

The Weekly Bottom Line

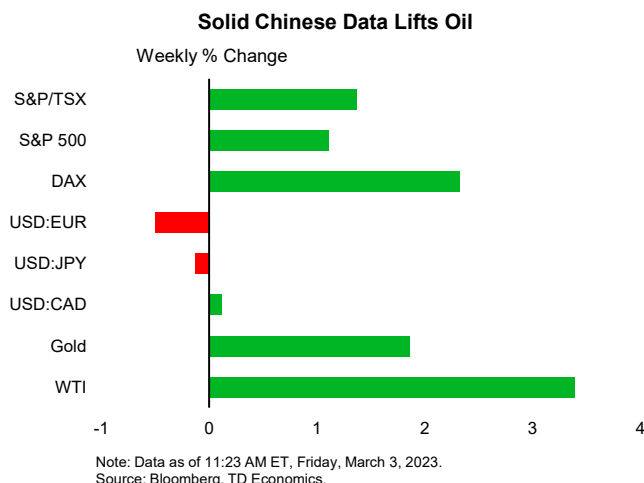
March 3, 2023

Highlights

- Pending home sales rose 8.1% in January, however with mortgage rates now back up around 7% this is unlikely to be sustained moving forward.
- The ISM Manufacturing Index improved for the first time in six months but continued to indicate contraction in the sector.
- Fed speakers this week noted the upside risk to the policy rate path posed by recent economic data, pushing the 10-year Treasury yield above 4%.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	3998	3970	4632	3577
S&P/TSX Comp.	20420	20219	22087	18206
DAX	15554	15210	15554	11976
FTSE 100	7921	7879	8014	6826
Nikkei	27927	27453	29223	24718
Fixed Income Yields				
U.S. 10-yr Treasury	3.99	3.94	4.24	1.73
Canada 10-yr Bond	3.39	3.39	3.68	1.67
Germany 10-yr Bund	2.71	2.54	2.75	-0.07
UK 10-yr Gilt	3.85	3.66	4.51	1.21
Japan 10-yr Bond	0.51	0.50	0.53	0.15
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.73	0.73	0.80	0.72
Euro (USD per EUR)	1.06	1.05	1.12	0.96
Pound (USD per GBP)	1.20	1.19	1.33	1.07
Yen (JPY per USD)	136.0	136.5	150.2	114.8
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	76.6	76.3	123.7	71.0
Natural Gas (\$US/MMBtu)	2.70	2.36	9.84	2.05
Copper (\$US/met. tonne)	8928.1	8689.0	10702.0	7160.0
Gold (\$US/troy oz.)	1844.1	1811.0	2050.8	1622.4

*As of 9:39 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)	4.50 - 4.75%
Bank of Canada (Overnight Rate)	4.50%
European Central Bank (Refi Rate)	3.00%
Bank of England (Repo Rate)	4.00%
Bank of Japan (Overnight Rate)	-0.10%

Source: Bloomberg.

TD Economics Key Financial Forecasts													
	Current Rate 3/3/23	2022				2023				2024			
		Q1	Q2	Q3	Q4	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate	4.75	0.50	1.75	3.25	4.50	5.00	5.25	5.25	5.00	4.50	4.00	3.50	3.00
2-yr Govt. Bond Yield	4.85	2.28	2.92	4.22	4.41	4.55	4.20	3.80	3.45	3.15	2.85	2.60	2.45
10-yr Govt. Bond Yield	3.99	2.32	2.98	3.83	3.88	3.80	3.75	3.50	3.35	3.20	3.05	2.90	2.80
30-yr Govt. Bond Yield	3.93	2.44	3.14	3.79	3.97	3.85	3.80	3.75	3.65	3.50	3.35	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.

Higher Rates Abound

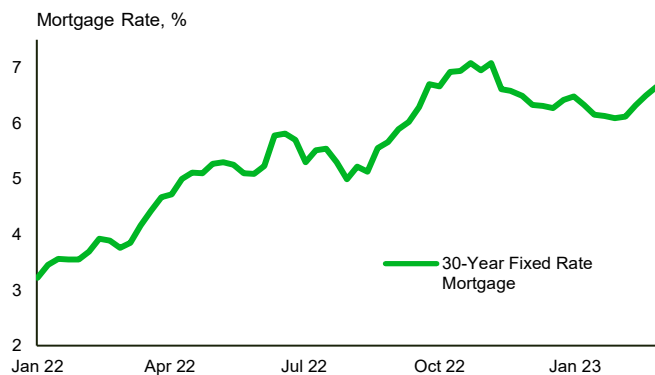
Congratulations on successfully making it to the third month of 2023. We are now just two and a half weeks away from economists' most anticipated day of 2023. No, not the first day of Spring, the next FOMC rate announcement on March 22nd. This week we got a peek into six different FOMC members thinking on the expected path of policy and got pulse checks on the housing, manufacturing, and service sectors. In financial markets, Treasury yields continued their upward march, with the ten-year Treasury yield rising above 4% while the S&P 500 has clawed back earlier losses and is up 1% on the week as of the time of writing.

