

The Weekly Bottom Line

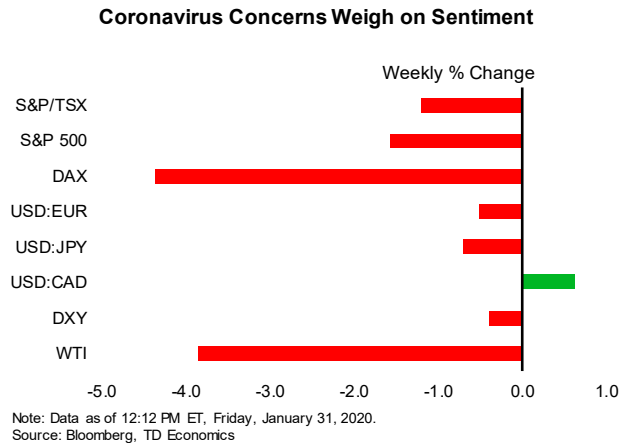
January 31st, 2020

Highlights of the Week

- The American economy grew by 2.1% in Q4 according to the advance estimate. While growth has been steady around 2% for the past three quarters, the headline masks a softening consumer spending trend, alongside declining investment.
- The recent U.S.-China trade deal should help reduce trade uncertainty and provide a modest boost to exports and business investment over the next year.
- Just as one source of uncertainty fades, another is intensifying. The new coronavirus is weighing on global growth expectations and investor sentiment. This week the World Health Organization declared the virus a global health emergency, triggering further risk-off moves in financial markets.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	3247	3295	3330	2704
S&P/TSX Comp.	17356	17565	17622	15506
DAX	12982	13577	13577	10907
FTSE 100	7286	7586	7687	6969
Nikkei	23205	23827	24084	20261
Fixed Income Yields				
U.S. 10-yr Treasury	1.54	1.68	2.75	1.46
Canada 10-yr Bond	1.28	1.36	1.96	1.09
Germany 10-yr Bund	-0.43	-0.34	0.18	-0.71
UK 10-yr Gilt	0.52	0.56	1.30	0.41
Japan 10-yr Bond	-0.07	-0.02	0.02	-0.29
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.76	0.76	0.77	0.74
Euro (USD per EUR)	1.11	1.10	1.15	1.09
Pound (USD per GBP)	1.32	1.31	1.33	1.20
Yen (JPY per USD)	108.5	109.3	112.2	105.3
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	52.1	54.1	66.4	51.1
Natural Gas (\$US/MMBtu)	1.94	1.92	4.25	1.90
Copper (\$US/met. tonne)	5568.3	5899.8	6555.5	5568.3
Gold (\$US/troy oz.)	1582.3	1571.5	1582.3	1270.7

*As of 12:04 PM 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)	1.50 - 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 1/31/20	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	1.36	2.27	1.75	1.63	1.58	1.55	1.65	1.80	1.90	2.00	2.10	2.20	2.30
10-yr Govt. Bond Yield	1.54	2.41	2.00	1.68	1.92	1.75	1.90	2.05	2.20	2.30	2.40	2.50	2.60
30-yr Govt. Bond Yield	2.02	2.81	2.52	2.12	2.39	2.20	2.35	2.50	2.60	2.70	2.75	2.80	2.85

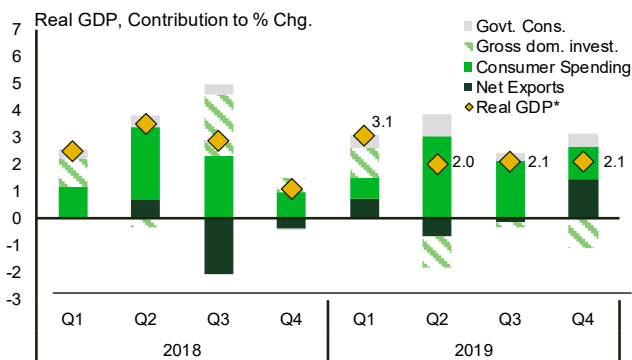
Forecast by TD Economics as of January 2020; all forecasts are end-of-period. Source: Bloomberg, Federal Reserve Board, TD Economics.

