

The Weekly Bottom Line

January 17th, 2020

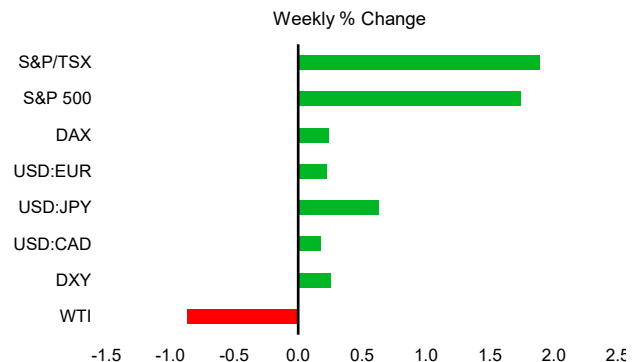
Highlights of the Week

- Data releases over the week reinforce the main themes in the U.S. economy: solid consumption, housing market recovery, faltering business investment and soft inflation.
- The phase one trade deal was formally signed, committing China to increase its imports of U.S. goods and services to \$200 billion more than the 2017 level. Reaching this target will be a difficult task.
- While the agreement gives short-term relief, this is only the first phase. The likely difficulty in implementing the current accord combined with the more-difficult issues still to be discussed, mean that trade uncertainty is likely to continue to be a factor in the outlook.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	3322	3265	3322	2633
S&P/TSX Comp.	17559	17234	17559	15208
DAX	13511	13483	13511	10907
FTSE 100	7672	7588	7687	6747
Nikkei	24041	23851	24066	20261
Fixed Income Yields				
U.S. 10-yr Treasury	1.83	1.82	2.78	1.46
Canada 10-yr Bond	1.57	1.59	2.04	1.09
Germany 10-yr Bund	-0.22	-0.20	0.26	-0.71
UK 10-yr Gilt	0.63	0.77	1.35	0.41
Japan 10-yr Bond	0.00	0.00	0.02	-0.29
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.76	0.77	0.77	0.74
Euro (USD per EUR)	1.11	1.11	1.15	1.09
Pound (USD per GBP)	1.30	1.31	1.33	1.20
Yen (JPY per USD)	110.1	109.5	112.2	105.3
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	58.8	59.0	66.4	51.1
Natural Gas (\$US/MMBtu)	2.08	2.08	4.25	2.01
Copper (\$US/met. tonne)	6251.0	6172.3	6555.5	5584.5
Gold (\$US/troy oz.)	1558.4	1562.3	1574.4	1270.7

*As of 11:42 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

Trade Deal Supports Investor Sentiment



Note: Data as of 12:54 PM ET, Friday, January 17, 2020.
Source: Bloomberg, TD Economics

Global Official Policy Rate Targets

	Current Target
Federal Reserve (Fed Funds Rate)	1.50 - 1.75%
Bank of Canada (Overnight Rate)	1.75%
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 Financial Forecasts

	Current Rate 1/17/20	2019				2020				2021			
		Q1	Q2	Q3	Q4	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate	1.75	2.50	2.50	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75	2.00	2.25
2-yr Govt. Bond Yield	1.56	2.27	1.75	1.63	1.58	1.70	1.75	1.80	1.90	2.00	2.10	2.20	2.30
10-yr Govt. Bond Yield	1.83	2.41	2.00	1.68	1.92	1.95	2.00	2.10	2.20	2.30	2.40	2.50	2.60
30-yr Govt. Bond Yield	2.28	2.81	2.52	2.12	2.39	2.35	2.40	2.50	2.60	2.70	2.75	2.80	2.85

Forecast by TD Economics as of December 2019; all forecasts are end-of-period. Source: Bloomberg, Federal Reserve Board, TD Economics.

Phase One Complete, But Can It Hold?

It's only the third week of 2020, and it's already proving to be a busy year. This week was a whirlwind, with oodles of data releases and, of course, the signing of the long-awaited phase one trade deal.

From a data perspective, 2019 ended with more of the same for the U.S. economy. Consumption likely remained solid in the fourth quarter, as evidenced by the healthy rise in retail sales in December. Retail sales advanced by 0.3% month-on-month, and November's figure was also revised higher. There were gains in nearly every category, underlining the robust nature of the increase.

The housing market also continued its good run, with housing starts surging last month. Construction in both singles and multifamily units picked up in December, sending the overall level to its highest point in 13 years (Chart 1). Taking together, housing data for the fourth quarter implies that residential investment is on track to continue its upward climb heading into 2020.

