

The Weekly Bottom Line

February 14th, 2020

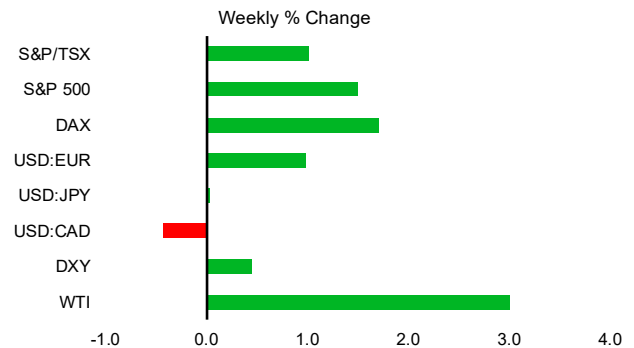
Highlights of the Week

- Risk sentiment turned positive this week, as investors took developments related to the Covid-19 virus and a mixed bag of U.S. data in stride. Among the data reports, the NFIB survey indicated that American small businesses entered 2020 on solid footing, with the confidence measure gaining additional ground in January.
- The headline CPI measure rose to 2.5% y/y in January, while core CPI held steady at 2.3%. A level just above 2% for the latter implies core PCE inflation of roughly 2%, which would bring the Fed's preferred inflation gauge closer to target.
- Retail sales data was less upbeat than expected. While the headline was bang on market expectations (+0.3 m/m), the control group – used to measure household consumption expenditures – was revised lower in December and came in flat in January, pointing to a soft entry into the first quarter.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	3377	3328	3379	2743
S&P/TSX Comp.	17834	17655	17834	15696
DAX	13744	13514	13750	11090
FTSE 100	7409	7467	7687	7067
Nikkei	23688	23828	24084	20261
Fixed Income Yields				
U.S. 10-yr Treasury	1.58	1.58	2.75	1.46
Canada 10-yr Bond	1.37	1.33	1.94	1.09
Germany 10-yr Bund	-0.40	-0.39	0.18	-0.71
UK 10-yr Gilt	0.63	0.57	1.30	0.41
Japan 10-yr Bond	-0.03	-0.04	0.02	-0.29
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.75	0.75	0.77	0.74
Euro (USD per EUR)	1.08	1.09	1.14	1.08
Pound (USD per GBP)	1.30	1.29	1.33	1.20
Yen (JPY per USD)	109.8	109.8	112.2	105.3
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	52.1	50.3	66.4	49.6
Natural Gas (\$US/MMBtu)	1.95	1.88	4.25	1.82
Copper (\$US/met. tonne)	5772.3	5648.3	6555.5	5503.5
Gold (\$US/troy oz.)	1581.6	1570.4	1589.2	1270.7

*As of 12:19 PM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

COVID-2019 Containment Hopes Buoy Markets



Note: Data as of 12:52 PM ET, Friday, February 14, 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 2/14/20	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	1.42	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	1.57	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	2.03	2.81	2.52	2.12	2.39	2.20	2.35	2.50	2.60	2.70	2.75	2.80	2.85

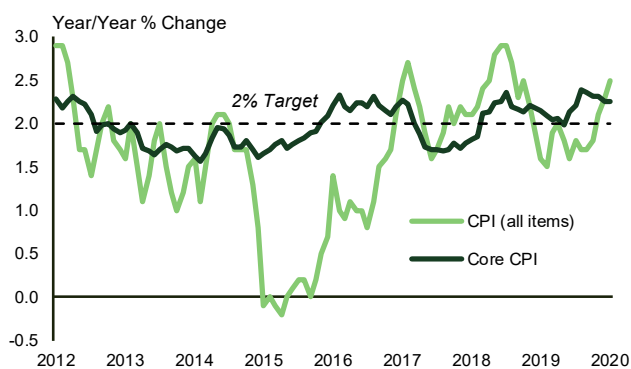
Forecast by TD Economics as of January 2020; all forecasts are end-of-period. Source: Bloomberg, Federal Reserve Board, TD Economics.

A Mixed Bouquet

Investors had plenty of information (data and otherwise) to parse through this week. On the data front, the NFIB survey indicated that American small businesses entered 2020 on a solid footing. The confidence measure was up 1.6 points in January to 104.3 – a level that’s within the top 10% of historical readings. Under the hood, the most striking improvement was in sales volume expectations, which shot up 7 points to 23%. Interestingly, this came alongside a mild pullback in expectations about an ‘improvement in the economy’. This suggests that the improved sales view may be partially linked to the signing of the Phase One trade deal, with China’s pledge to boost imports from the U.S. having the potential to benefit small firms too, despite their heavier domestic tilt.

