

The Weekly Bottom Line

June 7, 2019

Highlights of the Week

United States

- Trade tensions continued to dominate economic headlines, with U.S.-Mexico taking center stage. It remains unclear if a deal can be reached by Monday. The US-China spat also resurfaced, with signs that it is spreading beyond goods trade.
- Fed Chair Powell noted that the Fed was monitoring trade developments closely, and was ready to “act as appropriate to sustain the expansion”. This appeared to soothe equity markets, which rebounded to a three-week high.
- The May jobs report disappointed expectations, with payrolls up only 75k. Looking through the recent volatility, the hiring trend has slowed but remains decent, averaging 151k in the last three months. The unemployment rate held steady at 3.6% and wage growth, while slowing a touch, held above 3% y/y.

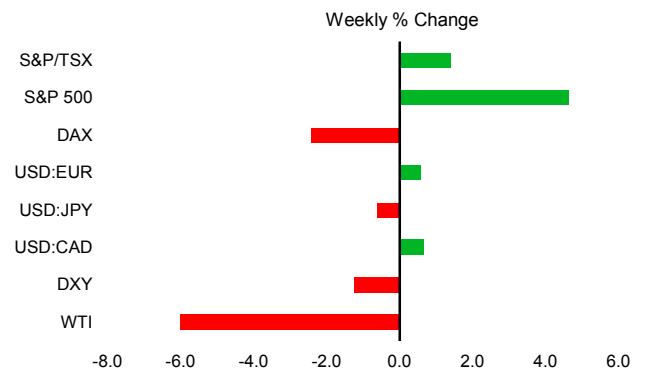
Canada

- Global equity markets were in better spirits this week, helped by hopes of a rate cut amid escalating trade tensions. The S&P/TSX composite followed its global peers, ending the week higher even as oil prices (WTI) were slightly down.
- Economic data was reassuring, supporting the view that the Canadian economy is emerging from a soft patch. International trade showed improvement as trade deficit continued to narrow.
- Reports from Toronto and Vancouver real estate boards suggest that the national housing market will likely continue to firm in May. After a strong print in April, job growth continued at a decent clip in May with economy adding 28k jobs.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	2879	2752	2946	2351
S&P/TSX Comp.	16263	16037	16669	13780
DAX	12084	11727	13107	10382
FTSE 100	7342	7162	7777	6585
Nikkei	20885	20601	24271	19156
Fixed Income Yields				
U.S. 10-yr Treasury	2.06	2.12	3.24	2.06
Canada 10-yr Bond	1.45	1.49	2.60	1.42
Germany 10-yr Bund	-0.26	-0.20	0.57	-0.26
UK 10-yr Gilt	0.82	0.89	1.73	0.82
Japan 10-yr Bond	-0.12	-0.09	0.16	-0.12
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.75	0.74	0.78	0.73
Euro (USD per EUR)	1.13	1.12	1.18	1.11
Pound (USD per GBP)	1.28	1.26	1.34	1.25
Yen (JPY per USD)	108.1	108.3	114.5	107.7
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	52.9	53.5	76.4	42.3
Natural Gas (\$US/MMBtu)	2.40	2.54	4.80	2.40
Copper (\$US/met. tonne)	5790.3	5806.0	7330.5	5713.8
Gold (\$US/troy oz.)	1345.6	1305.5	1345.6	1174.2

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

Fed Comments Soothe Equity Markets



Note: Data as of 11:24 AM ET, Friday, June 07, 2019.
Source: Bloomberg, TD Economics

Global Official Policy Rate Targets

	Current Target
Federal Reserve (Fed Funds Rate)	2.25 - 2.50%
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. - Tariff Threats Muddy the Economic Waters

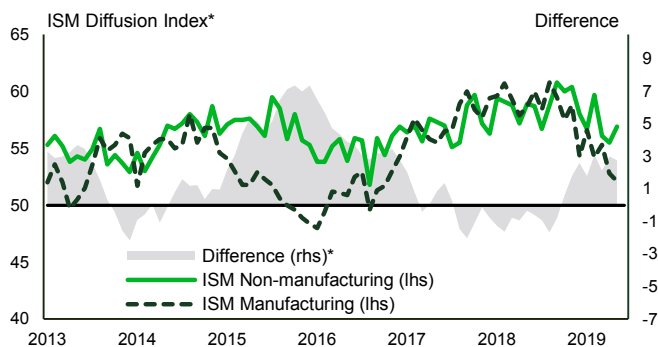
Trade tensions continued to dominate economic headlines this week, with the U.S.-Mexico quarrel taking center stage. Mexico sent a senior delegation to D.C. to try to address President Trump’s concerns regarding illegal migration, and to defuse the impending tariff threat. While some progress has been made, as at the time of writing, it is unclear if a deal can be reached by Monday’s deadline.

