

The Weekly Bottom Line

November 27, 2020

Highlights of the Week

United States

- Financial markets were more upbeat this week as investors cheered encouraging vaccine news and the start of the presidential transition. The S&P 500 is on track to end the week with a 2.3% gain from last week's close.
- The impact of the current wave of infections continues to weigh on economic data. Consumer confidence pulled back in November, and initial jobless claims increased for the second straight week.
- Personal income contracted by 0.7% in October, reflecting the fading boost from federal aid programs. Meanwhile, personal spending increased by 0.5%, the slowest pace of monthly gains since May.

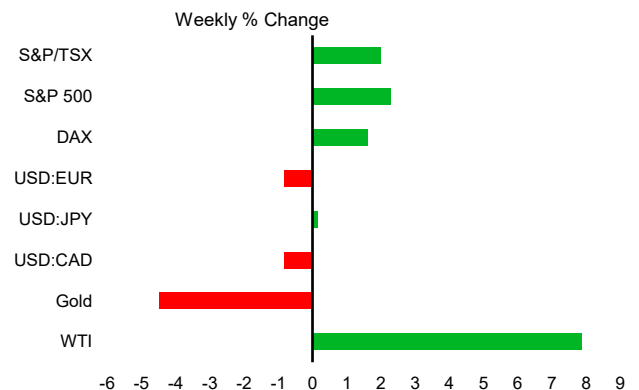
Canada

- The second wave continues to run rampant across Canada. Provinces are responding by tightening restrictions and in some cases introducing regional lockdowns.
- Small business optimism for the year-ahead posted a surprise uptick, on the back of encouraging vaccine news. However, the near-term outlook remains weak, reflecting the difficulties small businesses face amid renewed restrictions.
- The domestic approval process for vaccines has already started, but given Canada's lack of domestic production capability, other countries may get priority.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	3639	3558	3639	2237
S&P/TSX Comp.	17362	17019	17944	11228
DAX	13344	13137	13789	8442
FTSE 100	6374	6351	7675	4994
Nikkei	26645	25527	26645	16553
Fixed Income Yields				
U.S. 10-yr Treasury	0.85	0.82	1.93	0.51
Canada 10-yr Bond	0.68	0.65	1.70	0.43
Germany 10-yr Bund	-0.59	-0.58	-0.16	-0.86
UK 10-yr Gilt	0.29	0.30	0.87	0.08
Japan 10-yr Bond	0.03	0.01	0.08	-0.16
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.77	0.76	0.77	0.69
Euro (USD per EUR)	1.20	1.19	1.20	1.07
Pound (USD per GBP)	1.33	1.33	1.34	1.15
Yen (JPY per USD)	104.0	103.9	112.1	102.4
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	45.5	42.2	63.3	-37.6
Natural Gas (\$US/MMBtu)	2.23	2.19	3.03	1.33
Copper (\$US/met. tonne)	7387.0	7262.5	7387.0	4625.0
Gold (\$US/troy oz.)	1786.4	1871.0	2063.5	1456.3

*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.

Oil Rallies and Gold Drops Amid Vaccine Breakthroughs



Note: Data as of 11:41 AM ET, Friday, November 27, 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.

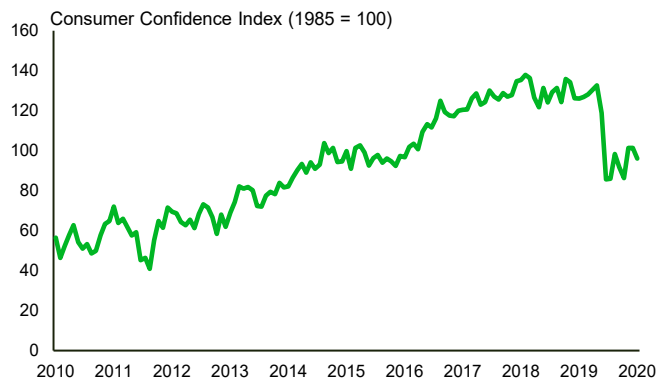
U.S. – Pandemic Dampens Holiday Cheer

Market sentiment was upbeat this week as investors cheered encouraging developments on the vaccine front and the official start of the presidential transition. As of writing, the S&P 500 is on track to end the week with a 2.3% gain from last week's close.

