

The Weekly Bottom Line

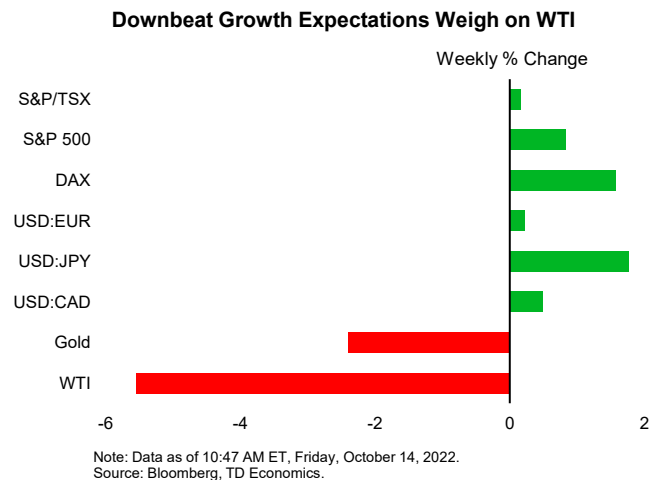
October 14, 2022

Highlights

- This week's Consumer Price Index report was another disappointing print, as inflation continues to be stubbornly high.
- Not all of it was bad news as core goods price inflation continued to moderate in September.
- Tighter financial conditions, improving supply chains, and eroding disposable incomes should work to weigh on demand and help the Fed in its fight against inflation.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	3670	3640	4797	3577
S&P/TSX Comp.	18614	18583	22087	18206
DAX	12467	12273	16272	11976
FTSE 100	6912	6991	7672	6826
Nikkei	27091	27116	29808	24718
Fixed Income Yields				
U.S. 10-yr Treasury	3.86	3.88	3.95	1.34
Canada 10-yr Bond	3.36	3.39	3.62	1.32
Germany 10-yr Bund	2.19	2.19	2.34	-0.39
UK 10-yr Gilt	3.96	4.24	4.51	0.70
Japan 10-yr Bond	0.25	0.25	0.26	0.04
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.72	0.73	0.81	0.72
Euro (USD per EUR)	0.97	0.97	1.17	0.96
Pound (USD per GBP)	1.12	1.11	1.38	1.07
Yen (JPY per USD)	147.8	145.3	147.8	112.8
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	89.1	92.6	123.7	65.6
Natural Gas (\$US/MMBtu)	6.25	5.89	9.84	3.33
Copper (\$US/met. tonne)	7665.5	7507.8	11299.5	7160.0
Gold (\$US/troy oz.)	1654.0	1694.8	2050.8	1622.4

*As of 10:09 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.



Global Official Policy Rate Targets	
Central Banks	Current Target
Federal Reserve (Fed Funds Rate)	3.00 - 3.25%
Bank of Canada (Overnight Rate)	3.25%
European Central Bank (Refi Rate)	1.25%
Bank of England (Repo Rate)	2.25%
Bank of Japan (Overnight Rate)	-0.10%

Source: Bloomberg.

TD Economics Key Financial Forecasts													
	Current Rate 10/14/22	2022				2023				2024			
		Q1	Q2	Q3	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate	3.25	0.50	1.75	3.25	4.25	4.50	4.50	4.50	3.50	2.75	2.25	2.00	2.00
2-yr Govt. Bond Yield	4.40	2.28	2.92	4.22	4.35	4.00	3.30	2.70	2.45	2.35	2.25	2.25	2.25
10-yr Govt. Bond Yield	3.86	2.32	2.98	3.83	3.90	3.65	3.25	3.10	2.95	2.85	2.80	2.75	2.70
30-yr Govt. Bond Yield	3.86	2.44	3.14	3.79	3.75	3.65	3.55	3.40	3.25	3.15	3.10	3.05	3.00

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

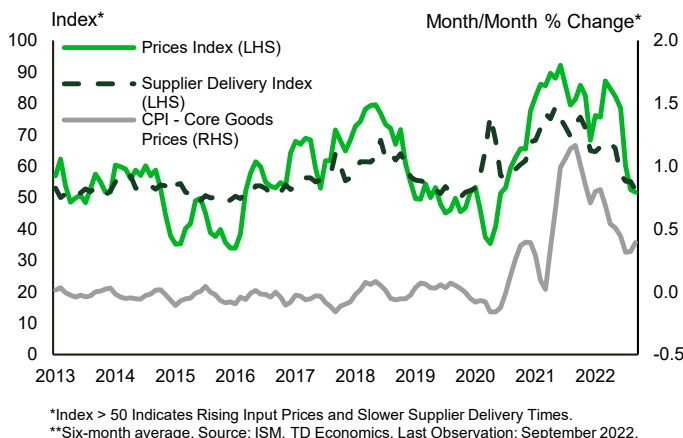
Looking for Silver Linings

Equity markets are in positive territory on the week despite the disappointment in the September inflation data. The Fed is struggling to contain inflation, and September's reading was hotter than expected once again. The Fed still has its work cut out for it in bringing inflation back down. However, there were a few silver linings in inflation's gray cloud that give some reasons to believe that the fight against inflation may be turning.

