

Economics

THE WEEK AHEAD

June 23 - 27, 2025

China is not blinking

by Benjamin Tal benjamin.tal@cibc.com

“The ball is in China’s court. China needs to make a deal with us. We don’t have to make a deal with them”. That was the official White House position regarding China early in the year. So Trump was sitting by the phone waiting for Xi to call. He didn’t. And under pressure, the president ended up dialing Xi’s number, and finally got an audience with the Chinese leader.

Xi is playing hard to get for a good reason. In a long-lasting trade war, China might have the upper hand. No question that such a development will badly hurt the already weak Chinese economy, but for obvious reasons it’s also clear that the tolerance to pain in autocratic China is notably higher than in the (still) democratic US.

The Chinese have been preparing for such an eventuality for a while. China’s exports to the US have been little changed over the past 15 years, while its exports to the rest of the world went up by a dazzling 80%. China’s exports to the US are now around 2.5% of GDP — very close to the share of US exports to Canada and Mexico. And if the US feels that its low exposure to Mexico and Canada means some immunity from tariffs, China can claim the same re the US.

But the main reason why China is not blinking is its growing ability to inflict pain on the US, well beyond reciprocal tariffs and the constant threat of weaponizing its treasury holdings.

First of course are the 17 “rare earths” located at the bottom of the periodic table that are crucial to a range of high-tech goods, from batteries and renewables, to weapons and medical devices. All are largely supplied to the world by China which accounts for roughly 60-70% of global rare earth production and 80-90% of refining capacity.

Clearly America should and would speed up efforts to find alternative supplies. Today the country has only one rare-earth mine, in California. Yet America, like other countries, lacks the expertise to turn rare earths into high-performance magnets — the export of which China has also restricted. The consensus is that it would take America three to five years to build a mine-to-magnet supply chain which bypasses China.

An even larger vulnerability is in the field of pharmaceuticals. Here, the US depends on foreign manufacturers for nearly 75% of its essential drug supply. China and India alone account for approximately 60% of global active pharmaceutical ingredient (API) production — dominating especially in generic drugs like antibiotics. China’s dominance is mind boggling. It accounts for close to 90% of the world’s antibiotic API supply, so any disruption can be very problematic (remember the amoxicillin shortage in 2022?).

True, India supplies about half of all generic drugs used in the US. However, Indian pharmaceutical manufacturers are dependent on Chinese suppliers for approximately 80% of their pharmaceutical ingredients. So de facto the US relies on China for as much as 80% of its API.

That dependence on China might have major side-effects since it has significant implications for affordable healthcare in the US, especially Medicaid, which relies extensively on cost-effective generic medications.

What’s more, the 2018 trade war with the US has ignited a notable change in China’s approach towards retaliation. In the past, China’s retaliation tool kit was basic trade or investment incentives and sanctions. Today, China is ready to deploy an arsenal of legal and regulatory tools often mirroring US export control rules, sanctions, and investment restrictions aimed at imposing targeted pain on companies and countries it sees as acting against its interests. Some examples include: Blocking Rules; the Unreliable Entity List; Cybersecurity Review; Antitrust and Mergers and Acquisition Review; Export Control Laws and Control Lists.

All indications are that if needed, China will rely more heavily on that newly oiled retaliatory machine.

China was and is Trump’s main target, but the significant pain that Beijing can potentially unleash on the US means that come July 9th (the end of the 90-day tariff pause) the Administration’s tone towards China might be much gentler.

Week Ahead Calendar And Forecast—Canada

H, M, L = High, Medium or Low Priority

SAAR = Seasonally Adjusted Annual Rate

Consensus Source: Bloomberg

Date	Time	Economic Releases, Auctions and Speakers	Month	Priority	CIBC	Consensus	Prior
Monday, June 23	-	-	-	-	-	-	-
Tuesday, June 24	8:30 AM	CPI M/M	(May)	(H)	0.6%	0.5%	-0.1%
Tuesday, June 24	8:30 AM	CPI Y/Y	(May)	(H)	1.8%	1.7%	1.7%
Tuesday, June 24	8:30 AM	Consumer Price Index	(May)	(M)	-	-	163.4
Tuesday, June 24	8:30 AM	CPI Core- Median Y/Y%	(May)	(M)	3.1%	-	3.2%
Tuesday, June 24	8:30 AM	CPI Core- Trim Y/Y%	(May)	(M)	3.1%	-	3.1%
Wednesday, June 25	-	AUCTION: 10-YR CANADAS \$5.3B	-	-	-	-	-
Thursday, June 26	-	AUCTION: 2-YR CANADAS \$6.0B	-	-	-	-	-
Thursday, June 26	8:30 AM	PAYROLL EMPLOYMENT, EARNINGS & HRS	(Apr)	-	-	-	-54.1K
Friday, June 27	8:30 AM	GDP M/M	(Apr)	(H)	0.0%	-	0.1%

