

The Weekly Bottom Line

January 18, 2019

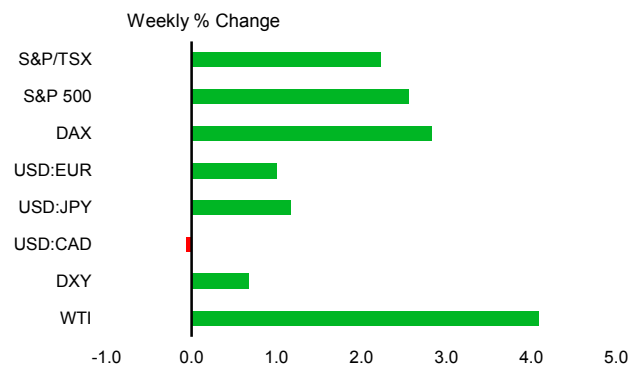
Highlights of the Week

- The government shutdown extended to its 28th day, making it the longest on record with no clear end in sight.
- The White House upped its estimate of the impact of the government shutdown to a 0.5ppt drag on 19Q1 growth after four weeks. This is much higher than private sector estimates of between -0.1 to -0.2 ppts.
- As expected, the Brexit withdrawal agreement was soundly rejected by UK parliament. With the March 29th deadline fast approaching, it looks increasingly likely that the UK will have no choice but to seek an extension from the EU.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	2664	2596	2931	2351
S&P/TSX Comp.	15279	14939	16567	13780
DAX	11195	10887	13560	10382
FTSE 100	6982	6918	7877	6585
Nikkei	20666	20360	24271	19156
Fixed Income Yields				
U.S. 10-yr Treasury	2.78	2.70	3.24	2.55
Canada 10-yr Bond	2.04	1.96	2.60	1.83
Germany 10-yr Bund	0.26	0.24	0.77	0.15
UK 10-yr Gilt	1.35	1.29	1.73	1.19
Japan 10-yr Bond	0.02	0.02	0.16	-0.04
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.75	0.75	0.82	0.73
Euro (USD per EUR)	1.14	1.15	1.25	1.12
Pound (USD per GBP)	1.29	1.28	1.43	1.25
Yen (JPY per USD)	109.7	108.5	114.5	104.7
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	53.8	51.6	76.4	42.3
Natural Gas (\$US/MMBtu)	3.58	2.89	4.80	2.52
Copper (\$US/met. tonne)	5964.8	5920.0	7330.5	5713.8
Gold (\$US/troy oz.)	1283.5	1287.5	1358.5	1174.2

*as of 11:20 am on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price), Copper-LME Grade A, Gold-London Gold Bullion; Source: Bloomberg.

Another Solid Week for Equities & Oil as Recovery from Year-end Lows Continue



Note: Data as of 11:20 AM ET, January 18, 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 1/18/19	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 (%)	2.60	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 (%)	2.78	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 (%)	3.10	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

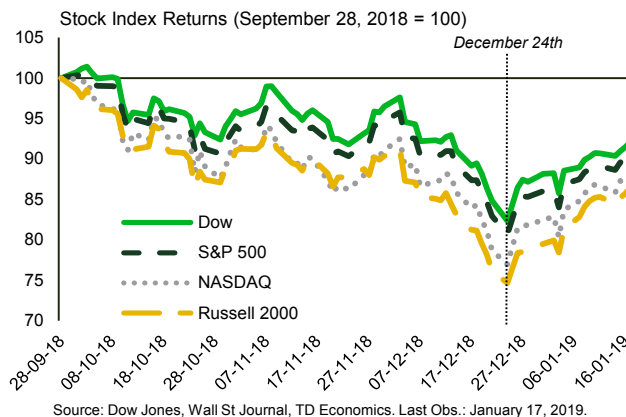
Dysfunctional Governments on Parade

Now in its 28th day, the U.S. government shutdown has far exceeded the 21-day shutdown record set in 1995-96 with no clear end in sight. The longer the shutdown lingers, the higher the likelihood that some of the negative economic impacts from the shutdown gain permanency. As an example, this week the White House doubled its estimated economic impact of the shutdown. Previous estimates assumed a drag of about 0.1 percentage points off of first quarter growth for every two weeks of the shutdown. But, after incorporating the impact of contract workers not being paid, the estimate rises to about -0.13 percentage points off growth each week. This suggests that after four weeks the shutdown is estimated to have shaved half a point off of first quarter GDP growth. This estimate is well above other private sector estimates that expect a more modest impact on growth of about 0.1 ppt drag for every three weeks or so that the shutdown lingers.

