The Weekly Bottom Line

January 24th, 2020

Highlights of the Week

United States

- Markets were focused on the progress of the new coronavirus in China, with few economic headlines in the U.S.. It is still early days, but it is likely the important efforts to contain the disease will crimp economic growth in China.
- Existing home sales more than recouped November's decline in December. Unseasonably warm weather likely was a factor, but it sets up strong momentum in residential investment heading into 2020.
- Next week features the Fed meeting and our first peek at fourth quarter economic growth. The Fed is likely to leave rates on hold as it assesses the potential upside from the trade deal with China. A solid headline of around 2% growth is likely to mask softer domestic details.

Canada

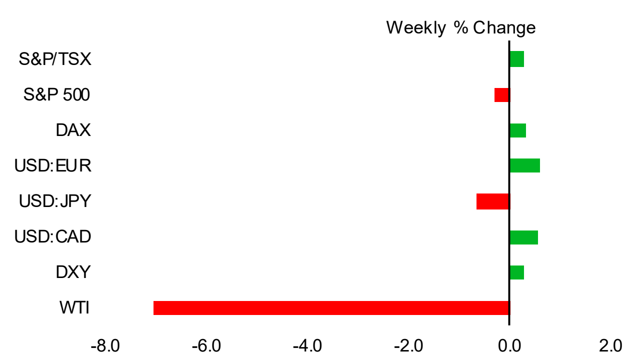
- The Bank of Canada's interest rate decision was the main event of the week. As expected, the Bank held the rate at 1.75%. However, the accompanying statement was dovish compared to expectations.
- Despite the dovish tone in the statement, the Bank's growth expectations after the near-term look downright peppy. Growth is projected to accelerate through 2020 to an above-potential pace next year.
- Data this week generally reinforced our view that the economy stalled at the end of 2019. Even the decent retail sales data was driven by often volatile auto sales and was unable to reverse the prior months' decline.

This Week in the Markets

	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	3319	3330	3330	2640
S&P/TSX Comp.	17604	17559	17622	15281
DAX	13571	13526	13571	10907
FTSE 100	7595	7675	7687	6747
Nikkei	23827	24041	24084	20261
Fixed Income Yields				
U.S. 10-yr Treasury	1.70	1.82	2.76	1.46
Canada 10-yr Bond	1.39	1.56	1.98	1.09
Germany 10-yr Bund	-0.33	-0.22	0.21	-0.71
UK 10-yr Gilt	0.56	0.63	1.31	0.41
Japan 10-yr Bond	-0.02	0.00	0.02	-0.29
Foreign Exchange Cross Rates				
C$ (USD per CAD)	0.76	0.77	0.77	0.74
Euro (USD per EUR)	1.10	1.11	1.15	1.09
Pound (USD per GBP)	1.31	1.30	1.33	1.20
Yen (JPY per USD)	109.4	110.1	112.2	105.3
Commodity Spot Prices**				
Crude Oil ($US/bbl)	55.2	58.5	66.4	51.1
Natural Gas ($US/MMBtu)	1.98	2.06	4.25	1.90
Copper ($US/met. tonne)	5956.0	6247.3	6555.5	5584.5
Gold ($US/troy oz.)	1571.4	1557.2	1574.4	1270.7

*As of 10:56 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

Oil Drops as Oversupply and Coronavirus Worries Escalate



Note: Data as of 11:50 AM ET, Friday, January 24, 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.

U.S. - All Quiet Ahead of the Fed

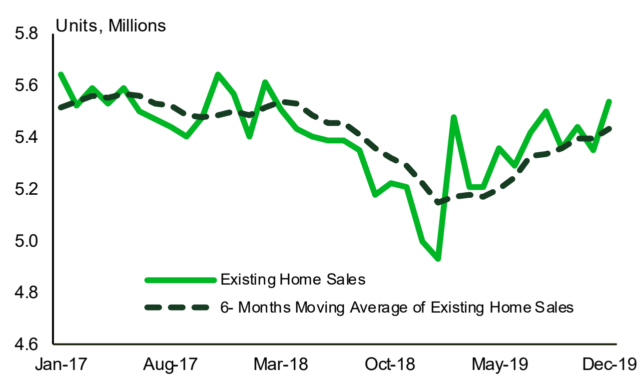
Markets were focused on the progress of the new coronavirus in China, with few economic headlines in the U.S. It is still very early days, with analysts looking back at the SARS outbreak in 2003 for guidance. However, the global health system is now much better prepared to contain an outbreak like this. The containment restrictions in China will hopefully help, but the disruption is likely to hold back economic growth there in the short-term.

