

The Weekly Bottom Line

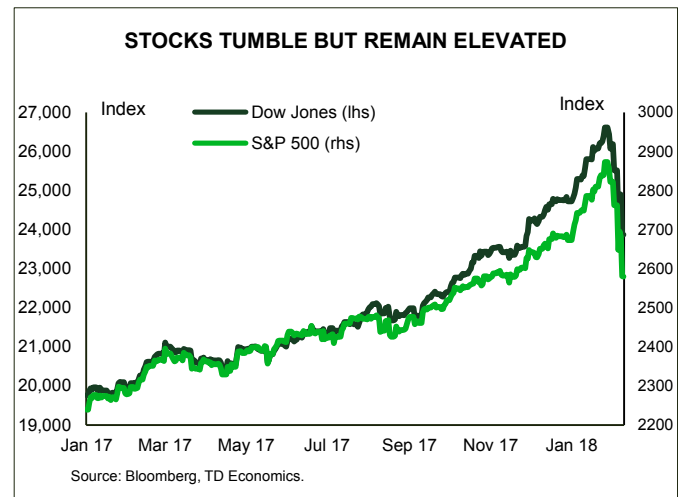
February 9, 2018

Highlights of the Week

- Major U.S. stock indices entered correction territory on Thursday but remain elevated relative to where they were a year ago. The sell-off was spurred by fears of higher interest rates, as the 10-year government bond yield hit a four-year high.
- The \$300 billion increase in the spending cap over two years, laid out in the federal budget deal, could add to inflationary pressures at a time when the economy is already operating at close to full capacity, pressuring yields up further.
- Next week, investors will turn their attention to hard data, with advanced January retail sales providing an indication of whether or not first quarter growth will be affected by the residual seasonality.

THIS WEEK IN THE MARKETS				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	2609	2762	2873	2308
S&P/TSX Comp.	15084	15606	16413	14952
DAX	12209	12785	13560	11643
FTSE 100	7141	7443	7779	7114
Nikkei	21383	23275	24124	18336
Fixed Income Yields				
U.S. 10-yr Treasury	2.85	2.84	2.85	2.04
Canada 10-yr Bond	2.35	2.36	2.38	1.39
Germany 10-yr Bund	0.75	0.77	0.77	0.16
UK 10-yr Gilt	1.60	1.58	1.62	0.93
Japan 10-yr Bond	0.07	0.09	0.10	-0.01
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.79	0.80	0.83	0.73
Euro (USD per EUR)	1.23	1.25	1.25	1.05
Pound (USD per GBP)	1.38	1.41	1.43	1.22
Yen (JPY per USD)	108.9	110.2	115.0	107.8
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	60.5	65.5	66.1	42.3
Natural Gas (\$US/MMBtu)	2.72	2.83	5.46	2.66
Copper (\$US/met. tonne)	6803.8	7003.8	7253.8	5461.8
Gold (\$US/troy oz.)	1313.0	1332.9	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			
	2/9/18	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	2.50	2.75	2.75
2-yr Govt. Bond Yield (%)	2.11	1.27	1.38	1.47	1.89	2.10	2.25	2.40	2.55	2.65	2.70	2.70	2.70
10-yr Govt. Bond Yield (%)	2.85	2.40	2.31	2.33	2.40	2.65	2.75	2.85	2.95	3.00	3.00	3.00	3.00
30-yr Govt. Bond Yield (%)	3.15	3.02	2.84	2.86	2.74	2.95	3.10	3.20	3.30	3.30	3.30	3.30	3.30
Real GDP (Q/Q % Chg)*	2.6 (Q4-17)	1.2	3.1	3.2	2.6	2.0	2.6	2.4	2.3	2.2	2.3	2.2	2.1
CPI (Y/Y % Chg.)	2.1 (Dec-17)	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 (Jan-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

