

The Weekly Bottom Line

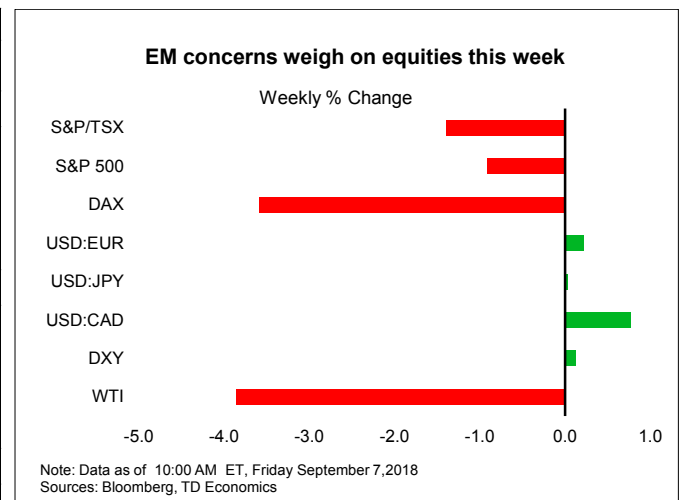
September 7, 2018

Highlights of the Week

- Concerns about emerging markets continued to weigh on investor sentiment this week, with the selloff in EM assets and currencies spreading beyond Turkey and Argentina.
- Meanwhile, domestic data remained positive. ISM indices for both manufacturing and services sectors rose hand-somely in August. The payroll report delivered another batch of good news with 201k new jobs created on the month and wage growth accelerating.
- All told, the U.S. economy continues to boom, giving the Fed little reason to alter its interest rate normalization plans that include another increase on September 26th.

THIS WEEK IN THE MARKETS				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	2876	2902	2914	2461
S&P/TSX Comp.	16044	16263	16567	14985
DAX	11926	12364	13560	11787
FTSE 100	7251	7432	7877	6889
Nikkei	22307	22865	24124	19275
Fixed Income Yields				
U.S. 10-yr Treasury	2.94	2.86	3.11	2.04
Canada 10-yr Bond	2.28	2.23	2.52	1.84
Germany 10-yr Bund	0.39	0.33	0.77	0.26
UK 10-yr Gilt	1.46	1.43	1.65	0.97
Japan 10-yr Bond	0.11	0.11	0.13	0.00
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.76	0.77	0.83	0.75
Euro (USD per EUR)	1.16	1.16	1.25	1.13
Pound (USD per GBP)	1.30	1.30	1.43	1.27
Yen (JPY per USD)	111.1	111.0	114.2	104.7
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	67.5	69.8	74.2	47.5
Natural Gas (\$US/MMBtu)	2.93	2.96	7.13	2.52
Copper (\$US/met. tonne)	5904.0	5968.0	7330.5	5759.0
Gold (\$US/troy oz.)	1197.6	1201.4	1358.5	1174.2

*as of 10:01 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)	0.75%
Bank of Japan (Overnight Rate)	-0.10%

Source: Central Banks.

TD ECONOMICS KEY FORECASTS													
	Current Rate 9/7/18	2017				2018				2019			
		Q1	Q2	Q3	Q4	Q1	Q2	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 (%)	2.70	1.27	1.38	1.47	1.89	2.27	2.42	2.75	2.90	3.00	3.10	3.15	3.15
10-yr Govt. Bond Yield (%)	2.94	2.40	2.31	2.33	2.40	2.74	2.84	3.10	3.20	3.25	3.30	3.35	3.35
30-yr Govt. Bond Yield (%)	3.10	3.02	2.84	2.86	2.74	2.97	3.07	3.30	3.40	3.45	3.50	3.55	3.55
Real GDP (Q/Q % Chg)*	4.2 (Q2-18)	1.8	3.0	2.8	2.3	2.2	4.2	2.7	3.0	2.8	2.5	2.4	2.1
CPI (Y/Y % Chg.)	2.9 (Jul-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 (%)	3.9 (Aug-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

