

The Weekly Bottom Line

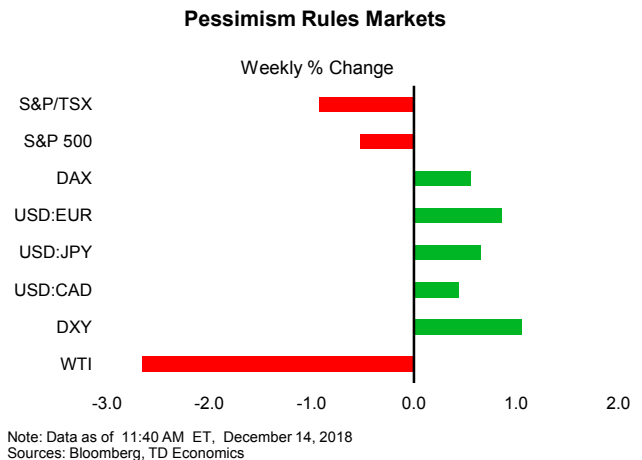
December 14, 2018

Highlights of the Week

- After some optimism early in the week, financial market sentiment soured as focus shifted back to fears of an escalation in trade tensions, Brexit uncertainty, and a potential economic downturn in 2019.
- The U.S. consumer remained unbowed in November, with consumer spending now tracking above 3% annualized in Q4. Inflation has cooled in line with oil prices, which should help to support real spending going forward.
- The FOMC makes its final decision of 2019 next week, and a hike is universally expected. We will be watching closely to see how members' views have changed about how many hikes will ultimately be required in this cycle.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	2619	2633	2931	2581
S&P/TSX Comp.	14656	14795	16567	14656
DAX	10851	10788	13560	10622
FTSE 100	6834	6778	7877	6704
Nikkei	21375	21679	24271	20618
Fixed Income Yields				
U.S. 10-yr Treasury	2.88	2.85	3.24	2.35
Canada 10-yr Bond	2.10	2.07	2.60	1.84
Germany 10-yr Bund	0.25	0.25	0.77	0.23
UK 10-yr Gilt	1.25	1.27	1.73	1.15
Japan 10-yr Bond	0.04	0.06	0.16	0.02
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.75	0.75	0.82	0.75
Euro (USD per EUR)	1.13	1.14	1.25	1.12
Pound (USD per GBP)	1.26	1.27	1.43	1.25
Yen (JPY per USD)	113.4	112.7	114.5	104.7
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	51.3	52.6	76.4	50.2
Natural Gas (\$US/MMBtu)	4.31	4.51	7.13	2.52
Copper (\$US/met. tonne)	6158.5	6149.0	7330.5	5759.0
Gold (\$US/troy oz.)	1239.7	1248.4	1358.5	1174.2

*as of 11:37 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)	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 12/14/18	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	2.50	2.75	3.00	3.00
2-yr Govt. Bond Yield (%)	2.74	1.27	1.38	1.47	1.89	2.27	2.52	2.81	2.80	2.85	2.90	2.95	2.95
10-yr Govt. Bond Yield (%)	2.88	2.40	2.31	2.33	2.40	2.74	2.85	3.05	3.00	3.05	3.10	3.15	3.15
30-yr Govt. Bond Yield (%)	3.14	3.02	2.84	2.86	2.74	2.97	2.98	3.19	3.25	3.30	3.35	3.40	3.40
Real GDP (Q/Q % Chg)*	3.5 (Q3-18)	1.8	3.0	2.8	2.3	2.2	4.2	3.5	2.3	2.1	2.5	2.3	2.0
CPI (Y/Y % Chg.)	2.2 (Nov-18)	2.5	1.9	2.0	2.1	2.2	2.7	2.6	2.2	1.8	2.0	2.2	2.3
Unemployment Rate (%)	3.7 (Nov-18)	4.7	4.3	4.3	4.1	4.1	3.9	3.8	3.7	3.6	3.6	3.6	3.6

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

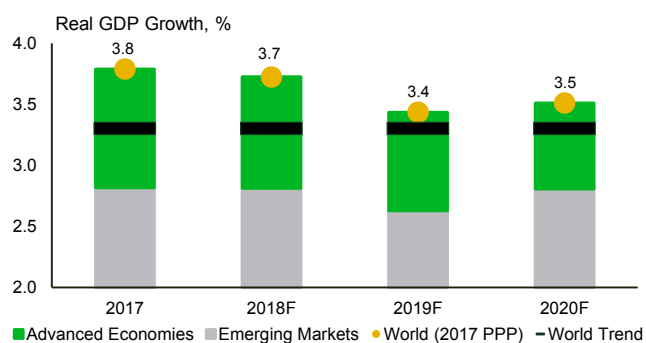
“Bah! Humbug!”