Week Ahead Calendar And Forecast—United States

H, M, L = High, Medium or Low Priority

SAAR = Seasonally Adjusted Annual Rate

Consensus Source: Bloomberg

Date	Time	Economic Releases, Auctions and Speakers	Month	Priority	CIBC	Consensus	Prior
Monday, June 23	9:45 AM	S&P GLOBAL US SERVICES PMI	(Jun P)	(L)	-	52.9	53.7
Monday, June 23	9:45 AM	S&P GLOBAL US COMPOSITE PMI	(Jun P)	(L)	-	-	53.0
Monday, June 23	9:45 AM	S&P GLOBAL US MANUFACTURING PMI	(Jun P)	(L)	-	51.0	52.0
Monday, June 23	10:00 AM	EXISTING HOME SALES SAAR	(May)	(M)	-	4M	4M
Monday, June 23	10:00 AM	EXISTING HOME SALES M/M	(May)	(M)	-	-1.3%	-0.5%
Monday, June 23	3:00 AM	Speaker: Christopher J. Waller (Governor) (Voter)	-	-	-	-	-
Monday, June 23	10:00 AM	Speaker: Michelle W Bowman (Governor) (Voter)	-	-	-	-	-
Monday, June 23	1:10 PM	Speaker: Austan D. Goolsbee, Chicago (Non-Voter)	-	-	-	-	-
Monday, June 23	2:30 PM	Speaker: John C. Williams (Vice Chairman, New York) (Voter) & Adriana D. Kugler (Governor) (Voter)	-	-	-	-	-
Tuesday, June 24	-	AUCTION: 2-YR TREASURIES \$69B	-	-	-	-	-
Tuesday, June 24	8:30 AM	PHILADELPHIA FED - NON-MANUFACTURING	(Jun)	(M)	-	-	-41.9
Tuesday, June 24	8:30 AM	CURRENT ACCOUNT BALANCE	(1Q)	(L)	-	-\$445.5B	-\$303.9B
Tuesday, June 24	9:00 AM	HOUSE PRICE INDEX M/M	(Apr)	(M)	-	-	-0.1%
Tuesday, June 24	9:00 AM	S&P CORELOGIC CS Y/Y	(Apr)	(H)	-	-	4.1%
Tuesday, June 24	10:00 AM	RICHMOND FED MANUF. INDEX	(Jun)	(M)	-	-	-9
Tuesday, June 24	10:00 AM	CONF.BOARD CONSUMER CONFIDENCE	(Jun)	(H)	97.0	99.0	98.0
Tuesday, June 24	9:15 AM	Speaker: Beth Hammack (Cleveland) (Voter)	-	-	-	-	-
Tuesday, June 24	10:00 AM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Tuesday, June 24	12:30 PM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Tuesday, June 24	2:00 PM	Speaker: Susan M. Collins (Boston)	-	-	-	-	-
Tuesday, June 24	4:00 PM	Speaker: Michael S Barr (Governor) (Voter)	-	-	-	-	-
Wednesday, June 25	-	AUCTION: 5-YR TREASURIES \$70B	-	-	-	-	-
Wednesday, June 25	-	AUCTION: 2-YR FRN \$28B	-	-	-	-	-
Wednesday, June 25	7:00 AM	MBA-APPLICATIONS	(Jun 20)	(L)	-	-	-2.6%
Wednesday, June 25	10:00 AM	NEW HOME SALES SAAR	(May)	(M)	685K	693K	743K
Wednesday, June 25	10:00 AM	NEW HOME SALES M/M	(May)	(M)	-7.8%	-6.7%	10.9%
Thursday, June 26	-	AUCTION: 7-YR TREASURIES \$44B	-	-	-	-	-
Thursday, June 26	8:30 AM	INITIAL CLAIMS	(Jun 21)	(M)	-	248K	245K
Thursday, June 26	8:30 AM	CONTINUING CLAIMS	(Jun 14)	(L)	-	-	1945K
Thursday, June 26	8:30 AM	ADVANCE GOODS TRADE BALANCE	(May)	(M)	-\$80.0B	-\$92.0B	-\$87.0B
Thursday, June 26	8:30 AM	WHOLESALE INVENTORIES M/M	(May P)	(L)	-	-	0.2%
Thursday, June 26	8:30 AM	RETAIL INVENTORIES M/M	(May)	(H)	-	-	-0.1%
Thursday, June 26	8:30 AM	GDP (annualized)	(1Q T)	(H)	-0.2%	-0.2%	-0.2%
Thursday, June 26	8:30 AM	GDP DEFLATOR (annualized)	(1Q T)	(H)	-	3.7%	3.7%
Thursday, June 26	8:30 AM	CHICAGO FED NAT.ACTIVITY INDEX	(May)	(M)	-	-	-0.3
Thursday, June 26	8:30 AM	DURABLE GOODS ORDERS M/M	(May P)	(H)	3.0%	6.9%	-6.3%
Thursday, June 26	8:30 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(May P)	(H)	-0.1%	0.0%	0.2%
Thursday, June 26	10:00 AM	PENDING HOME SALES M/M	(May)	(M)	-	0.0%	-6.3%
Thursday, June 26	8:45 AM	Speaker: Thomas I. Barkin (Richmond) (Voter)	-	-	-	-	-
Thursday, June 26	9:00 AM	Speaker: Beth Hammack (Cleveland) (Voter)	-	-	-	-	-
Thursday, June 26	1:15 PM	Speaker: Michael S Barr (Governor) (Voter)	-	-	-	-	-
Friday, June 27	8:30 AM	PCE DEFLATOR Y/Y	(May)	(H)	2.3%	2.3%	2.1%
Friday, June 27	8:30 AM	PCE DEFLATOR Y/Y (core)	(May)	(H)	2.6%	2.6%	2.5%
Friday, June 27	8:30 AM	PERSONAL INCOME M/M	(May)	(H)	0.3%	0.2%	0.8%
Friday, June 27	8:30 AM	PERSONAL SPENDING M/M	(May)	(H)	0.2%	0.2%	0.2%
Friday, June 27	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Jun)	(H)	-	60.5	60.5
Friday, June 27	8:45 AM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Friday, June 27	9:15 AM	Speaker: Beth Hammack (Cleveland) (Voter) & Lisa D Cook (Governor) (Voter)	-	-	-	-	-

