

Weekly Bottom Line

July 26, 2024

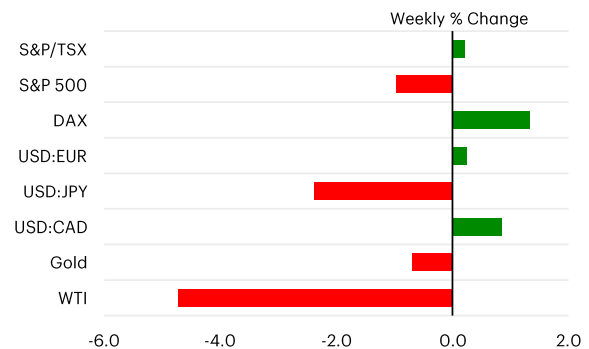
Highlights

- The U.S. economy accelerated in the second quarter, growing by 2.8% (annualized), up from 1.4% in the first quarter.
- At the same time, inflation cooled to 2.5% year-on-year (y/y) in June, as measured by the personal consumption expenditure deflator. However, the Fed's preferred inflation metric, core PCE, was unchanged relative to May.
- High interest rates continued to burden the housing market in June, as existing home sales fell 5.4% month-on-month.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	5442	5505	5667	4117
S&P/TSX Comp.	22746	22690	22995	18737
DAX	18384	18172	18869	14687
FTSE 100	8273	8156	8446	7258
Nikkei	37667	40064	42224	30527
Fixed Income Yields				
U.S. 10-yr Treasury	4.20	4.24	4.99	3.79
Canada 10-yr Bond	3.32	3.40	4.24	3.06
Germany 10-yr Bund	2.40	2.47	2.97	1.90
UK 10-yr Gilt	4.08	4.12	4.75	3.44
Japan 10-yr Bond	1.07	1.04	1.10	0.45
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.72	0.73	0.76	0.72
Euro (USD per EUR)	1.09	1.09	1.11	1.05
Pound (USD per GBP)	1.29	1.29	1.30	1.21
Yen (JPY per USD)	153.5	157.5	161.7	139.5
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	76.5	80.1	93.7	68.6
Natural Gas (\$US/MMBtu)	1.99	1.79	13.20	1.24
Copper (\$US/met. tonne)	9003.5	9179.3	10800.8	7823.8
Gold (\$US/troy oz.)	2382.5	2400.8	2469.1	1820.3

*As of 10:55 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

Yen Gains on Bank of Japan Rate Hike Expectations



Global Official Policy Rate Targets

Central Banks	Current Target
Federal Reserve (Fed Funds Rate)	5.25 - 5.50%
Bank of Canada (Overnight Rate)	4.50%
European Central Bank (Refi Rate)	4.25%
Bank of England (Repo Rate)	5.25%
Bank of Japan (Overnight Rate)	0.10%

Source: Bloomberg.

TD Economics Key Financial Forecasts

	Current Rate 7/26/24	2023				2024				2025			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate	5.50	5.00	5.25	5.50	5.50	5.50	5.25	5.00	4.75	4.25	3.75	3.25	
2-yr Govt. Bond Yield	4.38	4.06	4.87	5.03	4.23	4.59	4.71	4.25	4.05	3.75	3.45	3.00	
10-yr Govt. Bond Yield	4.20	3.48	3.81	4.59	3.88	4.20	4.36	4.10	3.95	3.80	3.65	3.45	
30-yr Govt. Bond Yield	4.46	3.67	3.85	4.73	4.03	4.34	4.51	4.30	4.20	4.10	3.95	3.75	

Forecast by TD Economics as of July 2024; all forecasts are end-of-period. Source: Bloomberg, Federal Reserve Board, TD Economics.

All Eyes on Next Week’s Fed Meeting

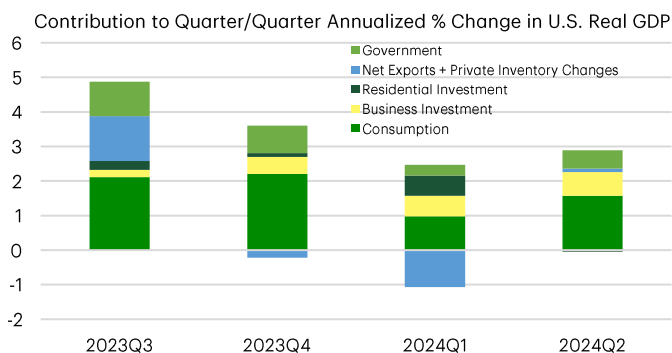
Andrew Foran, Economist
416-350-8927

With the second half of the year now well under way, data this week showed a fairly Goldilocks outcome for the U.S. economy. Growth momentum coming out of the first half of the year was broadly favorable, while at the same time, inflationary pressures are cooling. In financial markets, company earnings reports out this week were mixed on aggregate, with weakness among the large tech firms dragging the S&P 500 down by 0.9% on the week as of the time of writing. U.S. Treasury yields also fell modestly on Friday’s PCE inflation report as markets wait to hear from the Federal Reserve next week.