As One Source of Uncertainty Fades, Another Intensifies

The advance reading on fourth-quarter GDP showed that U.S. economic growth continued to hover around 2% for the third quarter in a row. This steady profile however, masks softening domestic demand growth. Support from consumer spending waned considerably at the end of the year (Chart 1). This morning's higher frequency 'personal income and outlays' report showed a rollercoaster ride within the quarter, with real spending up a soft 0.1% in December following a 0.3% rebound in the month prior. While government spending also contributed to the headline, private investment was, once again, a major drag. Putting the pieces together, domestic demand grew at only 0.6% (q/q annualized) – the weakest print since late 2015. Net trade was instrumental in lifting up growth, adding 1.5 percentage points to it. Still, instead of a major boost in exports (1.4%), this performance was largely the work of a sharp decline in imports (-8.7%).

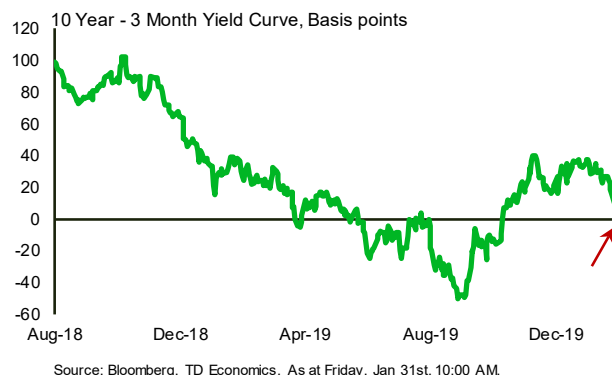
Two thousand nineteen is now history. Economic growth on an annual average basis decelerated to 2.3% from 2.9% in 2018. We expect the pace of expansion to slow a bit further this year, but to remain near the 2% mark. Consumer spending has lost momentum, but solid labor market fundamentals suggest that it will remain an integral part of the growth story. At the same time, business investment should not be the drag that it was in 2019. While the U.S.-China trade relationship could still prove a wildcard, the phase one trade deal reduces near-term trade uncertainty and should allow for at least a modest rise in business spending. Furthermore, while there is legitimate doubt about China's ability to hit the ambitious targets set out in the deal, its

Chart 1: GDP Growth Continued to Hover Around 2% in the Fourth Quarter



*Q/Q ann. growth rate. Source: BEA, TD Economics

Chart 2: Worries About Impact of New Coronavirus Weigh on Bond Yields; Yield Curve Inverts Again



Source: Bloomberg, TD Economics. As at Friday, Jan 31st, 10:00 AM

commitment to increase imports from the U.S. could also raise U.S. exports relative to the past year.

The aforementioned outlook however, will be increasingly tested. Just as one source of uncertainty is fading, another is intensifying. This week the World Health Organization labelled the coronavirus outbreak a global health emergency. From an economic perspective, measures to contain the virus will act as a drag on China's economy in the near-term. Some of this activity – namely spending on services that are heightened around the Chinese New Year – will not be made up in future quarters. Still, assuming containment measures are successful, past experience with SARS suggests that the economy will return to normal within two or three quarters.

Since China makes up close to a fifth of the global economy, the near-term slowdown will weigh on growth. Precisely how big that negative impact will be, will depend on the spread of the virus, the economic reach of impacted areas, as well as market sentiment and the evolution of financial conditions. The outbreak is currently weighing on investor sentiment, with a shift into safe assets (i.e. bonds) continuing this week. The resulting pressure on longer-term yields has caused the U.S. yield curve to invert again (Chart 2). While the lower interest rate environment may help stimulate some channels of the U.S. economy as the Fed assesses the situation (the Fed held rates steady this week), the anxiety illustrated in the inverted yield curve could accentuate the negative feedback loop.

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Upcoming Key Economic Releases

