

The Weekly Bottom Line

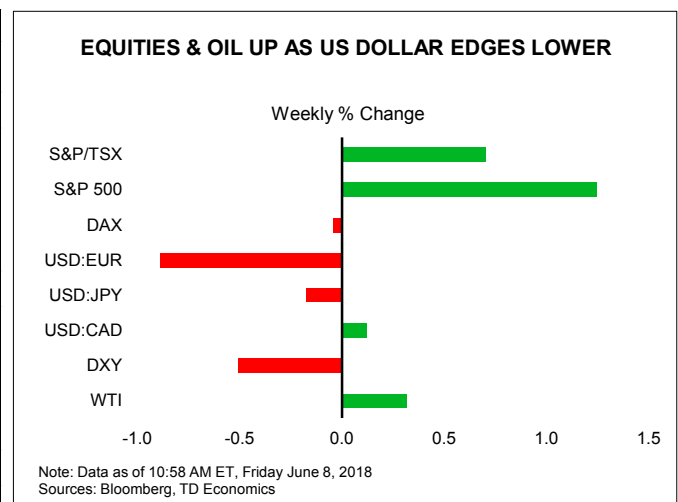
June 8, 2018

Highlights of the Week

- Next week the Federal Open Market Committee (FOMC) will meet for the fourth time this year to discuss whether the current level of monetary stimulus is appropriate for the U.S. economy.
- Well above-trend economic growth and inflation at target should be enough to convince the FOMC to move its main policy rate up by 25 basis points.
- Elevated geopolitical uncertainty is likely to keep the FOMC on its current course of gradual rate hikes.

THIS WEEK IN THE MARKETS				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	2730	2721	2873	2410
S&P/TSX Comp.	16073	16076	16413	14952
DAX	12748	12938	13560	11787
FTSE 100	7706	7730	7877	6889
Nikkei	22171	22451	24124	19275
Fixed Income Yields				
U.S. 10-yr Treasury	2.90	2.93	3.11	2.04
Canada 10-yr Bond	2.25	2.35	2.52	1.39
Germany 10-yr Bund	0.38	0.41	0.77	0.23
UK 10-yr Gilt	1.29	1.32	1.65	0.93
Japan 10-yr Bond	0.05	0.04	0.10	-0.01
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.77	0.77	0.83	0.74
Euro (USD per EUR)	1.17	1.17	1.25	1.11
Pound (USD per GBP)	1.33	1.33	1.43	1.26
Yen (JPY per USD)	109.5	109.4	114.2	104.7
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	66.4	67.9	72.2	42.3
Natural Gas (\$US/MMBtu)	2.89	2.90	7.13	2.52
Copper (\$US/met. tonne)	6844.8	6865.3	7253.8	5586.0
Gold (\$US/troy oz.)	1294.7	1301.7	1358.5	1213.2

*as of 11:08 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)	1.50 - 1.75%
Bank of Canada (Overnight Rate)	1.25%
European Central Bank (Refi Rate)	0.00%
Bank of England (Repo Rate)	0.50%
Bank of Japan (Overnight Rate)	-0.10%

Source: Central Banks.

TD ECONOMICS KEY FORECASTS													
	Current Rate 6/8/18	2017				2018				2019			
		Q1	Q2	Q3	Q4	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate (%)	1.75	1.00	1.25	1.25	1.50	1.75	2.00	2.25	2.25	2.50	2.75	3.00	3.00
2-yr Govt. Bond Yield (%)	2.47	1.27	1.38	1.47	1.89	2.27	2.50	2.55	2.65	2.75	2.85	2.95	2.95
10-yr Govt. Bond Yield (%)	2.90	2.40	2.31	2.33	2.40	2.74	3.00	3.05	3.15	3.20	3.25	3.30	3.30
30-yr Govt. Bond Yield (%)	3.05	3.02	2.84	2.86	2.74	2.97	3.20	3.25	3.35	3.40	3.45	3.50	3.50
Real GDP (Q/Q % Chg)*	2.2 (Q1-18)	1.2	3.1	3.2	2.9	2.2	3.2	3.0	3.2	2.8	3.1	2.6	2.4
CPI (Y/Y % Chg.)	2.5 (Apr-18)	2.5	1.9	2.0	2.1	2.2	2.6	2.6	2.3	1.9	2.1	2.2	2.2
Unemployment Rate (%)	3.8 (May-18)	4.7	4.3	4.3	4.1	4.1	4.0	4.0	3.9	3.9	3.8	3.7	3.7