Week Ahead's market call

by Ali Jaffery and Katherine Judge

In the **US**, it's a fairly light data week with the personal and income spending report showing subdued inflation in May. Investors will remain focused on Middle East tensions and the GOP's tax bill. Divisions in the Senate over cuts to Medicaid and state and local tax (SALT) deductions are stalling progress, and it's not obvious that the bill will get over the President's July 4th deadline.

In **Canada**, all eyes will be on the CPI report to see if core measures show a sufficient enough moderation in the monthly pace to allow the BoC to cut in July. The GDP data for April is likely to show no growth, and a further weakening in the May advance estimate would add to the evidence that the one-time lift to inflation from tariffs will be offset by weaker demand ahead.

Week Ahead’s key Canadian number:
Consumer price index—May

(Tuesday, 8:30 am)

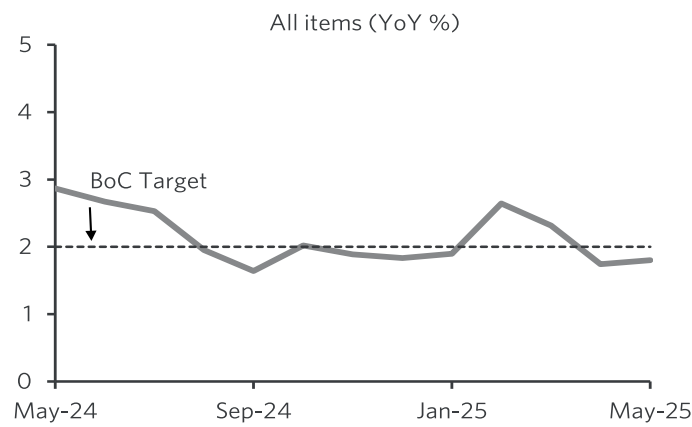
Katherine Judge katherine.judge@cibc.com

