

The Weekly Bottom Line

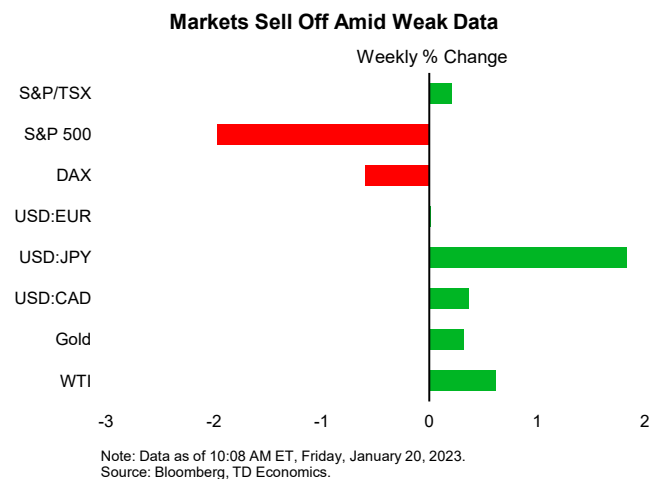
January 20, 2023

Highlights

- Markets finished the week lower on weaker economic data and rising political risks.
- December retail sales registered the biggest monthly decline in 2022, finishing the fourth quarter flat. Housing starts were down less than expected, driven by the volatile multifamily component. Existing home sales continued to soften.
- This week's Fed speakers demonstrated a varying degree of hawkishness on the pace of upcoming rate hikes. Yet, markets are all but priced-in a 25-basis point increase.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	3912	3999	4632	3577
S&P/TSX Comp.	20367	20360	22087	18206
DAX	14973	15087	15912	11976
FTSE 100	7752	7844	7860	6826
Nikkei	26554	26120	29223	24718
Fixed Income Yields				
U.S. 10-yr Treasury	3.45	3.50	4.24	1.73
Canada 10-yr Bond	2.82	2.90	3.68	1.67
Germany 10-yr Bund	2.16	2.17	2.57	-0.11
UK 10-yr Gilt	3.35	3.37	4.51	1.13
Japan 10-yr Bond	0.39	0.51	0.53	0.14
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.74	0.75	0.80	0.72
Euro (USD per EUR)	1.08	1.08	1.14	0.96
Pound (USD per GBP)	1.24	1.22	1.36	1.07
Yen (JPY per USD)	130.2	127.9	150.2	113.7
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	80.7	79.9	123.7	71.0
Natural Gas (\$US/MMBtu)	2.91	3.50	9.84	2.91
Copper (\$US/met. tonne)	9301.0	9168.6	10702.0	7160.0
Gold (\$US/troy oz.)	1924.9	1920.2	2050.8	1622.4

*As of 10:05 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.



Global Official Policy Rate Targets	
Central Banks	Current Target
Federal Reserve (Fed Funds Rate)	4.25 - 4.50%
Bank of Canada (Overnight Rate)	4.25%
European Central Bank (Refi Rate)	2.50%
Bank of England (Repo Rate)	3.50%
Bank of Japan (Overnight Rate)	-0.10%

Source: Bloomberg.

TD Economics Key Financial Forecasts													
	Current Rate 1/20/23	2022				2023				2024			
		Q1	Q2	Q3	Q4	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate	4.50	0.50	1.75	3.25	4.50	5.00	5.00	5.00	4.50	4.00	3.50	3.00	2.75
2-yr Govt. Bond Yield	4.16	2.28	2.92	4.22	4.41	4.20	3.85	3.50	3.20	2.95	2.70	2.55	2.40
10-yr Govt. Bond Yield	3.45	2.32	2.98	3.83	3.88	3.55	3.50	3.40	3.30	3.15	3.00	2.90	2.80
30-yr Govt. Bond Yield	3.61	2.44	3.14	3.79	3.97	3.55	3.50	3.45	3.40	3.35	3.30	3.20	3.10

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

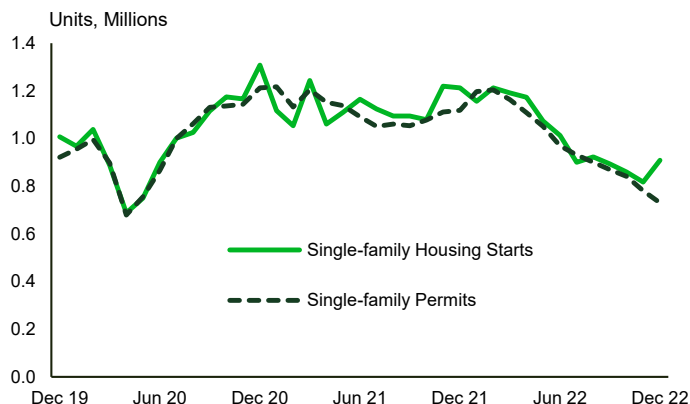
Bad News is Bad News

The week started with a holiday, but that didn't stop markets from feeling the blues of the most depressing period in the Northern Hemisphere. At the time of writing, equities are down almost 2% on the week. On the political front, concerns about the government's ability to pay its debts resurfaced as the Treasury Department was forced to begin taking ['extraordinary measures'](#) in order to keep paying the government's bills. By suspending certain additional investments, the Treasury buys Congress more time – likely until June - to negotiate a resolution on how to increase the debt ceiling. With the deadline still several months out, investors' focus was squarely on the economic data. Unfortunately, there was little to cheer about.

