

## The Weekly Bottom Line

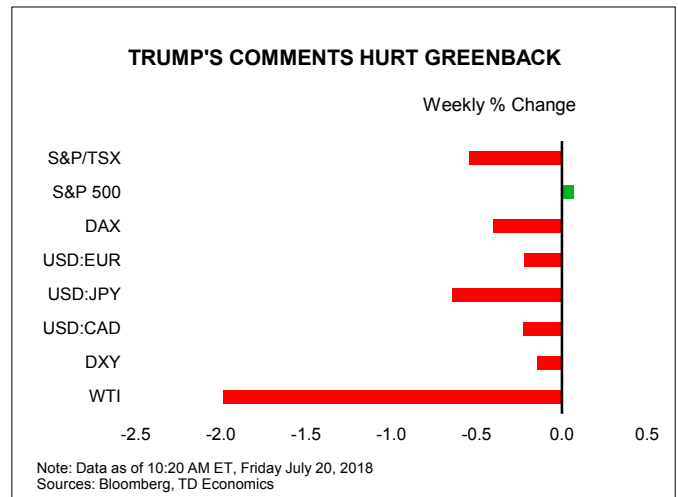
July 20, 2018

### Highlights of the Week

- Economic data was a mixed bag this week: retail sales were a bright spot, but housing starts unexpectedly plunged in June.
- Trade developments continued to make headlines, with Donald Trump announcing he was prepared to extend duties on \$500bn of imports from China – roughly the value of all China's imports into the U.S.
- In his testimony to Congress, Fed Chair Powell offered an upbeat view of the U.S. economy, and noted that the risks posed by trade protectionism would not push them off course on further rate hikes.

THIS WEEK IN THE MARKETS				
	Current*	Week Ago	52-Week High	52-Week Low
<b>Stock Market Indexes</b>				
S&P 500	2805	2801	2873	2426
S&P/TSX Comp.	16478	16561	16567	14952
DAX	12507	12541	13560	11787
FTSE 100	7664	7662	7877	6889
Nikkei	22698	22597	24124	19275
<b>Fixed Income Yields</b>				
U.S. 10-yr Treasury	2.87	2.83	3.11	2.04
Canada 10-yr Bond	2.17	2.13	2.52	1.84
Germany 10-yr Bund	0.36	0.34	0.77	0.26
UK 10-yr Gilt	1.23	1.27	1.65	0.97
Japan 10-yr Bond	0.04	0.04	0.10	-0.01
<b>Foreign Exchange Cross Rates</b>				
C\$ (USD per CAD)	0.76	0.76	0.83	0.75
Euro (USD per EUR)	1.17	1.17	1.25	1.15
Pound (USD per GBP)	1.31	1.32	1.43	1.28
Yen (JPY per USD)	111.7	112.4	114.2	104.7
<b>Commodity Spot Prices**</b>				
Crude Oil (\$US/bbl)	69.7	71.0	74.2	45.6
Natural Gas (\$US/MMBtu)	2.72	2.86	7.13	2.52
Copper (\$US/met. tonne)	6039.5	6216.8	7330.5	5925.3
Gold (\$US/troy oz.)	1229.7	1241.5	1358.5	1222.9

\*as of 10:15 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)	1.50%
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	2017				2018				2019			
	7/20/18	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 (%)	2.59	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 (%)	2.87	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 (%)	3.00	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.)	2.9 (Jun-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

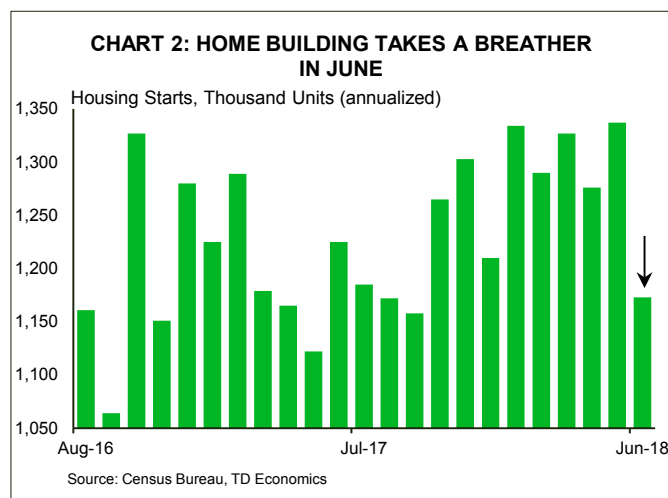
Forecast by TD Economics as of June 2018. Source: Bloomberg, TD Economics. \*Annualized

