

The Weekly Bottom Line

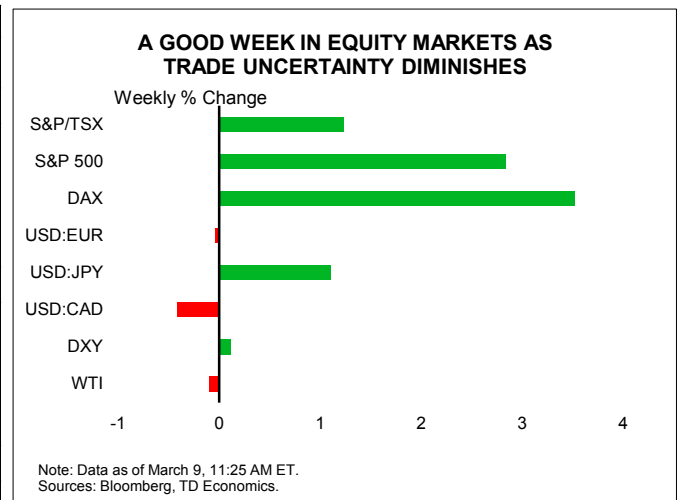
March 9, 2018

Highlights of the Week

- President Trump announced tariffs on steel and aluminium imports to take effect in 15 days. The scope is narrower than initially announced. Mexico and Canada are exempt, and more allies may be excluded once the levies take effect.
- The American economy continues to hum along, with a very solid job report in February. The Fed's Beige Book also painted a relatively rosy picture, but also one where businesses are starting to pass higher costs onto customers.
- Inflationary pressures are building in the U.S., and import tariffs will increase the force. This presents a challenge for the Fed which will have to incorporate the uncertain impacts of fiscal stimulus, and now tariffs into its forecast.

THIS WEEK IN THE MARKETS				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	2763	2691	2873	2329
S&P/TSX Comp.	15570	15385	16413	14952
DAX	12313	11914	13560	11904
FTSE 100	7207	7070	7779	7070
Nikkei	21469	21182	24124	18336
Fixed Income Yields				
U.S. 10-yr Treasury	2.90	2.86	2.95	2.04
Canada 10-yr Bond	2.25	2.20	2.38	1.39
Germany 10-yr Bund	0.64	0.65	0.77	0.16
UK 10-yr Gilt	1.50	1.47	1.65	0.93
Japan 10-yr Bond	0.05	0.07	0.10	-0.01
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.78	0.78	0.83	0.73
Euro (USD per EUR)	1.23	1.23	1.25	1.06
Pound (USD per GBP)	1.39	1.38	1.43	1.22
Yen (JPY per USD)	106.9	105.8	115.0	105.8
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	60.8	61.3	66.1	42.3
Natural Gas (\$US/MMBtu)	2.78	2.70	7.36	2.52
Copper (\$US/met. tonne)	6799.8	6863.5	7253.8	5461.8
Gold (\$US/troy oz.)	1323.8	1322.8	1358.5	1199.0

*as of 10:20 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)	1.25 - 1.5%
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			
	3/9/18	Q1	Q2	Q3	Q4	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate (%)	1.50	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 (%)	2.27	1.27	1.38	1.47	1.89	2.20	2.35	2.50	2.65	2.75	2.85	2.95	2.95
10-yr Govt. Bond Yield (%)	2.90	2.40	2.31	2.33	2.40	2.85	2.95	3.05	3.15	3.20	3.25	3.30	3.30
30-yr Govt. Bond Yield (%)	3.16	3.02	2.84	2.86	2.74	3.05	3.15	3.25	3.35	3.40	3.45	3.50	3.50
Real GDP (Q/Q % Chg)*	2.5 (Q4-17)	1.2	3.1	3.2	2.5	2.0	2.6	2.4	2.3	2.2	2.3	2.2	2.1
CPI (Y/Y % Chg.)	2.1 (Jan-18)	2.5	1.9	2.0	2.1	1.7	2.1	2.1	1.9	1.8	2.0	2.1	2.1
Unemployment Rate (%)	4.1 (Feb-18)	4.7	4.3	4.3	4.1	4.0	3.9	3.9	3.9	3.8	3.8	3.8	3.9

