

The Weekly Bottom Line

November 10, 2022

Highlights

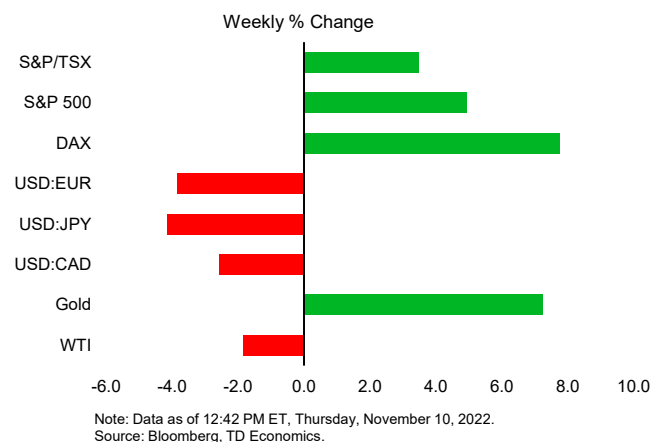
United States

- Republicans look to have won control of the House in this week's midterm elections. The Senate race remains too close to call. With Washington more divided, major spending and tax changes are less likely, while some risks increase (i.e., the potential for a government shutdown).
- CPI inflation eased in October, with headline CPI decelerating to 7.7% y/y (from 8.2%) and core CPI cooling to 6.3% y/y (from 6.6%). Shelter costs remained a key contributor to inflation.
- Small business confidence pulled back a bit in October, but job openings remained unchanged near record highs.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	3917	3720	4797	3577
S&P/TSX Comp.	19983	19241	22087	18206
DAX	14146	13130	16272	11976
FTSE 100	7375	7189	7672	6826
Nikkei	27446	27663	29808	24718
Fixed Income Yields				
U.S. 10-yr Treasury	3.84	4.15	4.24	1.34
Canada 10-yr Bond	3.13	3.41	3.68	1.32
Germany 10-yr Bund	2.01	2.25	2.42	-0.39
UK 10-yr Gilt	3.29	3.52	4.51	0.70
Japan 10-yr Bond	0.25	0.25	0.26	0.04
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.75	0.73	0.80	0.72
Euro (USD per EUR)	1.02	0.97	1.15	0.96
Pound (USD per GBP)	1.17	1.12	1.37	1.07
Yen (JPY per USD)	142.0	148.3	150.2	112.8
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	87.3	88.2	123.7	65.6
Natural Gas (\$US/MMBtu)	3.46	4.45	9.82	3.34
Copper (\$US/met. tonne)	8114.3	7596.0	10702.0	7160.0
Gold (\$US/troy oz.)	1749.7	1629.5	2050.8	1622.4

*As of 12:27 PM on Thursday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Wednesday close price).
Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

Financial Markets Surge on Signs of Easing Inflation



Global Official Policy Rate Targets

Central Banks	Current Target
Federal Reserve (Fed Funds Rate)	3.75 - 4.00%
Bank of Canada (Overnight Rate)	3.75%
European Central Bank (Refi Rate)	2.00%
Bank of England (Repo Rate)	3.00%
Bank of Japan (Overnight Rate)	-0.10%

Source: Bloomberg.

TD Economics Key Financial Forecasts

	Current Rate 11/10/22	2022				2023				2024			
		Q1	Q2	Q3	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate	4.00	0.50	1.75	3.25	4.25	4.50	4.50	4.50	3.50	2.75	2.25	2.00	2.00
2-yr Govt. Bond Yield	4.32	2.28	2.92	4.22	4.50	4.00	3.30	2.70	2.45	2.35	2.25	2.25	2.25
10-yr Govt. Bond Yield	3.84	2.32	2.98	3.83	4.10	3.65	3.25	3.10	2.95	2.85	2.80	2.75	2.70
30-yr Govt. Bond Yield	4.11	2.44	3.14	3.79	4.10	3.70	3.50	3.40	3.25	3.15	3.10	3.05	3.00

Forecast by TD Economics as of October 2022; all forecasts are end-of-period. Source: Bloomberg, Federal Reserve Board, TD Economics.

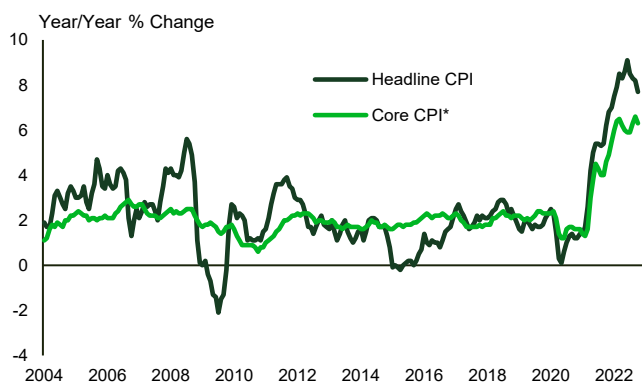
Markets Cheer Inflation Easing a Touch

The midterm elections took center stage for much of the week, although markets were most encouraged by good news on the inflation front on Thursday. Republicans look to have won control of the House, capturing an estimated 208 seats thus far (vs. 185 for Democrats), while the Senate remains too close to call. We may need to wait until Georgia’s runoff election on December 6th, to know the final result, depending on races in Arizona and Nevada.

