The Weekly Bottom Line

August 9, 2019

Highlights of the Week

United States

- China responded to the threat of additional U.S. tariffs by halting agricultural purchases and allowing its currency to weaken beyond the psychologically important 7 yuan to the dollar level.
- Central banks around the world responded to the heightened risk posed by the spiraling trade war by proactively cutting policy interest rates.
- The U.S. services sector showed signs of cooling in July as the ISM non-manufacturing index declined to 53.7 from 55.1 the previous month.

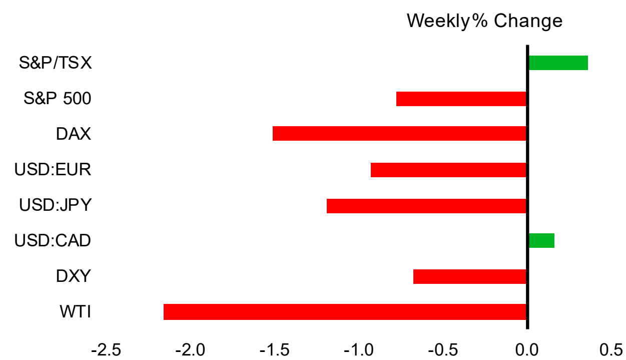
Canada

- Trade tensions and global growth concerns continued to weigh on financial markets, with the impacts most notably seen in falling long-term bond yields and oil prices this week.
- Today's employment report for July was lackluster with a net job loss of 24k and even softer details. One bright spot was a 4.5% surge in wage growth.
- Housing data was constructive, with a 222k housing starts print and regional real estate board data showing healthy home sales prints in July across different metropolitan areas.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	2909	2932	3026	2351
S&P/TSX Comp.	16328	16272	16669	13780
DAX	11694	11872	12676	10382
FTSE 100	7254	7407	7742	6585
Nikkei	20685	21087	24271	19156
Fixed Income Yields				
U.S. 10-yr Treasury	1.71	1.85	3.24	1.70
Canada 10-yr Bond	1.22	1.37	2.60	1.22
Germany 10-yr Bund	-0.58	-0.50	0.57	-0.58
UK 10-yr Gilt	0.48	0.55	1.73	0.48
Japan 10-yr Bond	-0.22	-0.16	0.16	-0.22
Foreign Exchange Cross Rates				
C$ (USD per CAD)	0.76	0.76	0.78	0.73
Euro (USD per EUR)	1.12	1.11	1.18	1.11
Pound (USD per GBP)	1.21	1.22	1.33	1.21
Yen (JPY per USD)	105.3	106.6	114.5	105.3
Commodity Spot Prices**				
Crude Oil ($US/bbl)	54.6	55.7	76.4	42.3
Natural Gas ($US/MMBtu)	2.13	2.12	4.80	2.02
Copper ($US/met. tonne)	5775.8	5703.8	6555.5	5656.3
Gold ($US/troy oz.)	1501.1	1440.6	1501.3	1174.2

*As of 12:48 PM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

Trade Tensions Continue to Weigh on Markets and Commodities



Note: Data as of 12:51 PM ET, Friday, August 09, 2019.
Source: Bloomberg, TD Economics

Global Official Policy Rate Targets	
	Current Target
Federal Reserve (Fed Funds Rate)	2.00 - 2.25%
Bank of Canada (Overnight Rate)	1.75%
European Central Bank (Refi Rate)	0.00%
Bank of England (Repo Rate)	0.75%
Bank of Japan (Overnight Rate)	-0.10%

Source: Central Banks.

