

The Weekly Bottom Line

January 8, 2021

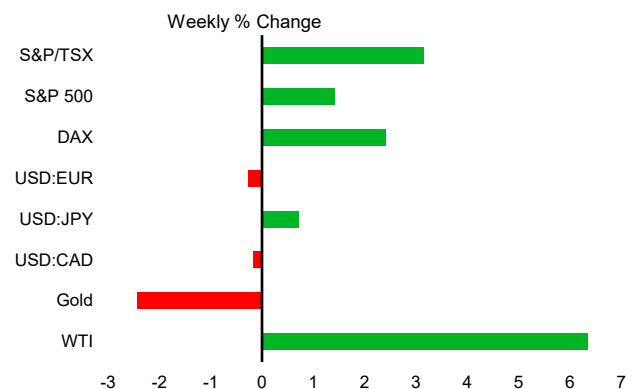
Highlights of the Week

- Unprecedented events rocked the U.S. Capitol this week. Ultimately, Congress certified Joe Biden as the next President and President Trump agreed to a peaceful transition of power.
- The Democrats took control of the Senate by prevailing in both Georgia runoff elections. With all three levels of government now in the hands of Democrats, President-elect Biden will have a better shot at implementing his agenda.
- Economic data was a mixed bag. Vehicle sales ended 2020 on a solid footing and ISM indexes remained well in expansionary territory. However, job creation came to a halt in December, with payrolls falling by 140k.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	3811	3756	3811	2237
S&P/TSX Comp.	17994	17433	18028	11228
DAX	14023	13719	14023	8442
FTSE 100	6868	6461	7675	4994
Nikkei	28139	27444	28139	16553
Fixed Income Yields				
U.S. 10-yr Treasury	1.11	0.91	1.85	0.51
Canada 10-yr Bond	0.80	0.68	1.61	0.43
Germany 10-yr Bund	-0.52	-0.57	-0.16	-0.86
UK 10-yr Gilt	0.29	0.20	0.82	0.08
Japan 10-yr Bond	0.04	0.02	0.08	-0.16
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.79	0.79	0.79	0.69
Euro (USD per EUR)	1.23	1.22	1.23	1.07
Pound (USD per GBP)	1.36	1.37	1.37	1.15
Yen (JPY per USD)	103.9	103.2	112.1	102.4
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	51.6	48.5	59.6	-37.6
Natural Gas (\$US/MMBtu)	2.71	2.38	3.04	1.35
Copper (\$US/met. tonne)	8167.0	7749.0	8167.0	4625.0
Gold (\$US/troy oz.)	1860.5	1898.7	2063.5	1471.2

*As of 12:42 PM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

Oil Jumps on Supply Cuts and Stimulus Prospects



Note: Data as of 12:04 PM ET, Friday, January 08, 2021.
Source: Bloomberg, TD Economics

Global Official Policy Rate Targets	
Central Banks	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: Bloomberg.

TD Economics Key Financial Forecasts													
	Current Rate 1/8/21	2020				2021				2022			
		Q1	Q2	Q3	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
2-yr Govt. Bond Yield	0.14	0.23	0.16	0.13	0.20	0.20	0.20	0.20	0.20	0.20	0.25	0.30	0.35
10-yr Govt. Bond Yield	1.11	0.70	0.66	0.69	0.90	1.05	1.20	1.35	1.50	1.55	1.60	1.65	1.70
30-yr Govt. Bond Yield	1.88	1.35	1.41	1.46	1.60	1.75	1.85	1.95	2.05	2.10	2.15	2.20	2.25

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

A Turbulent Start To A Hopeful Year

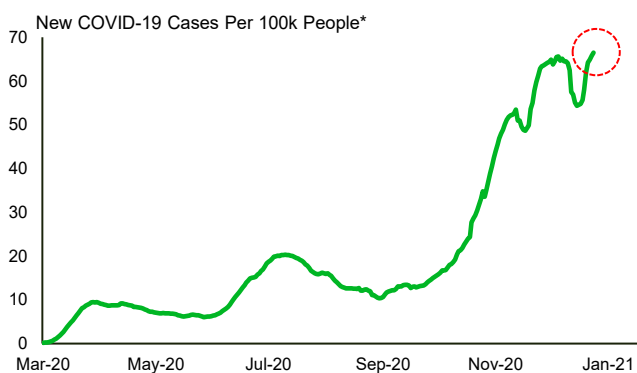
Along with personal resolutions, the New Year tends to usher in a sense of hope. But, as the last few days have demonstrated, simply flipping the calendar does not guarantee a fresh start. Many of the issues that made 2020 a challenging year linger on. The health crisis is (still) front and center, with positive cases and hospitalizations surging to all-time highs (Chart 1).

