

## The Weekly Bottom Line

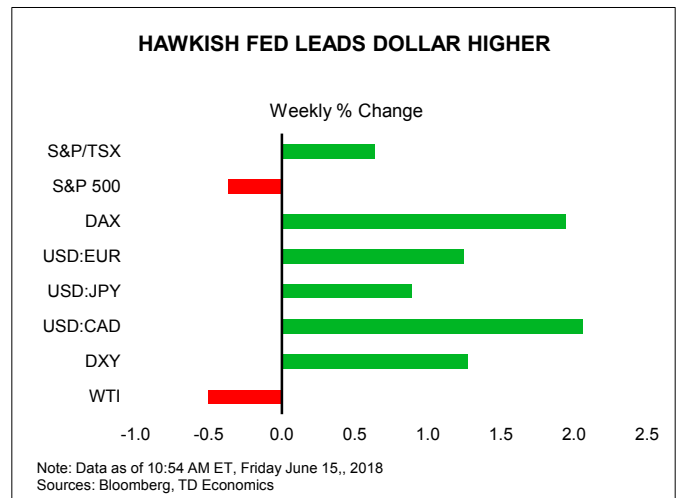
June 15, 2018

### Highlights of the Week

- The FOMC raised the fed funds target rate by 25 bp this week. Additionally, median expectations for the fed funds target rose to 2.4% (from 2.1%), suggesting that the committee was leaning toward two more rate hikes this year.
- Data corroborated the Fed's hawkish view of the domestic economy and faster removal of monetary accommodation. The headline and core consumer price indexes rose by 0.2pp (m/m) apiece to 2.8% (y/y) and 2.2% (y/y), respectively. Additionally, retail sales surged by 0.8% in May and small businesses expressed increased confidence in the outlook.
- While things are honky-dory for now, the threat of trade wars continues to percolate. This week the administration announced 25% tariffs on \$50 billion of goods imported from China, which prompted retaliatory action by China.

THIS WEEK IN THE MARKETS				
	Current*	Week Ago	52-Week High	52-Week Low
<b>Stock Market Indexes</b>				
S&P 500	2769	2779	2873	2410
S&P/TSX Comp.	16295	16203	16413	14952
DAX	13030	12767	13560	11787
FTSE 100	7649	7681	7877	6889
Nikkei	22852	22695	24124	19275
<b>Fixed Income Yields</b>				
U.S. 10-yr Treasury	2.92	2.95	3.11	2.04
Canada 10-yr Bond	2.22	2.32	2.52	1.46
Germany 10-yr Bund	0.40	0.45	0.77	0.25
UK 10-yr Gilt	1.33	1.39	1.65	0.97
Japan 10-yr Bond	0.04	0.05	0.10	-0.01
<b>Foreign Exchange Cross Rates</b>				
C\$ (USD per CAD)	0.76	0.77	0.83	0.75
Euro (USD per EUR)	1.16	1.18	1.25	1.11
Pound (USD per GBP)	1.33	1.34	1.43	1.26
Yen (JPY per USD)	110.5	109.6	114.2	104.7
<b>Commodity Spot Prices**</b>				
Crude Oil (\$US/bbl)	66.7	65.7	72.2	42.3
Natural Gas (\$US/MMBtu)	2.97	2.91	7.36	2.52
Copper (\$US/met. tonne)	7173.0	7324.0	7330.5	5630.5
Gold (\$US/troy oz.)	1279.0	1299.4	1358.5	1213.2

\*as of 11:47 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)	1.75 - 2%
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 6/15/18	2017				2018				2019			
		Q1	Q2	Q3	Q4	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate (%)	2.00	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 (%)	2.55	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 (%)	2.92	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 (%)	3.04	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.)	2.8 (May-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

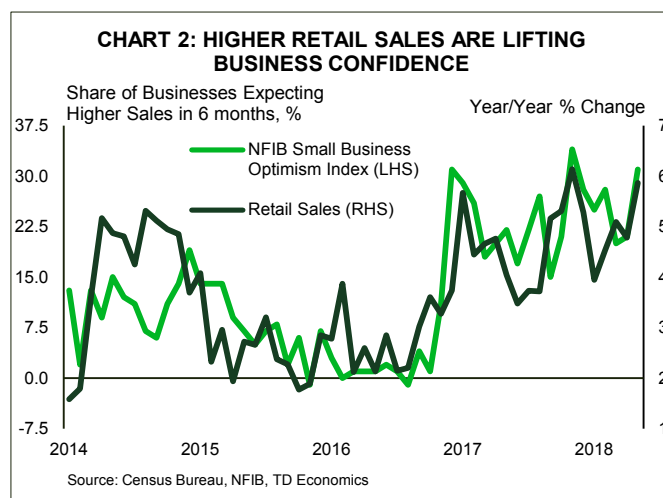
Forecast by TD Economics as of March 2018. Source: Bloomberg, TD Economics. \*Annualized

## Fed Raises Rate As Trade Risks Escalate

This was a busy week for soccer fans and investors alike. The former got treated to a kickoff of a month-long FIFA World Cup extravaganza in Russia, while the latter had a full docket of policy decisions from the Fed and the European Central Bank, as well as readings on inflation and retail sales and to close off the week an announcement of 25% tariffs on \$50 billion of goods imported from China.

