

The Weekly Bottom Line

February 21st, 2020

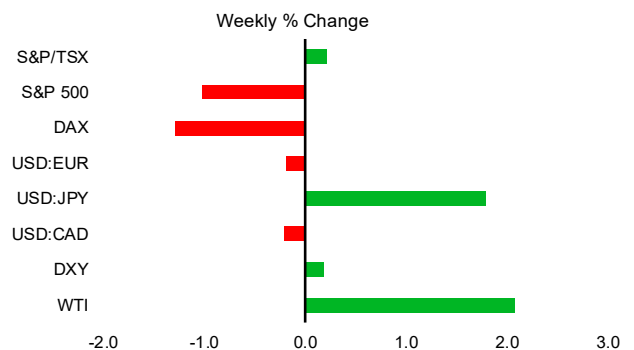
Highlights of the Week

- COVID-19 continues to pose challenges for China's economy as well as global manufacturing supply chains. Factories have been slow to open as quarantines keep workers at home.
- While the situation on the ground appears to be improving, global supply chains are starting to feel the impact. Some multinationals have already warned sales would be hit in the first quarter.
- The Fed remains alert to the risks to U.S. growth posed by the virus and will act if necessary. However, it expects the shock to be temporary. On the plus side, past rate cuts are feeding through to gains in the housing sector.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	3345	3380	3386	2743
S&P/TSX Comp.	17879	17848	17944	15996
DAX	13567	13744	13789	11347
FTSE 100	7397	7409	7687	7067
Nikkei	23387	23688	24084	20261
Fixed Income Yields				
U.S. 10-yr Treasury	1.47	1.58	2.75	1.46
Canada 10-yr Bond	1.28	1.37	1.94	1.09
Germany 10-yr Bund	-0.44	-0.40	0.18	-0.71
UK 10-yr Gilt	0.57	0.63	1.30	0.41
Japan 10-yr Bond	-0.06	-0.03	0.02	-0.29
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.76	0.75	0.77	0.74
Euro (USD per EUR)	1.09	1.08	1.14	1.08
Pound (USD per GBP)	1.30	1.30	1.33	1.20
Yen (JPY per USD)	111.7	109.8	112.2	105.3
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	52.8	52.1	66.4	49.6
Natural Gas (\$US/MMBtu)	2.01	1.93	4.25	1.82
Copper (\$US/met. tonne)	5708.0	5750.8	6555.5	5503.5
Gold (\$US/troy oz.)	1639.8	1584.1	1639.8	1270.7

*As of 11:48 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

Markets Down on COVID-19 Fears



Note: Data as of 12:05 PM ET, Friday, February 21, 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 2/21/20	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	1.35	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	1.47	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	1.92	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.

All Eyes On COVID-19

Another busy week comes to a close, with markets hanging on to every development, rumored or not, from the COVID-19 outbreak in China. The S&P500 hit a record high on Wednesday, but promptly retreated on Thursday upon news that many multinationals (i.e. Adidas, Puma, P&G) warned that COVID-19 might impact sales in the first quarter. At the time of writing, the S&P500 stood 1% lower than where it was at the start of the week.

COVID-19 continues to depress China's economy. Recent reports indicate that factories have been slow to open as quarantines continue to keep workers stuck in their homes. The Chinese authorities have issued guidelines to local officials to help get people back to work, but this would have to be done carefully so as not to undermine containment efforts.

It appears that the virus is slowly being brought under control. As of now, 76,775 people have been infected with COVID-19, and 2,247 have died. The number new cases have come down significantly over the past few days, and the number of recoveries has steadily risen since the start of the month (Chart 1).

Despite the good signs, global manufacturing supply chains are beginning to feel the effects of the virus. Foxconn, Samsung, and various car manufacturers have all faced supply chain disruptions. Companies have also looked to continue production by bypassing China. Samsung, for example, has moved parts of its manufacturing process for its newest Galaxy phone from China to Vietnam. The longer China

Chart 1: More Recoveries Than New Cases of COVID-19 in Recent Days

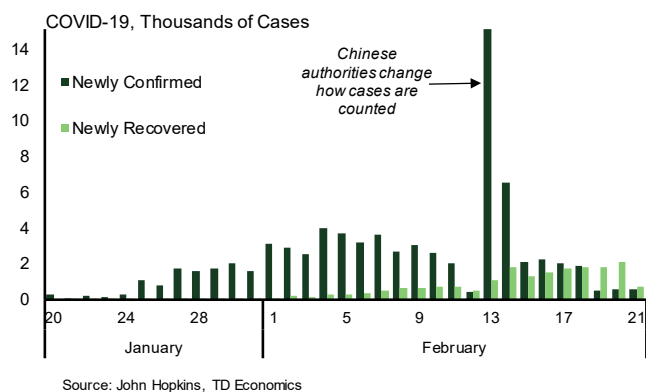
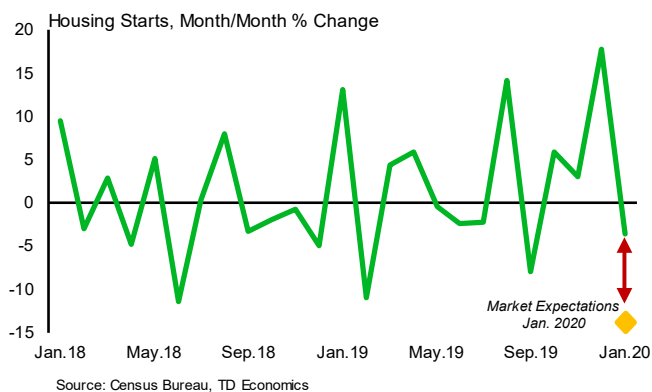


Chart 2: Housing Starts Outperformed Market Expectations in January



takes to contain the virus, the more likely it is that manufacturers will explore other locations.