With reports that an effective vaccine is likely on the horizon, the prospect of an earlier-than-anticipated end to the pandemic is gaining traction. Until then, however, the balance of risks appears tilted to the downside. Indeed, the virus is continuing to spread at an unprecedented rate in many states, prompting the introduction of a fresh round of restrictions. Already, the impact on the economic recovery is unravelling in high-frequency data. Following three consecutive months of increases, consumer confidence pulled back in November (Chart 1), illustrating the perception that growth will likely slow heading into 2021.

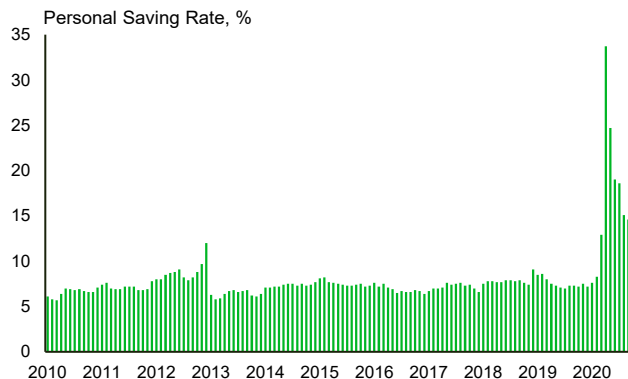
Likewise, initial jobless claims increased for the second straight week to 778,000, the highest level since mid-October. The recent increases suggest that the current wave of infections is slowing the labor market rebound. Should this trend continue and with the impact from previous fiscal support quickly losing steam, many American households are at risk of facing additional duress as we approach the festive season. What is more, leftover supports from the CARES Act are set to expire at the end of the year. Notably, these programs continue to provide benefits and support to gig workers and the self-employed, whom state unemployment insurance programs do not cover.

Chart 1: Consumer Confidence Pulls Back as COVID-19 Cases Spike



Source: Conference Board, TD Economics. Last observation: November 2020.

Chart 2: Saving Rate Continues to Ease as Incomes Decline and Spending Slows



Source: Bureau of Economic Analysis, TD Economics. Last observation: October 2020.

Bringing credence to the above was personal income and spending data for the month of October. Incomes contracted by 0.7% on the month, reflecting the fading boost from federal aid programs. In comparison, spending continued to increase (+0.5%), albeit at the slowest pace since the recovery began. Meanwhile, the personal saving rate edged lower to 13.6% (Chart 2). Households saved a considerable share of their income when the pandemic hit, pushing the saving rate to an all-time high of 33.7% in April. It has since come down, but it remains elevated by historical standards.

Other economic data released this week included the second estimate of real GDP for the third quarter. The report had little in the way of surprises with only minor revisions to the GDP components, confirming the strong 33.1% (annualized) rebound in economic growth last quarter. Released alongside the report were corporate profits, which jumped by 27.1% (non-annualized) in the third quarter from a quarter prior thanks largely to support provided by the Paycheck Protection Program.

Looking ahead, last quarter's pace of growth is unlikely to be repeated. In fact, minutes from the November 4-5 Federal Open Market Committee meeting showed that members were bracing for a near-term slowdown in activity. Importantly, Fed officials continued to view the economic outlook as clouded with high uncertainty, and emphasized the importance of additional fiscal support. The prospects of a new stimulus bill, however, have dimmed considerably over the last few weeks. Without additional help, we anticipate economic growth to slow materially this quarter and next.