With Mexico busy at the negotiation table, President Trump tilted the conversation back to China by reaffirming the threat to raise tariffs on another \$300 billion of Chinese goods. China’s Commerce Ministry struck a defiant tone in response, suggesting that China would “fight till the end” if need be. Beyond the colorful language, there were signs that the conflict is spreading beyond goods trade, with China cautioning its citizens about the dangers of travelling or studying in the United States.

The uncertainty generated by these events has kept the Fed on high alert. Among several Fed speeches this week, Fed Chair Powell noted that the Fed was monitoring trade developments closely, and was ready to “act as appropriate to sustain the expansion.” Chair Powell’s emphasis on the Fed’s flexibility appeared to soothe equity markets, which rebounded to a three-week high.

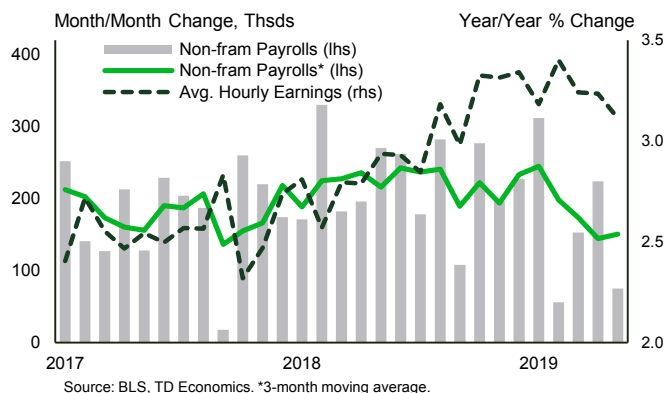
Financial conditions factor heavily in FOMC decisions, but economic data is the primary determinant. On that front, data this week reinforced the view that while growth has slowed, there are no impending signs of calamity.

Chart 1: Non-manufacturing Activity is Holding Up, Outperforming Manufacturing



An index reading above 50 points to expansion. * Difference: Non-manufacturing minus Manufacturing (3-mma). Source: ISM, TD Economics.

Chart 2: Hiring Trend Has Slowed but Remains Decent, Ditto for Wage Growth



Source: BLS, TD Economics. *3-month moving average.

Trade tensions are weighing on the manufacturing sector, but the much larger services (non-manufacturing) side of the economy is holding up, as highlighted by the divergent performance of the ISM indices through May (Chart 1). That said, the most awaited report of the week, the jobs report, was a bit of a downer, with payrolls rising by only 75k in May – over 100k short of market consensus. This came alongside downward revisions of 75k to the previous two months. Looking through the recent volatility, the hiring trend has slowed but remains decent, averaging 151k in the last three months (Chart 2). This is broadly in line with our expectations. In addition, most other aspects of the May report were encouraging. The unemployment rate held steady at 3.6% and wage growth, while slowing a touch, held above 3% y/y.

With the broad economic backdrop still decent, trade and global growth remain the ultimate wildcard. Mexico is the second biggest source of goods entering the U.S. after China. As such, the impending 5% tariff will be problematic, particularly for products that cross the border multiple times (i.e. auto parts). Prospects for an increase in the tariff rate to 25% are more daunting, with supply chain disruptions, reduced market access and the hit to confidence all more acute. A simultaneous escalation in tensions with Mexico and China would accentuate these risks further. In the event that tensions escalate in this fashion, the Fed will have little choice but to act.

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Canada - Data Reaffirms Bank of Canada's Steady Approach

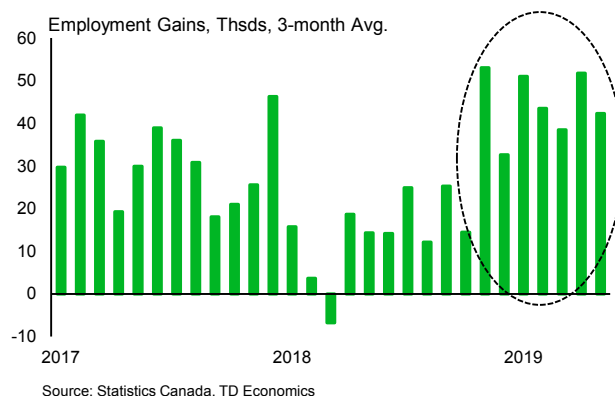
Global equity markets were on a better footing this week. Investors' spirits were lifted by a more dovish stance of some central banks which fueled hopes of a rate cut amid escalating trade tensions and growing downside risks to global growth. The S&P/TSX composite followed its global peers, ending the week higher. After falling precipitously last week, oil prices (WTI) edged slightly lower this week, while Canadian dollar has strengthened.

