The Weekly Bottom Line

November 30, 2018

Highlights of the Week

United States

- FOMC minutes released this week suggested that flexible could be the new gradual for the Fed. While a rate hike for December may be in the cards, future moves are now more dependent on the incoming economic data.
- President Trump and Xi are set to meet-up at the G20 summit over the weekend. Stakes are high for an agreement to be reached. If not, higher tariffs are set to kick-in come January.
- While cracks are starting to show in the armor of the U.S. economic expansion, there's still plenty that's going well. Q3 GDP growth remained solid, consumer spending is strong, income gains are healthy and inflation is contained.

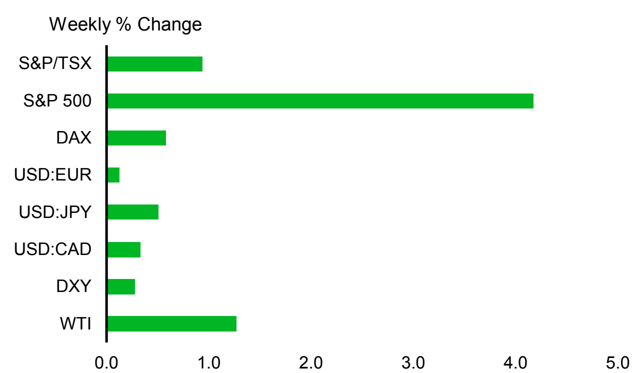
Canada

- The announcement that GM is shuttering its Oshawa production plant was another blow to the Canadian outlook this week.
- The Canadian economy grew by 2.0% in the third quarter, a step down from 2.9% in Q2, but broadly in line with expectations. The details were decidedly more negative as investment disappointed and real GDP pulled back on a monthly basis in September.
- The Bank of Canada meets next week and is universally expected to hold interest rates at 1.75%. We will be watching its statement for hints to its interpretation of recent economic challenges.

THIS WEEK IN THE MARKETS				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	2742	2633	2931	2581
S&P/TSX Comp.	15156	15011	16567	14722
DAX	11257	11193	13560	11066
FTSE 100	6980	6953	7877	6889
Nikkei	22351	21647	24271	20618
Fixed Income Yields				
U.S. 10-yr Treasury	3.02	3.04	3.24	2.34
Canada 10-yr Bond	2.28	2.34	2.60	1.84
Germany 10-yr Bund	0.31	0.34	0.77	0.26
UK 10-yr Gilt	1.36	1.38	1.73	1.15
Japan 10-yr Bond	0.09	0.10	0.16	0.02
Foreign Exchange Cross Rates				
C$ (USD per CAD)	0.75	0.76	0.82	0.75
Euro (USD per EUR)	1.13	1.13	1.25	1.12
Pound (USD per GBP)	1.28	1.28	1.43	1.27
Yen (JPY per USD)	113.5	113.0	114.5	104.7
Commodity Spot Prices**				
Crude Oil ($US/bbl)	51.1	50.2	76.4	50.2
Natural Gas ($US/MMBtu)	4.50	4.70	7.13	2.52
Copper ($US/met. tonne)	6247.5	6236.5	7330.5	5759.0
Gold ($US/troy oz.)	1222.5	1223.2	1358.5	1174.2

*as of 12:00 pm on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price), Copper-LME Grade A, Gold-London Gold Bullion; Source: Bloomberg.

A Solid Week for U.S. Equities



Note: Data as of 12:00 PM ET, November 30, 2018
Sources: Bloomberg, TD Economics

GLOBAL OFFICIAL POLICY RATE TARGETS	
	Current Target
Federal Reserve (Fed Funds Rate)	2.00 - 2.25%
Bank of Canada (Overnight Rate)	1.75%
European Central Bank (Refi Rate)	0.00%
Bank of England (Repo Rate)	0.75%
Bank of Japan (Overnight Rate)	-0.10%

Source: Central Banks.

U.S. - Yellow is the New Green?