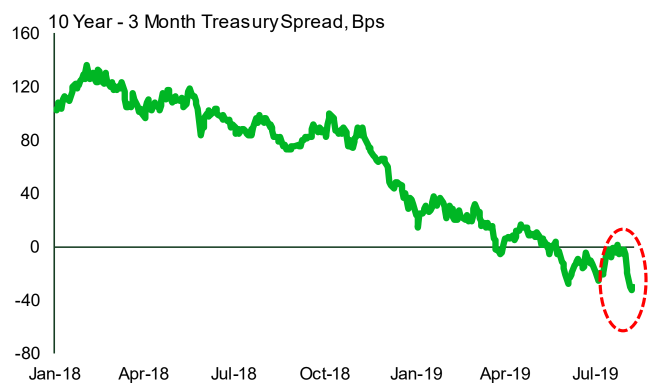
U.S. - As U.S. and China Dig in, Central Banks Ease

Heightened U.S.-China trade tensions continue to occupy the limelight. The fallout from last week's Chinese tariff announcement by President Trump reverberated through the global economy. Last week, the President announced that the U.S. would be imposing a 10% tariff on the remaining Chinese imports previously untouched by tariffs starting September 1st. In response to the tariff threat, China's currency weakened this week to below the psychologically important level of 7 yuan to the dollar. China also suspended purchases of U.S. agricultural products and has not ruled out placing tariffs on some U.S. imports.

The escalating trade tensions also extended risk-off sentiment in global financial markets. Many Asian currencies plunged in response to the yuan's weakness, as the region is a central player in global supply chains with complex trade ties to both the U.S. and China. Other emerging market currencies also came under pressure, while the yen, which is seen as a safe-haven asset, appreciated. U.S. equities posted dramatic declines with the Dow registering a drop of more than 2.9% on Monday, its biggest one-day percentage decline since the end of last year. Treasury yields across the curve also tumbled and the yield on the 3-month T-bill exceeded the yield on the 10-year note by the widest margin since April 2007, deepening the yield curve inversion (Chart 1). Markets stabilized later in the week after China's central bank signaled it wouldn't let the yuan fall much further.

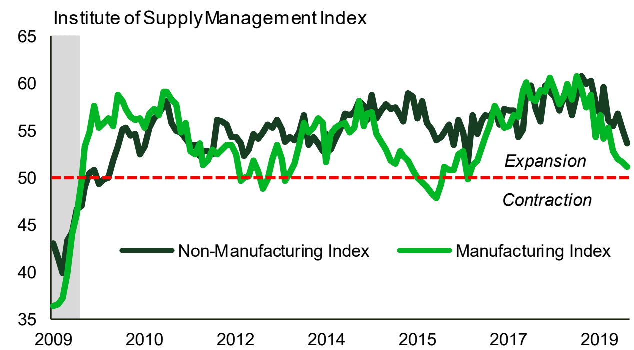
Following the yuan's depreciation, the U.S. Treasury Department officially designated China a currency manipulator. The action, though mostly symbolic, requires the U.S. to consult with the IMF to try to eliminate any unfair advantage for China from currency manipulation, and could result in further tariff increases in the future.

Chart 1: Trade Worries Send the U.S. Yield Curve Deeper into Inversion Territory



Source: Bloomberg, TD Economics. Last observation: August 8, 2019.

Chart 2: U.S. Services Sector Follows the Manufacturing Sector Lower in July



Note: Grey shading represents recession periods.
Source: Institute for Supply Management, TD Economics

Amid the growing trade worries, three central banks in the Asia-Pacific region (India, Thailand, New Zealand and the Philippines) proactively lowered interest rates this week. These actions are consistent with the expectation that the global rate-cutting cycle will intensify in the months ahead as the U.S. and China dig in for an extended battle. Meanwhile, despite the Fed delivering on an insurance rate cut last week, the market continues to expect further cuts in September as odds of a recession lurch higher.

In one of the few data releases of the week, the July ISM non-manufacturing index suggested that the recent economic soft patch is not just limited to U.S. factories. Though the services sector expanded, it did so at the slowest pace in nearly three years. The index eased for the second month in a row to 53.7 in July from 55.1 in June, coming in below expectations (Chart 2). The sub-index tracking business activity dropped sharply to 53.1 from 58.2 in June. New orders also decreased in July. With trade tensions rising and U.S. business activity cooling, the renewed uncertainty will undoubtedly factor into the Fed's discussions as they attempt to engineer a soft landing for the U.S. economy in these turbulent times.

