

The Weekly Bottom Line

January 12, 2024

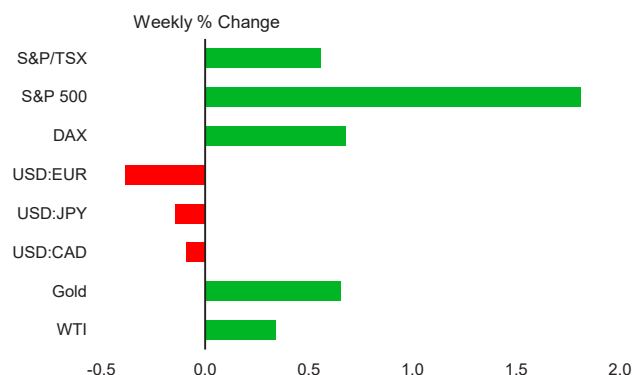
Highlights

- An upside inflation surprise didn't do much to move markets, as the details of the report fell in line with expectations.
- The focus remains firmly on the services sector, where housing costs continue to prop up price growth.
- Looking forward, the Fed will need to see more consistent evidence of disinflation – likely delaying any policy changes to mid-year.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	4786	4697	4786	3856
S&P/TSX Comp.	21058	20938	21075	18737
DAX	16725	16594	16794	14687
FTSE 100	7644	7690	8014	7257
Nikkei	35577	33377	35577	25822
Fixed Income Yields				
U.S. 10-yr Treasury	3.93	4.05	4.99	3.31
Canada 10-yr Bond	3.20	3.26	4.24	2.72
Germany 10-yr Bund	2.18	2.16	2.97	1.90
UK 10-yr Gilt	3.78	3.79	4.75	3.01
Japan 10-yr Bond	0.61	0.61	0.96	0.25
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.75	0.75	0.76	0.72
Euro (USD per EUR)	1.10	1.09	1.12	1.05
Pound (USD per GBP)	1.28	1.27	1.31	1.18
Yen (JPY per USD)	144.5	144.6	151.7	127.9
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	74.4	73.8	93.7	66.7
Natural Gas (\$US/MMBtu)	3.07	2.76	3.50	1.78
Copper (\$US/met. tonne)	8262.2	8361.0	9330.8	7823.8
Gold (\$US/troy oz.)	2057.3	2045.5	2077.5	1811.0

*As of 10:12 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

S&P 500 Hovers Near Record High on Rate Expectations



Note: Data as of 10:15 AM ET, Friday, January 12, 2024.
Source: Bloomberg, TD Economics.

Global Official Policy Rate Targets	
Central Banks	Current Target
Federal Reserve (Fed Funds Rate)	5.25 - 5.50%
Bank of Canada (Overnight Rate)	5.00%
European Central Bank (Refi Rate)	4.50%
Bank of England (Repo Rate)	5.25%
Bank of Japan (Overnight Rate)	-0.10%

Source: Bloomberg.

TD Economics Key Financial Forecasts													
Current Rate		2023				2024				2025			
	1/12/24	Q1	Q2	Q3	Q4	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate	5.50	5.00	5.25	5.50	5.50	5.50	5.50	5.00	4.50	4.00	3.50	3.00	2.75
2-yr Govt. Bond Yield	4.15	4.06	4.87	5.03	4.23	4.40	4.30	4.00	3.70	3.40	3.10	2.75	2.75
10-yr Govt. Bond Yield	3.93	3.48	3.81	4.59	3.88	4.05	3.95	3.75	3.55	3.35	3.20	3.20	3.20
30-yr Govt. Bond Yield	4.16	3.67	3.85	4.73	4.03	4.20	4.15	4.05	3.85	3.65	3.50	3.50	3.50
Forecast by TD Economics as of December 2023; all forecasts are end-of-period. Source: Bloomberg, Federal Reserve Board, TD Economics.													

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

The Long and Bumpy Road

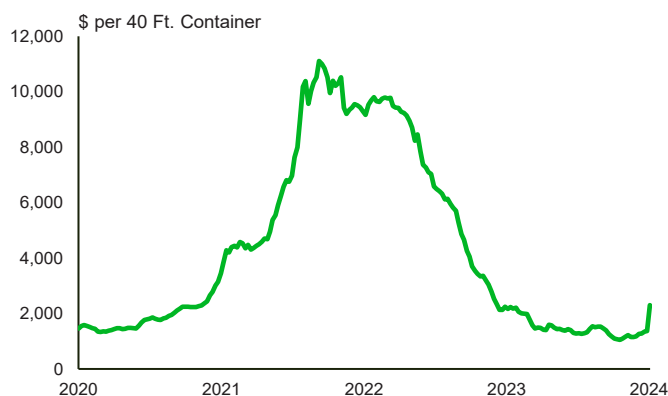
Taming inflation is never easy, and usually proceeds in fits and starts. So, given the experience of the past year, this week's hotter-than-expected print to consumer price index (CPI) inflation doesn't come as all that much of a surprise. Indeed, the details of the report left room for optimism and meant that markets brushed off the surprise – leaving ten-year U.S. treasury yields virtually unchanged on the news. The positive developments under the hood (so to speak) fell in line with consensus expectations and meant that the focus could be kept firmly on the timing of possible Fed cuts.

