

The Weekly Bottom Line

October 8, 2021

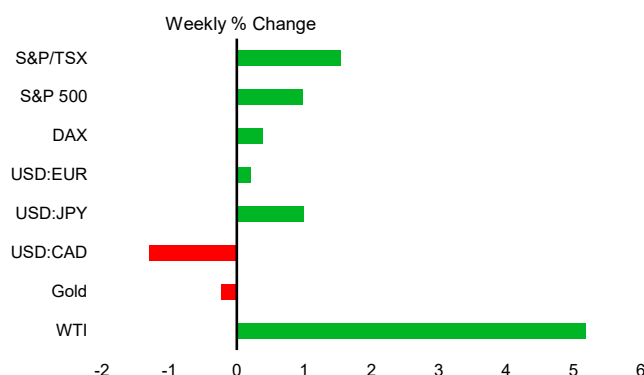
Highlights

- This week, Congress continued to bicker over the debt limit. Fortunately, both parties were able to come to an agreement that would lift the limit temporarily, kicking the can down the road.
- The September employment report was underwhelming as non-farm payrolls grew by a much lower-than-projected 194k. On the upside, the unemployment rate came in lower than expected at 4.8% partly due to a pullback in the labor force.
- The U.S. trade deficit hit a record high of \$73.3 billion in August on the back of surging imports, which reached record levels. Of note, the widening deficit with China has prompted the U.S. to maintain the steep tariffs previously imposed.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	4399	4357	4537	3270
S&P/TSX Comp.	20457	20151	20821	15581
DAX	15206	15156	15977	11556
FTSE 100	7096	7027	7220	5577
Nikkei	28049	28771	30670	22977
Fixed Income Yields				
U.S. 10-yr Treasury	1.60	1.46	1.74	0.73
Canada 10-yr Bond	1.62	1.47	1.62	0.57
Germany 10-yr Bund	-0.15	-0.22	-0.10	-0.64
UK 10-yr Gilt	1.16	1.00	1.16	0.17
Japan 10-yr Bond	0.09	0.06	0.16	0.01
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.80	0.79	0.83	0.75
Euro (USD per EUR)	1.16	1.16	1.23	1.16
Pound (USD per GBP)	1.36	1.35	1.42	1.29
Yen (JPY per USD)	112.2	111.1	112.2	102.7
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	79.8	75.9	79.8	35.8
Natural Gas (\$US/MMBtu)	5.70	5.58	15.83	1.47
Copper (\$US/met. tonne)	9289.5	9135.0	10448.5	6678.3
Gold (\$US/troy oz.)	1757.3	1761.0	1951.4	1683.5

*As of 12:05 PM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

Reports of U.S. Unwillingness to Tap Strategic Reserve Adds Fuel to Oil Prices



Note: Data as of 11:41 AM ET, Friday, October 08, 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		2021				2022				2023			
	10/8/21	Q1	Q2	Q3	Q4F	Q1F	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	0.50	0.75	1.00	1.25	1.50
2-yr Govt. Bond Yield	0.31	0.16	0.25	0.28	0.50	0.80	1.00	1.20	1.40	1.55	1.70	1.80	1.90
10-yr Govt. Bond Yield	1.60	1.74	1.45	1.52	1.85	2.00	2.10	2.20	2.30	2.35	2.35	2.30	2.25
30-yr Govt. Bond Yield	2.17	2.41	2.06	2.08	2.15	2.30	2.40	2.50	2.60	2.65	2.65	2.60	2.55
Forecast by TD Economics as of September 2021; all forecasts are end-of-period. Source: Bloomberg, Federal Reserve Board, TD Economics.													

Nothing is Certain Except Debt and Taxes

The continued back and forth between Democrats and Republicans on the U.S. debt limit again captured headlines this week. While Democrats want a bipartisan suspension of the limit, Republicans have so far refused to play along. Cooler heads prevailed this week, as the parties reached a detente on Thursday. Senate Minority Leader Mitch McConnell proposed a short-term suspension of the debt ceiling until Democrats can pass a more permanent solution. The deal was accepted, and the Senate passed a \$480bn debt-ceiling increase, which should keep the Treasury with enough money to pay its bills until December 3rd.

The key issue behind Republicans' unwillingness to raise the debt limit is the President's \$3.5 trillion spending plan. Even among Democrats, there is not widespread agreement on such a large package. Since all Democratic Senate votes will be needed to pass the bill, party members have been busy trying to scale back bill expenses that will be financed through a slew of individual and corporate tax increases.

