

## Weekly Bottom Line

December 13, 2024

### Highlights

#### Canada

- The Bank of Canada lowered its policy rate by 50 bps to 3.25%. This is the second straight upsized cut to interest rates, and marks a cumulative 175 bps of easing since the Bank first lowered rates in June.
- There are more cuts to come in 2025, but the Bank's forward-looking comments signaled greater uncertainty over the path for interest rates.
- Canadian household wealth continues to rise, bolstering our view that consumer spending will firm up over the coming quarters.

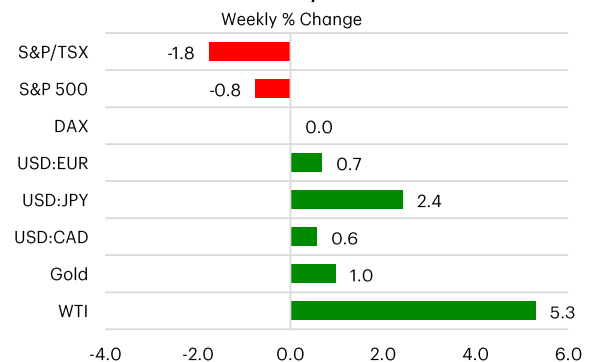
#### U.S.

- November CPI inflation provided further evidence that progress on the inflation front has stalled.
- The FOMC is expected to cut its policy rate by another 25 bps next week and simultaneously hint towards a potential 'pause' in January to better assess recent inflation dynamics.
- The FOMC will also release a revised set of economic projections, which will shed some light on how Committee members' views have shifted post-election.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
<b>Stock Market Indexes</b>				
S&P 500	6044	6090	6090	4689
S&P/TSX Comp.	25230	25692	25692	20529
DAX	20390	20385	20426	16432
FTSE 100	8294	8309	8446	7446
Nikkei	39470	39091	42224	31458
<b>Fixed Income Yields</b>				
U.S. 10-yr Treasury	4.37	4.15	4.70	3.62
Canada 10-yr Bond	3.17	2.98	3.87	2.87
Germany 10-yr Bund	2.25	2.11	2.69	1.90
UK 10-yr Gilt	4.40	4.28	4.56	3.44
Japan 10-yr Bond	1.04	1.06	1.10	0.56
<b>Foreign Exchange Cross Rates</b>				
C\$ (USD per CAD)	0.70	0.71	0.76	0.70
Euro (USD per EUR)	1.05	1.06	1.12	1.04
Pound (USD per GBP)	1.26	1.27	1.34	1.24
Yen (JPY per USD)	153.6	150.0	161.7	140.6
<b>Commodity Spot Prices**</b>				
Crude Oil (\$US/bbl)	70.8	67.2	86.9	65.8
Natural Gas (\$US/MMBtu)	3.12	2.84	13.20	1.22
Copper (\$US/met. tonne)	8972.6	9011.9	10800.8	8065.0
Gold (\$US/troy oz.)	2659.5	2633.4	2787.6	1992.3

\*As of 11:27 AM on Friday. \*\*Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

#### USD Continues To Rally on Rate Cut Outlook



#### Global Official Policy Rate Targets

Central Banks	Current Target
Federal Reserve (Fed Funds Rate)	4.50 - 4.75%
Bank of Canada (Overnight Rate)	3.25%
European Central Bank (Refi Rate)	3.15%
Bank of England (Repo Rate)	4.75%
Bank of Japan (Overnight Rate)	0.25%

Source: Bloomberg.

## Canada – No More 50s in ‘25

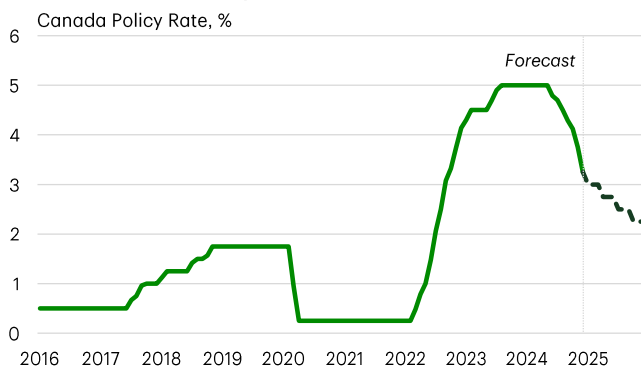
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It was the Bank of Canada’s (BoC) turn to take center stage this week and markets got the show they wanted. The Bank cut its policy rate by 50 bps to 3.25%—the second consecutive supersized cut. The BoC has now reduced the overnight rate by 175 bps since June (Chart 1). The decision met consensus expectations, but market moves over the week were choppy. The Canadian dollar appreciated almost half a percent immediately post-meeting but ended up losing ground, finishing the week at 0.7030 U.S. cents. Yields marched higher, with the Canadian 2 and 10-year bonds up 10 and 15 bps, respectively.