The shutdown is exacting a toll on those least responsible for it. Anecdotes continue to highlight the hardships that furloughed federal employees are experiencing. These include workers turning to payday loan companies and food banks, while also taking on side hustles, such as driving for Uber, in order to make ends meet. Although federal employees will eventually be paid for lost wages, the near-term pain is clearly taking a toll.

Across the pond, Brexit developments in the UK this week signaled that government dysfunction is not solely a U.S. pastime. After weeks of anticipation, the withdrawal agree-

Chart 2: U.S. Equity Markets Continue to Rebound off Christmas Eve Lows

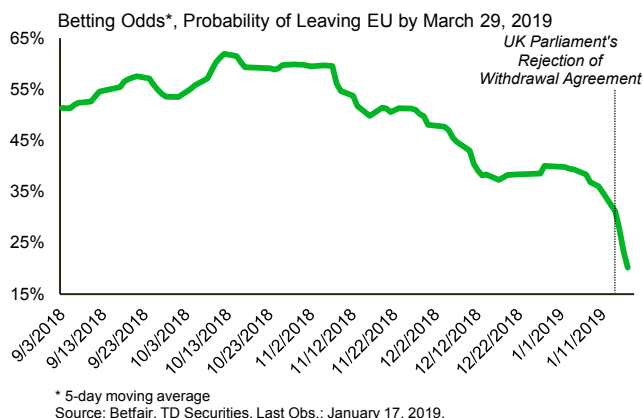


ment was put to a vote and was soundly rejected by parliament. The next day, Theresa May's government survived a confidence vote, concluding a tumultuous week. Next steps include consultations between the prime minister and other parties on proposed amendments to the withdrawal agreement set to be tabled on January 21st, but not voted upon until January 29th. With the March 29th deadline fast approaching, it looks increasingly likely that the UK will have no choice but to seek an extension from the EU (Chart 1).

Despite the government dysfunction on display on both sides of the Atlantic, financial markets were largely unfazed. U.S. equity indexes have soared since the New Year, and are now back at levels seen in early December (Chart 2). There's good reason for optimism. Data still being reported, such as weekly initial jobless claims, continued to signal a healthy economy. Trade talks with China are ongoing, with the next round set to take place on January 30th in Washington. Although little progress has been announced so far, news that U.S. officials were discussing ratcheting back some of the tariffs on Chinese imports in order to encourage an agreement helped to stoke a global rally in risk assets. Perhaps more importantly, Federal Reserve Presidents were out delivering speeches that reinforced the Fed's willingness to be patient before the next rate hike. Indeed, patience is warranted given uncertainty about the economic impact of the government shutdown, and ongoing concerns about the health of the global economy.

Fotios Raptis, Senior Economist

Chart 1: Odds of Brexit Occurring by March 29, 2019 Deadline Plunged After Events this Week