U.S. ISM Manufacturing - January*

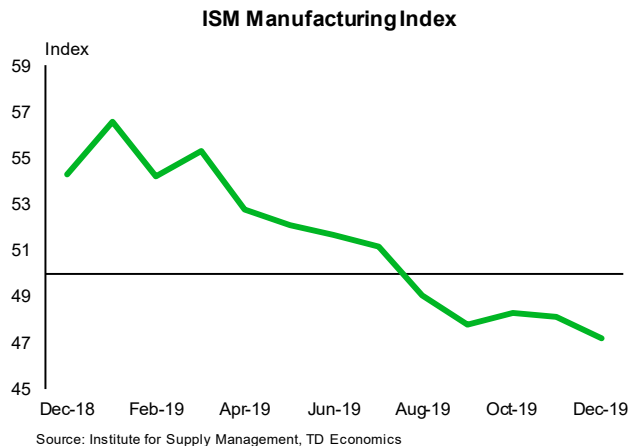
Release Date: February 3

Previous: 47.8

TD Forecast: 50.0

Consensus: 48.5

We expect the manufacturing ISM index to be lifted back toward 50 in January by more positive sentiment following the Phase One trade deal. We expect that lift to offset negative news on Boeing. Even 50, our forecast, is relatively weak in an absolute sense, but it would be up from 47.8 in December (and 47.2 in the original report). Most of the regional manufacturing surveys that have been reported for January have signaled improvement, with the Chicago survey the main exception. For comparison, the ISM index averaged 51.2 in all of 2019, down from 58.9 in 2018.



U.S. Employment - January*

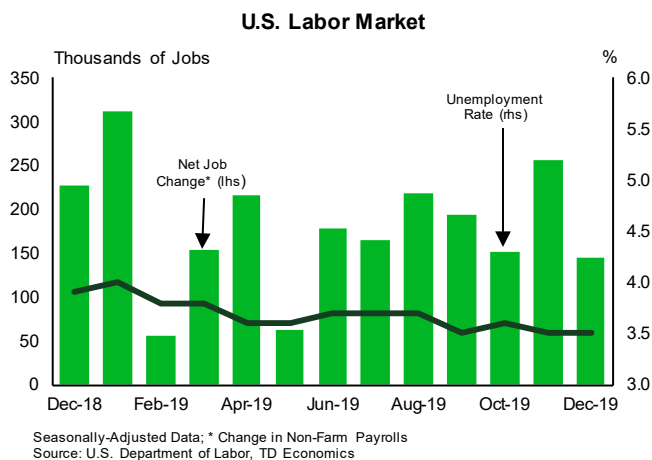
Release Date: February 7

Previous: 145k, unemployment rate 3.5%

TD Forecast: 150k, unemployment rate 3.5%

Consensus: 156k, unemployment rate 3.5%

We expect a mild-weather boost to payrolls to be offset by payback in retail hiring and a somewhat weaker trend after the annual revision, but the January data are especially subject to surprise due to huge seasonal swings. Before seasonal adjustment, payrolls typically drop by about 3 million in January. Regarding the annual revision, the BLS has already indicated that payrolls gains will be revised down by about 40K per month in the year through March 2019, but we expect some downward revisions to more recent data as well. As of now, the payrolls data show



a 176K average for gains in 2019, down from 223K in 2018. We expect the unemployment to hold at 3.5%. We forecast a 0.3% rise in average hourly earnings, with the 12-month change edging up to 3.0% from 2.9%.

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

Recent Key Economic Indicators: Jan 27 - 31, 2020					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Jan 27	New Home Sales	Dec	Thsd	694.0	697.0
Jan 28	Cap Goods Orders Nondef Ex Air	Dec	M/M % Chg.	-0.9	0.1
Jan 28	Conf. Board Consumer Confidence	Jan	Index	131.6	128.2
Jan 28	Durable Goods Orders	Dec	M/M % Chg.	2.4	-3.1
Jan 28	Durables Ex Transportation	Dec	M/M % Chg.	-0.1	-0.4
Jan 28	S&P CoreLogic CS US HPI NSA	Nov	Y/Y % Chg.	3.5	3.3
Jan 29	Advance Goods Trade Balance	Dec	Blns	-68.3	-63.0
Jan 29	FOMC Rate Decision (Upper Bound)	Jan 20	%	1.75	1.75
Jan 29	Interest Rate on Excess Reserves	Jan 20	M/M % Chg.	1.6	1.6
Jan 29	Pending Home Sales	Dec	M/M % Chg.	-4.9	1.2
Jan 29	Retail Inventories	Dec	M/M % Chg.	0.0	-0.8
Jan 30	Core Personal Consumption Expenditure	4Q	Q/Q % Chg.	1.3	2.1
Jan 30	Gross Domestic Product Annualized	4Q	Q/Q % Chg.	2.1	2.1
Jan 30	Initial Jobless Claims	Jan 20	Thsd	216.0	223.0
Jan 30	Personal Consumption	4Q	Q/Q % Chg.	1.8	3.2
Jan 31	Employment Cost Index	4Q	M/M % Chg.	0.7	0.7
Jan 31	Personal Consumption Expenditure Core Deflator	Dec	Y/Y % Chg.	1.6	1.5
Jan 31	Personal Consumption Expenditure Core Deflator	Dec	M/M % Chg.	0.2	0.1
Jan 31	Personal Consumption Expenditure Deflator	Dec	Y/Y % Chg.	1.6	1.4
Jan 31	Personal Income	Dec	M/M % Chg.	0.2	0.4
Jan 31	Real Personal Spending	Dec	M/M % Chg.	0.1	0.3
Canada					
Jan 30	CFIB Business Barometer	Jan	Index	55.3	55.5
Jan 31	Gross Domestic Product	Nov	M/M % Chg.	0.1	-0.1
Jan 31	Industrial Product Price	Dec	M/M % Chg.	0.1	-0.1
International					
Jan 30	UK Bank of England Bank Rate	Jan 20	%	0.75	0.75
Jan 30	MX Gross Domestic Product NSA	4Q	Y/Y % Chg.	-0.3	-0.3
Jan 30	CH Manufacturing PMI	Jan	Index	50.0	50.2
Jan 30	JN Retail Sales	Dec	Y/Y % Chg.	-2.6	-2.1
Jan 30	EZ Unemployment Rate	Dec	%	7.4	7.5
Jan 31	EZ Consumer Price Index Core	Jan	Y/Y % Chg.	1.1	1.3
Jan 31	IN Gross Domestic Product Annual Estimate	2019	Y/Y % Chg.	6.1	7.2
Jan 31	EZ Gross Domestic Product SA	4Q	Y/Y % Chg.	1.0	1.2