[Retail sales](#) came in weaker than expected – falling 1.1% m/m - and marking the second consecutive month of declines. Most major categories were weak in both nominal and inflation adjusted terms. The only group that showed stronger demand was sales at gas stations, where real sales rose five percentage points on a sizeable drop in gas prices (Chart 1). The message is clear: consumers are becoming increasingly more cautious in allocating their income and pandemic savings. Moreover, judging by sales at restaurant and bars, demand for services might also be nearing an inflection point. The soft reading on retail sales led us to adjust our expectations for Q4 consumer spending down to a still robust 2.7% (previously 3.3%).

Housing activity also ended 2022 on a soft note. [Residential construction](#) declined for the fourth consecutive month, but by less than expected in December. The decline was attributed to a 19% drop in the multi-family segment. In contrast, starts

Chart 2: The Rise in Housing Starts is Likely to Reverse



Source: Census, TD Economics.

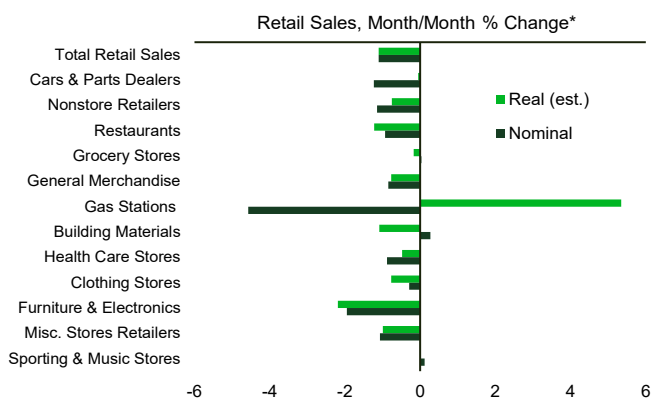
in the single-family, rose for the first time in four months, but are likely to decelerate further in the months ahead as permits continue to trend lower (Chart 2).

On that note, [existing home sales](#) also continued to soften, falling 1.5% m/m December and 17.8% for the year. Despite the sharp decline in sales, prices have only fallen by 1.5%. However, the sharp increase in inventory since August suggests more meaningful downward pressure lies ahead.

Increasingly bold signs of cooling economic activity are welcome news for the Fed on its mission to bring down inflation. That said, this week's Fed speakers had varying degrees of hawkishness on the pace of upcoming rate hikes. Of those who have the voting rights on the Federal Open Market Committee, James Bullard [sounded most hawkish](#) by expressing his preference to "err on the tighter side to get the disinflationary process to take hold".

In contrast, Fed's Lorie Logan and Patrick Harker voiced their support for a 25-basis point hike, while Vice Chair Lael Brainard, without explicitly backing a softer pace, [emphasized](#) the possibility of a soft landing - easing in the labor market and reduction in inflation without a significant loss of employment. Markets side with this view, having priced-in a quarter-of-a percent hike on February 1st with a 97% probability. Compare it to exactly one month ago, when only 70% of market participants (including yours truly) expected a downshift. Seemingly, investors express more certainty about an economic slowdown ahead.

Chart 1: Retail Sales Softened in December



*Sorted by the share of total sales: from larger to smaller. Source: Census, Bureau of Labor Statistics, TD Economics.

