

## The Weekly Bottom Line

February 2, 2024

### Highlights

#### United States

- The Federal Reserve opted to hold rates steady in their first decision of the year in order to give themselves more time to assess the sustainability of current disinflation trends.
- Employment gains in January nearly doubled expectations as strong upward revisions to December carried forward into 2024.
- U.S. Treasury markets experienced volatility this week as a decline in yields prompted by a dovish interpretation of Wednesday's Federal Reserve decision was reversed by stronger than expected employment data on Friday.

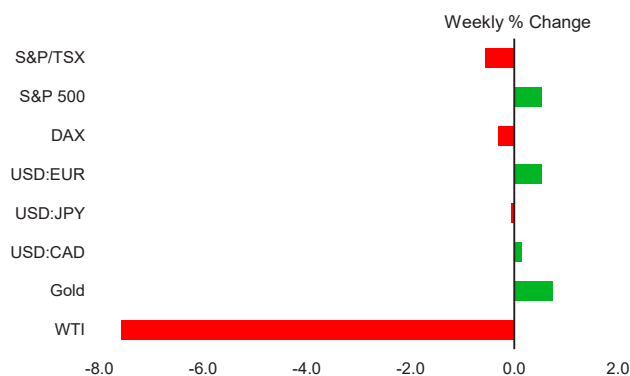
#### Canada

- Canadian GDP growth appears to have ended 2023 on a stronger footing than previously expected, according to Statistics Canada's preliminary monthly GDP estimates.
- The Bank of Canada (BoC) will keep an eye on growth trends while managing sticky underlying inflation pressures. A rate cut by June is not off the table, but recent developments risk pushing the cut further down the line.
- Updated jobs data for January will be the key release next week. We expect a modest employment gain to be met with a larger gain in labour supply.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
<b>Stock Market Indexes</b>				
S&P 500	4922	4891	4928	3856
S&P/TSX Comp.	21044	21125	21228	18737
DAX	16937	16961	16972	14687
FTSE 100	7620	7635	8014	7257
Nikkei	36158	35751	36547	26946
<b>Fixed Income Yields</b>				
U.S. 10-yr Treasury	3.98	4.14	4.99	3.31
Canada 10-yr Bond	3.34	3.52	4.24	2.73
Germany 10-yr Bund	2.21	2.30	2.97	1.90
UK 10-yr Gilt	3.86	3.96	4.75	3.01
Japan 10-yr Bond	0.67	0.72	0.96	0.25
<b>Foreign Exchange Cross Rates</b>				
C\$ (USD per CAD)	0.74	0.74	0.76	0.72
Euro (USD per EUR)	1.08	1.09	1.12	1.05
Pound (USD per GBP)	1.27	1.27	1.31	1.18
Yen (JPY per USD)	147.9	148.2	151.7	128.7
<b>Commodity Spot Prices**</b>				
Crude Oil (\$US/bbl)	73.8	78.0	93.7	66.7
Natural Gas (\$US/MMBtu)	2.15	2.37	13.20	1.77
Copper (\$US/met. tonne)	8425.5	8448.1	9183.5	7823.8
Gold (\$US/troy oz.)	2033.9	2018.5	2077.5	1811.0

\*As of 10:00 AM on Friday. \*\*Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

**Oil Prices Retreat on Easing Geopolitical Tensions**



Note: Data as of 10:10 AM ET, Friday, February 2, 2024.  
Source: Bloomberg, TD Economics.

Global Official Policy Rate Targets	
Central Banks	Current Target
Federal Reserve (Fed Funds Rate)	5.25 - 5.50%
Bank of Canada (Overnight Rate)	5.00%
European Central Bank (Refi Rate)	4.50%
Bank of England (Repo Rate)	5.25%
Bank of Japan (Overnight Rate)	-0.10%

Source: Bloomberg.

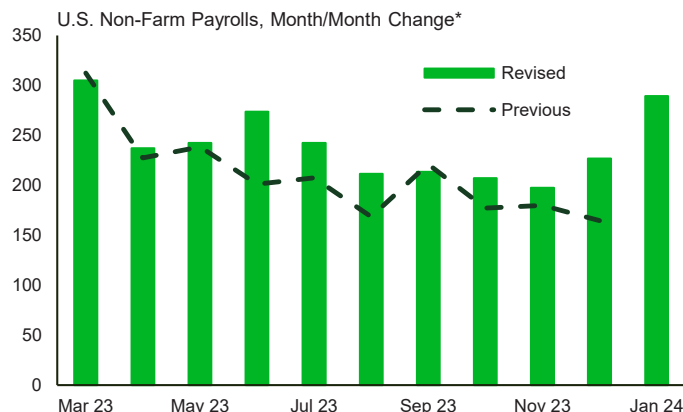
# U.S. – Resilient Labor Demand and A Patient Fed

January ended with a big week for economic data, including the first Federal Reserve decision of the year and the first employment data reading. While the Fed’s statement dropped any tightening bias, Chair Powell’s press conference curtailed market hopes for a near-term pivot to less restrictive monetary policy. This saw Treasury yields fall steeply after the meeting. However, this descent was ultimately short-lived, as much stronger than expected employment data on Friday sent yields higher. At time of writing, the ten-year Treasury yield was 12 basis-points lower on the week.

