

The Weekly Bottom Line

August 7, 2020

Highlights of the Week

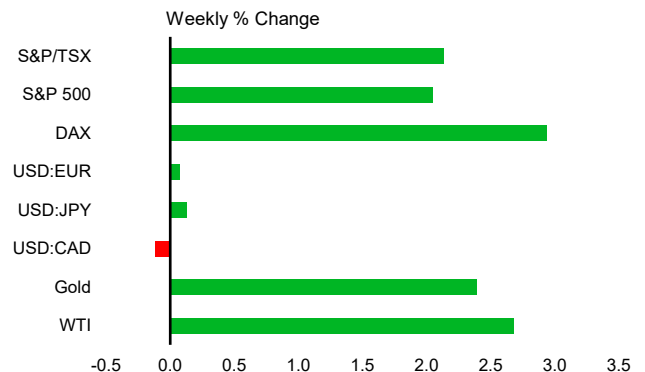
United States

- Despite a surge in COVID-19 cases in July, economic data remained broadly positive. Vehicle sales rose 11.3% to a better-than-expected 14.5 million (SAAR). The ISM indices also ticked up on the month and beat expectations.
- Importantly, the employment report confirmed that the jobs recovery continued in July, albeit at a slower pace. The U.S. added a better-than-expected 1.8 million jobs, while the unemployment rate fell to 10.2% from 11.1% in June.
- A downward trend in new infections in very recent days marks another positive development. Hopes are also high for a new stimulus package. But, it is unclear if an agreement regarding the stimulus can be achieved in short order.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	3335	3271	3386	2237
S&P/TSX Comp.	16509	16169	17944	11228
DAX	12675	12313	13789	8442
FTSE 100	6032	5898	7675	4994
Nikkei	22330	21710	24084	16553
Fixed Income Yields				
U.S. 10-yr Treasury	0.56	0.53	1.94	0.51
Canada 10-yr Bond	0.49	0.47	1.70	0.43
Germany 10-yr Bund	-0.51	-0.52	-0.16	-0.86
UK 10-yr Gilt	0.14	0.10	0.87	0.08
Japan 10-yr Bond	0.01	0.02	0.08	-0.29
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.75	0.75	0.77	0.69
Euro (USD per EUR)	1.18	1.18	1.19	1.07
Pound (USD per GBP)	1.30	1.31	1.33	1.15
Yen (JPY per USD)	106.0	105.8	112.1	102.4
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	41.3	40.3	63.3	-37.6
Natural Gas (\$US/MMBtu)	2.17	1.80	2.87	1.40
Copper (\$US/met. tonne)	6479.8	6422.0	6580.0	4625.0
Gold (\$US/troy oz.)	2022.7	1975.9	2063.5	1454.4

*As of 1:10 PM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

Equity Markets Rise on Still-positive Data, New Stimulus Hopes



Note: Data as of 1:15 PM ET, Friday, August 07, 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 8/7/20	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	0.13	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	0.56	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	1.22	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.

Jobs Recovery Continued in July, Albeit at Slower Pace

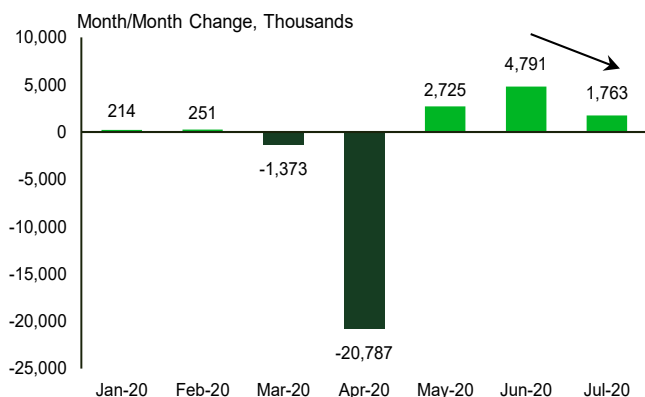
After last week’s dismal (though expected) GDP print, this week’s data had a comparatively more positive feel to it. The data indicate that the recovery was still chugging along at the start of the third quarter, although momentum has slowed.

