

The Weekly Bottom Line

September 22, 2023

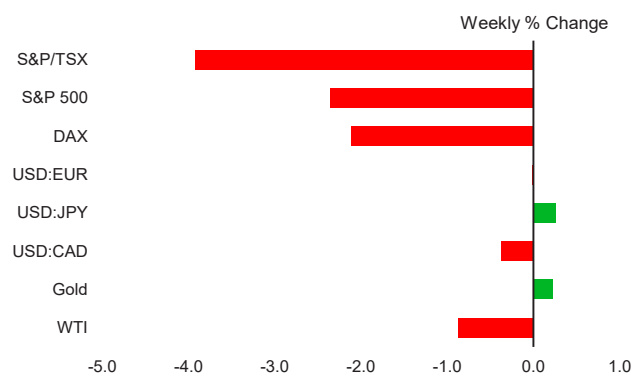
Highlights

- The Federal Reserve held rates unchanged at its September meeting, but updated projections showed that the median FOMC member expects rates to remain above 5% through 2024, reinforcing the higher for longer message.
- The economy is likely to feel some drag from the UAW strike, which announced additional action at 38 parts and distribution facilities across 20 states, as contract negotiations continue to progress slowly.
- The theme of “higher-for-longer” had pushed mortgage rates higher, which weighed on both homebuilding activity and existing home sales in August.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	4350	4450	4589	3577
S&P/TSX Comp.	19869	20622	20767	18206
DAX	15572	15894	16470	11976
FTSE 100	7706	7711	8014	6826
Nikkei	32402	33533	33753	25717
Fixed Income Yields				
U.S. 10-yr Treasury	4.43	4.33	4.49	3.31
Canada 10-yr Bond	3.92	3.74	3.97	2.72
Germany 10-yr Bund	2.74	2.68	2.75	1.78
UK 10-yr Gilt	4.25	4.36	4.75	3.01
Japan 10-yr Bond	0.75	0.72	0.75	0.22
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.74	0.74	0.76	0.72
Euro (USD per EUR)	1.07	1.07	1.12	0.96
Pound (USD per GBP)	1.23	1.24	1.31	1.07
Yen (JPY per USD)	148.1	147.9	150.2	127.9
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	91.5	90.8	92.6	66.7
Natural Gas (\$US/MMBtu)	2.70	2.74	7.76	1.77
Copper (\$US/met. tonne)	8129.8	8350.4	9330.8	7422.0
Gold (\$US/troy oz.)	1928.3	1923.9	2050.3	1622.4

*As of 10:43 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

Equities Slip As the Fed Reinforces "Higher For Longer"



Note: Data as of 12:16 PM ET, Friday, September 22, 2023.
Source: Bloomberg, TD Economics.

Global Official Policy Rate Targets	
Central Banks	Current Target
Federal Reserve (Fed Funds Rate)	5.25 - 5.50%
Bank of Canada (Overnight Rate)	5.00%
European Central Bank (Refi Rate)	4.50%
Bank of England (Repo Rate)	5.25%
Bank of Japan (Overnight Rate)	-0.10%

Source: Bloomberg.

TD Economics Key Financial Forecasts													
Current Rate		2022				2023				2024			
9/22/23		Q1	Q2	Q3	Q4	Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate	5.50	0.50	1.75	3.25	4.50	5.00	5.25	5.50	5.50	5.50	5.25	4.75	4.25
2-yr Govt. Bond Yield	5.09	2.28	2.92	4.22	4.41	4.06	4.87	5.00	4.70	4.40	4.10	3.80	3.50
10-yr Govt. Bond Yield	4.43	2.32	2.98	3.83	3.88	3.48	3.81	4.35	4.10	3.90	3.65	3.45	3.35
30-yr Govt. Bond Yield	4.53	2.44	3.14	3.79	3.97	3.67	3.85	4.35	4.30	4.20	3.95	3.75	3.65
Forecast by TD Economics as of September 2023; all forecasts are end-of-period. Source: Bloomberg, Federal Reserve Board, TD Economics.													