Overall, the messaging from the Federal Reserve on Wednesday was positive. Chair Powell stated that the committee was pleased by the progress made thus far on returning inflation to their 2% target, but noted that they would require more time to assess the sustainability of current disinflation trends (Chart 1). With economic growth accelerating last year on the back of strong consumption growth, the labor market remaining solid, and geopolitical tensions posing challenges to supply chains (and hence inflation), caution is likely wise. Chair Powell also stated that he viewed it as unlikely that the FOMC would possess the confidence to reduce interest rates by the March meeting in six week’s time.

Powell’s caution was further validated when we received the January employment data on Friday. Not only did we see a very strong 353k jobs added in the first month of the year, but last year’s total job gains were also revised up to 3.1 million, well above the prior reading for 2.7 million, with much of the revised strength coming through the second

**Chart 2: U.S. Job Growth Accelerated Into 2024**



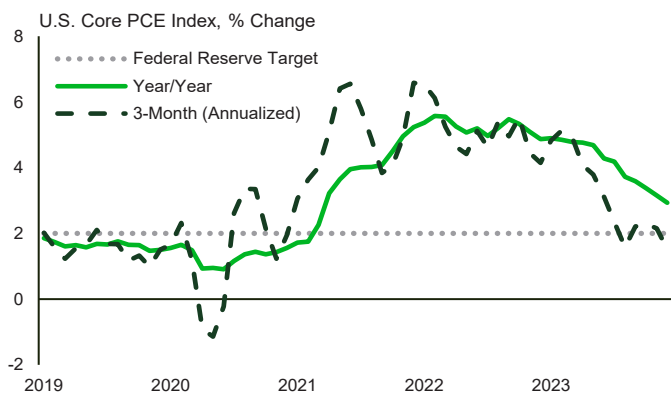
\*3-Month Moving Average. Source: U.S. Bureau of Labor Statistics, TD Economics.

half of the year (Chart 2). Furthermore, wage growth appears to be accelerating, with the three-month annualized change in average hourly wages rising to a twenty-month high in January. Although near-term strength in the labor market is expected to recede over the coming months, sustained imbalances in the labor market is a risk that the Fed is acutely aware of.

Elsewhere this week, the ISM Manufacturing Purchasing Managers’ Index (PMI) showed that industrial activity continued to contract in January, but by less than expected. Elevated interest rates continue to weigh on the sector, but demand has begun to show signs of improvement, which has stabilized aggregate production output. Forward pricing in financial markets for the eventual decline in interest rates expected this year will likely provide relief to the manufacturing sector moving forward as the demand for goods improves.

The lingering question, however, is when will the Federal Reserve begin to drawdown interest rates? Markets have broadly abandoned their hopes for a March cut after this week, with May now being the expected timeline with about 80% probability as of the time of writing. Upcoming data will likely provide greater clarity on the timing of the introduction of less restrictive monetary policy, including a 60 Minutes interview with Chair Powell on Sunday and the Federal Reserve Senior Loan Officer Opinion Survey on Monday.

**Chart 1: U.S. Inflation Within Range of Target**



Source: U.S. Bureau of Economic Analysis, TD Economics. Last Observation: Dec. 2023.

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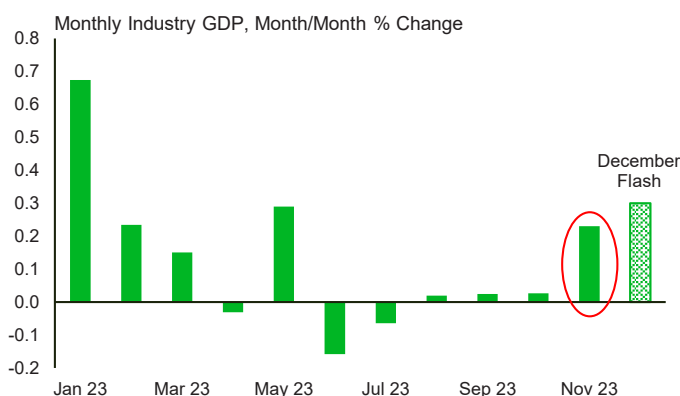
## Canada – Welcome Back Growth

Canadian markets likely took their cue from events south of the border this week, with a light domestic data calendar. The 2-Year Canada yield finished the week flat while the 10-Year yield slipped around 10 bps. The Loonie's early-week gains were erased on Friday, finishing the week flat at 0.7420. On the data front, the lone GDP update for November printed at 0.2% month-on-month (m/m), exceeding Statistics Canada's initial guidance and market expectations. What's more, the flash estimate for December GDP growth was a sturdy 0.3% m/m, which would mark the hottest growth reading since May.