Headline CPI inflation rose 0.3% month-on-month (m/m), taking the annual reading for December to 3.4%. While the print did exceed market expectations, it was the more closely watched core measure that drove the muted market response. The price index excluding food and energy matched the headline gain at +0.3% m/m – a pace it has logged in four of the past five months. This is the interesting bit, on a three-month annualized basis core CPI inflation is running at 3.3%, roughly unchanged since October and still clear of the Fed's target.

The stickiness in the core measure is slightly concerning, particularly as core goods prices remained flat, snapping a six-month run of price declines. Moreover, there is some near-term upside risk to goods prices as attacks on ships in the Red Sea affecting access to the Suez Canal have led to a jump in freight costs (Chart 1). Despite this, what the pause in goods price deflation laid bare was the ongoing strength in services price gains.

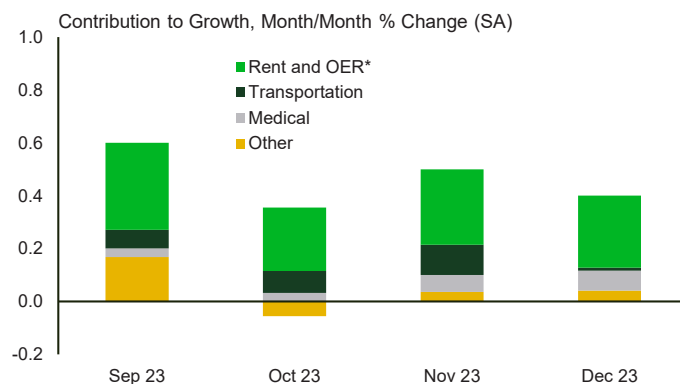
Core services prices were up 0.4% m/m in December. Moreover, the strong price gains have been persistent, with the

Chart 1: Freight Rates Rise Again on Red Sea Disruptions



Source: Freightos, Bloomberg, TD Economics. Last Observation: Jan. 07, 2024.

Chart 2: Shelter Costs Continue To Prop Up U.S. Services Inflation



*Owners' Equivalent Rent.
Source: Bureau of Labor Statistics, TD Economics.

three-month and six-month (annualized) rates of core services inflation at 5.1% and 5.2%, respectively. Yet, while these figures are significantly higher than the Fed would feel comfortable with, there are reasons to believe conditions are improving. Currently, the largest contributing factor to services inflation is the shelter component (Chart 2). On this front relief is expected as increases in observed rents (which tend to lead the measure in the CPI report) have moderated sharply in recent months – a dynamic that is still gradually working through to the shelter component of CPI. Moreover, the slowdown in home price appreciation through early-2023 also continues to gradually work its way into the CPI.

The return to two percent inflation continues to be bumpy, but progress has been tangible and signs suggest that the Fed continues to be on course. After a few months of solid progress, optimism had begun to emerge that cuts might come sooner rather than later. However, price pressures remain sticky, and the economy continues to outperform. December job growth was above trend, and the Atlanta Fed Nowcast is expecting GDP growth of over 2% (annualized) in the fourth quarter of 2023.

A packed slate of Fed speakers is on tap for next week, and should hopefully give some additional insight into how they view the recent data. However, given this week's developments, it will likely be mid-year before officials have sufficient evidence that they can begin loosening their policy stance.

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Recent Key Economic Indicators: Jan 08 - 12, 2024					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Jan 09	NFIB Small Business Optimism	Dec	Index	91.9	90.6
Jan 09	Trade Balance	Nov	Blns	-63.20	-64.50
Jan 10	Wholesale Trade Sales	Nov	M/M % Chg.	0.0	-1.5
Jan 11	Consumer Price Index	Dec	M/M % Chg.	0.3	0.1
Jan 11	Consumer Price Index Ex Food and Energy	Dec	M/M % Chg.	0.3	0.3
Jan 11	Consumer Price Index	Dec	Y/Y % Chg.	3.4	3.1
Jan 11	Consumer Price Index Ex Food and Energy	Dec	Y/Y % Chg.	3.9	4.0
Jan 11	Initial Jobless Claims	Jan 06	Thsd	202.0	203.0
Jan 12	PPI Final Demand	Dec	M/M % Chg.	-0.1	-0.1
Jan 12	PPI Ex Food and Energy	Dec	M/M % Chg.	0.0	0.0
Canada					
Jan 09	Int'l Merchandise Trade	Nov	Blns	1.57	3.20
International					
Jan 08	EZ Retail Sales	Nov	Y/Y % Chg.	-1.1	-0.8
Jan 08	JN Tokyo Consumer Price Index	Dec	Y/Y % Chg.	2.4	2.7
Jan 09	EZ Unemployment Rate	Nov	%	6.4	6.5
Jan 11	CH Consumer Price Index	Dec	Y/Y % Chg.	-0.3	-0.5
Jan 12	UK Gross Domestic Product	Nov	3M/3M % Chg.	-0.2	-0.2