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Canada - Global Conditions Overshadowing Domestic Data

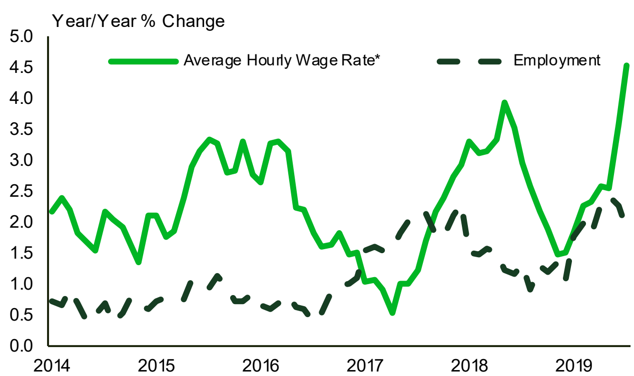
A worsening in global growth expectations continued to manifest in financial markets this week. Yields on Canadian government bonds followed their global peers lower, with the 10-year government bond yield now sitting at 1.20%. Meanwhile, benchmark oil prices fell around 2% on the week after deeper losses were pared back on expectations that Saudi Arabia may reduce production in response to any further slide in prices.

Today's employment data was the main economic event, with July's 24k net job loss reaffirming the moderating trend in place since the spring. Job losses were equally divided amongst part-time and full-time, but the 69k slump in private sector hiring was the weakest link in the report. The broad-based industry composition of the losses and the 0.7% drop in hours worked were also discouraging.

Still, today's soft report should be placed in the context of outsized strength in late 2018 and early 2019. Indeed, on a year-over-year basis, the economy has added an impressive 353k jobs, with the composition tilted towards full-time hiring (+326k y/y). Importantly, the bright spot in today's otherwise lackluster report was the surge in average hourly wage growth to 4.5% y/y (Chart 1), the highest in more than a decade, albeit one flattered by weakness this time last year. The tightness narrative is reaffirmed by the still-decent 5.7% unemployment rate and the lagged SEPH data showing a noteworthy spike in wage growth in May.

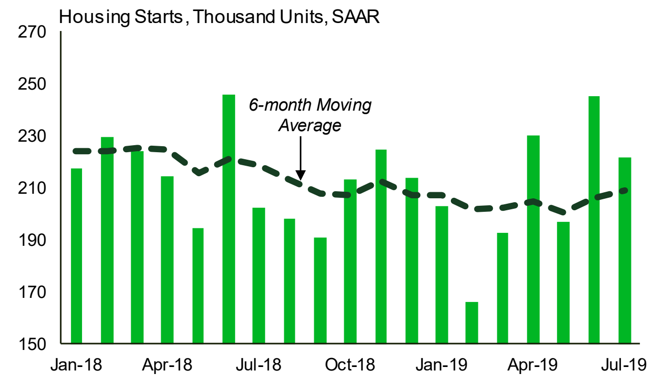
Standing in contrast to moderating job market data is a housing market that has been recovering from weakness seen in the second half of 2018. After what was likely a strong Q2 for residential investment, recent existing home sales data and today's housing starts release point to a moderating, yet still-solid start for Q3. Data from regional real estate boards in the last two weeks showed healthy home sale activity in July in major metropolitan areas, including Toronto, Montreal, Calgary, and Vancouver. At the same time, today's above-expectations print (+222k) for July's housing starts (Chart 2) presents some further upside to residential construction and investment.

Chart 1: Canadian Job Growth Moderating, but Wage Growth Surging



* For Permanent Employees. Source: Statistics Canada, TD Economics

Chart 2: Canadian Housing Starts Still at Healthy Levels



Source: CMHC, TD Economics

The lagged effect of declining borrowing rates, a healthy labour market, and population growth have been feeding into increased housing demand. These drivers should continue to a support the outlook for residential investment for the remainder of the year, although this will likely occur at a moderating pace as affordability conditions continue to provide a partial offset.

