

The Weekly Bottom Line

April 8, 2022

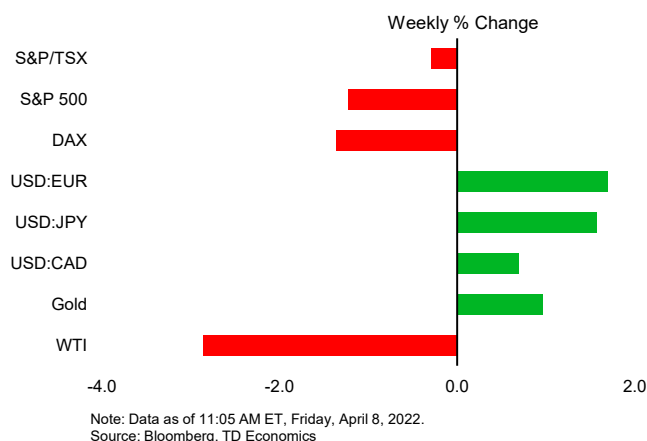
Highlights

- The first full week of the second quarter was sparse on economic data. The service sector showed signs of modest acceleration, while vehicle sales declined for the second consecutive month in March.
- The Federal Open Market Committee (FOMC) March meeting minutes reiterated members' unwavering commitment to moving fast to restore price stability.
- The minutes provided a blueprint of the Fed's balance sheet runoff, which will be more aggressive and ramp up faster than before. At such pace, the runoff should finish by the end of 2024.

| This Week in the Markets | | | | |
|------------------------------|----------|----------|--------------|-------------|
| | Current* | Week Ago | 52-Week High | 52-Week Low |
| Stock Market Indexes | | | | |
| S&P 500 | 4511 | 4546 | 4797 | 4063 |
| S&P/TSX Comp. | 21933 | 21953 | 22087 | 19032 |
| DAX | 14281 | 14446 | 16272 | 12832 |
| FTSE 100 | 7666 | 7538 | 7672 | 6844 |
| Nikkei | 26986 | 27666 | 30670 | 24718 |
| Fixed Income Yields | | | | |
| U.S. 10-yr Treasury | 2.69 | 2.38 | 2.69 | 1.17 |
| Canada 10-yr Bond | 2.61 | 2.43 | 2.61 | 1.12 |
| Germany 10-yr Bund | 0.71 | 0.56 | 0.71 | -0.50 |
| UK 10-yr Gilt | 1.76 | 1.61 | 1.76 | 0.51 |
| Japan 10-yr Bond | 0.23 | 0.23 | 0.25 | 0.01 |
| Foreign Exchange Cross Rates | | | | |
| C\$ (USD per CAD) | 0.79 | 0.80 | 0.83 | 0.77 |
| Euro (USD per EUR) | 1.09 | 1.10 | 1.23 | 1.09 |
| Pound (USD per GBP) | 1.30 | 1.31 | 1.42 | 1.30 |
| Yen (JPY per USD) | 124.3 | 122.5 | 124.3 | 107.9 |
| Commodity Spot Prices** | | | | |
| Crude Oil (\$US/bbl) | 97.0 | 99.3 | 123.7 | 59.3 |
| Natural Gas (\$US/MMBtu) | 6.05 | 5.40 | 6.52 | 2.40 |
| Copper (\$US/met. tonne) | 10314.5 | 10343.0 | 11299.5 | 8864.3 |
| Gold (\$US/troy oz.) | 1944.4 | 1925.7 | 2050.8 | 1726.4 |

*As of 11:20 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

Stocks Fall as Markets Brace for Higher Rates



Global Official Policy Rate Targets

| Central Banks | Current Target |
|-----------------------------------|----------------|
| Federal Reserve (Fed Funds Rate) | 0.25 - 0.50% |
| Bank of Canada (Overnight Rate) | 0.50% |
| European Central Bank (Refi Rate) | 0.00% |
| Bank of England (Repo Rate) | 0.75% |
| Bank of Japan (Overnight Rate) | -0.10% |

Source: Bloomberg.