Either way, Washington is looking more divided than it was a week ago, and the chance that new major policy measures get the three required checkmarks – House, Senate and White House – have diminished. Indeed, large scale fiscal spending measures and major tax changes seem unlikely over the next two years. In this vein, the midterms should not have a major impact on economic growth. There are, however, risks that come with a divided Congress. One concerning aspect is the potential for a lack of agreement to fund government programs in the near-to-medium term, which could lead to a government shutdown, or debt-ceiling standoff, which raises the (unlikely) risk of a default on debt or leave other bills unpaid. These issues, which have the potential to significantly disrupt financial markets, as they’ve done in the past, are added risks for a slowing economy in the year ahead.

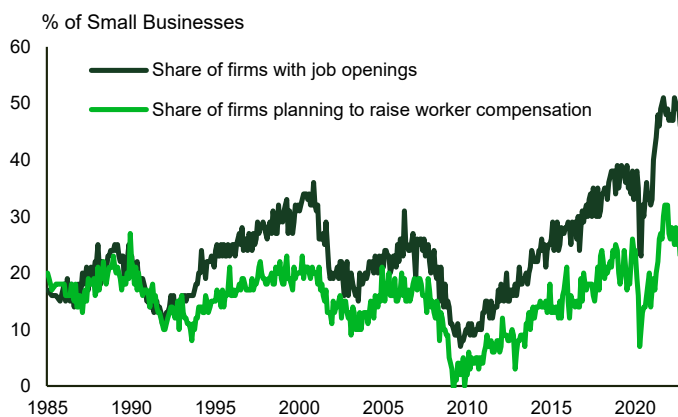
Inflation was likely top of mind for many voters as they headed to the polls, as it has been taking a sizable bite out of consumers’ wallets this year. The Consumer Price Index (CPI) showed that inflation eased in October, for both headline and core CPI, with the latter decelerating to 6.3% year-on-year (y/y) from 6.6% in the month prior (Chart 1). In month-

Chart 1: Inflation Eased a Touch in October, but Remained Near Multidecade Highs



*Excludes food and energy. Source: BLS, TD Economics.

Chart 2: Small Business Job Openings Remain Plentiful, Large Share Plan on Raising Comp.



Source: NFIB, TD Economics.

over-month (m/m) terms, core CPI decelerated meaningfully to 0.3% in October from 0.6% previously. Core goods prices declined 0.4% (m/m) amidst a pullback in several categories such as appliances, apparel and used car prices. Price growth across core services (0.5%) also moderated from last month’s gain of 0.8%, driven by a notable pullback in health care services (-0.6%). However, shelter costs (0.8%) remained a meaningful contributor.

All in all, inflation has eased a bit, in part because of the pullback in core goods prices. However, it remains well above the Fed’s comfort zone, and (without wanting to sound like a broken record) we’re likely to see continued gains in the shelter component over the near term (see [here](#)). So, we’re not out of the woods just yet.

As Fed Chair Powell noted recently, the Fed has reached a point where it will dial back the pace of rate hikes, but there’s quite a bit more to be done in raising rates. Underpinning this hawkish tilt is the broad resilience in the labor market. Job openings for instance, have eased a bit, but remain plentiful – a message echoed by the NFIB small business survey (Chart 2). Still, cracks continue to form in some corners of the economy, case in point the tech sector. Layoffs at Meta and Redfin (online real estate broker) amounting to 13% of their workforces added to the string of cuts announced in the tech space this year. Meanwhile, the higher interest environment is expected to continue weighing on the housing market, with weak prints likely to follow in next week’s housing starts and existing home sales reports. Bringing inflation down comes at a cost.

