THE WEEKLY BOTTOM LINE

TD Economics

HIGHLIGHTS OF THE WEEK

August 5, 2016

United States

- Markets adopted a risk-off bias earlier on in the week, fixated on the outcome of the much anticipated "Super Thursday" Bank of England (BoE) announcement in the UK.
- The BoE did not disappoint, delivering a big stimulus package that included a cut to the key policy rate, as well as several stimulus measures amounting to a combined total of £170 billion.
- Strong data stateside continued to support our view of resilient domestic strength. Nonfarm payrolls took center stage at the end of the week adding 255k jobs in July. The resilience of the labor market provides a strong case for a data-dependent Fed to move earlier than financial markets are currently pricing.

Canada

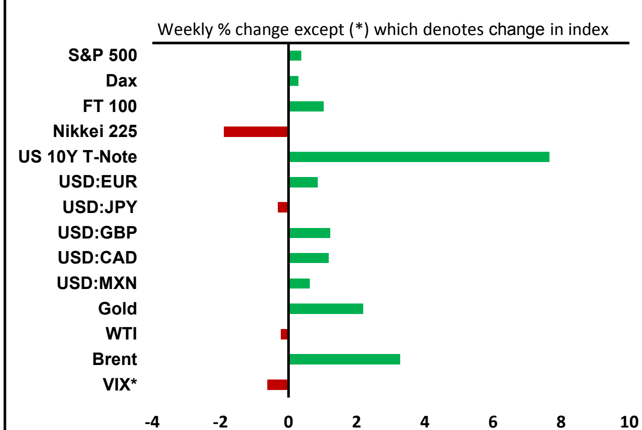
- Crude oil prices slipped below the US$40 per barrel mark this week, extending the downtrend that has been in place over the last 6-8 weeks.
- Economic data disappointed this week, with Canada's trade deficit widening in June. Exports volumes fell for a fifth straight month, suggesting that net trade will be a drag on growth in Q2.
- The economy shed 31k jobs in July, pushing the unemployment rate up a tick to 6.9%.

THIS WEEK IN THE MARKETS

	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	2,179	2,174	2,179	1,829
S&P/TSX Comp.	14,589	14,583	14,601	11,843
DAX	10,341	10,338	11,605	8,753
FTSE 100	6,797	6,724	6,797	5,537
Nikkei	16,254	16,569	20,809	14,952
Fixed Income Yields				
U.S. 10-yr Treasury	1.56	1.45	2.34	1.36
Canada 10-yr Bond	1.05	1.03	1.72	0.96
Germany 10-yr Bund	-0.07	-0.12	0.80	-0.19
UK 10-yr Gilt	0.66	0.69	2.05	0.64
Japan 10-yr Bond	-0.09	-0.19	0.43	-0.29
Foreign Exchange Cross Rates				
C$ (USD per CAD)	0.76	0.77	0.80	0.69
Euro (USD per EUR)	1.11	1.12	1.16	1.06
Pound (USD per GBP)	1.30	1.32	1.58	1.29
Yen (JPY per USD)	102.0	102.1	125.1	100.5
Commodity Spot Prices*				
Crude Oil ($US/bbl)	41.8	41.6	51.2	26.2
Natural Gas ($US/MMBtu)	2.89	2.94	2.94	1.49
Copper ($US/met. tonne)	4815.0	4915.3	5416.5	4327.5
Gold ($US/troy oz.)	1339.5	1351.0	1366.4	1051.1

*as of 10:15 am on Friday **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price), Copper-LME Grade A, Gold-London Gold Bullion; Source: Bloomberg.

WEEKLY MOVES



Note: Data as of August 5, 12:03 PM. Change from end of business on July 29.
Sources: Bloomberg, TD Economics

GLOBAL OFFICIAL POLICY RATE TARGETS

	Current Target
Federal Reserve (Fed Funds Rate)	0.25 - 0.5%
Bank of Canada (Overnight Rate)	0.50%
European Central Bank (Refi Rate)	0.00%
Bank of England (Repo Rate)	0.25%
Bank of Japan (Overnight Rate)	-0.10%

Source: Central Banks.

