

The Weekly Bottom Line

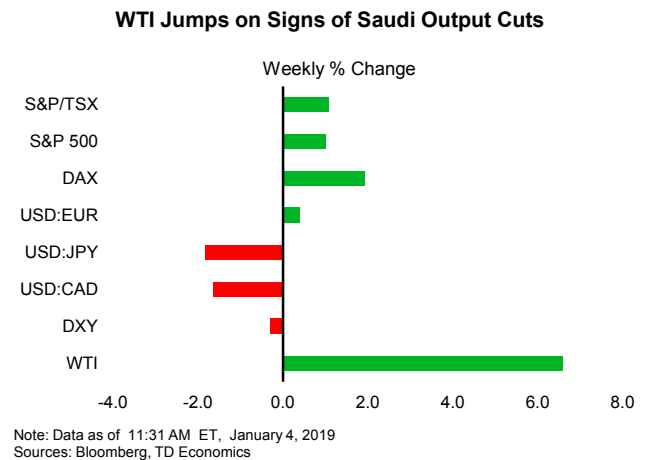
January 4, 2019

Highlights of the Week

- The New Year came with baggage from the old for thousands of federal employees caught in the middle of a budget tug-of-war between Congress and the White House that has led to a partial government shutdown.
- The volatility in stock markets continued early in the week as a slew of weaker-than-expected economic data and signs of a slowing China roused investor concerns that global growth may be slowing faster than expected.
- Fortunately, a strong payrolls tally lifted investors' spirits by week's end. Employment rose 312k and the unemployment rate edged up to 3.9% as more people joined the workforce. Hourly earnings growth also topped 3% (year-on-year) for a third consecutive month.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	2517	2486	2931	2351
S&P/TSX Comp.	14383	14222	16567	13780
DAX	10766	10559	13560	10382
FTSE 100	6843	6734	7877	6585
Nikkei	19562	20015	24271	19156
Fixed Income Yields				
U.S. 10-yr Treasury	2.65	2.72	3.24	2.45
Canada 10-yr Bond	1.92	1.95	2.60	1.83
Germany 10-yr Bund	0.21	0.24	0.77	0.15
UK 10-yr Gilt	1.27	1.27	1.73	1.19
Japan 10-yr Bond	-0.04	0.00	0.16	-0.04
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.75	0.73	0.82	0.73
Euro (USD per EUR)	1.14	1.14	1.25	1.12
Pound (USD per GBP)	1.27	1.27	1.43	1.25
Yen (JPY per USD)	108.3	110.3	114.5	104.7
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	48.1	45.3	76.4	42.3
Natural Gas (\$US/MMBtu)	2.72	3.25	5.46	2.52
Copper (\$US/met. tonne)	5713.8	5987.0	7330.5	5713.8
Gold (\$US/troy oz.)	1283.6	1281.1	1358.5	1174.2

*as of 11:28 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)	2.25 - 2.50%
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 1/4/19	2018				2019				2020			
		Q1	Q2	Q3	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate (%)	2.50	1.75	2.00	2.25	2.50	2.50	2.75	3.00	3.00	3.00	3.00	3.00	3.00
2-yr Govt. Bond Yield (%)	2.49	2.27	2.52	2.81	2.80	2.85	2.90	2.95	2.95	2.95	2.95	2.95	2.95
10-yr Govt. Bond Yield (%)	2.66	2.74	2.85	3.05	3.00	3.05	3.10	3.15	3.15	3.15	3.15	3.15	3.15
30-yr Govt. Bond Yield (%)	2.98	2.97	2.98	3.19	3.25	3.30	3.35	3.40	3.40	3.40	3.40	3.40	3.40
Real GDP (Q/Q % Chg)*	3.4 (Q3-18)	2.2	4.2	3.4	2.3	2.1	2.5	2.3	2.0	1.7	2.0	1.6	1.8
CPI (Y/Y % Chg.)	2.2 (Nov-18)	2.2	2.7	2.6	2.2	1.8	2.0	2.2	2.3	2.3	2.3	2.2	2.2
Unemployment Rate (%)	3.9 (Dec-18)	4.1	3.9	3.8	3.7	3.6	3.6	3.6	3.6	3.7	3.8	3.8	3.9

