

The Weekly Bottom Line

February 10, 2023

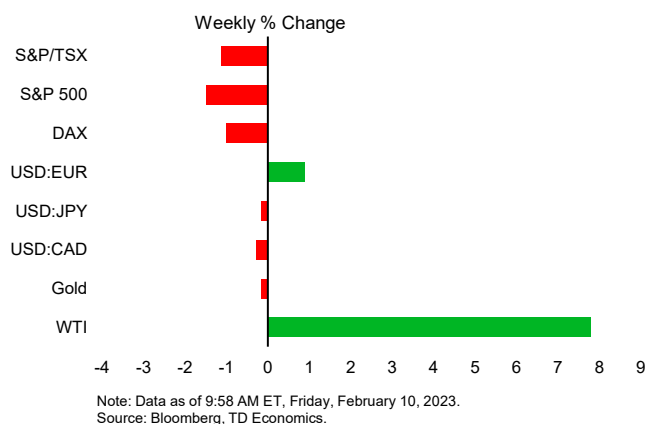
Highlights

- Since last Friday's blockbuster employment report, market pricing on the peak fed funds rate has firmed to 5.25%. This aligns to the FOMC's December projections, though markets still foresee the Fed cutting rates later this year.
- At an event on Tuesday, Fed Chair Powell did not pushback against investors' diverging view, nor was his tone any more hawkish, despite last week's strong reading on employment.
- With the FOMC now in the "fine turning" stage of the tightening cycle, policymakers have become increasingly data dependent. This means next week's inflation report will be under the microscope.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	4069	4136	4632	3577
S&P/TSX Comp.	20510	20758	22087	18206
DAX	15351	15476	15523	11976
FTSE 100	7871	7902	7911	6826
Nikkei	27671	27509	29223	24718
Fixed Income Yields				
U.S. 10-yr Treasury	3.69	3.52	4.24	1.73
Canada 10-yr Bond	3.12	2.93	3.68	1.67
Germany 10-yr Bund	2.35	2.19	2.57	-0.07
UK 10-yr Gilt	3.35	3.06	4.51	1.13
Japan 10-yr Bond	0.50	0.50	0.53	0.14
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.75	0.75	0.80	0.72
Euro (USD per EUR)	1.07	1.08	1.14	0.96
Pound (USD per GBP)	1.21	1.21	1.36	1.07
Yen (JPY per USD)	130.8	131.2	150.2	114.7
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	79.0	73.4	123.7	71.0
Natural Gas (\$US/MMBtu)	2.40	2.40	9.84	2.17
Copper (\$US/met. tonne)	8952.2	8951.3	10702.0	7160.0
Gold (\$US/troy oz.)	1862.8	1865.0	2050.8	1622.4

*As of 12:39 PM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price).
Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

Oil Jumps on Rising Chinese Demand & Russia Production Cuts



Global Official Policy Rate Targets

Central Banks	Current Target
Federal Reserve (Fed Funds Rate)	4.50 - 4.75%
Bank of Canada (Overnight Rate)	4.50%
European Central Bank (Refi Rate)	3.00%
Bank of England (Repo Rate)	4.00%
Bank of Japan (Overnight Rate)	-0.10%

Source: Bloomberg.

TD Economics Key Financial Forecasts

	Current Rate 2/10/23	2022				2023				2024			
		Q1	Q2	Q3	Q4	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate	4.75	0.50	1.75	3.25	4.50	5.00	5.25	5.25	4.75	4.25	3.75	3.25	2.75
2-yr Govt. Bond Yield	4.48	2.28	2.92	4.22	4.41	4.35	4.00	3.65	3.30	3.00	2.75	2.55	2.40
10-yr Govt. Bond Yield	3.68	2.32	2.98	3.83	3.88	3.60	3.55	3.45	3.35	3.15	3.00	2.90	2.80
30-yr Govt. Bond Yield	3.77	2.44	3.14	3.79	3.97	3.65	3.60	3.55	3.50	3.40	3.30	3.20	3.10