The European Central Bank left its low policy rates unchanged this week. Activity in the Euro Area appears to be stabilizing, albeit at a lower level. Christine Lagarde, the new ECB President, also set out the framework for the ECB's first strategic review in 16 years. It will reconsider the inflation target and the tools used to achieve it. Notably it will also examine how other considerations, like climate change and environmental sustainability can be relevant to the ECB's mandate.

Existing home sales jumped up 4% in December, more than recovering from the 1.7% decline in November. Activity was likely boosted by unseasonable warm weather in December, so we will likely see some softness in the months ahead. Overall, however, the story of 2019 was a resurgence in housing in the second half of the year (Chart 1). The main reason was rising affordability due to lower mortgage rates and accelerating income.

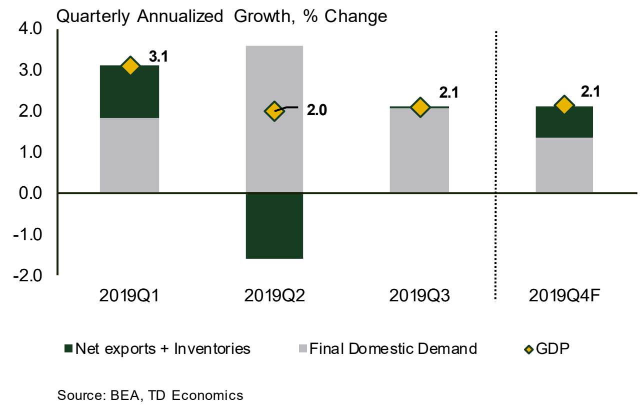
In fact, home sales could have been even higher if not for constrained housing supply, which is driving up prices. All in, as we outlined in our recent report, we expect existing home sales to continue to improve, but at a more subdued pace this year.

Chart 1: Housing Market Ends 2019 on a High Note



Source: National Association of Realtors, TD Economics.

Chart 2: Q4 Growth Headline Hides Softer Domestic Momentum



Source: BEA, TD Economics

Next week will feature bigger headlines, with a Fed meeting and fourth quarter GDP data. We don't foresee fireworks from the FOMC, which is widely expected to leave rates unchanged. This decision does not feature a forecast update, but we will be watching for the Fed's take on the Phase 1 China trade deal. The narrative of a strong consumer and resurgent housing sector, alongside weak business investment, remains very much intact since December's statement.

Fourth quarter economic growth is forecast to post a respectable 2.1% annualized gain on the surface. However, the details are likely to show the U.S. economy ended 2019 on a soft note. Consumer spending is tracking below 2%, and business investment is looking flat to slightly negative. Residential investment is one area expected to be quite bright, but it is relatively small. A large drop in imports is the main factor keeping growth above 2%, but that is not a positive sign for demand (Chart 2). Trade is often a trickier component to predict, so there is a bit more uncertainty than usual on the quarter's forecast. Domestic demand should look a bit better in Q1, but overall our latest forecast calls for relatively modest growth in 2020 of around 2 percent.

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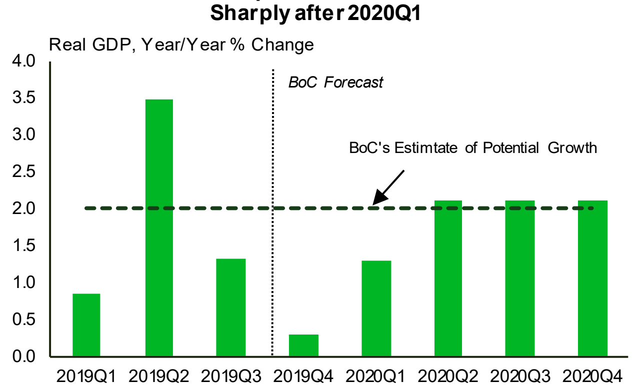
Canada - This Is What It Feels Like…When Doves Guide

In the past five days, economy watchers have been gobsmacked by a cornucopia of top-tier data and events, headlined by the Bank of Canada's latest interest rate decision. As expected, the Bank held their policy rate steady at 1.75%, although the accompanying statement hewed to the dovish side of expectations. Policymakers rightly put some of the blame for the recent run of poor data on "special factors" (e.g. labour and other disruptions) but acknowledged that weak global conditions could be weighing on activity more than previously thought. They also downgraded their 2020 growth forecast a touch to 1.6% – on lesser contributions from consumption and inventories – while caveating recent positive trade developments with references to still-heightened uncertainty and rising geopolitical risks.