After some optimism early in the week, supported by positive headlines about the lessening of U.S.-China trade tensions, sentiment turned sour to end the week. Markets seem to be channeling Dickens’s curmudgeonly character Ebenezer Scrooge, saying “Bah! Humbug!” to any good news that comes along. Markets are down roughly 10% in the fourth quarter of this year as investors fret about prospects for 2019, focusing on the potential for escalating trade tensions, uncertainty about the path of Brexit, and a potential economic downturn.

Our latest outlook did feature a small downgrade to [global growth](#) (Chart 1). However, the selloff in global risk assets in the fourth quarter has been outsized relative to the magnitude of the economic slowdown. The selloff likely reflects the build-up of unresolved global risks, coupled with a delayed adjustment in growth expectations from lofty levels. Taking a step back from the downturn in equity markets, there are few signs that the economic expansion is nearing an end, other than the fact that the expansion is approaching the longest on record. One worry is that negative sentiment can become self-fulfilling (see our [Perspective](#)). We remain vigilant in monitoring signals of an impending downturn, such as yield curves, business confidence, risk-assets, and labor market conditions.

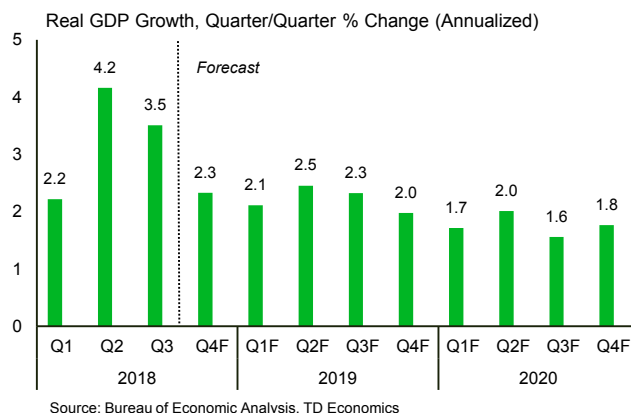
Financial market pessimism certainly hasn’t yet filtered down to the U.S. consumer. The holiday shopping season appears to have gotten off to a good start in November, as

Chart 1: Global Growth Slowing Toward Trend



Advanced and emerging market growth rates are stated as contributions to global growth based on International Monetary Fund (IMF) estimates of the 2017 purchasing-power-parity (PPP) valuation from the IMF’s October 2018 World Economic Outlook. Source: TD Economics. Forecasts as at December 13, 2018.

Chart 2: U.S. Growth Set to Slow



retail sales were up more than expected, on top of upward revisions to October. In our latest [U.S. Outlook](#), we also expect the overall economy to moderate towards a sustainable pace in 2019 (Chart 2). This process is already underway in the fourth quarter, where growth is tracking 2.3% after averaging 3.5% through the middle of the year. However, the consumer has more momentum. Today’s retail sales report places expectations for consumer spending in the fourth quarter to 3.5%, from our recently published 2.9%.

The consumer is in pretty good shape. The job market is strong and inflation is contained. Economy-wide growth in wages and salaries has averaged roughly 4% over the past six months. And, headline inflation has cooled in line with lower oil prices. CPI inflation was at 2.2% year-on-year in November’s data. Our forecast is for inflation to remain around that level through 2019. That sets the consumer up for some decent real income gains. Therefore, we expect consumer spending to slow only modestly in 2019, as the windfall from tax cuts fades, but still running at a very healthy 2-2 ½% clip in real terms.

Overall, the U.S. economy is strong, and the Federal Reserve is well justified in raising rates another quarter point at its meeting next Wednesday. The real question is how the FOMC’s views have changed about how much further rates need to rise. Given the fairly benign inflation backdrop recently, we expect the Fed to hike rates more gradually in 2019.

Leslie Preston, Senior Economist

U.S.: Upcoming Key Economic Releases

U.S. FOMC Statement*

Release Date: December 19, 2018

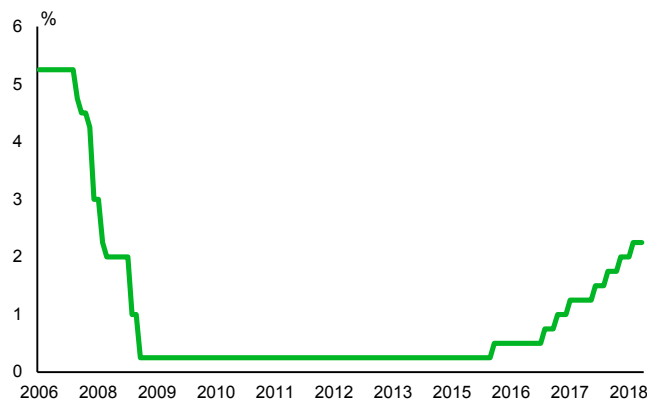
Previous: 2.25%

TD Forecast: 2.50%

Consensus: 2.50%

TD and the wider market look for the Fed to hike to 2.50% in December. Changes to the FOMC statement language should remove the last vestiges of forward guidance, making policy even more data dependent and hinting that policy may be approaching the end of the cycle. In his press conference we expect Chair Powell to continue to sound cautiously optimistic on the outlook and to try to calm market concerns about over-tightening. It will only take one FOMC participant to move the median dots in most years; we think a decline in the 2019 median dot to two hikes from three is slightly more likely than staying

