

## The Weekly Bottom Line

April 9, 2021

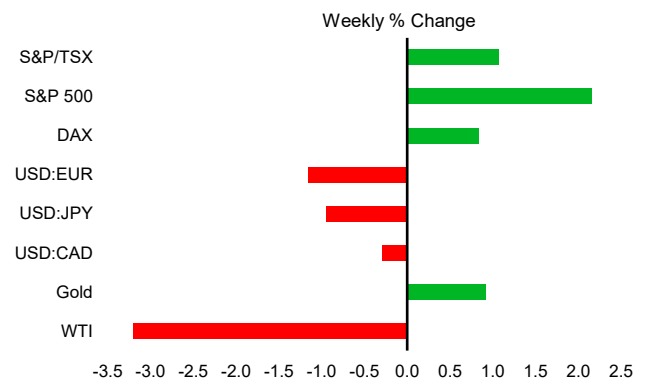
### Highlights

- U.S. equities jumped early this week and continued to move higher over the course of it despite the prospect of higher corporate taxes announced by the Biden administration.
- A few dark spots in the short-term outlook are supply chain disruptions, which are pushing up prices and weighing on deliveries in the services sector, as well as imports and exports.
- G20 countries met this week to discuss a myriad number of issues facing the global economy. They agreed to boost the IMF's reserves, extend debt service payments for low-income emerging markets (EMs) and called for international tax cooperation.
- Climate change and protectionism also made a comeback. The two issues had been conspicuously absent from recent G20 meetings.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
<b>Stock Market Indexes</b>				
S&P 500	4106	4020	4106	2737
S&P/TSX Comp.	19193	18990	19229	13899
DAX	15234	15107	15234	10250
FTSE 100	6916	6737	6942	5577
Nikkei	29768	29854	30468	19043
<b>Fixed Income Yields</b>				
U.S. 10-yr Treasury	1.64	1.72	1.74	0.51
Canada 10-yr Bond	1.49	1.51	1.61	0.43
Germany 10-yr Bund	-0.30	-0.33	-0.23	-0.64
UK 10-yr Gilt	0.77	0.80	0.88	0.08
Japan 10-yr Bond	0.11	0.13	0.16	-0.04
<b>Foreign Exchange Cross Rates</b>				
C\$ (USD per CAD)	0.80	0.80	0.81	0.70
Euro (USD per EUR)	1.19	1.18	1.23	1.08
Pound (USD per GBP)	1.37	1.38	1.41	1.21
Yen (JPY per USD)	109.6	110.7	110.7	102.7
<b>Commodity Spot Prices**</b>				
Crude Oil (\$US/bbl)	59.4	61.5	66.1	-37.6
Natural Gas (\$US/MMBtu)	2.40	2.50	15.83	1.35
Copper (\$US/met. tonne)	9018.3	8794.5	9456.3	4993.0
Gold (\$US/troy oz.)	1744.8	1728.9	2063.5	1682.8

\*As of 12:01 PM on Friday. \*\*Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

### Equities Rise, Third Waves and New Supply Weigh on Oil Prices



Note: Data as of 12:00 PM ET, Friday, April 09, 2021.  
Source: Bloomberg, TD Economics

Global Official Policy Rate Targets	
Central Banks	Current Target
Federal Reserve (Fed Funds Rate)	0.00 - 0.25%
Bank of Canada (Overnight Rate)	0.25%
European Central Bank (Refi Rate)	0.00%
Bank of England (Repo Rate)	0.10%
Bank of Japan (Overnight Rate)	-0.10%

Source: Bloomberg.

TD Economics Key Financial Forecasts													
	Current Rate 4/9/21	2020				2021				2022			
		Q1	Q2	Q3	Q4	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
2-yr Govt. Bond Yield	0.15	0.23	0.16	0.13	0.13	0.16	0.18	0.20	0.25	0.30	0.35	0.45	0.55
10-yr Govt. Bond Yield	1.64	0.70	0.66	0.69	0.93	1.74	1.60	1.65	1.70	1.75	1.80	1.85	1.90
30-yr Govt. Bond Yield	2.31	1.35	1.41	1.46	1.65	2.41	2.30	2.35	2.40	2.45	2.50	2.50	2.50

Forecast by TD Economics as of March 2021; all forecasts are end-of-period. Source: Bloomberg, Federal Reserve Board, TD Economics.