Variable (%)	CIBC	Mkt	Prior
CPI NSA (m/m)	0.6	0.5	-0.1
CPI (y/y)	1.8	1.7	1.7

Headline price pressures could have ticked up to 1.8% y/y in May, on a 0.6% m/m NSA advance (+0.3% m/m SA). The acceleration in the monthly pace will be largely tied to food prices that are picking up counter tariff impacts, and core goods prices that could begin to reflect broader tariffs. The Bank of Canada’s CPI trim and median measures are both likely to come in at 0.3% m/m SA (+3.1% y/y), a cooling from last month’s +0.37% m/m SA pace. We expect rent inflation to decelerate after a surprising jump in April, and in line with industry data, leaning against food price increases.

The release will update the basket weights to reflect 2024 consumption shares. However, these changes typically do not have a material impact on headline inflation.

Chart: Canadian consumer price index



Source: Statistics Canada, Haver Analytics, CIBC

Forecast implications — The increase in oil prices will boost inflation ahead, along with tariff passthrough, but looking through those shocks shows several offsetting factors. The elevated unemployment rate, the appreciation in the C\$ since March, and a continued slowdown in shelter inflation will help to offset the one-time lift to inflation from tariffs. The Bank of Canada will need to see a cooling in its key core measures to feel comfortable cutting in July as we expect.

Other Canadian releases:
GDP—April

(Friday, 8:30 am)

Canada’s economy likely stalled in April, reflecting the escalation in the trade war. We expect the second reading for GDP for the month to come in a tick weaker than the +0.1% gain that was initially reported. That would reflect the ballooning in the trade deficit to a record high level as two-way trade plummeted, consistent with the drops seen in the manufacturing and wholesale trade data. The advance reading for May GDP could show a contraction, based on the drop in advance retail sales and the stall in hours worked.

Week Ahead’s key US number:
Personal income & outlays—May

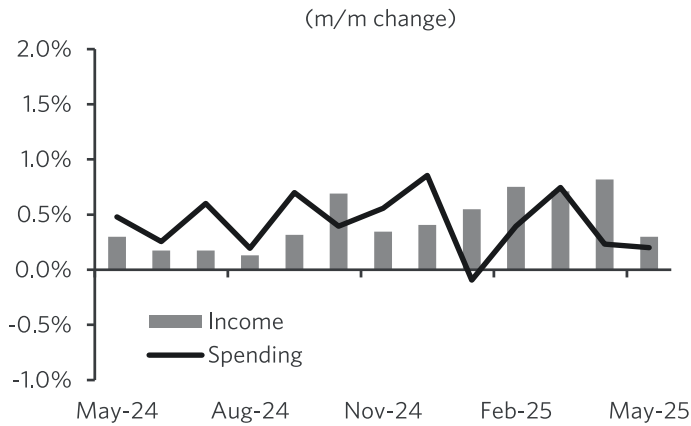
(Friday, 8:30 am)

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Variable (%)	CIBC	Mkt	Prior
Personal income (m/m)	0.3	0.2	0.8
Personal spending (y/y)	0.2	0.2	0.2
Core PCE price index (y/y)	2.6	2.6	2.5

The May personal income and spending report will be the data highlight of the week. Price pressures will be subdued again, as we expect headline and core PCE inflation to come in at 0.1% m/m, given the surprise softness in the May CPI and PPI reports in the month indicating limited tariff pass-through in the month. Healthy pre-tariff inventories, absorption of tariffs into importer and exporter margins, or a combination of both could be behind the modest tariff impact in the month. In terms of income and spending, we expect consumption growth in inflation-adjusted terms to rise by 0.1% and personal income growth of 0.3%.

Chart: US personal spending and income



Source: BEA, Haver Analytics, CIBC

Forecast implications — The big question is when is the tariff impact going to show up. Underneath the hood there were some goods categories that showed rising prices in the CPI data, but weak apparel and car prices masked those increases. We expect more clear signs of tariffs to show up June.

Market implications — We are mainly aligned with consensus. Given most of the underlying data for this report is already known, the market’s eyes will be the June report.

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