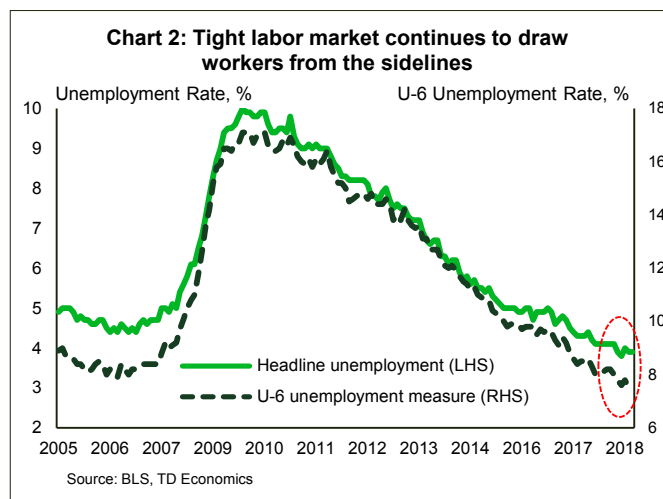
Summer's Ending, But the U.S. Economy Still Shines

Trade developments and payrolls stole the limelight in this busy, holiday-shortened week. Concerns about emerging markets continued to weigh on investor sentiment with the selloff in EM assets and currencies spreading further beyond Turkey and Argentina. Meanwhile, the increased risk of another round of economic sanctions has sent the Russian ruble lower.

While selling pressure eased somewhat by the week's end, headwinds battering emerging markets are unlikely to dissipate soon. U.S. expansionary fiscal policy is buoying domestic growth, putting upward pressure on the dollar, inflation, and interest rates. At the same time, trade spats with China and other U.S. trade partners are weighing on overseas currencies and global growth. As a result, dollar strength coupled with worries about trade should continue to fuel investor flight from emerging markets.

Meanwhile, if cracks are appearing in U.S. business confidence, they were nowhere to be found in the August data. ISM indices for both manufacturing and services sectors rose handsomely (Chart 1), suggesting that U.S. industries remain at the top of their game. Even as tariffs continue to raise costs and play havoc with supply chains, companies report rising new orders and expanded production on the back of solid domestic demand that offers a deep cushion against potential tariff impacts.

Strong sentiment and economic momentum is boosting hiring, as evidenced by today's payroll report, which

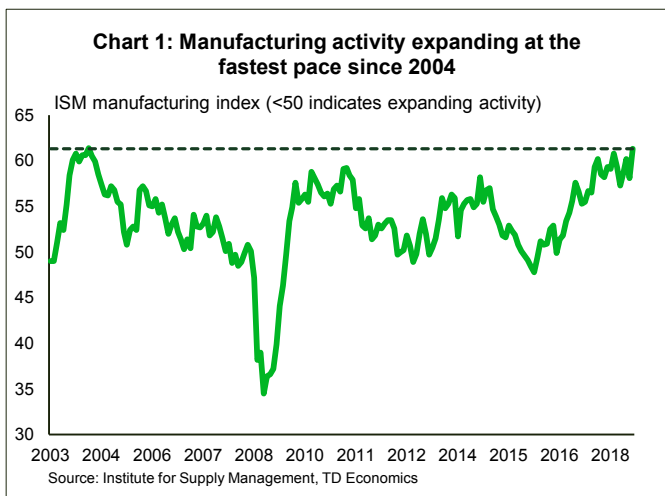


showed that 201k new jobs were created in August. With the jobless rate hovering at historic lows, it is becoming increasingly difficult to find workers to fill positions. This continues to draw in workers from the sidelines (Chart 2) and also motivating firms to raise wages. As a result, the closely watched average hourly earnings measure rose 0.4% in August, accelerating to 2.9% on a year-over-year basis. This is the fastest pace of wage growth of the recovery, and may prove to be the start of the long-awaited sustained pickup in wage growth.

