

## The Weekly Bottom Line

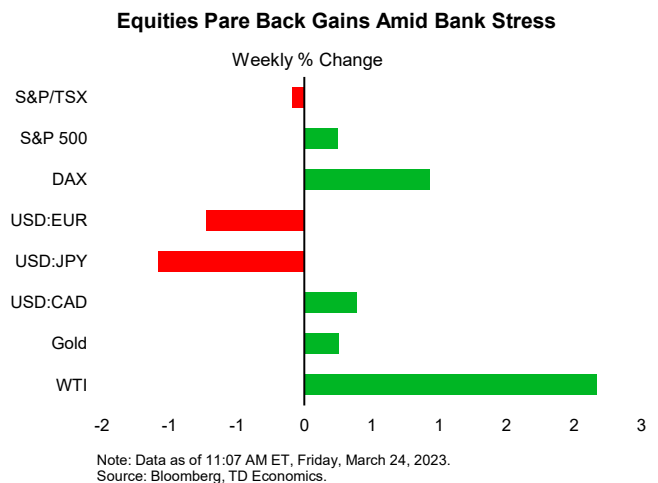
March 24, 2023

### Highlights

- The Federal Reserve delivered a modest 25-basis point hike this week amid banking stress, lifting the policy rate to a range of 4.75-5.00% – a level that’s just a hair below its previous peak back in 2007.
- Fed projections show the policy rate peaking at 5.1% in 2023, implying one more hike for the year, while next year a series of cuts are forecast to bring the rate down to 4.3%. Market expectations, however, are tilted toward a lower rate environment in both years.
- Existing home sales rose 14.5% in February, recording the first increase after twelve consecutive months of declines.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
<b>Stock Market Indexes</b>				
S&P 500	3920	3917	4632	3577
S&P/TSX Comp.	19319	19388	22087	18206
DAX	14931	14768	15654	11976
FTSE 100	7400	7335	8014	6826
Nikkei	27385	27334	29223	25717
<b>Fixed Income Yields</b>				
U.S. 10-yr Treasury	3.31	3.43	4.24	2.34
Canada 10-yr Bond	2.70	2.78	3.68	2.40
Germany 10-yr Bund	2.08	2.11	2.75	0.51
UK 10-yr Gilt	3.21	3.28	4.51	1.55
Japan 10-yr Bond	0.32	0.29	0.53	0.17
<b>Foreign Exchange Cross Rates</b>				
C\$ (USD per CAD)	0.73	0.73	0.80	0.72
Euro (USD per EUR)	1.08	1.07	1.12	0.96
Pound (USD per GBP)	1.22	1.22	1.32	1.07
Yen (JPY per USD)	130.3	131.9	150.2	121.7
<b>Commodity Spot Prices**</b>				
Crude Oil (\$US/bbl)	68.0	66.7	122.1	66.7
Natural Gas (\$US/MMBtu)	2.08	2.42	9.84	1.94
Copper (\$US/met. tonne)	9033.0	8573.3	10451.8	7160.0
Gold (\$US/troy oz.)	1998.0	1989.3	1998.0	1622.4

\*As of 9:47 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)	4.75 - 5.00%
Bank of Canada (Overnight Rate)	4.50%
European Central Bank (Refi Rate)	3.50%
Bank of England (Repo Rate)	4.25%
Bank of Japan (Overnight Rate)	-0.10%

Source: Bloomberg.

TD Economics Key Financial Forecasts													
	Current Rate 3/24/23	2022				2023				2024			
		Q1	Q2	Q3	Q4	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate	5.00	0.50	1.75	3.25	4.50	5.00	5.25	5.25	5.25	4.75	4.25	3.75	3.25
2-yr Govt. Bond Yield	3.63	2.28	2.92	4.22	4.41	4.30	4.40	4.05	3.70	3.40	3.10	2.85	2.70
10-yr Govt. Bond Yield	3.31	2.32	2.98	3.83	3.88	3.60	3.75	3.65	3.50	3.40	3.25	3.15	3.05
30-yr Govt. Bond Yield	3.61	2.44	3.14	3.79	3.97	3.75	3.90	3.85	3.80	3.70	3.55	3.45	3.35

Forecast by TD Economics as of March 2023; all forecasts are end-of-period. Source: Bloomberg, Federal Reserve Board, TD Economics.