Tuesday's inflation report got the ball rolling ahead of the FOMC rate announcement. As widely expected, inflation continued to gain traction in May. The headline and core consumer price indexes rose by 0.2pp (m/m) apiece to 2.8% and 2.2% (year over year), respectively. A strong economy, wage pressures and (now) tariffs will continue to push inflation measures higher in the coming months, particularly as businesses become more comfortable with passing higher costs to consumers (see Chart 1).

The Fed's June rate hike looked like a done deal even before the inflation report, and indeed the FOMC raised the federal funds rate target by 25 basis points to a range between 1.75% and 2.0%. Details of the statement and the accompanying economic projections were insightful. Notably, the statement removed its forward guidance that the "federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run." With committee member projections showing the federal funds rate rising above its anticipated "longer run" rate by 2019, this made sense. The Fed's increased confidence in its rate hiking path was also illustrated in an edging up of the median expectation for the fed funds rate to 2.4% (from 2.1%) this year, implying two

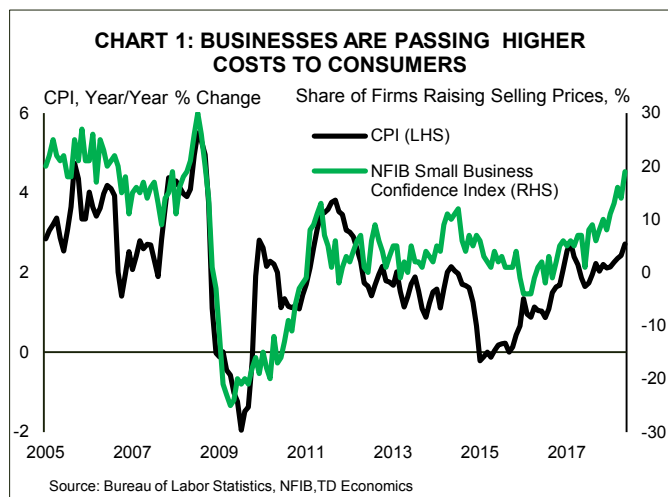


more rate hikes this year (one more than previously). During the press conference, Chairmen Powell also said that starting next year he will be holding a press conference following every FOMC meeting, a move likely aimed at freeing up Fed's hands somewhat with respect to future rate changes.

The Fed's view that economic growth is revving up was corroborated Thursday's retail sales report. Spurred by tax cuts, job gains and rising incomes, American consumers have been on a tear for the last three months, and in May retail sales surged by 0.8% – double the expectations and the biggest jump in half a year. Helped along by a pickup in consumer spending, GDP growth is currently expected to surpass 4% (annualized) in the second quarter, and average 3% for the year as whole – the best result since 2005.

While the U.S. economy may be sizzling, there are risks on the horizon. As with tariffs on steel and aluminum, the recent tariff announcement on Chinese goods sparked a retaliatory action by China. Taken alone these tariffs are likely to present a modest drag on U.S. growth and modest lift to inflation (please see our recent [report](#) on U.S.-China tariffs). However, while direct impacts are modest, the hit to business confidence and supply chain disruptions could result in a more deleterious effect on growth. So far, financial markets have taken these skirmishes in stride, but a further escalation or full out trade war could bring this assumption into question.