Johary Razafindratsita, Economist | 416-430-7126

Canada - Pandemic Runs Rampant, But Vaccines Keep Hope Alive

Financial markets had a solid showing this week. The S&P/TSX Composite gained 2% on the week (as of writing) on the back of gains in the technology, metals and mining sectors. The index has now made positive gains for the fourth straight week, climbing 11% so far in November. Elsewhere, oil markets rallied to an eight-month high amid recent breakthroughs on a COVID-19 vaccine, a weakening dollar and a surprise drawdown of U.S. crude supplies. As of writing, oil prices stand at \$45.2, more than 7% higher compared to last week.

In terms of economic data, the CFIB Business Barometer, a measure of small business confidence in the next 12 months, rose by 2.4 points to 55.7 – the first improvement since July (Chart 1). The improvement captures hopes of an earlier-than-expected vaccine. Meanwhile, near-term confidence remained weak, reflecting the difficulties small businesses are facing amid surging cases and subsequent restrictions. Since these data were collected prior to the latest restrictions imposed in Toronto and other regions, the near-term outlook will likely deteriorate in the coming weeks, accelerating business closures.

On the pandemic front, the second wave continues to run rampant across Canada (Chart 2). The rising second wave is already bigger and geographically more widespread compared to the first wave. Western Canada – which had handled the virus relatively well previously – is seeing a surge this time round. Meanwhile, the Atlantic provinces, which had so far kept the pandemic at bay, are seeing their 'Atlantic Bubble' burst as cases rise. If this trend continues, hospitals across the country will soon reach capacity.

Chart 1: Small Business Optimism Rises Despite New Restrictions

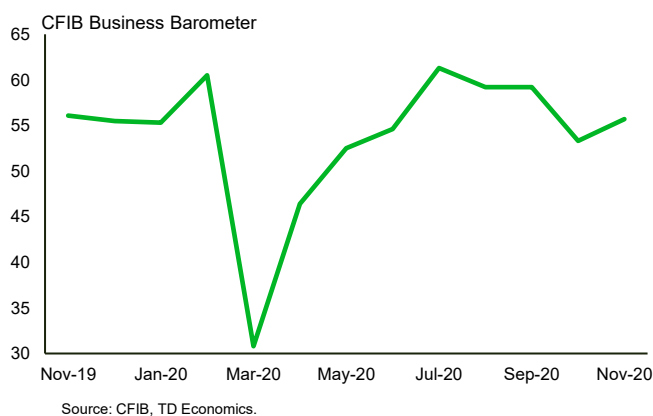
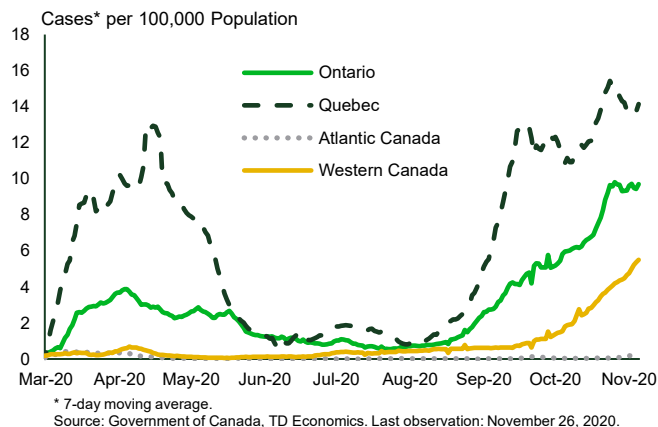


Chart 2: Second Wave Is Bigger and More Widespread than the First Wave



As a result, provinces have continued to toughen up restrictions; Alberta added new restrictions prohibiting all indoor social gatherings, British Columbia ordered temporary closures of indoor fitness activities; and Toronto entered a lockdown. New restrictions were also imposed in Atlantic provinces. These measures are bound to weigh on economic activity, as reflected in latest mobility and restaurant bookings data. However, the more targeted nature of these measures will limit the economic damage relative to the spring.

