

The Weekly Bottom Line

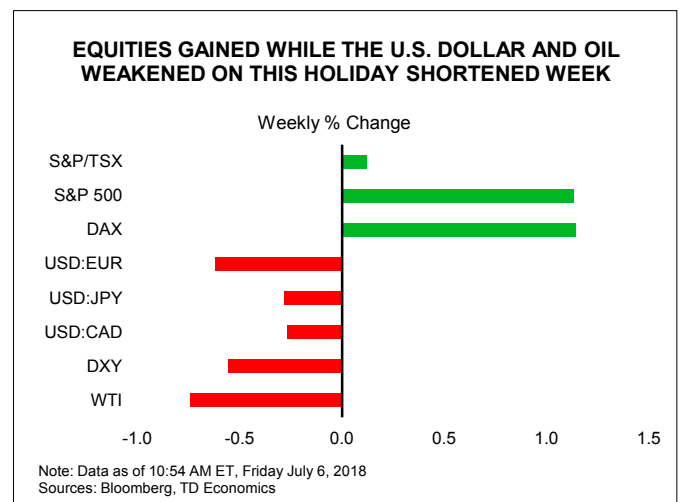
July 6, 2018

Highlights of the Week

- A holiday-shortened week was nevertheless chock-full of data releases that confirmed the U.S. economy continues to expand at a strong above-trend pace.
- Economic activity remains robust, but there are signs that trade uncertainty may be impeding further improvement.
- Tariffs on \$34 billion in goods from China, and on U.S. goods to China, take effect today. Although these tariffs remain a downside risk to our economic outlook, further escalation could prove direr.

THIS WEEK IN THE MARKETS				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	2746	2718	2873	2410
S&P/TSX Comp.	16288	16278	16450	14952
DAX	12435	12306	13560	11787
FTSE 100	7583	7637	7877	6889
Nikkei	21788	22305	24124	19275
Fixed Income Yields				
U.S. 10-yr Treasury	2.82	2.86	3.11	2.04
Canada 10-yr Bond	2.14	2.17	2.52	1.83
Germany 10-yr Bund	0.29	0.30	0.77	0.26
UK 10-yr Gilt	1.26	1.28	1.65	0.97
Japan 10-yr Bond	0.03	0.04	0.10	-0.01
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.76	0.76	0.83	0.75
Euro (USD per EUR)	1.18	1.17	1.25	1.14
Pound (USD per GBP)	1.33	1.32	1.43	1.28
Yen (JPY per USD)	110.5	110.8	114.2	104.7
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	73.0	74.2	74.2	44.2
Natural Gas (\$US/MMBtu)	2.91	2.97	7.13	2.52
Copper (\$US/met. tonne)	6344.0	6625.0	7330.5	5796.0
Gold (\$US/troy oz.)	1256.2	1253.2	1358.5	1213.2

*as of 10:44 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 - 2.00%
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 7/6/18	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	2.50	2.75	3.00	3.25	3.25
2-yr Govt. Bond Yield (%)	2.54	1.27	1.38	1.47	1.89	2.27	2.55	2.75	2.90	3.00	3.10	3.15	3.15
10-yr Govt. Bond Yield (%)	2.82	2.40	2.31	2.33	2.40	2.74	3.00	3.10	3.20	3.25	3.30	3.35	3.35
30-yr Govt. Bond Yield (%)	2.93	3.02	2.84	2.86	2.74	2.97	3.20	3.30	3.40	3.45	3.50	3.55	3.55
Real GDP (Q/Q % Chg)*	2.0 (Q1-18)	1.2	3.1	3.2	2.9	2.0	4.3	2.7	3.0	2.8	2.5	2.4	2.1
CPI (Y/Y % Chg.)	2.8 (May-18)	2.5	1.9	2.0	2.1	2.2	2.7	2.7	2.4	2.0	2.1	2.1	2.2
Unemployment Rate (%)	4.0 (June-18)	4.7	4.3	4.3	4.1	4.1	3.9	3.8	3.7	3.6	3.6	3.5	3.5

