The Weekly Bottom Line

April 22, 2022

Highlights

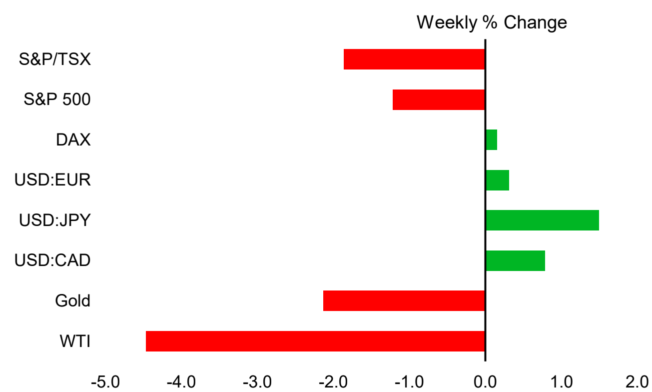
- US yields continued to move higher this week, as Fed Chair Jerome Powell solidified the case for a 50-basis point rate hike at the Fed's next meeting on May 4th. He also left the door open to additional 50 bps hikes at subsequent meetings, citing the importance of "front-loading" the removal of monetary accommodation.
- Existing home sales declined by 2.7% m/m to 5.77M (annualized) units in March, while housing starts surprised to the upside, rising by 0.3% m/m to 1.79M (annualized) units.
- The IMF has revised global growth projections lower as the ongoing war in Ukraine and COVID containment efforts in China dim economic prospects.
- Supply chains challenges continue to strain production due to an ongoing scarcity of inputs and rapidly rising costs.

This Week in the Markets

	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	4346	4393	4797	4063
S&P/TSX Comp.	21436	21856	22087	19032
DAX	14184	14164	16272	12832
FTSE 100	7539	7616	7672	6844
Nikkei	27105	27093	30670	24718
Fixed Income Yields				
U.S. 10-yr Treasury	2.90	2.83	2.94	1.17
Canada 10-yr Bond	2.89	2.76	2.89	1.12
Germany 10-yr Bund	0.97	0.84	0.97	-0.50
UK 10-yr Gilt	1.96	1.89	2.01	0.51
Japan 10-yr Bond	0.25	0.24	0.25	0.01
Foreign Exchange Cross Rates				
C$ (USD per CAD)	0.79	0.79	0.83	0.77
Euro (USD per EUR)	1.08	1.08	1.23	1.08
Pound (USD per GBP)	1.28	1.31	1.42	1.28
Yen (JPY per USD)	128.9	126.5	128.9	107.9
Commodity Spot Prices**				
Crude Oil ($US/bbl)	102.7	107.0	123.7	61.5
Natural Gas ($US/MMBtu)	6.87	6.91	7.49	2.69
Copper ($US/met. tonne)	10272.0	10297.5	11299.5	8894.0
Gold ($US/troy oz.)	1930.7	1978.2	2050.8	1726.4

*As of 11:23 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 Appreciate, While Equites and Oil Retreat



Note: Data as of 11:33 AM ET, Friday, April 22, 2022.
Source: Bloomberg, TD Economics

Global Official Policy Rate Targets

Central Banks	Current Target
Federal Reserve (Fed Funds Rate)	0.25 - 0.50%
Bank of Canada (Overnight Rate)	1.00%
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	2021				2022				2023			
	4/22/22	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	1.50	1.75	2.00	2.25	2.50	2.50	2.50
2-yr Govt. Bond Yield	2.73	0.16	0.25	0.28	0.73	2.28	2.30	2.35	2.30	2.25	2.20	2.15	2.05
10-yr Govt. Bond Yield	2.90	1.74	1.45	1.52	1.52	2.32	2.70	2.75	2.70	2.60	2.50	2.40	2.30
30-yr Govt. Bond Yield	2.93	2.41	2.06	2.08	1.90	2.44	2.80	2.85	2.80	2.75	2.70	2.65	2.60