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

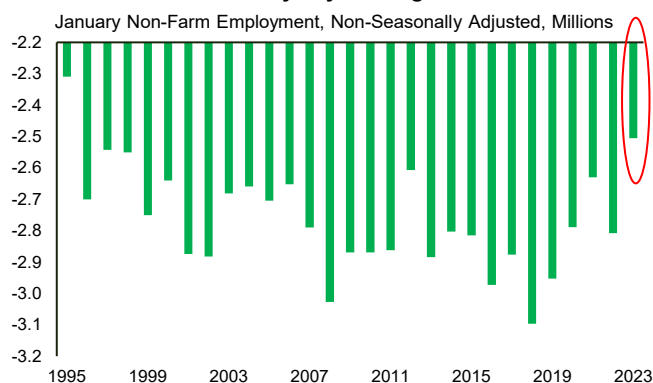
Holding the Line... For Now

It was a very quiet week on the economic data calendar, giving investors a bit more time to digest last week's blockbuster employment numbers. Since the jobs report, market pricing on the future path of the fed funds rate has firmed, with investors now anticipating two more 25 basis-point hikes by May, bringing the terminal rate to 5.25%. This aligns to FOMC's last forecast outlined in the December Summary of Economic Projections. In contrast, markets differ from the Fed on the timing of rate cuts, with interest rate cuts priced in by financial markets for later this year, whereas the Fed doesn't foresee that happening until 2024.

At an event on Tuesday, Fed Chair Powell did not pushback against the markets' diverging view. Instead, he reiterated many of the same themes that he had emphasized in the press conference following last week's interest rate announcement. The key message being that while the disinflationary process has begun, it remains very much in the early stages, and it will take "considerable time" before inflation returns to 2%. While financial markets initially rallied on the remarks, they later sold-off through the back-half of the week. At the time of writing, the S&P 500 is down 2%, while the 10-year Treasury edged higher by 15bps to 3.7% for the week.

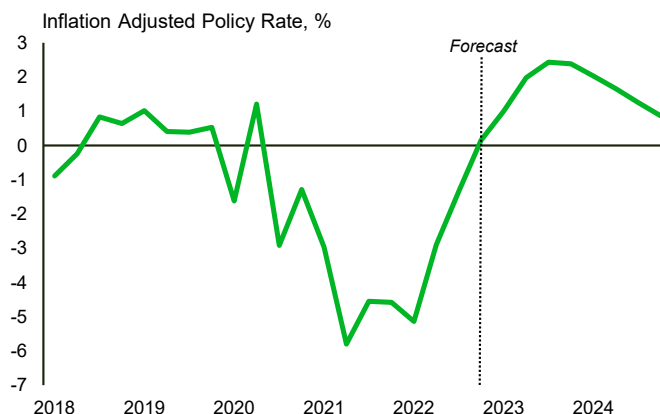
When asked specifically about last week's employment numbers, Powell said that it, "simply reaffirmed that the central bank has some way to go on raising rates" and that the strong numbers highlight that the adjustment process is unlikely to be linear. While there's certainly validity to that argument, there's also reason to believe that the January payrolls may be overstating the degree of strength in the labor market.

Chart 1: Seasonal Factors Potentially Biasing January Payrolls Higher



Source: Bureau of Labor Statistics, TD Economics.

Chart 2: Real Policy Rate Will Continue to Rise Through 2023



Source: Bureau of Economic Analysis, TD Economics.

For starters, January was unseasonably warm across most of the U.S., which likely means there was a pull forward of economic activity. From that perspective, some of January's gains may have been robbed from subsequent months – suggesting much weaker employment growth in the months ahead. Second, seasonal adjustment factors may have also played some role in biasing last month's numbers higher. January is historically a month where non-seasonally adjusted payrolls record a massive decline in absolute terms (Chart 1). While this remained true last month, it did so by the smallest amount since 1995. This likely translated to an outsized gain in the seasonally adjusted figures.

So, where does that leave us? It's up for debate how much the January numbers are overstating the degree of underlying strength. But, at the end of the day, there is little doubt that the labor market remains incredibly tight. For now, Chair Powell seems content to not rattle expectations and watch how the data evolves. You can't argue the logic. Monetary policy acts with considerable lag, and the cumulative effect of all the tightening done over the past 11 months is not yet being felt. Even once rate hikes are finished, the real effective policy rate will continue to rise through this year as inflation continues to decline (Chart 2). With the FOMC now in the "fine tuning" stage of the tightening cycle, data dependence will be the name of the game. With that, the focus now shifts to next week's inflation report. Stay tuned!

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Recent Key Economic Indicators: Feb 6 - 10, 2022					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Feb 7	Trade Balance	Dec	Blns	-67.4	-61.0
Feb 8	Wholesale Trade Sales	Dec	M/M % Chg.	0.0	-1.4
Feb 9	Initial Jobless Claims	Feb 4	Thsds	196.0	183.0
Canada					
Feb 7	Int'l Merchandise Trade	Dec	Blns	-0.2	-0.2
Feb 10	Net Change in Employment	Jan	Thsds	150.0	62.9
Feb 10	Unemployment Rate	Jan	%	5.0	5.0
International					
Feb 6	EC Retail Sales	Dec	Y/Y % Chg.	-2.8	-2.5
Feb 9	CH Consumer Price Index	Jan	Y/Y % Chg.	2.1	1.8
Feb 10	UK Gross Domestic Product	4Q	Y/Y % Chg.	0.4	1.9
*Eastern Standard Time. Source: Bloomberg, TD Economics.					