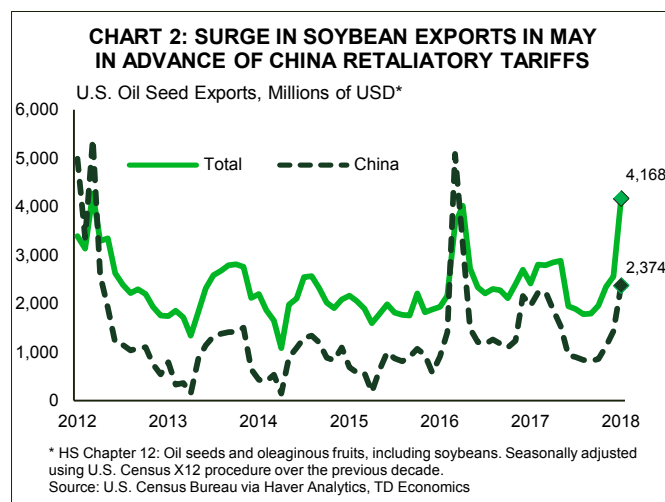
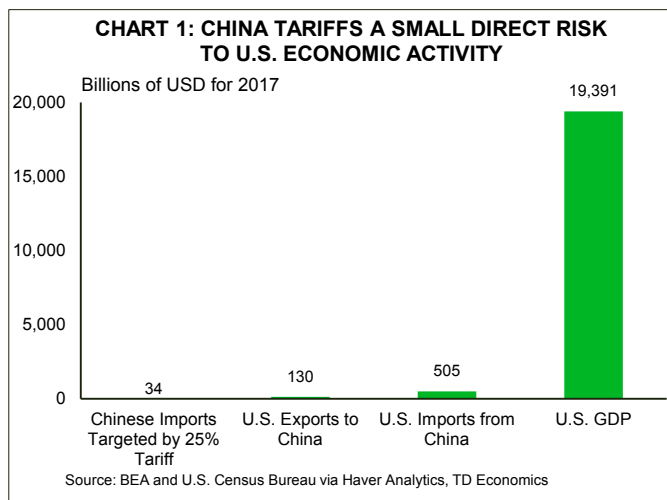
Forecast by TD Economics as of June 2018. Source: Bloomberg, TD Economics. *Annualized

China Tariffs Likely to Impede Economic Momentum

Although a holiday shortened week, it was nevertheless chock-full of data releases. Once again, this week's data flow confirms that the U.S. economy is continuing to experience a strong, above-trend expansion. That said, tariffs against China imports that take effect today, and reciprocal retaliatory tariffs by China on U.S. goods, could act to impede economic momentum.

Kicking off the week was a surprisingly strong headline print in the Institute of Supply Management (ISM) manufacturing survey for June. However, the details of the report revealed that not all is well in the manufacturing sector. The positive surprise was due to a surge in supplier deliveries, as trade-related uncertainty resulted in lead-time extensions for production materials, transportation delays, and component shortages. The ISM services survey also surprised to the upside on the back of a rebound in business activity and new orders. However, respondents expressed a fair degree of anxiety about trade-related uncertainty that is creating price volatility. Still, both surveys overwhelmingly relayed the theme of a strong U.S. economy heading into the second half of the year, but one in which unresolved challenges – namely labor shortages and new tariffs – could act to impede further improvement.

June new car sales continued the theme of strong U.S. demand. At 17.4 million units, car sales were above expectations of 17 million units, but still well below the 18 million unit pace from last June. The current pace of sales is largely in line with fundamentals, and tightening credit standards should continue to contain any further upside.



Lastly, this morning's payrolls data rounded out the positive data for the week. Non-farm payrolls rose by 213k in June, above market expectations for 195k. A strong increase in the labor force and an uptick in job seekers combined to push up the unemployment rate to 4.0%. Although usually associated with a weak economy, in this case a rising unemployment rate is a sign that strong job growth and rising wages is encouraging more people to enter the labor market, acting to further absorb what little labor market slack remains.

With the U.S. economy on such a solid economic footing it should be able to withstand some drag from escalating protectionist trade actions. Effective today, the U.S. has imposed a 25% tariff on \$34 billion of annual Chinese imports of industrial machinery, aerospace, and transportation goods. China has retaliated in kind, largely against U.S. agricultural products, vehicles, and aquatic products. Another \$16 billion in goods are expected to be targeted by tariffs by both sides in the coming weeks.