## Happy-Go-Lucky Fed Presses On With Rate Hikes

Economic data was a mixed bag this week. While May's retail sales were a bright spot, housing starts unexpectedly plunged in June. Trade policy developments also remained top of investors' minds: Angela Merkel spoke strongly against tariffs, while Donald Trump ramped up his protectionist rhetoric, saying he was prepared to extend duties on the full \$500bn of imports from China. He also criticized the Fed's interest rate hikes, and the strong U.S. dollar – leading to modest greenback selloff.

While the threat of further trade tariffs continues to pose a substantial downside risk to U.S. and global growth, for the time being the U.S. economy is moving full steam ahead. In June, retail spending rose by a robust 0.5%, on top of a substantial upgrade to May's data, as consumers continued to hit stores and restaurants in masses. One of the categories that saw strong growth was spending on restaurants and eating out (+1.5% m/m), accelerating to 8% y/y – the fastest pace since August 2015. The pickup in spending in this largely-discretionary category is a testament to strong momentum in consumer spending. Indeed, for the second quarter as a whole, nominal retail sales were up nearly 8% annualized (versus 1.8% in Q1) (Chart 1), suggesting that even adjusting for inflation, second quarter consumer spending is set to come in above 3% (annualized) in next week's GDP release.

The upbeat view of the domestic economy was further echoed by Fed Chair Powell this week. In his semi-annual testimony to Congress he noted the strong labor market, rising after-tax incomes, and healthy growth in busi-

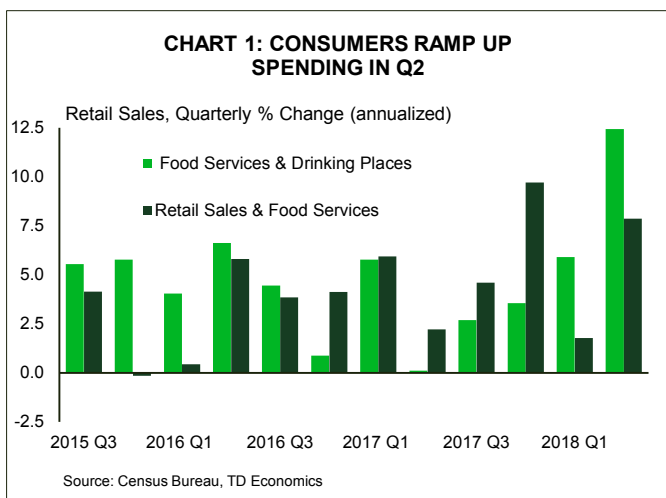


ness investment. He also praised progress on the inflation front, and somewhat downplayed the risk stemming from trade protectionism noting that “the risks to the outlook were roughly balanced”. He concluded, that “the FOMC believes that, for now, the best way forward is to keep gradually raising the federal funds rate.” In other words, current trade risks are not enough to derail the Fed from hiking rates on a quarterly basis.

The U.S. economy continues to be red-hot, but this pace of expansion will be hard to sustain going forward as it starts to bump against capacity constraints, particularly on the labor front. Higher material prices, wages and shortages of labor in some sectors featured prominently in the latest Beige Book.

The construction industry is one sector facing these headwinds, with prices of lumber and steel rising precipitously following the tariffs. While homebuilders' optimism remains quite high, housing starts fell by 12.3% m/m in June – the largest decline since November 2011. (Chart 2). The bulk of the pullback was seen on the multifamily side (-20% m/m), with more moderate decline in single-family starts (- 9.1%). The large decline on the multifamily side could be reflective of the changing housing market dynamics, with demand rotating away from rental units. Next week's release of both new and existing home sales should shed more light on the health of the housing market, particularly on the demand side.