On the flipside, we saw the NFIB's small business optimism index move in the other direction in December. The decline is likely attributable to heightened policy uncertainty, a theme that has plagued businesses, big and small, throughout 2019 (see [report](#)).

On the whole, we expect the U.S. economy to have ended 2019 on solid footing. The final Beige Book of the year supported this narrative, showing a decent rise in economic activity and tight labor markets across Federal Reserve districts.

Chart 1: Housing Starts Reaches Its Highest Level in 13 Years

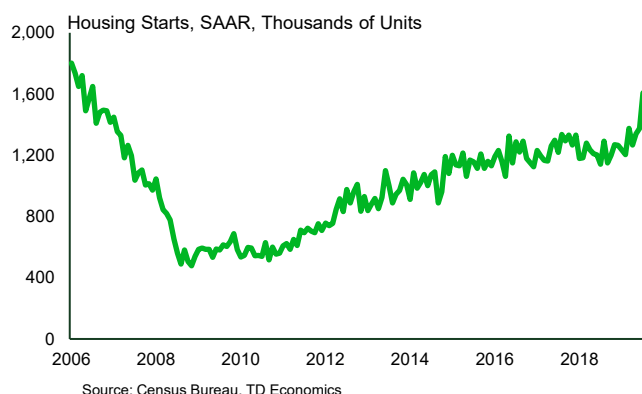
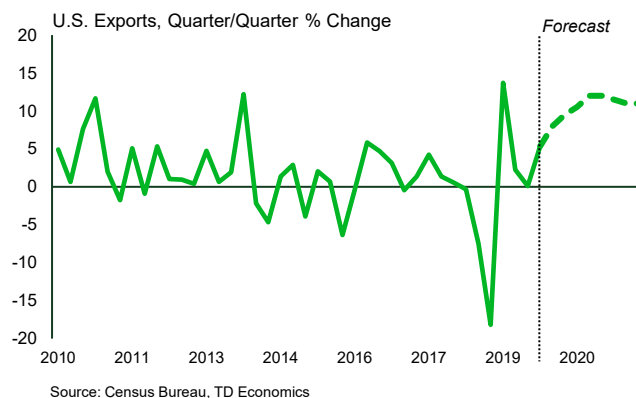


Chart 2: Exports to China Must Average 10% Growth Each Quarter to Hit Deal Target



Despite the increasing pressure on economic capacity, inflation remains stubbornly soft. December's core consumer price index, which strips out the impact of energy and food prices, remained at 2.3% year-over-year, unchanged since October. On an annual basis, core CPI inflation was only a tick higher in 2019 at 2.2%. Looking ahead, price pressures may continue to be subdued especially with the U.S.-China phase one trade deal effectively cutting the existing tariff rate, while also removing the threat of additional tariffs at least for the time being.

This takes us to the big headline for the week, the U.S.-China phase one trade deal. On the face of it, the agreement could be a positive for U.S. growth as it commits China to purchasing an additional \$200 billion worth of U.S. goods and services over the next two years (see [commentary](#)). But the big question is: can China adequately ramp up its imports to reach this target? The answer is probably not. Quarterly import growth would have to average above 10% for every quarter from now until the fourth quarter of 2021 to reach this goal (Chart 2).

The agreement also included a dispute mechanism. In the event China doesn't meet its import commitments, the U.S. can resort back to imposing tariffs and if China responds, the deal would be nullified. Indeed, the agreement gives short-term relief, but its sustainability is still an open question.