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

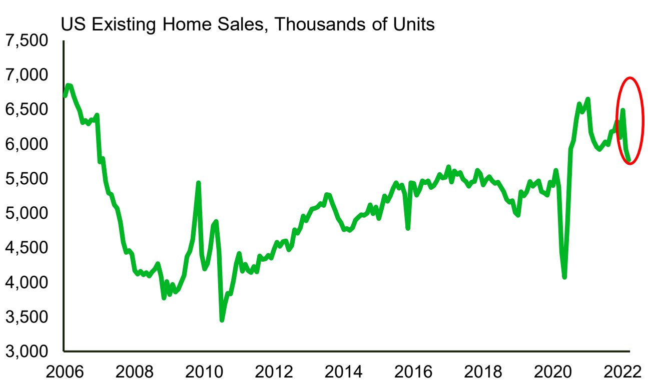
Appreciating the Fed Speak

Bond yields across the curve continued to move higher this week, as Fed officials have signaled a growing desire to move quickly in raising rates to quell inflation. This theme has been playing out across global financial markets since the beginning of the year and was echoed by Fed Chair Jerome Powell earlier this week. Speaking at an IMF event, Powell highlighted the importance of "front-loading" the removal of monetary accommodation, solidifying the case for a 50 basis-point rate hike.

The combination of firming rate hike expectations and heightened geopolitical tensions have led to a meaningful appreciation in the US dollar vis-à-vis other majors. Since the beginning of the year, the dollar index has appreciated by over 5%. It currently sits at a level not seen since the onset of the pandemic when heighten uncertainty drove significant safe haven flows into the US. With that in mind, it doesn't seem like the dollar has much further to run. Longer-term yields are quickly closing in on peak levels not seen since the end of the last tightening cycle, and markets are already fully priced for an additional 200 basis points (bps) of tightening from the Fed this year alone. This is 25 bps higher than the FOMC's median projection for the fed funds rate, suggesting there's still some wiggle room for the Fed to adjust its outlook higher without meaningful moving the market. The wildcard remains on the geopolitical front. Further escalations in geopolitical tensions will only drive stronger demand for safe-haven investments, which would ultimately be dollar positive.

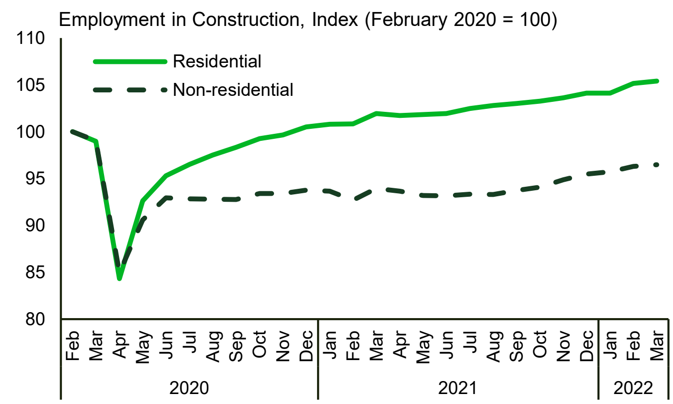
On the real economy, we've already started to see the impact of higher rates on some interest rate sensitive sectors. Existing home sales declined by 2.7% m/m in March – falling for

Chart 1: Existing Home Sales Have Declined as Affordability Has Eroded



Source: National Association of Realtors, TD Economics. Last observation: March 2022.

Chart 2: Employment in Non-residential Construction Has Been Slow to Recover



Source: Bureau of Labor Statistics, TD Economics.

the second consecutive month – to 5.77M units (Chart 1). However, higher rates aren't telling the full story. Sales have also been restrained by exceptionally tight inventory, which currently sits at just a 2 months' supply. For context, a balanced market typically runs anywhere between 4-6 months' supply. While we are a long way from those levels, housing construction continues to surprise to the upside.

March housing starts rose by 0.3% month-on-month (m/m) to 1.79M (SAAR) units, marking yet another new cyclical high. Over the near-term, it would appear that starts have more room to run. The 3-month moving average of housing permits – a leading indicator for construction – continues to run well above the current level of starts, suggesting there is still plenty of projects in the pipeline.

The sustained strength in housing construction provides evidence that at least some of the headwinds that builders had faced earlier in the pandemic are starting to abate. While sourcing of some materials remains an issue, labor constraints appear to be easing. Over the last year, the construction sector has added more than 200k jobs, and has now completely recouped all of its pandemic related losses. Interestingly, gains have not been spread evenly across the sector. Hiring in residential construction is 5.5% above February 2020 levels, while non-residential construction still has yet to recover from the pandemic. The shifting in employment composition shows that trades workers are going where the jobs are most plentiful, which bodes well for continued strength in residential construction, and should provide some relief to the supply constrained housing market.