Recent Key Economic Indicators: Jan 14 - 18, 2019					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Jan 15	Empire Manufacturing	Jan	Index	3.9	11.5
Jan 15	Producer Price Index Ex Food and Energy	Dec	M/M % Chg.	-0.1	0.3
Jan 15	Producer Price Index Final Demand	Dec	M/M % Chg.	-0.2	0.1
Jan 16	Export Price Index	Dec	M/M % Chg.	-0.6	-0.8
Jan 16	Export Price Index	Dec	Y/Y % Chg.	1.1	1.8
Jan 16	NAHB Housing Market Index	Jan	Index	58.0	56.0
Jan 17	Initial Jobless Claims	Jan 12	Thsd	213.0	216.0
Jan 18	Capacity Utilization	Dec	Index	78.7	78.6
Jan 18	Industrial Production	Dec	M/M % Chg.	0.3	0.4
Jan 18	Manufacturing (SIC) Production	Dec	M/M % Chg.	1.1	0.1
Canada					
Jan 15	Existing Home Sales	Dec	M/M % Chg.	-2.5	-2.3
Jan 18	Consumer Price Index	Dec	M/M % Chg.	-0.1	-0.4
Jan 18	Consumer Price Index	Dec	Y/Y % Chg.	2.0	1.7
Jan 18	Consumer Price Index Core- Common	Dec	Y/Y % Chg.	1.9	1.9
Jan 18	Consumer Price Index Core- Median	Dec	Y/Y % Chg.	1.8	1.8
Jan 18	Consumer Price Index Core- Trim	Dec	Y/Y % Chg.	1.9	1.9
International					
Jan 15	JN Producer Price Index	Dec	Y/Y % Chg.	1.5	2.3
Jan 16	UK Consumer Price Index	Dec	Y/Y % Chg.	2.1	2.3
Jan 16	UK Consumer Price Index Core	Dec	Y/Y % Chg.	1.9	1.8
Jan 17	EZ Consumer Price Index	Dec	Y/Y % Chg.	1.6	1.6
Jan 17	JN Natl Consumer Price Index	Dec	Y/Y % Chg.	0.3	0.8
Jan 17	JN Industrial Production	Nov	Y/Y % Chg.	1.5	1.4
Jan 18	UK Retail Sales Ex Auto Fuel	Dec	Y/Y % Chg.	2.6	3.5
Jan 18	UK Retail Sales Inc Auto Fuel	Dec	Y/Y % Chg.	3.0	3.4

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Jan 21 - 25, 2019						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Jan 22	10:00	Existing Home Sales	Dec	Mlns	5.27	5.32
Jan 24	8:30	Initial Jobless Claims	Jan 19	Thsd	-	213.0
Jan 24	9:45	Markit US Manufacturing PMI	Jan	Index	-	53.8
Jan 24	9:45	Markit US Services PMI	Jan	Index	-	54.4
Jan 25	8:30	Durable Goods Orders	Dec	M/M % Chg.	-	-
Jan 25	8:30	Durables Ex Transportation	Dec	M/M % Chg.	-	-
Jan 25	8:30	Cap Goods Orders Nondef Ex Air	Dec	M/M % Chg.	-	-
Jan 25	10:00	New Home Sales	Dec	Thsd	-	-
-	-	Business Inventories **	Nov	M/M % Chg.	0.3	0.6
-	-	Retail Sales Ex Auto and Gas **	Dec	M/M % Chg.	0.4	0.5
-	-	Retail Sales Advance **	Dec	M/M % Chg.	0.1	0.2
-	-	Wholesale Trade Sales **	Nov	M/M % Chg.	-	-0.2
-	-	Trade Balance **	Nov	USD, Blns	-54.0	-55.5
-	-	Cap Goods Orders Nondef Ex Air **	Nov	M/M % Chg.	-	-0.6
-	-	Durables Ex Transportation **	Nov	M/M % Chg.	-	-0.3
-	-	Durable Goods Orders **	Nov	M/M % Chg.	0.8	0.8
-	-	Factory Orders Ex Trans **	Nov	M/M % Chg.	-	0.3
-	-	Factory Orders **	Nov	M/M % Chg.	0.3	-2.1
-	-	New Home Sales **	Nov	Thsd	567.0	544.0
-	-	Retail Inventories **	Nov	M/M % Chg.	-	0.8
-	-	Advance Goods Trade Balance **	Nov	USD, Blns	-76.1	-77.0
-	-	Building Permits **	Dec	Thsd	1290.0	1328.0
-	-	Housing Starts **	Dec	Thsd	1252.0	1256.0
Canada						
Jan 22	8:30	Manufacturing Sales	Nov	M/M % Chg.	-	-0.1
Jan 22	8:30	Wholesale Trade Sales	Nov	M/M % Chg.	-	1.0
Jan 23	8:30	Retail Sales Ex Auto	Nov	M/M % Chg.	-	0.0
Jan 23	8:30	Retail Sales	Nov	M/M % Chg.	-	0.3
International						
Jan 22	4:30	UK ILO Unemployment Rate 3Mths	Nov	%	4.1	4.1
Jan 23	19:30	JN Nikkei Japan PMI Manufacturing	Jan	Index	-	52.6
Jan 24	4:00	EZ Markit Eurozone Manufacturing PMI	Jan	Index	51.3	51.4

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

Note: Some data releases may be impacted by the current U.S. partial government shutdown. ** Previously scheduled data releases that are now delayed due to the shutdown.

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