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

Upcoming Economic Releases and Events: Jan 15 - 19, 2024						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Jan 16	8:30	Empire Manufacturing	Jan	Index	-2.9	-14.5
Jan 16	11:00	<i>Fed's Waller Speaks on Economic Outlook and Monetary Policy</i>				
Jan 17	8:30	Retail Sales Advance	Dec	M/M % Chg.	0.4	0.3
Jan 17	8:30	Retail Sales Ex Auto and Gas	Dec	M/M % Chg.	0.3	0.6
Jan 17	9:00	<i>Fed's Barr Speaks at Conference on Cyber Risk</i>				
Jan 17	9:00	<i>Fed's Bowman Speaks About Future of Bank Capital Reform</i>				
Jan 17	9:15	Capacity Utilization	Dec	%	78.7	78.8
Jan 17	9:15	Industrial Production	Dec	M/M % Chg.	-0.1	0.2
Jan 17	9:15	Manufacturing (SIC) Production	Dec	M/M % Chg.	-0.1	0.3
Jan 17	10:00	Business Inventories	Nov	M/M % Chg.	-0.1	-0.1
Jan 17	10:00	NAHB Housing Market Index	Jan	Index	39.0	37.0
Jan 17	14:00	<i>Federal Reserve Releases Beige Book</i>				
Jan 17	15:00	<i>Fed's Williams Speaks at NY Fed Event</i>				
Jan 18	7:30	<i>Fed's Bostic Speaks on Economic Outlook</i>				
Jan 18	8:30	Building Permits	Dec	Thsd	1480.0	1467.0
Jan 18	8:30	Housing Starts	Dec	Thsd	1418.0	1560.0
Jan 18	8:30	Initial Jobless Claims	Jan 13	Thsd	207.0	202.0
Jan 18	11:30	<i>Fed's Bostic Speaks on Economic Outlook</i>				
Jan 19	10:00	Existing Home Sales	Dec	Mlns	3.83	3.82
Jan 19	13:00	<i>Fed's Barr Speaks About Bank Regulation</i>				
Jan 19	16:15	<i>Fed's Daly Speaks in Fireside Chat</i>				
Canada						
Jan 15	8:30	Manufacturing Sales	Nov	M/M % Chg.	0.6	-2.8
Jan 15	8:30	Wholesale Sales ex Petroleum	Nov	M/M % Chg.	-	-0.5
Jan 15	9:00	Existing Home Sales	Dec	M/M % Chg.	-	-0.9
Jan 15	10:30	BoC Business Outlook Survey Indicator	Q4	Index	-	-3.5
Jan 15	10:30	<i>BoC Releases Business Outlook Survey and Survey of Consumer Expectations</i>				
Jan 16	8:15	Housing Starts	Dec	Thsd	-	212.6
Jan 16	8:30	Consumer Price Index	Dec	Y/Y % Chg.	3.2	3.1
Jan 16	8:30	Consumer Price Index NSA	Dec	M/M % Chg.	-0.3	0.1
Jan 17	8:30	Industrial Product Price	Dec	M/M % Chg.	-	-0.4
Jan 19	8:30	Retail Sales	Nov	M/M % Chg.	0.0	0.7
Jan 19	8:30	Retail Sales Ex Auto	Nov	M/M % Chg.	-	0.6
International						
Jan 16	21:00	CH Gross Domestic Product	Q4	Y/Y % Chg.	5.2	4.9
Jan 16	21:00	CH Retail Sales	Dec	Y/Y % Chg.	8.0	10.1
Jan 16	21:00	CH Surveyed Jobless Rate	Dec	%	5.0	5.0
Jan 17	2:00	UK Consumer Price Index	Dec	Y/Y % Chg.	3.8	3.9
Jan 17	5:00	EZ Consumer Price Index	Dec	Y/Y % Chg.	2.9	2.9
Jan 18	18:30	JN National Consumer Price Index	Dec	Y/Y % Chg.	2.6	2.8
Jan 19	2:00	UK Retail Sales Ex Auto Fuel	Dec	Y/Y % Chg.	1.4	0.3

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

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