All told, the tariffs and counter-tariffs imposed by the U.S. and their trading partners, respectively, remain a downside risk to our U.S. and global economic growth outlook (Chart 1). Trade data are already showing signs that tariffs are affecting activity (Chart 2). An escalation in tensions, such as a 25% tariff on automotive imports, could ultimately cost the U.S. economy more than \$100 billion in lost output, stoke inflation, and put about 250k jobs at risk. We remain hopeful that such a scenario never materializes, and that ongoing discussions between the U.S. and its major trading partners prove fruitful.

Fotios Raptis, Senior Economist

Upcoming Key Economic Releases

U.S. Consumer Price Index - June*

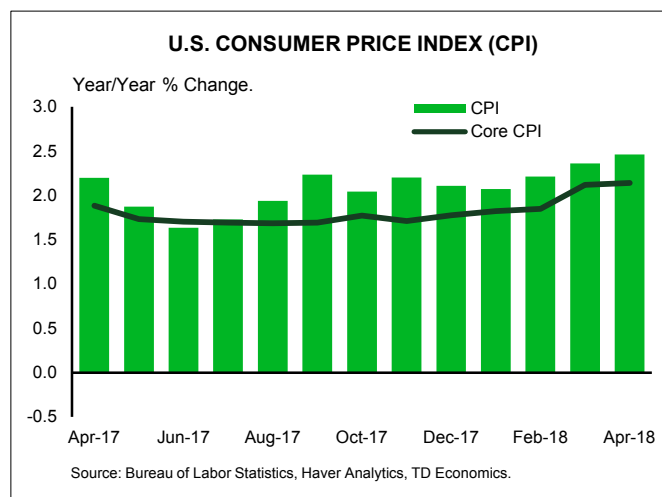
Release Date: July 12, 2018

Previous: 0.2% m/m; core 0.2% m/m

TD Forecast: 0.3% m/m; core 0.2% m/m

Consensus: 0.2% m/m; core 0.2% m/m

We expect CPI to hit 2.9% y/y in June, with prices up 0.3% m/m, while core inflation should rise to 2.3% on a 0.2% m/m increase. Steel and aluminum tariffs are unlikely to create a meaningful lift to goods categories but risks are generally tilted to the upside on the back of firmer imported consumer goods prices. Meanwhile, a rebound in shelter costs should underpin core services.



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

RECENT KEY ECONOMIC INDICATORS: JULY 2-6, 2018

Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Jul 02	Markit US Manufacturing PMI	Jun	Index	55.4	54.6
Jul 02	ISM Employment	Jun	Index	56.0	56.3
Jul 02	ISM Manufacturing	Jun	Index	60.2	58.7
Jul 03	Durable Goods Orders	May	M/M % Chg.	-0.4	-0.6
Jul 03	Durables Ex Transportation	May	M/M % Chg.	0.0	-0.3
Jul 03	Factory Orders	May	M/M % Chg.	0.4	-0.4
Jul 03	Cap Goods Orders Nondef Ex Air	May	M/M % Chg.	0.3	-0.2
Jul 03	Factory Orders Ex Trans	May	M/M % Chg.	0.7	0.9
Jul 03	Wards Total Vehicle Sales	Jun	Mlns	17.4	16.8
Jul 05	ADP Employment Change	Jun	Thsd	177.0	189.0
Jul 05	Initial Jobless Claims	Jun 30	Thsd	231.0	228.0
Jul 05	Markit US Services PMI	Jun	Index	56.5	56.5
Jul 05	ISM Non-Manf. Composite	Jun	Index	59.1	58.6
Jul 06	Trade Balance	May	Blns	-43.1	-46.1
Jul 06	Change in Nonfarm Payrolls	Jun	Thsd	213.0	244.0
Jul 06	Unemployment Rate	Jun	%	4.0	3.8
Jul 06	Average Hourly Earnings	Jun	M/M % Chg.	0.2	0.3
Canada					
Jul 03	MLI Leading Indicator	May	M/M % Chg.	0.2	0.1
Jul 03	Markit Canada Manufacturing PMI	Jun	Index	57.1	56.2
Jul 06	Hourly Earnings Permanent Empl	Jun	Y/Y % Chg.	3.5	3.9
Jul 06	Unemployment Rate	Jun	%	6.0	5.8
Jul 06	Net Change in Employment	Jun	Thsd	31.8	-7.5
Jul 06	Int'l Merchandise Trade	May	Blns	-2.8	-1.9
International					
Jul 02	UK Markit UK PMI Manufacturing SA	Jun	Index	54.4	54.3
Jul 02	EZ Unemployment Rate	May	%	8.4	8.4
Jul 03	EZ Retail Sales	May	Y/Y % Chg.	1.4	1.6
Jul 04	EZ Markit Eurozone Services PMI	Jun	Index	55.2	55.0
Jul 04	EZ Markit Eurozone Composite PMI	Jun	Index	54.9	54.8
Jul 05	EZ Markit Eurozone Retail PMI	Jun	Index	51.8	51.7

