

WEEKLY COMMENTARY

Deal or No Deal

By Mirza Shaheryar Baig, Foreign Exchange Strategist

According to Treasury Secretary Scott Bessent, the US is formally in bilateral trade talks with 17 countries. He noted this week that talks with Asian trading partners, especially India, are closest to fruition.

The messages from the other side are a bit ambiguous. South Korean officials, serving under an interim government, said they don't expect a deal at least until June when elections are due. Japanese negotiators suggest they were working on an "interim" agreement, which will defer thorny issues like agriculture trade, currency valuations and joint tariffs on China. Taiwan's negotiators have adopted a unique position, arguing that massive investments in the US by Taiwanese firms like TSMC should count towards the trade deficit calculations. Vietnam, which is facing a 46% "reciprocal tariff," has simply said that the two sides "would soon reach a suitable solution."

China is the elephant in the room looming over these discussions. Some reports suggest the Americans are pushing other countries to adopt higher tariffs on China and stop the transshipment of Chinese goods through their ports. The Chinese have warned that there will be consequences for any country that strikes a deal "at Beijing's expense." China is the largest or second largest trade partner of most countries in Asia. Asking these countries to choose between China or America is a nonstarter.

The state of play between the EU and the US is more complex. EU Trade Commissioner Maros Sefcovic held meetings with US Commerce Secretary Lutnick in March, but talks have stalled since "Liberation Day." The meeting between Italian Prime Minister Meloni and Trump earlier this month broke the ice, but trade policy for the EU bloc is the domain of the

European Commission. That means individual countries like Italy or Ireland can't make a bilateral deal with the US—it all has to go through European Commission President Ursula von der Leyen. She met briefly with President Trump at Pope Francis's funeral and said they would meet again "at the right moment" once a trade agreement is on the table. The Commission is expected to present a proposal to their US counterparts next week. The trade deal with the UK also seems to have been put on the back burner. UK negotiators set a self-imposed deadline of May 19, but it's unclear if the Trump administration is on the same page.

In Canada, firms have ramped up efforts to become USMCA compliant to benefit from tariff exemptions. But the US administration is likely to push for a renegotiation of the agreement well ahead of the July 2026 timeframe. This will be one of the key priorities for the Carney government, and we expect to hear more on this in the coming weeks. President Trump and Prime Minister Carney spoke this week and agreed to meet in person "very soon."

Finally, there's China. The Trump administration still says China will capitulate, but this is unlikely. Both sides have exempted specific product categories from tariffs. But overall, China has taken an uncompromising stand. It's crucial for President Xi to maintain a strong stance in negotiations. Moreover, his statesman-like approach is in total contrast to the style of the US president. He has appointed Li Chenggang as his new trade tsar and asked the US to name one of its own so that negotiations can be conducted. President Trump says he expects President Xi to give him a personal call.

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Jimmy Jean, Vice-President, Chief Economist and Strategist • Randall Bartlett, Deputy Chief Economist
 Benoit P. Durocher, Director and Principal Economist • Royce Mendes, Managing Director and Head of Macro Strategy
 Mirza Shaheryar Baig, Foreign Exchange Strategist • Marc-Antoine Dumont, Senior Economist • Tiago Figueiredo, Macro Strategist
 Francis Généreux, Principal Economist • Florence Jean-Jacobs, Principal Economist • Kari Norman, Economist • Oskar Stone, Analyst
 LJ Valencia, Economic Analyst

Desjardins Economic Studies: 514-281-2336 or 1-866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

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But time is not on Trump's side. According to the Wall Street Journal, CEOs of large retailers have warned Trump that price hikes are coming or there will be shortages. Equity markets have recovered from their recent lows but could easily roll over if there's no deal in sight ahead of the July 8 deadline when the 90-day pause expires.

What Would a Deal Look Like?