Meanwhile, the unprecedented events at the U.S. Capitol on Wednesday shocked the country and the world. Still, in terms of the economic outlook, the biggest development on the political front was that Democrats narrowly took control of the Senate by prevailing in both Georgia runoff elections. With all three levels of government now in the hands of Democrats, Joe Biden will have a better shot at implementing his agenda.

The Biden election platform promised an ambitious spending agenda, funded by higher taxes (see [report](#)). A thin Senate majority will pose a challenge to several elements on the list, but increased spending to support the economy through the pandemic appears likely. Tax changes, such as the planned tax hikes on corporations and high-income individuals, appear less likely. While they can be rolled through in the budget reconciliation process with a simple majority, more conservative-leaning Democratic Senators would have to be on board, making it a harder sell than temporary supports to bridge the economy while vaccines continue to be rolled out.

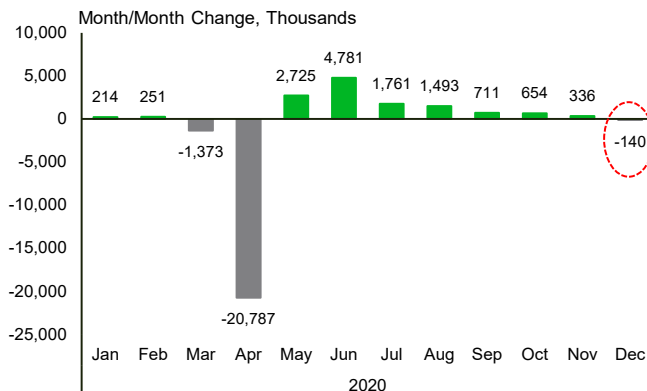
Economic data was not all negative – vehicle sales ended 2020 on a solid footing and ISM indexes remained well in expansionary territory. However, after a solid seven-month

Chart 1: COVID-19 Cases Rise to New All-time Highs after Easing During the Holidays



*7-day moving average. Source: Johns Hopkins U., Moody's, TD Economics. Last observation: January 6, 2021.

Chart 2: Job Creation Comes to a Halt in December



Source: BLS, TD Economics.

run, job creation came to a halt in December, with payrolls falling by 140k (Chart 2). While plenty of industries still added jobs, including professional and business services, retail trade and construction, increased restrictions took a heavy toll on the leisure and hospitality industry (-498k), with the decline concentrated in bars and restaurants.

To surpass this latest pandemic-induced hurdle, the economy will need all the help it can get. The \$900 billion relief bill that was passed in late December, which extends special emergency unemployment benefits for 11 weeks through to mid-March and provides \$600 stimulus checks to both adults and qualifying children, will go a long way to supporting the economy in the near-term as restrictions keep many businesses shuttered. More help is likely on the way, with the new administration having pledged to boost the size of the stimulus checks to \$2,000, among other things.

Overall, the combination of vaccinations and increased spending, suggests that 2021 should be a much better year than the one we left behind. Markets certainly seem to be in tune with this view, with risk assets shrugging off this week's turmoil in the Capitol. That said, we are not out of the woods yet and there could be additional bumps along the road. New COVID-19 variants, which appear to spread more easily, pose an added downside risk. The new administration certainly has its work cut out for it.

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Upcoming Key Economic Releases

U.S. Consumer Price Index- December*

Release Date: January 13, 2021

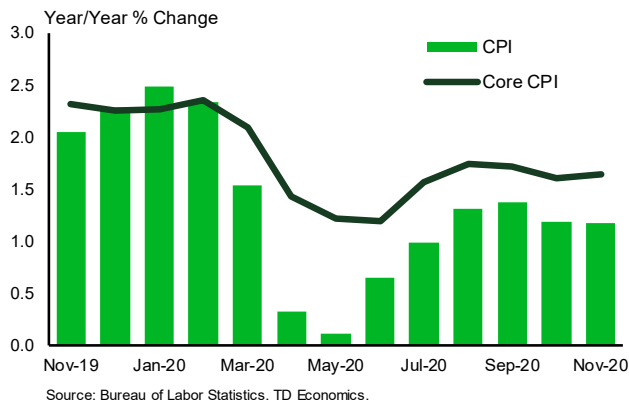
Previous: 0.2% m/m, 1.2% y/y; core 0.2% m/m, 1.6% y/y

TD Forecast: 0.3% m/m, 1.3% y/y; core 0.1% m/m, 1.6% y/y

Consensus: 0.4% m/m, 1.3% y/y; core 0.1% m/m, 1.7% y/y

Oil prices have bounced, and the gasoline component of the CPI likely rose sharply in December, but we expect another weak reading for the trend-setting core series. The rise in the core index was probably held down by a decline in used vehicle prices and minimal gains once again in the rental components. We continue to view COVID as disinflationary, on balance. Our forecast implies 1.3%/1.6% y/y for total/core prices, little changed from 1.2%/1.6% y/y in November and down from 2.3%/2.4% y/y in February (pre-COVID).