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

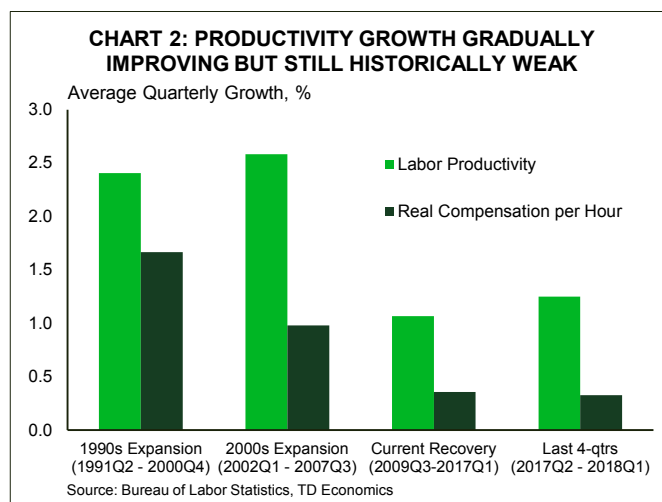
FOMC Locked in for Second Rate Hike of 2018

Next week the Federal Open Market Committee (FOMC) will meet for the fourth time this year to discuss whether the current level of stimulus is appropriate for the U.S. economy. During their discussions they will evaluate the health of the economy, wage and price pressures, and emerging risks before deciding on revisions to their outlook for economic activity, inflation, and the future path of the fed funds rate.

The U.S. economy is firing on all cylinders at the moment. Growth in the second quarter is currently tracking a blistering 4.0% annualized pace, helped along by a strong rebound in household spending, firm business investment, and surprising strength in net exports. What's more, growth is expected to continue at a 3.0% annualized pace on average for the remainder of the year, with fiscal stimulus contributing about half a point.

Strong economic activity is working to absorb any remaining spare capacity. The unemployment rate is at an eighteen year low, and as of April there were more job openings than there were job seekers (Chart 1). Wage growth is healthy by historical standards, but should move even higher as skilled labor becomes scarce. But, wages typically keep up with productivity growth, and on that front the U.S. economy continues to perform below historical trends (Chart 2).

Consumer price inflation is above 2.0%, a sign that the U.S. economy is bumping up against capacity constraints. Add higher fuel prices, higher import prices due to increased tariffs, and strong wage growth, and it's just a

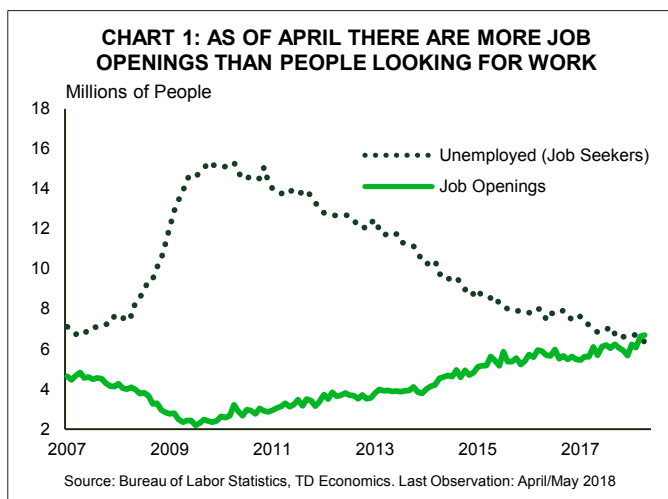


matter of time before profit margins get pinched enough for firms to pass on rising costs to consumers. All told, headline consumer price inflation is likely to peak at 2.7% this year, with the Fed's preferred measure, the core personal consumer expenditure deflator, holding near its target of 2.0% through the end of this year.

Altogether, this solid outlook should be more than enough to convince the FOMC that the U.S. economy does not require the amount of monetary stimulus currently on offer. As a result, the fed funds rate is likely to move up by 25 bps next week, with another hike or even two embedded in the updated dot plot summary for this year.

That said, although further rate hikes are certain, their exact timing is still open for debate. Geopolitical risks remain elevated, and a policy misstep or two may be just enough to send financial markets, business confidence, and global trade into a tailspin. Trade skirmishes could easily escalate into trade wars, particularly if talks fail to make progress between the U.S. and its major trading partners. Although much better prepared than in past tightening cycles, emerging markets remain at the mercy of nervous investors who are more concerned with capital retention than returns in such an uncertain environment. Argentina and Turkey were the first victims of speculative attacks, but they surely will not be the last during this tightening cycle. All told, in light of these and other risks, the FOMC is likely to stay on its current path of gradual rate hikes.