This week's economic data also looked reassuring, providing further credence to ours and the Bank of Canada view that after two quarters of tepid growth the Canadian economy is emerging from the soft patch. International trade showed improvement. Building on a healthy momentum in March, April's data delivered further good news. Trade deficit narrowed to \$0.97 billion in April, down from a revised \$2.3 billion deficit a month earlier, as export volumes rose 2%, while import volumes declined 1.9% (Chart 1).

Some green shoots have emerged in the housing market in spring, with activity rebounding after weather-induced weakness in Q1. Home sales and average home prices posted two back-to-back gains in March and April, and while May's nation-wide data is not due for another ten days, this week's data for Toronto and Vancouver suggests that housing market likely continued to firm in May. Lower mortgage rates and healthy employment and population gains will further support activity in the coming months.

In terms of the details, the Toronto housing market showed

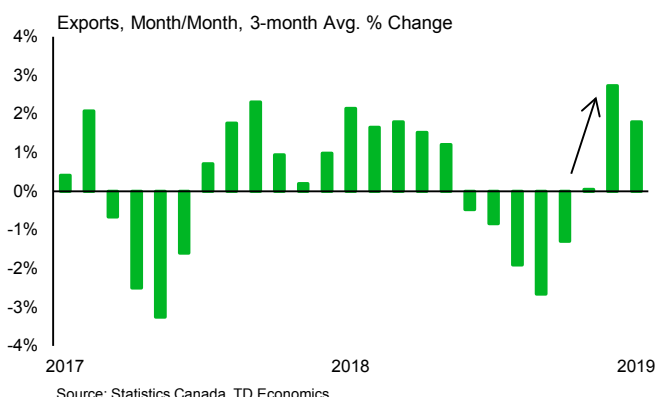
Chart 2: Labour Market Improves in Recent Months



further signs of improvement, with sales and prices rising in May. In Vancouver sales also posted a double-digit increase on the month. That being said, despite the sizeable gain, Vancouver's housing market will not be off to the races any time soon as the overall demand remains very subdued relative to history, hindered by lingering affordability challenges and several rounds of provincial regulations, on top of stricter federal mortgage rules and past rate hikes.

Capping this week's encouraging data were today's employment numbers. Following a blockbuster print in April, job creation continued at a decent clip in May with economy adding 28k jobs. However, the fly in the ointment was that all of the gains (and then some) were in self-employment, while both private and public sectors shed jobs. That being said, some moderation in employment was to be expected given the recent strength in hiring (Chart 2).

Chart 1: Trade Rebounds After Recent Weakness



All in all, recent data points suggest that economic back-drop is indeed improving, in line with the Bank of Canada view. After two-quarters of sub-0.5% prints, we expect real GDP growth will average closer to 2% over the rest of the year. While the outlook is laden with significant risks, the Bank of Canada believes that "the degree of accommodation [provided at present] remains appropriate". Thus, even as the market expectations intensify for the U.S. Federal Reserve to cut policy rate this year, with similar, if less intense moves seen here as well, we expect the Bank of Canada to stay pat.

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U.S.: Upcoming Key Economic Releases

U.S. Consumer Price Index - May*

Release Date: June 12, 2019

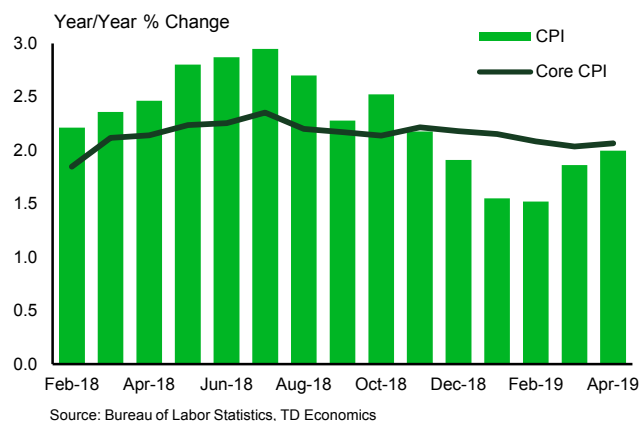
Previous: 0.3% m/m, core 0.1% m/m

TD Forecast: 0.1% m/m, core 0.2% m/m

Consensus: 0.1% m/m, core 0.2% m/m

We look for headline CPI to slow two tenths to 1.8% in May on the back of a mild 0.1% seasonally-adjusted monthly increase. The softer monthly increase is largely the result of the normalization in energy prices, which were a major driver to the upside in recent months. Core inflation, on the other hand, should remain steady at 2.1% y/y, reflecting a firm 0.2% m/m advance. We pencil in a softer 0.2% m/m increase in core services, which we expect to be aided by a 0.2% rebound in core goods – its first increase in four months. We anticipate OER to remain largely steady

U.S. Consumer Price Index (CPI)



at 0.3% m/m and for the ex-shelter segment to slow marginally on a monthly basis.

