

The Weekly Bottom Line

June 18, 2021

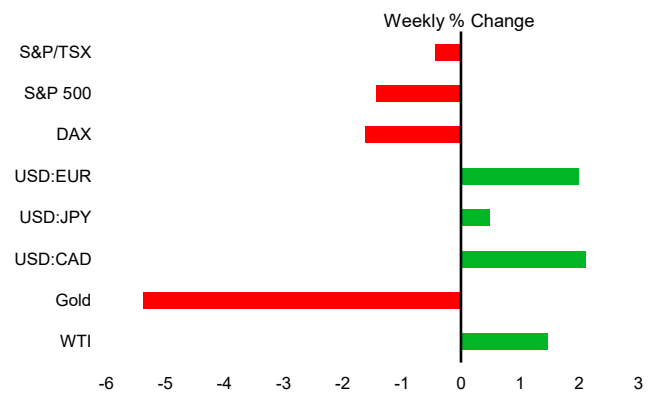
Highlights

- The U.S. Federal Reserve continues to upgrade its outlook. And while Chairman Powell reiterated that the recent rise in inflation was transitory, he acknowledged that there was a risk that inflation could be higher than expected.
- Most U.S. Federal Reserve officials now expect to start raising interest rates in 2023, a year earlier than previously expected.
- The FOMC statement and Chairman Powell's press conference this week likely marked the beginning of the end of pandemic-era ultra-accommodative monetary policy.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	4181	4247	4255	3009
S&P/TSX Comp.	20036	20138	20231	15189
DAX	15460	15693	15730	11556
FTSE 100	7037	7134	7185	5577
Nikkei	28964	28949	30468	21710
Fixed Income Yields				
U.S. 10-yr Treasury	1.48	1.45	1.74	0.51
Canada 10-yr Bond	1.39	1.37	1.61	0.43
Germany 10-yr Bund	-0.21	-0.27	-0.10	-0.64
UK 10-yr Gilt	0.77	0.71	0.90	0.08
Japan 10-yr Bond	0.06	0.04	0.16	0.01
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.81	0.82	0.83	0.73
Euro (USD per EUR)	1.19	1.21	1.23	1.12
Pound (USD per GBP)	1.38	1.41	1.42	1.23
Yen (JPY per USD)	110.4	109.7	110.7	102.7
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	70.8	70.9	72.2	35.8
Natural Gas (\$US/MMBtu)	3.19	3.24	15.83	1.35
Copper (\$US/met. tonne)	9289.0	9975.1	10448.5	5783.5
Gold (\$US/troy oz.)	1772.6	1877.5	2063.5	1683.5

*As of 11:00 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

Fed's Hawkish Turn Drives Dollar Up, Equities & Gold Down



Note: Data as of 12:21 PM ET, Friday, June 18, 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	2020				2021				2022			
	6/18/21	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	0.50
2-yr Govt. Bond Yield	0.25	0.23	0.16	0.13	0.13	0.16	0.18	0.40	0.60	0.80	1.00	1.20	1.40
10-yr Govt. Bond Yield	1.48	0.70	0.66	0.69	0.93	1.74	1.55	1.90	2.00	2.10	2.20	2.30	2.40
30-yr Govt. Bond Yield	2.05	1.35	1.41	1.46	1.65	2.41	2.25	2.45	2.55	2.60	2.65	2.70	2.75

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

When Doves Turn Hawkish

All eyes were on the Fed this week. Four times a year the Federal Open Market Committee (FOMC) not only refreshes its policy statement but also gives updates on members’ projections for economic growth, inflation and the federal funds rate. June is one of those meetings. While the FOMC kept policy unchanged, most Fed officials now expect to start raising the federal funds rate in 2023, a year earlier than previously expected. Economic growth and inflation forecasts for this year were also revised upwards.

With economic growth getting closer to potential and the labor market strengthening (despite the slight increase in weekly unemployment claims reported this week), the Fed has become more confident in the economic recovery (Chart 1). Success on the vaccine front has a lot to do with it. As the Fed’s policy statement noted, “progress on vaccinations has reduced the spread of COVID-19 in the United States. Amid this progress and strong policy support, indicators of economic activity and employment have strengthened.” While Chair Powell was cautious to add that the economy is not fully out the woods and the fast spreading delta variant could still lead to setbacks, most members were confident enough to raise their forecasts. The median projection for real GDP growth in 2021 was upgraded to 7.0% (from 6.5% in March).