U.S. Consumer Price Index (CPI)



U.S. Retail Sales- December*

Release Date: January 15, 2021

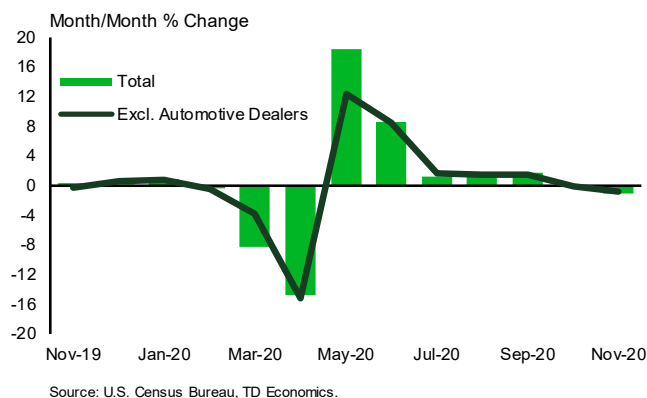
Previous: -1.1% total, -0.9% ex-autos, -0.5% control group

TD Forecast: -0.8% total, -1.4% ex-autos, -1.5% control group

Consensus: 0.0% total, -0.1% ex-autos, 0.2% control group

Retail sales probably fell for a third straight month in December. The auto and gasoline components likely rose, but spending at bars and restaurants probably plunged, due to COVID restrictions. The control series probably fell sharply as well, with holiday spending up less than allowed for by the seasonal factors. That said, we estimate total sales were up by around 3.2% y/y. The y/y gain was as high as 6.1% in September.

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: Dec 21, 2020 - Jan 8, 2021					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Dec 22	Core Personal Consumption Expenditure	3Q	Q/Q % Chg.	3.4	3.5
Dec 22	Gross Domestic Product Annualized	3Q	Q/Q % Chg.	33.4	33.1
Dec 22	Personal Consumption	3Q	Q/Q % Chg.	41.0	40.6
Dec 22	Conf. Board Consumer Confidence	Dec	Index	88.6	92.9
Dec 22	Existing Home Sales	Nov	Mlns	6.7	6.9
Dec 23	Cap Goods Orders Nondef Ex Air	Nov	M/M % Chg.	0.4	1.6
Dec 23	Durable Goods Orders	Nov	M/M % Chg.	0.9	1.8
Dec 23	Initial Jobless Claims	Dec 19	Thsd	803.0	892.0
Dec 23	Personal Consumption Expenditure Core Deflator	Nov	Y/Y % Chg.	1.4	1.4
Dec 23	Personal Consumption Expenditure Deflator	Nov	Y/Y % Chg.	1.1	1.2
Dec 23	Personal Income	Nov	M/M % Chg.	-1.1	-0.6
Dec 23	Real Personal Spending	Nov	M/M % Chg.	-0.4	0.3
Dec 23	New Home Sales	Nov	Thsd	841.0	945.0
Dec 29	S&P CoreLogic CS US HPI NSA	Oct	Y/Y % Chg.	8.4	7.0
Dec 30	Advance Goods Trade Balance	Nov	Blns	-84.8	-80.4
Dec 30	Pending Home Sales	Nov	M/M % Chg.	-2.6	-0.9
Dec 31	Initial Jobless Claims	Dec 26	Thsd	787.0	806.0
Jan 4	Markit US Manufacturing PMI	Dec	Index	57.1	56.5
Jan 5	ISM Manufacturing	Dec	Index	60.7	57.5
Jan 5	Wards Total Vehicle Sales	Dec	Mlns	16.3	15.6
Jan 6	ADP Employment Change	Dec	Thsd	-123.0	304.0
Jan 6	Markit US Services PMI	Dec	Index	54.8	55.3
Jan 6	Cap Goods Orders Nondef Ex Air	Nov	M/M % Chg.	0.5	0.4
Jan 6	Durable Goods Orders	Nov	M/M % Chg.	1.0	0.9
Jan 6	Factory Orders	Nov	M/M % Chg.	1.0	1.3
Jan 6	Factory Orders Ex Trans	Nov	M/M % Chg.	0.8	1.3
Jan 6	<i>FOMC Meeting Minutes</i>				
Jan 7	Initial Jobless Claims	Jan 2	Thsd	787.0	790.0
Jan 7	Trade Balance	Nov	Blns	-68.1	-63.1
Jan 7	ISM Services Index	Dec	Index	57.2	55.9
Jan 8	Average Hourly Earnings	Dec	M/M % Chg.	0.8	0.3
Jan 8	Change in Nonfarm Payrolls	Dec	Thsd	-140.0	336.0
Jan 8	Unemployment Rate	Dec	%	6.7	6.7
Jan 8	Wholesale Trade Sales	Nov	M/M % Chg.	0.2	1.7
Canada					
Dec 23	Gross Domestic Product	Oct	M/M % Chg.	0.4	0.8
Dec 31	CFIB Business Barometer	Dec	Index	58.2	55.7
Jan 4	Markit Canada Manufacturing PMI	Dec	Index	57.9	55.8
Jan 5	Industrial Product Price	Nov	M/M % Chg.	-0.6	-0.3
Jan 7	Int'l Merchandise Trade	Nov	Blns	-3.3	-3.7
Jan 8	Net Change in Employment	Dec	Thsd	-62.6	62.1
Jan 8	Unemployment Rate	Dec	%	8.6	8.5
International					
Dec 22	UK Gross Domestic Product	3Q	Y/Y % Chg.	-8.6	-9.6
Dec 24	JN Jobless Rate	Nov	%	2.9	3.1
Dec 24	JN Tokyo Consumer Price Index	Dec	Y/Y % Chg.	-1.3	-0.7
Dec 24	JN Retail Sales	Nov	Y/Y % Chg.	0.7	6.4
Jan 3	JN Jibun Bank Japan PMI Mfg	Dec	Index	50.0	49.7
Jan 3	CH Caixin China PMI Mfg	Dec	Index	53.0	54.9
Jan 4	EZ Markit Eurozone Manufacturing PMI	Dec	Index	55.2	55.5
Jan 7	EZ Consumer Price Index Estimate	Dec	Y/Y % Chg.	-0.3	-0.3
Jan 7	EZ Retail Sales	Nov	Y/Y % Chg.	-2.9	4.2
Jan 8	EZ Unemployment Rate	Nov	%	8.3	8.4