U.S. Retail Sales - May*

Release Date: June 14, 2019

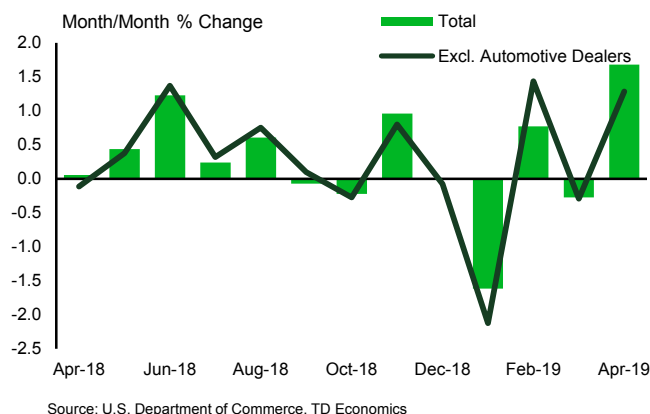
Previous: -0.2%, ex auto: 0.1%

TD Forecast: 0.8%, ex auto: 0.1%

Consensus: 0.6%, ex auto: 0.5%

We expect a firm increase in auto sales (+2.5% m/m) to be the main driver behind a 0.8% rise in the headline measure for May. Indeed, the ex-auto measure should advance at a softer 0.1% print during the month. Although we expect sales at gasoline stations to remain supportive of the headline figure, it will be so at a lower magnitude reflecting the stabilization in gasoline prices. Furthermore, we anticipate sales in the key control group to rebound modestly at 0.2% m/m following the unexpected flat increase posted in April.

U.S. Retail and Food Services Sales



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

Canada: Upcoming Key Economic Releases

Canadian Housing Starts - May*

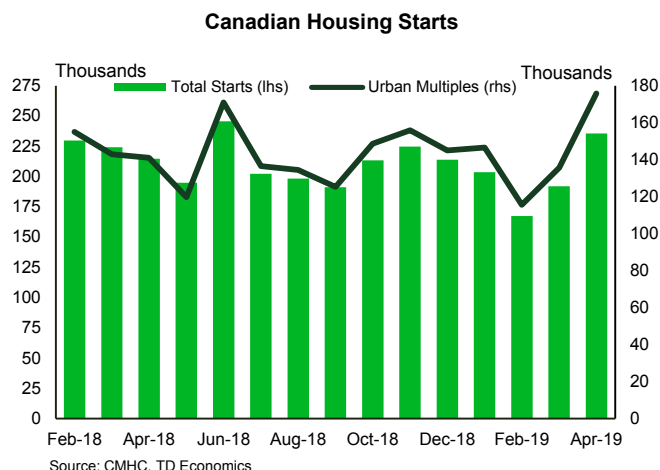
Release Date: June 10, 2019

Previous: 236k

TD Forecast: 212k

Consensus: NA

TD looks for residential housing starts to slow to a 212k pace in May, returning some of the gains from the prior month on a pullback in multi-unit construction. April housing starts were noteworthy on account of a record month for multi-unit construction in urban centers, with developers breaking ground on over 175k (annualized) units during the month. While housing stock remains in short supply across certain fast growing regions, permit issuance has fallen by nearly 20% in the last two months of available data which will weigh on multi-unit starts in May. Single family starts have stabilized since bottoming out at 37.5k in February and while we see risk of some giveback, any downside should be modest given current levels.