All in all, this week's data releases will likely be brushed off by the Bank of Canada, which we expect to remain on the sidelines. Looking ahead, slowing global growth concerns and escalating trade uncertainty are likely to receive increasing attention given their potential impacts on Canadian trade, manufacturing, and financial conditions. The central bank will weigh this against otherwise healthy domestic conditions and the financial stability implications of lowering rates further.

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U.S: Upcoming Key Economic Releases

U.S. Consumer Price Index - July*

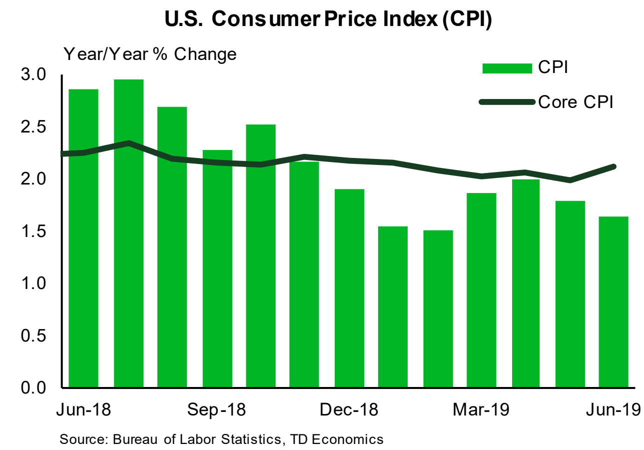
Release Date: August 13, 2019

Previous: 0.1% m/m, core 0.3% m/m

TD Forecast: 0.3% m/m, core 0.2% m/m

Consensus: 0.3% m/m, core 0.2% m/m

We look for headline CPI to pick up two tenths to 1.8% y/y in July on the back of a solid 0.3% monthly print. We expect the non-core segment to be driven by a modest rebound in the energy segment on the back of a 1.5% m/m rise in gasoline prices. Separately, core inflation should remain steady at 2.1% y/y, reflecting a firm 0.2% m/m advance. Core prices should be supported by both a 0.2% m/m increase in core services inflation and new gain in core goods at 0.2%. We anticipate OER to remain largely steady at 0.3% m/m and for the ex-shelter segment to slow marginally on a monthly basis.



U.S. Retail Sales - July*

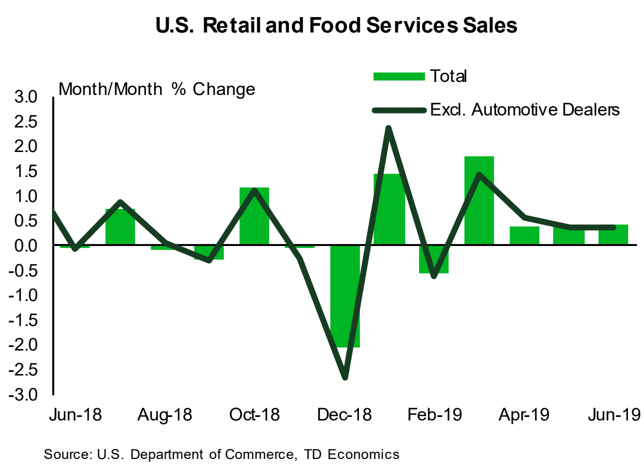
Release Date: August 15, 2019

Previous: 0.4%, ex auto: 0.4%, control group: 0.7%

TD Forecast: 0.3%, ex auto: 0.4%, control group: 0.4%

Consensus: 0.2%, ex auto: 0.4%, control group: 0.4%

We expect another firm increase in sales in the key control group (+0.4% m/m) to be the main driver behind a 0.3% gain in headline retail sales, as consumer fundamentals remain sound (healthy labor market, steady real wages and high confidence levels). A firm gain in core sales should more than offset a projected decline in July auto sales. We also expect a rebound in sales at gasoline stations, on the back of a pick-up in gasoline prices, to support the headline figure.