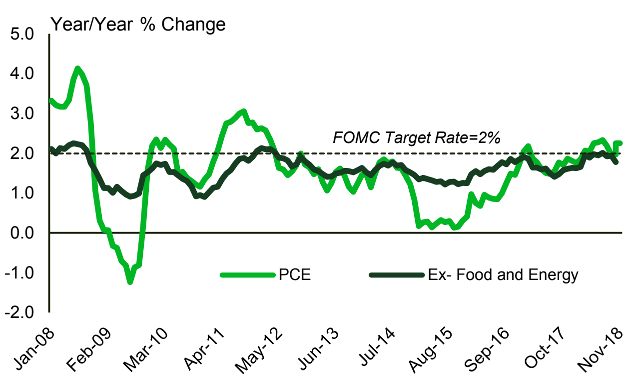
Financial markets responded to the message of Fed Chair Powell on Wednesday that the fed funds rate was "just below the broad range of estimates of...neutral," after previously stating that it was a "long way" away. Market participants took the subtle shift in narrative as a sign that the Fed may be easing the pace of rate hikes in the New Year. Both stock and bond markets rallied in response.

FOMC minutes suggest that a rate hike in December is all but a done deal, but the path thereafter is more uncertain. Indeed, Fed members emphasized the need to maintain flexibility in order to respond to changing economic data. A shift in tenor from possible overheating to slower-than-expected growth was also discernible in the details of the discussion. Trade tensions in particular were "cited as a factor that could slow economic growth more than expected."

In that vein, the trade tug-of-war with China continues. The hope is that negotiations go well at the G20 meetings in Buenos Aires that kicked-off Friday. The stakes are high. President Trump signaled prior to the meeting that if the two countries failed to reach an agreement favorable to the U.S., additional tariff on virtually all U.S. imports from China would be forthcoming. Such a development would exacerbate the slowdown in global growth - another risk flagged by the Fed.

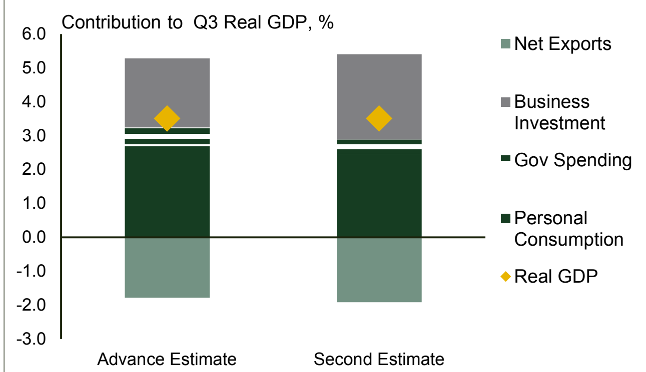
Further underscoring the concerns raised in the Fed minutes are recent economic and financial data. Signals of slowing activity are most apparent among the interest-rate-sensitive housing and auto sectors, but other indicators also showing signs deceleration. Initial jobless claims have been trending up in recent weeks, rising to a six-month high in the most recent data, while capital goods orders have also turned south, suggesting business investment growth may also be easing. Meanwhile, there are few signs of inflationary pressures. After hitting 2.0% in July, core PCE inflation fell to 1.8% in October. The recent trend is even softer, with price growth averaging just 1.2% over the past three months.

Chart 1:With Inflation on Target, the Fed Can Afford to Be Flexible About Future Rate Hikes



Source: FRB, Bureau of Economic Analysis, TD Economics

Chart 2: Changing Profile Leaves Q3 GDP Unchanged



Source: BEA, Bloomberg, TD Economics

The good news is that consumers are showing little sign of fatigue. Consumer spending grew robustly in October, rising 0.4% and setting the stage for a strong showing in the final quarter of this year. Holiday spending may get a further lift as households spend the extra coin left in their wallets after filling up at the gas pumps. Revisions to third quarter GDP were similarly encouraging (Chart 2) with business and residential investment revised up.