There is a lot to unpack in this announcement. The BoC has made it clear that the economy no longer needs to be clearly in restrictive territory. And with the Bank’s range for the neutral rate currently at 2.25–3.25%, the policy rate in the eyes of the BoC is in now in more balanced territory. The Bank feels that inflation is stabilizing around their two percent target and has now shifted towards prioritizing the softer growth outlook.

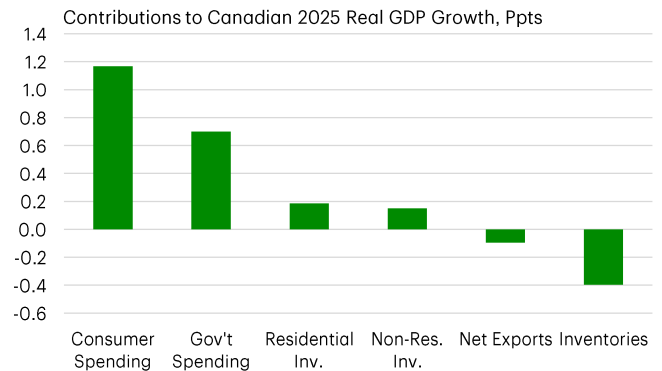
There was one key change in the statement that injected uncertainty about the path forward for interest rates. In October, the Bank stated that they “expect” to reduce borrowing costs if the economy evolves broadly in line with their forecasts. This week, that changed to, “going forward, we will be evaluating the need for further reductions in the policy rate one decision at a time.” It’s a meaningful shift in tone and one that all but takes another 50 bps move off the table.

**Chart 1: Bank of Canada Lowers Policy Rate to 3.25%; More Cuts on the Way**



Source: Bank of Canada, TD Economics.

**Chart 2: Consumer Spending Expected to Lift 2025 Real GDP Growth**



Source: TD Economics.

The BoC acknowledged the host of domestic and external uncertainties facing Canada’s economy in 2025. For one, U.S. President-elect Donald Trump’s threat to place 25% tariffs on Canadian goods exports severely clouds the economic outlook. Meanwhile, recent immigration policy changes will stall Canada’s population growth inducing both demand and supply effects. A wave of fiscal stimulus including one-time payments to individuals and a temporary suspension of the GST also have the potential to reignite consumer spending channels. In fact, our recent [forecast](#) has consumer spending as one of the key drivers of 2025 real GDP growth (Chart 2). An update on Canadian household balance sheets this week also showed that wealth continues to rise, bolstering our view that spending should continue to [firm](#) in the near-term.

As discussed in our recent [forecast](#), we expect the BoC to cut another 100 bps—or one 25 bps cut per quarter—in 2025 to reach our estimate of the “neutral” rate by 2.25%. There is little doubt that elevated interest rates did their part in taking heat out of the economy. We think a gradual pace of further cuts is the prudent decision to allow the economy to slowly close economic slack, while minimizing the risk of reigniting inflation. The BoC has is navigating a tough stretch ahead as it aims to balance many competing forces in an effort to properly calibrate interest rates.

# U.S. – December Cut Expected, January ‘Pause’ Increasingly Likely

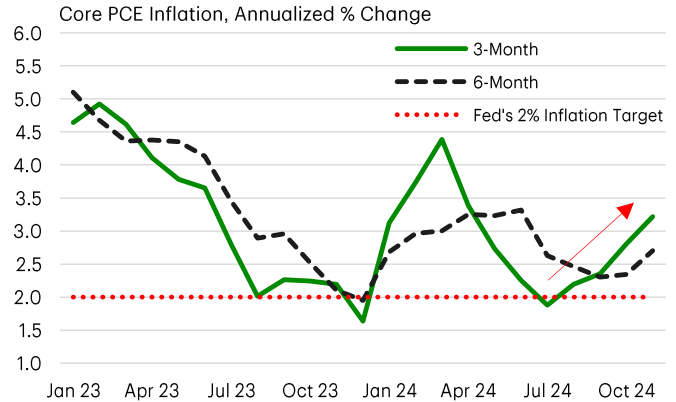
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For a year that was supposed to eke out only modest equity gains, the S&P 500 is up an impressive 27% year-to-date (Chart 1). The return is even more notable given that the Federal Reserve has so far delivered on only 75-bps of policy easing, or considerably less than the 150-bps priced by futures markets for 2024 at the end of last year. And even though another quarter-point cut is universally expected next Wednesday CPI and PPI data out this week provided more evidence that progress on the inflation front is indeed stalling and will likely lead to a more gradual path of policy easing in 2025.