Clearly the U.S. economy is barreling full steam ahead, and the estimated impact of tariffs has so far been quite small. The \$50 bn in import tariffs on China and the steel and aluminum tariffs may shave roughly 0.2 ppts off U.S. real GDP growth in about years' time, and add two tenths of a point to inflation. However, as we note in our [report](#), the tariffs in place are only the tip of the iceberg relative to those under review or threatened. So far the U.S. has levied tariffs on \$107 bn of imports into the U.S., but the total tariff action under consideration amounts to \$715 bn. If implemented, they could place about 1.2 ppts of U.S. and 0.4 ppts of global growth at risk.

All told, an escalation in the trade spat with China and waning global demand may yet test the durability of the current expansion. However, for now the U.S. economy continues to boom with little reason for the Fed to alter its interest rate normalization plans that include another quarter point increase on September 26th.

Ksenia Bushemenva, Economist



Upcoming Key Economic Releases

U.S. Consumer Price Index - August*

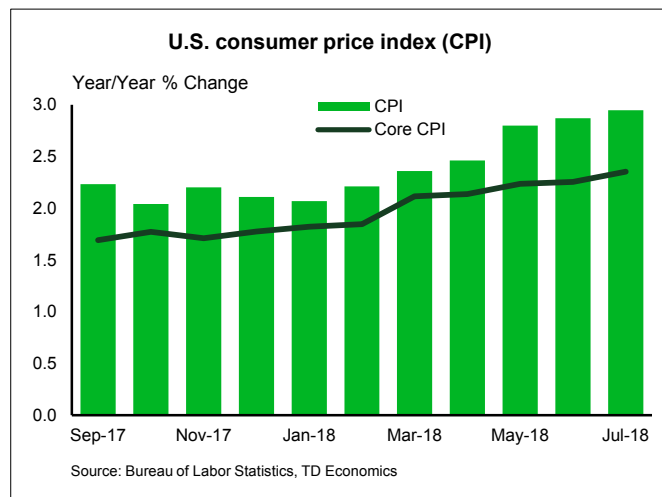
Release Date: September 13, 2018

Previous: 0.2% m/m, 2.9% y/y; core 0.2% m/m

TD Forecast: 0.3% m/m, 2.8% y/y; core 0.2% m/m

Consensus: 0.3% m/m, 2.8% y/y; core 0.2% m/m

We expect CPI to moderate to 2.8% from this July peak, reflecting a 0.3% m/m gain boosted by gasoline prices and a solid core. We eye weakness in food prices on the back of the tariff-induced slowdown in agricultural prices which have depressed producer-level prices. Outside of food and energy, we look for core CPI to print a strong 0.2% m/m, keeping core inflation at 2.4%. Underpinning another strong read are goods prices, held higher in particular by a rebound in apparel and further gains in auto prices. Recent industry analyst reports continue to emphasize record higher vehicle prices while building momentum in import prices suggests scope for high import content products like apparel to post gains. As in



July we will continue to watch for ongoing tariff impacts from steel/aluminium and those imposed on China, which have not yet been noticeable. Looking ahead we continue to expect headline inflation to slide further into yearend as base effects from gasoline prices dissipate.