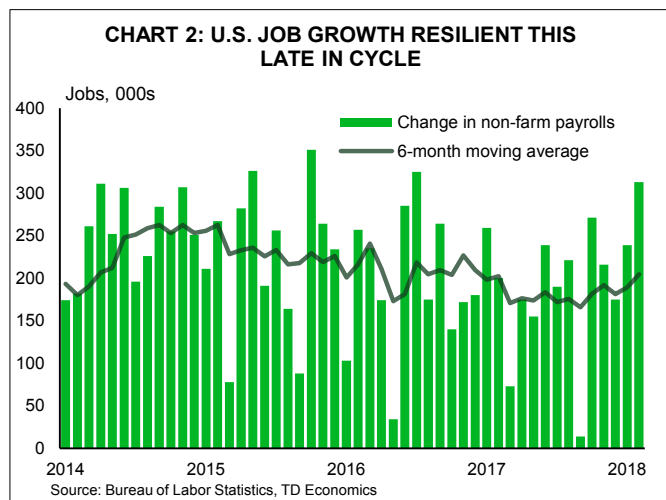
Forecast by TD Economics as of December. Source: Bloomberg, TD Economics. *Annualized

All Signs Point to Higher Inflation

Politics overshadowed economics this week as markets awaited Trump’s announcement on steel and aluminum tariffs. When it came on Thursday afternoon the scope was narrower than first thought. Canada and Mexico are exempt from the tariffs as long as negotiations on the North American Free Trade Agreement continue, and other allies may ultimately be exempt once the tariffs are put in place in 15 days. Together Canada and Mexico represent a quarter of American steel imports and 43 percent of aluminum. America’s neighbors may now benefit from the plan as they take market share from other countries slapped with tariffs.

However, trading partners are expected to retaliate, levying tariffs on U.S. exports. Economic studies have shown that the overall costs to the economy from these trade battles outweigh the job gains in the protected sector. Our own estimates for the steel and aluminum tariffs specifically suggest the overall growth impacts in the large U.S. economy would be fairly modest, but that they could raise inflation a couple of tenths of a percentage point.

The President didn’t stop at steel and aluminum. He reiterated his goal to reverse the U.S. trade deficit, and that he may implement a reciprocal or “mirror tax” to help achieve this. He offered few details, but suggested the U.S. would slap the same level of duties on trading partners that U.S. companies face in those countries. These actions will raise prices for many U.S. businesses that use the materials as inputs in manufacturing, and ultimately raise prices for consumers, adding to budding inflation pressures across the economy.

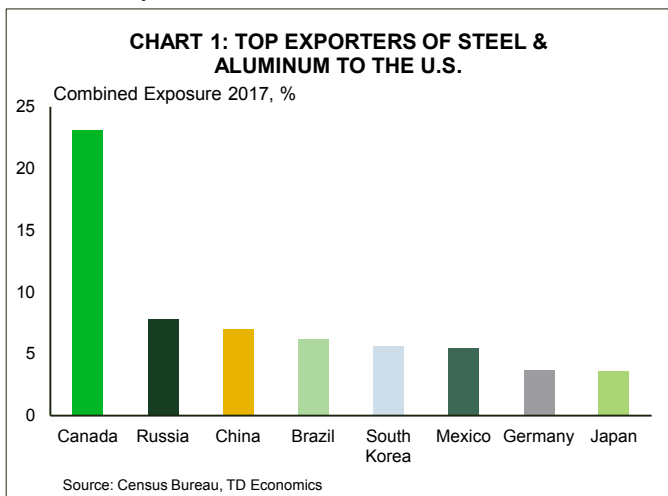


This week’s economic data certainly doesn’t suggest the U.S. needs economic protection. Payrolls grew by an impressive [313k jobs in February](#). The unemployment rate stayed at its 17-year low of 4.1%, where it has been since October. Hiring has accelerated in recent months, driven by the goods sector, which had stumbled somewhat in the wake of the oil price crash, but is now making up the lost ground. Wage growth cooled slightly, with average hourly earnings up 2.6% versus a year ago, down from 2.8% in January. However, when this volatile series is smoothed, wage gains have been steady at around 2.6% for about a year, and have been outpacing inflation for over three years.

The Fed’s Beige Book also painted a picture of an economy that is humming along. Fed districts universally reported labor market tightness and heightened demand for qualified workers. Several districts reported increasing compensation as a result of the tax cuts that came into effect at the start of the year. The report also suggested that businesses are increasingly passing on increases in input prices. A variety of forces are expected to push inflation higher this year, the only question is how quickly.

The risks that inflation will accelerate faster than the Fed currently expects are mounting. The FOMC’s next announcement is on March 21st, and a hike at the meeting is essentially a lock. We currently expect three 25-basis point moves in 2018, but the risks are skewed to more hikes rather than fewer.