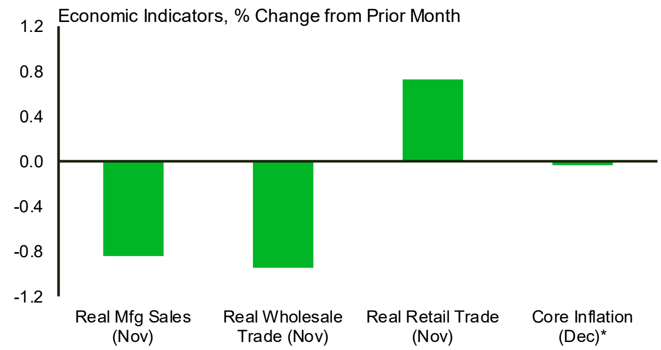
Still, the title of this article may be exaggerating things, as the Bank's outlook is not completely bleak (Chart 1). In fact, after a lull to end 2019 (where "special factors" helped keep growth near zero) and a weak rebound expected in the first quarter of this year, prospects for the Canadian economy look downright peppy to Poloz and company. This is clear given that growth would have to average 2.1% (annualized) in the remaining quarters of 2020 to hit the Bank's full-year target of 1.6%. What's more, their estimate of potential output (i.e. how much we're capable of producing) has been boosted compared to what was expected in October. Next year, policymakers expect the economy to "grow just above the rate of potential", yielding an upgraded forecast of 2.0% for the year overall. What's behind these relatively rosy projections? Much of it can be put down to household spending, although forecasts for residential investment and export growth also received lesser upgrades.

Chart 1: BoC Expects Growth to Accelerate Sharply after 2020Q1



Source: Statistics Canada, Bank of Canada, TD Economics
Growth rates after 2020Q1 are assumed by TD in order to hit 1.6% growth in 2020

Chart 2: More Evidence of Q4 Weakness, but Inflation Still near Target



Source: Statistics Canada, TD Economics
* Average of Bank of Canada's preferred core inflation measures

Back in the here and now, the run of primary and secondary data releases this weak reinforced our forecast that growth stalled out in the final quarter of 2019 (Chart 2). Manufacturing volumes tumbled 0.8% m/m in November, partly reflecting since-ended strikes at CN Rail and GM. However, moving past these impacts revealed weakening trends in several sectors and regions. Wholesale sales volumes also fell during the month, with declines across most major categories. Even consumer price inflation got in on the act, with the average of the Bank of Canada's core measures dipping slightly, though generally remaining on-target, in December. On the plus side, growth in November retail sales volumes was solid, although this followed back-to-back drops in the months prior and gains were largely in the volatile auto sales sector. All told, it's clear that fourth quarter growth was exceedingly weak despite the likelihood that the end of labour disruptions in November will make the December data look a bit better

Our 2019Q4 growth tracking is close to (though a bit below) the Bank's updated forecast. However, the rest of our forecast is not quite as bullish. As such, we view their projections as leaving room for disappointment, particularly given historically high household debt service charges, a challenged global economy, and the chance that bond yields could rise further. Ultimately, these factors tilt the balance of risks in favour of a rate cut this year.

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U.S.: Upcoming Key Economic Releases