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Feb 3 - 7, 2020						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Feb 3	9:45	Markit US Manufacturing PMI	Jan	Index	-	51.7
Feb 3	10:00	ISM Manufacturing	Jan	Index	48.3	47.2
Feb 3		Wards Total Vehicle Sales	Jan	Mlns	16.9	16.7
Feb 3	16:00	<i>Fed's Bostic speaks on Big Data, AI, and Machine Learning</i>				
Feb 4	10:00	Cap Goods Orders Nondef Ex Air	Dec	M/M % Chg.	-	-0.9
Feb 4	10:00	Durable Goods Orders	Dec	M/M % Chg.	-	2.4
Feb 4	10:00	Durables Ex Transportation	Dec	M/M % Chg.	-	-0.1
Feb 4	10:00	Factory Orders	Dec	M/M % Chg.	0.6	-0.7
Feb 4	10:00	Factory Orders Ex Trans	Dec	M/M % Chg.	-	0.3
Feb 5	8:15	ADP Employment Change	Jan	Thsd	145.0	202.0
Feb 5	8:30	Trade Balance	Dec	Blns	-46.0	-43.1
Feb 5	9:45	Markit US Services PMI	Jan	Index	-	53.2
Feb 5	10:00	ISM Non-Manufacturing Index	Jan	Index	55.0	55.0
Feb 6	8:30	Initial Jobless Claims	Feb 1	Thsd	-	-
Feb 6	8:30	Unit Labor Costs	4Q	Q/Q % Chg.	0.9	2.5
Feb 6	9:15	<i>Fed's Kaplan speaks on the economic outlook in Dallas, TX</i>				
Feb 7	8:30	Average Hourly Earnings	Jan	M/M % Chg.	0.3	0.1
Feb 7	8:30	Change in Nonfarm Payrolls	Jan	Thsd	150.0	145.0
Feb 7	8:30	Unemployment Rate	Jan	%	3.5	3.5
Feb 7	10:00	Wholesale Trade Sales	Dec	M/M % Chg.	-	1.5
Canada						
Feb 3	9:30	Markit Canada Manufacturing PMI	Jan	Index	-	50.4
Feb 3	8:30	Int'l Merchandise Trade	Dec	CAD, Blns	-	-1.1
Feb 5	12:45	<i>BoC's Wilkins speaks at the Economic Club of Canada in Toronto, ON</i>				
Feb 7	8:30	Hourly Wage Rate Permanent Employees	Jan	Y/Y % Chg.	-	3.8
Feb 5	8:30	Net Change in Employment	Jan	Thsd	-	35.2
Feb 7	8:30	Unemployment Rate	Jan	%	-	5.6
International						
Feb 3	4:00	EZ Markit Eurozone Manufacturing PMI	Jan	Index	-	47.8
Feb 5	5:00	EZ Retail Sales	Dec	Y/Y % Chg.	-	2.2

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

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