While details are scant at this stage, we can glean that any trade deals will have the following features, in order of importance:

- ▶ **Lower tariffs:** Every country engaged in bilateral talks seems willing to lower their tariffs on imports from the US. Zero-for-zero would be the ideal outcome for markets, but some sectors like agriculture are likely to remain protected, perhaps to a lesser degree.
- ▶ **Purchase of US weapons and energy:** Several countries including Israel, Taiwan, Korea and India have offered to buy more advanced military hardware from the US. The India-US COMPACT (Catalyzing Opportunities for Military Partnership, Accelerated Commerce & Technology) initiative could be a template for other countries. This is an agreement for the long-term sale of defence hardware and co-production of munitions like Javelin anti-tank missiles. Similarly, energy-deficient Asia has a critical long-term need for seaborne LNG, which the US can provide.
- ▶ **Lower non-tariff trade barriers:** Food safety regulations, quota-based procurement systems, licenses and even sales/VAT taxes are being negotiated. Each country's situation is different, and while there are red lines that each country will not cross, it's likely that some of these protections will be lowered.
- ▶ **Rules of origin:** Different tariff rates invite trade arbitrage. Chinese goods and components are already rerouted to the US or assembled in countries like Taiwan, Mexico and Vietnam. Rules of origin have precedent in other trade deals like the USMCA and will likely be a key feature of the new trade deals.
- ▶ **Lower digital services tax:** The UK charges 2% tax on revenues generated from certain digital services provided by large tech companies. Rates vary across the euro area. For example, France charges 3%. Canada is set to implement a 3% tax on June 28 this year. This is a key irritant for US tech companies. UK trade negotiators have offered to lower this tax. But this is a contentious issue in the EU, particularly since taxation is the domain of national governments, not the EU Commission.
- ▶ **Currency pact:** Markets have speculated that Scott Bessent is pushing for a weaker dollar during trade talks. But Japan's top currency diplomat, Atsushi Mimura, denied these claims.

Taiwan central bank governor Yang Chin-Long also denied that the US asked Taiwan to increase the value of its currency.

- ▶ **Investment in the US:** President Trump has touted Japan's commitment to invest in Alaska-based LNG projects and TSMC's expansion of its Arizona-based fabrication plants as his personal achievements. However, it's unclear if the Trump administration will agree to bring investment into the scope of trade deals.
- ▶ **Tariffs against China:** Some news media have reported that the US wants its trade partners to adopt a common tariff rate on Chinese goods. As noted above, it's very unlikely that other countries will sign on to this.

So Will Tariffs Come Down?

The formula behind "reciprocal tariffs" is based on the bilateral trade deficit. Even with lower external trade barriers, the US will continue to run a large deficit with Asia, as the deficit is the result of different savings and investment rates.

The formula is arbitrary, however, and the US could easily abandon it for countries that sign a trade deal. While tariffs may not be removed entirely, they will certainly be lower. The direction is towards de-escalation, though the timeline is uncertain.

Even with lower tariffs, businesses will have to navigate a patchwork of bilateral agreements to manage internationally dispersed supply chains. This will mean a higher cost of trade—and a bull market for customs lawyers!

What to Watch For

MONDAY May 5 - 10:00

April

Consensus	50.2
Desjardins	49.9

March 50.8

WEDNESDAY May 7 - 14:00

May

Consensus	4.50%
Desjardins	4.50%

March 19 4.50%

TUESDAY May 6 - 8:30

March \$B

Consensus	n/a
Desjardins	-2.00

February -1.52

FRIDAY May 9 - 8:30

April

Consensus	25,000
Desjardins	0

March -32,600

THURSDAY May 8 - 7:00

May

Consensus	4.25%
Desjardins	4.25%

March 20 4.50%

UNITED STATES

ISM Services index (April) – While the trade war is expected to hit services less directly than manufacturing, there are still signs that business leaders in the services sector are concerned anyway and dealing with uncertainty. Consequently, the ISM Services index likely fell again in April, after sliding from 53.5 in February to 50.8 in March. We're getting the same message from regional indexes, which are generally down, as are consumer confidence indexes. The ISM Services index may even slip slightly below 50.