The Federal Reserve is closely watching how the impact of COVID-19 is felt by global economies. In the first Federal Open Market Committee meeting of the year, participants saw tentative signs of stabilization in global growth, but they judged the outbreak to be a key uncertainty in their outlook. If the virus has a greater and more meaningful impact on growth, the Fed may provide more monetary support this year.

If the virus is contained, and Chinese factories are back to normal production soon, we expect the Fed to stand pat in 2020, as it watches the effects of past interest rate cuts move through the economy. Indeed, we have already seen this in the housing market, which finished 2019 on solid footing, and is showing signs of continued momentum in 2020. Although housing starts declined in January by 3.6% month-over-month, it was coming off of a strong December and it was significantly stronger than market expectations of -11.2% (Chart 2). Part of this was likely due to warmer weather, but it is also a testament to the underlying strength in the property sector.

Like housing starts, existing home sales also contracted in January, also coming off a solid December. On the other hand, permits rose strongly in January. With labor markets healthy, mortgage rates low, and a large number of millennials still to move into homeownership, we could continue to see strength in the housing market this year.

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Upcoming Key Economic Releases

U.S. Personal Income & Spending- January*

Release Date: February 28th, 2020

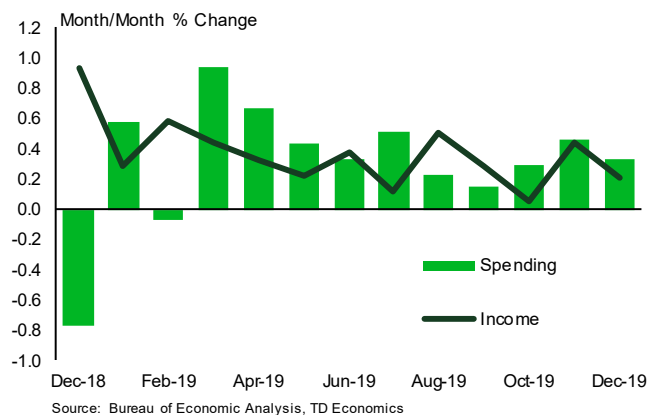
Previous: Spending 0.1% m/m; income: 0.2%

TD Forecast: Spending 0.1% m/m; income: 0.5%

Consensus: Spending 0.1% m/m; income: 0.3%

CPI and PPI data point to an above-trend 0.3% m/m rise in the core PCE index; we estimate 0.28% before rounding. The y/y change likely rose to 1.8% from 1.6%, due in part to base effects, with more risk of 1.9% than 1.7%. (Core prices rose just 0.04% m/m in January 2019.) Even so, the pace remains below the 2.0-2.5% range that Fed officials appear to be aiming for “for a time.” We’re also looking for fairly solid increases in personal income and spending at 0.5% and 0.4% m/m, respectively. The gain in income should reflect the COLA adjustment as well as a rise in federal government pay, while spending was likely led by the auto and food segments.

U.S. Personal Income and Spending



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

Recent Key Economic Indicators: Feb 17 - 21, 2020					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Feb 18	Empire Manufacturing	Feb	Index	12.9	4.8
Feb 18	NAHB Housing Market Index	Feb	Index	74.0	75.0
Feb 19	Building Permits	Jan	Thsd	1551.0	1420.0
Feb 19	FOMC Meeting Minutes	Jan 29			
Feb 19	Housing Starts	Jan	Thsd	1567.0	1626.0
Feb 19	Producer Price Index Ex Food and Energy	Jan	M/M % Chg.	0.4	0.2
Feb 19	Producer Price Index Final Demand	Jan	M/M % Chg.	0.5	0.1
Feb 20	Initial Jobless Claims	Feb 15	Thsd	210.0	206.0
Feb 21	Existing Home Sales	Jan	Mlns	5.5	5.5
Feb 21	Markit US Manufacturing PMI	Feb	Index	50.8	51.9
Feb 21	Markit US Services PMI	Feb	Index	49.4	53.4
Canada					
Feb 18	Manufacturing Sales	Dec	M/M % Chg.	-0.7	-1.0
Feb 19	Consumer Price Index	Jan	Y/Y % Chg.	2.4	2.2
Feb 19	Consumer Price Index Core- Common	Jan	Y/Y % Chg.	1.8	2.0
Feb 19	Consumer Price Index Core- Median	Jan	Y/Y % Chg.	2.2	2.2
Feb 19	Consumer Price Index Core- Trim	Jan	Y/Y % Chg.	2.1	2.0
Feb 19	Consumer Price Index NSA	Jan	M/M % Chg.	0.3	0.0
Feb 20	Teranet/National Bank HPI	Jan	Y/Y % Chg.	2.1	1.9
Feb 21	Retail Sales	Dec	M/M % Chg.	0.0	1.1
Feb 21	Retail Sales Ex Auto	Dec	M/M % Chg.	0.5	0.5
International					
Feb 18	UK ILO Unemployment Rate 3Mths	Dec	Y/Y % Chg.	3.8	3.8
Feb 19	UK Consumer Price Index	Jan	Y/Y % Chg.	1.8	1.3
Feb 20	JN Natl Consumer Price Index	Jan	Y/Y % Chg.	0.7	0.8
Feb 20	UK Retail Sales Ex Auto Fuel	Jan	Y/Y % Chg.	1.2	0.7
Feb 21	EZ Consumer Price Index	Jan	Y/Y % Chg.	1.4	1.4
Feb 21	EZ Markit Eurozone Manufacturing PMI	Feb	Index	49.1	47.9

