

The Weekly Bottom Line

July 17, 2020

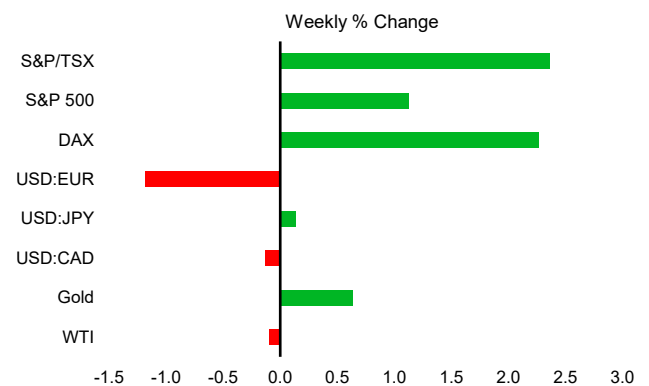
Highlights of the Week

- Despite the continued surge in new infections in the U.S., financial markets were on the upswing this week on positive economic data and encouraging news on a vaccine.
- Internationally, the Chinese economy resumed growing in the second quarter. However, the recovery in the second quarter was uneven, with consumers reluctant to spend.
- In the U.S., retail sales and housing starts both rebounded sharply in June. Consumer price pressures in previously weak areas also perked up.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	3219	3185	3386	2237
S&P/TSX Comp.	16091	15714	17944	11228
DAX	12931	12634	13789	8442
FTSE 100	6288	6095	7687	4994
Nikkei	22696	22291	24084	16553
Fixed Income Yields				
U.S. 10-yr Treasury	0.62	0.64	2.08	0.54
Canada 10-yr Bond	0.52	0.55	1.70	0.49
Germany 10-yr Bund	-0.45	-0.47	-0.16	-0.86
UK 10-yr Gilt	0.16	0.16	0.87	0.14
Japan 10-yr Bond	0.02	0.03	0.08	-0.29
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.74	0.74	0.77	0.69
Euro (USD per EUR)	1.14	1.13	1.15	1.07
Pound (USD per GBP)	1.25	1.26	1.33	1.15
Yen (JPY per USD)	107.1	106.9	112.1	102.4
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	40.5	40.6	63.3	-37.6
Natural Gas (\$US/MMBtu)	1.76	1.86	2.87	1.40
Copper (\$US/met. tonne)	6437.8	6418.6	6580.0	4625.0
Gold (\$US/troy oz.)	1810.6	1798.7	1810.6	1413.8

*As of 11:50 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

Financial Markets Resilient Despite Rising U.S. Infections



Note: Data as of 11:56 AM ET, Friday, July 17, 2020.
Source: Bloomberg, TD Economics

Global Official Policy Rate Targets	
	Current Target
Federal Reserve (Fed Funds Rate)	0.00 - 0.25%
Bank of Canada (Overnight Rate)	0.25%
European Central Bank (Refi Rate)	0.00%
Bank of England (Repo Rate)	0.10%
Bank of Japan (Overnight Rate)	-0.10%

Source: Central Banks.

TD Economics Key Financial Forecasts

	Current Rate 7/17/20	2019				2020				2021			
		Q1	Q2	Q3	Q4	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate	0.25	2.50	2.50	2.00	1.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
2-yr Govt. Bond Yield	0.15	2.27	1.75	1.63	1.58	0.23	0.20	0.20	0.20	0.20	0.25	0.30	0.35
10-yr Govt. Bond Yield	0.62	2.41	2.00	1.68	1.92	0.70	0.65	0.70	0.80	0.95	1.10	1.25	1.40
30-yr Govt. Bond Yield	1.32	2.81	2.52	2.12	2.39	1.35	1.40	1.45	1.60	1.75	1.90	2.05	2.15

Forecast by TD Economics as of June 2020; all forecasts are end-of-period. Source: Bloomberg, Federal Reserve Board, TD Economics.