# A Few Dark Spots in Bright Economic Growth Prospects

U.S. equities jumped early this week and continued to move higher over the course of it despite the prospect of higher corporate taxes announced by the Biden administration. While still in the proposal stage, higher corporate income taxes would be a shock to earnings and equity valuations, though potentially offset by faster economic growth if invested well.

The economic calendar, meanwhile, was marked by reports on business activity, production prices and international trade. The Institute for Supply Management’s (ISM) service-sector index [pleasantly surprised](#), hitting an all-time high. All 18 industries reported a revival of activity thanks to warmer weather and an accelerating pace of vaccinations. The rebound lifted the employment sub-index to 57.2, the best reading since June of 2019. Prospects for sustained re-opening and a surge in demand could provide businesses with incentives for pre-emptive hiring, provided another wave of the virus does not lead to further restrictions.

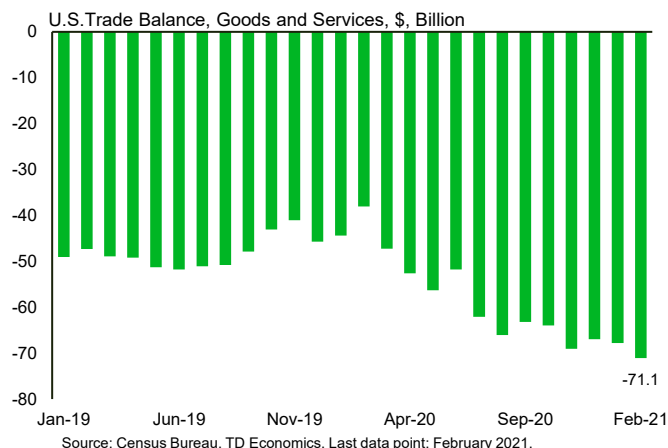
Still, several factors warrant caution. First, the uptick in the supplier deliveries index indicates supply chain disruptions are spreading beyond manufacturing sector to services. Respondents in the accommodation & food services, arts & entertainment and information industries all commented on delays (Chart 1). Logistical challenges may result in product shortages and a reduce the ability of businesses to meet rising consumer demand.

**Chart 1: Supply Chain Disruptions Are Starting to Affect Services**



Source: Institute of Supply Management, TD Economics. Last data point: March 2021.

**Chart 2: U.S. Trade Deficit Widened in February**



Source: Census Bureau, TD Economics. Last data point: February 2021.

Second, the price sub-index rose to 74, the highest level in over a decade. This does not mean immediately higher consumer prices, but it does mean that businesses are facing high costs that could eventually be passed on. Corroborating this, the Producer Price Index (PPI) increased by 1.0% in March. Most of the increase was attributed to higher demand for goods, notably energy, which jumped 5.9%. The final demand index for services rose by 0.7% in March, with prices for transportation and warehousing rising by 1.5%.

At the same time, [February’s trade report](#) is a reminder that until the whole world is over the pandemic, supply challenges and halting global demand will remain an important macro theme. The U.S. trade deficit rose to a record \$71.1 billion, as exports declined more than imports (Chart 2). With major trading partners still struggling to contain the spread of the virus, demand for U.S. exports fell. At the same time, shipping congestion in ports of Los Angeles and Long Beach contributed to the decline in trade in the month. This has not yet been resolved, and alongside the disruption at the Suez Canal, will continue to show up in the economic statistics in the month ahead.

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## G20 Tackles a Host of Issues Facing the Post-Pandemic Global Economy

A meeting of central bankers and finance ministers from 19 of the world's largest economies plus the European Union – the G20 – met virtually this week to discuss a host of issues facing the global economy.

The G20 acknowledged the improved global economic outlook due to vaccination campaigns and continued policy supports, especially in advanced economies. Still, it highlighted the uneven recovery both across and within countries. The Group vowed to fight rising inequalities caused by the pandemic. It also committed to protect those most impacted, including "women, youth, informal and low-skilled workers."