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Global Economic Outlook Dims

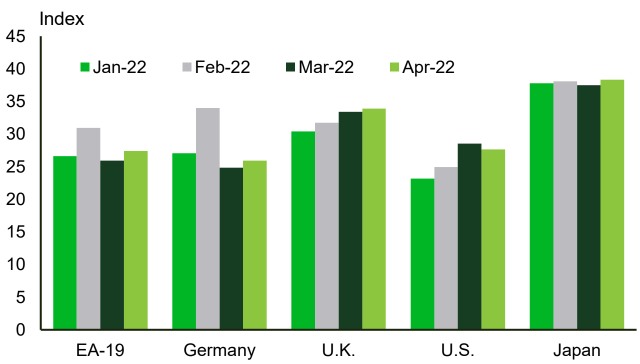
This week the IMF and World Bank both released updated projections for the global economy. Both featured substantial markdowns in growth prospects largely due to the economic spillovers from the war in Ukraine, and the ongoing slowdown in the Chinese economy.

The IMF downgraded global growth from 4.2% in the January outlook to 3.6% for 2022. The largest markdowns were in Europe, and Asian nations exposed to rising energy import prices.

Importantly, the outlook incorporated European Union member states decision to end purchases of Russian coal. The policy will take effect later this summer, but the announcement raises questions about the downstream impacts to industry if oil and gas imports from Russia are curtailed. In scenario analysis presented along with the forecast a Russian energy embargo could result in a roughly 3 percent hit to E.U. GDP relative to the baseline projection through 2023.

Country level exposures to Russian energy products vary greatly. For instance, Russian supplies 90% (by value) of the energy product inputs in the coke and refined petroleum product industry in Slovakia and Bulgaria, but only 2% in Spain. More broadly, the E.U.'s largest refining operations (as of 2020) are in Germany, Italy, the Netherlands and Spain. Using the same measure, roughly a fifth of Dutch inputs are Russian sourced, with Italy and Germany not far behind at 17% and 16%, respectively. Germany's recent commitment to end Russian oil imports by the end of the year leaves domestic refiners looking to replace a key supplier.

Chart 1: Suppliers' Delivery Times Show Little Improvement since March



Note: <50 indicate suppliers' delivery times are lengthening.
Source: IHS Markit, TD Economics.

Beyond the impact on commodity markets, the war has roiled supply chains once again. Moreover, the worsening COVID outbreaks in China compound the threat. With lockdowns in major cities ramping up in March, China's first quarter data shed some light on the situation. Despite first quarter GDP growth exceeding expectations by rising 4.8% year-over-year (y/y), the near-term trend is more indicative of mounting issues. Lockdowns proliferated in late-March, and their effect was reflected in March's 3.5% y/y contraction in retail sales. Due to the timing of restrictions, second quarter data will likely better reflect the impacts of the lockdowns. Moreover, current containment measures in China are hampering logistical networks as truck drivers are caught up in quarantines. Even factories operating under 'bubble' like conditions are dealing with reduced capacity and parts shortages, reflected in March's official PMI data indicating a fall in manufacturing output and a rise in supplier delivery times.

April's flash PMI readings reflected difficult conditions for European manufacturers (Chart 1). Euro zone supplier delivery times improved marginally, output growth stalled, and input cost inflation accelerated. That said, some cost relief on might be on the way as energy prices have fallen since March. Reassuringly, despite difficult conditions in Europe, U.S. manufacturers reported an improvement in output despite rising cost inflation and elongating supplier delivery times.

The global economic outlook is increasingly gloomy. Supply side factors continue to fuel inflation and risk shifting medium-term inflation expectations higher. The longer the supply side shocks persist, the greater the risk that central bankers may be forced to raise interest rates to re-anchor inflation expectations, regardless of the macroeconomic circumstances.