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Jan 11 - 15, 2021						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Jan 11	12:00	<i>Fed's Bostic Discusses his 2021 Economic Outlook</i>				
Jan 11	18:00	<i>Fed's Kaplan Discusses Economy and Monetary Policy</i>				
Jan 12	6:00	NFIB Small Business Optimism	Dec	Index	100.5	101.4
Jan 12	9:35	<i>Fed's Brainard Speaks at Artificial Intelligence Symposium</i>				
Jan 12	11:00	<i>Three Fed Presidents Speak at Event on Racism</i>				
Jan 12	14:00	<i>Fed's Rosengren Speaks on Economic Outlook</i>				
Jan 13	8:30	Consumer Price Index	Dec	M/M % Chg.	0.4	0.2
Jan 13	8:30	Consumer Price Index	Dec	Y/Y % Chg.	1.3	1.2
Jan 13	8:30	Consumer Price Index Ex Food and Energy	Dec	M/M % Chg.	0.1	0.2
Jan 13	8:30	Consumer Price Index Ex Food and Energy	Dec	Y/Y % Chg.	1.7	1.6
Jan 13	13:00	<i>Fed's Brainard Discusses Economic Outlook and Employment</i>				
Jan 13	14:00	<i>Fed's Harker Discusses the Economic Outlook</i>				
Jan 13	14:00	U.S. Federal Reserve Releases Beige Book				
Jan 13	15:00	<i>Fed's Clarida Discusses Fed's New Framework</i>				
Jan 14	8:30	Initial Jobless Claims	Jan 9	Thsd	785.0	787.0
Jan 14	9:00	<i>Fed's Rosengren to Speak About Economy in 2021</i>				
Jan 14	11:00	<i>Fed's Bostic Moderates Panel on Inclusive Recovery</i>				
Jan 14	12:30	<i>Powell Takes Part in Princeton Webinar</i>				
Jan 15	8:30	Empire Manufacturing	Jan	Index	5.5	4.9
Jan 15	8:30	Producer Price Index Ex Food and Energy	Dec	M/M % Chg.	0.1	0.1
Jan 15	8:30	Producer Price Index Final Demand	Dec	M/M % Chg.	0.4	0.1
Jan 15	8:30	Retail Sales Advance	Dec	M/M % Chg.	0.0	-1.1
Jan 15	8:30	Retail Sales Ex Auto and Gas	Dec	M/M % Chg.	-0.6	-0.8
Jan 15	9:15	Capacity Utilization	Dec	%	73.5	73.3
Jan 15	9:15	Industrial Production	Dec	M/M % Chg.	0.5	0.4
Jan 15	9:15	Manufacturing (SIC) Production	Dec	M/M % Chg.	0.4	0.8
Jan 15	10:00	Business Inventories	Nov	M/M % Chg.	0.4	0.7
Canada						
Jan 15	9:00	Existing Home Sales	Dec	M/M % Chg.	-	-1.6
International						
Jan 15	2:00	UK Monthly Gross Domestic Product (3M/3M)	Nov	M/M % Chg.	3.4	10.2

Source: Bloomberg, TD Economics.

Disclaimer

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