

The Weekly Bottom Line

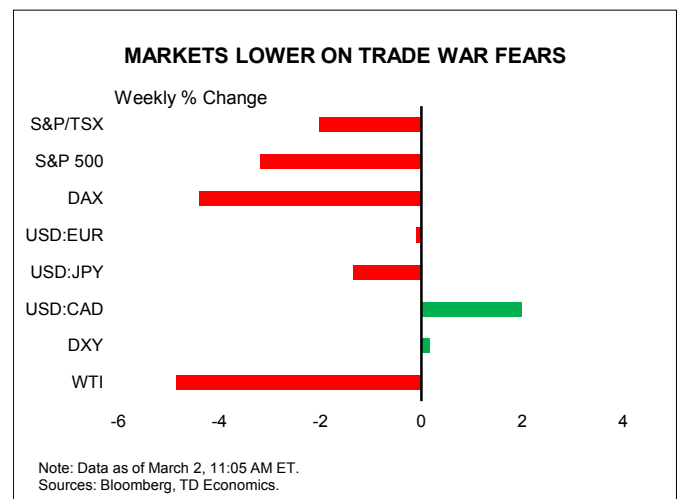
March 2, 2018

Highlights of the Week

- Markets sold off sharply this week, following a somewhat hawkish assessment of the U.S. economy from the Fed's new chair Jerome Powell and the announcement of steep tariffs on steel and aluminium imports by Donald Trump.
- Despite the market reaction to Powell's comments, there was not much in the data this week to indicate that the economy is overheating. Both headline and core PCE inflation remained unchanged in January, coming in at 1.7% y/y and 1.5% y/y, respectively. Real consumer spending fell by 0.1% on the month. Vehicle sales also weakened in February.
- Both consumption and GDP will start the year on a softer footing but weakness is expected to be short-lived. Tax cuts and tightening labor market will support consumer spending and above-trend growth over the remainder of 2018.

THIS WEEK IN THE MARKETS				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	2653	2747	2873	2329
S&P/TSX Comp.	15322	15638	16413	14952
DAX	11951	12484	13560	11904
FTSE 100	7086	7244	7779	7086
Nikkei	21182	21893	24124	18336
Fixed Income Yields				
U.S. 10-yr Treasury	2.83	2.87	2.95	2.04
Canada 10-yr Bond	2.18	2.25	2.38	1.39
Germany 10-yr Bund	0.63	0.65	0.77	0.16
UK 10-yr Gilt	1.44	1.52	1.65	0.93
Japan 10-yr Bond	0.07	0.05	0.10	-0.01
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.78	0.79	0.83	0.73
Euro (USD per EUR)	1.23	1.23	1.25	1.05
Pound (USD per GBP)	1.38	1.40	1.43	1.22
Yen (JPY per USD)	105.3	106.9	115.0	105.3
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	60.8	63.5	66.1	42.3
Natural Gas (\$US/MMBtu)	2.67	2.58	5.46	2.52
Copper (\$US/met. tonne)	6886.5	7062.3	7253.8	5461.8
Gold (\$US/troy oz.)	1322.1	1328.8	1358.5	1199.0

*as of 10:15 am on Friday **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price), Copper-LME Grade A, Gold-London Gold Bullion; Source: Bloomberg.



GLOBAL OFFICIAL POLICY RATE TARGETS	
	Current Target
Federal Reserve (Fed Funds Rate)	1.25 - 1.5%
Bank of Canada (Overnight Rate)	1.25%
European Central Bank (Refi Rate)	0.00%
Bank of England (Repo Rate)	0.50%
Bank of Japan (Overnight Rate)	-0.10%

Source: Central Banks.

TD ECONOMICS KEY FORECASTS													
	Current Rate 3/2/18	2017				2018				2019			
		Q1	Q2	Q3	Q4	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate (%)	1.50	1.00	1.25	1.25	1.50	1.75	2.00	2.25	2.25	2.50	2.75	3.00	3.00
2-yr Govt. Bond Yield (%)	2.23	1.27	1.38	1.47	1.89	2.20	2.35	2.50	2.65	2.75	2.85	2.95	2.95
10-yr Govt. Bond Yield (%)	2.83	2.40	2.31	2.33	2.40	2.85	2.95	3.05	3.15	3.20	3.25	3.30	3.30
30-yr Govt. Bond Yield (%)	3.12	3.02	2.84	2.86	2.74	3.05	3.15	3.25	3.35	3.40	3.45	3.50	3.50
Real GDP (Q/Q % Chg)*	2.5 (Q4-17)	1.2	3.1	3.2	2.5	2.0	2.6	2.4	2.3	2.2	2.3	2.2	2.1
CPI (Y/Y % Chg.)	2.1 (Jan-18)	2.5	1.9	2.0	2.1	1.7	2.1	2.1	1.9	1.8	2.0	2.1	2.1
Unemployment Rate (%)	4.1 (Jan-18)	4.7	4.3	4.3	4.1	4.0	3.9	3.9	3.9	3.8	3.8	3.8	3.9