In economic news, the much-anticipated September jobs report was disappointing. The U.S. economy added 194k jobs over the month, much less than consensus expectations for a 500k increase. On the upside, the unemployment rate came in much lower than predicted, dropping to 4.8% from 5.2% in August. The rate fell due to stronger job growth in the household survey (+525k) but also due to a drop in the participation rate (Chart 1) and 183k persons leaving the work force. Employment in high paying sectors such as professional and business services were up (+60k), though the notable decline in education (-180k) was unexpected. The slow improvement in the labor force bears

Chart 1: Though the Unemployment Rate Continues to Decline, Fewer Persons Hold a Job and Are in the Labour Force than Before the Pandemic

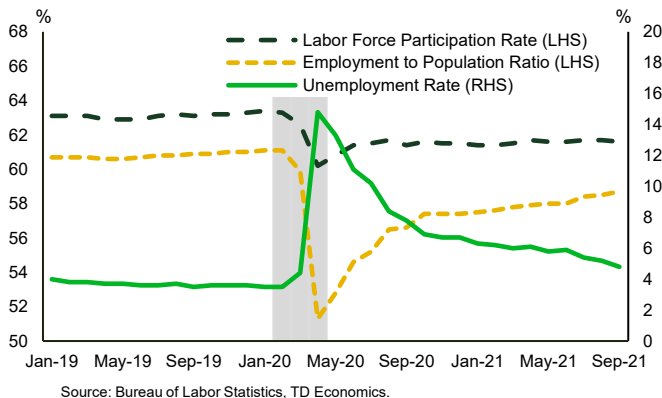
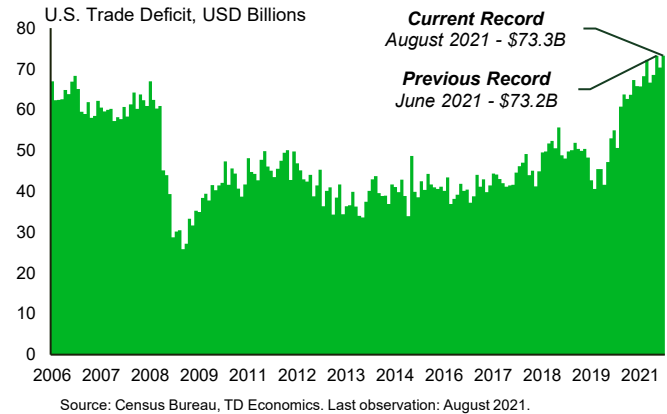


Chart 2: U.S. Trade Deficit Hits Record High in August on Surging Imports



watching, as a persistent shortage of workers could weigh on the recovery going forward.

Elsewhere, the U.S. trade deficit hit a record in August on continued consumer demand for imports. The goods and services trade deficit widened to \$73.3 billion in August from \$70.3 billion in July. The deficit exceeded the previous record of \$73.2 billion observed in June (Chart 2) as imports rose to a record high of \$287 billion (+1.4% m/m), while exports rose by a smaller 0.5% to \$213.7 billion.

Notably, the goods deficit with China widened to \$31.7 billion (up 10.8% m/m), the largest gap since July 2019, due to continued strong imports and declining exports. This dynamic highlights a key source of friction between the two nations. China has yet to significantly increase its imports of U.S. products – an obligation under the bilateral trade agreement implemented last year. The U.S. has noted that while the current Administration will begin new talks with Beijing, existing steep tariffs imposed by the Trump administration will remain in effect.

The best news of the week came from the ISM Services Index, which showed that U.S. service sector activity accelerated in September. The index nudged upwards to 61.9 from 61.7 in August, beating market expectations for a decline to 60. This suggests that demand remains well supported, and while supply challenges may hamper progress, the U.S. economy should continue to recover, supported by high savings and strong balance sheets.

