

## The Weekly Bottom Line

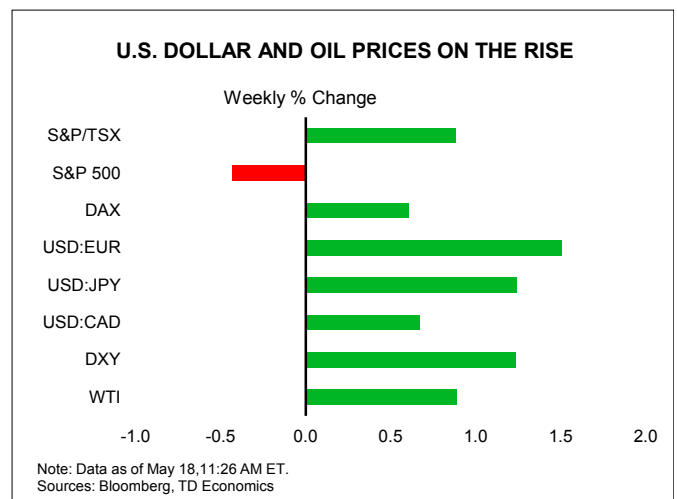
May 18, 2018

### Highlights of the Week

- Equity markets were buffeted by plenty of anxiety-producing events from uncertainty on trade negotiations to right wing coalitions in Italy. Americans may also be a bit nervous about higher prices, both at the pump and for borrowing.
- The rise in oil prices is expected to be a modest drag on consumer spending. Ditto for mortgage rates and the housing market. Much of this was anticipated, and had already been baked in to our last quarterly forecast.
- We continue to expect growth to run around 3% over the remaining quarters of 2018 as the boost from fiscal stimulus offsets these modest headwinds.

THIS WEEK IN THE MARKETS				
	Current*	Week Ago	52-Week High	52-Week Low
<b>Stock Market Indexes</b>				
S&P 500	2718	2728	2873	2366
S&P/TSX Comp.	16124	15983	16413	14952
DAX	13078	13001	13560	11787
FTSE 100	7771	7725	7788	6889
Nikkei	22930	22758	24124	19275
<b>Fixed Income Yields</b>				
U.S. 10-yr Treasury	3.07	2.97	3.11	2.04
Canada 10-yr Bond	2.49	2.38	2.52	1.39
Germany 10-yr Bund	0.58	0.56	0.77	0.23
UK 10-yr Gilt	1.50	1.44	1.65	0.93
Japan 10-yr Bond	0.06	0.05	0.10	-0.01
<b>Foreign Exchange Cross Rates</b>				
C\$ (USD per CAD)	0.78	0.78	0.83	0.74
Euro (USD per EUR)	1.18	1.19	1.25	1.11
Pound (USD per GBP)	1.35	1.35	1.43	1.26
Yen (JPY per USD)	110.7	109.4	114.2	104.7
<b>Commodity Spot Prices**</b>				
Crude Oil (\$US/bbl)	71.5	70.7	71.5	42.3
Natural Gas (\$US/MMBtu)	2.75	2.75	7.13	2.52
Copper (\$US/met. tonne)	6857.0	6908.5	7253.8	5562.0
Gold (\$US/troy oz.)	1291.5	1318.3	1358.5	1213.2

\*as of 11:21 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	
	Current Target
Federal Reserve (Fed Funds Rate)	1.50 - 1.75%
Bank of Canada (Overnight Rate)	1.25%
European Central Bank (Refi Rate)	0.00%
Bank of England (Repo Rate)	0.50%
Bank of Japan (Overnight Rate)	-0.10%

Source: Central Banks.