With respect to the labor market, Fed chair Powell struck an optimistic tone. Powell said that “there’s every reason to think that we’ll be in a labor market with very attractive numbers, with low unemployment, high participation and rising wages across the spectrum.” In keeping with the

Chart 1: The Economy Still Has Room to Grow

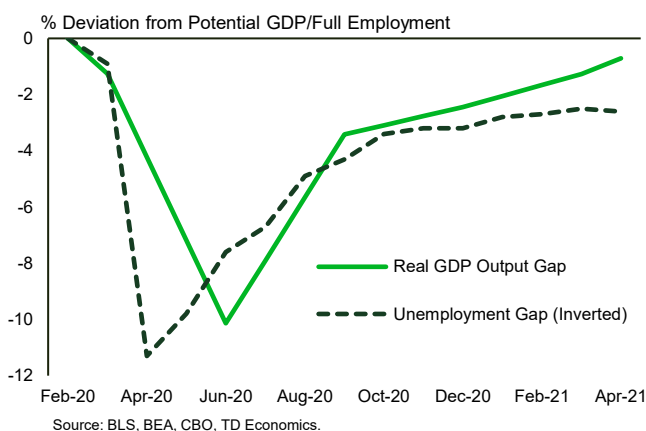
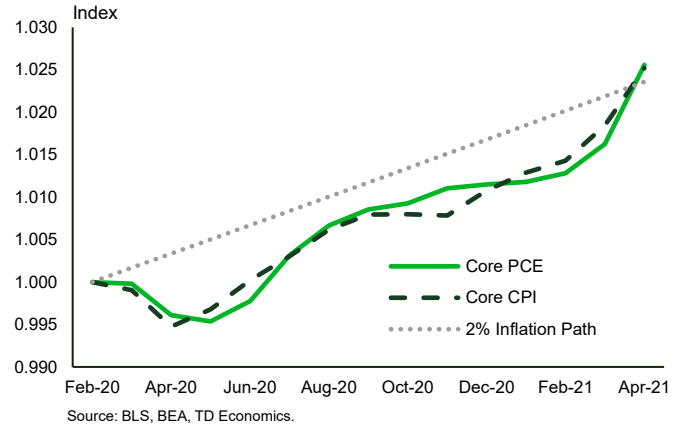


Chart 2: Inflation is Back



chair’s message, the median unemployment rate forecast was nudged down to 3.8% in 2022 (from 3.9% previously).

On the inflation front, the Fed maintains that the recent rise in inflation is “largely reflecting transitory factors” and reiterated that it had the tools to tackle it if needed (Chart 2). While Powell acknowledged that there was a risk that inflation could be higher than expected, the median estimate for core inflation largely kept with the transitory theme. The forecast for 2021 was raised to 3.0% in 2021 but drops back down to 2.1% in 2022 (still up from 2.0% previously).

Meanwhile, the median projection for the fed funds rate remained at the lower bound through 2022 but increased to 0.6% in 2023. Last March, most Fed officials predicted that current rates would be maintained at the zero lower bound until 2024. The new projections now see two rate hikes in 2023.

What is more, while 13 FOMC members think the first hike could happen in 2023, seven members see it happening in 2022. This could well be the start of a trend. With the economic recovery set to continue at a healthy pace, more Fed members are likely to continue to signal an earlier start to the rate hiking cycle. As Chair Powell noted, this is “the beginning of the transition phase.” It could well mark the beginning of the end of pandemic-era ultra-accommodative monetary policy and the shift to a more hawkish Fed.

Sohaib Shahid, Senior Economist | 416-982-2556

Recent Key Economic Indicators: Jun 14 - 18, 2021					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Jun 15	Empire Manufacturing	Jun	Index	17.4	24.3
Jun 15	Producer Price Index Ex Food and Energy	May	M/M % Chg.	0.7	0.7
Jun 15	Producer Price Index Final Demand	May	M/M % Chg.	0.8	0.6
Jun 15	Retail Sales Advance	May	M/M % Chg.	-1.3	0.9
Jun 15	Retail Sales Ex Auto and Gas	May	M/M % Chg.	-0.8	0.1
Jun 15	Capacity Utilization	May	%	75.2	74.6
Jun 15	Industrial Production	May	M/M % Chg.	0.8	0.1
Jun 15	Manufacturing (SIC) Production	May	M/M % Chg.	0.9	-0.1
Jun 15	Business Inventories	Apr	M/M % Chg.	-0.2	0.2
Jun 15	NAHB Housing Market Index	Jun	Index	81.0	83.0
Jun 16	Building Permits	May	Thsd	1681.0	1733.0
Jun 16	Housing Starts	May	Thsd	1572.0	1517.0
Jun 16	FOMC Rate Decision (Upper Bound)	Jun 16	%	0.25	0.25
Jun 17	Initial Jobless Claims	Jun 12	Thsd	412.0	375.0
Canada					
Jun 14	Manufacturing Sales	Apr	M/M % Chg.	-2.1	4.0
Jun 15	Housing Starts	May	Thsd	275.9	268.6
Jun 15	Existing Home Sales	May	M/M % Chg.	-7.4	-12.5
Jun 16	Consumer Price Index	May	Y/Y % Chg.	3.6	3.4
Jun 16	Consumer Price Index NSA	May	M/M % Chg.	0.5	0.5
Jun 16	Wholesale Trade Sales	Apr	M/M % Chg.	0.4	3.2
Jun 17	Teranet/National Bank HPI	May	Y/Y % Chg.	13.7	11.9
International					
Jun 15	UK ILO Unemployment Rate 3Mths	Apr	%	4.7	4.8
Jun 15	CH Retail Sales	May	Y/Y % Chg.	12.4	17.7
Jun 15	CH Surveyed Jobless Rate	May	%	5.0	5.1
Jun 16	UK Consumer Price Index	May	Y/Y % Chg.	2.1	1.5
Jun 17	EZ Consumer Price Index	May	Y/Y % Chg.	2.0	2.0
Jun 17	JN Natl Consumer Price Index	May	Y/Y % Chg.	-0.1	-0.4
Jun 18	UK Retail Sales Ex Auto Fuel	May	Y/Y % Chg.	21.7	37.7
Jun 18	JN BOJ Policy Balance Rate	Jun 18	%	-0.10	-0.10