TD Economics Key Financial Forecasts

| | Current Rate 4/8/22 | 2021 | | | | 2022 | | | | 2023 | | | |
|------------------------|------------------------|------|------|------|------|------|------|------|------|------|------|------|------|
| | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2F | Q3F | Q4F | Q1F | Q2F | Q3F | Q4F |
| Fed Funds Target Rate | 0.50 | 0.25 | 0.25 | 0.25 | 0.25 | 0.50 | 1.25 | 1.50 | 1.75 | 2.00 | 2.25 | 2.25 | 2.25 |
| 2-yr Govt. Bond Yield | 2.49 | 0.16 | 0.25 | 0.28 | 0.73 | 1.80 | 1.95 | 2.00 | 2.05 | 2.05 | 2.05 | 2.00 | 2.00 |
| 10-yr Govt. Bond Yield | 2.69 | 1.74 | 1.45 | 1.52 | 1.52 | 2.15 | 2.25 | 2.35 | 2.40 | 2.45 | 2.40 | 2.35 | 2.30 |
| 30-yr Govt. Bond Yield | 2.72 | 2.41 | 2.06 | 2.08 | 1.90 | 2.45 | 2.55 | 2.65 | 2.70 | 2.75 | 2.70 | 2.65 | 2.60 |

Forecast by TD Economics as of March 2022; all forecasts are end-of-period. Source: Bloomberg, Federal Reserve Board, TD Economics.

The Fed's Most Important Task

The first full week of the second quarter was sparse on economic data. On Tuesday, the Institute for Supply Management released its [report on services](#) that provided signs of modest acceleration in economic activity in the sector. Still, the report was full of contrasting elements. On the one hand, demand indicators were higher with business activity, and both new domestic and export orders up on the month. This was likely supported by stronger employment and the recent improvement in delivery times allowing businesses to rebuild depleted inventories.

On the other hand, the imports sub-index fell into a contractionary territory while ongoing supply chain issues lowered purchasing managers' inventory sentiment to an all-time low. The prices paid indicator was unsurprisingly higher given the energy shock dealt by the Russia-Ukraine war with all 18 industries reporting higher prices (Chart 1). In addition, respondents' comments were quite negative, reflecting the pessimism over increasing cost and ongoing supply chain disruption.

This pessimism was echoed in the [vehicle sales release](#), which showed the second consecutive month of decline in March. While underlying demand remains strong and improving, sales will remain constrained by limited inventory. Furthermore, production may suffer another blow should the war in Ukraine result in semiconductor shortages later in this year. As a result of strong demand and tight supply, the inventory-to-sales ratio – a measure of adequacy of supply relative to current demand – remains historically low. This will continue to put upward pressure on car prices over the near-term.

Chart 1: Prices Paid by the Services Sector Hang High

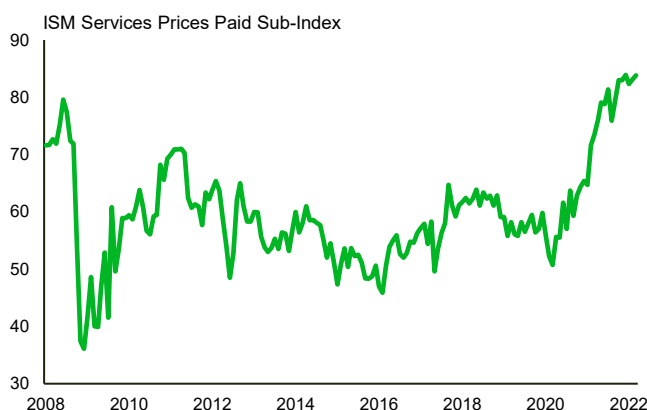
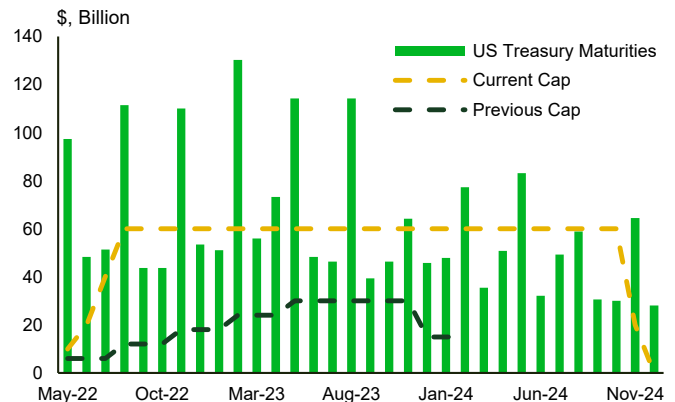


Chart 2: QT to Ramp Up Faster and Double in Size



*Amount of US Treasury maturing in the System Open Market Account, excluding bills.
Source: Federal Reserve Bank of New York, TD Economics. Last data point is December 2024.