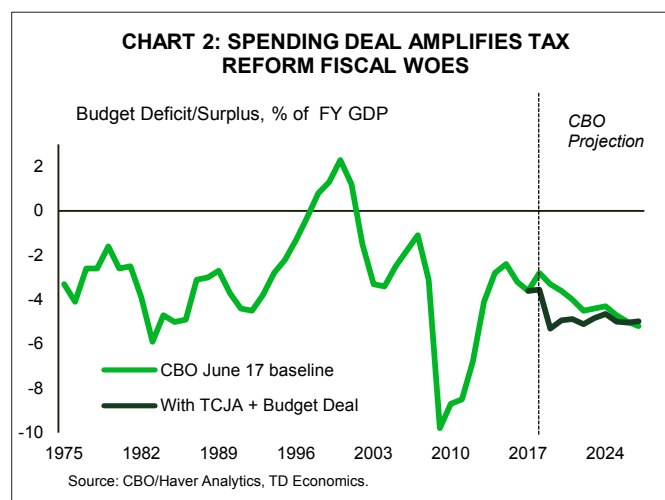
Forecast by TD Economics as of December. Source: Bloomberg, TD Economics. *Annualized

Stocks Correct but Fundamentals Remain Solid

Major U.S. stock indices entered correction territory on Thursday but remain elevated relative to where they were a year ago. Despite falling about 10% from highs reached in the final days of January, the S&P 500, Dow Jones Industrial Average and the NASDAQ Composite remain 13-20% higher on a year-on-year basis. The sell-off was likely spurred by fears of higher real interest rates, as last week's strong January jobs report showed robust wage growth, lifting both market expectations for inflation and fed rate hikes. At 2.85%, the ten-year government bond yield hit a four-year high this week.

What's important to note is that this sell-off was not triggered by weak economic data either for the U.S. or global economy. Indeed, we learned this week that the ISM non-manufacturing index showed an improvement in the services sector at the start of 2018, with rising price pressures mirroring its manufacturing counterpart (Chart 1).

With tax cut stimulus already expected to keep U.S. growth above trend, there is little need for more stimulus. Yet, that's effectively what the federal government budget deal signed into law this morning delivers. The \$300 billion increase in the spending cap over two years could foster additional inflationary pressures at a time when the economy is already operating at close to full capacity. And, higher issuance of Treasuries could put further upward pressure on yields. Moreover, the plan could have a more material effect on growth than tax cuts, since consumers are likely to save a share of the disposable income accrued from tax reform. Growth in 2019 will likely be augmented the most, assuming that spending gets underway

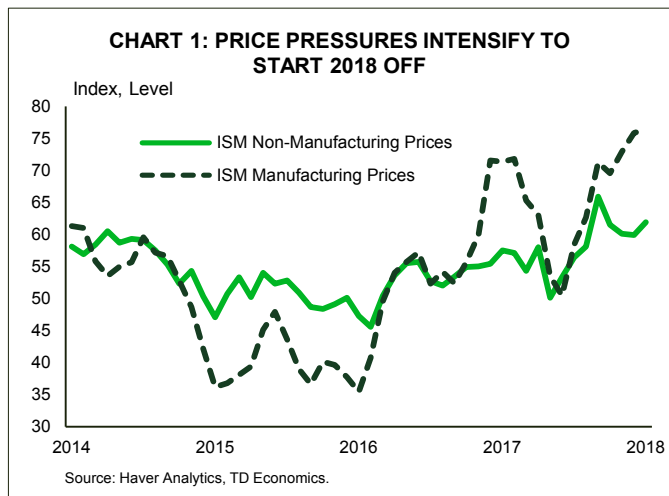


in the second half of this year. But, the increase in the deficit would limit the government's ability to respond to any large scale downturn in the future (Chart 2). All told, any increase in investment would be a positive for future trend growth, providing further upside risk around our December forecast.

As market volatility surged, Fed speakers this week appeared unconcerned about financial market developments, instead choosing to reinforce their positive economic outlook. FOMC members had previously noted that equities were overvalued and therefore showed no sign of concern over the widespread sell-off. Voting members Dudley and Williams noted in speeches that wage inflation had picked up as expected and that markets are now adjusting to global monetary policy accommodation removal. This may help calm investor fears of faster rate hikes than previously expected, with the first of three hikes this year expected in March.

Next week, investors will turn their attention to hard data. Of particular interest will be advanced January retail sales data that should provide an indication of whether or not first quarter growth will be affected by the residual seasonality that has led to first quarter weakness in three of the previous four years. Although tax cuts have only started to boost pay checks in February, we anticipate that household spending has continued to be propped up by jobs and wage gains and will contribute strongly to economic activity again in the first quarter.

