

## The Weekly Bottom Line

January 11, 2019

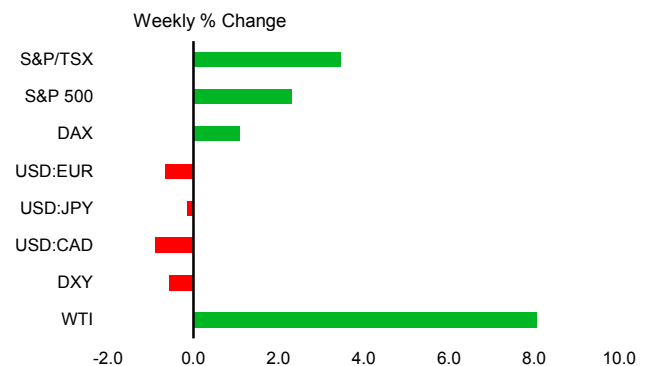
### Highlights of the Week

- U.S. equity markets built on last Friday's gains, firming up for the second consecutive week. Seemingly-fruitful trade negotiations between the U.S. and China offered notable support.
- With respect to data, both the ISM non-manufacturing index and small business confidence have eased from recent highs, but remain in healthy territory. Inflation data came in as expected, with core CPI holding steady at 2.2% y/y.
- The government shutdown, which is on track to become the longest in U.S. history, may test the Fed's wait and see approach to monetary policy, given data distortions and delays. If it ends soon, we expect its impact to be quite modest. But each passing week has the potential to amplify the impact.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	2588	2532	2931	2351
S&P/TSX Comp.	14924	14427	16567	13780
DAX	10886	10768	13560	10382
FTSE 100	6915	6837	7877	6585
Nikkei	20360	19562	24271	19156
Fixed Income Yields				
U.S. 10-yr Treasury	2.70	2.67	3.24	2.54
Canada 10-yr Bond	1.95	1.93	2.60	1.83
Germany 10-yr Bund	0.24	0.21	0.77	0.15
UK 10-yr Gilt	1.29	1.28	1.73	1.19
Japan 10-yr Bond	0.02	-0.04	0.16	-0.04
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.75	0.75	0.82	0.73
Euro (USD per EUR)	1.15	1.14	1.25	1.12
Pound (USD per GBP)	1.28	1.27	1.43	1.25
Yen (JPY per USD)	108.3	108.5	114.5	104.7
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	51.9	48.0	76.4	42.3
Natural Gas (\$US/MMBtu)	2.95	2.80	5.46	2.52
Copper (\$US/met. tonne)	5907.8	5897.3	7330.5	5713.8
Gold (\$US/troy oz.)	1289.2	1285.2	1358.5	1174.2

\*as of 11:42 am on Friday. \*\*Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price), Copper-LME Grade A, Gold-London Gold Bullion; Source: Bloomberg.

Equities and Oil Continue to Rebound from End of 2018 Lows



Note: Data as of 11:45 AM ET, January 11, 2019  
Sources: Bloomberg, TD Economics

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 1/11/19	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 (%)	2.53	2.27	2.52	2.81	2.80	2.75	2.85	2.95	2.95	2.95	2.95	2.95	2.95
10-yr Govt. Bond Yield (%)	2.69	2.74	2.85	3.05	3.00	2.95	3.05	3.15	3.15	3.15	3.15	3.15	3.15
30-yr Govt. Bond Yield (%)	3.02	2.97	2.98	3.19	3.25	3.20	3.30	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.)	1.9 (Dec-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	3.8	3.6	3.6	3.6	3.6	3.7	3.8	3.8	3.9

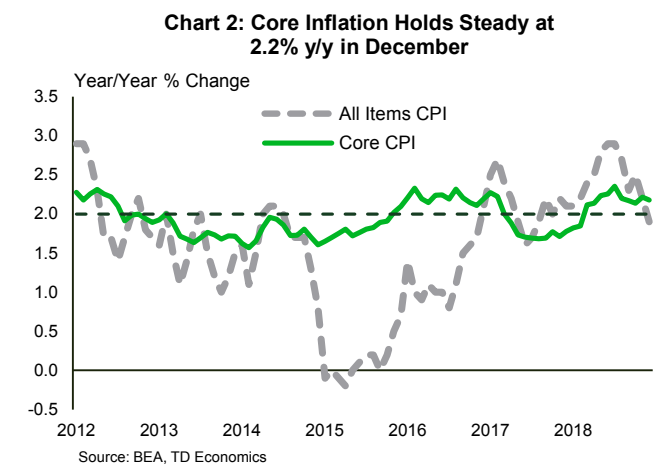
Forecast by TD Economics as of December 2018. Source: Bloomberg, TD Economics. \*Annualized

## Of Mending Bridges and Building Fences

U.S. equity markets built on last Friday's gains, firming up their comeback in the second week of 2019. The strong December jobs report continued to buoy market sentiment, while seemingly-fruitful trade negotiations between the U.S. and China offered additional support. Discussions in Beijing lasted an extra day, with indications that progress was made on a few items of interest, such as the further solidification of Chinese commitments to purchase U.S. goods. China's Commerce Ministry suggested that progress was made on more contentious issues as well, such as forced technology transfers and the protection of IP rights. The finding of common ground is a very encouraging development. But, with plenty of work still to be done and details to be hashed out, we're not out of the woods yet.