Economic Rebound Continued Through June

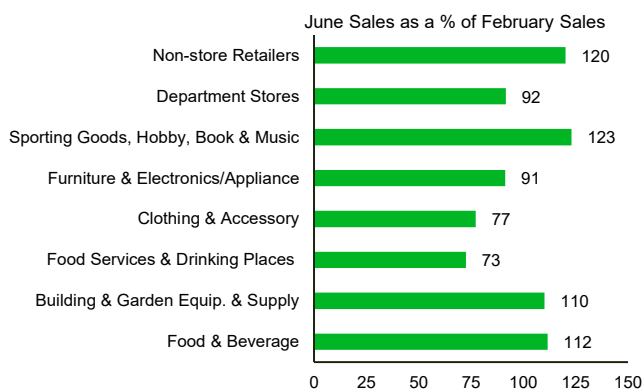
Financial markets were on the upswing this week on positive economic data and encouraging news on a vaccine. This came despite the continued surge in new infections. Overall, U.S. data for June was positive, but the virus's broader spread threatens to set back progress thus far.

The big news internationally was that the Chinese economy resumed growing in the second quarter. After a 6.8% year/year decline in the first quarter, real GDP increased by 3.2% versus a year ago. However, the recovery in the second quarter was uneven, with investment outpacing consumption. Consumers have been reluctant to spend even though most businesses have reopened, reflecting the intensity of the demand shock and consumer scarring, which may take time to heal.

American consumers, on the other hand, continued to ramp up spending at retailers in June (+7.5% month-on-month). May's gain was also revised upward, and total sales are now only 0.6% below February's level. The rebound in sales has been uneven across categories, but even lagging areas like restaurants and bars and clothing had big double-digit rebounds in June (Chart 1).

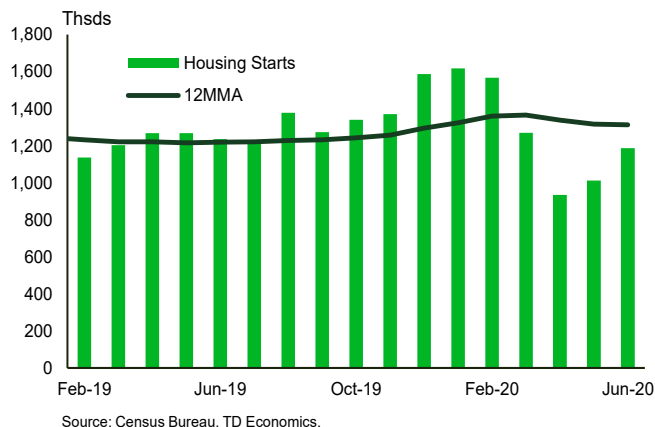
However, retail sales only accounts for about 43% of consumer spending. Many services, like housing and medical care are not captured. This includes some of the hardest-hit areas: air travel, hotels, car rentals, child care, haircuts, movies and live entertainment. So, consumers have more money to spend on retail items because they can't spend on these other areas. It also means the rebound in total consumer spending is likely to lag the retail front.

Chart 1: Retail Sales Nearly Back at February Levels



Source: Census Bureau, TD Economics.

Chart 2: Housing Starts Rebound Continued in June



Source: Census Bureau, TD Economics.

The strength in retail spending comes even as the unemployment rate remains at a double-digit level. This is thanks to income supports established in the CARES Act (i.e. one-time checks, and expanded unemployment benefits). The generous top-up to unemployment benefits is set to expire in two weeks. Congress is working on another fiscal package, expected before the end of July, which will hopefully include some assistance for households. Without it, consumers will likely tighten their purse strings.

Turning to the housing market, starts jumped 17.3% in June (Chart 2). Momentum in single-family home construction looks to continue in July, with building permits up. Not surprisingly, multifamily permits fell. These projects typically involve greater risk, and given social distancing, are likely less desirable in the current climate. While starts are 24% below February levels, those were boosted by unseasonably warm weather, and are only down 3.4% versus a year ago.

Consumer prices rose again in June for the first time since the pandemic hit. A 0.2% m/m increase in core CPI in June provided some reassurance that earlier deflationary forces have ebbed. However, some of the more persistent categories, like shelter, continued to cool in June. With shutdowns returning across many parts of the country, prices may see renewed downward pressure. All told, we expect inflation to remain muted over the next couple of years.