Starting the week off on Tuesday, June housing data showed that existing home sales fell sharply to end the second quarter, fully retracing the uptick seen in the first quarter. However, this has not translated into material price adjustments, as the median home sales price in June was only a half-step off its all-time high seen in the month prior. With expectations growing for lower interest rates in the second half of the year, it’s possible that some buyers are biding their time.

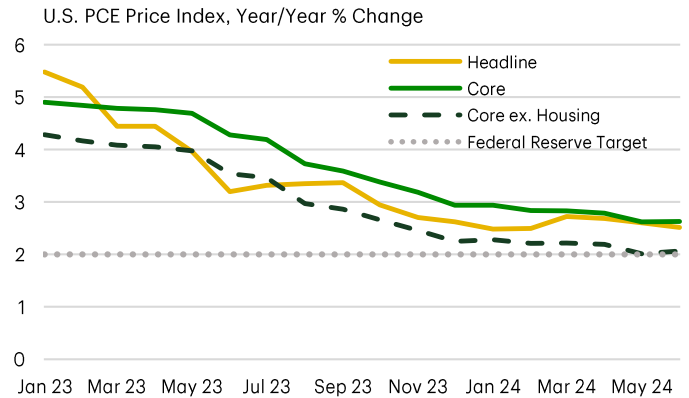
The decline in the housing market shaved a marginal amount off real GDP growth in the second quarter, but solid growth in consumption, business investment, and government spending pushed the quarterly annualized growth rate to 2.8%, up from 1.4% in the first quarter (Chart 1). Growth in final sales to private domestic purchasers (excluding government spending and private inventory adjustments) was unchanged relative to the first quarter, as stronger consumption was offset by weakness in the housing market. Looking ahead, we expect that growth will moderate through the second half of the

Chart 1: Broad-Based Support to U.S. Real GDP Growth in 2024Q2



Source: U.S. Bureau of Economic Analysis, TD Economics.

Chart 2: U.S. Disinflation Progress Eased Slightly in June



Source: U.S. Bureau of Economic Analysis, TD Economics.

year but remain near the long-run average as the Federal Reserve begins to lower rates in the coming months.

To that end, inflation data released on Friday was slightly mixed on aggregate. Although headline PCE inflation declined modestly, core PCE inflation on a year-on-year basis was unchanged owing to a marginal acceleration in core PCE ex. housing, which offset a deceleration in housing inflation. Nevertheless, with housing inflation expected to continue to moderate moving forward and annual core PCE ex. housing inflation still in-line with the Fed’s 2% target (Chart 2), this report will not likely sway the Fed’s confidence about disinflation progress to a great degree.

Looking ahead, on the one-year anniversary of the last time the Fed hiked rates, Chair Powell is expected to begin opening the door to the possibility of a near-term pivot to rate cuts during his press conference next week. Financial markets have fully priced in the first cut occurring in just under two months at the September meeting, with an additional 2-3 cuts expected by year-end. However, overall guidance from the Fed next week is expected to emphasize caution and flexibility. Given the flare up in inflation in the first quarter, the Fed is going to want to be quite confident that inflation will continue to move in the right direction. On the other side of the Fed’s dual mandate, the second-last employment report before the September meeting, out next Friday, will also be monitored closely to determine whether the deceleration in job growth in the second quarter carried into the third.