Fighting persistent price pressures remains the Fed's most important task. The Federal Open Market Committee (FOMC) March meeting [minutes](#) reiterated members' unwavering commitment to moving fast to restore price stability and reach a neutral policy stance by year end. Many participants expressed their concerns about inflationary risk and voiced their preference to tighten the policy rate by 50 basis points at the next meeting on May 3rd-4th.

The minutes also provided a plan for the Fed's balance sheet runoff (aka Quantitative Tightening or QT). As we wrote in [this report](#), the monthly caps will be larger than in the previous QT cycle, scaled up by the increase in asset holdings (Chart 2). The participants agreed to shed \$60 billion Treasury securities and about \$35 billion agency MBS monthly, but the phase-in period will be shorter than we expected at just three months. The runoff may start as early as May, which suggests that the balance sheet could shrink by \$2.7 trillion by the end of 2024. By this time, we expect that the Fed will reach \$1.7 trillion in reserves – the level of reserves "consistent with the Committee's ample-reserves operating framework".

Bond markets reacted by selling longer-dated US Treasury securities, which led to yield-curve steepening. At the time of writing, the 10-year Treasury yield was at 2.69% – up 0.3 percentage points relative to where it closed last week.

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| Recent Key Economic Indicators: Apr 4 - 8, 2022 | | | | | |
|-------------------------------------------------|-------------------------------------|-----------------|------------|---------|-------|
| Release Date | Economic Indicator/Event | Data for Period | Units | Current | Prior |
| United States | | | | | |
| Apr 4 | Cap Goods Orders Nondef Ex Air | Feb | M/M % Chg. | -0.2 | -0.3 |
| Apr 4 | Durable Goods Orders | Feb | M/M % Chg. | -2.1 | -2.2 |
| Apr 4 | Factory Orders | Feb | M/M % Chg. | -0.5 | 1.5 |
| Apr 4 | Factory Orders Ex Trans | Feb | M/M % Chg. | 0.4 | 1.2 |
| Apr 5 | Trade Balance | Feb | Blns | -89.2 | -89.2 |
| Apr 5 | S&P Global US Composite PMI | Mar | Index | 57.7 | 58.5 |
| Apr 5 | S&P Global US Services PMI | Mar | Index | 58.0 | 58.9 |
| Apr 5 | ISM Services Index | Mar | Index | 58.3 | 56.5 |
| Apr 7 | Initial Jobless Claims | Apr 2 | Thsd | 166.0 | 171.0 |
| Apr 8 | Wholesale Trade Sales | Feb | M/M % Chg. | 1.7 | 5.0 |
| Canada | | | | | |
| Apr 4 | BoC Business Outlook Future Sales | 1Q | Q/Q % Chg. | -11.0 | 3.0 |
| Apr 4 | BoC Overall Business Outlook Survey | 1Q | Q/Q % Chg. | 5.0 | 6.0 |
| Apr 5 | Int'l Merchandise Trade | Feb | Blns | 2.7 | 3.1 |
| Apr 8 | Net Change in Employment | Mar | Thsds | 72.5 | 336.6 |
| Apr 8 | Unemployment Rate | Mar | % | 5.3 | 5.5 |
| International | | | | | |
| Apr 7 | EZ Retail Sales | Feb | Y/Y % Chg. | 5.0 | 8.4 |
| Source: Bloomberg, TD Economics. | | | | | |