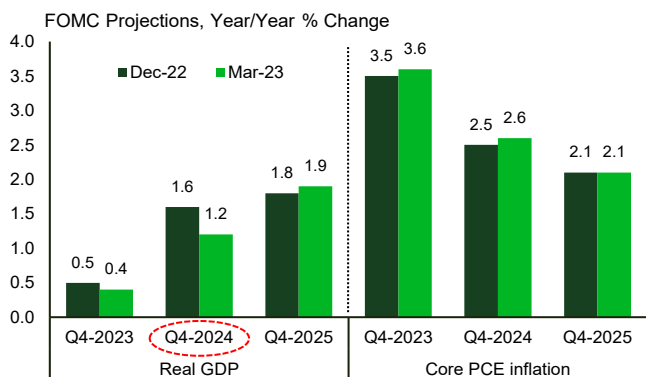
# Fed Delivers Small Hike Amid Banking Stress

Stuck between a rock and a hard place, the Fed appears to have taken a middle-of-the-road approach in setting monetary policy this week. Inflation, which remains well above target and has shown moderate signs of acceleration recently coupled with strong job growth, meant that the Fed could have opted for a more hawkish stance at Wednesday’s FOMC meeting. Fed Chair Powell nodded to this possibility in his testimony to Congress two weeks ago. However, the ongoing banking turmoil has upended this narrative. Instead of leaving the rate unchanged, – an option that was closely considered – Fed officials ultimately went with a 25-basis point hike, lifting the policy rate to 4.75-to-5.00%.

In taking this decision, the Fed acknowledged the risks from the banking turmoil, including the potential negative impact on the real economy from tighter credit conditions for households and businesses. Tighter credit conditions could do some of the Fed’s work for it in reducing inflationary pressures, substituting for further hikes. However, as Chair Powell noted in the press conference, it’s not clear how significant and how sustained the credit tightening will be. The Fed is keeping the door open to some further monetary tightening for now, but changes in the language of the FOMC statement suggest that it is very close to wrapping up its hiking cycle.

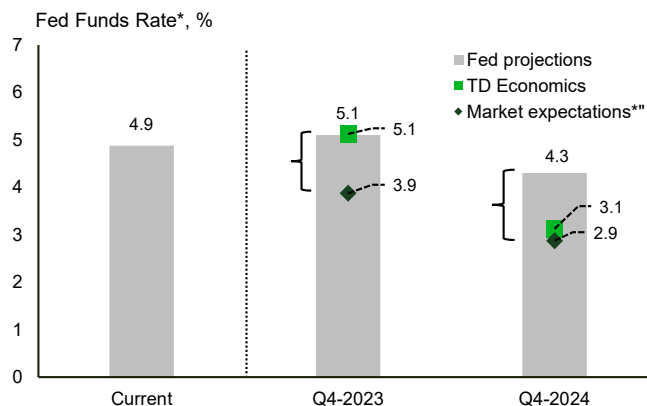
Along with the policy decision, the Fed also issued an update to its quarterly economic projections. Fed officials now expect inflation to remain slightly higher by the end of 2023 and 2024 compared to their view in December. Meanwhile,

**Chart 1: Fed Officials Now See Slightly Higher Inflation, Somewhat Softer Growth over 2023-24**



Source: FOMC, TD Economics.

**Chart 2: Markets Odds Point to Sooner/Deeper Rate Cuts, Compared to the Fed Projections**



Source: FOMC, CME Group\*\*, TD Economics. \*Midpoint between upper and lower limit.

economic growth is expected to come in a bit softer over this same period, with a downgrade to the 2024 growth profile the most noticeable difference (Chart 1).

Policy rate expectations remained unchanged for 2023, with most Fed officials expecting the rate to peak to 5.1%, which implies one more hike this year. Market expectations, however, are not in tune with this view. The current pricing suggests that the Fed is done hiking rates, and that rate “cuts” will follow suit shortly this summer. Moving on to next year, while Fed officials have penciled in a series of rates cuts that will bring the policy rate down to 4.3%, market expectations remain more dovish, with the gap between the two forecasts widening (Chart 2). Our projection is aligned more closely with the Fed this year, but as growth slows into next year, we anticipate that in 2024 the Fed will loosen monetary policy more than it projects to steady the economic ship.

Reiterating Chair Powell’s view, the degree of credit tightening from the recent banking turmoil remains a major source of uncertainty for the outlook. On this front, it appears that authorities will need to stay alert in putting out more fires. Across the Atlantic, after finding a solution to the Credit Suisse troubles, the attention has now turned to another Global Systemically Important Bank (G-SIB), Deutsche Bank, after a surge this week in the cost of insuring the lender’s debt against default. With banking developments front and center, economic data played second fiddle, but a strong housing report (see [here](#)) did bring some cheer.