It has been several months since Canada's economy has recorded any meaningful growth. In fact, between Jun.–Oct. 2023, real GDP flatlined (Chart 1). Not a bad outcome given the current interest rate environment, but still evidence that output was hitting a wall. This week's update poured cold water on the idea that the economy is completely out of steam. We are hesitant to call this a newly emerging growth trend, but it would be remiss to ignore it.

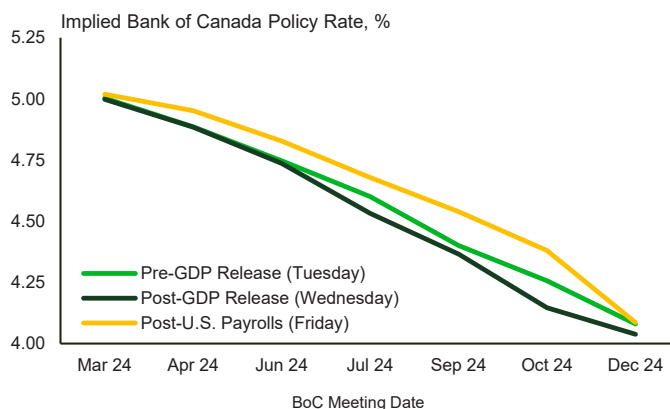
There is clearly some degree of underlying strength in Canada's economy despite the turbulent second and third quarter this year. Strength in this sense is relative. GDP for Q4-2023 is tracking above expectations, around 1.2% quarter-on-quarter (q/q) annualized, but still below trend-growth. A range of indicators however, namely housing sales, retail spending and manufacturing, have showed a pulse in recent months. These fresh GDP readings also introduce upside risk to the BoC's growth projection in last

**Chart 1: Canadian Economy Finishes the Year With Upward Momentum**



Source: Statistics Canada, TD Economics.

**Chart 2: Market Pricing For Bank of Canada Reactive to U.S. Developments**



Source: Bloomberg, TD Economics.

week's Monetary Policy Report (MPR), which now pegs fourth quarter growth at 0%, down from their 0.8% projection in October.

The BoC is now forced to divert some attention back to growth while trying to manage underlying inflation pressures. The ultimate focus for the BoC is to get inflation back to their 2% target, and they have reiterated that they believe trends in growth—and inflation—are headed in the right direction. The GDP release alone didn't move the needle on the market's expectations for a first Bank of Canada rate cut, but it appears hawkish data stateside did (Chart 2). At the time of writing, markets are pricing a 30% chance of a rate cut in April and an 80% probability assigned to June. Prior to U.S. payrolls, market expectations for a June cut were fully priced in.

Next week's main focus is job market updates for January. Encouragingly, the labour market is cooling and looks positioned to avoid a worst-case scenario. The pace of monthly job gains, notably in the private sector, has retreated in recent months while the unemployment rate grinds higher. Expect a modest gain in January employment to be met with stronger labour force growth, a theme that has been playing out for several months.