Exhibits

Recent Key Economic Indicators: Jul 22 - 26, 2024					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Jul 23	Existing Home Sales	Jun	Mlns	3.9	4.1
Jul 24	Advance Goods Trade Balance	Jun	Blns	-96.80	-99.40
Jul 24	S&P Global US Manufacturing PMI	Jul	Index	49.5	51.6
Jul 24	S&P Global US Services PMI	Jul	Index	56.0	55.3
Jul 24	S&P Global US Composite PMI	Jul	Index	55.0	54.8
Jul 25	Gross Domestic Product (Annualized)	Q2	Q/Q % Chg.	2.8	1.4
Jul 25	Personal Consumption	Q2	Q/Q % Chg.	2.3	1.5
Jul 25	Initial Jobless Claims	Jul 20	Thsd	235.0	245.0
Jul 25	Durable Goods Orders	Jun	M/M % Chg.	-6.6	0.1
Jul 25	Cap Goods Orders Nondef Ex Air	Jun	M/M % Chg.	1.0	-0.9
Jul 26	Personal Income	Jun	M/M % Chg.	0.2	0.4
Jul 26	Real Personal Spending	Jun	M/M % Chg.	0.2	0.4
Canada					
Jul 24	Bank of Canada Rate Decision	Jul 24	%	4.50	4.75
Jul 25	CFIB Business Barometer	Jul	Index	55.4	56.0
Jul 25	Payroll Employment Change (SEPH)	May	Thsd	41.0	15.4
International					
Jul 23	JN Jibun Bank Japan PMI Mfg	Jul	Index	49.2	50.0
Jul 23	JN Jibun Bank Japan PMI Services	Jul	Index	53.9	49.4
Jul 25	JN Tokyo Consumer Price Index	Jul	Y/Y % Chg.	2.2	2.3

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

Upcoming Economic Releases and Events: July 29 - August 03, 2024

Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Jul 30	9:00	S&P CoreLogic CS US HPI NSA	May	Y/Y % Chg.	-	6.3
Jul 30	9:00	S&P CoreLogic CS 20-City NSA	May	Y/Y % Chg.	-	7.2
Jul 30	10:00	Conf. Board Consumer Confidence	Jul	Index	99.7	100.4
Jul 31	8:15	ADP Employment Change	Jul	Thsd	168.0	150.0
Jul 31	8:30	Employment Cost Index	2Q	Index	1.0	1.2
Jul 31	14:00	FOMC Rate Decision (Upper Bound)	Jul 31	%	5.5	5.5
Aug 01	8:30	Unit Labor Costs	2Q	Q/Q % Chg.	-	4.0
Aug 01	8:30	Initial Jobless Claims	Jul 27	Thsd	-	235.0
Aug 01	9:45	S&P Global US Manufacturing PMI	Jul	Index	-	49.5
Aug 01	10:00	ISM Manufacturing	Jul	Index	49.0	48.5
Aug 01	0:00	Wards Total Vehicle Sales	Jul	Mlns	16.2	15.3
Aug 02	8:30	Change in Nonfarm Payrolls	Jul	Thsd	175.0	206.0
Aug 02	8:30	Unemployment Rate	Jul	%	4.1	4.1
Aug 02	8:30	Average Hourly Earnings	Jul	M/M % Chg.	0.3	0.3
Aug 02	10:00	Factory Orders	Jun	M/M % Chg.	0.5	-0.5
Aug 02	10:00	Factory Orders Ex Trans	Jun	M/M % Chg.	-	-0.7
Aug 02	10:00	Durable Goods Orders	Jun	M/M % Chg.	-	-6.6
Aug 02	10:00	Cap Goods Orders Nondef Ex Air	Jun	M/M % Chg.	-	1.0
Canada						
Jul 31	8:30	Gross Domestic Product	May	M/M % Chg.	0.2	0.3
Aug 01	9:30	S&P Global Canada Manufacturing PMI	Jul	Index	-	49.3
Aug 02	10:30	<i>Bank of Canada releases Market Participants Survey</i>				
International						
Jul 29	19:30	JN Jobless Rate	Jun	%	2.6	2.6
Jul 30	5:00	EZ Gross Domestic Product SA	2Q	Y/Y % Chg.	0.5	0.4
Jul 30	19:50	JN Retail Sales	Jun	Y/Y % Chg.	3.2	2.8
Jul 30	21:30	CH Manufacturing PMI	Jul	Index	49.3	49.5
Jul 31	5:00	EZ Consumer Price Index Estimate	Jul	Y/Y % Chg.	2.5	2.5
Jul 31	20:30	JN Jibun Bank Japan PMI Mfg	Jul	Index	-	49.2
Jul 31	21:45	CH Caixin China PMI Mfg	Jul	Index	51.5	51.8
Aug 01	5:00	EZ Unemployment Rate	Jun	%	6.4	6.4
Aug 01	7:00	UK Bank of England Bank Rate	Aug 01	%	5.0	5.3

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

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