Federal Reserve meeting (May) – Current conditions are tough for central banks to manage. The challenge is even greater for Federal Reserve (Fed) officials, who also have to deal with erratic comments from the US president, who's attempting to pressure Jerome Powell and his colleagues to cut interest rates. Instead, the Fed has adopted a "wait-and-see" approach that it will probably stick with at its May 7 meeting. It's aware of the upside risks to inflation and downside risks to the economy posed by the trade war that the United States has embarked upon. It remains to be seen whether the official statement of its monetary policy decision will discuss the issue. Jerome Powell is more likely to carefully comment on it during the press conference following the announcement.

CANADA

International trade (March) – Canada probably entered a trade deficit in March. The depreciation of the Canadian dollar likely influenced the trade balance, boosting nominal exports and imports. We anticipate a modest increase in Canadian import volumes, driven by higher motor vehicle sales. Indeed, US advance trade data showed a notable rise in motor vehicle exports, albeit at a slower pace than last month. Falling oil prices partially led to lower export volumes as well. Our forecast contains a large degree of uncertainty given the threat of US tariffs, which could lead to unexpected increases or decreases in the trade balance.

Net change in employment (April) – The Canadian economy likely saw no net change in employment in April, which would push the unemployment rate up one tick to 6.8%. We expect this rise in unemployment to have been primarily driven by business uncertainty, which probably slowed hiring. Surveys from the Bank of Canada indicate that companies are hesitant to expand their payrolls amidst ongoing economic uncertainties. Decelerating population growth is expected to continue exerting downward pressure on unemployment rates as the labour supply slows. Most of the deceleration in population growth has come from those ages 15 to 34 and likely reflects a slowdown in net non-permanent resident admissions. On wages, base effects suggest that the bar for annual wage growth to accelerate is quite high.

OVERSEAS

United Kingdom: Bank of England meeting (May) – We expect the Bank to cut rates by 25bps, in line with market expectations, and signal further policy easing ahead. The Bank's dovish stance is influenced by weaker data on inflation and the labour market, as well as broader economic concern about trade. We expect an additional 75bps of cuts this year, including next week's meeting, compared to market pricing of 100bps. However, given the risks to the growth and inflation outlook, we acknowledge that the risk is for more rather than less policy easing.


FRIDAY May 9 - 21:30


April	y/y
Consensus	n/a
March	-0.1%

China: Consumer price index (April) – Although headline inflation fell for the second consecutive month in March with a 0.1% decline, core inflation, which strips out food and energy, returned to positive territory by advancing 0.5%. But economic conditions in China remain worrisome, as the country can't seem to extricate itself from its deflationary spiral. April's print will be particularly telling, as it was the first month when economic indicators should have started to really reflect the negative impacts of the trade war between China and the US. Until very recently, the pull-forward in economic activity to front-run tariff increases had boosted growth and offered some support to Chinese prices. But this phenomenon appears to have sputtered out as China's Manufacturing PMI retreated in April. This could revive deflationary pressures within the country.

Economic Indicators

Week of May 5 to 9, 2025

Date	Time	Indicator	Period	Consensus		Previous reading
UNITED STATES						
MONDAY 5	10:00	ISM Services index	April	50.2	49.9	50.8
TUESDAY 6	8:30	Trade balance – goods and services (US\$B)	March	-122.0	-136.7	-122.7
WEDNESDAY 7	14:00	Federal Reserve meeting	May	4.50%	4.50%	4.50%
	14:30	Speech by Federal Reserve Chair J. Powell				
	15:00	Consumer credit (US\$B)	March	10.000	9.000	-0.810
THURSDAY 8	8:30	Initial unemployment claims	April 28–May 2	n/a	245,000	241,000
	8:30	Nonfarm productivity – preliminary (ann. rate)	Q1	-0.5%	-1.4%	1.5%
	8:30	Unit labor costs – preliminary (ann. rate)	Q1	5.5%	5.3%	2.2%
	10:00	Wholesale inventories – final (m/m)	March	n/a	0.5%	0.5%
FRIDAY 9	6:15	Speech by Federal Reserve Bank of New York President J. Williams				
	8:00	Speech by Federal Reserve Governor A. Kugler				
	10:00	Speech by Federal Reserve Bank of Chicago President A. Goolsbee				
	10:40	Speech by Federal Reserve Vice Chair M. Barr				
	11:30	Speech by Federal Reserve Bank of New York President J. Williams and Federal Reserve Governor C. Waller				
	19:45	Speech by Federal Reserve Bank of St. Louis President A. Musalem, Federal Reserve Bank of Cleveland President B. Hammack and Federal Reserve Governor L. Cook				
CANADA						
MONDAY 5	---	---				
TUESDAY 6	8:30	International trade (\$B)	March	n/a	-2.00	-1.52
WEDNESDAY 7	---	---				
THURSDAY 8	---	---				
FRIDAY 9	8:30	Net change in employment	April	25,000	0	-32,600
	8:30	Unemployment rate	April	6.7%	6.8%	6.7%