Leslie Preston, Senior Economist



Upcoming Key Economic Releases

U.S. Consumer Price Index - February*

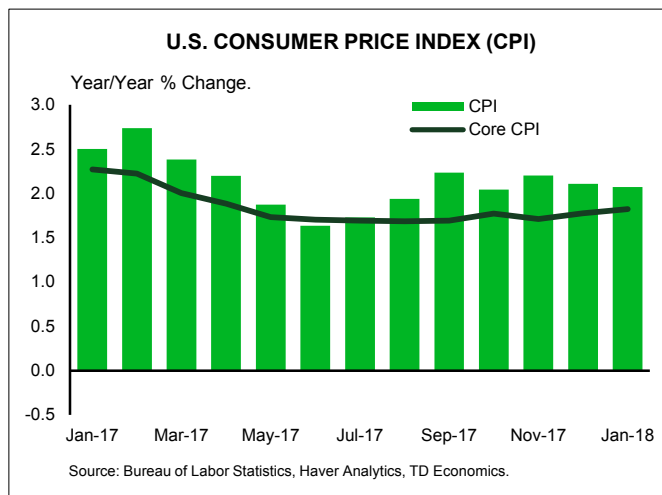
Release Date: March 13, 2018

Previous Result: 0.5% m/m, 2.1% y/y

TD Forecast: 0.2% m/m, 2.2% y/y

Consensus: 0.2% m/m, 2.2% y/y

We expect headline CPI inflation to accelerate to 2.2% y/y in February, with prices up a seasonally adjusted 0.2% m/m. Energy prices should be a small net positive, led by higher gasoline prices. We also see scope for a stronger pickup in food prices, as presaged by higher import prices. Excluding food and energy, we expect core CPI to print a solid 0.2% m/m increase, moderating from the previous 0.3% print. With imported consumer price inflation still benign, we do not look for the strength in January to be repeated. We also expect some oneoffs from the previous month to correct, such as the apparel category (+1.7% m/m in January).



U.S. Retail Sales – February*

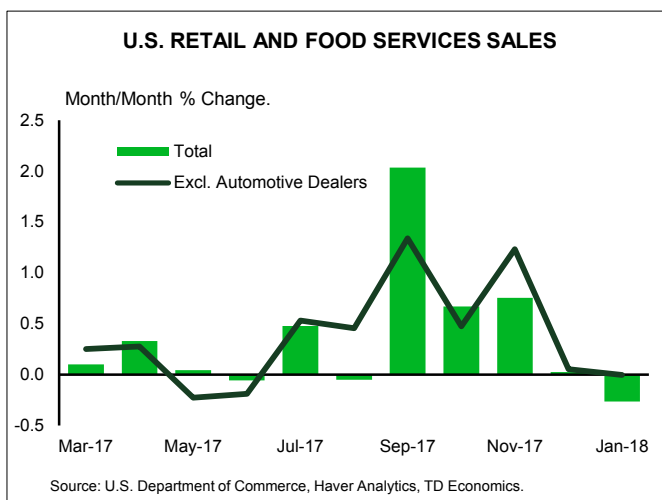
Release Date: March 14, 2018

Previous Result: -0.3%, ex-auto 0.0%

TD Forecast: 0.2%, ex-auto 0.3%

Consensus: 0.3%, ex-auto 0.4%

We expect retail sales to rise 0.2% in February, with the control group up 0.3%. Gasoline station receipts and auto sales should have neutral contributions. One downside risk is the late start to the tax refund season, which pushed refunds into March. The modest gains would be consistent with real PCE tracking slightly below 2%.



*Forecast by Rates and FX Strategy Group. For further information, contact TDRates&FXCommoditiesResearch@tdsecurities.com