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Recent Key Economic Indicators: Jan 13 - 17, 2020					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Jan 14	Consumer Price Index	Dec	M/M % Chg.	0.2	0.3
Jan 14	Consumer Price Index	Dec	Y/Y % Chg.	2.3	2.1
Jan 14	Consumer Price Index Ex Food and Energy	Dec	M/M % Chg.	0.1	0.2
Jan 14	Consumer Price Index Ex Food and Energy	Dec	Y/Y % Chg.	2.3	2.3
Jan 14	NFIB Small Business Optimism	Dec	Index	102.7	104.7
Jan 15	Empire Manufacturing	Jan	Index	4.8	3.3
Jan 15	Producer Price Index Ex Food and Energy	Dec	M/M % Chg.	0.1	-0.2
Jan 15	Producer Price Index Final Demand	Dec	M/M % Chg.	0.1	0.0
Jan 15	U.S. Federal Reserve Releases Beige Book				
Jan 16	Business Inventories	Nov	M/M % Chg.	-0.2	0.1
Jan 16	Initial Jobless Claims	Jan 20	Thsd	204.0	214.0
Jan 16	NAHB Housing Market Index	Jan	Index	75.0	76.0
Jan 16	Retail Sales Advance	Dec	M/M % Chg.	0.3	0.3
Jan 16	Retail Sales Ex Auto and Gas	Dec	M/M % Chg.	0.5	-0.2
Jan 17	Building Permits	Dec	Thsd	1416.0	1474.0
Jan 17	Capacity Utilization	Dec	%	77.0	77.4
Jan 17	Housing Starts	Dec	Thsd	1608.0	1375.0
Jan 17	Industrial Production	Dec	M/M % Chg.	-0.3	0.8
Jan 17	Manufacturing (SIC) Production	Dec	Index	0.2	1.0
Canada					
Jan 13	BoC Business Outlook Future Sales	4Q	Q/Q % Chg.	11.0	23.0
Jan 13	BoC Overall Business Outlook Survey	4Q	Q/Q % Chg.	0.7	0.4
Jan 15	Existing Home Sales	Dec	M/M % Chg.	-0.9	0.6
International					
Jan 13	UK Industrial Production	Nov	Y/Y % Chg.	-1.6	-0.6
Jan 13	UK Monthly Gross Domestic Product (3M/3M)	Nov	M/M % Chg.	0.1	0.2
Jan 15	UK Consumer Price Index	Dec	Y/Y % Chg.	1.3	1.5
Jan 16	CH Gross Domestic Product	4Q	Y/Y % Chg.	6.0	6.0
Jan 16	CH Industrial Production	Dec	Y/Y % Chg.	6.9	6.2
Jan 16	CH Retail Sales	Dec	Y/Y % Chg.	8.0	8.0
Jan 16	CH Surveyed Jobless Rate	Dec	%	5.2	5.1
Jan 17	UK Retail Sales Ex Auto Fuel	Dec	Y/Y % Chg.	0.7	0.6

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Jan 20 - 24, 2020						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Jan 22	10:00	Existing Home Sales	Dec	Mlns	5.4	5.4
Jan 23	8:30	Initial Jobless Claims	Jan 20	Thsd	-	204.0
Jan 24	9:45	Markit US Manufacturing PMI	Jan	Index	-	52.4
Jan 24	9:45	Markit US Services PMI	Jan	Index	-	52.8
Canada						
Jan 20	8:30	Teranet/National Bank HPI	Dec	Y/Y % Chg.	-	1.4
Jan 21	8:30	Manufacturing Sales	Nov	M/M % Chg.	-	-0.7
Jan 22	8:30	Consumer Price Index	Dec	Y/Y % Chg.	-	2.2
Jan 22	8:30	Consumer Price Index Core- Common %	Dec	Y/Y % Chg.	-	1.9
Jan 22	8:30	Consumer Price Index Core- Median %	Dec	Y/Y % Chg.	-	2.4
Jan 22	8:30	Consumer Price Index Core- Trim %	Dec	Y/Y % Chg.	-	2.2
Jan 22	8:30	Consumer Price Index NSA	Dec	M/M % Chg.	-	-0.1
Jan 22	8:30	Wholesale Trade Sales	Nov	M/M % Chg.	-	-1.1
Jan 22	10:00	Bank of Canada Rate Decision	Jan 22	%	1.75	1.75
Jan 22	11:15	<i>BoC's Poloz Holds Press Conference after Rate Decision</i>			-	
Jan 24	8:30	Retail Sales	Nov	M/M % Chg.	-	-1.2
Jan 24	8:30	Retail Sales Ex Auto	Nov	M/M % Chg.	-	-0.5
International						
Jan 21	4:30	UK ILO Unemployment Rate 3Mths	Nov	%	-	3.8
Jan 23	18:30	JN Natl Consumer Price Index	Dec	Y/Y % Chg.	0.7	0.5
Jan 24	4:00	EZ Markit Eurozone Manufacturing PMI	Jan	Index	-	46.3
Jan 24	4:00	EZ Markit Eurozone Services PMI	Jan	Index	-	52.8
Jan 24	4:30	UK Markit UK PMI Manufacturing SA	Jan	Index	48.8	47.5
Jan 24	4:30	UK Markit/CIPS UK Services PMI	Jan	Index	51.0	50.0

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

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