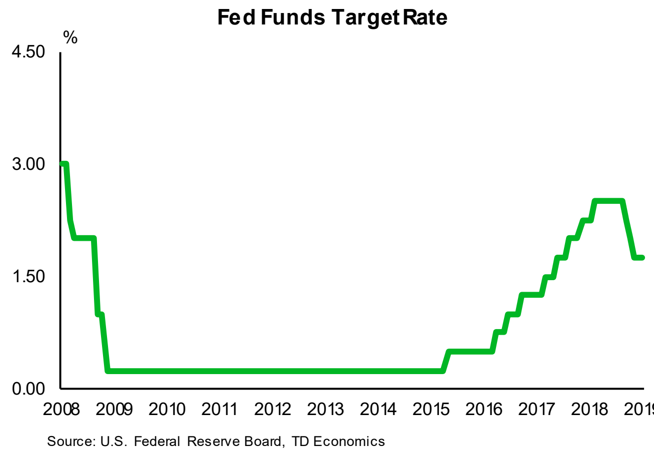
U.S. FOMC Rate Decision – January*

Release Date: January 29

Previous: 1.50-1.75%

TD Forecast: 1.50-1.75%

Consensus: 1.50-1.75%



Fed officials will almost certainly keep the target range for the funds rate at 1.50-1.75%, a second consecutive meeting with no change following three straight 25bp easings. We expect changes to the FOMC statement to be fairly minor, resulting in a similar message to the one sent in December. Officials are undoubtedly relieved that trade tensions have eased and their base case is likely still for an extended pause, but they probably still see more downside than upside risks. Note that there are no new economic or dot plot projections this time. In contrast to the funds rate, we expect officials to announce a 5bp increase in the IOER rate to 1.60% in order to better align the effective funds rate with the mid-point of the target range. Fed officials will (rightly in our view) insist that the change is "technical," as the effective rate has been running below the 1.625% target range midpoint. Moreover, as usual, the IOER rate will be relegated to the separately released monetary policy "implementation note," and not the FOMC statement itself.

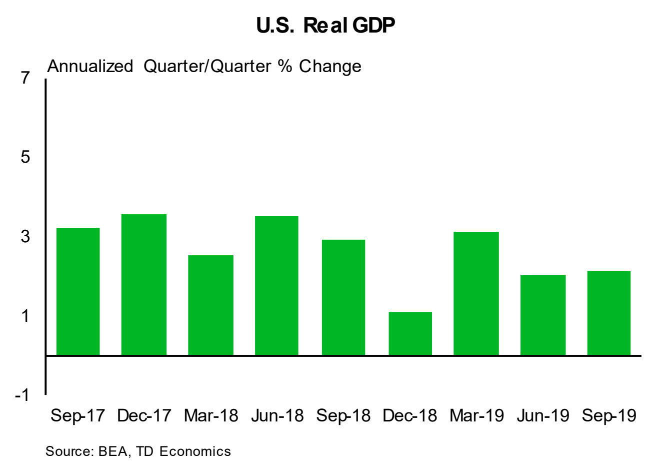
U.S. Real GDP Growth – Q4 Advance

Release Date: January 30

Previous: 2.1%

TD Forecast: 2.1%

Consensus: 2.2%



Real GDP likely rose at a seemingly solid 2.1% pace in Q4. However, beneath the headline, domestic demand was looking a little soft to end the year. We expect to see a solid gain in residential investment, but a decline in business fixed investment and some slowing in consumption, which has shown resilience thus far. We expect headline GDP will be boosted by a tariff-related plunge in imports. This looks to be only be partially offset by a drawdown in inventories. Core inflation likely remained tame. For 2019 as a whole, we estimate real GDP rose by 2.3% (calendar-average basis), down from 2.9% pace in all of 2018.

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

U.S.: Upcoming Key Economic Releases

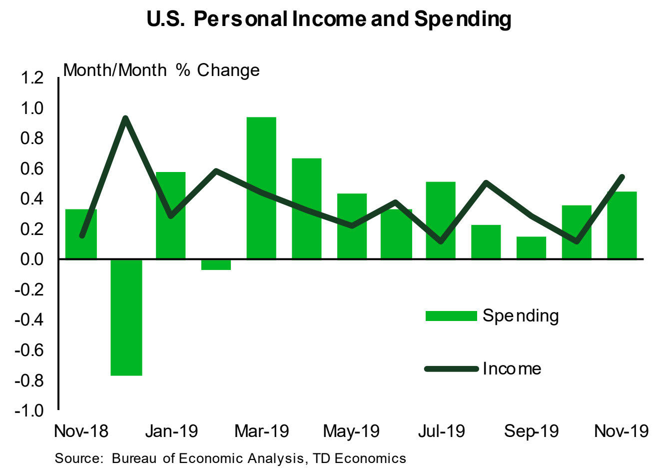
U.S. Personal Income & Spending - December*