Andrew Hencic, Senior Economist

Recent Key Economic Indicators: Apr 15, 18 - 22, 2022						
Release Date		Economic Indicator/Event	Data for Period	Units	Current	Prior
United States						
Apr 15		Empire Manufacturing	Apr	Index	24.6	-11.8
Apr 15		Capacity Utilization	Mar	%	78.3	77.7
Apr 15		Industrial Production	Mar	M/M % Chg.	0.9	0.9
Apr 15		Manufacturing (SIC) Production	Mar	M/M % Chg.	0.9	1.2
Apr 18		NAHB Housing Market Index	Apr	Index	77.0	79.0
Apr 19		Building Permits	Mar	Thsd	1873.0	1865.0
Apr 19		Housing Starts	Mar	Thsd	1793.0	1788.0
Apr 20		Existing Home Sales	Mar	Mlns	5.77	5.93
Apr 21		Initial Jobless Claims	Apr 16	Thsd	184.0	186.0
Apr 22		S&P Global US Composite PMI	Apr	Index	55.1	57.7
Apr 22		S&P Global US Manufacturing PMI	Apr	Index	59.7	58.8
Apr 22		S&P Global US Services PMI	Apr	Index	54.7	58.0
Canada						
Apr 18		Housing Starts	Mar	Thsd	246.2	250.2
Apr 19		Existing Home Sales	Mar	M/M % Chg.	-5.4	4.6
Apr 20		Consumer Price Index	Mar	Y/Y % Chg.	6.7	5.7
Apr 20		Consumer Price Index NSA	Mar	M/M % Chg.	1.4	1.0
Apr 20		Teranet/National Bank HPI	Mar	Y/Y % Chg.	18.4	17.7
Apr 22		Industrial Product Price	Mar	M/M % Chg.	4.0	2.6
Apr 22		Retail Sales	Feb	M/M % Chg.	0.1	3.3
Apr 22		Retail Sales Ex Auto	Feb	M/M % Chg.	2.1	2.9
International						
Apr 21	EZ	Consumer Price Index	Mar	Y/Y % Chg.	7.4	7.5
Apr 21	JN	Natl Consumer Price Index	Mar	Y/Y % Chg.	1.2	0.9
Apr 21	JN	Jibun Bank Japan PMI Mfg	Apr	Index	53.4	54.1
Apr 22	UK	Retail Sales Ex Auto Fuel	Mar	Y/Y % Chg.	-0.6	4.7

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Apr 25 - 29, 2022							
Release Date	Time*		Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States							
Apr 26	8:30		Cap Goods Orders Nondef Ex Air	Mar	M/M % Chg.	0.5	-0.2
Apr 26	8:30		Durable Goods Orders	Mar	M/M % Chg.	1.0	-2.1
Apr 26	9:00		S&P CoreLogic CS US HPI NSA	Feb	Y/Y % Chg.	-	19.2
Apr 26	10:00		Conf. Board Consumer Confidence	Apr	Index	108.0	107.2
Apr 26	10:00		New Home Sales	Mar	Thsd	775.0	772.0
Apr 27	8:30		Advance Goods Trade Balance	Mar	Blns	-105.0	-106.3
Apr 27	10:00		Pending Home Sales	Mar	M/M % Chg.	-0.5	-4.1
Apr 28	8:30		Core Personal Consumption Expenditure	1Q	Q/Q % Chg.	5.6	5.0
Apr 28	8:30		Gross Domestic Product Annualized	1Q	Q/Q % Chg.	1.0	6.9
Apr 28	8:30		Initial Jobless Claims	Apr 23	Thsd	180.0	184.0
Apr 28	8:30		Personal Consumption	1Q	Q/Q % Chg.	3.4	2.5
Apr 29	8:30		Employment Cost Index	1Q	Q/Q % Chg.	1.1	1.0
Apr 29	8:30		Personal Consumption Expenditure Deflator	Mar	Y/Y % Chg.	6.7	6.4
Apr 29	8:30		Personal Income	Mar	M/M % Chg.	0.4	0.5
Apr 29	8:30		Real Personal Spending	Mar	M/M % Chg.	0.0	-0.4
Canada							
Apr 25	11:00		*BoC Governor Macklem and Senior Deputy Governor Rogers Make a Parliamentary Appearance*				
Apr 26	8:55		*BoC Deputy Governor Lane Participates in a Panel Discussion on Central Bank Digital Currency*				
Apr 28	7:00		CFIB Business Barometer	Apr	Index	-	65.1
Apr 28	8:30		Payroll Employment Change - SEPH	Feb	Thsd	-	5.5
Apr 29	8:30		Gross Domestic Product	Feb	M/M % Chg.	-	0.2
International							
Apr 25	19:30	JN	Jobless Rate	Mar	%	2.7	2.7
Apr 27	19:50	JN	Retail Sales	Mar	Y/Y % Chg.	0.3	-0.9
Apr 28		JN	BOJ Policy Balance Rate	Apr 28	%	-0.10	-0.10
Apr 29	5:00	EZ	Consumer Price Index Estimate	Apr	Y/Y % Chg.	7.5	7.5
Apr 29	5:00	EZ	Gross Domestic Product SA	1Q	Y/Y % Chg.	5.1	4.6
Apr 29	7:00	MX	Gross Domestic Product NSA	1Q	Y/Y % Chg.	-	1.1
Apr 29	21:30	CH	Manufacturing PMI	Apr	Index	48.0	49.5
Apr 29	21:45	CH	Caixin China PMI Mfg	Apr	Index	47.0	48.1

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