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Recent Key Economic Indicators: Jan 16 - 20, 2022					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Jan 17	Empire Manufacturing	Jan	Index	-32.9	-11.2
Jan 18	PPI Ex Food and Energy	Dec	M/M % Chg.	0.1	0.2
Jan 18	PPI Final Demand	Dec	M/M % Chg.	-0.5	0.2
Jan 18	Retail Sales Advance	Dec	M/M % Chg.	-1.1	-0.6
Jan 18	Retail Sales Ex Auto and Gas	Dec	M/M % Chg.	-0.7	-0.5
Jan 18	Capacity Utilization	Dec	%	78.8	79.4
Jan 18	Industrial Production	Dec	M/M % Chg.	-0.7	-0.6
Jan 18	Manufacturing (SIC) Production	Dec	Index	-1.3	-1.1
Jan 18	Business Inventories	Nov	M/M % Chg.	0.4	0.2
Jan 18	NAHB Housing Market Index	Jan	Index	35.0	31.0
Jan 19	Building Permits	Dec	Thsds	1382.0	1401.0
Jan 19	Housing Starts	Dec	Thsds	1330.0	1351.0
Jan 19	Initial Jobless Claims	Jan 14	Thsds	190.0	205.0
Jan 20	Existing Home Sales	Dec	Mlns	4.02	4.08
Canada					
Jan 16	Manufacturing Sales	Nov	M/M % Chg.	0.0	2.8
Jan 16	Existing Home Sales	Dec	M/M % Chg.	1.3	-3.3
Jan 16	BoC Overall Business Outlook Survey	4Q	Q/Q % Chg.	0.1	1.7
Jan 17	Housing Starts	Dec	Thsds	248.6	263.0
Jan 17	Consumer Price Index	Dec	Y/Y % Chg.	6.3	6.8
Jan 17	Consumer Price Index NSA	Dec	M/M % Chg.	-0.6	0.1
Jan 18	Industrial Product Price	Dec	M/M % Chg.	-1.1	-0.4
Jan 19	Wholesale Trade Sales	Nov	M/M % Chg.	0.5	2.1
Jan 20	Retail Sales	Nov	M/M % Chg.	-0.1	1.3
Jan 20	Retail Sales Ex Auto	Nov	M/M % Chg.	-0.6	1.6
International					
Jan 16	CH Gross Domestic Product	4Q	Q/Q % Chg.	0.0	3.9
Jan 16	CH Retail Sales	Dec	Y/Y % Chg.	-1.8	-5.9
Jan 16	CH Surveyed Jobless Rate	Dec	%	5.5	5.7
Jan 17	UK ILO Unemployment Rate 3Mths	Nov	M/M % Chg.	3.7	3.7
Jan 17-18	JN BOJ Policy Balance Rate	Jan 18	%	-0.1	-0.10
Jan 18	UK Consumer Price Index	Dec	Y/Y % Chg.	10.5	10.7
Jan 18	EZ Consumer Price Index	Dec	Y/Y % Chg.	9.2	9.2
Jan 19	JN National Consumer Price Index	Dec	Y/Y % Chg.	4.0	3.8
Jan 20	UK Retail Sales Ex Auto Fuel	Dec	Y/Y % Chg.	-6.1	-5.6

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



Upcoming Economic Releases and Events: Jan 23 - 27, 2023						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Jan 24	9:45	S&P Global US Composite PMI	Jan	Index	-	45.0
Jan 24	9:45	S&P Global US Manufacturing PMI	Jan	Index	46.8	46.2
Jan 24	9:45	S&P Global US Services PMI	Jan	Index	45.5	44.7
Jan 26	8:30	Advance Goods Trade Balance	Dec	M/M % Chg.	-88.8	-83.3
Jan 26	8:30	Cap Goods Orders Nondef Ex Air	Dec	M/M % Chg.	-0.2	0.1
Jan 26	8:30	Core PCE	4Q	Q/Q % Chg.	3.9	4.7
Jan 26	8:30	Durable Goods Orders	Dec	M/M % Chg.	2.9	-2.1
Jan 26	8:30	Gross Domestic Product Annualized	4Q	Q/Q % Chg.	2.5	3.2
Jan 26	8:30	Initial Jobless Claims	Jan 21	Thsds	212.0	190.0
Jan 26	8:30	Personal Consumption	4Q	Q/Q % Chg.	2.9	2.3
Jan 26	10:00	New Home Sales	Dec	Thsds	615.0	640.0
Jan 27	8:30	PCE Deflator	Dec	Y/Y % Chg.	5.0	5.5
Jan 27	8:30	Personal Income	Dec	M/M % Chg.	0.2	0.4
Jan 27	8:30	Real Personal Spending	Dec	M/M % Chg.	-0.2	0.0
Jan 27	10:00	Pending Home Sales	Dec	M/M % Chg.	-1.0	-4.0
Canada						
Jan 25	10:00	Bank of Canada Rate Decision	Jan 25	%	4.50	4.25
Jan 25	11:00	<i>BoC's Governor & Senior Deputy Governor Hold Press Conference on Monetary Policy Report</i>				
Jan 26	6:00	CFIB Business Barometer	Jan	Index	-	50.9
Jan 26	8:30	Payroll Employment Change - SEPH	Nov	Thsds	-	-5.4
International						
Jan 23	19:30	JN Jibun Bank Japan PMI Manufacturing	Jan	Index	-	48.9
Jan 26	18:30	JN Tokyo Consumer Price Index	Jan	Y/Y % Chg.	4.0	3.9

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

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