Katherine Judge, Economist



Upcoming Key Economic Releases

U.S. Consumer Price Index - January*

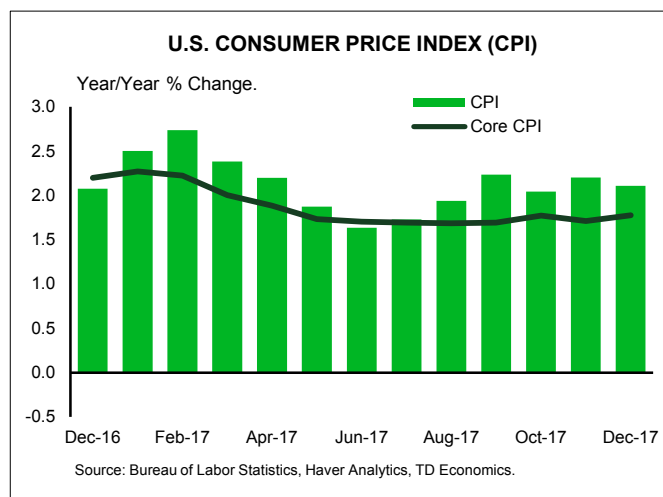
Release Date: February 14, 2018

Previous Result: 0.2% m/m, core 0.2% m/m

TD Forecast: 0.3% m/m, core 0.2% m/m

Consensus: 0.3% m/m, core 0.2% m/m

We expect headline CPI inflation to moderate to 1.9% y/y in January, with prices up a seasonally adjusted 0.3% m/m. Energy prices should be a net positive, led by higher gasoline prices. We also see scope for a pickup in food prices, helped by dollar depreciation. Excluding food and energy, we expect core CPI to print a second consecutive 0.2% m/m increase. One tailwind is dollar weakness, which in addition to food could lend a boost to weak categories like apparel.



U.S. Retail Sales - January*

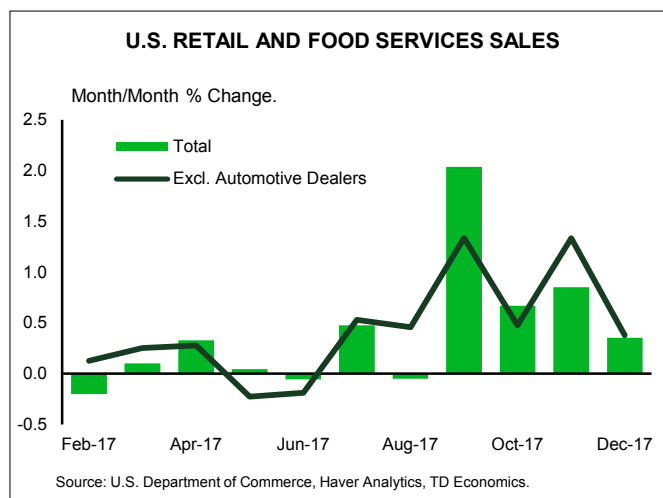
Release Date: February 14, 2018

Previous Result: 0.4%, ex-auto 0.4%

TD Forecast: 0.1%, ex-auto 0.5%

Consensus: 0.2%, ex-auto 0.5%

We expect retail sales to rise 0.1% in January, held down by motor vehicle sales. Light weight auto and truck sales retraced to 17.0m from 17.8m, pointing to a sizeable decline in motor vehicle and parts sales. Gasoline station receipts will likely see a boost from higher gasoline prices. But aside from that, we expect a relatively modest 0.3% rise in the control group (excluding auto, gasoline station, food services and building material sales). Risks are generally to the downside amid the past collapse in the saving rate.