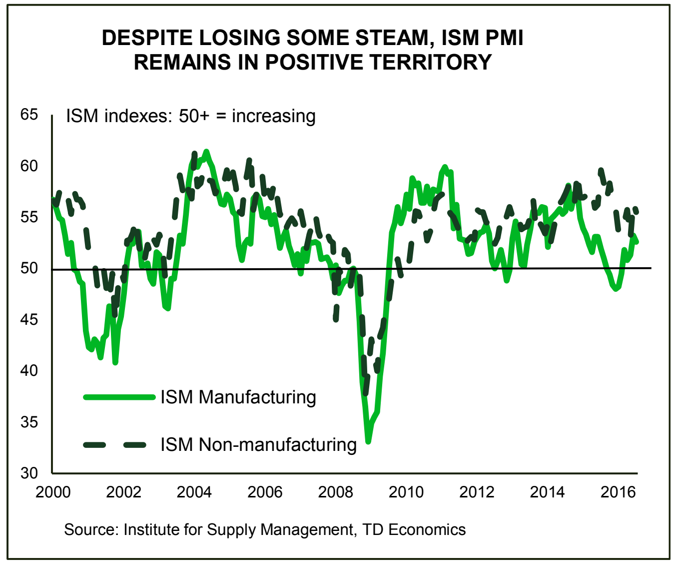
U.S. – BOE DECISION FRONT AND CENTER ALONG WITH JOBS REPORT

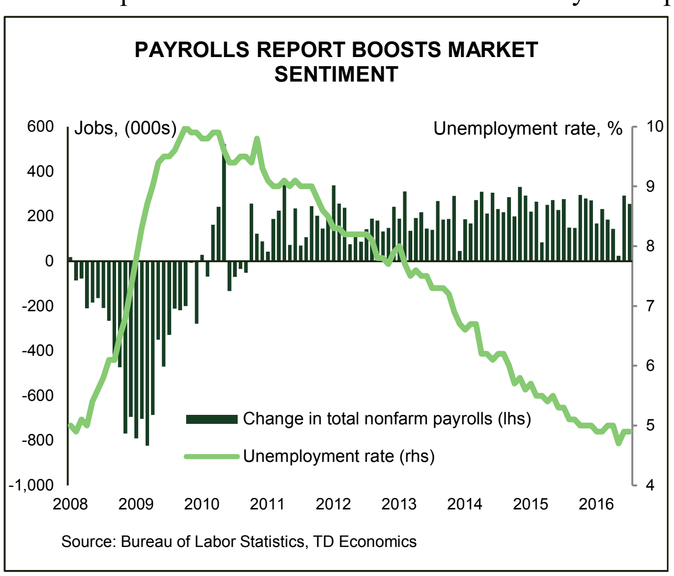
While the domestic data calendar was quite full this week, investors appeared to be fixated on the outcome of the "Super Thursday" Bank of England (BoE) announcement in the UK. Markets traded with a negative bias for the first half of the week as concerns around a disappointing outcome kept risk sentiment low. Indeed, the S&P 500 ended the first half of the week lower before making a comeback in the latter half.

As it turned out, the Bank of England did not disappoint. Indeed, the overall outcome was more aggressive than what markets were expecting. In addition to the anticipated cut in the key policy rate to 0.25%, a new Term Funding Scheme (to the tune of £100bn) was announced. The facility is intended to reinforce the pass-through of the cut to the policy rate. Further to this, an additional £60bn of QE in Gilts is set to materialize over the next 6 months along with the purchase of £10bn in Sterling non-financial corporate bonds over the coming 18 months. (See our full commentary here)

Bond markets seemed pleased with the outcome, as UK Gilts received a solid bid through the remainder of the week, which led the 10-year yield 5 bps lower compared to last Friday's level. Treasury yields also rallied across the curve following the announcement, as investors sought out richer-yielding markets, but ended the week higher on the back of a very strong jobs report.

Once markets had digested the BoE's monetary policy decision, Friday's nonfarm payrolls report took over the center stage, lifting investor sentiment. The U.S. economy added another 255k jobs in July, exceeding expectations for a 180k print and well above the level necessary to keep downward pressure on unemployment. And, while the unemployment rate remained unchanged at 4.9%, this was mostly due to the huge inflow workers into the labor force that lifted the participation rate up 1 percentage point to 62.8%. Just as encouraging, was the fact that job growth was broad-based across sectors and average hourly wages rose a robust 0.3% on the month.





The report complemented other positive domestic developments earlier in the week, all of which pointed to a resilient domestic economy. As expected, consumer spending continued to expand, with real spending up 0.3% on the month in June, while the savings rate ticked down to 5.3% (from 5.5% in May). The rise in average wages and average hours worked in this week's jobs report implies strong income and spending growth in July. Additionally, while both the ISM manufacturing and non-manufacturing indices lost some steam in July, the more significant services index suggested a favorable outlook as the forward-looking new orders subcomponent reached its highest level since last October.

