

The Weekly Bottom Line

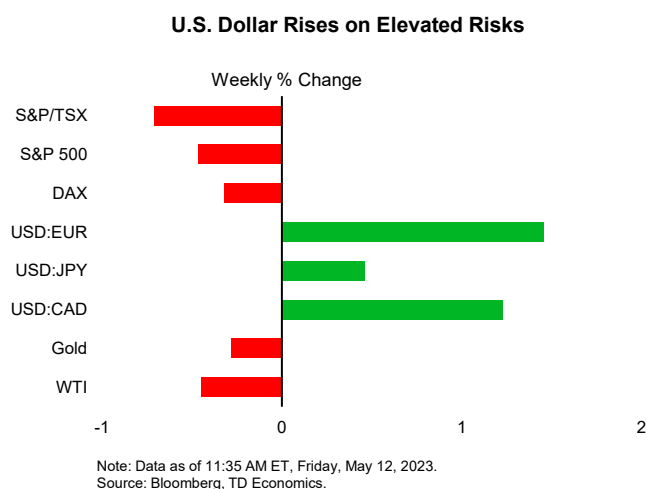
May 12, 2023

Highlights

- Inflation eased modestly in April, with headline and core CPI both ticking down by 0.1 percentage points to 4.9% and 5.5% year-on-year respectively.
- The Federal Reserve's Senior Loan Officer Opinion Survey showed that a higher share of commercial banks tightened credit conditions in April than January.
- A meeting between President Biden and Congressional leaders failed to yield any progress on negotiations to raise/suspend the debt limit.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	4117	4136	4305	3577
S&P/TSX Comp.	20396	20542	21032	18206
DAX	15905	15961	15961	11976
FTSE 100	7751	7778	8014	6826
Nikkei	29388	29158	29388	25717
Fixed Income Yields				
U.S. 10-yr Treasury	3.43	3.44	4.24	2.57
Canada 10-yr Bond	2.88	2.91	3.68	2.61
Germany 10-yr Bund	2.27	2.29	2.75	0.78
UK 10-yr Gilt	3.77	3.78	4.51	1.66
Japan 10-yr Bond	0.39	0.42	0.53	0.17
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.74	0.75	0.80	0.72
Euro (USD per EUR)	1.09	1.10	1.11	0.96
Pound (USD per GBP)	1.25	1.26	1.27	1.07
Yen (JPY per USD)	135.5	134.8	150.2	126.8
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	70.6	71.3	122.1	66.7
Natural Gas (\$US/MMBtu)	2.07	1.85	9.84	1.85
Copper (\$US/met. tonne)	8133.2	8560.3	9743.0	7160.0
Gold (\$US/troy oz.)	2011.4	2016.8	2050.3	1622.4

*As of 11:44 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)	5.00 - 5.25%
Bank of Canada (Overnight Rate)	4.50%
European Central Bank (Refi Rate)	3.75%
Bank of England (Repo Rate)	4.50%
Bank of Japan (Overnight Rate)	-0.10%

Source: Bloomberg.

TD Economics Key Financial Forecasts													
	Current Rate 5/12/23	2022				2023				2024			
		Q1	Q2	Q3	Q4	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate	5.25	0.50	1.75	3.25	4.50	5.00	5.25	5.25	5.25	4.75	4.25	3.75	3.25
2-yr Govt. Bond Yield	3.97	2.28	2.92	4.22	4.41	4.06	4.10	3.80	3.45	3.15	2.90	2.70	2.60
10-yr Govt. Bond Yield	3.43	2.32	2.98	3.83	3.88	3.48	3.50	3.45	3.35	3.30	3.25	3.15	3.05
30-yr Govt. Bond Yield	3.75	2.44	3.14	3.79	3.97	3.67	3.70	3.65	3.60	3.55	3.50	3.45	3.35

Forecast by TD Economics as of April 2023; all forecasts are end-of-period. Source: Bloomberg, Federal Reserve Board, TD Economics.