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

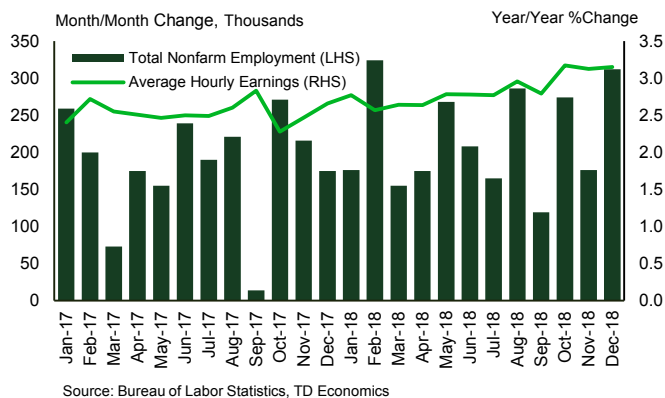
The Shutdown Slowdown

Happy New... whatever. 2019 kicked off with a fizzle as a partial U.S. government shutdown that began in the old year limped into the new. President Trump and Congress are at a stalemate over discretionary funding for 25% of the Federal government, and a border wall with Mexico. The standoff meant a not-so-happy start to the New Year for over 800,000 federal employees who have been furloughed, or if considered “essential”, had to work without pay.

Set to enter its third week, the shutdown is expected to negatively impact consumer spending and business activity. Assuming it ends soon, it is projected to lower first quarter GDP growth by 0.1 percentage points. Once resolved, federal employees will receive back pay, (though workers on contract will not), and this should boost economic activity in the second quarter. The question that remains is how long it will last. The longest government shutdown was for 21 days in 1995 (Chart 1), but workers and businesses who depend on their spending, are hopeful that such a scenario will not be repeated.

The stock market also rang in the New Year noticeably lower. Sentiment had been dragged down by a confluence of factors ranging from slowing global growth and uncertainty over the Fed’s policy path to simmering trade tensions between the U.S. and China. A weaker-than-expected reading for December’s ISM manufacturing index on top of an outright contraction in China’s manufacturing activity, further fueled fears through the middle of the week. Though still technically in growth territory, the U.S.

Chart 2: Solid Labor Market Dynamics Places U.S. Consumer on Firm Footing

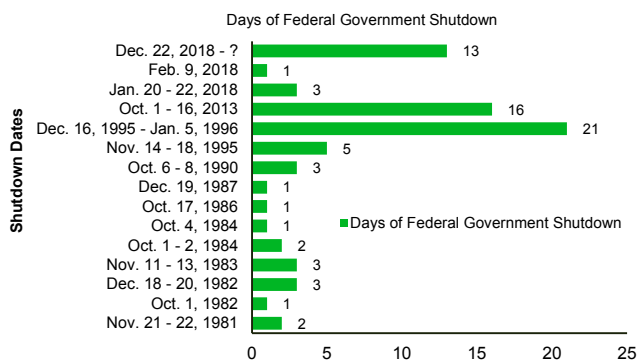


ISM index posted the slowest pace of expansion since November 2016, reflecting concerns of less robust demand and trade worries. The Trump administration has negotiated truces with multiple trading partners, however, many of these are set to expire in short order. Unless a long-term agreement can be reached, businesses may face renewed trade uncertainty as the year unfolds.

By the end of the week, a nod to “patience” by Fed Chair Powell and a strong December jobs report helped pull equity markets back into positive territory. Non-farm payrolls exceeded expectations, adding 312K jobs in December. This resulted in 99 straight months of expanding payrolls – the longest stretch on record. Even the uptick in the unemployment rate to 3.9% resulted from a labor force rising participation rate. Such dynamics suggest that even amid the tightest labor market in decades, the U.S. economy is still able to pull workers off the sideline and into the job mix. Wages also surprised to the upside, growing by 3.2% year-on-year (Chart 2) – the best full-year gain since 2008.

The employment data should serve to calm concerns that the American economy is quickly running out of steam. While growth in 2019 is projected to be lower (see [forecast](#)), we still expect it to remain above the economy’s trend pace. All in all, government showdowns aside, consumers remain on firm footing, supported by the most favorable labor market in decades.