Recognizing the unique challenges faced by low-income emerging markets (EMs), the G20 extended its Debt Service Suspension Initiative (DSSI) until end-2021. The DSSI, which was due to end in June, was launched last May to offer temporary debt relief to low-income EMs reeling from the impact of the pandemic. So far, 46 countries have requested debt relief worth \$12.5 billion. The new extension would cover an estimated \$9.9 billion in bilateral debt payments. The extension provides much needed relief to EMs, but more is needed to fill the funding gaps of some of the poorest countries.

This is where the IMF comes in. In an official communiqué released after the meeting, the G20 called on the IMF to increase its special drawing rights (SDRs). SDRs are a type of reserve asset that can be sold for cash. This is not the first time the proposal to increase SDRs has been made. Last year, the U.S. vetoed the proposal. This year, the proposal has U.S. backing. Following the G20 meeting, the IMF's Managing Director said that the new SDR allocation of \$650 billion is likely to be approved by August.

Meanwhile, climate change made a roaring comeback on the agenda. G20 leaders took a forceful stand saying that climate change and environmental protection are "increasingly urgent." The G20 called on countries to "develop forward-looking strategies investing in innovative technologies and promoting just transitions toward more sustainable economies." Climate change took a backseat during the Trump era but is likely to retake center-stage in future post-pandemic meetings.

Discussions surrounding protectionism also made a comeback. These discussions had been dropped by the G20 since 2017 (also at the behest of the Trump administration). The Group also talked about reforming the WTO. These are welcome developments, especially at a time when the pandemic has accelerated protectionism, increased deglobalization pressures and made countries more inward-looking.

On a related note, the G20 also called for cooperation for a "globally fair, sustainable and modern international tax system." The Italian Finance Minister said that an agreement on international corporate taxes is likely by July. Talks are likely to take place within the broad framework laid out by the Biden administration this week. The American proposal calls for the world's biggest corporations to pay taxes to national governments based on their sales in each country as part of a deal on a global minimum tax. European countries have backed Biden's proposal. But they have also made it clear that it needs to be accompanied by a deal to allow Europe to tax the global profits of American tech giants. If the U.S. acquiesces to Europe's demands, European countries would be able to raise corporate taxes from American tech companies and other large multinationals. In return, a global minimum corporate tax would allow the U.S. to raise additional revenue from U.S.-based European companies and other multinationals.

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Recent Key Economic Indicators: Apr 1 - 9, 2021					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
<b>United States</b>					
Apr 1	Wards Total Vehicle Sales	Mar	Mlns	17.8	15.7
Apr 2	Average Hourly Earnings	Mar	M/M % Chg.	-0.1	0.3
Apr 2	Change in Nonfarm Payrolls	Mar	Thsd	916.0	468.0
Apr 2	Unemployment Rate	Mar	%	6.0	6.2
Apr 5	Markit US Services PMI	Mar	Index	60.4	60.0
Apr 5	Cap Goods Orders Nondef Ex Air	Feb	M/M % Chg.	-0.9	-0.8
Apr 5	Durable Goods Orders	Feb	M/M % Chg.	-1.2	-1.1
Apr 5	Factory Orders	Feb	M/M % Chg.	-0.8	2.7
Apr 5	Factory Orders Ex Trans	Feb	M/M % Chg.	-0.6	1.8
Apr 5	ISM Services Index	Mar	Index	63.7	55.3
Apr 7	Trade Balance	Feb	Blns	-71.1	-67.8
Apr 7	<i>FOMC Meeting Minutes</i>	Mar 17			
Apr 8	Initial Jobless Claims	Apr 3	Thsd	744.0	728.0
Apr 9	Producer Price Index Ex Food and Energy	Mar	M/M % Chg.	0.7	0.2
Apr 9	Producer Price Index Final Demand	Mar	M/M % Chg.	1.0	0.5
Apr 9	Wholesale Trade Sales	Feb	M/M % Chg.	-0.8	4.4
<b>Canada</b>					
Apr 7	Int'l Merchandise Trade	Feb	Blns	1.0	1.2
Apr 9	Net Change in Employment	Mar	Thsd	303.1	259.2
Apr 9	Unemployment Rate	Mar	%	7.5	8.2
<b>International</b>					
Apr 6	EZ Unemployment Rate	Feb	%	8.3	8.3
Apr 8	CH Consumer Price Index	Mar	Y/Y % Chg.	0.4	-0.2