Pending home sales in January increased for the second consecutive month, rising by 8.1% month-on-month (m/m). Falling mortgage rates in late 2022 helped slow the year-long decline in sales activity, despite prices continuing to sink through the end of the year. Seasonally adjusted national home prices, as measured by the S&P CoreLogic Case-Shiller index, continued to decline in December (-0.3% m/m), matching the decline seen in November. With the 30-year mortgage rate rising to 7% in February this reprieve is likely to prove temporary (Chart 1).

On Wednesday, the ISM Manufacturing Index improved for the first time since August, though the sector remained in contractionary territory for the fourth consecutive month (Chart 2). New orders and backlogged orders continued to contract, albeit at a slower pace. In contrast, the ISM Services Index reading on Friday showed that the industry is still expanding, with new orders growing at a faster pace.

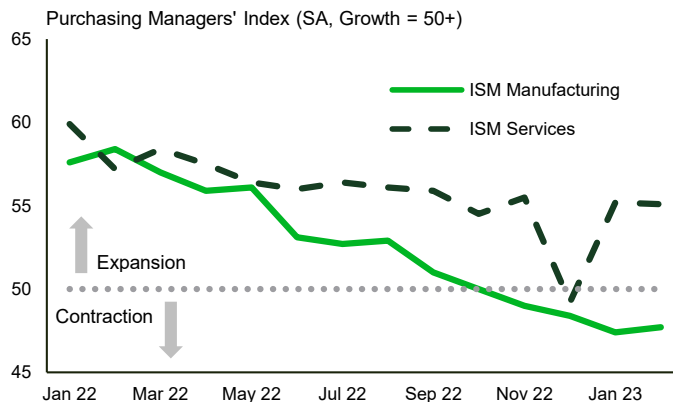
Supplier delivery times continued to see improvement in

Chart 1: Mortgage Rates Reversed Course in February



Source: Freddie Mac, TD Economics.

Chart 2: Manufacturing Contraction Slows, Services Remain Robust



Source: ISM, TD Economics.

both sectors with ocean freight costs declining for a sixth consecutive month. However, the manufacturing prices paid subindex increased for the first time since September, reflecting higher raw material prices. Although the subindex remained below the historical level associated with an uptick in the Producer's Price Index, Treasury yields rose in response to the possible implications this could have on inflation and the Federal Reserve's policy path.

Speaking of the Fed, we heard from seven different Federal Reserve officials this week, six of whom are current voting FOMC members. Their talking points covered a range of topics, from Governor Jefferson pushing back against calls for the Fed to raise its inflation target to Chicago Fed President Goolsbee saying it would be a mistake for the Fed to rely too heavily on financial market reactions. We also received policy specific comments, with Minneapolis Fed President Kashkari noting that he is open to a 50 basis point hike at the next meeting and Atlanta Fed President Bostic (a 2024 FOMC member) saying in an essay that he sees the policy rate going to 5.00 - 5.25% and staying there well into 2024.

Members made it clear that they are not yet convinced of the downward trajectory in inflation and upside risks to the policy rate path remain. All eyes will be on next week's February employment data, which will show whether January's blowout job growth was just a blip or something more concerning altogether for the Fed.