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Recent Key Economic Indicators: Mar 20 - 24, 2023					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
<b>United States</b>					
Mar 21	Existing Home Sales	Feb	Mlns	4.6	4.0
Mar 22	FOMC Rate Decision (Upper Bound)	Jan 13	%	5.00	4.75
Mar 22	Interest on Reserve Balances Rate	Mar 23	%	4.90	4.65
Mar 23	Initial Jobless Claims	Mar 18	Thsds	191.0	192.0
Mar 23	New Home Sales	Feb	Thsds	640.0	633.0
Mar 24	Cap Goods Orders Nondef Ex Air	Feb	M/M % Chg.	0.2	0.3
Mar 24	Durable Goods Orders	Feb	M/M % Chg.	-1.0	-5.0
Mar 24	S&P Global US Composite PMI	Mar	Index	53.3	50.1
Mar 24	S&P Global US Manufacturing PMI	Mar	Index	49.3	47.3
Mar 24	S&P Global US Services PMI	Mar	Index	53.8	50.6
<b>Canada</b>					
Mar 21	Consumer Price Index	Feb	Y/Y % Chg.	5.2	5.9
Mar 21	Consumer Price Index NSA	Feb	M/M % Chg.	0.4	0.5
Mar 24	Retail Sales	Jan	M/M % Chg.	1.4	0.0
Mar 24	Retail Sales Ex Auto	Jan	M/M % Chg.	0.9	-0.7
<b>International</b>					
Mar 22	UK Consumer Price Index	Dec	Y/Y % Chg.	10.4	10.1
Mar 23	UK Bank of England Bank Rate	Mar 23	%	4.25	4.00
Mar 23	JN National Consumer Price Index	Feb	Y/Y % Chg.	3.3	4.3
Mar 23	JN Jibun Bank Japan PMI Manufacturing	Mar	Index	48.6	47.7
Mar 24	UK Retail Sales Ex Auto Fuel	Feb	Y/Y % Chg.	-3.3	-5.4

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

Upcoming Economic Releases and Events: Mar 27 - 31, 2023						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
<b>United States</b>						
Mar 27	17:00	<i>Fed's Jefferson Discusses Monetary Policy</i>				
Mar 28	8:30	Advance Goods Trade Balance	Feb	Blns	-89.9	-91.5
Mar 28	9:00	S&P CoreLogic CS US HPI NSA	Jan	Y/Y % Chg.	-	5.8
Mar 28	10:00	Conf. Board Consumer Confidence	Mar	Index	101.5	102.9
Mar 28	10:00	<i>Fed's Barr Appears Before Senate Banking Panel</i>				
Mar 29	10:00	Pending Home Sales	Feb	M/M % Chg.	-2.3	8.1
Mar 30	8:30	Core PCE	4Q	Q/Q % Chg.	-	4.3
Mar 30	8:30	Gross Domestic Product Annualized	4Q	Q/Q % Chg.	2.7	2.7
Mar 30	8:30	Initial Jobless Claims	Mar 25	Thsds	-	191.0
Mar 30	8:30	Personal Consumption	4Q	Q/Q % Chg.	-	1.4
Mar 30	12:45	<i>Fed's Collins Speaks at NABE in Washington</i>				
Mar 30	12:45	<i>Fed's Barkin Speaks at Virginia Council of CEOs Event</i>				
Mar 31	8:30	PCE Deflator	Feb	Y/Y % Chg.	5.1	5.4
Mar 31	8:30	Personal Income	Feb	M/M % Chg.	0.3	0.6
Mar 31	8:30	Real Personal Spending	Feb	M/M % Chg.	-0.2	1.1
Mar 31	10:00	<i>Fed's Barr Appears Before the House Financial Services Panel</i>				
Mar 31	15:00	<i>Fed's Williams Speaks at Housatonic Community College</i>				
Mar 31	16:00	<i>Fed's Waller Discusses the Phillips Curve</i>				
Mar 31	17:45	<i>Fed's Cook Discusses US Economy and Monetary Policy</i>				
<b>Canada</b>						
Mar 29	12:45	<i>BoC's Deputy Governor Gives Speech at National Bank Annual Financial Services Conference</i>				
Mar 30	7:00	CFIB Business Barometer	Mar	Index	-	51.7
Mar 30	8:30	Payroll Employment Change - SEPH	Jan	Thsds	-	91.4
Mar 31	8:30	Gross Domestic Product	Jan	M/M % Chg.	-	-0.1
<b>International</b>						
Mar 30	21:30	CH Manufacturing PMI	Mar	Index	51.8	52.6
Mar 31	5:00	EZ Consumer Price Index Estimate	Mar	Y/Y % Chg.	7.1	8.5
Mar 31	5:00	EZ Unemployment Rate	Feb	%	6.6	6.6
Mar 31	2:00	UK Gross Domestic Product	4Q	Y/Y % Chg.	0.4	0.4
Mar 30	19:30	JN Jobless Rate	Feb	%	2.4	2.4
Mar 30	19:50	JN Retail Sales	Feb	Y/Y % Chg.	5.9	5.0
Mar 30	19:30	JN Tokyo Consumer Price Index	Mar	Y/Y % Chg.	3.2	3.4

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

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