb.            | 4.26 mln a.r. (+4.2%)        |

**Existing home sales** are expected to climb further after a solid jump in the prior month. Pending home sales picked up, while mortgage rates dropped and there was more existing inventory in some markets. That would mark two straight monthly gains, providing better momentum ahead of the all-important spring selling season. Still, the level remains very subdued and there may be some downside risk to our call. Given still-elevated interest rates and the worst affordability in decades, buyers remain largely sidelined. Looking ahead, it's unlikely we'll see a burst of strength in the housing market anytime soon. — P.T.

|  | Monday April 21  | Tuesday April 22  | Wednesday April 23   | Thursday April 24   | Friday April 25  |
|--|--|---|--|---|--|
| Canada                                       |  | <b>8:30 am Industrial Raw</b><br><b>Product Materials</b><br><b>Price Index Price Index</b><br><b>Mar. (e) +0.5% +0.1%</b><br><b>Feb. +0.4% +0.3%</b><br><b>8:30 am Construction Investment</b><br><b>Feb.</b><br><b>Jan. +1.8% +6.1% y/y</b><br><b>10:30 am 3-, 6- &amp; 12-month bill</b><br><b>auction \$25.0 bln</b><br><b>(new cash \$25.0 bln)</b><br><b>11:15 am Cash management bond</b><br><b>buybacks \$0.5 bln</b><br><b>Noon 1-month bill auction \$2.5 bln</b> | <b>8:30 am New Housing Price Index</b><br><b>Mar. (e) -0.2% unch y/y</b><br><b>Feb. +0.1% +0.1% y/y</b><br><b>Noon 30-year bond auction</b><br><b>\$3.0 bln</b><br><b>7:00 am MBA Mortgage</b><br><b>Applications 30-year FRM</b><br><b>Apr. 18</b><br><b>Apr. 11 -8.5% 6.81%</b><br><b>9:45 am S&amp;P Global PMIs</b><br><b>Mfg. Services</b><br><b>Apr. P (e) 49.5 53.0</b><br><b>Consensus 49.5 53.5</b><br><b>Mar. 50.2 54.4</b><br><b>10:00 am New Home Sales</b><br><b>Mar. (e) 690,000 a.r. (+2.1%)</b><br><b>Consensus 682,000 a.r. (+0.9%)</b><br><b>Feb. 676,000 a.r. (+1.8%)</b><br><b>2:00 pm Beige Book</b><br><b>Fed Speakers: Chicago's Goolsbee</b><br><b>(9:00 am); Governor Waller, St. Louis'</b><br><b>Musalem (9:30 am); Cleveland's</b><br><b>Hammack (6:30 pm)</b><br><b>11:30 am 2-year FRN auction</b><br><b>\$30 bln</b><br><b>11:30 am 17-week bill auction</b><br><b>1:00 pm 5-year note auction</b><br><b>\$70 bln</b> | <b>8:30 am Payroll Survey:</b><br><b>Job Vacancy Rate</b><br><b>Feb.</b><br><b>Jan. 2.9%</b><br><b>Noon 5-year bond auction</b><br><b>\$5.25 bln</b><br><b>2-, 10-year bond auction announcements</b><br><b>8:30 am Initial Claims</b><br><b>Apr. 19 (e) 220k (+5k)</b><br><b>Apr. 12 215k (-9k)</b><br><b>8:30 am Continuing Claims</b><br><b>Apr. 12</b><br><b>Apr. 5 1,885k (+41k)</b><br><b>8:30 am Durable Core</b><br><b>Orders Orders</b><br><b>Mar. (e) +1.3% +0.4%</b><br><b>Consensus +1.5% +0.2%</b><br><b>Feb. +1.0% -0.2%</b><br><b>8:30 am Chicago Fed National</b><br><b>Activity Index</b><br><b>Mar.</b><br><b>Feb. 0.18</b><br><b>10:00 am Existing Home Sales</b><br><b>Mar. (e) 4.35 mln a.r. (+2.1%)</b><br><b>Consensus 4.14 mln a.r. (-2.8%)</b><br><b>Feb. 4.26 mln a.r. (+4.2%)</b><br><b>11:00 am KC Fed Mfg. Activity</b><br><b>Apr. (e) -4</b><br><b>Mar. -2</b><br><b>G20 Finance Ministers and Central</b><br><b>Bank Governors' Meeting</b><br><b>Fed Speaker:</b><br><b>Minneapolis' Kashkari (5:00 pm)</b><br><b>11:00 am 6-, 13- &amp; 26-week bill</b><br><b>auction announcements</b><br><b>11:30 am 4- &amp; 8-week bill auctions</b><br><b>1:00 pm 7-year note auction</b><br><b>\$44 bln</b> | <b>8:30 am Retail Sales Ex. Autos</b><br><b>Feb. (e) -0.5% +0.1%</b><br><b>Consensus -0.4% -0.1%</b><br><b>Jan. -0.6% +0.2%</b><br><b>8:30 am Manufacturing Sales</b><br><b>Mar. A</b><br><b>Feb. +0.2%</b><br><b>Ottawa's Budget Balance<sup>o</sup></b><br><b>Feb. '25</b><br><b>Feb. '24 +\$8.3 bln</b><br><b>10:00 am University of Michigan</b><br><b>Consumer Sentiment</b><br><b>Apr. F (e) 50.7</b><br><b>Consensus 55.0</b><br><b>Apr. P 50.8</b><br><b>Mar. 57.0</b> |
|  | <b>10:00 am Leading Indicator</b><br><b>Mar. (e) -0.5%</b><br><b>Consensus -0.4%</b><br><b>Feb. -0.3%</b><br><b>Fed Speaker:</b><br><b>Chicago's Goolsbee (8:30 am)</b><br><b>11:30 am 13- &amp; 26-week bill</b><br><b>auctions \$144 bln</b> | <b>10:00 am Richmond Fed</b><br><b>Manufacturing Index</b><br><b>Apr. (e) -7</b><br><b>Mar. -4</b><br><b>Fed Speakers: Governor Jefferson</b><br><b>(9:00 am); Philadelphia's Harker</b><br><b>(9:30 am); Minneapolis' Kashkari</b><br><b>(2:00 pm)</b><br><b>11:00 am 4-, 8- &amp; 17-week bill</b><br><b>auction announcements</b><br><b>11:30 am 6-week bill auction</b><br><b>\$70 bln</b><br><b>1:00 pm 2-year note auction</b><br><b>\$69 bln</b>                     |  |   |  |
|  |  |   |  |   |  |
|  |  |   |  |   |  |
| United States                                |  |   |  |   |  |
|  |  |   |  |   |  |
|  |  |   |  |   |  |
|  |  |   |  |   |  |
| IMF/World Bank Spring Meetings (April 21-26) |  |   |  |   |  |

<sup>c</sup> = consensus; <sup>o</sup> = date approximate; <sup>r</sup> = reopening

Upcoming Policy Meetings | Bank of Canada: June 4, July 30, Sep. 17 | FOMC: May 6-7, June 17-18, July 29-30



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