TD ECONOMICS KEY FORECASTS													
	Current Rate	2017				2018				2019			
		5/18/18	Q1	Q2	Q3	Q4	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F
Fed Funds Target Rate (%)	1.75	1.00	1.25	1.25	1.50	1.75	2.00	2.25	2.25	2.50	2.75	3.00	3.00
2-yr Govt. Bond Yield (%)	2.54	1.27	1.38	1.47	1.89	2.27	2.45	2.55	2.65	2.75	2.85	2.95	2.95
10-yr Govt. Bond Yield (%)	3.07	2.40	2.31	2.33	2.40	2.74	2.95	3.05	3.15	3.20	3.25	3.30	3.30
30-yr Govt. Bond Yield (%)	3.22	3.02	2.84	2.86	2.74	2.97	3.15	3.25	3.35	3.40	3.45	3.50	3.50
Real GDP (Q/Q % Chg)*	2.3 (Q1-18)	1.2	3.1	3.2	2.9	2.3	3.2	3.0	3.2	2.8	3.1	2.6	2.4
CPI (Y/Y % Chg.)	2.5 (Apr-18)	2.5	1.9	2.0	2.1	2.2	2.6	2.6	2.3	1.9	2.1	2.2	2.2
Unemployment Rate (%)	3.9 (Apr-18)	4.7	4.3	4.3	4.1	4.1	4.0	4.0	3.9	3.9	3.8	3.7	3.7

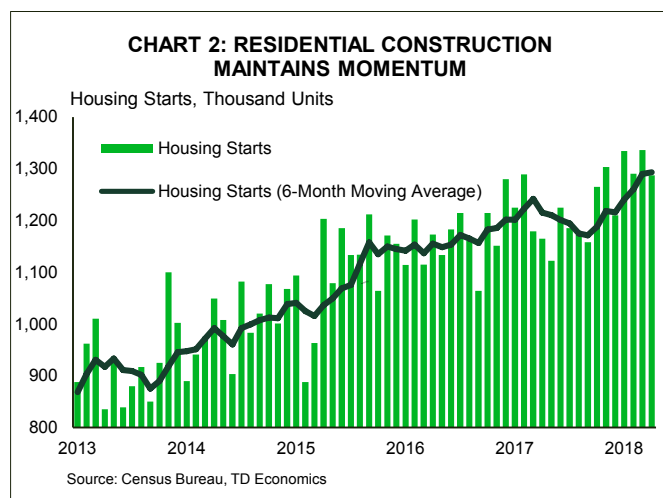
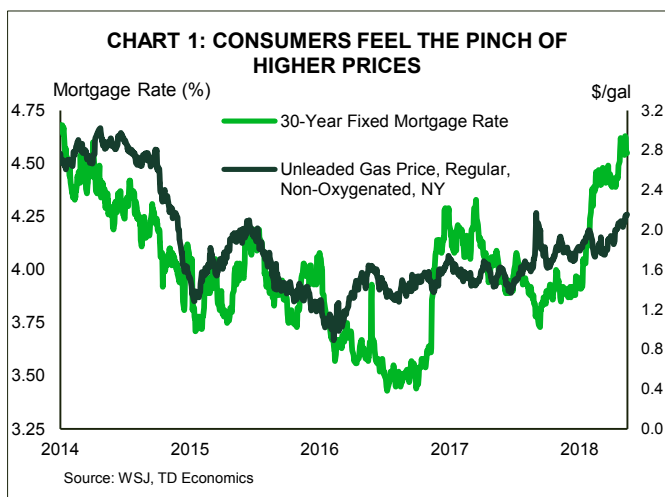
Forecast by TD Economics as of March 2018. Source: Bloomberg, TD Economics. \*Annualized

## Onwards and Upwards

The past week featured plenty of events for equity markets to fret about, from uncertainty surrounding U.S. trade negotiations, to a eurosceptic right-wing coalition in Italy. Concerns about emerging markets (EM) have led to the worst week for EM currencies in a year and a half, as the U.S. dollar continues to rise. And for Americans, it seems like everything is going up these days, from mortgage rates to gasoline prices (Chart 1).

Drivers may be getting sticker shock as they fill up their tanks, with the national average gasoline price approaching \$3 per gallon. However, about half of the 10% rise in gasoline prices since March is the typical seasonal increase. Still, this will leave a bit less cash in wallets for spending on discretionary items. To put some numbers to it, in 2017 each American consumed about 442 gallons of gasoline per year, so a 5% increase works out to about \$62/month for a family of four.