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

Recent Key Economic Indicators: Aug 5 - 9, 2019						
Release Date		Economic Indicator/Event	Data for Period	Units	Current	Prior
United States						
Aug 05		ISM Non-Manufacturing Index	Jul	Index	53.7	55.1
Aug 05		Markit US Services PMI	Jul	Index	53.0	52.2
Aug 08		Initial Jobless Claims	Aug 03	Thsd	209.0	217.0
Aug 08		Wholesale Trade Sales	Jun	M/M % Chg.	-0.3	-0.6
Aug 09		Producer Price Index Ex Food and Energy	Jul	M/M % Chg.	-0.1	0.3
Aug 09		Producer Price Index Final Demand	Jul	M/M % Chg.	0.2	0.1
Canada						
Aug 09		Hourly Wage Rate Permanent Employees	Jul	Y/Y % Chg.	4.5	3.6
Aug 09		Housing Starts	Jul	Thsd	222.0	245.5
Aug 09		Net Change in Employment	Jul	Thsd	-24.2	-2.2
Aug 09		Unemployment Rate	Jul	%	5.7	5.5
International						
Aug 05	EZ	Markit Eurozone Composite PMI	Jul	Index	51.5	51.5
Aug 05	EZ	Markit Eurozone Services PMI	Jul	Index	53.2	53.3
Aug 08	CH	Consumer Price Index	Jul	Y/Y % Chg.	2.8	2.7
Aug 09	UK	Gross Domestic Product	2Q	Y/Y % Chg.	1.2	1.8
Aug 09	UK	Industrial Production	Jun	Y/Y % Chg.	-0.6	0.5
Aug 09	UK	Manufacturing Production	Jun	Y/Y % Chg.	-1.4	-0.2

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Aug 12 - 16, 2019						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Aug 13	6:00	NFIB Small Business Optimism	Jul	Index	104.9	103.3
Aug 13	8:30	Consumer Price Index	Jul	Y/Y % Chg.	1.7	1.6
Aug 13	8:30	Consumer Price Index Ex Food and Energy	Jul	M/M % Chg.	0.2	0.3
Aug 13	8:30	Consumer Price Index	Jul	M/M % Chg.	0.3	0.1
Aug 13	8:30	Consumer Price Index Ex Food and Energy	Jul	Y/Y % Chg.	2.1	2.1
Aug 15	8:30	Empire Manufacturing	Aug	Index	3.3	4.3
Aug 15	8:30	Unit Labor Costs	2Q	Q/Q % Chg.	1.6	-1.6
Aug 15	8:30	Retail Sales Advance	Jul	M/M % Chg.	0.2	0.4
Aug 15	8:30	Retail Sales Ex Auto and Gas	Jul	M/M % Chg.	-	0.7
Aug 15	8:30	Initial Jobless Claims	Aug 10	Thsd	-	-
Aug 15	9:15	Industrial Production	Jul	M/M % Chg.	0.2	0.0
Aug 15	9:15	Manufacturing (SIC) Production	Jul	M/M % Chg.	-0.4	0.4
Aug 15	9:15	Capacity Utilization	Jul	%	77.8	77.9
Aug 15	10:00	NAHB Housing Market Index	Aug	Index	66.0	65.0
Aug 15	10:00	Business Inventories	Jun	M/M % Chg.	0.1	0.3
Aug 16	8:30	Housing Starts	Jul	Thsd	1260.0	1253.0
Aug 16	8:30	Building Permits	Jul	Thsd	1270.0	1232.0
Aug 16		Mortgage Delinquencies	2Q	Q/Q % Chg.	-	-
Canada						
Aug 15	9:00	Existing Home Sales	Jul	M/M % Chg.	-	-0.2
International						
Aug 13	4:30	UK ILO Unemployment Rate 3Mths	Jun	%	-	3.8
Aug 13	22:00	CH Retail Sales	Jul	Y/Y % Chg.	8.7	9.8
Aug 13	22:00	CH Surveyed Jobless Rate	Jul	%	-	5.1
Aug 14	4:30	UK Consumer Price Index	Jul	Y/Y % Chg.	-	2.0
Aug 14	5:00	EZ Gross Domestic Product SA	2Q	Y/Y % Chg.	-	1.1
Aug 15	4:30	UK Retail Sales Ex Auto Fuel	Jul	Y/Y % Chg.	-	3.6

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

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