Headline CPI inflation accelerated by its fastest pace in seven months in November, pushing the twelve-month change to 2.7%, up from its three-year low of 2.4% in October. Meanwhile, core inflation rose at a similar pace to the prior three-months, though the composition of price pressures shifted somewhat. Services inflation cooled last month, owing to a notable deceleration in shelter costs, but this was offset by a sharp uptick in goods prices and firm readings on ‘supercore’ inflation.

The Fed’s preferred inflation gauge, the core PCE deflator, is released next Friday. Mapping the CPI data into core PCE points to a ‘soft’ 0.3% m/m increase in November, pushing near-term trends higher (Chart 2). This is likely to unnerve FOMC members, who need to see further evidence of cooling inflationary pressures before committing to future rate cuts. This is a message that Fed Chair Powell is likely to telegraph at next week’s policy announcement.

Chart 2: U.S. Inflation Trends Have Turned Higher

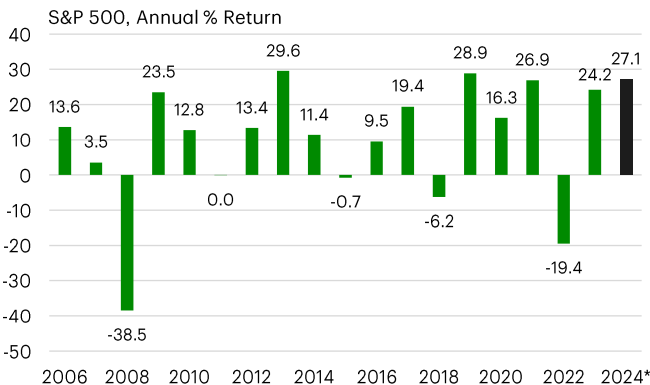


Note: November 2024 is a projected value.  
Source: Bureau of Economic Analysis, TD Economics.

The FOMC will also release a revised set of economic projections, which will provide insight on how policy-maker’s view of the outlook and future path for the policy rate has shifted post-election. In the September projections, the median ‘dot’ assumed 100-bps of policy easing in 2025, or nearly double what’s currently reflected in futures pricing. However, core PCE inflation is running about 25 bps hotter than the 2.6% assumed in the last set of projections for the fourth quarter of this year. This suggests that the median dots for 2025 could shift a bit higher. But that’s by no means a guarantee, as each Committee member will make their own assumptions on scope, magnitude, and timing of potential policy changes under the incoming administration. This could very well lead to a wider dispersion in forecasts.

This is exactly what happened in December 2016, following the last Republican sweep. Transcripts from those FOMC meetings show that roughly half of the FOMC members incorporated some degree of fiscal stimulus in their individual forecasts. So even though Powell is unlikely to speculate on the impact of potential policy changes during next week’s press conference, it’s very likely that some FOMC members will have baked in some impacts from tariffs and/or tax cuts into their revised projections. Given the policy uncertainties and the fact that recent inflation readings have shown that progress has stalled, we suspect that the FOMC will open the door to a ‘pause’ on rate cuts in January and shift to cutting rates at every other meeting in 2025 (see [financial forecasts](#)).

Chart 1: Impressive Run For U.S. Equities



\*2024 value is measured as year-to-date return as of December 13, 2024 at 10:20 am.  
Source: S&P, TD Economics.

## Exhibits

Recent Key Economic Indicators: Dec 09 - 13, 2024					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
<b>United States</b>					
Dec 9	Wholesale Trade Sales	Oct	M/M % Chg.	-0.1	0.5
Dec 9	NY Fed 1-Yr Inflation Expectations	Nov	%	3.0	2.9
Dec 10	NFIB Small Business Optimism	Nov	Index	101.7	93.7
Dec 10	Unit Labor Costs	Q3	Q/Q % Chg.	0.8	1.9
Dec 11	Consumer Price Index	Nov	Y/Y % Chg.	2.7	2.6
Dec 11	Consumer Price Index	Nov	M/M % Chg.	0.3	0.2
Dec 11	Consumer Price Index Ex Food and Energy	Nov	Y/Y % Chg.	3.3	3.3
Dec 11	Consumer Price Index Ex Food and Energy	Nov	M/M % Chg.	0.3	0.3
Dec 12	Initial Jobless Claims	Dec 07	Thsd	242.0	225.0
Dec 12	PPI Ex Food and Energy	Nov	M/M % Chg.	0.2	0.3
Dec 12	PPI Final Demand	Nov	M/M % Chg.	0.4	0.3
<b>Canada</b>					
Dec 11	Bank of Canada Rate Decision	Dec 11	%	3.25	3.75
Dec 13	Manufacturing Sales	Oct	M/M % Chg.	2.1	-0.6
Dec 13	Wholesale Sales ex Petroleum	Oct	M/M % Chg.	1.0	1.3
<b>International</b>					
Dec 12	EC ECB Main Refinancing Rate	Dec 12	%	3.15	3.40
Dec 13	UK Monthly Gross Domestic Product	Oct	3M/3M % Chg.	0.1	0.1

