

The Weekly Bottom Line

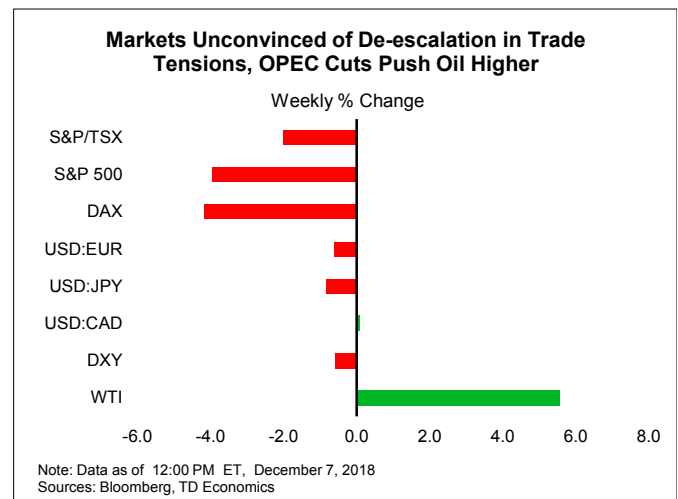
December 7, 2018

Highlights of the Week

- Data released this week remains consistent with the view that U.S. economy continues to expand at an above-trend pace.
- Although disappointing in terms of the headline, job gains were also consistent with an economy running near capacity. Furthermore, wage growth held at a healthy pace in November.
- An agreement between the U.S. and China to delay an escalation of tariffs until April failed to convince financial markets that trade tensions are easing.

THIS WEEK IN THE MARKETS				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	2653	2760	2931	2581
S&P/TSX Comp.	14893	15198	16567	14722
DAX	10788	11257	13560	10788
FTSE 100	6778	6980	7877	6704
Nikkei	21679	22351	24271	20618
Fixed Income Yields				
U.S. 10-yr Treasury	2.88	2.99	3.24	2.34
Canada 10-yr Bond	2.09	2.27	2.60	1.84
Germany 10-yr Bund	0.25	0.31	0.77	0.24
UK 10-yr Gilt	1.27	1.36	1.73	1.15
Japan 10-yr Bond	0.06	0.09	0.16	0.02
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.75	0.75	0.82	0.75
Euro (USD per EUR)	1.14	1.13	1.25	1.12
Pound (USD per GBP)	1.27	1.27	1.43	1.27
Yen (JPY per USD)	112.6	113.6	114.5	104.7
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	53.6	50.9	76.4	50.2
Natural Gas (\$US/MMBtu)	4.44	4.61	7.13	2.52
Copper (\$US/met. tonne)	6079.5	6227.0	7330.5	5759.0
Gold (\$US/troy oz.)	1245.6	1222.5	1358.5	1174.2

*as of 12:01 pm 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)	2.00 - 2.25%
Bank of Canada (Overnight Rate)	1.75%
European Central Bank (Refi Rate)	0.00%
Bank of England (Repo Rate)	0.75%
Bank of Japan (Overnight Rate)	-0.10%

Source: Central Banks.

TD ECONOMICS KEY FORECASTS													
	Current Rate 12/7/18	2017				2018				2019			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate (%)	2.25	1.00	1.25	1.25	1.50	1.75	2.00	2.25	2.50	2.75	3.00	3.25	3.25
2-yr Govt. Bond Yield (%)	2.75	1.27	1.38	1.47	1.89	2.27	2.52	2.81	2.85	3.00	3.10	3.15	3.15
10-yr Govt. Bond Yield (%)	2.89	2.40	2.31	2.33	2.40	2.74	2.85	3.05	3.10	3.20	3.30	3.35	3.35
30-yr Govt. Bond Yield (%)	3.17	3.02	2.84	2.86	2.74	2.97	2.98	3.19	3.25	3.35	3.45	3.50	3.50
Real GDP (Q/Q % Chg)*	3.5 (Q3-18)	1.8	3.0	2.8	2.3	2.2	4.2	3.5	2.9	2.6	2.4	2.2	2.0
CPI (Y/Y % Chg.)	2.5 (Oct-18)	2.5	1.9	2.0	2.1	2.2	2.7	2.6	2.5	2.2	2.3	2.3	2.1
Unemployment Rate (%)	3.7 (Nov-18)	4.7	4.3	4.3	4.1	4.1	3.9	3.8	3.8	3.7	3.7	3.6	3.6