Against this bleak winter backdrop, vaccines provide hope. Canada has begun the domestic approval of Pfizer, Moderna and AstraZeneca. Still, it is likely that countries where these vaccines are based will get first preference. The Prime Minister has acknowledged that Canada is at a disadvantage because it "no longer has any domestic production capability" to make its own vaccines and must rely on other nations. This could be the reason why Canada – to hedge its risks – has ordered the most vaccines (per person) compared to any other country.

Meanwhile, the Bank of Canada's Governor, Tiff Macklem, said that the economy could recover faster than expected if consumer spending jumps in the wake of successful vaccine efforts. The Governor also said that there is room for interest rates to go a bit lower and reassured markets that "borrowing costs are going to remain very low for a long time."

Sohaib Shahid, Senior Economist | 416-982-2556

U.S.: Upcoming Key Economic Releases

U.S. Employment- November*

Release Date: December 4

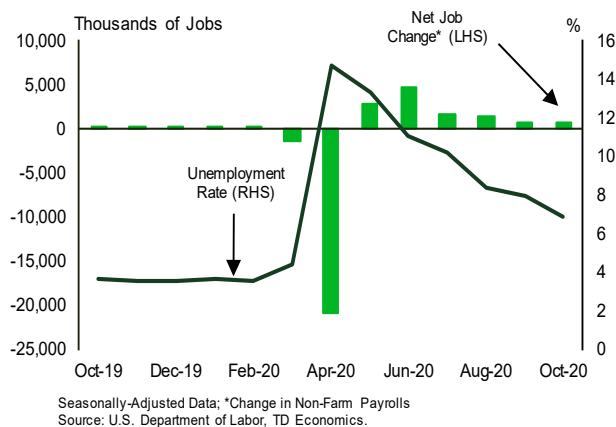
Previous: NFP 638k; UE rate 6.9%; AHE 0.1% m/m, 4.5% y/y

TD Forecast: NFP 200k; UE rate 6.9%; AHE 0.0% m/m, 4.1% y/y

Consensus: NFP 500k, UE rate 6.8%; AHE 0.1% m/m, 4.2% y/y

Payrolls have been rising rapidly by pre-COVID standards, but the pace has been slowing, and the level is still down by more than 10 million since February. The pace probably slowed again in November. Related indicators have sent mixed signals, but new COVID restrictions appear to be taking a toll. Downward momentum will probably continue; we see a high likelihood of contraction in the December report. We expect the downtrend in the unemployment rate to at least stall in the next few months before vaccines help turn momentum in employment positive again during the course of 2021.

U.S. Labor Market



ISM Manufacturing - November*

Release Date: December 1

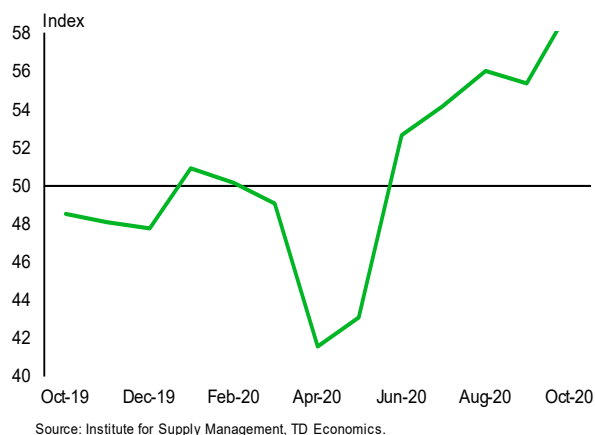
Previous: 59.3

TD Forecast: 57.3

Consensus: 57.6

Regional Fed manufacturing surveys already reported for November have signaled some slowing, in contrast to the Markit data, but with readings still signaling fairly healthy growth. Our ISM forecast put more weight on the regional data. We expect more slowing in December, although new COVID restrictions are likely to affect services more than manufacturing.