Ksenia Bushmeneva, Economist



**RECENT KEY ECONOMIC INDICATORS: JULY 16-20, 2018**

Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
<b>United States</b>					
Jul 16	Empire Manufacturing	Jul	Index	22.6	25.0
Jul 16	Retail Sales Advance	Jun	M/M % Chg.	0.5	1.3
Jul 16	Retail Sales Ex Auto and Gas	Jun	M/M % Chg.	0.3	1.3
Jul 16	Business Inventories	May	Thsd	0.4	0.3
Jul 17	Capacity Utilization	Jun	%	78.0	77.7
Jul 17	Manufacturing (SIC) Production	Jun	M/M % Chg.	0.8	-1.0
Jul 17	Industrial Production	Jun	M/M % Chg.	0.6	-0.5
Jul 17	NAHB Housing Market Index	Jul	Index	68.0	68.0
Jul 18	Housing Starts	Jun	Thsd	1173.0	1337.0
Jul 18	Building Permits	Jun	Thsd	1273.0	1301.0
Jul 19	Initial Jobless Claims	Jul	Thsd	207.0	215.0
<b>Canada</b>					
Jul 17	Manufacturing Sales	May	M/M % Chg.	1.4	-1.1
Jul 20	Consumer Price Index Core- Trim	Jun	Y/Y % Chg.	2.0	1.9
Jul 20	Consumer Price Index Core- Median	Jun	Y/Y % Chg.	2.0	2.0
Jul 20	Consumer Price Index Core- Common	Jun	Y/Y % Chg.	1.9	1.9
Jul 20	Consumer Price Index	Jun	Y/Y % Chg.	2.5	2.2
Jul 20	Consumer Price Index NSA	Jun	M/M % Chg.	0.1	0.1
Jul 20	Retail Sales Ex Auto	May	M/M % Chg.	1.4	0.2
Jul 20	Retail Sales	May	M/M % Chg.	2.0	-0.9
<b>International</b>					
Jul 15	CH Gross Domestic Product	2Q	Y/Y % Chg.	6.7	6.8
Jul 17	UK ILO Unemployment Rate 3Mths	May	%	4.2	4.2
Jul 18	UK Consumer Price Index	Jun	Y/Y % Chg.	2.4	2.4
Jul 18	EZ Consumer Price Index	Jun	Y/Y % Chg.	2.0	2.0
Jul 19	JN Natl Consumer Price Index	Jun	Y/Y % Chg.	0.7	0.7

Source: Bloomberg, TD Economics.

UPCOMING ECONOMIC RELEASES AND EVENTS: JULY 23-27, 2018						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
<b>United States</b>						
Jul 23	10:00	Existing Home Sales	Jun	Mlns	5.4	5.4
Jul 24	9:45	Markit US Services PMI	Jul	Index	-	56.5
Jul 24	9:45	Markit US Manufacturing PMI	Jul	Index	-	55.4
Jul 25	10:00	New Home Sales	Jun	Thsd	670.0	689.0
Jul 26	8:30	Advance Goods Trade Balance	Jun	Blns	-	-64.8
Jul 26	8:30	Initial Jobless Claims	Jul 21	Thsd	-	207.0
Jul 26	8:30	Retail Inventories	Jun	M/M % Chg.	-	0.4
Jul 26	8:30	Durable Goods Orders	Jun	M/M % Chg.	2.7	-0.4
Jul 26	8:30	Durables Ex Transportation	Jun	M/M % Chg.	0.3	0.0
Jul 26	8:30	Cap Goods Orders Nondef Ex Air	Jun	M/M % Chg.	-	0.3
Jul 27	8:30	Gross Domestic Product Annualized	2Q	Q/Q % Chg.	4.0	2.0
Jul 27	8:30	Personal Consumption	2Q	Q/Q % Chg.	-	0.9
Jul 27	8:30	Core Personal Consumption Expenditure	2Q	Q/Q % Chg.	-	2.3
<b>Canada</b>						
Jul 23	8:30	Wholesale Trade Sales	May	M/M % Chg.	-	0.1
Jul 26	8:30	CFIB Business Barometer	Jul	Index	-	62.2
<b>International</b>						
Jul 23	20:30 JN	Nikkei Japan PMI Mfg	Jul	Index	-	53.0
Jul 24	4:00 EZ	Markit Eurozone Manufacturing PMI	Jul	Index	-	54.9
Jul 24	4:00 EZ	Markit Eurozone Services PMI	Jul	Index	-	55.2
Jul 24	4:00 EZ	Markit Eurozone Composite PMI	Jul	Index	-	54.9

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

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