Source: Bloomberg, TD Economics.

UPCOMING ECONOMIC RELEASES AND EVENTS: JULY 9 - 13, 2018						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Jul 09	9:10	<i>Fed's Neel Kashkari Speaks in Prior Lake, Minnesota</i>				
Jul 10	6:00	NFIB Small Business Optimism	Jun	Index	-	107.8
Jul 11	8:30	Producer Price Index Final Demand	Jun	M/M % Chg.	0.1	0.5
Jul 11	8:30	Producer Price Index Ex Food and Energy	Jun	M/M % Chg.	0.2	0.3
Jul 11	10:00	Wholesale Trade Sales	May	M/M % Chg.	-	0.8
Jul 11	16:30	<i>Fed's John Williams Participates in a Discussion with Q&A in Brooklyn, NY</i>				
Jul 12	8:30	Initial Jobless Claims	Jul 07	Thsd	-	227.0
Jul 12	8:30	Consumer Price Index	Jun	M/M % Chg.	0.2	0.2
Jul 12	8:30	Consumer Price Index Ex Food and Energy	Jun	M/M % Chg.	0.2	0.2
Jul 12	8:30	Consumer Price Index	Jun	Y/Y % Chg.	2.9	2.8
Jul 12	8:30	Consumer Price Index Ex Food and Energy	Jun	Y/Y % Chg.	2.3	2.2
Jul 12	8:30	Real Avg Hourly Earning	Jun	Y/Y % Chg.	-	0.0
Jul 12	12:15	<i>Fed's Patrick Harker Participates in a Conversation with Q&A in Victor, Idaho</i>				
Jul 12	16:30	<i>Fed's Neel Kashkari Participates in a Discussion Panel in Worthington, Minnesota</i>				
Jul 13	8:30	Import Price Index ex Petroleum	Jun	M/M % Chg.	-	0.1
Jul 13	8:30	Export Price Index	Jun	M/M % Chg.	-	0.6
Jul 13	8:30	Export Price Index	Jun	Y/Y % Chg.	-	4.9
Jul 13	12:30	<i>Fed's Raphael Bostic Speaks in Falls Church, Virginia</i>				
Canada						
Jul 10	8:15	Housing Starts	Jun	Thsd	-	195.6
Jul 11	10:00	Bank of Canada Rate Decision	Jul 11	%	1.50	1.25
Jul 11	11:15	<i>BoC's Poloz Holds a Press Conference to Discuss Monetary Policy Report</i>				
Jul 12	8:30	Teranet/National Bank HPI	Jun	Y/Y % Chg.	-	4.5
Jul 13	9:00	Existing Home Sales	Jun	M/M % Chg.	-	-0.1
International						
Jul 09	21:30	CH Consumer Price Index	Jun	Y/Y % Chg.	2.0	1.8
Jul 10	4:30	UK Manufacturing Production	May	Y/Y % Chg.	-	1.4
Jul 10	4:30	UK Industrial Production	May	Y/Y % Chg.	-	1.8
Jul 13		CH Trade Balance	Jun	Blns	26.0	24.9
Jul 13	0:30	JN Industrial Production	May	Y/Y % Chg.	-	4.2

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

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