Higher oil prices are acting to drive inflation expectations, and consequently Treasury yields, higher. The 10-Year yield reached 3.11% on Thursday, the highest level since mid-2011. For much of last year, we argued bond yields were too low, and now things are looking much more reasonable. What's more, the latest readings on the economy are consistent with higher bond yields. A healthy retail report for April demonstrated that consumers are back in action after taking a breather in Q1. Consumer spending growth in the second quarter is tracking close to 3% annualized, which would help to support a similar growth tally for the economy as a whole.



Mortgage rates have followed Treasury yields higher. The average rate on a 30-year fixed-rate mortgage rose to 4.61% this week, very close to the 2013 taper tantrum episode highs. The impact of higher mortgage rates is less far reaching than gasoline prices. It will only affect new borrowers and homeowners who are refinancing. The average new mortgage was \$317,300 in March, so the impact of the 74 basis point increase in rates since the beginning of the year will raise the average monthly payment about \$138 per month. This should hinder affordability in the housing market, and lean against demand.

That said, we remain confident that the positive fundamentals for housing will underpin gains in residential construction going forward. Housing starts may have been off a bit in April, but looking through the monthly volatility, the trend in the forward-looking permits data is still positive (Chart 2). Moreover, the monthly decline was due to the always volatile multi-family component. True, there are headwinds to homebuilding activity, including labor shortages in the construction industry, rising building material costs and a lack of buildable lots. But, after some weakness over the winter, homebuilder sentiment took a tentative step higher in May, suggesting these barriers are not insurmountable.

The pinch of higher prices and borrowing rates is expected to restrain consumer spending and housing investment slightly versus 2017's performance. But, for the remainder of 2018 we expect business investment and government spending to power real GDP growth of around 3%.

Leslie Preston, Senior Economist

RECENT KEY ECONOMIC INDICATORS: MAY 14-18, 2018					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
<b>United States</b>					
May 14	Mortgage Delinquencies	1Q	Q/Q % Chg.	4.6	5.2
May 15	Retail Sales Ex Auto and Gas	Apr	M/M % Chg.	0.3	0.4
May 15	Retail Sales Advance	Apr	M/M % Chg.	0.3	0.8
May 15	Empire Manufacturing	May	Index	20.1	15.8
May 15	NAHB Housing Market Index	May	Index	70.0	68.0
May 15	Business Inventories	Mar	M/M % Chg.	0.0	0.6
May 16	Building Permits	Apr	Thsd	1352.0	1377.0
May 16	Housing Starts	Apr	Thsd	1319.0	1336.0
May 16	Manufacturing (SIC) Production	Apr	M/M % Chg.	0.1	0.0
May 16	Industrial Production	Apr	M/M % Chg.	0.7	0.7
May 16	Capacity Utilization	Apr	%	78.0	77.6
May 17	Initial Jobless Claims	May 12	Thsd	222.0	211.0
<b>Canada</b>					
May 14	Teranet/National Bank HPI	Apr	Y/Y % Chg.	5.6	6.6
May 15	Existing Home Sales	Apr	M/M % Chg.	-2.9	1.3
May 16	Manufacturing Sales	Mar	M/M % Chg.	1.4	2.7
May 18	Consumer Price Index Core - Trim	Apr	Y/Y % Chg.	2.1	2.0
May 18	Consumer Price Index Core - Median	Apr	Y/Y % Chg.	2.1	2.0
May 18	Consumer Price Index Core - Common	Apr	Y/Y % Chg.	1.9	1.9
May 18	Consumer Price Index	Apr	Y/Y % Chg.	2.2	2.3
May 18	Consumer Price Index NSA	Apr	M/M % Chg.	0.3	0.3
May 18	Retail Sales Ex Auto	Mar	M/M % Chg.	-0.2	0.0
May 18	Retail Sales	Mar	M/M % Chg.	0.6	0.5
<b>International</b>					
May 14	CH Retail Sales	Apr	Y/Y % Chg.	9.4	10.1
May 15	UK ILO Unemployment Rate 3Mths	Mar	%	4.2	4.2
May 15	EZ Gross Domestic Product SA	1Q P	Y/Y % Chg.	2.5	2.5
May 16	EZ Consumer Price Index	Apr F	Y/Y % Chg.	1.2	1.3
May 17	JN Natl Consumer Price Index	Apr	Y/Y % Chg.	0.6	1.1

Source: Bloomberg, TD Economics.