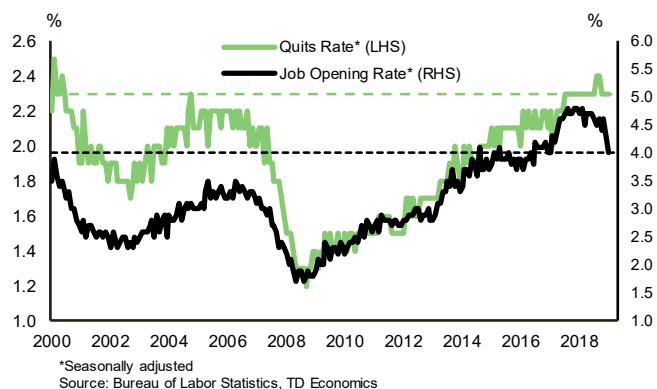
With a shortage of skilled workers and quality of labor concerns top of mind, small businesses continued to boost worker compensation in January, while signaling that they will continue to do so over the coming months as well. More wages pressures should put further upward pressure on inflation. The January CPI report appears to corroborate this narrative. Headline CPI ticked higher to 2.5% y/y in January, while the core measure held steady at 2.3% y/y (Chart 1). Core CPI inflation of just above 2% implies that core PCE inflation (currently at 1.6% y/y) should also trek higher, bringing the Fed’s preferred inflation gauge closer to target. This should give the Fed reassurance as they wait and assess the impact of past rate cuts and the risks to global economic growth from the new coronavirus (Covid-19) outbreak.

Chart 1: Core CPI Holds Steady At 2.3% Year-Over-Year



Source: Bureau of Economic Analysis, TD Economics.

Chart 2: Job Opening Rate Pulls Back, But Quits Rate Remains Elevated



*Seasonally adjusted
Source: Bureau of Labor Statistics, TD Economics

Retail sales data out this morning was less upbeat than expected. The headline was up 0.3% m/m, bang on market expectations. However, the control group, which excludes some of the most volatile categories, was flat in January, while the December gain was revised down to 0.2% from 0.5%. Despite a soft entry into the new year, and the added near-term headwind from reduced tourism as a result of the spread of the Covid-19 virus, we still expect consumption to advance at a decent clip this year. This view is underpinned by strong consumer fundamentals, including upbeat consumer confidence and still-sturdy job and income growth. A weakening trend in the (lagged) job openings data, however, raises some questions about the future pace of job gains. As of December, the pullback in job openings had become broad-based, both across regions and segments. A closer look at some of the details, however, paints a less concerning picture. The quits rate, for instance, remains elevated, which suggests that workers are still feeling confident enough to jump ship and follow better opportunities (Chart 2). As such, rather than signaling an impending downturn, the slowdown appears to be more consistent with easing employer demand and expectations of a more moderate pace of job growth going forward.

All in all, while this week’s data can be best described as a mixed bouquet (or bag), the U.S. economy appears to remain on decent footing – a view shared by Fed Chair Powell in his testimony to Congress this week. Still, the Covid-19 outbreak remains a major wildcard and bears careful watching.