On the domestic data front, the numbers this week did little to rock the boat. After a hot three-month streak, the ISM non-manufacturing index descended below the 60-point threshold in December. But, at a reading of nearly 58, the index still points to a healthy pace of expansion for the lion's share of the economy. Similarly, small business confidence eased off at the end of 2018, but remained quite upbeat relative to history. Employment indicators from the small business survey also reaffirmed the strength the U.S. labor market (Chart 1).

What truly dominated headlines this week were negotiations related to border security that hold the key to ending the partial government shutdown. Talks this week have so far failed to yield positive results. The current shutdown



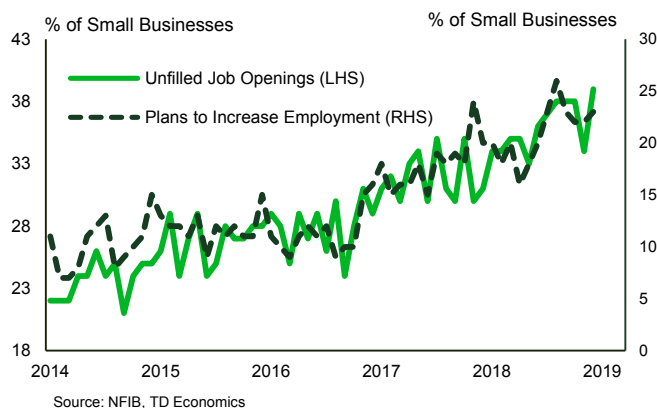
has already matched the longest 21-day closure of 1995-96 and appears likely to extend further.

The shutdown only adds to the cloud of uncertainty facing the Fed. Indeed, the FOMC minutes confirmed that after hiking in December, there was less certainty going forward given recent volatility in financial markets and concerns about global growth. With price pressures easing off in recent months, the Fed is in no rush to hike rates. This narrative is corroborated by today's CPI data where core inflation held steady at 2.2% y/y (Chart 2). But, this wait and see approach will be challenged by the government shutdown, which will distort the data and delay its release.

Ultimately, the length of the shutdown will determine the overall impact. If it ends over the weekend, we expect the impact to be fairly modest, with the closure shaving off about 0.1 p.p. from first quarter economic growth. But the impact could prove to be non-linear, meaning that the economic costs rise with time. With respect to data, if the shutdown extends to next week the jobless rate could tick up by 0.2 p.p. as some 380k furloughed workers are counted as unemployed, though January payrolls should be spared the distortion. Delays will add to the fog. So far, only second tier indicators such as factory orders and new home sales have been affected. Among primary releases, the retail sales report is next in line to be taken off of the queue, with more releases impacted and uncertainty mounting the longer the shutdown continues.

Admir Kolaj, Economist

**Chart 1: Small Business Job Openings at All-time High, Plans to Increase Employment Robust**



Recent Key Economic Indicators: Jan 7 - 11, 2019					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
<b>United States</b>					
Jan 07	ISM Non-Manufacturing Index	Dec	M/M % Chg.	57.6	60.7
Jan 08	NFIB Small Business Optimism	Dec	Index	104.4	104.8
Jan 10	Initial Jobless Claims	Jan 05	Thsd	216.0	233.0
Jan 11	Consumer Price Index	Dec	M/M % Chg.	-0.1	0.0
Jan 11	Consumer Price Index	Dec	Y/Y % Chg.	1.9	2.2
Jan 11	Consumer Price Index Ex Food and Energy	Dec	M/M % Chg.	0.2	0.2
Jan 11	Consumer Price Index Ex Food and Energy	Dec	Y/Y % Chg.	2.2	2.2
<b>Canada</b>					
Jan 08	Int'l Merchandise Trade	Nov	Blns	-2.1	-0.8
Jan 09	Housing Starts	Dec	Thsd	213.4	224.3
Jan 09	Bank of Canada Rate Decision	Jan 09	%	1.75	1.75
<b>International</b>					
Jan 07	EZ Retail Sales	Nov	Y/Y % Chg.	1.1	2.3
Jan 09	EZ Unemployment Rate	Nov	%	7.9	8.0
Jan 09	CH Consumer Price Index	Dec	Y/Y % Chg.	1.9	2.2
Jan 11	UK Gross Domestic Product	Nov	M/M % Chg.	0.2	0.1
Jan 11	UK Industrial Production	Nov	Y/Y % Chg.	-1.5	-0.9

Source: Bloomberg, TD Economics.

Note: U.S. data releases may be impacted by the partial U.S. government shutdown.