ISM Manufacturing Index



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

U.S.: Upcoming Key Economic Releases

ISM Services - November*

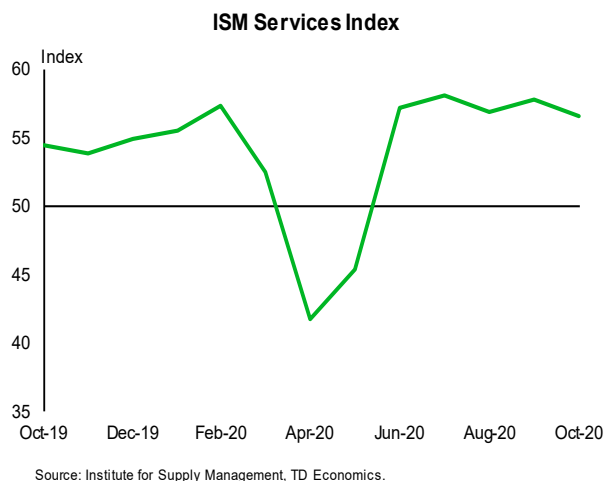
Release Date: December 3

Previous: 56.6

TD Forecast: 56.1

Consensus: 56.0

As with manufacturing, the initial November surveys have been mixed for services, with strengthening in the Markit data but weakening in regional Fed data. Our ISM forecast puts more weight on the regional Fed data. We expect more slowing in December, with new COVID restrictions likely to affect services more than manufacturing



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

Canada: Upcoming Key Economic Releases

Real GDP – Q3 & September*

Release Date: December 1

Previous: -38.7% q/q, 1.2% m/m

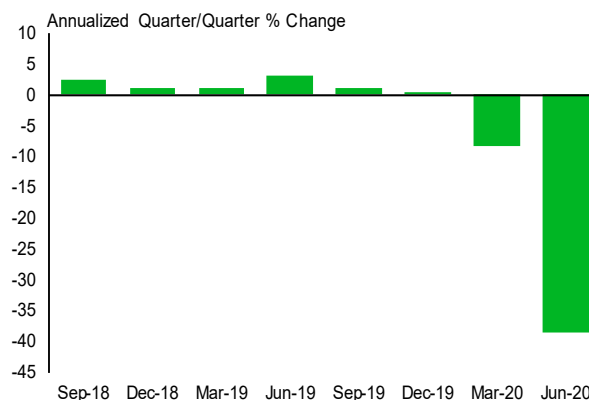
TD Forecast: 46.4% q/q, 1.0% m/m

Consensus: NA

Following an unprecedented decline in the second quarter, the Canadian economy is poised for record-breaking growth in the third quarter. We expect GDP to expand by 46.4% (annualized) as provinces lifted restrictions and unleashed pent-up demand during the summer months. Every component of GDP will likely see strong rebounds, with residential investment leading the pack. Household consumption and business investment are also slated to record incredible growth for the quarter, due in part to the extraordinary support provided by fiscal and monetary policy. Nonetheless, the economy is still likely to fall short of a full recovery. We expect the level of GDP to be around 5% below where it was at the end of 2019. It will likely be several more quarters before activity gets back to pre-pandemic levels, especially as the recent surge in cases and renewed restrictions weigh on activity.