Overall, the economic data flow out of the U.S. this week was relatively balanced. Unfortunately, the downside risks to the outlook are mounting. It became clearer this week that the Fed is paying more attention to these risks and the economy may not need as many rate hikes as they believed back in September. All said, yellow may become the new green for the still-global-growth-leading U.S. economy.

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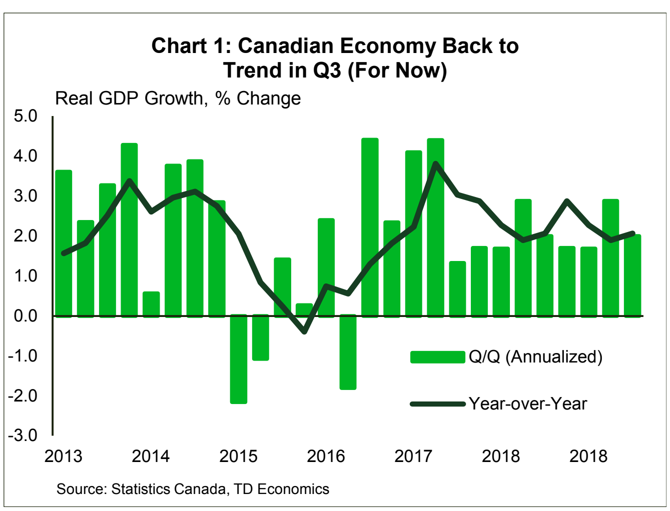
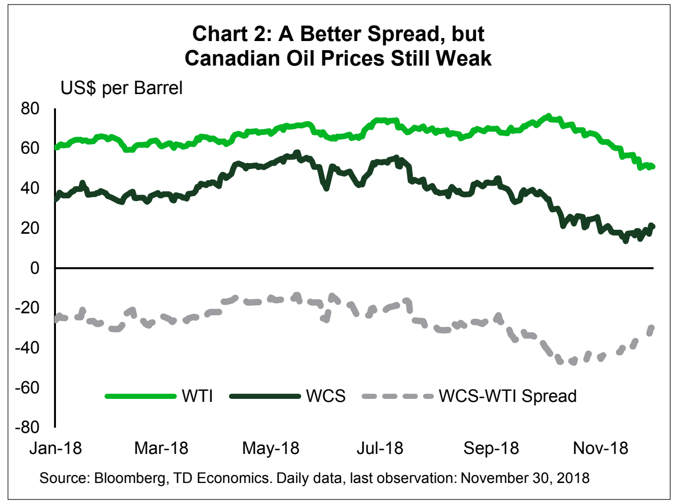
Canada - Mama Said There'll Be Days Like This

It has certainly been a tough couple of weeks for the Canadian economy. The announcement that General Motors will not allocate production to its Oshawa plant beyond 2019 was the latest in a string of dour news for the growth outlook. With continued malaise in the oil patch, two of Canada's stalwart industrial sectors are under pressure.

On the latter, the WTI price hovered just above the $50 mark this week, after falling nearly a third over the past month. While the discount on Western Canadian Select has moved in the right direction for Canadian producers recently, the price is still low by historical standards at just above $20 (US) – still a level that risks further production shut-ins. The oil market is awaiting the next OPEC meeting on December 6th, where the group is expected to agree to production cuts to help balance the market.

The impact of the Oshawa closure is likely to be a modest reduction in Canadian economic growth, to the tune of 0.1 percentage points. In Ontario, the effect will be more pronounced, perhaps as much as 0.3 percentage points. In addition to the 2,500 workers directly employed at the plant, the overall number of jobs lost could double that, reflecting losses at suppliers and the reduced spending of those workers. It appears that production will run off slowly over the course of 2019, reducing the upfront impact, although the exact plans are still unclear. Previously published auto production schedules (built into GDP expectations) had not allocated any output to the "Oshawa 2" truck production line in 2020, so to some extent a reduction was already baked into the pie.