First up, the bad news. Consensus expectations for a +0.2% month-over-month (m/m) reading on headline inflation were shattered by the +0.4% increase, while expectations for core inflation of 0.4% were also handily beat by the 0.6% uptick. Underpinning the rise were strong price growth in core services (+0.8% m/m), and food (+0.8% m/m). The core services print is what's of interest as these prices are notoriously sticky. Shelter costs (+0.7% m/m), medical care services (+1.0% m/m), and transportation services (+1.9% m/m) were all well above what the Fed would like to see. Of these, the shelter component is, by far, the largest contributor to the basket and will be crucial to tempering inflation. To this end, the rate hikes are working, as evidenced by the plateau in home prices. That said, this will take time to translate into the CPI's measure of homeowner's equivalent rent (Chart 1), but things are moving in the right direction.

Indeed, core goods price inflation continued to moderate in September (+0.0% m/m), after having risen 0.5% in August. Helping keep a lid on things were a 1.1% m/m pull-back in used vehicles prices and a 0.3% decline in apparel prices. After the run-up over the past year, supply chain improvements are helping ease price pressures (Chart 2). These de-

Chart 2: Supply Side Indicators Drift Back to Normal Colling Price Pressures

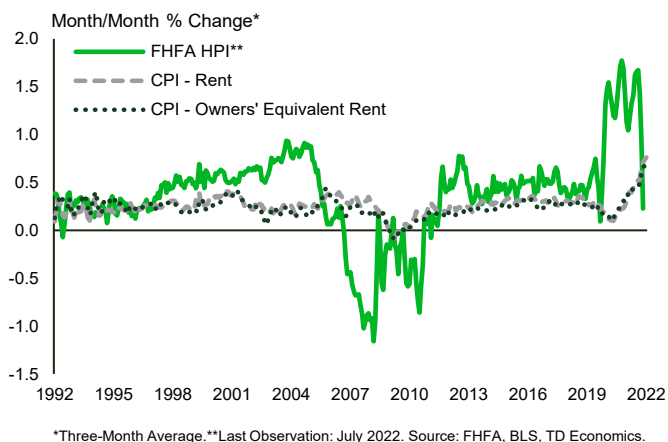


velopments are important as they were always going to be among the first signs that inflation was moderating. Layer in this week's NFIB report that showed a slightly smaller share of firms anticipating further wage gains and price increases, and the evidence for moderating inflation builds.

The Fed will welcome the signs of improvement, but if this week's retail sales report shows anything it's that even though things may be trending in the right direction there is still ample demand out there. The flat monthly reading registered below expectations for a modest 0.2% m/m gain but was weighed down by falling gasoline prices. The core control group (that goes into the GDP calculation) rose a solid 0.4% m/m, showing consumers are still very active.

Given that things are approaching a turning point, the Fed will be considering any weakness in the data. Indeed, FOMC member Lael Brainard highlighted that "output has decelerated more than anticipated" and emphasized the importance of "moving forward deliberately and in a data-dependent manner" amid "elevated global economic and financial uncertainty". It would seem she is laying the groundwork for an eventual slowing in the pace of rate hikes. After 300 basis points of tightening this year, a slowing will be warranted soon. Looking forward, higher prices and diminished excess savings will help cool demand for goods and services. Coupled with improving supply-side conditions this will work to temper inflation. With other factors now starting to help the Fed in its mission, we anticipate this rate hiking cycle will top out at 4.5%.