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

RECENT KEY ECONOMIC INDICATORS: FEBRUARY 5-9, 2018

Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Feb 05	ISM Non-Manf. Composite	Jan	Index	59.9	56.0
Feb 06	Trade Balance	Dec	Blns	-53.1	-50.4
Feb 08	Initial Jobless Claims	Feb 03	Thsd	221.0	230.0
Feb 09	Wholesale Trade Sales	Dec	M/M % Chg.	1.2	1.9
Canada					
Feb 06	Int'l Merchandise Trade	Dec	Blns	-3.2	-2.7
Feb 08	Housing Starts	Jan	Thsd	216.2	216.3
Feb 09	Unemployment Rate	Jan	%	5.9	5.8
Feb 09	Net Change in Employment	Jan	Thsd	-88.0	64.8
International					
Feb 05	UK Markit/CIPS UK Composite PMI	Jan	Index	53.5	54.9
Feb 05	EZ Retail Sales	Dec	Y/Y % Chg.	1.9	3.9
Feb 08	UK Bank of England Bank Rate	Feb 08	%	0.5	0.5
Feb 08	CH Consumer Price Index	Jan	Y/Y % Chg.	1.5	1.8

Source: Bloomberg, TD Economics.

UPCOMING ECONOMIC RELEASES AND EVENTS: FEBRUARY 12-16, 2018						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Feb 13	6:00	NFIB Small Business Optimism	Jan	Index	106.0	104.9
Feb 13	8:00	<i>Fed's Mester to Discuss Monetary Policy and Economic Outlook</i>				
Feb 13		<i>Revisions of Producer Price Index</i>				
Feb 14	8:30	Consumer Price Index	Jan	M/M % Chg.	0.3	0.2
Feb 14	8:30	Consumer Price Index Ex Food and Energy	Jan	M/M % Chg.	0.2	0.2
Feb 14	8:30	Consumer Price Index	Jan	Y/Y % Chg.	1.9	2.1
Feb 14	8:30	Consumer Price Index Ex Food and Energy	Jan	Y/Y % Chg.	1.7	1.8
Feb 14	8:30	Retail Sales Advance	Jan	M/M % Chg.	0.2	0.4
Feb 14	8:30	Retail Sales Ex Auto and Gas	Jan	M/M % Chg.	0.4	0.4
Feb 14	8:30	Real Avg Hourly Earning	Jan	Y/Y % Chg.	-	0.6
Feb 14	10:00	Business Inventories	Dec	M/M % Chg.	0.3	0.4
Feb 15	8:30	Empire Manufacturing	Feb	Index	18.0	17.7
Feb 15	8:30	Initial Jobless Claims	Feb 18	Thsd	-	221.0
Feb 15	8:30	Producer Price Index Final Demand	Jan	M/M % Chg.	0.4	-0.1
Feb 15	8:30	Producer Price Index Ex Food and Energy	Jan	M/M % Chg.	0.2	-0.1
Feb 15	9:15	Industrial Production	Jan	M/M % Chg.	0.2	0.9
Feb 15	9:15	Manufacturing (SIC) Production	Jan	M/M % Chg.	0.3	0.1
Feb 15	9:15	Capacity Utilization	Jan	%	78.0	77.9
Feb 15	10:00	NAHB Housing Market Index	Feb	Index	72.0	72.0
Feb 16	8:30	Housing Starts	Jan	Thsd	1230.0	1192.0
Feb 16	8:30	Building Permits	Jan	Thsd	1300.0	1300.0
Canada						
Feb 14	8:30	Teranet/National Bank HPI	Jan	Y/Y % Chg.	-	9.1
Feb 15	9:00	Existing Home Sales	Jan	M/M % Chg.	-	4.5
Feb 15	13:30	<i>Bank of Canada Deputy Governor Lawrence Schembri Speech</i>				
Feb 16	8:30	Manufacturing Sales	Dec	M/M % Chg.	-	3.4
International						
Feb 13	4:30	UK Consumer Price Index Core	Jan	Y/Y % Chg.	2.6	2.5
Feb 13	4:30	UK Consumer Price Index	Jan	Y/Y % Chg.	2.9	3.0
Feb 13	18:50	JN Gross Domestic Product Annualized SA	4Q P	Y/Y % Chg.	1.0	2.5
Feb 14	5:00	EZ Gross Domestic Product SA	4Q P	Y/Y % Chg.	2.7	2.7
Feb 16	4:30	UK Retail Sales Inc Auto Fuel	Jan	Y/Y % Chg.	2.5	1.4
Feb 16	4:30	UK Retail Sales Ex Auto Fuel	Jan	Y/Y % Chg.	2.4	1.3

* 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.