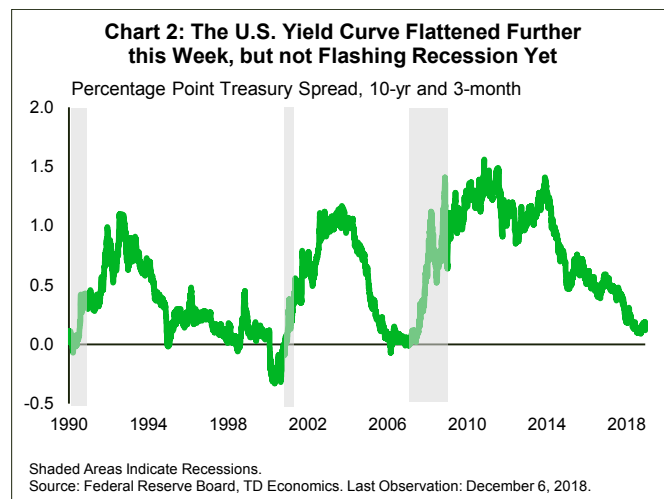
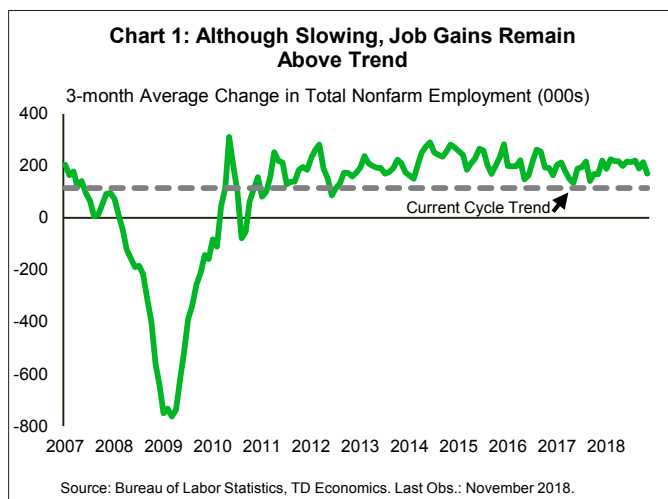
Forecast by TD Economics as of September 2018. Source: Bloomberg, TD Economics. *Annualized

Markets Gyrate on U.S.-China Trade Headlines

As an event-filled week in markets concludes, indicator data this week provided an updated reading on the health of the U.S. economy. From the data released for the fourth quarter, the diagnosis is that the economic expansion continues in the U.S., with momentum slowing due to weakness in the external sector.

Manufacturing and non-manufacturing activity picked up a bit in November, but is still off the highs recorded earlier this year. Firms continue to report capacity constraints, including labor and component shortages. Import tariffs remain a key concern. Similar worries were echoed in the Fed's latest beige book report. Respondents to the Fed's survey for the month of November indicated that labor shortages were being felt across a broad range of industries, and that tight labor markets were preventing them from getting the workers that they needed. In addition, rising costs, although offset in part by the falling price of oil, were impacting margins and leading firms to raise prices to offset them.

Confirming these survey anecdotes of tight labor markets, this morning's highly anticipated employment report saw 155k jobs added in November, below consensus estimates that expected an addition of 200k jobs. A steady labor force participation rate helped keep the unemployment rate at its cycle low of 3.7%. Wage growth remained healthy at 3.1% (year-on-year), the same as in October. Although the headline disappointed, the broad slowdown in job gains is in fact consistent with an economy running near capacity. We estimate that long-run



trend job growth is about 100k a month, plus or minus 20k or so (Chart 1). Therefore, job gains above this level are consistent with an expanding economy and the absorption of any remaining labor market slack.

Strong fundamentals, however, are providing little comfort to financial markets. News headlines about slowing foreign demand growth, ongoing trade tensions, and Brexit have driven equity market volatility up, and prices down in the past couple of months. Fear lit a bid for bonds this week, with the U.S. 10-yr yield falling below 2.9% - its lowest level since early September. Although a flattening yield curve typically forebodes an increased chance of recession in the quarters ahead, there is little in the way of corroborating evidence (Chart 2). Instead, the recent move is likely a reflection of near-term concerns about temporary weakness in inflation and trade risks, rather than a deterioration in economic fundamentals.

Undoubtedly, an easing of trade tensions would be a welcome development. The G20 summit proved somewhat constructive as it produced a 90-day break from an escalation in import tariffs between the U.S. and China. But, news of the arrest of Huawei's CFO later in the week revealed how fraught the relationship is currently between the U.S. and China. Tariffs appear to be just the first step in planned engagement with China on a set of deeper issues that need to be addressed.