U.S. Retail Sales - August*

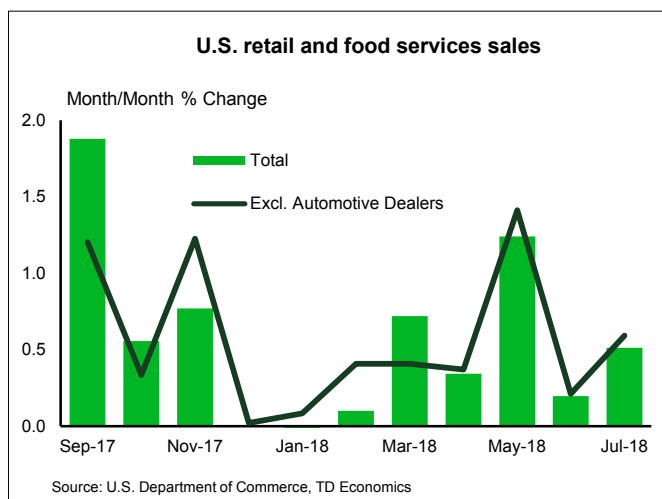
Release Date: September 11, 2018

Previous: 0.5%, 0.6% ex-auto, 0.5% control

TD Forecast: 0.5%, 0.8% ex-auto, 0.5% control

Consensus: 0.6%, 0.6% ex-auto, 0.5% control

We expect a strong retail sales report with headline sales rising 0.5% in August. Auto sales are a drag this month but elsewhere we eye gains across gasoline stations (helped by higher gasoline prices), restaurants (warm weather) and the broader control group. The latter is expected to post a 0.5% increase. The August read would be consistent with Q3 real PCE at a solid rate near 2.5-3%, underpinning Q3 GDP tracking north of 3%.



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

RECENT KEY ECONOMIC INDICATORS: SEP 3 - 7, 2018

Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Sep 04	Markit US Manufacturing PMI	Aug	Index	54.7	54.5
Sep 04	ISM Employment	Aug	Index	58.5	56.5
Sep 04	ISM Manufacturing	Aug	Index	61.3	58.1
Sep 04	Wards Total Vehicle Sales	Aug	Mlns	16.6	16.7
Sep 05	Trade Balance	Jul	Blns	50.1	-45.7
Sep 06	ADP Employment Change	Aug	Thsd	163.0	217.0
Sep 06	Unit Labor Costs	2Q	Q/Q % Chg.	-1.0	-0.9
Sep 06	Initial Jobless Claims	Sep 01	Thsd	203.0	213.0
Sep 06	Markit US Services PMI	Aug	Index	54.8	55.2
Sep 06	Durables Ex Transportation	Jul	M/M % Chg.	0.1	0.2
Sep 06	Cap Goods Orders Nondef Ex Air	Jul	M/M % Chg.	1.6	1.4
Sep 06	ISM Non-Manufacturing Index	Aug	Index	58.5	55.7
Sep 06	Factory Orders Ex Trans	Jul	M/M % Chg.	0.2	0.4
Sep 06	Durable Goods Orders	Jul	M/M % Chg.	1.7	-1.7
Sep 06	Factory Orders	Jul	M/M % Chg.	-0.8	0.6
Sep 07	Change in Nonfarm Payrolls	Aug	Thsd	201.0	147.0
Sep 07	Unemployment Rate	Aug	%	3.9	3.9
Sep 07	Average Hourly Earnings	Aug	M/M % Chg.	0.4	0.3
Canada					
Sep 04	MLI Leading Indicator	Jul	M/M % Chg.	0.1	0.2
Sep 04	Markit Canada Manufacturing PMI	Aug	Index	56.8	56.9
Sep 05	Labor Productivity	2Q	Q/Q % Chg.	0.7	-0.3
Sep 05	Int'l Merchandise Trade	Jul	Blns	-0.1	-0.7
Sep 05	Bank of Canada Rate Decision	Sep 05	%	1.5	1.5
Sep 07	Hourly Earnings Permanent Employment	Aug	Y/Y % Chg.	2.6	3.0
Sep 07	Unemployment Rate	Aug	%	6.0	5.8
Sep 07	Net Change in Employment	Aug	Thsd	51.6	54.1
International					
Sep 03	EZ Markit Eurozone Manufacturing PMI	Aug	Index	54.6	54.6
Sep 03	UK Markit UK PMI Manufacturing SA	Aug	Index	52.8	53.8
Sep 04	EZ Producer Price Index	Jul	Y/Y % Chg.	4.0	3.6
Sep 04	JN Nikkei Japan PMI Composite	Aug	Index	52.0	51.8
Sep 04	CH Caixin China PMI Composite	Aug	Index	52.0	52.3
Sep 05	EZ Markit Eurozone Composite PMI	Aug	Index	54.5	54.4
Sep 05	UK Markit/CIPS UK Composite PMI	Aug	Index	54.2	53.5
Sep 05	EZ Retail Sales	Jul	Y/Y % Chg.	1.1	1.5
Sep 07	EZ Gross Domestic Product	2Q	Y/Y % Chg.	2.1	2.2

Source: Bloomberg, TD Economics.