NOTE: Each week, Desjardins Economic Studies takes part in the Bloomberg survey for Canada and the United States. Approximately 15 economists are consulted for the Canadian survey and a hundred or so for the United States. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. Times shown are Eastern Daylight Time (GMT -4 hours).  Desjardins Economic Studies forecast.

Economic Indicators

Week of May 5 to 9, 2025

Country	Time	Indicator	Period	Consensus		Previous reading	
				m/m (q/q)	y/y	m/m (q/q)	y/y
OVERSEAS							
DURING THE WEEK							
China	---	Trade balance (US\$B)	April	94.30		102.64	
MONDAY 5							
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TUESDAY 6							
France	2:45	Industrial production	March	0.3%	-0.2%	0.7%	-0.4%
Italy	3:45	Composite PMI	April	50.2		50.5	
Italy	3:45	Services PMI	April	51.3		52.0	
France	3:50	Composite PMI – final	April	47.3		47.3	
France	3:50	Services PMI – final	April	46.8		46.8	
Germany	3:55	Composite PMI – final	April	49.7		49.7	
Germany	3:55	Services PMI – final	April	48.8		48.8	
Eurozone	4:00	Composite PMI – final	April	50.1		50.1	
Eurozone	4:00	Services PMI – final	April	49.7		49.7	
United Kingdom	4:30	Composite PMI – final	April	48.9		48.9	
United Kingdom	4:30	Services PMI – final	April	48.2		48.2	
Eurozone	5:00	Producer price index	March	-1.4%	2.3%	0.2%	3.0%
Japan	20:30	Composite PMI – final	April	n/a		51.1	
Japan	20:30	Services PMI – final	April	n/a		52.2	
WEDNESDAY 7							
Germany	2:00	Factory orders	March	2.0%	1.1%	0.0%	-0.2%
France	2:45	Trade balance (€B)	March	n/a		-7,874	
France	2:45	Current account (€B)	March	n/a		-1.9	
France	2:45	Wages – preliminary	Q1	n/a		0.4%	
Italy	4:00	Retail sales	March	n/a	n/a	0.1%	-1.5%
Eurozone	5:00	Retail sales	March	-0.1%	1.6%	0.3%	2.3%
Brazil	17:30	Central Bank of Brazil meeting	May	14.75%		14.25%	
THURSDAY 8							
Germany	2:00	Trade balance (€B)	March	18.7		17.7	
Germany	2:00	Industrial production	March	1.0%	-2.7%	-1.3%	-4.0%
Sweden	3:30	Bank of Sweden meeting	May	2.25%		2.25%	
Norway	4:00	Bank of Norway meeting	May	4.50%		4.50%	
United Kingdom	7:00	Bank of England meeting	May	4.25%		4.50%	
FRIDAY 9							
Japan	1:00	Leading index – preliminary	March	107.5		107.9	
Japan	1:00	Coincident index – preliminary	March	115.9		117.3	
Italy	4:00	Industrial production	March	0.4%	-1.7%	-0.9%	-2.7%
China	21:30	Consumer price index	April		n/a		-0.1%
China	21:30	Producer price index	April		n/a		-2.5%

Note: Unlike release times for US and Canadian economic data, release times for overseas economic data are approximate. Publication dates are provided for information only. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Times shown are Eastern Daylight Time (GMT -4 hours).