Auto sales continued to improve for the third consecutive month in July, rising by 11.3% to a better-than-expected 14.5 million (SAAR) units. In similar fashion, the ISM indices made gains on the month and came in better than expected. The manufacturing index rose 1.6 points to 54.2 in July, with broad-based gains across subcomponents. Its non-manufacturing counterpart did not exhibit the same breadth of gains, but the headline still ticked up one point to 58.1, thanks to a sizable pickup in new orders. While the ISM indices are signaling an expansion at the fastest pace since early 2019, it is important to recall that both sectors are coming out of a very low activity period.

When it comes to gauging the overall health of the labor market, the monthly employment report takes the cake. The July report showed that the recovery in jobs continued last month, albeit at a slower pace (Chart 1). The economy added 1.8 million jobs, beating market expectations. Gains were concentrated in leisure & hospitality, government and retail trade. This brought the three-month tally to 9.3 million, which means that a little over 40% of the jobs lost in the March-April period have been recovered.

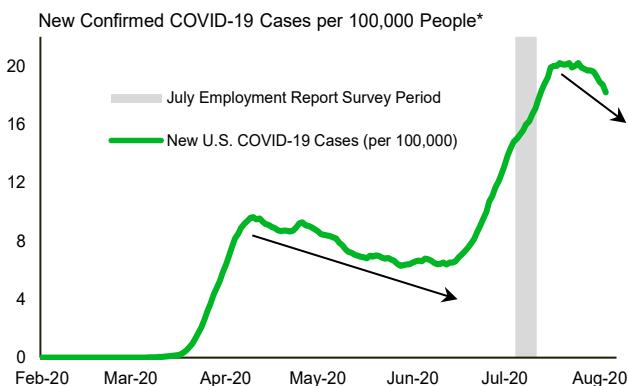
The unemployment rate, meanwhile, improved further in July, falling to 10.2% from 11.1% in June, as the number of unemployed persons fell by 1.4 million. The theme of more Americans being called back to work remained evident in

Chart 1: U.S. Payroll Growth Slows in July, but Remains Well in Positive Territory



Source: BLS, TD Economics.

Chart 2: After Surging in July, Trend in New COVID-19 Cases Appears to Be Easing Again



Source: NYT COVID-19 Repository, TD Economics. *7-day moving average.

July as the number of people on temporary layoff fell 1.3 million to 9.2 million, while the number of those on permanent layoff was virtually unchanged at 2.9 million.

With new COVID-19 infections surging last month, several states hit the pause button on reopening – a major factor behind slowing momentum. With the spread of the virus still elevated, near-term risks appear tilted to the downside. The recent expiration of the \$600-per-week enhanced unemployment benefits, which helped buoy retail spending in recent months, is another potential thorn on the side of the recovery.

Despite everything, there are indications that this latest health-induced hurdle too shall pass in time. For instance, over the last several days, infections appear to be slowing again on a trend basis (Chart 2). If sustained, this downward trajectory will eventually help grease the wheels of the reopening process.

At the same time, a new stimulus package that’s being negotiated in Washington is expected to lend another hand to the recovery. Hopes are high for stimulus on several fronts (enhanced unemployment benefits, stimulus checks, aid to small business and state and local governments, along with rent, mortgage and food assistance). But, given large outstanding differences in Congress, it is unclear if an agreement can be achieved in short order. Timing is of the essence to avoid further financial stress and to support the confidence channel.

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U.S.: Upcoming Key Economic Releases