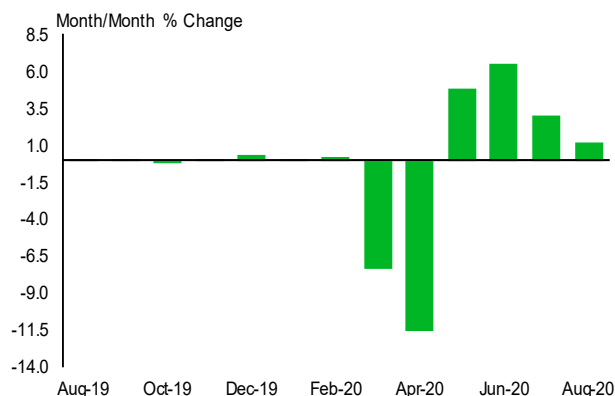
Looking to September, the Canadian economy continues to demonstrate resilience with industry-level GDP forecast to rise by 1.0% m/m, which if realized would mark the 5th consecutive month that GDP growth has outpaced flash estimates. Stronger energy production will support growth in the goods-producing sector along with a solid increase in manufacturing shipments, while services will receive a tailwind from the return to in-classroom learning and further recovery in food services/recreation. Real GDP growth of 1.0% m/m would provide a strong hand-off from Q3 and provide some buffer against the risk of a Q4 contraction, even if new COVID restrictions weigh on monthly output in Nov/Dec.

Canadian Real GDP



Source: Statistics Canada, TD Economics.

Canadian Real GDP*



*Real GDP at Basic Prices in 2012 Chained Dollars.
Source: Statistics Canada, TD Economics.

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

Canada: Upcoming Key Economic Releases

Canadian Employment – November*

Release Date: December 4

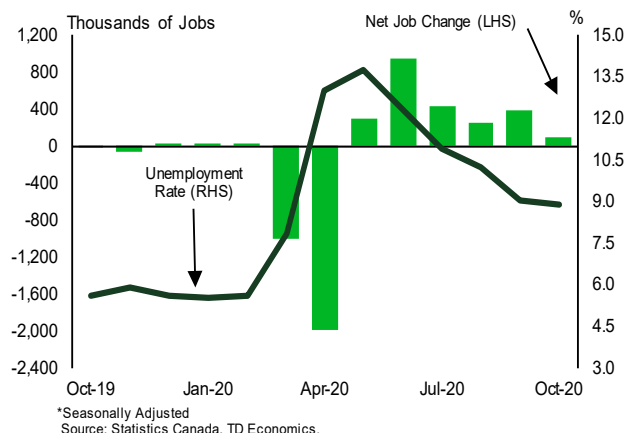
Previous: 83.6k, unemployment rate: 8.9%

TD Forecast: -25k, unemployment rate: 9.0%

Consensus: NA

TD looks for the labour market recovery to stumble in November with the loss of 25k jobs as the renewed surge in COVID infections and subsequent public health measures take their toll. Job losses will be felt primarily across services, with accommodation/food services and recreational services (gyms, cinemas, etc) hardest hit, while retail trade could be weighed down by seasonal adjustment ahead of the holiday season along with regional COVID measures. Manitoba should underperform on a relative basis after locking down ahead of the reference week, and job losses would be even greater if the reference week did not

Canadian Labour Market*



preclude a return to (modified) lockdown in Toronto. A 25k decline would see the unemployment rate drift higher to 9.0%, while hours worked should continue to receive attention for insight into growth conditions for November.

Canadian International Trade – October*

Release Date: December 4

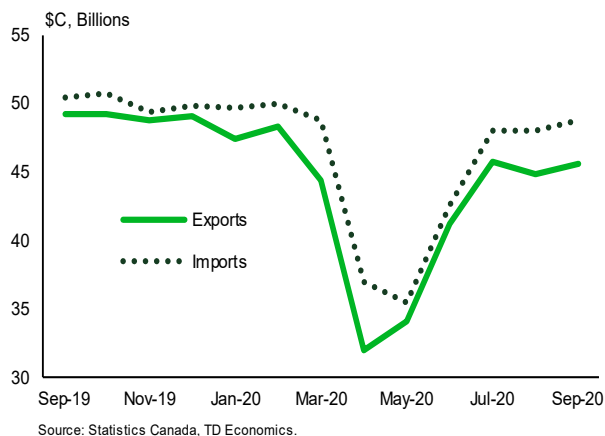
Previous: -\$3.25bn

TD Forecast: -\$3.50bn

Consensus: NA

TD looks for the international merchandise trade deficit to edge wider to \$3.50bn in October from \$3.25bn, as both exports and imports continue to grind higher. Export strength should originate outside the automotive sector; motor vehicle production was unchanged in October and auto exports had already exceeded pre-COVID levels by September. However, other categories will benefit from stronger industrial production south of the border, with manufacturing PMI holding near recent highs in October.