UPCOMING ECONOMIC RELEASES AND EVENTS: SEP 3 - 7, 2018						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Sep 10	11:30	<i>Fed's Raphael Bostic Speaks at the Albany Chamber of Commerce in Albany, Georgia</i>				
Sep 11	6:00	NFIB Small Business Optimism	Aug	Index	108.2	107.9
Sep 11	10:00	Wholesale Trade Sales	Jul	M/M % Chg.	-	-0.1
Sep 12	8:30	Producer Price Index Ex Food and Energy	Aug	M/M % Chg.	0.2	0.1
Sep 12	8:30	Producer Price Index Final Demand	Aug	M/M % Chg.	0.2	0.0
Sep 12	14:00	<i>U.S. Federal Reserve Releases Beige Book</i>				
Sep 13	8:30	Initial Jobless Claims	Sep 08	Thsd	-	203.0
Sep 13	8:30	Real Avg Hourly Earning	Aug	Y/Y % Chg.	-	-0.2
Sep 13	8:30	Consumer Price Index	Aug	M/M % Chg.	0.3	0.2
Sep 13	8:30	Consumer Price Index Ex Food and Energy	Aug	M/M % Chg.	0.3	0.2
Sep 13	8:30	Consumer Price Index	Aug	Y/Y % Chg.	2.8	2.9
Sep 13	8:30	Consumer Price Index Ex Food and Energy	Aug	Y/Y % Chg.	2.4	2.4
Sep 13	12:30	<i>Fed's Raphael Bostic Gives a Speech on Economic Outlook in Jackson, Mississippi</i>				
Sep 14	8:30	Retail Sales Advance	Aug	M/M % Chg.	0.6	0.5
Sep 14	8:30	Retail Sales Ex Auto and Gas	Aug	M/M % Chg.	0.5	0.6
Sep 14	8:30	Import Price Index ex Petroleum	Aug	M/M % Chg.	-	-0.1
Sep 14	8:30	Export Price Index	Aug	M/M % Chg.	-	-0.5
Sep 14	8:30	Export Price Index	Aug	Y/Y % Chg.	-	4.3
Sep 14	9:00	<i>Fed's Charles Evans Speaks in Fort Wayne, Indiana</i>				
Sep 14	9:15	Industrial Production	Aug	M/M % Chg.	0.3	0.1
Sep 14	9:15	Capacity Utilization	Aug	%	78.2	78.1
Sep 14	9:15	Manufacturing (SIC) Production	Aug	M/M % Chg.	0.4	0.3
Sep 14	10:00	Business Inventories	Jul	Thsd	0.4	0.1
Canada						
Sep 11	8:15	Housing Starts	Aug	Thsd	-	206.3
Sep 12	8:30	Capacity Utilization Rate	2Q	%	-	86.1
Sep 12	8:30	Teranet/National Bank HPI	Aug	Y/Y % Chg.	-	1.8
International						
Sep 10	4:30	UK Manufacturing Production	Jul	Y/Y % Chg.	-	1.5
Sep 11	4:30	UK ILO Unemployment Rate 3Mths	Jul	%	-	4.0
Sep 12	5:00	EZ Employment	2Q	Y/Y % Chg.	-	1.4
Sep 13	7:00	UK Bank of England Bank Rate	Sep 13	%	-	0.75
Sep 13	22:00	CH Retail Sales	Aug	Y/Y % Chg.	8.9	8.8

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

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