Ksenia Bushmeneva, Economist



**RECENT KEY ECONOMIC INDICATORS: JUNE 11 - 15, 2018**

Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
<b>United States</b>					
Jun 12	NFIB Small Business Optimism	May	Index	107.8	104.8
Jun 12	Real Avg Hourly Earning	May	Y/Y % Chg.	0.0	0.2
Jun 12	Consumer Price Index Ex Food and Energy	May	Y/Y % Chg.	2.2	2.1
Jun 12	Consumer Price Index	May	Y/Y % Chg.	2.8	2.5
Jun 12	Consumer Price Index Ex Food and Energy	May	M/M % Chg.	0.2	0.1
Jun 12	Consumer Price Index	May	M/M % Chg.	0.2	0.2
Jun 13	Producer Price Index Ex Food and Energy	May	M/M % Chg.	0.3	0.2
Jun 13	Producer Price Index Final Demand	May	M/M % Chg.	0.5	0.1
Jun 13	FOMC Rate Decision (Upper Bound)	Jun 13	%	2.0	1.75
Jun 14	Retail Sales Advance	May	M/M % Chg.	0.8	0.4
Jun 14	Retail Sales Ex Auto and Gas	May	M/M % Chg.	0.9	0.4
Jun 14	Initial Jobless Claims	Jun 09	Thsd	218.0	222.0
Jun 14	Business Inventories	Apr	Thsd	0.3	-0.1
Jun 15	Empire Manufacturing	Jun	Index	25.0	20.1
Jun 15	Industrial Production	May	M/M % Chg.	0.7	0.9
Jun 15	Manufacturing (SIC) Production	May	M/M % Chg.	-0.7	0.6
Jun 15	Capacity Utilization	May	%	77.9	78.1
<b>Canada</b>					
Jun 13	Teranet/National Bank HPI	May	Y/Y % Chg.	4.5	5.6
Jun 15	Manufacturing Sales	Apr	M/M % Chg.	-1.3	1.4
Jun 15	Existing Home Sales	May	M/M % Chg.	-0.1	-2.9
<b>International</b>					
Jun 11	UK Manufacturing Production	Apr	Y/Y % Chg.	1.4	2.9
Jun 12	UK ILO Unemployment Rate 3Mths	Apr	%	4.2	4.2
Jun 13	UK Consumer Price Index	May	Y/Y % Chg.	2.4	2.4
Jun 13	CH Retail Sales	May	Y/Y % Chg.	8.5	9.4
Jun 14	UK Retail Sales Ex Auto Fuel	May	Y/Y % Chg.	4.4	1.4
Jun 14	UK Retail Sales Inc Auto Fuel	May	Y/Y % Chg.	3.9	1.4
Jun 15	EZ Consumer Price Index	May F	Y/Y % Chg.	1.9	1.9

Source: Bloomberg, TD Economics.

UPCOMING ECONOMIC RELEASES AND EVENTS: JUNE 18 - 22, 2018						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
<b>United States</b>						
Jun 18	10:00	NAHB Housing Market Index	Jun	Index	70.0	70.0
Jun 18	13:00	<i>Fed's Raphael Bostic Speaks at the Rotary Club in Savannah, GA</i>				
Jun 18	16:00	<i>Fed's John Williams Speaks at Workshop in New York City, NY</i>				
Jun 19	7:00	<i>Fed's James Bullard Speaks at the 2018 ECB Forum on Central Banking in Sintra, Portugal</i>				
Jun 19	8:30	Housing Starts	May	Thsd	1312.0	1287.0
Jun 19	8:30	Building Permits	May	Thsd	1335.0	1364.0
Jun 20	8:30	Current Account Balance	1Q	Blns	-129.0	-128.2
Jun 20	10:00	Existing Home Sales	May	Mlns	5.6	5.46
Jun 21	8:30	Initial Jobless Claims	Jun 16	Thsd	-	218.0
Jun 22	9:45	Markit US Manufacturing PMI	Jun P	Index	-	56.4
Jun 22	9:45	Markit US Services PMI	Jun P	Index	-	56.8
<b>Canada</b>						
Jun 18	13:00	<i>BoC's Lynn Patterson Speaks about Interest-Rate Benchmarks in Toronto, ON</i>				
Jun 21	8:30	Wholesale Trade Sales	Apr	M/M % Chg.	-	1.1
Jun 22	8:30	Retail Sales Ex Auto	Apr	M/M % Chg.	-	-0.2
Jun 22	8:30	Retail Sales	Apr	M/M % Chg.	-	0.6
Jun 22	8:30	Consumer Price Index NSA	May	M/M % Chg.	-	0.3
Jun 22	8:30	Consumer Price Index	May	Y/Y % Chg.	-	2.2
Jun 22	8:30	Consumer Price Index Core - Common	May	Y/Y % Chg.	-	1.9
Jun 22	8:30	Consumer Price Index Core - Trim	May	Y/Y % Chg.	-	2.1
Jun 22	8:30	Consumer Price Index Core - Median	May	Y/Y % Chg.	-	2.1
<b>International</b>						
Jun 21	7:00	UK Bank of England Bank Rate	Jun 21	%	-	0.5
Jun 21	19:30	JN Natl Consumer Price Index	May	Y/Y % Chg.	0.6	0.6
Jun 22	4:00	EZ Markit Eurozone Manufacturing PMI	Jun P	Index	-	55.5

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

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