Upcoming Economic Releases and Events: Jan 14 - 18, 2019						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
<b>United States</b>						
Jan 15	8:30	Empire Manufacturing	Jan	Index	12.0	10.9
Jan 15	8:30	Producer Price Index Ex Food and Energy	Dec	M/M % Chg.	0.2	0.3
Jan 15	8:30	Producer Price Index Final Demand	Dec	M/M % Chg.	-0.1	0.1
Jan 15	11:30	<i>Fed's Neel Kashkari speaks at the Rochester Economic Summit in Rochester, MN</i>				
Jan 15	13:00	<i>Fed's Esther George speaks in Kansas City, MO</i>				
Jan 15	13:00	<i>Fed's Robert Kaplan speaks at the Plano Chamber of Commerce in Plano, TX</i>				
Jan 16	8:30	Export Price Index	Dec	M/M % Chg.	-0.4	-0.9
Jan 16	8:30	Export Price Index	Dec	Y/Y % Chg.	-	1.8
Jan 16	8:30	Retail Sales Advance	Dec	M/M % Chg.	0.2	0.2
Jan 16	8:30	Retail Sales Ex Auto and Gas	Dec	M/M % Chg.	0.6	0.5
Jan 16	10:00	Business Inventories	Nov		0.3	0.6
Jan 16	10:00	NAHB Housing Market Index	Jan	Index	57.0	56.0
Jan 16	13:00	<i>Fed's Neel Kashkari participates in the Intelligence Squared Debate in New York, NY</i>				
Jan 16	14:00	Federal Reserve Releases Beige Book				
Jan 17	8:30	Building Permits	Dec	Thsd	1280.0	1328.0
Jan 17	8:30	Housing Starts	Dec	Thsd	1250.0	1256.0
Jan 17	8:30	Initial Jobless Claims	Jan 12	Thsd	-	216.0
Jan 18	9:05	<i>Fed's John Williams speaks in Somerset, NJ</i>				
Jan 18	9:15	Capacity Utilization	Dec	Index	78.6	78.5
Jan 18	9:15	Industrial Production	Dec	M/M % Chg.	0.3	0.6
Jan 18	9:15	Manufacturing (SIC) Production	Dec	M/M % Chg.	0.2	0.0
Jan 18		Advance Goods Trade Balance	Nov	Blns	-76.1	-77.0
Jan 18		Cap Goods Orders Nondef Ex Air	Nov	M/M % Chg.	-	-0.6
Jan 18		Durable Goods Orders	Nov	M/M % Chg.	-	0.8
Jan 18		Factory Orders	Nov	M/M % Chg.	0.3	-2.1
Jan 18		Factory Orders Ex Trans	Nov	M/M % Chg.	-	0.3
Jan 18		New Home Sales	Nov	Thsd	566.0	544.0
Jan 18		Trade Balance	Nov	Blns	-54.0	-55.5
Jan 18		Wholesale Trade Sales	Nov	M/M % Chg.	-	-0.2
<b>Canada</b>						
Jan 15	9:00	Existing Home Sales	Dec	M/M % Chg.	-	-2.3
Jan 18	8:30	Consumer Price Index	Dec	M/M % Chg.	-	-0.4
Jan 18	8:30	Consumer Price Index	Dec	Y/Y % Chg.	-	1.7
Jan 18	8:30	Consumer Price Index Core- Common	Dec	Y/Y % Chg.	-	1.9
Jan 18	8:30	Consumer Price Index Core- Median	Dec	Y/Y % Chg.	-	1.9
Jan 18	8:30	Consumer Price Index Core- Trim	Dec	Y/Y % Chg.	-	1.9
<b>International</b>						
Jan 15	18:50	JN Producer Price Index	Dec	Y/Y % Chg.	1.9	2.3
Jan 16	4:30	UK Consumer Price Index	Dec	Y/Y % Chg.	2.2	2.3
Jan 16	4:30	UK Consumer Price Index Core	Dec	Y/Y % Chg.	1.8	1.8
Jan 17	5:00	EZ Consumer Price Index	Dec	Y/Y % Chg.	1.6	1.9
Jan 17	18:30	JN Natl Consumer Price Index	Dec	Y/Y % Chg.	0.4	0.8
Jan 17	23:30	JN Industrial Production	Nov	Y/Y % Chg.	-	1.4
Jan 18	4:30	UK Retail Sales Ex Auto Fuel	Dec	Y/Y % Chg.	3.4	3.8
Jan 18	4:30	UK Retail Sales Inc Auto Fuel	Dec	Y/Y % Chg.	3.5	3.6

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

## Disclaimer

This report is provided by TD Economics. It is for informational and educational purposes only as of the date of writing, and may not be appropriate for other purposes. The views and opinions expressed may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and should not be considered specific legal, investment or tax advice. The report does not provide material information about the business and affairs of TD Bank Group and the members of TD Economics are not spokespersons for TD Bank Group with respect to its business and affairs. The information contained in this report has been drawn from sources believed to be reliable, but is not guaranteed to be accurate or complete. This report contains economic analysis and views, including about future economic and financial markets performance. These are based on certain assumptions and other factors, and are subject to inherent risks and uncertainties. The actual outcome may be materially different. The Toronto-Dominion Bank and its affiliates and related entities that comprise the TD Bank Group are not liable for any errors or omissions in the information, analysis or views contained in this report, or for any loss or damage suffered.