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Jun 21 - 25, 2021						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Jun 21	9:30	<i>Fed's Bullard Discusses Economic Outlook</i>				
Jun 21	15:00	<i>Fed's Williams Speaks at Banking Conference</i>				
Jun 22	10:00	Existing Home Sales	May	Mlns	5.7	5.9
Jun 22	10:30	<i>Fed's Mester Discusses Monetary Policy and Financial Stability</i>				
Jun 22	11:00	<i>Fed's Daly Speaks at Peterson Institute Event</i>				
Jun 22	14:00	<i>Powell Testifies to Congress on Covid-19 Response and Economy</i>				
Jun 23	9:00	<i>Fed's Bowman Speaks at Fed Conference on Economic Resilience</i>				
Jun 23	9:45	Markit US Manufacturing PMI	Jun	Index	61.5	62.1
Jun 23	9:45	Markit US Services PMI	Jun	Index	69.9	70.4
Jun 23	10:00	New Home Sales	May	Thsd	875.0	863.0
Jun 23	11:00	<i>Fed's Bostic Discusses Systemic Racism</i>				
Jun 23	16:30	<i>Fed's Rosengren Discusses the Economy</i>				
Jun 24	8:30	Advance Goods Trade Balance	May	Blns	-87.7	-85.2
Jun 24	8:30	Durable Goods Orders	May	M/M % Chg.	3.0	-1.3
Jun 24	8:30	Cap Goods Orders Nondef Ex Air	May	M/M % Chg.	0.7	2.2
Jun 24	8:30	Gross Domestic Product Annualized	1Q	Q/Q % Chg.	6.4	6.4
Jun 24	8:30	Personal Consumption	1Q	Q/Q % Chg.	11.3	11.3
Jun 24	8:30	Initial Jobless Claims	Jun 19	Thsd	380.0	412.0
Jun 24	8:30	Core Personal Consumption Expenditure	1Q	Q/Q % Chg.	2.5	2.5
Jun 24	9:30	<i>Fed's Bostic and Harker Speak on Monetary Policy Panel</i>				
Jun 24	11:00	<i>Fed's Williams Takes Part in Moderated Discussion</i>				
Jun 24	13:00	<i>Fed's Bullard Discusses Outlook for Economy and Monetary Policy</i>				
Jun 24	16:30	<i>Fed Releases Bank Stress Test Results</i>				
Jun 25	8:30	Personal Income	May	M/M % Chg.	-2.8	-13.1
Jun 25	8:30	Real Personal Spending	May	M/M % Chg.	0.2	-0.1
Jun 25	8:30	Personal Consumption Expenditure Deflator	May	Y/Y % Chg.	3.9	3.6
Jun 25	11:35	<i>Fed's Mester Speaks at Fed Conference on Economic Resilience</i>				
Jun 25	13:00	<i>Fed's Rosengren Discusses Financial Stability</i>				
Canada						
Jun 23	8:30	Retail Sales	Apr	M/M % Chg.	-5.0	3.6
Jun 23	8:30	Retail Sales Ex Auto	Apr	M/M % Chg.	-4.3	4.3
Jun 24	6:00	CFIB Business Barometer	Jun	Index	-	66.2
International						
Jun 22	20:30	JN Jibun Bank Japan PMI Mfg	Jun	Index	-	53
Jun 23	4:00	EZ Markit Eurozone Manufacturing PMI	Jun	Index	62.2	63.1
Jun 23	4:30	UK Markit UK PMI Manufacturing SA	Jun	Index	64.0	65.6
Jun 24	7:00	UK Bank of England Bank Rate	Jun 24	%	0.10	0.10
Jun 24	19:30	JN Tokyo Consumer Price Index	Jun	Y/Y % Chg.	-0.3	-0.4

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

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