| Upcoming Economic Releases and Events: Apr 11 - 15, 2022 | | | | | | |
|----------------------------------------------------------|-------|--------------------------------------------------------------------|-----------------|------------|--------------------|-------------|
| Release Date | Time* | Economic Indicator/Event | Data for Period | Units | Consensus Forecast | Last Period |
| United States | | | | | | |
| Apr 11 | 9:30 | <i>Fed's Bostic Makes Opening Remarks at Fed Listens Event</i> | | | | |
| Apr 11 | 9:30 | <i>Fed's Bowman, Waller Give Remarks at Fed Listens Event</i> | | | | |
| Apr 11 | 12:40 | <i>Fed's Evans Discusses Economy and Monetary Policy</i> | | | | |
| Apr 12 | 6:00 | NFIB Small Business Optimism | Mar | Index | 94.9 | 95.7 |
| Apr 12 | 8:30 | Consumer Price Index | Mar | M/M % Chg. | 1.2 | 0.8 |
| Apr 12 | 8:30 | Consumer Price Index | Mar | Y/Y % Chg. | 8.4 | 7.9 |
| Apr 12 | 8:30 | Consumer Price Index Ex Food and Energy | Mar | M/M % Chg. | 0.5 | 0.5 |
| Apr 12 | 8:30 | Consumer Price Index Ex Food and Energy | Mar | Y/Y % Chg. | 6.6 | 6.4 |
| Apr 12 | 12:10 | <i>Fed's Brainard Takes Part in Wall Street Journal Live Event</i> | | | | |
| Apr 12 | 18:45 | <i>Fed's Barkin to Discuss the Economy</i> | | | | |
| Apr 13 | 8:30 | Producer Price Index Ex Food and Energy | Mar | M/M % Chg. | 0.5 | 0.2 |
| Apr 13 | 8:30 | Producer Price Index Final Demand | Mar | M/M % Chg. | 1.2 | 0.8 |
| Apr 14 | 8:30 | Initial Jobless Claims | Apr 9 | Thsd | - | 166.0 |
| Apr 14 | 8:30 | Retail Sales Advance | Mar | M/M % Chg. | 0.5 | 0.3 |
| Apr 14 | 8:30 | Retail Sales Ex Auto and Gas | Mar | M/M % Chg. | 0.0 | -0.4 |
| Apr 14 | 10:00 | Business Inventories | Feb | M/M % Chg. | 1.3 | 1.1 |
| Apr 14 | 15:50 | <i>Fed's Mester Discusses Workforce Development</i> | | | | |
| Apr 14 | 18:00 | <i>Fed's Harker Discusses Economy and Job Market</i> | | | | |
| Apr 15 | 8:30 | Empire Manufacturing | Apr | Index | 2.0 | -11.8 |
| Apr 15 | 9:15 | Capacity Utilization | Mar | % | 77.9 | 77.6 |
| Apr 15 | 9:15 | Industrial Production | Mar | M/M % Chg. | 0.4 | 0.5 |
| Apr 15 | 9:15 | Manufacturing (SIC) Production | Mar | M/M % Chg. | 0.4 | 1.2 |
| Canada | | | | | | |
| Apr 13 | 10:00 | Bank of Canada Rate Decision | Apr 13 | % | 1.00 | 0.50 |
| Apr 13 | 10:00 | <i>Interest Rate Announcement and Monetary Policy Report</i> | | | | |
| Apr 13 | 11:00 | <i>Press Conference: Monetary Policy Report</i> | | | | |
| Apr 14 | 8:30 | Manufacturing Sales | Feb | M/M % Chg. | - | 0.6 |
| Apr 14 | 8:30 | Wholesale Trade Sales | Feb | M/M % Chg. | - | 4.2 |
| International | | | | | | |
| Apr 11 | 2:00 | UK Monthly Gross Domestic Product (3M/3M) | Feb | M/M % Chg. | - | 1.1 |
| Apr 12 | 2:00 | UK ILO Unemployment Rate 3Mths | Feb | % | 3.8 | 3.9 |
| Apr 13 | 2:00 | UK Consumer Price Index | Mar | Y/Y % Chg. | 6.7 | 6.2 |
| Apr 14 | 7:45 | EZ ECB Main Refinancing Rate | Apr 14 | % | 0.00 | 0.00 |

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

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