Chart 1: As Federal Government Shutdown Continues, Workers Feel the Squeeze



Shernette McLeod, Economist

Upcoming Key Economic Releases

U.S. CPI - December*

Release Date: January 11, 2019

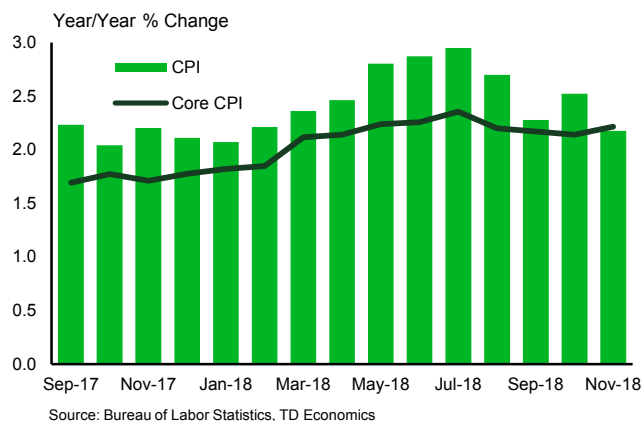
Previous: 0.0% m/m, 2.2% y/y

TD Forecast: -0.1% m/m, 1.9% y/y

Consensus: -0.1% m/m, 1.9% y/y

We expect another sharp retreat in oil prices to be reflected on a significant 8.4% m/m decline in the CPI's fuels category, more than offsetting an expected increase in food prices at 0.2% m/m. The notable decline in energy prices should have dragged down headline CPI inflation to a negative 0.1% m/m print for December, which should also be reflected on a softer 1.9% annual increase. On the back of another steady rise in its core services segment, we anticipate core CPI prices to have registered their third consecutive 0.2% m/m increase, maintaining annual core CPI inflation stable at 2.2%. Looking ahead, we expect headline CPI inflation to gradually rebound to above-2% levels as oil prices stabilize and core CPI inflation maintains its recent steady pace.

U.S. Consumer Price Index (CPI)



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

Recent Key Economic Indicators: Dec 24, 2018 - Jan 4, 2019

Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Dec 26	S&P CoreLogic CS US HPI NSA	Oct	Y/Y % Chg.	5.48	5.5
Dec 27	New Home Sales	Nov	Thsd	568.0	544.0
Dec 27	Conf. Board Consumer Confidence	Dec	Index	128.1	136.4
Dec 28	Pending Home Sales	Nov	M/M % Chg.	-0.7	-2.6
Jan 02	Markit US Manufacturing PMI	Dec	Index	53.8	53.9
Jan 03	ADP Employment Change	Dec	Thsd	271.0	157.0
Jan 03	Initial Jobless Claims	Dec 29	Thsd	216.0	217.0
Jan 03	ISM Manufacturing	Dec	Index	54.1	59.3
Jan 03	ISM Employment	Dec	Index	56.2	58.4
Jan 03	Wards Total Vehicle Sales	Dec	Mlns	17.5	17.4
Jan 04	Change in Nonfarm Payrolls	Dec	Thsd	312.0	176.0
Jan 04	Unemployment Rate	Dec	%	3.9	3.7
Jan 04	Average Hourly Earnings	Dec	M/M % Chg.	0.4	0.2
Jan 04	Markit US Services PMI	Dec	Index	54.4	53.4
Canada					
Dec 27	CFIB Business Barometer	Dec	Index	53.6	61.2
Jan 02	MLI Leading Indicator	Nov	M/M % Chg.	-0.1	-0.2
Jan 02	Markit Canada Manufacturing PMI	Dec	Index	53.6	54.9
Jan 04	Hourly Wage Rate Permanent Employees	Dec	Y/Y % Chg.	1.5	1.5
Jan 04	Unemployment Rate	Dec	%	5.6	5.6
Jan 04	Net Change in Employment	Dec	Thsd	9.3	94.1
Jan 04	Industrial Product Price	Nov	M/M % Chg.	-0.8	0.2
International					
Dec 27	JN Jobless Rate	Nov	%	2.5	2.4
Dec 27	JN Retail Trade	Nov	Y/Y % Chg.	1.4	3.6
Jan 02	EZ Markit Eurozone Manufacturing PMI	Dec	Index	51.4	51.4
Jan 02	UK Markit UK PMI Manufacturing	Dec	Index	54.2	53.6
Jan 03	JN Nikkei Japan PMI Manufacturing	Dec	Index	52.6	52.4
Jan 04	EZ Consumer Price Index Core	Dec	Y/Y % Chg.	1.0	1.0
Jan 04	EZ Producer Price Index	Nov	Y/Y % Chg.	4.0	4.9