Marc Ercolao, Economist



Recent Key Economic Indicators: Jan 29 - Feb 02, 2024					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
<b>United States</b>					
Jan 30	S&P CoreLogic CS 20-City NSA	Nov	Y/Y % Chg.	5.4	4.9
Jan 30	S&P CoreLogic CS US HPI NSA	Nov	Y/Y % Chg.	5.1	4.7
Jan 30	Conf. Board Consumer Confidence	Jan	Index	114.8	108.0
Jan 30	Job Openings	Dec	MIns	9.03	8.93
Jan 31	ADP Employment Change	Jan	Thsd	107.0	158.0
Jan 31	FOMC Rate Decision (Upper Bound)	Jan 31	%	5.50	5.50
Feb 1	Initial Jobless Claims	Jan 27	Thsd	224.0	215.0
Feb 1	Unit Labor Costs	Q4	Q/Q % Chg.	0.5	-1.1
Feb 1	S&P Global US Manufacturing PMI	Jan	Index	50.7	50.3
Feb 1	ISM Manufacturing	Jan	Index	49.1	47.1
Feb 1	Wards Total Vehicle Sales	Jan	MIns	15.00	15.83
Feb 2	Average Hourly Earnings	Jan	M/M % Chg.	0.6	0.4
Feb 2	Change in Nonfarm Payrolls	Jan	Thsd	353.0	333.0
Feb 2	Unemployment Rate	Jan	%	3.7	3.7
Feb 2	Cap Goods Orders Nondef Ex Air	Dec	M/M % Chg.	0.2	0.3
Feb 2	Durable Goods Orders	Dec	M/M % Chg.	0.0	0.0
Feb 2	Factory Orders	Dec	M/M % Chg.	0.2	2.6
Feb 2	Factory Orders Ex Trans	Dec	M/M % Chg.	0.4	0.2
<b>Canada</b>					
Jan 31	Gross Domestic Product	Nov	M/M % Chg.	0.2	0.0
Feb 1	S&P Global Canada Manufacturing PMI	Jan	Index	48.3	45.4
<b>International</b>					
Jan 29	JN Jobless Rate	Dec	%	2.4	2.5
Jan 30	EZ Gross Domestic Product SA	Q4	Y/Y % Chg.	0.1	0.0
Jan 30	MX Gross Domestic Product NSA	Q4	Y/Y % Chg.	2.4	3.3
Jan 30	JN Retail Sales	Dec	Y/Y % Chg.	2.1	5.4
Jan 30	CH Manufacturing PMI	Jan	Index	49.2	49.0
Jan 31	JN Jibun Bank Japan PMI Mfg	Jan	Index	48.0	48.0
Jan 31	CH Caixin China PMI Mfg	Jan	Index	50.8	50.8
Feb 1	EZ Consumer Price Index Estimate	Jan	Y/Y % Chg.	2.8	2.9
Feb 1	EZ Unemployment Rate	Dec	%	6.4	6.4
Feb 1	UK Bank of England Bank Rate	Feb 01	%	5.25	5.25

Source: Bloomberg, TD Economics.



Upcoming Economic Releases and Events: Feb 05 - 09, 2024						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
<b>United States</b>						
Feb 5	9:45	S&P Global US Composite PMI	Jan	Index	-	52.3
Feb 5	9:45	S&P Global US Services PMI	Jan	Index	52.9	52.9
Feb 5	10:00	ISM Services	Jan	Index	52.0	50.5
Feb 5	14:00	<i>Fed's Bostic Gives Welcoming Remarks</i>				
Feb 5	14:00	<i>Senior Loan Officer Opinion Survey on Bank Lending Practices</i>				
Feb 6	12:00	<i>Fed's Mester Speaks on Economic Outlook</i>				
Feb 6	13:00	<i>Fed's Kashkari Participates in Moderated Discussion</i>				
Feb 6	14:00	<i>Fed's Collins Delivers Opening Remarks at Labor Market Conference</i>				
Feb 6	19:00	<i>Fed's Harker Speaks on Fed's Role in Economy</i>				
Feb 7	8:30	Trade Balance	Dec	Blns	-62.20	-63.20
Feb 7	11:00	<i>Fed's Kugler Speaks at Brookings Event</i>				
Feb 7	11:30	<i>Fed's Collins Speaks at Boston Economic Club</i>				
Feb 7	12:30	<i>Fed's Barkin Speaks on Outlook, Regional Economy</i>				
Feb 7	14:00	<i>Fed's Bowman Speaks on Supporting Small Businesses</i>				
Feb 8	8:30	<i>Fed's Barkin Speaks on Bloomberg TV</i>				
Feb 8	8:30	Initial Jobless Claims	Feb 03	Thsd	215.0	224.0
Feb 8	10:00	Wholesale Trade Sales	Dec	M/M % Chg.	-	0.0
Feb 8	12:05	<i>Fed's Barkin Speaks at Economic Club of New York</i>				
<b>Canada</b>						
Feb 5	10:30	<i>Bank of Canada Releases Market Participants Survey</i>				
Feb 6	10:00	Ivey Purchasing Managers Index SA	Jan	Index	-	56.3
Feb 6	13:00	<i>BoC's Macklem Speaks at Montreal Council on Foreign Relations</i>				
Feb 7	8:30	Int'l Merchandise Trade	Dec	Blns	1.10	1.57
Feb 7	13:30	<i>Bank of Canada Releases Summary of Deliberations</i>				
Feb 9	8:30	Net Change in Employment	Jan	Thsd	15.0	0.1
Feb 9	8:30	Unemployment Rate	Jan	%	5.9	5.8
Feb 9	10:30	<i>Bank of Canada Releases Senior Loan Officer Survey</i>				
<b>International</b>						
Feb 06	5:00	EZ Retail Sales	Dec	Y/Y % Chg.	-0.8	-1.1
Feb 07	20:30	CH Consumer Price Index	Jan	Y/Y % Chg.	-0.5	-0.3

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

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