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Recent Key Economic Indicators: Feb 27 - Mar 3, 2023						
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior	
United States						
Feb 27	Cap Goods Orders Nondef Ex Air	Jan	M/M % Chg.	0.8	-0.3	
Feb 27	Durable Goods Orders	Jan	M/M % Chg.	-4.5	5.1	
Feb 27	Pending Home Sales MoM	Jan	M/M % Chg.	8.1	1.1	
Feb 28	Advance Goods Trade Balance	Jan	Blns	-91.5	-89.7	
Feb 28	S&P CoreLogic CS US HPI NSA	Dec	Y/Y % Chg.	5.8	7.6	
Feb 28	Conf. Board Consumer Confidence	Feb	Index	102.9	106.0	
Mar 1	S&P Global US Manufacturing PMI	Feb	Index	47.3	47.8	
Mar 1	ISM Manufacturing	Feb	Index	47.7	47.4	
Mar 1	Wards Total Vehicle Sales	Feb	Mlns	14.9	15.7	
Mar 2	Initial Jobless Claims	Feb 24	Thsds	190.0	192.0	
Mar 2	Unit Labor Costs	4Q	Q/Q % Chg.	3.2	1.1	
Mar 3	S&P Global US Composite PMI	Feb	Index	50.1	50.2	
Mar 3	S&P Global US Services PMI	Feb	Index	50.6	50.5	
Mar 3	ISM Services Index	Feb	Index	55.1	55.2	
Canada						
Feb 28	Gross Domestic Product	Dec	M/M % Chg.	-0.1	0.1	
Feb 28	Quarterly GDP Annualized	4Q	Q/Q % Chg.	0.0	2.3	
Mar 1	S&P Global Canada Manufacturing PMI	Feb	Index	52.4	51.0	
International						
Feb 27	JN Retail Sales	Jan	Y/Y % Chg.	6.3	3.8	
Feb 28	IN Gross Domestic Product	4Q	Y/Y % Chg.	4.4	6.3	
Feb 28	JN Jibun Bank Japan PMI Manufacturing	Feb	Index	47.7	47.4	
Feb 28	CH Manufacturing PMI	Feb	Index	52.6	50.1	
Feb 28	CH Caixin China PMI Manufacturing	Feb	Index	51.6	49.2	
Mar 2	EC Consumer Price Index Estimate	Feb	Y/Y % Chg.	8.5	8.6	
Mar 2	EC Unemployment Rate	Jan	%	6.7	6.7	
Mar 2	BZ Gross Domestic Product	4Q	Q/Q % Chg.	-0.2	0.3	
Mar 2	JN Jobless Rate	Jan	%	2.4	2.5	
Mar 2	JN Tokyo Consumer Price Index	Feb	Y/Y % Chg.	3.4	4.4	

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



Upcoming Economic Releases and Events: Mar 06 - 10, 2023

Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Mar 6	10:00	Factory Orders	Jan	M/M % Chg.	-1.5	1.8
Mar 6	10:00	Factory Orders Ex Trans	Jan	M/M % Chg.	--	-1.2
Mar 6	10:00	Durable Goods Orders	Jan F	M/M % Chg.	--	-4.5
Mar 6	10:00	Cap Goods Orders Nondef Ex Air	Jan F	M/M % Chg.	--	0.8
Mar 7	10:00	<i>Senate Banking Panel Hears Semi-Annual Monetary Policy Report</i>				
Mar 7	10:00	Wholesale Trade Sales	Jan	M/M % Chg.	--	0.0
Mar 8	8:15	ADP Employment Change	Feb	Thsd	200.0	106.0
Mar 8	8:30	Trade Balance	Jan	Blns	-69.00	-67.40
Mar 8	10:00	<i>Powell Appears Before House Financial Service Committee</i>				
Mar 9	8:30	Initial Jobless Claims	Mar 03	Thsd	198.0	190.0
Mar 9	10:00	<i>Fed's Barr Speaks on Crypto</i>				
Mar 10	8:30	Change in Nonfarm Payrolls	Feb	Thsd	215.0	517.0
Mar 10	8:30	Unemployment Rate	Feb	%	3.4	3.4
Mar 10	8:30	Average Hourly Earnings	Feb	M/M % Chg.	0.3	0.3
Canada						
Mar 8	8:30	Int'l Merchandise Trade	Jan	Blns	-0.20	-0.16
Mar 8	10:00	Bank of Canada Rate Decision	Mar 08	%	4.5	4.5
Mar 9	13:45	<i>Bank of Canada Economic Progress Report by Senior Deputy Governor</i>				
Mar 10	8:30	Net Change in Employment	Feb	Thsd	2.5	150.0
Mar 10	8:30	Unemployment Rate	Feb	%	5.1	5.0
International						
Mar 6	5:00	EZ Retail Sales	Jan	Y/Y % Chg.	-1.8	-2.8
Mar 8	5:00	EZ Gross Domestic Product SA	4Q F	Y/Y % Chg.	1.9	1.9
Mar 8	5:00	EZ Employment	4Q F	Y/Y % Chg.	--	1.5
Mar 8	18:50	JN Gross Domestic Product Annualized SA	4Q F	Y/Y % Chg.	0.8	0.6
Mar 8	20:30	CH Consumer Price Index	Feb	Y/Y % Chg.	1.9	2.1
Mar 10		JN BOJ Policy Balance Rate	Mar 10	%	-0.1	-0.1
Mar 10	2:00	UK Monthly Gross Domestic Product	Jan	Q/Q % Chg.	0.0	-0.3

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

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