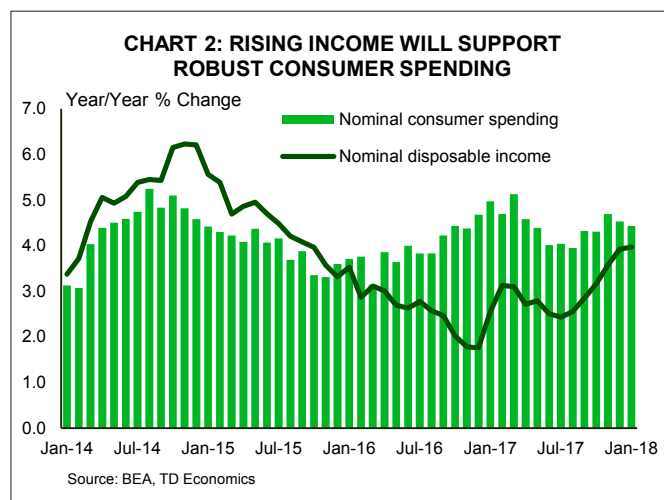
Forecast by TD Economics as of December. Source: Bloomberg, TD Economics. *Annualized

Fears of Trade War Rattle Financial Markets

This was a busy and difficult week for financial markets. Economic data releases were overshadowed by the much anticipated first Congressional testimony by the new Federal Reserve chair Jerome Powell and trade tariff announcement from the White House.

In his speech on Tuesday, Mr. Powell struck an upbeat tone on the U.S. economy and inflation, saying that his “outlook for the economy has strengthened since December.” He also highlighted potential upside risks to growth and inflation stemming from fiscal policy and the improved global economic backdrop. Without stating the exact number of rate hikes expected this year, Powell seems to have opened the door to a faster rate of normalization as long as the economic data cooperates. Markets were quick to interpret his comments as hawkish, with equities selling off and bond yields rising. New York Federal Reserve president Bill Dudley added more fuel to the fire by saying that four rate hikes by the Federal Reserve this year would still constitute a “gradual” pace of tightening.

Market losses extended further on Thursday on fears of trade wars following Donald Trump’s announcement of a 25% import tariff on steel and 10% on aluminum. While nothing has been signed yet, should these tariffs be introduced, they will lead to higher input prices for many manufacturing and construction industries which rely heavily on steel and aluminum inputs and ultimately result in higher prices for U.S. consumers, thus posing an upside risk to the Fed’s inflation outlook. The Fed may look through a one-time change in prices as a result of tariffs, but will be cautious on the impact on inflation expecta-



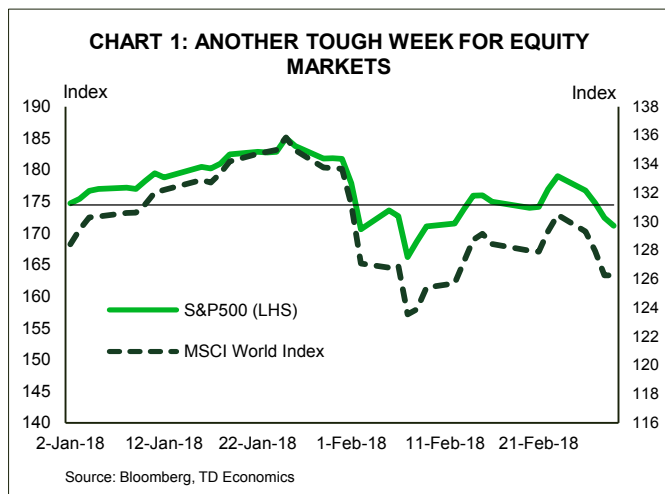
tions and potential economic growth – trade wars are not typically good for productivity growth.

Still, for the time being there is not much in the incoming data to indicate that the economy is overheating. Inflation-wise, both headline and core PCE inflation remained unchanged in January, coming in at 1.7% y/y and 1.5% y/y, respectively. Real consumer spending fell by 0.1% on the month, despite strong gains in real disposable income (+0.6% m/m) on the back of lower taxes. Indicators of housing activity were also soft. Coming on the heels of a decline in existing homes, January sales of new homes and the forward looking pending sales of existing homes also weakened. Ditto for auto sales, which edged down to 17.0 million units in February from 17.1 million in January. All in all, similar to the prior years, both consumption and GDP will start the year on a softer footing.