Fed Funds Target Rate



Source: U.S. Federal Reserve Board, TD Economics

put. Conversely, we expect the median longer-run dot to remain at 3%. The overall tone of the meeting should be modestly dovish.

U.S. Personal Income & Spending - October*

Release Date: December 21, 2018

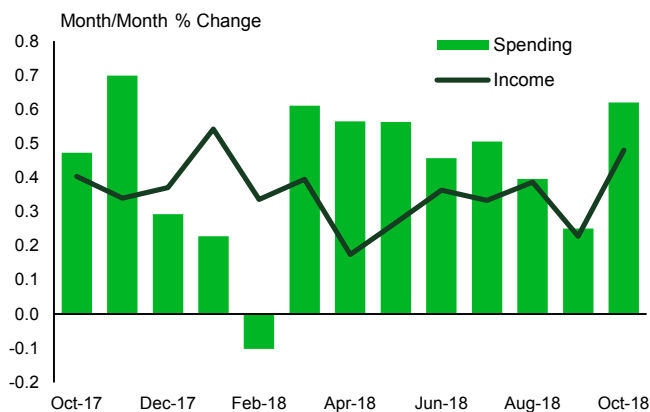
Previous: Income 0.5%; spending 0.6%

TD Forecast: Income 0.4%; spending 0.3%

Consensus: Income 0.3%; spending 0.3%

We expect core PCE inflation to rise 0.2% m/m, pushing the y/y rate higher to 1.9%. But the past disappointment and downward revisions will still leave Q4 core inflation tracking below FOMC estimates at 1.9%, with risk for 1.8%. On a more upbeat note, we expect a strong showing for personal spending (0.4%), reinforcing another robust quarter for consumer spending above 3%.

U.S. Personal Income and Spending



Source: Bureau of Economic Analysis, TD Economics

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

Recent Key Economic Indicators: Dec 10 - 14, 2018					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Dec 11	NFIB Small Business Optimism	Nov	Index	104.8	107.4
Dec 11	Producer Price Index Ex Food and Energy	Nov	M/M % Chg.	0.3	0.5
Dec 11	Producer Price Index Final Demand	Nov	M/M % Chg.	0.1	0.6
Dec 12	Consumer Price Index Ex Food and Energy	Nov	M/M % Chg.	0.2	0.2
Dec 12	Consumer Price Index Ex Food and Energy	Nov	Y/Y % Chg.	2.2	2.1
Dec 12	Consumer Price Index	Nov	M/M % Chg.	0.0	0.3
Dec 12	Consumer Price Index	Nov	Y/Y % Chg.	2.2	2.5
Dec 12	Real Avg Hourly Earning	Nov	Y/Y % Chg.	0.8	0.6
Dec 13	Export Price Index	Nov	M/M % Chg.	-0.9	0.5
Dec 13	Export Price Index	Nov	Y/Y % Chg.	1.8	3.1
Dec 13	Import Price Index ex Petroleum	Nov	M/M % Chg.	-0.3	0.2
Dec 13	Initial Jobless Claims	Dec 08	Thsd	206.0	233.0
Dec 14	Retail Sales Advance	Nov	M/M % Chg.	0.2	1.1
Dec 14	Retail Sales Ex Auto and Gas	Nov	M/M % Chg.	0.5	0.7
Dec 14	Capacity Utilization	Nov	%	78.5	78.1
Dec 14	Industrial Production	Nov	M/M % Chg.	0.6	-0.2
Dec 14	Manufacturing (SIC) Production	Nov	M/M % Chg.	0.0	-0.1
Dec 14	Markit US Manufacturing PMI	Dec	Index	53.9	55.3
Dec 14	Markit US Services PMI	Dec	Index	53.4	54.7
Dec 14	Business Inventories	Oct	M/M % Chg.	0.6	0.3
Canada					
Dec 10	Housing Starts	Nov	Thsd	215.9	206.8
Dec 12	Capacity Utilization Rate	3Q	%	82.6	84.1
Dec 12	Teranet/National Bank HPI	Nov	Y/Y % Chg.	3.1	2.8
International					
Dec 10	UK Industrial Production	Oct	Y/Y % Chg.	-0.8	0.0
Dec 11	UK ILO Unemployment Rate 3Mths	Oct	%	4.1	4.1
Dec 13	EZ ECB Main Refinancing Rate	Dec 13	%	0.00	0.00
Dec 13	JN Nikkei Japan PMI Mfg	Dec	Index	52.4	52.2
Dec 13	CH Retail Sales	Nov	Y/Y % Chg.	8.1	8.6
Dec 13	JN Industrial Production	Oct	Y/Y % Chg.	4.2	4.2
Dec 14	EZ Markit Eurozone Composite PMI	Dec	Index	51.3	52.7
Dec 14	EZ Markit Eurozone Manufacturing PMI	Dec	Index	51.4	51.8
Dec 14	EZ Markit Eurozone Services PMI	Dec	Index	51.4	53.4