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Jan 7 - 11, 2019						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Jan 07		Advance Goods Trade Balance	Nov	M/M % Chg.	-76.0	-77.2
Jan 07		New Home Sales	Nov	Thsd	568.0	544.0
Jan 07	10:00	Cap Goods Orders Nondef Ex Air	Nov	M/M % Chg.	-	-0.6
Jan 07	10:00	Durable Goods Orders	Nov	M/M % Chg.	-	0.8
Jan 07	10:00	Factory Orders	Nov	M/M % Chg.	0.3	-2.1
Jan 07	10:00	Factory Orders Ex Trans	Nov	M/M % Chg.	-	0.3
Jan 07	10:00	ISM Non-Manufacturing Index	Dec	M/M % Chg.	59.4	60.7
Jan 07	12:40	<i>Fed's Raphael Bostic speaks at the Rotary Club of Atlanta in Atlanta, GA</i>				
Jan 08	6:00	NFIB Small Business Optimism	Dec	Index	104.3	104.8
Jan 08	8:30	Trade Balance	Nov	Blns	-53.7	-55.5
Jan 09	8:20	<i>Fed's Raphael Bostic speaks the Chattanooga Chamber of Commerce in Chattanooga, TN</i>				
Jan 09	9:00	<i>Fed's Charles Evans speaks at the Discover Financial Services Company in Riverwoods, IL</i>				
Jan 09	11:30	<i>Fed's Eric Rosengren speaks at the Boston Economic Club in Boston, MA</i>				
Jan 09	14:00	FOMC Meeting Minutes	Dec 19			
Jan 10	8:30	Initial Jobless Claims	Jan 05	Thsd	-	231.0
Jan 10	8:35	<i>Fed's Tom Barkin speaks at the Raleigh Chamber of Commerce in Raleigh, NC</i>				
Jan 10	10:00	Wholesale Trade Sales	Nov	M/M % Chg.	-	-0.2
Jan 10	12:30	<i>Fed's James Bullard speaks at the Little Rock Chamber of Commerce in Little Rock, AR</i>				
Jan 10	13:00	<i>Fed's Charles Evans speaks at the Milwaukee Business Journal Economic Forecast in Milwaukee, WI</i>				
Jan 11	8:30	Consumer Price Index	Dec	M/M % Chg.	-0.1	0.0
Jan 11	8:30	Consumer Price Index	Dec	Y/Y % Chg.	1.9	2.2
Jan 11	8:30	Consumer Price Index Ex Food and Energy	Dec	M/M % Chg.	0.2	0.2
Jan 11	8:30	Consumer Price Index Ex Food and Energy	Dec	Y/Y % Chg.	2.1	2.2
Canada						
Jan 08	8:30	Int'l Merchandise Trade	Nov	Blns	-1.9	-1.2
Jan 09	8:15	Housing Starts	Dec	Thsd	210.0	215.9
Jan 09	10:00	Bank of Canada Rate Decision	Jan 09	%	2.00	1.75
International						
Jan 07	5:00	EZ Retail Sales	Nov	Y/Y % Chg.	-	1.7
Jan 09	5:00	EZ Unemployment Rate	Nov	%	-	8.1
Jan 09	20:30	CH Consumer Price Index	Dec	Y/Y % Chg.	2.1	2.2
Jan 11	4:30	UK Gross Domestic Product	Nov	M/M % Chg.	0.2	0.1
Jan 11	4:30	UK Industrial Production	Nov	Y/Y % Chg.	-	-0.8

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

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