That being said, the slowdown will likely be short-lived. Some of the weakness in consumption is likely a pullback from the hurricane-induced ramp up at the end of 2017, and some due to “residual seasonality,” which has become apparent in recent years. Barring unexpected developments trade-side, tax cuts and a tightening labor market will prop up household income this year, supporting robust consumer spending and above-trend growth over the remainder of 2018.

All in all, the latest data does not change the calculus for the Fed with three rate hikes expected this year, however, the central bank will certainly need to keep a close watch of the economy, given rapidly evolving U.S. public policy.

Ksenia Bushmeneva, Economist



Upcoming Key Economic Releases

U.S. Employment - February*

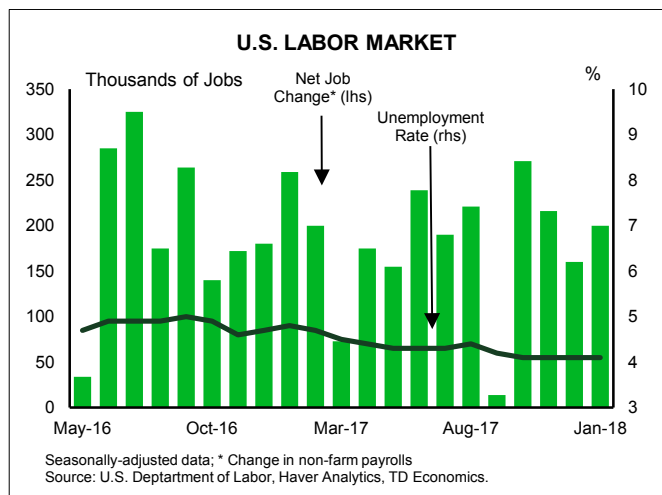
Release Date: March 9, 2018

Previous Result: 200k, unemployment rate: 4.1%

TD Forecast: 175k, unemployment rate: 4.1%

Consensus: 203k, unemployment rate: 4.0%

We expect nonfarm payrolls to advance by a respectable 175k in February, recording a pace slightly below the 6-month average trend. We expect the unemployment rate to stabilize at 4.1% though unrounded figures should show a decline. All eyes are on average hourly earnings following the January upside surprise that left wage growth tracking at 2.9% y/y. With the 12th of the month landing on a Monday, calendar effects are favorable in February for a strong 0.3% m/m print. However, we see scope for disappointment as monthly readings have a high tendency to mean revert, while any wage increases in response to tax reform are likely insignificant



in the aggregate. We expect a 0.2% m/m increase, leaving the y/y pace lower at 2.7% vs 2.9%. Downward revisions cannot be excluded as well, which point to further downside risk to the y/y figure.

*Forecast by Rates and FX Strategy Group. For further information, contact TDRates&FXCommoditiesResearch@tdsecurities.com

RECENT KEY ECONOMIC INDICATORS: FEBRUARY 26-MARCH 2, 2018

Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Feb 26	New Home Sales	Jan	Thsd	593.0	643.0
Feb 27	Cap Goods Orders Nondef Ex Air	Jan P	M/M % Chg.	-0.2	-0.6
Feb 27	Durables Ex Transportation	Jan P	M/M % Chg.	-0.3	0.7
Feb 27	Durable Goods Orders	Jan P	M/M % Chg.	-3.7	2.6
Feb 27	Retail Inventories	Jan	M/M % Chg.	0.8	0.3
Feb 27	Advance Goods Trade Balance	Jan	Blns	-74.4	-72.3
Feb 27	House Price Purchase Index	4Q	Q/Q % Chg.	1.6	1.5
Feb 27	S&P CoreLogic CS US HPI NSA	Dec	Y/Y % Chg.	6.3	6.1
Feb 27	Conf. Board Consumer Confidence	Feb	Index	130.8	124.3
Feb 28	Core Personal Consumption Expenditure	4Q S	Q/Q % Chg.	1.9	1.9
Feb 28	Gross Domestic Product Annualized	4Q S	Y/Y % Chg.	2.5	2.6
Feb 28	Personal Consumption	4Q S	Q/Q % Chg.	3.8	3.8
Feb 28	Pending Home Sales	Jan	M/M % Chg.	-4.7	0.0
Mar 01	Real Personal Spending	Jan	M/M % Chg.	-0.1	0.2
Mar 01	Initial Jobless Claims	Feb 24	Thsd	210.0	220.0
Mar 01	Personal Consumption Expenditure Deflator	Jan	Y/Y % Chg.	1.7	1.7
Mar 01	Personal Income	Jan	M/M % Chg.	0.4	0.4
Mar 01	Personal Consumption Expenditure Core	Jan	Y/Y % Chg.	1.5	1.5
Mar 01	ISM Manufacturing	Feb	Index	60.8	59.1
Mar 01	ISM Employment	Feb	Index	59.7	54.2
Mar 01	Wards Total Vehicle Sales	Feb	Mlns	16.96	17.07
Canada					
Feb 28	Industrial Product Price	Jan	M/M % Chg.	0.3	-0.1
Mar 01	Current Account Balance	4Q	Blns	-16.4	-18.6
Mar 01	Markit Canada Manufacturing PMI	Feb	Index	55.6	55.9
Mar 02	Gross Domestic Product	Dec	M/M % Chg.	0.1	0.4
Mar 02	Quarterly Gross Domestic Product Annualized	4Q	Y/Y % Chg.	1.7	1.5
International					
Feb 27	JN Retail Trade	Jan	Y/Y % Chg.	1.6	3.6
Feb 27	CH Manufacturing PMI	Feb	Index	50.3	51.3
Feb 28	EZ Consumer Price Index Estimate	Feb	Y/Y % Chg.	1.2	1.3
Feb 28	IN Gross Domestic Product	4Q	Y/Y % Chg.	7.2	6.5
Mar 01	UK Markit UK PMI Manufacturing SA	Feb	Index	55.2	55.3
Mar 01	EZ Unemployment Rate	Jan	%	8.6	8.6
Mar 01	BZ Gross Domestic Product	4Q	Y/Y % Chg.	2.1	1.4
Mar 01	JN Tokyo Consumer Price Index	Feb	Y/Y % Chg.	1.4	1.3
Mar 01	JN Jobless Rate	Jan	%	2.4	2.7