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Recent Key Economic Indicators: Jul 13 - 17, 2020					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Jul 14	NFIB Small Business Optimism	Jun	Index	100.6	94.4
Jul 14	Consumer Price Index Ex Food and Energy	Jun	M/M % Chg.	0.2	-0.1
Jul 14	Consumer Price Index Ex Food and Energy	Jun	Y/Y % Chg.	1.2	1.2
Jul 14	Consumer Price Index	Jun	M/M % Chg.	0.6	-0.1
Jul 14	Consumer Price Index	Jun	Y/Y % Chg.	0.6	0.1
Jul 15	Empire Manufacturing	Jul	Index	17.2	-0.2
Jul 15	Capacity Utilization	Jun	%	68.6	65.1
Jul 15	Industrial Production	Jun	M/M % Chg.	5.4	1.4
Jul 15	Manufacturing (SIC) Production	Jun	M/M % Chg.	7.2	3.8
Jul 15	U.S. Federal Reserve Releases Beige Book				
Jul 16	Initial Jobless Claims	Jul 11	Thsd	1300.0	1310.0
Jul 16	Retail Sales Advance	Jun	M/M % Chg.	7.5	18.2
Jul 16	Retail Sales Ex Auto and Gas	Jun	M/M % Chg.	6.7	12.1
Jul 16	Business Inventories	May	M/M % Chg.	-2.3	-1.4
Jul 16	NAHB Housing Market Index	Jul	Index	72.0	58.0
Jul 17	Building Permits	Jun	Thsd	1241.0	1216.0
Jul 17	Housing Starts	Jun	Thsd	1186.0	1011.0
Canada					
Jul 15	Manufacturing Sales	May	M/M % Chg.	10.7	-28.5
Jul 15	Existing Home Sales	Jun	M/M % Chg.	63.0	56.9
Jul 15	Bank of Canada Rate Decision	Jul 15	%	0.25	0.25
Jul 17	Wholesale Trade Sales	May	M/M % Chg.	5.7	-21.4
International					
Jul 14	UK Monthly Gross Domestic Product (3M/3M)	May	M/M % Chg.	-19.1	-10.8
Jul 15	UK Consumer Price Index	Jun	Y/Y % Chg.	0.6	0.5
Jul 15	CH Gross Domestic Product	2Q	Y/Y % Chg.	3.2	-6.8
Jul 15	CH Retail Sales	Jun	Y/Y % Chg.	-1.8	-2.8
Jul 15	JN BOJ Policy Balance Rate	Jul 15	%	-0.10	-0.10
Jul 16	UK ILO Unemployment Rate 3Mths	May	%	3.9	3.9
Jul 16	EZ ECB Main Refinancing Rate	Jul 16	%	0.00	0.00
Jul 17	EZ Consumer Price Index	Jun	Y/Y % Chg.	0.3	0.3

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Jul 20 - 24, 2020						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Jul 22	10:00	Existing Home Sales	Jun	Mlns	4.7	3.9
Jul 23	8:30	Initial Jobless Claims	Jul 18	Thsd	-	1300.0
Jul 24	9:45	Markit US Manufacturing PMI	Jul	Index	51.5	49.8
Jul 24	9:45	Markit US Services PMI	Jul	Index	-	47.9
Jul 24	10:00	New Home Sales	Jun	Thsd	700.0	676.0
Canada						
Jul 20	8:30	Teranet/National Bank HPI	Jun	Y/Y % Chg.	-	6.0
Jul 21	8:30	Retail Sales Ex Auto	May	M/M % Chg.	-	-22.0
Jul 21	8:30	Retail Sales	May	M/M % Chg.	-	-26.4
Jul 22	8:30	Consumer Price Index NSA	Jun	M/M % Chg.	-	0.3
Jul 22	8:30	Consumer Price Index	Jun	Y/Y % Chg.	-	-0.4
International						
Jul 20	19:30	JN Natl Consumer Price Index	Jun	Y/Y % Chg.	0.1	0.1
Jul 21	20:30	JN Jibun Bank Japan PMI Mfg	Jul	Index	-	40.1
Jul 24	2:00	UK Retail Sales Ex Auto Fuel	Jun	Y/Y % Chg.	-	-9.8
Jul 24	4:00	EZ Markit Eurozone Manufacturing PMI	Jul	Index	49.0	47.4
Jul 24	4:30	UK Markit UK PMI Manufacturing SA	Jul	Index	-	50.1

Source: Bloomberg, TD Economics.

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