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US Economy on the Brink of Change as Trade Talks and Market Moves Gain Momentum

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– Categories: Economics



This week is set to be an important one for the US economy, with several major events and data releases that could influence market direction. After two weeks of falling yields, US Treasury rates found support on Friday, rising 2.9 to 4.5 basis points across the curve. Short-term yields led the recovery, suggesting investors are gaining confidence.

In Europe, rates also increased slightly as markets adjusted to the European Central Bank's (ECB) expected end to its easing policies. Positive remarks from US Commerce Secretary Lutnick helped boost market sentiment, encouraging a more risk-friendly environment.

Trade negotiations remain a central focus. With the July 9 deadline for a tariff pause quickly approaching, US Treasury Secretary Bessent said that deals could be completed for 10 to 12 of the 18 main US trade partners soon, and the remaining agreements possibly by Labor Day. Progress is also being made in talks between the US and the EU, with both sides optimistic about reaching an agreement by the deadline. Canada made a significant move by removing its planned digital services tax on major tech firms, which had threatened to stall talks after President Trump's response.

In Washington, the Senate is moving forward with President Trump's large tax and spending package, known as the Build Back Better (BBB) bill. The Senate passed the initial vote narrowly, 51-49, over the weekend. A long session is planned this week to review numerous amendments, with a final vote expected early next week. The bill will then go to the House, where approval is uncertain. If the House rejects it, a compromise will be needed, likely delaying the July 4 deadline.

The Congressional Budget Office estimates the bill could add \$3.3 trillion to the US deficit from 2025 to 2034, with over \$2 trillion in the first five years. This raises concerns about the dollar's outlook, which has been gradually weakening. The trade-weighted dollar index recently hit new multi-year lows, hovering just above 97. Meanwhile, the euro has strengthened, with EUR/USD approaching 1.18 after breaking through key resistance around 1.1685.

Important economic data this week includes the ISM business confidence index, JOLTS job openings, and June payrolls report. These will be closely watched for signs of economic strength or weakness, which could affect Federal Reserve policy. The ECB also begins its annual Central Banking Forum in Sintra, Portugal, today, with Germany's inflation figures due tomorrow.

Energy markets face uncertainty as OPEC+ prepares to decide on another production increase of 411,000 barrels per day for August, continuing recent supply boosts. With easing geopolitical tensions, Brent crude prices have tested lows near \$67 per barrel amid concerns over global demand affected by trade issues.

Canada's sudden reversal on its digital services tax led to sharp moves in its currency. The Canadian dollar fell after Trump's warning but recovered after Canada dropped the tax, a step Prime Minister Carney called essential for resuming trade talks ahead of the July 21 G7 deadline.

Overall, this week will be critical for markets and the US economy, as developments in trade, fiscal policy, and economic data shape the path forward.