Fotios Raptis, Senior Economist

Upcoming Key Economic Releases

U.S. Consumer Price Index - November*

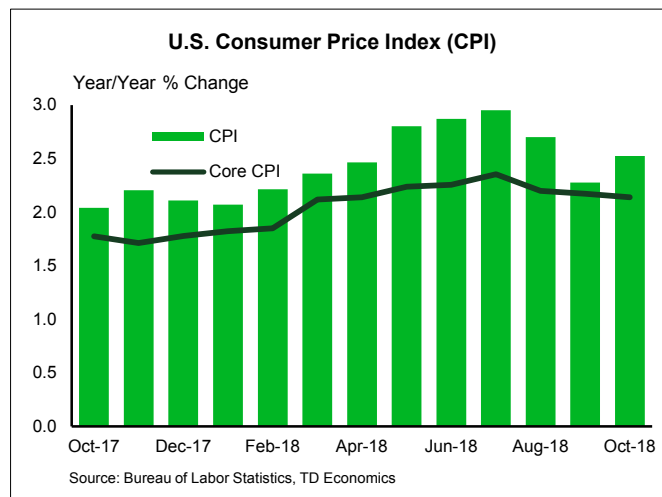
Release Date: December 12, 2018

Previous: 0.3 m/m; core: 0.2% m/m

TD Forecast: 0.0% m/m; core: 0.2% m/m

Consensus: 0.0% m/m; core: 0.2% m/m

We expect headline CPI to slip to 2.2%, largely on the oil price rout which left gasoline prices down nearly 8% m/m. Beyond the energy weakness, food prices have scope to jump. We also expect a solid 0.2% print on core CPI on a pickup in core services, leaving the y/y rate higher at 2.2%. Strength in the core measures following prior weakness reinforces an upbeat report.



U.S. Retail Sales - November*

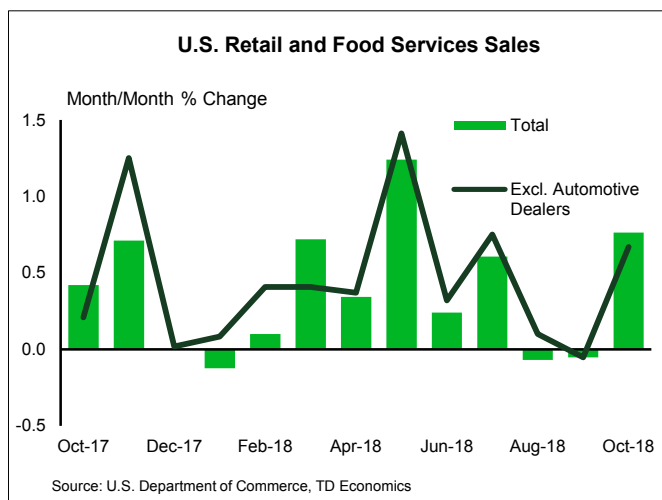
Release Date: December 14, 2018

Previous: 0.8%, ex-auto: 0.7%, control group: 0.3%

TD Forecast: 0.0%, ex-auto: -0.1%, control group: 0.3%

Consensus: 0.2%, ex-auto: 0.2%, control group: 0.4%

Holiday-driven retail sales should have registered a flat monthly print in November, down from a strong 0.8% increase in October, as lower gasoline prices likely curtailed sales growth. Although solid Black Friday consumer spending represents a risk to the upside, we expect sales in the control group to have recorded a similar expansion as in the previous two months.



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

RECENT KEY ECONOMIC INDICATORS: DEC 3 - 7, 2018

Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Dec 03	Markit US Manufacturing PMI	Nov	Index	55.3	55.4
Dec 03	ISM Employment	Nov	Index	58.4	56.8
Dec 03	ISM Manufacturing	Nov	Index	59.3	57.7
Dec 03	Wards Total Vehicle Sales	Nov	Mlns	17.4	17.5
Dec 05	Unit Labor Costs	3Q	Q/Q % Chg.	0.9	1.2
Dec 05	ADP Employment Change	Nov	Thsd	179.0	225.0
Dec 05	Markit US Services PMI	Nov	Index	54.7	54.4
Dec 05	ISM Non-Manufacturing Index	Nov	Index	60.7	60.3
Dec 06	Household Change in Net Worth	3Q	Blns	2070.0	2278.0
Dec 06	Initial Jobless Claims	Dec 01	Thsd	231.0	235.0
Dec 06	Trade Balance	Oct	Blns	-55.5	-54.6
Dec 06	Cap Goods Orders Nondef Ex Air	Oct	M/M % Chg.	0.0	0.0
Dec 06	Durable Goods Orders	Oct	M/M % Chg.	-4.3	-4.4
Dec 06	Factory Orders	Oct	M/M % Chg.	-2.1	0.2
Dec 06	Factory Orders Ex Trans	Oct	M/M % Chg.	0.3	0.1
Dec 07	Average Hourly Earnings	Nov	M/M % Chg.	0.2	0.1
Dec 07	Change in Nonfarm Payrolls	Nov	Thsd	155.0	237.0
Dec 07	Unemployment Rate	Nov	%	3.7	3.7
Dec 07	Wholesale Trade Sales	Oct	M/M % Chg.	-0.2	0.1
Canada					
Dec 03	Markit Canada Manufacturing PMI	Nov	Index	54.9	53.9
Dec 04	Labour Productivity	3Q	Q/Q % Chg.	0.3	0.7
Dec 05	Bank of Canada Rate Decision	Dec 05	%	1.75	1.75
Dec 06	Int'l Merchandise Trade	Oct	Blns	-1.1	-0.9
Dec 07	Net Change in Employment	Nov	Thsd	94.1	11.2
Dec 07	Unemployment Rate	Nov	%	5.6	5.8
International					
Dec 03	EZ Markit Eurozone Manufacturing PMI	Nov	Index	51.8	51.5
Dec 03	UK Markit UK PMI Manufacturing	Nov	Index	53.1	51.1
Dec 04	JN Nikkei Japan PMI Composite	Nov	Index	52.4	52.5
Dec 05	EZ Markit Eurozone Services PMI	Nov	Index	53.4	53.1
Dec 05	UK Markit/CIPS UK Composite PMI	Nov	Index	50.7	52.1
Dec 07	EZ Gross Domestic Product	3Q	Y/Y % Chg.	1.6	1.7