All in all, data out of the U.S. this week was broadly supportive of our view that the domestic economy will continue to strengthen over the coming months. Even as last week's weak second quarter GDP presents an argument for the doves, the Fed will certainly have to consider the continued buoyancy in the American labor market going forward. While our base-case still calls for a mid-2017 hike, a data-dependent Fed may find good reason to move earlier.

Neil Shankar, Economist 416-307-5968

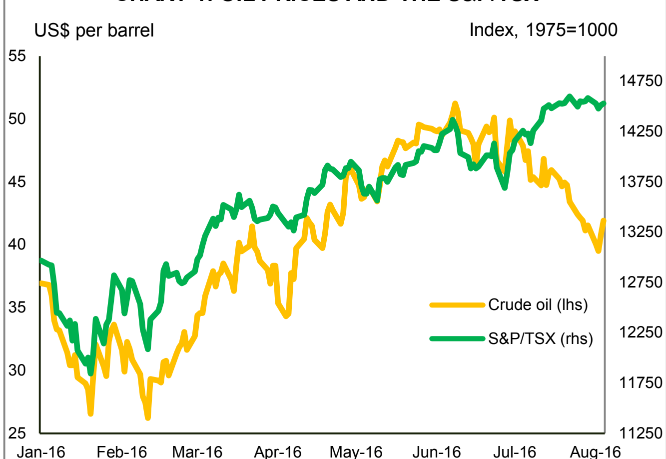
CANADA – Q3 OFF TO A ROCKY START

It was a fairly quiet week for Canadian equity markets, with the S&P/TSX ending the week close to where it started. Crude oil prices, however, managed to make headlines, as the WTI benchmark broke below the US$40 per barrel mark – albeit briefly – for the first time since April. While prices have bounced back above that threshold, the trend over the last 6-8 weeks has clearly been down. Indeed, at about US$41 per barrel today, prices are down roughly 20% from the most recent peak of US$51 per barrel reached in mid-June. Notably, this is in contrast to equity markets which have generally gained ground over that timeframe.

The oil price reversal was driven largely by renewed focus on the global supply glut, which may not abate as fast as some had expected. The return of production in Canada and Nigeria following temporary outages, rising rig counts in the U.S. – which have increased in each of the past five weeks and 8 of the past 9 weeks – and elevated inventories of both crude oil and crude products such as gasoline have reignited supply side concerns. All this has taken place as demand is expected to shift down following the peak driving season. All told, the rebalancing in the global oil market will take longer than some market participants may have anticipated. We continue to expect that the market will not be balanced before mid-2017. While further downside for prices is certainly a possibility if market sentiment weakens, we expect the WTI benchmark to hover in the US$40-50 per barrel range over the remainder of this year.

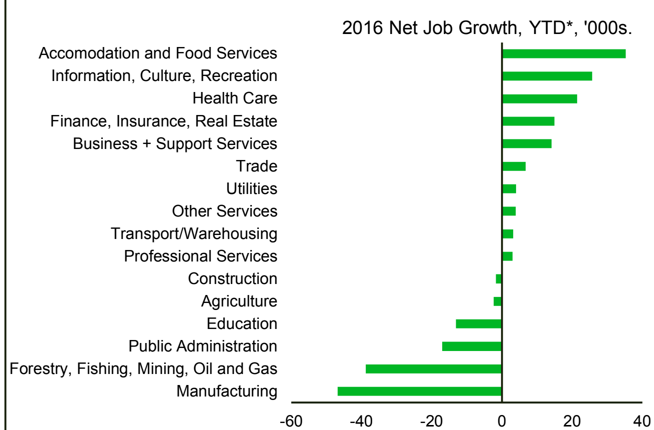
On the economic front, data released this week was disappointing. After a strong start to the year, Canada's trade sector has ratcheted down, with export volumes falling for a fifth straight month in June. As such, the rotation of economic growth toward exports appears to have stalled, with net trade certain to be a drag on growth in the second quarter.

CHART 1: OIL PRICES AND THE S&P/TSX



Source: Haver Analytics.

CHART 2: NET JOB GROWTH BY INDUSTRY



*YTD as at July 2016
Source: Statistics Canada, TD Economics.

Looking to the third quarter, early indicators suggest that the economy got off to a rocky start. Auto sales were down 2.6% y/y in July, marking the second decline in three months. What's more, the economy shed 31k jobs during the month – all full time positions – pushing the unemployment rate up a tick to 6.9%. Looking at this year as a whole, employment in Canada has made some moderate headway, with roughly 12k net new jobs created so far this year. Much of the growth has been in services industries, particularly those tied to tourism which has benefited from the weak Canadian dollar. Manufacturing employment, on the other hand, has disappointed so far this year, as it has even recorded larger losses than the oil-plagued resource sector (see Chart 2).