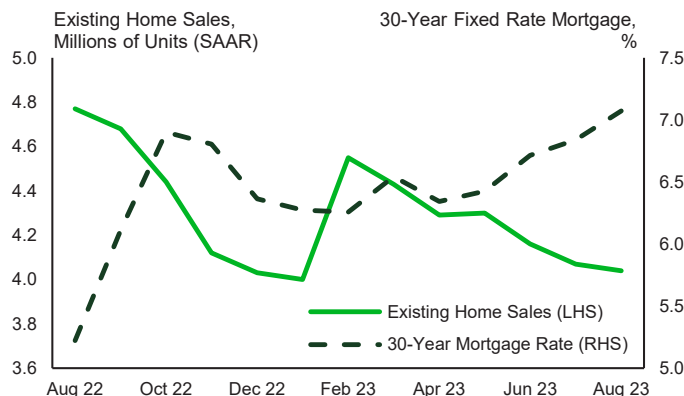
Higher for Longer

Over the past eighteen months the Federal Reserve has raised interest rates eleven times, bringing the policy rate 5¼ percentage points (ppts) higher. On Wednesday, the FOMC opted to hold rates steady for the second time in the past three meetings, as it fine-tunes its approach to the level it deems sufficiently restrictive to return price stability to the economy. The Fed adopted the same policy decision it implemented in June - a hawkish pause if you will - indicating their expectation that one further rate hike is in the cards for 2023. In response, Treasury yields jumped to their highest level since 2007, with the ten-year yield rising by 12 basis points (bps) on the week to 4.4%, while equities fell with the S&P 500 down 2.3% as of the time of writing.

Accompanying the FOMC decision on Wednesday, the updated summary of economic projections (SEP) showed that the median FOMC member is projecting a de-facto soft landing for the U.S. economy. The median member expects the unemployment rate to rise only 0.3ppts by the end of next year. For reference, the U.S. unemployment rate just rose by 0.3ppts in August alone. The Fed's expectation that inflation will be at 2.5% by the end of 2024 remained unchanged. However, the number of rate cuts for next year was pulled in, with the median FOMC member expecting the policy rate to be only 25bps below the current level at the end of 2024 - 50 basis points higher than in the June SEP (Chart 1). While these projections are decidedly hawkish, Chair Powell continued to emphasize that the Fed's future decisions will depend on incoming data and its implications for the trajectory of inflation.

On that front, we saw in the housing data released this week that the interest rate sensitive sector continues to feel the

Chart 2: U.S. Home Sales Fall Under Higher Financing Costs



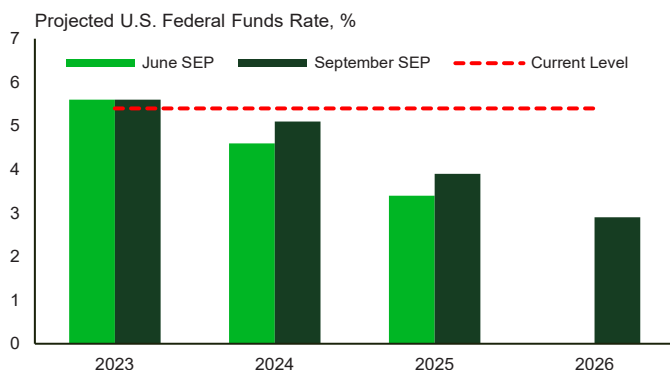
Source: National Association of Realtors, Freddie Mac, TD Economics.

strain of higher rates, as homebuilding activity faltered in August on slowing demand for new homes. With mortgage rates back above 7%, a similar curtailment of demand was seen in existing home sales in August, which declined for a third consecutive month (Chart 2). Price growth, however, has continued to push higher, as the highest mortgage rates in 22 years has left many would-be sellers locked-in to their lower rates, limiting resale supply. This dynamic is being monitored by the Fed but is unlikely to influence monetary policy discussions due to the lagged and proxied measurement of shelter costs in the CPI and PCE indexes.

Looking ahead, there is no shortage of upcoming events that will be on the Federal Reserve's radar. This includes the UAW strike, which was extended to an additional 38 parts and distribution facilities this morning as negotiations continue to progress slowly. In the most recent round of strike action, the UAW has targeted General Motors and Stellantis, citing negotiation progress with Ford as the reason for the company's exclusion. This is expected to create additional disruptions on top of the roughly 7.5% hit to U.S. production stemming from the first round of strike action. Also on the horizon is a looming shutdown of the federal government, with only a few days left before the October 1st deadline. Adding to the impacts expected from the end of the moratorium on student debt repayment, it is clear that the Federal Reserve's data-dependency approach is set to become more challenging over the near-term.

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Chart 1: Federal Reserve Anticipates Higher-for-Longer Interest Rates



Source: Federal Reserve, TD Economics.