Source: Bloomberg, TD Economics.

## Upcoming Economic Releases and Events: December 16 - 20, 2024

Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
<b>United States</b>						
Dec 16	8:30	Empire Manufacturing	Dec	Index	8.2	31.2
Dec 16	9:45	S&P Global US Manufacturing PMI	Dec	Index	-	49.7
Dec 16	9:45	S&P Global US Services PMI	Dec	Index	-	56.1
Dec 16	9:45	S&P Global US Composite PMI	Dec	Index	-	54.9
Dec 17	8:30	Retail Sales Advance	Nov	M/M % Chg.	0.6	0.4
Dec 17	8:30	Retail Sales Ex Auto and Gas	Nov	M/M % Chg.	0.4	0.1
Dec 17	9:15	Industrial Production	Nov	M/M % Chg.	0.2	-0.3
Dec 17	9:15	Capacity Utilization	Nov	%	77.3	77.1
Dec 17	9:15	Manufacturing (SIC) Production	Nov	M/M % Chg.	0.4	-0.5
Dec 17	10:00	Business Inventories	Oct	M/M % Chg.	0.2	0.1
Dec 17	10:00	NAHB Housing Market Index	Dec	Index	47.0	46.0
Dec 18	8:30	Building Permits	Nov	Thsd	1430.0	1416.0
Dec 18	8:30	Housing Starts	Nov	Thsd	1345.0	1311.0
Dec 18	14:00	FOMC Rate Decision (Upper Bound)	Dec 18	%	4.50	4.75
Dec 19	8:30	Gross Domestic Product Annualized	3Q	Q/Q % Chg.	2.8	2.8
Dec 19	8:30	Personal Consumption	3Q	Q/Q % Chg.	-	3.5
Dec 19	8:30	Initial Jobless Claims	Dec 14	Thsd	-	242.0
Dec 19	10:00	Existing Home Sales	Nov	Mlns	4.1	4.0
Dec 20	8:30	Personal Income	Nov	M/M % Chg.	0.4	0.6
Dec 20	8:30	Real Personal Spending	Nov	M/M % Chg.	-	0.1
<b>Canada</b>						
Dec 16	8:15	Housing Starts	Nov	Thsd	245.1	240.8
Dec 16	9:00	Existing Home Sales	Nov	Mlns	-	7.7
Dec 16	12:30	<i>Bank of Canada Governor Tiff Macklem to Give Annual Address</i>				
Dec 17	8:30	Consumer Price Index NSA	Nov	M/M % Chg.	0.1	0.4
Dec 17	8:30	Consumer Price Index	Nov	Y/Y % Chg.	2.0	2.0
Dec 19	7:00	CFIB Business Barometer	Dec	Index	-	59.7
Dec 19	8:30	Payroll Employment Change - SEPH	Oct	Thsd	-	-57.4
Dec 20	8:30	Retail Sales	Oct	Y/Y % Chg.	0.7	0.4
Dec 20	8:30	Retail Sales Ex Auto	Oct	M/M % Chg.	0.5	0.9
<b>International</b>						
Dec 17	2:00	UK ILO Unemployment Rate	Oct	Q/Q % Chg.	4.3	4.3
Dec 18	2:00	UK Consumer Price Index	Nov	Y/Y % Chg.	2.6	2.3
Dec 18	5:00	EC Consumer Price Index	Nov	Y/Y % Chg.	2.3	2.3
Dec 19	7:00	UK Bank of England Bank Rate	Dec 19	%	4.8	4.8
Dec 19	18:30	JN Natl Consumer Price Index	Nov	Y/Y % Chg.	2.9	2.3
Dec 20	2:00	UK Retail Sales Ex Auto Fuel	Nov	Y/Y % Chg.	0.8	2.0

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

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