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

Recent Key Economic Indicators: June 3 - 7, 2019					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Jun 03	ISM Employment	May	Index	53.7	52.4
Jun 03	ISM Manufacturing	May	Index	52.1	52.8
Jun 03	Wards Total Vehicle Sales	May	Mlns	17.3	16.4
Jun 04	Factory Orders Ex Trans	Apr	M/M % Chg.	0.3	0.3
Jun 05	ADP Employment Change	May	Thsd	27.0	271.0
Jun 05	ISM Non-Manufacturing Index	May	Index	56.9	55.5
Jun 05	U.S. Federal Reserve Releases Beige Book				
Jun 06	Initial Jobless Claims	Jun 01	Thsd	218.0	218.0
Jun 06	Household Change in Net Worth	1Q	Blns	4691.0	-3960.0
Jun 06	Trade Balance	Apr	Blns	-50.8	-51.9
Jun 07	Wholesale Trade Sales	Apr	M/M % Chg.	-0.4	1.8
Jun 07	Change in Nonfarm Payrolls	May	Thsd	75.0	224.0
Jun 07	Unemployment Rate	May	%	3.6	3.6
Jun 07	Average Hourly Earnings	May	M/M % Chg.	0.2	0.2
Canada					
Jun 03	MLI Leading Indicator	Apr	M/M % Chg.	0.4	0.1
Jun 03	Markit Canada Manufacturing PMI	May	Index	49.1	49.7
Jun 05	Labor Productivity	1Q	Q/Q % Chg.	0.3	-0.4
Jun 06	Int'l Merchandise Trade	Apr	Blns	-1.0	-2.3
Jun 07	Capacity Utilization Rate	1Q	%	80.9	81.7
Jun 07	Hourly Wage Rate Permanent Employees	May	Y/Y % Chg.	2.6	2.6
Jun 07	Unemployment Rate	May	%	5.4	5.7
Jun 07	Net Change in Employment	May	Thsd	27.7	106.5
International					
Jun 04	CH Caixin China PMI Composite	May	Index	51.5	52.7
Jun 04	EZ Unemployment Rate	Apr	%	7.6	7.7
Jun 04	EZ Consumer Price Index Estimate	May	Y/Y % Chg.	1.2	1.7
Jun 04	JN Nikkei Japan PMI Composite	May	Index	50.7	50.8
Jun 05	EZ Retail Sales	Apr	Y/Y % Chg.	1.5	2.0
Jun 05	UK Markit/CIPS UK Composite PMI	May	Index	50.9	50.9
Jun 06	EZ Gross Domestic Product	1Q	Y/Y % Chg.	1.2	1.2

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: June 10 - 14, 2019						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Jun 11	6:00	NFIB Small Business Optimism	May	Index	-	103.5
Jun 11	8:30	Producer Price Index Ex Food and Energy	May	M/M % Chg.	0.2	0.1
Jun 11	8:30	Producer Price Index Final Demand	May	M/M % Chg.	0.1	0.2
Jun 12	8:30	Consumer Price Index Ex Food and Energy	May	M/M % Chg.	0.2	0.0
Jun 12	8:30	Consumer Price Index Ex Food and Energy	May	Y/Y % Chg.	2.1	2.1
Jun 12	8:30	Consumer Price Index	May	M/M % Chg.	0.1	0.3
Jun 12	8:30	Consumer Price Index	May	Y/Y % Chg.	1.9	2.0
Jun 12	8:30	Real Avg Hourly Earning	May	Y/Y % Chg.	-	1.2
Jun 13	8:30	Initial Jobless Claims	June 08	Thsd	-	-
Jun 14	8:30	Retail Sales Advance	May	M/M % Chg.	0.7	-0.2
Jun 14	8:30	Retail Sales Ex Auto and Gas	May	M/M % Chg.	-	-0.2
Jun 14	9:15	Capacity Utilization	May	%	78.0	77.9
Jun 14	9:15	Industrial Production	May	M/M % Chg.	0.2	-0.5
Jun 14	9:15	Manufacturing (SIC) Production	May	M/M % Chg.	-	-0.5
Jun 14	10:00	Business Inventories	Apr	M/M % Chg.	0.4	0.0
Canada						
Jun 10	8:15	Housing Starts	May	Thsd	-	235.5
International						
Jun 10	4:30	UK Manufacturing Production	Apr	Y/Y % Chg.	-	2.6
Jun 10	4:30	UK Monthly Gross Domestic Product 3M/3M	Apr	M/M % Chg.	-	0.5
Jun 11	4:30	UK ILO Unemployment Rate 3Mths	Apr	%	-	3.8
Jun 11	21:30	CH Consumer Price Index	May	Y/Y % Chg.	2.7	2.5
Jun 13	5:00	EZ Industrial Production	Apr	Y/Y % Chg.	-	-0.6
Jun 13	22:00	CH Industrial Production	May	Y/Y % Chg.	5.5	5.4
Jun 13	22:00	CH Retail Sales	May	Y/Y % Chg.	8.2	7.2
Jun 14	0:30	JN Industrial Production	Apr F	Y/Y % Chg.	-	-1.1

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

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