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Recent Key Economic Indicators: Nov 7 - 10, 2022						
Release Date	Economic Indicator/Event		Data for Period	Units	Current	Prior
United States						
Nov 8	6:00	NFIB Small Business Optimism	Oct	Index	91.3	92.1
Nov 9	10:00	Wholesale Trade Sales	Sep	M/M % Chg.	0.4	0.0
Nov 10	8:30	Consumer Price Index	Oct	M/M % Chg.	0.4	0.4
Nov 10	8:30	Consumer Price Index Ex Food and Energy	Oct	M/M % Chg.	3.0	0.6
Nov 10	8:30	Consumer Price Index	Oct	Y/Y % Chg.	7.7	8.2
Nov 10	8:30	Consumer Price Index Ex Food and Energy	Oct	Y/Y % Chg.	6.3	6.6
Nov 10	8:30	Initial Jobless Claims	Nov 05	Thsd	225.0	218.0
International						
Nov 8	EZ	Retail Sales	Sep	Y/Y % Chg.	-0.6	-1.4
Nov 8	CH	Consumer Price Index	Oct	Y/Y % Chg.	2.1	2.8

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

Upcoming Economic Releases and Events: Nov 11 - 18, 2022						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Nov 14	18:30	<i>Fed's Williams Moderates Panel at the Economic Club of New York</i>				
Nov 15	8:30	Empire Manufacturing	Nov	Index	-5.0	-9.1
Nov 15	8:30	PPI Ex Food and Energy	Oct	M/M % Chg.	0.4	0.3
Nov 15	8:30	PPI Final Demand	Oct	M/M % Chg.	0.5	0.4
Nov 15	9:00	<i>Fed's Harker Discusses the Economic Outlook</i>				
Nov 15	10:00	<i>Fed Vice Chair for Supervision Barr Speaks Before Senate Panel</i>				
Nov 16	8:30	Retail Sales Advance	Oct	M/M % Chg.	0.9	0.0
Nov 16	8:30	Retail Sales Ex Auto and Gas	Oct	M/M % Chg.	0.2	0.3
Nov 16	9:15	Capacity Utilization	Oct	%	80.4	80.3
Nov 16	9:15	Industrial Production	Oct	M/M % Chg.	0.0	0.4
Nov 16	9:15	Manufacturing (SIC) Production	Oct	M/M % Chg.	-	0.4
Nov 16	9:50	<i>Fed's Williams Speaks at 2022 Treasury Market Conference</i>				
Nov 16	10:00	Business Inventories	Sep	M/M % Chg.	0.5	0.8
Nov 16	10:00	NAHB Housing Market Index	Nov	Index	36.0	38.0
Nov 17	8:00	<i>Fed's Bullard Discussed the Economy and Monetary Policy</i>				
Nov 17	8:30	Building Permits	Oct	Thsd	1520.0	1564.0
Nov 17	8:30	Housing Starts	Oct	Thsd	1425.0	1439.0
Nov 17	8:30	Initial Jobless Claims	Nov 12	Thsd	-	225.0
Nov 17	9:40	<i>Fed's Mester Speaks at Financial Stability Conference</i>				
Nov 17	10:40	<i>Fed's Jefferson and Kashkari Take Part in Panel Discussion</i>				
Nov 17	13:45	<i>Fed's Kashkari Takes Part in Moderated Q&A</i>				
Nov 18	10:00	Existing Home Sales	Oct	Mlns	4.38	4.71
Canada						
Nov 14	8:45	<i>BoC's Tiff Macklem Gives Opening Remarks at Conference on Diversity and Inclusion</i>				
Nov 15	8:30	Manufacturing Sales	Sep	M/M % Chg.	-	-2.0
Nov 15	8:30	Wholesale Trade Sales	Sep	M/M % Chg.	-	1.4
Nov 15	9:00	Existing Home Sales	Oct	M/M % Chg.	-	-3.9
Nov 16	8:15	Housing Starts	Oct	Thsd	-	299.6
Nov 16	8:30	Consumer Price Index	Oct	Y/Y % Chg.	-	6.9
Nov 16	8:30	Consumer Price Index NSA	Oct	M/M % Chg.	-	0.1
Nov 18	8:30	Industrial Product Price	Oct	M/M % Chg.	-	0.1
International						
Nov 11	2:00	UK Gross Domestic Product	3Q	Y/Y % Chg.	2.1	4.4
Nov 14	18:50	JN Gross Domestic Product Annualized SA	3Q	Q/Q % Chg.	1.2	3.5
Nov 14	21:00	CH Retail Sales	Oct	Y/Y % Chg.	0.7	2.5
Nov 14	21:00	CH Surveyed Jobless Rate	Oct	%	5.5	5.5
Nov 15	2:00	UK ILO Unemployment Rate 3Mths	Sep	M/M % Chg.	-	3.5
Nov 15	5:00	EZ Employment	3Q	Y/Y % Chg.	-	2.7
Nov 15	5:00	EZ Gross Domestic Product SA	3Q	Y/Y % Chg.	-	2.1
Nov 16	2:00	UK Consumer Price Index	Oct	Y/Y % Chg.	-	10.1
Nov 17	5:00	EZ Consumer Price Index	Oct	Y/Y % Chg.	-	9.9
Nov 17	18:30	JN Natl Consumer Price Index	Oct	Y/Y % Chg.	3.7	3.0

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

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