Going forward, service sector employment is set to remain healthy – particularly in health and trade-related industries – and manufacturing is expected to gain strength alongside an uptick in the U.S. economy and a rebound in domestic activity as the economy recovers from the wildfires. Construction employment is also likely to pick up as the rebuilding in Alberta takes place. Meanwhile, employment in commodity-related industries and public administration will lag behind. On balance, we expect tepid job creation of roughly 7-10k jobs per month over the next 12-18 months. For more details, see our recent report.

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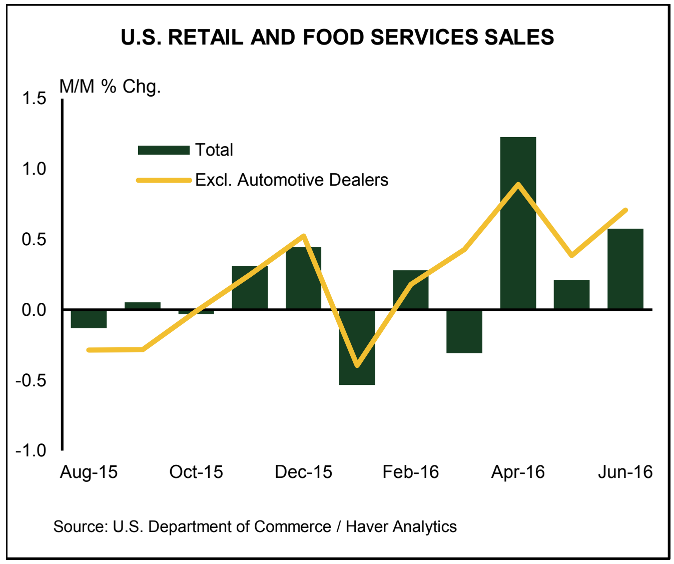
U.S.: UPCOMING KEY ECONOMIC RELEASES

U.S. Retail Sales - July*

Release Date: August 12, 2016
June Result: Total 0.6% m/m, ex-autos 0.7% m/m
TD Forecast: Total 0.4% m/m, ex-autos 0.2% m/m
Consensus: Total 0.3% m/m, ex-autos 0.2% m/m



The positive momentum in consumer spending activity is expected to be sustained in into the second half of the year, reflecting continued buoyancy in this crucial segment of the US economy. In July, TD expects retail sales to rise at a relatively robust 0.4% m/m pace, following the equally impressive 0.6% m/m advance the month before. Much of the uptick in retail sales spending should be driven by strong auto sales activity, which would more than compensate for weaker gasoline spending, with spending excluding autos rising at a slightly more modest 0.2% m/m pace. Core spending, however, should rise at a decent 0.4% m/m pace, underscoring the supportive underlying backdrop for US economic activity in Q3. The risks to this call are to the upside. Despite the strong start to the quarter, the medium term outlook for spending, however, has softened somewhat owing to the slowing in personal disposable income growth and the steady drawdown in savings will eventually temper spending momentum going forward.

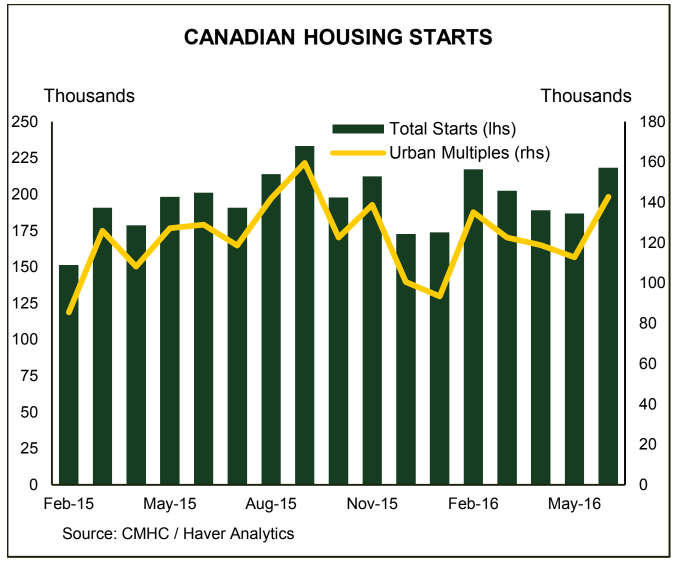
*Forecast by Rates and FX Strategy Group. For further information, contact TDRates&FXCommoditiesResearch@tdsecurities.com