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Feb 24 - 28, 2020							
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period	
United States							
Feb 24	15:00	<i>Fed's Mester speaks on the economy at NABE Conference in Washington, D.C.</i>					
Feb 25	9:00	S&P CoreLogic CS US HPI NSA	Dec	Y/Y % Chg.	-	3.5	
Feb 25	10:00	Conf. Board Consumer Confidence	Feb	Index	132.5	131.6	
Feb 25	15:15	<i>Fed's Clarida speaks at NABE Conference in Washington, D.C.</i>					
Feb 26	10:00	New Home Sales	Jan	Thsd	710.0	694.0	
Feb 27	8:30	Personal Consumption	4Q	M/M % Chg.	-	1.8	
Feb 27	8:30	Gross Domestic Product Annualized	4Q	Q/Q % Chg.	2.2	2.1	
Feb 27	8:30	Core Personal Consumption Expenditure	4Q	Q/Q % Chg.	-	1.3	
Feb 27	8:30	Durable Goods Orders	Jan	M/M % Chg.	-1.5	2.4	
Feb 27	8:30	Durables Ex Transportation	Jan	M/M % Chg.	0.2	-0.1	
Feb 27	8:30	Cap Goods Orders Nondef Ex Air	Jan	M/M % Chg.	-	-0.8	
Feb 27	8:30	Initial Jobless Claims	Feb 22	Thsd	-	210.0	
Feb 27	10:00	Pending Home Sales	Jan	M/M % Chg.	2.0	-4.9	
Feb 27	11:30	<i>Fed's Evans speaks in Mexico City, Mexico</i>					
Feb 28	8:30	Advance Goods Trade Balance	Jan	Blns	-68.4	-68.3	
Feb 28	8:30	Retail Inventories	Jan	M/M % Chg.	-	0.0	
Feb 28	8:30	Personal Income	Jan	M/M % Chg.	0.3	0.2	
Feb 28	8:30	Real Personal Spending	Jan	M/M % Chg.	-	0.1	
Feb 28	8:30	Personal Consumption Expenditure Deflator	Jan	Y/Y % Chg.	-	1.6	
Feb 28	8:30	Personal Consumption Expenditure Core Deflator	Jan	Y/Y % Chg.	1.7	1.6	
Feb 28	9:15	<i>Fed's Bullard speaks on the economy and monetary policy</i>					
Canada							
Feb 24	8:30	Wholesale Trade Sales	Dec	M/M % Chg.	0.0	-1.2	
Feb 25	12:30	<i>BoC's Lane speaks in Montreal, QC</i>					
Feb 27	8:30	Current Account Balance	4Q	Blns	-	-9.9	
Feb 28	6:00	CFIB Business Barometer	Feb	Index	-	55.3	
Feb 28	8:30	Gross Domestic Product	Dec	M/M % Chg.	-	0.1	
Feb 28	8:30	Industrial Product Price	Jan	M/M % Chg.	-	0.1	
Feb 28	8:30	Quarterly Gross Domestic Product Annualized	4Q	Q/Q % Chg.	-	1.3	
International							
Feb 25	7:00	MX Gross Domestic Product	4Q	Y/Y % Chg.	-	-0.3	
Feb 27	18:50	JN Industrial Production	Jan	Y/Y % Chg.	-3.1	-3.1	
Feb 27	18:50	JN Retail Sales	Jan	Y/Y % Chg.	-0.9	-2.6	
Feb 27	18:30	JN Jobless Rate	Jan	%	2.2	2.2	
Feb 27	18:30	JN Tokyo Consumer Price Index	Feb	Y/Y % Chg.	0.5	0.6	
Feb 28	20:00	CH Manufacturing PMI	Feb	Index	46.0	50.0	
Feb 28	5:00	EZ Consumer Price Index	Feb	Y/Y % Chg.	1.2	1.4	
Feb 28	7:00	IN Gross Domestic Product	4Q	Y/Y % Chg.	4.6	4.5	

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

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