U.S. Consumer Price Index– July*

Release Date: August 12, 2020

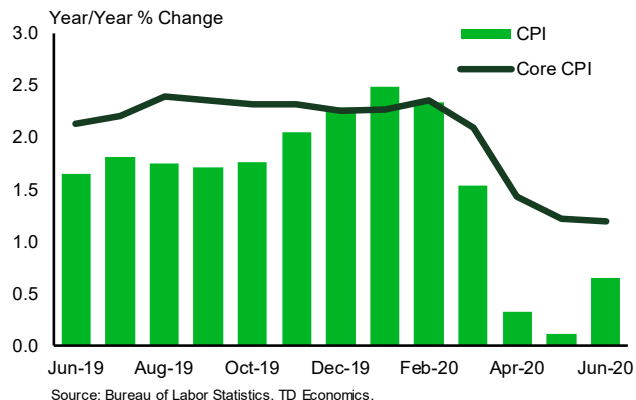
Previous: 0.6% m/m, 0.6% y/y

TD Forecast: 0.4% m/m, 0.8% y/y

Consensus: 0.3% m/m, 0.7% y/y

The CPI likely rose strongly, and not just due to gasoline. We forecast a 0.3% m/m rise in core prices, above the 0.1% averaged over the past year. As in June, when core prices rose 0.235%, we expect unwinding of some of the March-May plunge in travel-related prices (such as airfares and hotel rates) to outweigh slowing in rents. That said, the slowing in rents is probably more indicative of the trend in the year ahead. We expect the 12-month change in core prices to remain low at 1.2% in the July report.

U.S. Consumer Price Index (CPI)



That is down from 2.4% in February (pre-COVID). The 12-month change in the overall index probably rose to a still-low 0.8% from 0.6% in June; it was 2.3% in February.

U.S. Retail Sales– July*

Release Date: August 14, 2020

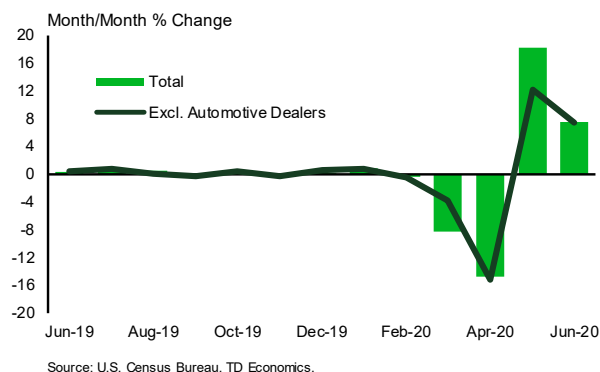
Previous: 7.5% m/m, ex-auto: 7.3%

TD Forecast: 2.2% m/m, ex-auto: 1.5%

Consensus: 1.8% m/m, ex-auto: 1.3%

Retail sales likely slowed in July after huge gains in May and June, but they were probably still up solidly, even with the second COVID wave. A sizable gain in autos has been signaled by the units data, while gasoline spending was probably boosted by higher volumes as well as prices. We expect more slowing in the data for bars and restaurants and the control series. The level of spending will likely be up sharply from the Q2 average, helping put real GDP on track for a fairly strong gain in Q3 after the huge plunge in Q2.

U.S. Retail and Food Services Sales



*Forecast by Rates and FX Strategy Group. For further information, contact TDRates&FXCommoditiesResearch@tdsecurities.com

Recent Key Economic Indicators: Aug 3 - 7, 2020					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Aug 3	Markit US Manufacturing PMI	Jul	Index	50.9	51.3
Aug 3	ISM Manufacturing	Jul	Index	54.2	52.6
Aug 3	Wards Total Vehicle Sales	Jul	Mlns	14.5	13.1
Aug 4	Cap Goods Orders Nondef Ex Air	Jun	M/M % Chg.	3.4	3.3
Aug 4	Durable Goods Orders	Jun	M/M % Chg.	7.6	7.3
Aug 4	Factory Orders	Jun	M/M % Chg.	6.2	7.7
Aug 4	Factory Orders Ex Trans	Jun	M/M % Chg.	4.4	2.6
Aug 5	ADP Employment Change	Jul	Thsd	167.0	4314.0
Aug 5	Trade Balance	Jun	Blns	-50.7	-54.8
Aug 5	Markit US Services PMI	Jul	Index	50.0	49.6
Aug 5	ISM Non-Manufacturing Index	Jul	Index	58.1	57.1
Aug 6	Initial Jobless Claims	Aug 1	Thsd	1186.0	1435.0
Aug 7	Average Hourly Earnings	Jul	M/M % Chg.	0.2	-1.3
Aug 7	Change in Nonfarm Payrolls	Jul	Thsd	1763.0	4791.0
Aug 7	Unemployment Rate	Jul	%	10.2	11.1
Aug 7	Wholesale Trade Sales	Jun	M/M % Chg.	8.8	5.7
Canada					
Aug 4	Markit Canada Manufacturing PMI	Jul	Index	52.9	47.8
Aug 5	Int'l Merchandise Trade	Jun	Blns	-3.2	-1.3
Aug 7	Net Change in Employment	Jul	Thsd	418.5	952.9
Aug 7	Unemployment Rate	Jul	%	10.9	12.3
International					
Aug 3	EZ Markit Eurozone Manufacturing PMI	Jul	Index	51.8	51.1
Aug 3	UK Markit UK PMI Manufacturing SA	Jul	Index	53.3	53.6
Aug 3	JN Tokyo Consumer Price Index	Jul	Y/Y % Chg.	0.6	0.3
Aug 5	EZ Retail Sales	Jun	Y/Y % Chg.	1.3	-3.1
Aug 6	UK Bank of England Bank Rate	Aug 6	%	0.10	0.10