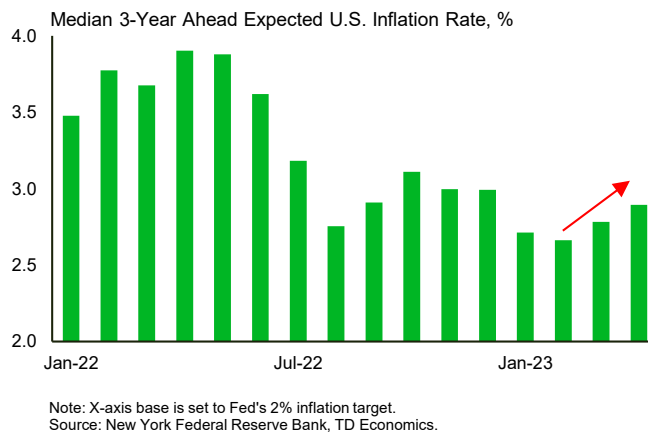
Inflation Continues to Cool in Earnest

On the heels of last week’s FOMC meeting, we were provided with a host of economic data this week to assess the Fed’s new wait-and-see approach, including April’s CPI report. In addition, we also received the second quarter Senior Loan Officer Opinion Survey (SLOOS) and had a meeting between President Biden and Congressional leadership as they attempt to find an agreement to raise the debt limit. Markets ended the week relatively unchanged, with the S&P 500 down 0.1% and the ten-year Treasury Yield down 4bps at 3.41% as of the time of writing.

Inflation eased modestly in April, as headline inflation rose by 4.9% year-on-year, down modestly from 5% in March (Chart 1). Energy prices rose for the first time in three months as gasoline jumped by 3% month-on-month (m/m), and food prices were flat for a second consecutive month. Stripping out energy and food, core inflation ticked down to 5.5% y/y, having fluctuated between 5.5-5.6% y/y since January. While we did see shelter inflation decelerate for a second consecutive month, it still rose by 0.4% m/m. This in addition to the reacceleration in core goods inflation, worked to keep core inflation elevated. Although on aggregate this report had positive developments, it reiterated the fact that the path back to the Fed’s 2% target is unlikely to be a straight line.

Of particular concern for the Fed is the potential for inflation expectations to become de-anchored. In the New York Fed’s Survey of Consumer Expectations this week, we saw three-year ahead inflation expectations rise for a second

Chart 2: U.S. Long Term Inflation Expectations Are Rising Again



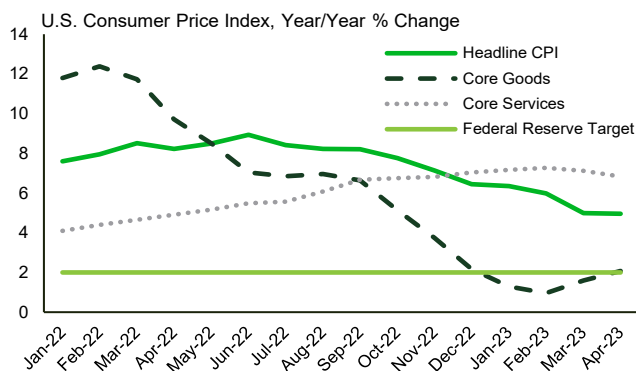
consecutive month to 2.9% in April (Chart 2). While this series has historically run slightly above the Fed’s 2% target, a sustained movement above 3% would be a concern for the FOMC.

Earlier in the week, we saw that U.S. commercial banks continued to tighten credit conditions in April in the Fed’s SLOOS. Commercial & industrial loans as well as commercial real estate (CRE) loans saw a higher net percentage of banks tightening credit standards than in January. Demand for these loans from businesses fell as a result, however household demand for consumer-facing loans (mortgages, auto, credit card, etc.) rose as credit remained relatively accessible. Further analysis of the SLOOS can be found [here](#).

Lastly, in the Oval Office this week, President Biden met with Congressional leaders on Tuesday to attempt to find an agreement to raise/suspend the debt limit. Treasury Secretary Yellen warned last week that the Treasury could run out of funds by early June, thus the impetus to reach an agreement is elevated. However, no progress has been made in the negotiations so far.

Looking ahead to next week, we will get a fresh update on the U.S. consumer with April retail sales as well as existing home sales. With the unemployment rate back down to 3.4% consumers may still have some wind in their sails, but we expect that this will be short-lived as past rate hikes continue to filter through the economy.

Chart 1: U.S. Inflation Fell in April, But Underlying Picture is Mixed



Source: U.S. Bureau of Labor Statistics, TD Economics.

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Recent Key Economic Indicators: May 08 - 12, 2023						
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior	
United States						
May 8	Wholesale Trade Sales	Mar	M/M % Chg.	-2.1	0.4	
May 9	NFIB Small Business Optimism	Apr	Index	89.0	90.1	
May 10	Consumer Price Index	Apr	M/M % Chg.	0.4	0.1	
May 10	Consumer Price Index Ex Food and Energy	Apr	M/M % Chg.	0.4	0.4	
May 10	Consumer Price Index	Apr	Y/Y % Chg.	4.9	5.0	
May 10	Consumer Price Index Ex Food and Energy	Apr	Y/Y % Chg.	5.5	5.6	
May 11	Producer Price Index Final Demand	Apr	M/M % Chg.	0.2	-0.4	
May 11	Producer Price Index Ex Food and Energy	Apr	M/M % Chg.	0.2	0.0	
May 11	Initial Jobless Claims	May 6	Thsd	264.0	242.0	
International						
May 10	CH Consumer Price Index	Apr	Y/Y % Chg.	0.1	0.7	
May 11	UK Bank of England Bank Rate	May 11	%	4.50	4.25	
May 12	UK Gross Domestic Product	1Q	Y/Y % Chg.	0.2	0.6	