Upcoming Economic Releases and Events: Feb 13 - 17, 2023						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Feb 13	8:00	<i>Fed's Bowman Speaks at Banking Conference</i>				
Feb 14	6:00	NFIB Small Business Optimism	Jan	Index	91.0	89.8
Feb 14	8:30	Consumer Price Index	Jan	M/M % Chg.	0.5	-0.1
Feb 14	8:30	Consumer Price Index	Jan	Y/Y % Chg.	6.2	6.5
Feb 14	8:30	CPI Ex Food and Energy	Jan	M/M % Chg.	0.3	0.3
Feb 14	8:30	CPI Ex Food and Energy YoY	Jan	Y/Y % Chg.	5.4	5.7
Feb 14	11:00	<i>Fed's Logan Takes Part in a Moderated Discussion</i>				
Feb 14	11:30	<i>Fed's Harker Discusses the Economic Outlook</i>				
Feb 14	14:05	<i>Fed's Williams Gives Speech at New York Bankers Conference</i>				
Feb 15	8:30	Empire Manufacturing	Feb	Index	-20.0	-32.9
Feb 15	8:30	Retail Sales Advance	Jan	M/M % Chg.	1.7	-1.1
Feb 15	8:30	Retail Sales Ex Auto and Gas	Jan	M/M % Chg.	0.6	-0.7
Feb 15	9:15	Capacity Utilization	Jan	%	79.1	78.8
Feb 15	9:15	Industrial Production	Jan	M/M % Chg.	0.6	-0.7
Feb 15	9:15	Manufacturing (SIC) Production	Jan	Index	0.6	-1.3
Feb 15	10:00	Business Inventories	Dec	M/M % Chg.	0.3	0.4
Feb 15	10:00	NAHB Housing Market Index	Feb	Index	37.0	35.0
Feb 16	8:30	Building Permits	Jan	Thsds	1350.0	1337.0
Feb 16	8:30	Housing Starts	Jan	Thsds	1360.0	1382.0
Feb 16	8:30	Initial Jobless Claims	Feb 11	Thsds	-	196.0
Feb 16	8:30	PPI Ex Food and Energy	Jan	M/M % Chg.	0.3	0.1
Feb 16	8:30	PPI Final Demand	Jan	M/M % Chg.	0.4	-0.5
Feb 16	8:45	<i>Fed's Mester Speaks at Global Interdependence Center Event</i>				
Feb 16	13:30	<i>Fed's Bullard Discusses the Economy and Monetary Policy</i>				
Feb 16	16:00	<i>Fed's Cook Gives Welcoming Remarks at Sadie Collective</i>				
Feb 16	18:15	<i>Fed's Mester Discusses the Economic Outlook</i>				
Feb 17	8:30	<i>Fed's Barkin Discusses the US Labor Market</i>				
Feb 17	8:45	<i>Fed's Bowman Speaks at Banking Conference</i>				
Canada						
Feb 15	8:15	Housing Starts	Jan	Thsds	-	248.6
Feb 15	8:30	Manufacturing Sales	Dec	M/M % Chg.	-	0.0
Feb 15	8:30	Wholesale Trade Sales	Dec	M/M % Chg.	-	0.5
Feb 15	9:00	Existing Home Sales	Jan	M/M % Chg.	-	1.3
Feb 16	18:10	<i>BoC's Paul Beaudry Delivers Speech to Alberta School of Business</i>				
Feb 17	8:30	Industrial Product Price	Jan	M/M % Chg.	-	-1.1
International						
Feb 13	18:50	JN Gross Domestic Product Annualized SA	4Q	Q/Q % Chg.	2.0	-0.8
Feb 14	2:00	UK ILO Unemployment Rate 3-Months	Dec	M/M % Chg.	3.7	3.7
Feb 14	5:00	EC Employment	4Q	Y/Y % Chg.	-	1.8
Feb 14	5:00	EC Gross Domestic Product SA	4Q	Y/Y % Chg.	1.9	1.9
Feb 15	2:00	UK Consumer Price Index	Jan	Y/Y % Chg.	10.2	10.5
Feb 17	2:00	UK Retail Sales Ex Auto Fuel	Jan	Y/Y % Chg.	-5.4	-6.1

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

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