RECENT KEY ECONOMIC INDICATORS: MARCH 5-9, 2018					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Mar 05	ISM Non-Manf. Composite	Feb	Index	59.5	59.9
Mar 06	Factory Orders Ex Trans	Jan	M/M % Chg.	0.4	0.9
Mar 06	Factory Orders	Jan	M/M % Chg.	-1.4	1.8
Mar 07	ADP Employment Change	Feb	Thsd	235.0	244.0
Mar 07	Trade Balance	Jan	Blns	-56.6	-53.9
Mar 08	Initial Jobless Claims	Mar 03	Thsd	231.0	210.0
Mar 08	Household Change in Net Worth	4Q	Blns	2076.0	1645.0
Mar 09	Change in Nonfarm Payrolls	Feb	Thsd	313.0	239.0
Mar 09	Unemployment Rate	Feb	%	4.1	4.1
Mar 09	Average Hourly Earnings	Feb	M/M % Chg.	0.1	0.3
Mar 09	Wholesale Trade Sales	Jan	M/M % Chg.	-1.1	0.8
Canada					
Mar 05	MLI Leading Indicator	Jan	M/M % Chg.	0.4	0.5
Mar 07	Labor Productivity	4Q	Q/Q % Chg.	0.2	-0.5
Mar 07	Int'l Merchandise Trade	Jan	Blns	-1.9	-3.1
Mar 07	Bank of Canada Rate Decision	Mar 07	%	1.25	1.25
Mar 08	Housing Starts	Feb	Thsd	229.7	215.3
Mar 09	Unemployment Rate	Feb	%	5.8	5.9
Mar 09	Net Change in Employment	Feb	Thsd	15.4	-88.0
Mar 09	Capacity Utilization Rate	4Q	%	86.0	85.1
International					
Mar 05	UK Markit/CIPS UK Composite PMI	Feb	Index	54.5	53.5
Mar 05	EZ Retail Sales	Jan	Y/Y % Chg.	2.3	2.1
Mar 08	EZ ECB Main Refinancing Rate	Mar 08	%	0.0	0.0
Mar 08	CH Consumer Price Index	Feb	Y/Y % Chg.	2.9	1.5
Mar 09	JN BOJ Policy Balance Rate	Mar 09	%	-0.1	-0.1

Source: Bloomberg, TD Economics.

UPCOMING ECONOMIC RELEASES AND EVENTS: MARCH 12-16, 2018						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Mar 13	6:00	NFIB Small Business Optimism	Feb	Index	107.1	106.9
Mar 13	8:30	Consumer Price Index	Feb	M/M % Chg.	0.2	0.5
Mar 13	8:30	Consumer Price Index Ex Food and Energy	Feb	M/M % Chg.	0.2	0.3
Mar 13	8:30	Consumer Price Index	Feb	Y/Y % Chg.	2.2	2.1
Mar 13	8:30	Consumer Price Index Ex Food and Energy	Feb	Y/Y % Chg.	1.8	1.8
Mar 13	8:30	Real Avg Hourly Earning	Feb	Y/Y % Chg.	-	0.6
Mar 14	8:30	Retail Sales Advance	Feb	M/M % Chg.	0.3	-0.3
Mar 14	8:30	Retail Sales Ex Auto and Gas	Feb	M/M % Chg.	0.3	-0.2
Mar 14	8:30	Producer Price Index Final Demand	Feb	M/M % Chg.	0.1	0.4
Mar 14	8:30	Producer Price Index Ex Food and Energy	Feb	M/M % Chg.	0.2	0.4
Mar 14	10:00	Business Inventories	Jan	M/M % Chg.	0.6	0.4
Mar 15	8:30	Empire Manufacturing	Mar	Index	15.0	13.1
Mar 15	8:30	Import Price Index ex Petroleum	Feb	M/M % Chg.	0.2	0.5
Mar 15	8:30	Export Price Index	Feb	M/M % Chg.	-	0.8
Mar 15	8:30	Export Price Index	Feb	Y/Y % Chg.	-	3.4
Mar 15	8:30	Initial Jobless Claims	Mar 10	Thsd	228.0	231.0
Mar 15	10:00	NAHB Housing Market Index	Mar	Index	72.0	72.0
Mar 16	8:30	Housing Starts	Feb	Thsd	1295.0	1326.0
Mar 16	8:30	Building Permits	Feb	Thsd	1328.0	1377.0
Mar 16	9:15	Industrial Production	Feb	M/M % Chg.	0.3	-0.1
Mar 16	9:15	Manufacturing (SIC) Production	Feb	M/M % Chg.	0.3	0.0
Mar 16	9:15	Capacity Utilization	Feb	%	77.7	77.5
Canada						
Mar 13	10:30	<i>Bank of Canada Governor Stephen Poloz Speech in Kingston</i>				
Mar 14	8:30	Teranet/National Bank HPI	Feb	Y/Y % Chg.	-	8.7
Mar 15	9:00	Existing Home Sales	Feb	M/M % Chg.	-	-14.5
Mar 16	8:30	Manufacturing Sales	Jan	M/M % Chg.	-	-0.3
International						
Mar 13	22:00	CH Retail Sales Year-To-Date	Feb	Y/Y % Chg.	10.0	10.2
Mar 14	6:00	EZ Employment Q4/Q4	4Q	Y/Y % Chg.	-	1.7
Mar 16	6:00	EZ Consumer Price Index	Feb	M/M % Chg.	0.2	-0.9

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

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