UPCOMING ECONOMIC RELEASES AND EVENTS: MAY 21-25, 2018						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
<b>United States</b>						
May 21	12:15	<i>Fed's Raphael Bostic Speaks at the Atlanta Economics Club in Atlanta</i>				
May 21	2:15	<i>Fed's Patrick Harker Speaks at Financial Seminar in New York</i>				
May 21	5:30	<i>Fed's Neel Kashkari Speaks in Escanaba, Michigan</i>				
May 23	9:45	Markit US Manufacturing PMI	May P	Index	-	56.5
May 23	9:45	Markit US Services PMI	May P	Index	-	54.6
May 23	10:00	New Home Sales	Apr	Thsd	680.0	694.0
May 23	14:00	FOMC Meeting Minutes	May 02	%	-	-
May 24	14:00	<i>Fed's Patrick Harker Speaks in Dallas</i>				
May 24	8:30	Initial Jobless Claims	May 19	Thsd	-	222.0
May 24	9:00	House Price Purchase Index	1Q	Q/Q % Chg.	-	1.6
May 24	10:00	Existing Home Sales	Apr	Mlns	5.6	5.6
May 24	4:15	<i>Fed's William Dudley Speaks at the Markets Forum 2019 in London</i>				
May 25	8:30	Durable Goods Orders	Apr P	M/M % Chg.	-1.5	2.6
May 25	8:30	Durables Ex Transportation	Apr P	M/M % Chg.	0.5	0.1
May 25	8:30	Cap Goods Orders Nondef Ex Air	Apr P	M/M % Chg.	0.5	-0.4
May 25	11:45	<i>Fed's Raphael Bostic, Robet Kaplan, and Charles Evans Participate in a Panel Discussion in Dallas</i>				
<b>Canada</b>						
May 22	8:30	Wholesale Trade Sales	Mar	M/M % Chg.	-	-0.8
<b>International</b>						
May 22	20:30 JN	Nikkei Japan PMI Mfg	May P	Index	-	53.8
May 23	4:00 EZ	Markit Eurozone Manufacturing PMI	May P	Index	56.1	56.2
May 23	4:30 UK	Consumer Price Index	Apr	Y/Y % Chg.	2.5	2.5
May 24	4:30 UK	Retail Sales Inc Auto Fuel	Apr	Y/Y % Chg.	-0.7	1.1
May 24	19:30 JN	Tokyo Consumer Price Index	May	Y/Y % Chg.	0.5	0.5
May 25	4:30 UK	Gross Domestic Product	1Q P	Y/Y % Chg.	1.2	1.2

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

## Disclaimer

This report is provided by TD Economics. It is for informational and educational purposes only as of the date of writing, and may not be appropriate for other purposes. The views and opinions expressed may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and should not be considered specific legal, investment or tax advice. The report does not provide material information about the business and affairs of TD Bank Group and the members of TD Economics are not spokespersons for TD Bank Group with respect to its business and affairs. The information contained in this report has been drawn from sources believed to be reliable, but is not guaranteed to be accurate or complete. This report contains economic analysis and views, including about future economic and financial markets performance. These are based on certain assumptions and other factors, and are subject to inherent risks and uncertainties. The actual outcome may be materially different. The Toronto-Dominion Bank and its affiliates and related entities that comprise the TD Bank Group are not liable for any errors or omissions in the information, analysis or views contained in this report, or for any loss or damage suffered.