Fotios Raptis, Senior Economist



Upcoming Key Economic Releases

U.S. Consumer Price Index - May*

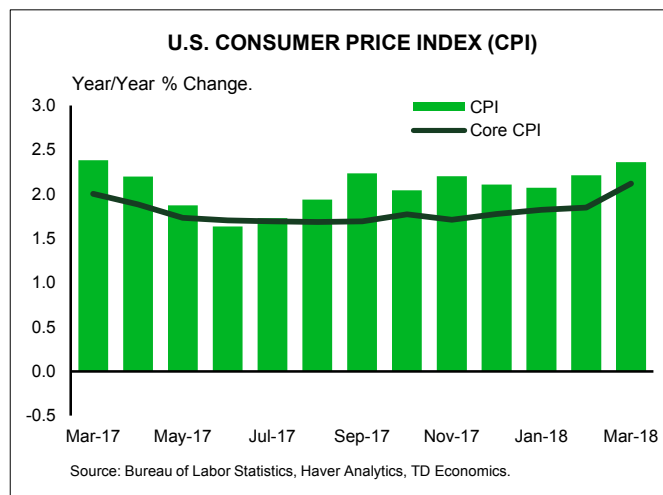
Release Date: June 12, 2018

Previous Result: 0.2% m/m, 2.5% y/y

TD Forecast: 0.3% m/m, 2.8%

Consensus: 0.2% m/m, 2.8% y/y

We expect headline CPI inflation to hit 2.8% y/y in May, led by another surge in gasoline prices. Prices at the pump jumped further by about 6%, peaking in late May. Their rise is likely to resume in the summer months, though likely by a smaller margin. Utility costs however should offset on weakness in electricity. Moderate gains in food prices will allow for a positive contribution to the headline. Outside of food and energy, we look for a 0.2% m/m print after the disappointing 0.1% print in the prior month. That should drive core inflation higher to 2.2% y/y. Driving the pickup will be a firmer read on core goods prices after back-to-back declines in the prior month and



ongoing strength in core services, the latter led by potential pickups in medical care and airfares. However, we expect any rebound to be limited by a likely moderation in OER and rents, which posted outsized gains in April. Thus, we view risks as skewed to the downside.

U.S. Retail Sales - May*

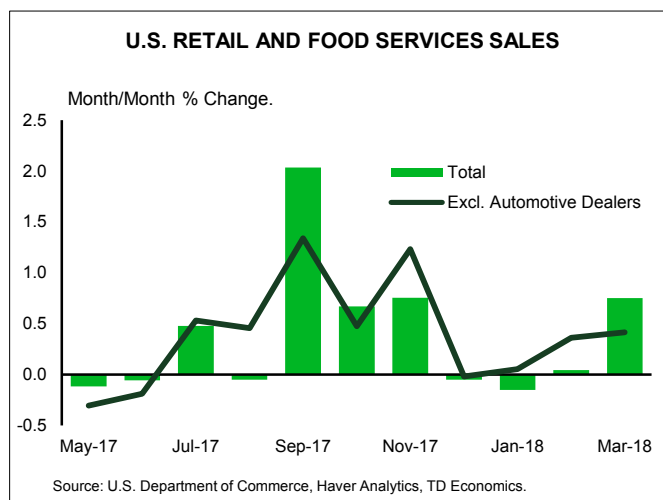
Release Date: June 14, 2018

Previous Result: 0.3%, ex-auto 0.3%

TD Forecast: 0.5%, ex-auto 0.7%

Consensus: 0.4%, ex-auto 0.5%

We look for a strong 0.5% rise in retail sales, propped up by higher gasoline prices along with a solid 0.3% increase in the core group. More favorable weather suggests a boost from building materials and food services categories as well. This should leave Q2 real consumer spending tracking near a robust 3% pace given the solid performance in April.