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Aug 10 - 14, 2020						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Aug 11	6:00	NFIB Small Business Optimism	Jul	Index	-	100.6
Aug 11	8:30	Producer Price Index Ex Food and Energy	Jul	M/M % Chg.	0.1	-0.3
Aug 11	8:30	Producer Price Index Final Demand	Jul	M/M % Chg.	0.3	-0.2
Aug 11	12:00	<i>Fed's Daly Speaks in a Webinar hosted by BusinessWomen of California</i>				
Aug 12	8:30	Consumer Price Index Ex Food and Energy	Jul	M/M % Chg.	0.2	0.2
Aug 12	8:30	Consumer Price Index Ex Food and Energy	Jul	Y/Y % Chg.	1.1	1.2
Aug 12	8:30	Consumer Price Index	Jul	M/M % Chg.	0.3	0.6
Aug 12	8:30	Consumer Price Index	Jul	Y/Y % Chg.	0.7	0.6
Aug 12	10:00	<i>Fed's Rosengren Discusses U.S. Economy in a Webinar at the South Shore Chamber of Commerce</i>				
Aug 12	11:00	<i>Fed's Kaplan takes part in moderated Q&A with Lubbock Chamber of Commerce</i>				
Aug 12	15:00	<i>Fed's Daly Speaks with the Economic Club of Las Vegas Via Webinar</i>				
Aug 13	8:30	Initial Jobless Claims	Aug 8	Thsd	-	1186.0
Aug 14	8:30	Retail Sales Advance	Jul	M/M % Chg.	1.6	7.5
Aug 14	8:30	Retail Sales Ex Auto and Gas	Jul	M/M % Chg.	-	6.7
Aug 14	8:30	Unit Labor Costs	2Q	Q/Q % Chg.	5.5	5.1
Aug 14	9:15	Capacity Utilization	Jul	%	70.5	68.6
Aug 14	9:15	Industrial Production	Jul	M/M % Chg.	3.0	5.4
Aug 14	9:15	Manufacturing (SIC) Production	Jul	M/M % Chg.	2.9	7.2
Aug 14	10:00	Business Inventories	Jun	M/M % Chg.	-1.2	-2.3
Canada						
Aug 10	8:15	Housing Starts	Jul	Thsd	200.6	211.7
Aug 14	8:30	Manufacturing Sales	Jun	M/M % Chg.	6.0	10.7
Aug 14	9:00	Existing Home Sales	Jul	M/M % Chg.	-	63.0
International						
Aug 11	2:00	UK ILO Unemployment Rate 3Mths	Jun	%	-	3.9
Aug 12	2:00	UK Gross Domestic Product	2Q	Y/Y % Chg.	-	-1.7
Aug 13	22:00	CH Retail Sales	Jul	Y/Y % Chg.	0.0	-1.8
Aug 13	22:00	CH Jobless Rate	Jul	%	5.7	5.7
Aug 14	5:00	EZ Employment	2Q	Y/Y % Chg.	-	0.4
Aug 14	5:00	EZ Gross Domestic Product SA	2Q	Y/Y % Chg.	-15.0	-15.0

Source: Bloomberg, TD Economics.

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