Chart 1: CPI Shelter Measures Lag House Prices



Andrew Hencic, Senior Economist

Recent Key Economic Indicators: Oct 10 - 14, 2022

Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Oct 11	NFIB Small Business Optimism	Sep	Index	92.1	91.8
Oct 12	PPI Ex Food and Energy	Sep	M/M % Chg.	0.3	0.3
Oct 12	PPI Final Demand	Sep	M/M % Chg.	0.4	-0.2
Oct 13	Consumer Price Index	Sep	M/M % Chg.	0.4	0.1
Oct 13	Consumer Price Index	Sep	Y/Y % Chg.	8.2	8.3
Oct 13	Consumer Price Index Ex Food and Energy	Sep	M/M % Chg.	0.6	0.6
Oct 13	Consumer Price Index Ex Food and Energy	Sep	Y/Y % Chg.	6.6	6.3
Oct 13	Initial Jobless Claims	Oct 8	Thsd	228.0	219.0
Oct 14	Retail Sales Advance	Sep	M/M % Chg.	0.0	0.4
Oct 14	Retail Sales Ex Auto and Gas	Sep	M/M % Chg.	0.1	-0.1
Oct 14	Business Inventories	Aug	M/M % Chg.	0.8	0.5
Canada					
Oct 14	Manufacturing Sales	Aug	M/M % Chg.	-2.0	-0.6
Oct 14	Wholesale Trade Sales	Aug	M/M % Chg.	1.4	-0.6
Oct 14	Existing Home Sales	Sep	M/M % Chg.	-3.9	-1.0
International					
Oct 11	UK ILO Unemployment Rate 3-Months	Aug	M/M % Chg.	3.5	3.6
Oct 12	UK Monthly Gross Domestic Product (3M/3M)	Aug	M/M % Chg.	-0.3	0.1
Oct 13	CH Consumer Price Index	Sep	Y/Y % Chg.	2.9	2.5

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Oct 17 - 21, 2022						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Oct 17	8:30	Empire Manufacturing	Oct	Index	-4.0	-1.5
Oct 18	9:15	Capacity Utilization	Sep	%	79.9	80.0
Oct 18	9:15	Industrial Production	Sep	M/M % Chg.	-0.1	-0.2
Oct 18	9:15	Manufacturing (SIC) Production	Sep	M/M % Chg.	0.1	0.1
Oct 18	10:00	NAHB Housing Market Index	Oct	Index	43.0	46.0
Oct 18	14:00	<i>Fed's Bostic Takes Part in Workrise Panel Discussion</i>				
Oct 18	17:30	<i>Fed's Kashkari Discusses the Economy</i>				
Oct 19	8:30	Building Permits	Sep	Thsd	1549.0	1542.0
Oct 19	8:30	Housing Starts	Sep	Thsd	1464.0	1575.0
Oct 19	13:00	<i>Fed's Kashkari Takes Part in Moderated Q&A</i>				
Oct 19	14:00	<i>U.S. Federal Reserve Releases Beige Book</i>				
Oct 19	18:30	<i>Fed's Bullard Gives Welcome Remarks at Annual Lecture</i>				
Oct 19	18:30	<i>Fed's Evans Discusses the Economic Outlook</i>				
Oct 20	8:30	Initial Jobless Claims	Oct 15	Thsd	235.0	228.0
Oct 20	10:00	Existing Home Sales	Sep	Mlns	4.69	4.80
Oct 20	13:30	<i>Fed's Jefferson Makes Opening Remarks at Careers Event</i>				
Oct 20	13:45	<i>Fed's Cook Speaks on Panel at Careers Event</i>				
Oct 20	14:05	<i>Fed's Bowman Has Opening Remarks at Community Development Seminar</i>				
Oct 21	9:10	<i>Fed's Williams Makes Opening Remarks at Careers Event</i>				
Canada						
Oct 17	10:30	BoC Business Outlook Future Sales	3Q	Q/Q % Chg.	-	-26.0
Oct 17	10:30	BoC Overall Business Outlook Survey	3Q	Q/Q % Chg.	-	4.9
Oct 17	16:00	<i>BoC's Carolyn Rogers Gives Remarks at Toronto Centre's 25th Anniversary</i>				
Oct 18	8:15	Housing Starts	Sep	Thsd	261.9	267.4
Oct 19	8:30	Consumer Price Index	Sep	Y/Y % Chg.	6.6	7.0
Oct 19	8:30	Consumer Price Index NSA	Sep	M/M % Chg.	-	-0.3
Oct 19	8:30	Industrial Product Price	Sep	M/M % Chg.	-	-1.2
Oct 21	8:30	Retail Sales	Aug	M/M % Chg.	-	-2.5
Oct 21	8:30	Retail Sales Ex Auto	Aug	M/M % Chg.	-	-3.1
International						
Oct 17	22:00	CH Gross Domestic Product	3Q	Y/Y % Chg.	3.4	0.4
Oct 17	22:00	CH Retail Sales	Sep	Y/Y % Chg.	3.5	5.4
Oct 17	22:00	CH Surveyed Jobless Rate	Sep	%	5.2	5.3
Oct 19	2:00	UK Consumer Price Index	Sep	Y/Y % Chg.	10.0	9.9
Oct 19	5:00	EZ Consumer Price Index	Sep	Y/Y % Chg.	10.0	9.1
Oct 20	19:30	JN Natl Consumer Price Index	Sep	Y/Y % Chg.	2.9	3.0

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

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