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Recent Key Economic Indicators: Oct 4 - 8, 2021					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Oct 4	Factory Orders	Aug	M/M % Chg.	1.2	0.7
Oct 4	Factory Orders Ex Trans	Aug	M/M % Chg.	0.5	0.9
Oct 4	Durable Goods Orders	Aug	M/M % Chg.	1.8	1.8
Oct 4	Cap Goods Orders Nondef Ex Air	Aug	M/M % Chg.	0.6	0.5
Oct 5	Trade Balance	Aug	Blns	-73.3	-70.3
Oct 5	Markit US Services PMI	Sep	Index	54.9	54.4
Oct 5	ISM Services Index	Sep	Index	61.9	61.7
Oct 6	ADP Employment Change	Sep	Thsd	568.0	340.0
Oct 7	Initial Jobless Claims	Oct 2	Thsd	326.0	364.0
Oct 8	Change in Nonfarm Payrolls	Sep	Thsd	194.0	366.0
Oct 8	Unemployment Rate	Sep	%	4.8	5.2
Oct 8	Average Hourly Earnings	Sep	M/M % Chg.	0.6	0.4
Oct 8	Wholesale Trade Sales	Aug	M/M % Chg.	-1.1	2.0
Canada					
Oct 4	CFIB Business Barometer	Sep	Index	57.8	67.1
Oct 5	Int'l Merchandise Trade	Aug	Blns	1.9	0.7
Oct 8	Net Change in Employment	Sep	Thsd	157.1	90.2
Oct 8	Unemployment Rate	Sep	%	6.9	7.1
International					
Oct 4	JN Tokyo Consumer Price Index	Sep	Y/Y % Chg.	0.3	-0.4
Oct 6	EZ Retail Sales	Aug	Y/Y % Chg.	0.0	3.1
Source: Bloomberg, TD Economics.					

Upcoming Economic Releases and Events: Oct 11 - 15, 2021						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Oct 11	18:00	<i>Fed's Evans Gives Introductory Remarks at Award Ceremony</i>				
Oct 12	6:00	NFIB Small Business Optimism	Sep	Index	99.5	100.1
Oct 12	12:30	<i>Fed's Bostic Speaks on Inflation at Peterson Institute</i>				
Oct 12	18:00	<i>Fed's Barkin Interviewed for an NPR Podcast</i>				
Oct 13	8:30	Consumer Price Index	Sep	M/M % Chg.	0.3	0.3
Oct 13	8:30	Consumer Price Index	Sep	Y/Y % Chg.	5.3	5.3
Oct 13	8:30	Consumer Price Index Ex Food and Energy	Sep	M/M % Chg.	0.2	0.1
Oct 13	8:30	Consumer Price Index Ex Food and Energy	Sep	Y/Y % Chg.	4.1	4.0
Oct 13	14:00	<i>FOMC Meeting Minutes</i>	Sep 22			
Oct 13	16:30	<i>Fed's Brainard Speaks at Fed Listens Event</i>				
Oct 13	20:00	<i>Fed's Bowman Discusses the Economy and Monetary Policy</i>				
Oct 14	8:30	Initial Jobless Claims	Oct 9	Thsd	328.0	326.0
Oct 14	8:30	Producer Price Index Ex Food and Energy	Sep	M/M % Chg.	0.5	0.6
Oct 14	8:30	Producer Price Index Final Demand	Sep	M/M % Chg.	0.6	0.7
Oct 14	10:00	<i>Fed's Bostic Takes Part in Panel on Inclusive Growth</i>				
Oct 14	12:00	<i>New York Fed's Logan Gives Speech on Policy Implementation</i>				
Oct 14	13:00	<i>Fed's Barkin Gives Speech</i>				
Oct 14	18:00	<i>Fed's Harker Discusses the Economic Outlook</i>				
Oct 15	8:30	Empire Manufacturing	Oct	Index	25.0	34.3
Oct 15	8:30	Retail Sales Advance	Sep	M/M % Chg.	-0.3	0.7
Oct 15	8:30	Retail Sales Ex Auto and Gas	Sep	M/M % Chg.	0.2	2.0
Oct 15	10:00	Business Inventories	Aug	M/M % Chg.	0.7	0.5
Oct 15	12:20	<i>Fed's Williams Takes Part in Monetary Policy Panel Discussion</i>				
Canada						
Oct 14	8:30	Manufacturing Sales	Aug	M/M % Chg.	0.3	-1.5
Oct 15	8:30	Wholesale Trade Sales	Aug	M/M % Chg.	0.5	-2.1
Oct 15	9:00	Existing Home Sales	Sep	M/M % Chg.	-	-0.5
International						
Oct 12	2:00	UK ILO Unemployment Rate 3Mths	Aug	%	4.5	4.6
Oct 13	2:00	UK Monthly Gross Domestic Product (3M/3M)	Aug	M/M % Chg.	2.9	3.6
Oct 13	21:30	CH Consumer Price Index	Sep	Y/Y % Chg.	0.9	0.8

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

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