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Recent Key Economic Indicators: Feb 10 - 14, 2020					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Feb 11	NFIB Small Business Optimism	Jan	Index	104.3	102.7
Feb 13	Consumer Price Index	Jan	M/M % Chg.	0.1	0.2
Feb 13	Consumer Price Index	Jan	Y/Y % Chg.	2.5	2.3
Feb 13	Consumer Price Index Ex Food and Energy	Jan	M/M % Chg.	0.2	0.1
Feb 13	Consumer Price Index Ex Food and Energy	Jan	Y/Y % Chg.	2.3	2.3
Feb 13	Initial Jobless Claims	Feb 8	Thsd	205.0	203.0
Feb 13	Real Avg Hourly Earning	Jan	Y/Y % Chg.	0.6	0.7
Feb 14	Business Inventories	Dec	M/M % Chg.	0.1	-0.2
Feb 14	Capacity Utilization	Jan	M/M % Chg.	76.8	77.1
Feb 14	Industrial Production	Jan	M/M % Chg.	-0.3	-0.4
Feb 14	Manufacturing (SIC) Production	Jan	M/M % Chg.	-0.1	0.1
Feb 14	Mortgage Delinquencies	4Q	Q/Q % Chg.	3.8	4.0
Feb 14	Retail Sales Advance	Jan	M/M % Chg.	0.3	0.2
Feb 14	Retail Sales Ex Auto and Gas	Jan	M/M % Chg.	0.4	0.5
Canada					
Feb 10	Housing Starts	Jan	Thsd	213.2	195.9
Feb 14	Existing Home Sales	Jan	M/M % Chg.	-2.9	-0.9
Feb 14	Senior Loan Officer Survey		Q/Q % Chg.	-15.6	1.9
International					
Feb 11	UK Gross Domestic Product	4Q	Y/Y % Chg.	1.1	1.1
Feb 14	EZ Employment	4Q	Y/Y % Chg.	1.0	0.9
Feb 14	EZ Gross Domestic Product SA	4Q	Y/Y % Chg.	0.9	1.0

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Feb 17 - 21, 2020						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Feb 18	8:30	Empire Manufacturing	Feb	Index	5.0	4.8
Feb 18	10:00	NAHB Housing Market Index	Feb	Index	75.0	75.0
Feb 19	8:10	<i>Fed's Bostic speaks on the U.S. economic outlook in Atlanta, GA</i>				
Feb 19	8:30	Building Permits	Jan	Thsd	1450.0	1420.0
Feb 19	8:30	Housing Starts	Jan	Thsd	1400.0	1608.0
Feb 19	8:30	Producer Price Index Ex Food and Energy	Jan	M/M % Chg.	0.2	0.1
Feb 19	8:30	Producer Price Index Final Demand	Jan	M/M % Chg.	0.1	0.1
Feb 19	8:30	<i>Fed's Mester speaks at the Forum of Executive Women</i>				
Feb 19	11:45	<i>Fed's Kashkari speaks in Mankato, MN</i>				
Feb 19	13:30	<i>Fed's Kaplan speaks in Dallas, TX</i>				
Feb 19	14:00	FOMC Meeting Minutes	Jan 29			
Feb 19	16:30	<i>Fed's Barkin speaks on the Monetary Policy Framework</i>				
Feb 20	8:30	Initial Jobless Claims	Feb 15	Thsd	-	-
Feb 21	9:35	<i>Fed's Kaplan Speak in Dallas, TX</i>				
Feb 21	9:45	Markit US Manufacturing PMI	Feb	Index	-	51.9
Feb 21	9:45	Markit US Services PMI	Feb	Index	-	53.4
Feb 21	10:00	Existing Home Sales	Jan	Mlns	5.4	5.5
Canada						
Feb 18	8:30	Manufacturing Sales	Dec	M/M % Chg.	-	-0.6
Feb 19	8:30	Consumer Price Index	Jan	Y/Y % Chg.	-	2.2
Feb 19	8:30	Consumer Price Index Core- Common %	Jan	Y/Y % Chg.	-	2.0
Feb 19	8:30	Consumer Price Index Core- Median %	Jan	Y/Y % Chg.	-	2.2
Feb 19	8:30	Consumer Price Index Core- Trim %	Jan	Y/Y % Chg.	-	2.1
Feb 19	8:30	Consumer Price Index NSA	Jan	M/M % Chg.	-	0.0
Feb 20	8:30	Teranet/National Bank HPI	Jan	Y/Y % Chg.	-	1.9
Feb 21	8:30	Retail Sales	Dec	M/M % Chg.	-	0.9
Feb 21	8:30	Retail Sales Ex Auto	Dec	M/M % Chg.	-	0.2
International						
Feb 18	4:30	UK ILO Unemployment Rate 3Mths	Dec	Y/Y % Chg.	-	3.8
Feb 19	4:30	UK Consumer Price Index	Jan	Y/Y % Chg.	-	1.3
Feb 20	4:30	UK Retail Sales Ex Auto Fuel	Jan	Y/Y % Chg.	-	0.7
Feb 20	18:30	JN Natl Consumer Price Index	Jan	Y/Y % Chg.	-	0.8
Feb 21	4:00	EZ Markit Eurozone Manufacturing PMI	Feb	Index	-	47.9
Feb 21	5:00	EZ Consumer Price Index	Jan	Y/Y % Chg.	-	1.4

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

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