Release Date: January 31, 2020

Previous: Spending: 0.4% m/m; Income: 0.5%

TD Forecast: Spending: 0.3% m/m; Income: 0.3%

Consensus: Spending: 0.3% m/m; Income: 0.3%



Income and spending likely rose moderately in nominal terms in December. Our 0.3% m/m forecasts imply zero growth in real terms, as we estimate the PCE price index rose 0.3%, led by higher gasoline prices. We estimate real consumer spending rose at a 1.6% quarter-over-quarter annual rate in Q4 as a whole, down from a 3.1% pace in Q3; the quarterly total will be in the GDP report. We estimate the core PCE price index rose 0.2% m/m in December, keeping the 12-month change low at 1.6%. The 12-month change in the overall PCE price index probably rose to a still-low 1.7% from 1.5%.

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

Canada: Upcoming Key Economic Releases

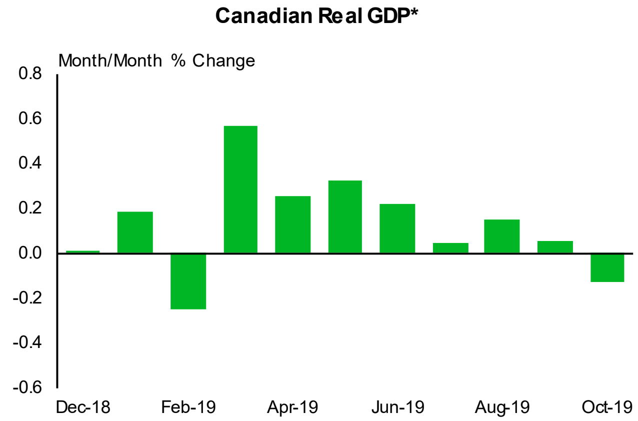
Canadian Real GDP - November*

Release Date: January 31

Previous: -0.1%

TD Forecast: 0.0%

Consensus: N/A



*Real GDP at Basic Prices in 2012 Chained Dollars
Source: Statistics Canada, TD Economics

TD looks for a flat print on industry-level GDP for November with a muted performance across goods and services. Real manufacturing shipments contracted by nearly 1pp during the month, despite the tailwind from a return to normal operations at Canadian auto plants after US labour disputes disrupted supply chains in October. Energy is expected to be a headwind to growth, owing to softer preliminary output in the oil sands, while construction spending for November was subdued, potentially in response to unseasonably cool weather during the month. Looking to services, another strong month for existing home sales will help support real estate while retail sales should provide another source of strength. However, this will be offset by a drag from wholesale trade and transportation, with the latter a key source of downside risk due to the impact from the CN strike. A flat print would leave Q4 growth tracking near BoC projections (0.3%), suggesting more excess capacity and disinflationary pressure going forward.

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

Recent Key Economic Indicators: Jan 20 - 24, 2020							
Release Date		**Economic Indicator/Event**	**Data for Period**	**Units**	**Current**	**Prior**
United States						
Jan 22		Existing Home Sales	Dec	Mlns	5.5	5.4
Jan 23		Initial Jobless Claims	Jan 20	Thsd	211.0	205.0
Jan 24		Markit US Manufacturing PMI	Jan	Index	51.7	52.4
Jan 24		Markit US Services PMI	Jan	Index	53.2	52.8
Canada						
Jan 20		Teranet/National Bank HPI	Dec	Y/Y % Chg.	1.9	1.4
Jan 21		Manufacturing Sales	Nov	M/M % Chg.	-0.6	-0.2
Jan 22		Consumer Price Index	Dec	Y/Y % Chg.	2.2	2.2
Jan 22		Consumer Price Index Core- Common %	Dec	Y/Y % Chg.	2.0	1.9
Jan 22		Consumer Price Index Core- Median %	Dec	Y/Y % Chg.	2.2	2.3
Jan 22		Consumer Price Index Core- Trim %	Dec	Y/Y % Chg.	2.1	2.2
Jan 22		Consumer Price Index NSA	Dec	M/M % Chg.	0.0	-0.1
Jan 22		Wholesale Trade Sales	Nov	M/M % Chg.	-1.2	-1.2
Jan 22		Bank of Canada Rate Decision	Jan 22	%	1.75	1.75
Jan 24		Retail Sales	Nov	M/M % Chg.	0.9	-1.1
Jan 24		Retail Sales Ex Auto	Nov	M/M % Chg.	0.2	-0.4
International						
Jan 21	UK	ILO Unemployment Rate 3Mths	Nov	%	3.8	3.8
Jan 23	JN	Natl Consumer Price Index	Dec	Y/Y % Chg.	0.8	0.5
Jan 24	EZ	Markit Eurozone Manufacturing PMI	Jan	Index	47.8	46.3
Jan 24	EZ	Markit Eurozone Services PMI	Jan	Index	52.2	52.8
Jan 24	UK	Markit UK PMI Manufacturing SA	Jan	Index	49.8	47.5
Jan 24	UK	Markit/CIPS UK Services PMI	Jan	Index	52.9	50.0