Canadian International Merchandise Trade



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

Recent Key Economic Indicators: Nov 23 - 27, 2020					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Nov 23	Markit US Manufacturing PMI	Nov	Index	56.7	53.4
Nov 23	Markit US Services PMI	Nov	Index	57.7	56.9
Nov 24	Conf. Board Consumer Confidence	Nov	Index	96.1	101.4
Nov 25	Advance Goods Trade Balance	Oct	Blns	-80.3	-79.4
Nov 25	Cap Goods Orders Nondef Ex Air	Oct	M/M % Chg.	0.7	1.9
Nov 25	Core Personal Consumption Expenditure	3Q	Q/Q % Chg.	3.5	3.5
Nov 25	Durable Goods Orders	Oct	M/M % Chg.	1.3	2.1
Nov 25	Gross Domestic Product Annualized	3Q	Q/Q % Chg.	33.1	33.1
Nov 25	Initial Jobless Claims	Nov 21	Thsd	778.0	748.0
Nov 25	Personal Consumption	3Q	Q/Q % Chg.	40.6	40.7
Nov 25	New Home Sales	Oct	Thsd	999.0	1002.0
Nov 25	Personal Consumption Expenditure Core Deflator	Oct	Y/Y % Chg.	1.4	1.6
Nov 25	Personal Consumption Expenditure Deflator	Oct	Y/Y % Chg.	1.2	1.4
Nov 25	Personal Income	Oct	M/M % Chg.	-0.7	0.7
Nov 25	Real Personal Spending	Oct	M/M % Chg.	0.5	1.1
Canada					
Nov 26	CFIB Business Barometer	Nov	Index	55.7	53.3
International					
Nov 23	EZ Markit Eurozone Manufacturing PMI	Nov	Index	53.6	54.8
Nov 23	UK Markit UK PMI Manufacturing SA	Nov	Index	55.2	53.7
Nov 26	MX Gross Domestic Product NSA	3Q	Y/Y % Chg.	-8.6	-8.6
Nov 26	JN Tokyo Consumer Price Index	Nov	Y/Y % Chg.	-0.7	-0.3
Nov 27	IN Gross Domestic Product	3Q	Y/Y % Chg.	-7.5	-23.9