Source: Bloomberg, TD Economics.

UPCOMING ECONOMIC RELEASES AND EVENTS: MARCH 5-9, 2018						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Mar 05	10:00	ISM Non-Manf. Composite	Feb	Index	58.7	59.9
Mar 06	7:30	<i>Fed's William Dudley Speaks in St. Thomas</i>				
Mar 06	10:00	Factory Orders Ex Trans	Jan	M/M % Chg.	-	0.7
Mar 06	10:00	Factory Orders	Jan	M/M % Chg.	-0.5	1.7
Mar 07	8:00	<i>Fed's William Dudley Speaks in San Juan</i>				
Mar 07	8:00	<i>Fed's Raphael Bostic Speaks in Fort Lauderdale, FL</i>				
Mar 07	8:15	ADP Employment Change	Feb	Thsd	193.0	234.0
Mar 07	8:30	Trade Balance	Jan	Blns	-52.6	-53.1
Mar 07	14:00	U.S. Federal Reserve Releases Beige Book				
Mar 08	8:30	Initial Jobless Claims	Mar 03	Thsd	-	210.0
Mar 08	12:00	Household Change in Net Worth	4Q	Blns	-	1742.0
Mar 09	8:30	Change in Nonfarm Payrolls	Feb	Thsd	200.0	200.0
Mar 09	8:30	Unemployment Rate	Feb	%	4.0	4.1
Mar 09	8:30	Average Hourly Earnings	Feb	M/M % Chg.	0.3	0.3
Mar 09	10:00	Wholesale Trade Sales	Jan	M/M % Chg.	-	1.2
Mar 09	12:45	<i>Fed's Charles Evans Speaks in New York</i>				
Canada						
Mar 05	7:00	MLI Leading Indicator	Jan	M/M % Chg.	-	0.5
Mar 07	8:30	Labor Productivity	4Q	Q/Q % Chg.	-	-0.6
Mar 07	8:30	Int'l Merchandise Trade	Jan	Blns	-	-3.2
Mar 07	10:00	Bank of Canada Rate Decision	Mar 07	%	1.25	1.25
Mar 08	8:15	Housing Starts	Feb	Thsd	-	216.2
Mar 08	15:50	<i>Bank of Canada Deputy Governor Tim Lane Speech</i>				
Mar 09	8:30	Unemployment Rate	Feb	%	-	5.9
Mar 09	8:30	Net Change in Employment	Feb	Thsd	-	-88.0
Mar 09	8:30	Capacity Utilization Rate	4Q	%	-	85.0
International						
Mar 05	4:30	UK Markit/CIPS UK Composite PMI	Feb	Index	53.5	53.5
Mar 05	5:00	EZ Retail Sales	Jan	Y/Y % Chg.	2.0	1.9
Mar 08	7:45	EZ ECB Main Refinancing Rate	Mar 08	%	0.0	0.0
Mar 08	20:30	CH Consumer Price Index	Feb	Y/Y % Chg.	2.4	1.5
Mar 09	N/A	JN BOJ Policy Balance Rate	Mar 09	%	-	-0.1

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

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