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Apr 12 - 16, 2021						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
<b>United States</b>						
Apr 13	6:00	NFIB Small Business Optimism	Mar	Index	98.0	95.8
Apr 13	8:30	Consumer Price Index	Mar	M/M % Chg.	0.5	0.4
Apr 13	8:30	Consumer Price Index	Mar	Y/Y % Chg.	2.5	1.7
Apr 13	8:30	Consumer Price Index Ex Food and Energy	Mar	M/M % Chg.	0.2	0.1
Apr 13	8:30	Consumer Price Index Ex Food and Energy	Mar	Y/Y % Chg.	1.5	1.3
Apr 13	12:00	<i>Fed's Daly Takes Part in Fed Event on Racism and the Economy</i>				
Apr 13	12:00	<i>Fed's Harker Discusses the Economic Outlook</i>				
Apr 13	16:00	<i>Fed's Mester, Bostic and Rosengren Discuss Racism and the Economy</i>				
Apr 14	12:00	<i>Powell Speaks to the Economic Club of Washington</i>				
Apr 14	14:00	<i>U.S. Federal Reserve Releases Beige Book</i>				
Apr 14	14:30	<i>Fed's Williams Takes Part in a Moderated Discussion</i>				
Apr 14	15:00	<i>Fed's Clarida Discusses Policy Framework</i>				
Apr 14	16:00	<i>Fed's Bostic Discusses Cities and Systemic Racism</i>				
Apr 15	8:30	Empire Manufacturing	Apr	Index	18.0	17.4
Apr 15	8:30	Initial Jobless Claims	Apr 10	Thsd	700.0	744.0
Apr 15	8:30	Retail Sales Advance	Mar	M/M % Chg.	5.1	-3.0
Apr 15	8:30	Retail Sales Ex Auto and Gas	Mar	M/M % Chg.	6.5	-3.3
Apr 15	9:15	Capacity Utilization	Mar	%	75.6	73.8
Apr 15	9:15	Industrial Production	Mar	M/M % Chg.	2.7	-2.2
Apr 15	9:15	Manufacturing (SIC) Production	Mar	M/M % Chg.	4.0	-3.1
Apr 15	10:00	Business Inventories	Feb	M/M % Chg.	0.5	0.3
Apr 15	10:00	NAHB Housing Market Index	Apr	Index	84.0	82.0
Apr 15	11:30	<i>Fed's Bostic to Discuss Economic Inequality</i>				
Apr 15	14:00	<i>Fed's Daly Speaks on Financial Stability and Monetary Policy</i>				
Apr 15	14:00	<i>New York Fed's Logan Speaks at SIFMA Event</i>				
Apr 15	15:45	<i>Fed's Clarida Speaks to Shadow Open Market Committee</i>				
Apr 15	16:00	<i>Fed's Mester Discusses Economic Inclusion</i>				
Apr 16	8:30	Building Permits	Mar	Thsd	1750.0	1720.0
Apr 16	8:30	Housing Starts	Mar	Thsd	1602.0	1421.0
<b>Canada</b>						
Apr 12	10:30	BoC Business Outlook Future Sales	1Q	Q/Q % Chg.	-	48.0
Apr 15	8:30	Manufacturing Sales	Feb	M/M % Chg.	-	3.1
Apr 15	9:00	Existing Home Sales	Mar	M/M % Chg.	-	6.6
Apr 16	8:15	Housing Starts	Mar	Thsd	-	245.9
Apr 16	8:30	Wholesale Trade Sales	Feb	M/M % Chg.	-	4.0
<b>International</b>						
Apr 12	5:00	EZ Retail Sales	Feb	Y/Y % Chg.	-5.3	-6.4
Apr 13	2:00	UK Monthly Gross Domestic Product (3M/3M)	Feb	M/M % Chg.	-1.9	-1.7
Apr 15	22:00	CH Gross Domestic Product	1Q	Y/Y % Chg.	18.3	6.5
Apr 15	22:00	CH Retail Sales	Mar	Y/Y % Chg.	28.0	-
Apr 15	22:00	CH Surveyed Jobless Rate	Mar	%	5.4	5.5
Apr 16	5:00	EZ Consumer Price Index	Mar	Y/Y % Chg.	1.3	0.9

Source: Bloomberg, TD Economics.

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