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Jan 27 - 31, 2020						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Jan 27	10:00	New Home Sales	Dec	Thsd	729.0	719.0
Jan 28	8:30	Cap Goods Orders Nondef Ex Air	Dec	M/M % Chg.	-	0.2
Jan 28	8:30	Durable Goods Orders	Dec	M/M % Chg.	1.0	-2.1
Jan 28	8:30	Durables Ex Transportation	Dec	M/M % Chg.	0.3	-0.1
Jan 28	9:00	S&P CoreLogic CS US HPI NSA	Nov	M/M % Chg.	-	3.3
Jan 28	10:00	Conf. Board Consumer Confidence	Jan	Index	128.0	126.5
Jan 29	8:30	Advance Goods Trade Balance	Dec	Blns	-64.0	-63.2
Jan 29	8:30	Retail Inventories	Dec	M/M % Chg.	-	-0.8
Jan 29	10:00	Pending Home Sales	Dec	M/M % Chg.	0.5	1.2
Jan 29	14:00	FOMC Rate Decision (Upper Bound)	Jan 20	%	1.75	1.75
Jan 29	14:00	Interest Rate on Excess Reserves	Jan 20	M/M % Chg.	-	1.6
Jan 30	8:30	Core Personal Consumption Expenditure	4Q	Q/Q % Chg.	1.7	2.1
Jan 30	8:30	Gross Domestic Product Annualized	4Q	Q/Q % Chg.	2.2	2.1
Jan 30	8:30	Initial Jobless Claims	Jan 20	Thsd	-	211.0
Jan 30	8:30	Personal Consumption	4Q	Q/Q % Chg.	2.2	3.2
Jan 31	8:30	Employment Cost Index	4Q	M/M % Chg.	0.7	0.7
Jan 31	8:30	Personal Consumption Expenditure Core Deflator	Dec	Y/Y % Chg.	1.6	1.6
Jan 31	8:30	Personal Consumption Expenditure Core Deflator	Dec	M/M % Chg.	0.1	0.1
Jan 31	8:30	Personal Consumption Expenditure Deflator	Dec	Y/Y % Chg.	-	1.5
Jan 31	8:30	Personal Income	Dec	M/M % Chg.	0.3	0.5
Jan 31	8:30	Real Personal Spending	Dec	M/M % Chg.	-	0.3
Canada						
Jan 30	6:00	CFIB Business Barometer	Jan	Index	-	55.5
Jan 30	15:15	*BoC's Paul Beaudry speaks in Quebec City*				
Jan 31	8:30	Gross Domestic Product	Nov	M/M % Chg.	-	-0.1
Jan 31	8:30	Industrial Product Price	Dec	M/M % Chg.	-	0.1
International						
Jan 30	5:00 EZ	Unemployment Rate	Dec	%	7.5	7.5
Jan 30	7:00 UK	Bank of England Bank Rate	Jan 20	%	0.75	0.75
Jan 30	7:00 MX	Gross Domestic Product NSA	4Q	Y/Y % Chg.	-	-0.3
Jan 30	18:50 JN	Retail Sales	Dec	Y/Y % Chg.	-1.6	-2.1
Jan 30	20:00 CH	Manufacturing PMI	Jan	Index	50.1	50.2
Jan 31	5:00 EZ	Consumer Price Index Core	Jan	Y/Y % Chg.	1.2	1.3
Jan 31	5:00 EZ	Gross Domestic Product SA	4Q	Y/Y % Chg.	1.1	1.2
Jan 31	7:00 IN	Gross Domestic Product Annual Estimate	2019	Y/Y % Chg.	5.1	5.0

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