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



Upcoming Economic Releases and Events: May 15 - 19, 2023						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
May 15	8:30	Empire Manufacturing	May	Index	-4.0	10.8
May 15	8:45	<i>Fed's Bostic Has Opening Remarks at Financial Markets Conference</i>				
May 15	9:15	<i>Fed's Kashkari Takes Part in a Moderated Discussion</i>				
May 16	8:15	<i>Fed's Mester Discusses the economic and Policy Outlook</i>				
May 16	8:30	Retail Sales Advance	Apr	M/M % Chg.	0.8	-0.6
May 16	8:30	Retail Sales Ex Auto and Gas	Apr	M/M % Chg.	0.2	-0.3
May 16	9:15	Industrial Production	Apr	M/M % Chg.	0.0	0.4
May 16	9:15	Capacity Utilization	Apr	%	79.7	79.8
May 16	9:15	Manufacturing (SIC) Production	Apr	M/M % Chg.	0.1	-0.5
May 16	10:00	Business Inventories	Mar	M/M % Chg.	0.0	0.2
May 16	10:00	NAHB Housing Market Index	May	Index	45.0	45.0
May 16	10:00	<i>Fed's Barr Testifies Before House Financial Services Committee</i>				
May 16	12:15	<i>Fed's Williams Discusses Economic Outlook and Monetary Policy</i>				
May 16	19:00	<i>Fed's Bostic and Goolsbee Discuss the Economic Outlook</i>				
May 17	8:30	Housing Starts	Apr	Thsd	1400.0	1420.0
May 17	8:30	Building Permits	Apr	Thsd	1428.0	1430.0
May 18	8:30	Initial Jobless Claims	May 13	Thsd	250.0	264.0
May 18	9:05	<i>Fed's Jefferson Gives Speech on Economic Outlook</i>				
May 18	9:30	<i>Fed's Barr Testifies Before Senate Banking Committee</i>				
May 18	10:00	Existing Home Sales	Apr	Mlns	4.30	4.44
May 18	10:00	<i>Fed's Logan Speaks at Texas Bankers Association Convention</i>				
May 19	8:45	<i>Fed's Williams Speaks at Monetary Policy Conference</i>				
May 19	9:00	<i>Fed's Bowman Takes Part in Discussion at Bankers Convention</i>				
May 19	11:00	<i>Fed Chair Powell, Former Chair Bernanke Speak on Policy Panel</i>				
Canada						
May 15	8:15	Housing Starts	Apr	Thsd	-	213.9
May 15	8:30	Wholesale Trade Sales	Mar	M/M % Chg.	-	-1.7
May 15	9:00	Existing Home Sales	Apr	Mlns	-	1.40
May 16	8:30	Manufacturing Sales	Mar	M/M % Chg.	-	-3.6
May 16	8:30	Consumer Price Index NSA	Apr	M/M % Chg.	-	0.5
May 16	8:30	Consumer Price Index	Apr	Y/Y % Chg.	-	4.3
May 18	11:00	<i>Press Conference: Financial System Review</i>				
May 19	8:30	Retail Sales	Mar	Y/Y % Chg.	-	-0.2
May 19	8:30	Retail Sales Ex Auto	Mar	M/M % Chg.	-	-0.7
International						
May 15	22:00	CH Retail Sales	Apr	Y/Y % Chg.	22.0	10.6
May 15	22:00	CH Surveyed Jobless Rate	Apr	%	5.3	5.3
May 16	2:00	UK ILO Unemployment Rate	Mar	Q/Q % Chg.	3.8	3.8
May 16	5:00	EZ Gross Domestic Product SA	1Q	Y/Y % Chg.	1.3	1.3
May 16	5:00	EZ Employment	1Q	Y/Y % Chg.	-	1.5
May 16	19:50	JN Gross Domestic Product Annualized SA	1Q	Q/Q % Chg.	0.8	0.1
May 17	5:00	EZ Consumer Price Index	Apr	Y/Y % Chg.	7.0	6.9
May 18	19:30	JN Natl Consumer Price Index	Apr	Y/Y % Chg.	3.5	3.2

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

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