CANADA: UPCOMING KEY ECONOMIC RELEASES

Canadian Housing Starts & Permits - July*

Release Date: August 9, 2016
June Result: 218k
TD Forecast: 204k
Consensus: 190k

Housing starts likely fell 6.4% to 204k units in July after rising a sharp 16.9% in June. Construction in the Ontario and BC provinces likely retreated in July, reflecting a reversal from a surge in activity that drove the overall June increase in starts. These regions should only partially unwind their previous gains on the back of a solid uptrend in permits, leaving the overall level of starts above its May level. Single-family housing starts are also expected to post a small decline given a sharp drop in single-family permits in May. The projected July level would leave housing starts firmly above their 6-month average, indicating continued momentum in residential construction activity but at a pace insufficient to tame accelerating price appreciation.



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RECENT KEY ECONOMIC INDICATORS: AUGUST 1-5, 2016

Release Date		Economic Indicator/Event	Data for Period	Units	Current	Prior	
United States							
Aug 01		ISM Manufacturing	Jul	Index	52.6	53.2	
Aug 02		Personal Income	Jun	M/M % Chg.	0.2	0.2	
Aug 02		Real Personal Spending	Jun	M/M % Chg.	0.3	0.2	R▼
Aug 02		PCE Deflator	Jun	Y/Y % Chg.	0.9	0.9	
Aug 02		PCE Core	Jun	Y/Y % Chg.	1.6	1.6	
Aug 02		Wards Total Vehicle Sales	Jul	Mlns	17.77	16.61	
Aug 03		ADP Employment Change	Jul	Thsd	179.0	176.0	R▲
Aug 03		ISM Non-Manufacturing Composite	Jul	Index	55.5	56.5	
Aug 04		Initial Jobless Claims	Jul 30	Thsd	269.0	266.0	
Aug 04		Factory Orders	Jun	M/M % Chg.	-1.5	-1.2	R▼
Aug 04		Factory Orders Excluding Transportation	Jun	M/M % Chg.	0.4	0.2	R▲
Aug 05		Trade Balance	Jun	USD, Blns	-44.5	-41.0	R▲
Aug 05		Change in Nonfarm Payrolls	Jul	Thsd	255.0	292.0	R▲
Aug 05		Average Hourly Earnings	Jul	M/M % Chg.	0.3	0.1	
Aug 05		Unemployment Rate	Jul	%	4.9	4.9	
Canada							
Aug 05		Net Change in Employment	Jul	Thsd	-31.2	-0.7	
Aug 05		International Merchandise Trade	Jun	CAD, Blns	-3.6	-3.5	R▼
Aug 05		Unemployment Rate	Jul	%	6.9	6.8	
International							
Aug 03	EZ	Retail Sales	Jun	Y/Y % Chg.	1.6	1.6	
Aug 04	UK	Bank of England Bank Rate	Aug 04	%	0.25	0.5	

Source: Bloomberg, TD Economics.

UPCOMING ECONOMIC RELEASES AND EVENTS: AUGUST 8-12, 2016

Release Date	Time*		Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States							
Aug 09	6:00		NFIB Small Business Optimism	Jul	Index	94.4	94.5
Aug 09	8:30		Unit Labor Costs	Q2 P	Q/Q % Chg.	1.8	4.5
Aug 09	10:00		Wholesale Trade Sales	Jun	M/M % Chg.	-	0.5
Aug 11	8:30		*Initial Jobless Claims*	Aug 06	Thsd	-	269.0
Aug 12	8:30		Producer Price Index Excluding Food and Energy	Jul	M/M % Chg.	0.2	0.4
Aug 12	8:30		Producer Price Index Final Demand	Jul	M/M % Chg.	0.1	0.5
Aug 12	8:30		Retail Sales Advance	Jul	M/M % Chg.	0.3	0.6
Aug 12	8:30		Retail Sales Excluding Auto and Gas	Jul	M/M % Chg.	0.4	0.7
Aug 12	10:00		Business Inventories	Jun	M/M % Chg.	0.2	0.2
Canada							
Aug 09	8:15		Housing Starts	Jul	Thsd	-	218.3
Aug 12	8:30		Teranet/National Bank House Price Index	Jul	Y/Y % Chg.	-	10.0
International							
Aug 08	21:30	CH	Consumer Price Index	Jul	Y/Y % Chg.	1.7	1.9
Aug 11	22:00	CH	Retail Sales	Jul	Y/Y % Chg.	10.5	10.6
Aug 12	5:00	EZ	Gross Domestic Product (SA)	Q2 P	Q/Q % Chg.	-	0.3

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