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Dec 17 - 21, 2018						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Dec 17	8:30	Empire Manufacturing	Dec	Index	20.0	23.3
Dec 17	10:00	NAHB Housing Market Index	Dec	Index	60.0	60.0
Dec 18	8:30	Building Permits	Nov	Thsd	1265.0	1265.0
Dec 18	8:30	Housing Starts	Nov	Thsd	1230.0	1228.0
Dec 19	8:30	Current Account Balance	3Q	Blns	-	-101.5
Dec 19	10:00	Existing Home Sales	Nov	Mlns	5.2	5.2
Dec 19	14:00	FOMC Rate Decision (Upper Bound)	Dec 19	%	2.5	2.3
Dec 19	14:00	Interest Rate on Excess Reserves	Dec 20	%	-	2.2
Dec 20	8:30	Initial Jobless Claims	Dec 15	Thsd	-	206.0
Dec 21	8:30	Gross Domestic Product Annualized	3Q	Q/Q % Chg.	3.5	3.5
Dec 21	8:30	Personal Consumption	3Q	Q/Q % Chg.	-	3.6
Dec 21	8:30	Core Personal Consumption Expenditure	3Q	Q/Q % Chg.	-	1.5
Dec 21	8:30	Durable Goods Orders	Nov	M/M % Chg.	2.3	-4.3
Dec 21	8:30	Durables Ex Transportation	Nov	M/M % Chg.	0.3	0.2
Dec 21	8:30	Cap Goods Orders Nondef Ex Air	Nov	M/M % Chg.	-	0.0
Dec 21	10:00	Personal Income	Nov	M/M % Chg.	0.3	0.5
Dec 21	10:00	Real Personal Spending	Nov	M/M % Chg.	-	0.4
Dec 21	10:00	Personal Consumption Expenditure Deflator	Nov	Y/Y % Chg.	-	2.0
Dec 21	10:00	Personal Consumption Expenditure Core	Nov	Y/Y % Chg.	1.8	1.8
Canada						
Dec 17	9:00	Existing Home Sales	Nov	M/M % Chg.	-	-1.6
Dec 18	8:30	Manufacturing Sales	Oct	M/M % Chg.	-	0.2
Dec 19	8:30	Consumer Price Index Core- Common	Nov	Y/Y % Chg.	-	1.9
Dec 19	8:30	Consumer Price Index	Nov	Y/Y % Chg.	-	2.4
Dec 19	8:30	Consumer Price Index NSA	Nov	M/M % Chg.	-	0.3
Dec 19	8:30	Consumer Price Index Core- Trim	Nov	Y/Y % Chg.	-	2.1
Dec 19	8:30	Consumer Price Index Core- Median	Nov	Y/Y % Chg.	-	2.0
Dec 20	8:30	Wholesale Trade Sales	Oct	M/M % Chg.	-	-0.5
Dec 21	8:30	Gross Domestic Product	Oct	M/M % Chg.	-	-0.1
Dec 21	8:30	Retail Sales Ex Auto	Oct	M/M % Chg.	-	0.1
Dec 21	8:30	Retail Sales	Oct	M/M % Chg.	-	0.2
Dec 21	10:30	BoC Overall Business Outlook Survey	4Q	Index	-	2.8
Dec 21	10:30	BoC Business Outlook Future Sales	4Q	Index	-	15.0
Dec 21	10:30	BoC Senior Loan Officer Survey	4Q	Index	-	-10.9
International						
Dec 17	5:00	EZ Consumer Price Index	Nov	Index	2.0	2.2
Dec 19	4:30	UK Consumer Price Index	Nov	Index	1.9	1.9
Dec 20	7:00	UK Bank of England Bank Rate	Dec 20	%	0.75	0.75
Dec 20	18:30	JN Natl Consumer Price Index	Nov	Y/Y % Chg.	0.8	1.4
Dec 21	4:30	UK Gross Domestic Product	3Q	Y/Y % Chg.	1.5	1.5

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

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