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Nov 30 - Dec 4, 2020						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Nov 30	10:00	Pending Home Sales	Oct	M/M % Chg.	1.0	-2.2
Dec 1	9:45	Markit US Manufacturing PMI	Nov	Index	56.7	56.7
Dec 1	10:00	ISM Manufacturing	Nov	Index	57.6	59.3
Dec 1	10:00	<i>Powell Appears Before Senate Banking Committee to Discuss the CARES Act</i>				
Dec 1	12:00	<i>Fed's Brainard Discusses Community Reinvestment Act</i>				
Dec 1	13:15	<i>Fed's Daly Speaks at Virtual Economic Forecast Event</i>				
Dec 1	15:00	<i>Fed's Evans Makes Opening Remarks at Regional Conference</i>				
Dec 1		Wards Total Vehicle Sales	Nov	Mlns	16.1	16.2
Dec 2	8:15	ADP Employment Change	Nov	Thsd	500.0	365.0
Dec 2	10:00	<i>Powell Appears Before House Financial Services Committee to Discuss the CARES Act</i>				
Dec 2	13:00	<i>Fed's Williams Holds Press Briefing on Economic Impact of COVID-19</i>				
Dec 2	14:00	U.S. Federal Reserve Releases Beige Book				
Dec 3	8:30	Initial Jobless Claims	Nov 28	Thsd	765.0	778.0
Dec 3	9:45	Markit US Services PMI	Nov	Index	57.5	57.7
Dec 3	10:00	ISM Services Index	Nov	Index	56.1	56.6
Dec 4	8:30	Average Hourly Earnings	Nov	M/M % Chg.	0.1	0.1
Dec 4	8:30	Change in Nonfarm Payrolls	Nov	Thsd	500.0	638.0
Dec 4	8:30	Trade Balance	Oct	Blns	-64.7	-63.9
Dec 4	8:30	Unemployment Rate	Nov	%	6.8	6.9
Dec 4	10:00	Cap Goods Orders Nondef Ex Air	Oct	M/M % Chg.	-	0.7
Dec 4	10:00	Durable Goods Orders	Oct	M/M % Chg.	-	1.3
Dec 4	10:00	Factory Orders	Oct	M/M % Chg.	0.9	1.1
Dec 4	10:00	Factory Orders Ex Trans	Oct	M/M % Chg.	-	0.5
Dec 4	10:00	<i>Fed's Bowman Discusses Community Banking and Fintech in an Online Event</i>				
Canada						
Nov 30	8:30	Industrial Product Price	Oct	M/M % Chg.	-	-0.1
Dec 1	8:30	Gross Domestic Product	Sep	M/M % Chg.	-	1.2
Dec 1	8:30	Quarterly Gross Domestic Product Annualized	3Q	Q/Q % Chg.	-	-38.7
Dec 1	9:30	Markit Canada Manufacturing PMI	Nov	Index	-	55.5
Dec 4	8:30	Net Change in Employment	Nov	Thsd	-	83.6
Dec 4	8:30	Int'l Merchandise Trade	Oct	Blns	-	-3.25
Dec 4	8:30	Unemployment Rate	Nov	%	-	8.9
International						
Nov 30	18:30	JN Jobless Rate	Oct	%	3.1	3.0
Nov 30	19:30	JN Jibun Bank Japan PMI Mfg	Nov	Index	-	48.3
Nov 30	20:45	CH Caixin China PMI Mfg	Nov	Index	53.5	53.6
Dec 1	4:00	EZ Markit Eurozone Manufacturing PMI	Nov	Index	53.6	53.6
Dec 1	4:30	UK Markit UK PMI Manufacturing SA	Nov	Index	55.2	55.2
Dec 1	5:00	EZ Consumer Price Index Estimate	Nov	Y/Y % Chg.	-0.2	-0.3
Dec 2	5:00	EZ Unemployment Rate	Oct	%	8.4	8.3
Dec 3	5:00	EZ Retail Sales	Oct	Y/Y % Chg.	2.6	2.2
Dec 3	7:00	BZ Gross Domestic Product	3Q	Y/Y % Chg.	-3.3	-11.4

Source: Bloomberg, TD Economics.

Disclaimer

This report is provided by TD Economics. It is for informational and educational purposes only as of the date of writing, and may not be appropriate for other purposes. The views and opinions expressed may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and should not be considered specific legal, investment or tax advice. The report does not provide material information about the business and affairs of TD Bank Group and the members of TD Economics are not spokespersons for TD Bank Group with respect to its business and affairs. The information contained in this report has been drawn from sources believed to be reliable, but is not guaranteed to be accurate or complete. This report contains economic analysis and views, including about future economic and financial markets performance. These are based on certain assumptions and other factors, and are subject to inherent risks and uncertainties. The actual outcome may be materially different. The Toronto-Dominion Bank and its affiliates and related entities that comprise the TD Bank Group are not liable for any errors or omissions in the information, analysis or views contained in this report, or for any loss or damage suffered.