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

RECENT KEY ECONOMIC INDICATORS: JUNE 4 - 8, 2018

Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Jun 04	Factory Orders	Apr	M/M % Chg.	-0.8	1.7
Jun 04	Factory Orders Ex Trans	Apr	M/M % Chg.	0.4	0.5
Jun 04	Durable Goods Orders	Apr F	M/M % Chg.	-1.6	-1.7
Jun 04	Durables Ex Transportation	Apr F	M/M % Chg.	0.9	0.9
Jun 04	Cap Goods Orders Nondef Ex Air	Apr F	M/M % Chg.	1.0	1.0
Jun 05	Markit US Services PMI	May F	Index	56.8	55.7
Jun 05	ISM Non-Manf. Composite	May	Index	58.6	56.8
Jun 06	Trade Balance	Apr	Blns	-46.2	-47.2
Jun 06	Unit Labor Costs	1Q F	Q/Q % Chg.	2.9	2.7
Jun 07	Initial Jobless Claims	Jun 02	Thsd	222.0	223.0
Jun 07	Household Change in Net Worth	1Q	Blns	1028.0	2474.0
Jun 08	Wholesale Trade Sales	Apr	M/M % Chg.	0.1	0.3
Canada					
Jun 05	Labor Productivity	1Q	Q/Q % Chg.	-0.3	0.2
Jun 06	Int'l Merchandise Trade	Apr	Blns	-1.9	-4.1
Jun 08	Housing Starts	May	Thsd	195.6	214.4
Jun 08	Capacity Utilization Rate	1Q	Q/Q % Chg.	86.1	86.0
Jun 08	Net Change in Employment	May	Thsd	-7.5	-1.1
Jun 08	Unemployment Rate	May	%	5.8	5.8
Jun 08	Hourly Earnings Permanent Employment	May	Y/Y % Chg.	3.9	3.3
International					
Jun 05	EZ Retail Sales	Apr	Y/Y % Chg.	1.7	0.8
Jun 05	EZ Markit Eurozone Composite PMI	May F	Index	54.1	54.1
Jun 05	EZ Markit Eurozone Services PMI	May F	Index	53.8	53.9
Jun 06	EZ Markit Eurozone Retail PMI	May	Index	51.7	48.6
Jun 07	EZ Gross Domestic Product SA	1Q F	Y/Y % Chg.	2.5	2.5
Jun 07	CH Trade Balance	May	Blns	24.9	28.7

Source: Bloomberg, TD Economics.

UPCOMING ECONOMIC RELEASES AND EVENTS: JUNE 11 - 15, 2018						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Jun 12	6:00	NFIB Small Business Optimism	May	Index	104.8	104.8
Jun 12	8:30	Real Avg Hourly Earning	May	Y/Y % Chg.	-	0.2
Jun 12	8:30	Consumer Price Index Ex Food and Energy	May	Y/Y % Chg.	2.2	2.1
Jun 12	8:30	Consumer Price Index	May	Y/Y % Chg.	2.7	2.5
Jun 12	8:30	Consumer Price Index Ex Food and Energy	May	M/M % Chg.	0.2	0.1
Jun 12	8:30	Consumer Price Index	May	M/M % Chg.	0.2	0.2
Jun 13	8:30	Producer Price Index Ex Food and Energy	May	M/M % Chg.	0.2	0.2
Jun 13	8:30	Producer Price Index Final Demand	May	M/M % Chg.	0.3	0.1
Jun 13	14:00	FOMC Rate Decision (Upper Bound)	Jun 13	%	2.0	1.75
Jun 13	14:30	<i>Fed's Chair Holds Press Conference</i>				
Jun 14	8:30	Retail Sales Advance	May	M/M % Chg.	0.4	0.2
Jun 14	8:30	Retail Sales Ex Auto and Gas	May	M/M % Chg.	-	0.3
Jun 14	8:30	Initial Jobless Claims	Jun 09	Thsd	-	222.0
Jun 14	10:00	Business Inventories	Apr	Thsd	0.4	0.0
Jun 15	8:30	Empire Manufacturing	Jun	Index	18.0	20.1
Jun 15	9:15	Industrial Production	May	M/M % Chg.	0.3	0.7
Jun 15	9:15	Manufacturing (SIC) Production	May	M/M % Chg.	-	0.5
Jun 15	9:15	Capacity Utilization	May	%	78.2	78.0
Canada						
Jun 13	8:30	Teranet/National Bank HPI	May	Y/Y % Chg.	-	5.6
Jun 15	8:30	Manufacturing Sales	Apr	M/M % Chg.	-	1.4
Jun 15	9:00	Existing Home Sales	May	M/M % Chg.	-	-2.9
International						
Jun 11	4:30	UK Manufacturing Production	Apr	Y/Y % Chg.	-	2.9
Jun 12	4:30	UK ILO Unemployment Rate 3Mths	Apr	%	-	4.2
Jun 13	4:30	UK Consumer Price Index	May	Y/Y % Chg.	-	2.4
Jun 13	22:00	CH Retail Sales	May	Y/Y % Chg.	9.6	9.4
Jun 14	4:30	UK Retail Sales Ex Auto Fuel	May	Y/Y % Chg.	-	1.5
Jun 14	4:30	UK Retail Sales Inc Auto Fuel	May	Y/Y % Chg.	-	1.4
Jun 15	5:00	EZ Consumer Price Index	May F	Y/Y % Chg.	-	1.2

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

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