Recent Key Economic Indicators: Sep 18 - 22, 2023					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Sep 18	New York Fed Services Business Activity	Sep	Index	-3.0	0.6
Sep 18	NAHB Housing Market Index	Sep	Index	45.0	50.0
Sep 19	Building Permits	Aug	Thsd	1543.0	1443.0
Sep 19	Housing Starts	Aug	Thsd	1283.0	1447.0
Sep 20	FOMC Rate Decision (Upper Bound)	Sep 20	%	5.50	5.50
Sep 20	Interest on Reserve Balances Rate	Sep 21	%	5.4	5.40
Sep 21	Initial Jobless Claims	Sep 16	Thsd	201.0	221.0
Sep 21	Existing Home Sales	Aug	MIns	4.04	4.07
Sep 22	S&P Global US Manufacturing PMI	Sep	Index	48.9	47.9
Sep 22	S&P Global US Services PMI	Sep	Index	50.2	50.5
Sep 22	S&P Global US Composite PMI	Sep	Index	50.1	50.2
Canada					
Sep 18	Housing Starts	Aug	Thsd	252.8	255.0
Sep 18	Industrial Product Price	Aug	M/M % Chg.	1.30	0.4
Sep 19	Consumer Price Index NSA	Aug	M/M % Chg.	0.40	0.6
Sep 19	Consumer Price Index	Aug	Y/Y % Chg.	4.00	3.3
Sep 22	Retail Sales	Jul	M/M % Chg.	0.30	0.1
Sep 22	Retail Sales Ex Auto	Jul	M/M % Chg.	1.00	-0.7
International					
Sep 19	EZ Consumer Price Index	Aug	Y/Y % Chg.	5.2	5.3
Sep 20	UK Consumer Price Index	Aug	Y/Y % Chg.	6.7	6.8
Sep 21	UK Bank of England Bank Rate	Sep 21	%	5.25	5.25
Sep 21	JN Natl Consumer Price Index	Aug	Y/Y % Chg.	3.2	3.3
Sep 21	JN Jibun Bank Japan PMI Mfg	Sep	Index	48.6	49.6
Sep 21-22	JN BOJ Policy Balance Rate	Sep 22	%	-0.10	-0.10
Sep 22	UK Retail Sales Ex Auto Fuel	Aug	Y/Y % Chg.	-1.4	-3.3

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

Upcoming Economic Releases and Events: Sep 25 - Sep 29, 2023						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Sep 26	9:00	S&P CoreLogic CS 20-City NSA	Jul	Y/Y % Chg.	-	-1.2
Sep 26	9:00	S&P CoreLogic CS US HPI NSA	Jul	Y/Y % Chg.	-	0.0
Sep 26	10:00	New Home Sales	Aug	Thsd	700.0	714.0
Sep 26	10:00	Conf. Board Consumer Confidence	Sep	Index	105.9	106.1
Sep 27	8:30	Durable Goods Orders	Aug	M/M % Chg.	-0.4	-5.2
Sep 27	8:30	Cap Goods Orders Nondef Ex Air	Aug	M/M % Chg.	-	0.1
Sep 28	8:30	Gross Domestic Product Annualized	2Q	Q/Q % Chg.	2.3	2.1
Sep 28	8:30	Personal Consumption	2Q	Q/Q % Chg.	-	1.7
Sep 28	8:30	Initial Jobless Claims	Sep 23	Thsd	-	201.0
Sep 28	9:00	Fed's Goolsbee Speaks at Peterson Institute in Washington				
Sep 28	13:00	Fed's Cook Speaks at Minorities in Banking Forum				
Sep 28	16:00	Fed's Powell Hosts Town Hall With Educators				
Sep 28	19:00	Fed's Barkin Gives Speech on Monetary Policy Outlook				
Sep 29	8:30	Advance Goods Trade Balance	Aug	Blns	-91.2	-90.9
Sep 29	8:30	Personal Income	Aug	M/M % Chg.	0.5	0.2
Sep 29	8:30	Real Personal Spending	Aug	M/M % Chg.	-0.1	0.6
Sep 29	8:30	PCE Deflator	Aug	Y/Y % Chg.	3.5	3.3
Sep 29	12:45	Fed's Williams to Speak on Monetary Policy				
Canada						
Sep 28	6:00	CFIB Business Barometer	Sep	Index	-	54.8
Sep 28	8:30	Payroll Employment Change - SEPH	Jul	Thsd	-	47.7
Sep 29	8:30	Gross Domestic Product	Jul	M/M % Chg.	-	-0.2
International						
Sep 28	19:30	JN Tokyo Consumer Price Index	Sep	Y/Y % Chg.	2.8	2.9
Sep 28	19:30	JN Jobless Rate	Aug	%	2.6	2.7
Sep 28	19:50	JN Retail Sales	Aug	Y/Y % Chg.	6.4	6.8
Sep 29	2:00	UK Gross Domestic Product	2Q	M/M % Chg.	0.4	0.4
Sep 29	5:00	EZ Consumer Price Index Estimate	Sep	Y/Y % Chg.	4.5	5.2
Sep 29	21:30	CH Manufacturing PMI	Sep	Index	50.2	49.7
*Eastern Standard Time. Source: Bloomberg, TD Economics.						

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