Source: Bloomberg, TD Economics.

UPCOMING ECONOMIC RELEASES AND EVENTS: DEC 10 - 14, 2018							
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period	
United States							
Dec 11	6:00	NFIB Small Business Optimism	Nov	Index	-	107.4	
Dec 11	8:30	Producer Price Index Ex Food and Energy	Nov	M/M % Chg.	0.1	0.5	
Dec 11	8:30	Producer Price Index Final Demand	Nov	M/M % Chg.	0.0	0.6	
Dec 12	8:30	Consumer Price Index Ex Food and Energy	Nov	M/M % Chg.	0.2	0.2	
Dec 12	8:30	Consumer Price Index Ex Food and Energy	Nov	Y/Y % Chg.	2.2	2.1	
Dec 12	8:30	Consumer Price Index	Nov	M/M % Chg.	0.0	0.3	
Dec 12	8:30	Consumer Price Index	Nov	Y/Y % Chg.	2.2	2.5	
Dec 12	8:30	Real Avg Hourly Earning	Nov	Y/Y % Chg.	-	0.7	
Dec 13	8:30	Export Price Index	Nov	M/M % Chg.	-	0.4	
Dec 13	8:30	Export Price Index	Nov	Y/Y % Chg.	-	3.1	
Dec 13	8:30	Import Price Index ex Petroleum	Nov	M/M % Chg.	0.0	0.2	
Dec 13	8:30	Initial Jobless Claims	Dec 08	Thsd	-	-	
Dec 14	8:30	Retail Sales Advance	Nov	M/M % Chg.	0.2	0.8	
Dec 14	8:30	Retail Sales Ex Auto and Gas	Nov	M/M % Chg.	-	0.3	
Dec 14	9:15	Capacity Utilization	Nov	%	78.6	78.4	
Dec 14	9:15	Industrial Production	Nov	M/M % Chg.	0.4	0.1	
Dec 14	9:15	Manufacturing (SIC) Production	Nov	M/M % Chg.	-	0.3	
Dec 14	9:45	Markit US Manufacturing PMI	Dec	Index	-	55.3	
Dec 14	9:45	Markit US Services PMI	Dec	Index	-	-	
Dec 14	10:00	Business Inventories	Oct	M/M % Chg.	0.5	0.3	
Canada							
Dec 10	8:15	Housing Starts	Nov	Thsd	-	205.9	
Dec 10	13:30	<i>BoC's Timothy Lane participates in a panel at the Turkish Central Bank in Istanbul, Turkey</i>					
Dec 12	8:30	Capacity Utilization Rate	3Q	%	-	85.5	
Dec 12	8:30	Teranet/National Bank HPI	Nov	Y/Y % Chg.	-	2.8	
International							
Dec 10	4:30	UK Industrial Production	Oct	Y/Y % Chg.	-	0.0	
Dec 11	4:30	UK ILO Unemployment Rate 3Mths	Oct	%	-	4.1	
Dec 13	7:45	EZ ECB Main Refinancing Rate	Dec 13	%	-	0.00	
Dec 13	19:30	JN Nikkei Japan PMI Mfg	Dec	Index	-	52.2	
Dec 13	21:00	CH Retail Sales	Nov	Y/Y % Chg.	8.8	8.6	
Dec 13	23:30	JN Industrial Production	Oct	Y/Y % Chg.	-	4.2	
Dec 14	3:30	EZ Markit Eurozone Composite PMI	Dec	Index	-	52.7	
Dec 14	3:30	EZ Markit Eurozone Manufacturing PMI	Dec	Index	-	51.8	
Dec 14	3:30	EZ Markit Eurozone Services PMI	Dec	Index	-	53.4	

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

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