As this news is digested, this week we were treated to news that economy grew by 2.0% (annualized) in the third quarter, a step down from the 2.9% pace in the second quarter. The details were considerably softer than the headline. Economic activity slowed through the quarter, with real GDP falling 0.1% in September. This is a soft handoff for growth in the fourth quarter, even before the oil-related shut-ins weigh on growth. Just as disappointing, non-residential business investment fell by 7.1%. While there appear to be some temporary factors at play - investment in the very volatile aircraft and other transportation equipment was a significant drag – the weakness belies the reported strength of business confidence and capacity pressures that augured for growth.

It was nice to see the USMCA signed in Buenos Aires this week (although this still does not guarantee its passage through Congress), but with still significant competitiveness challenges, the pressure on policy makers to support economic growth will remain. The Bank of Canada meets next week to announce its interest rate decision. We expect some discussion of these headwinds in its statement, and a more cautious approach to raising interest rates over the next year reflecting the new challenges.

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U.S.: Upcoming Key Economic Releases

U.S. Employment - November*

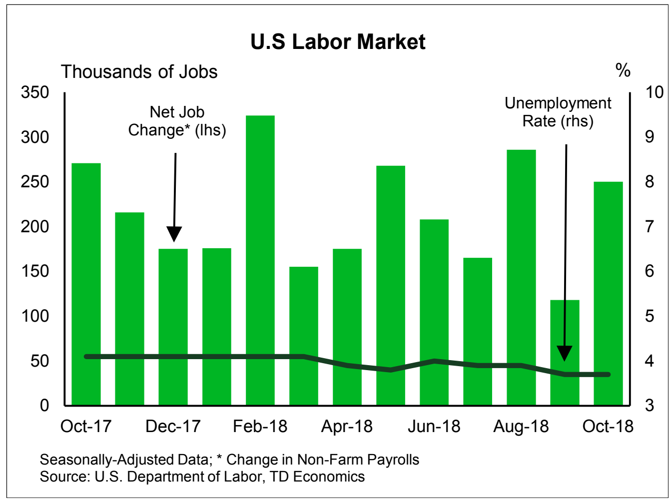
Release Date: December 7, 2018

Previous: 250k, unemployment rate: 3.7%,

TD Forecast: 215k, unemployment rate: 3.7%,

Consensus: 200k, unemployment rate: 3.7%

We expect payrolls to rise by 215k in November, as growth reverts back toward its recent trend. The swing in payrolls over the prior two months suggest that hurricane impacts are complete. Removing the volatility, 3- to 6-month averages stood at 216k and 218k respectively. We look for payrolls to therefore normalize but remain strong in line with the resilience seen in job surveys. Claims ticked higher but not in the reference week and could be related to holiday distortions. Wages also have scope for a strong 0.3% print given the reference week and Amazon hikes, leaving y/y growth higher at 3.2%. Finally, we expect the unemployment rate to stabilize at 3.7%.



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

Canada: Upcoming Key Economic Releases

Bank of Canada Rate Decision*

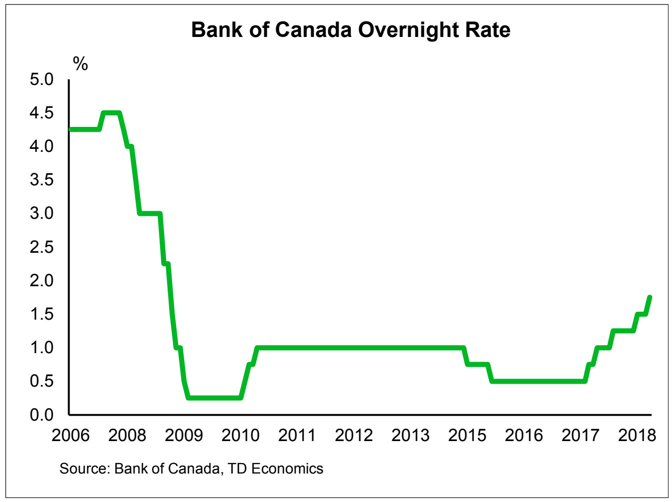
Release Date: December 5, 2018

Previous: 1.75%

TD Forecast: 1.75%

Consensus: 1.75%

We expect the BoC will leave the overnight rate unchanged at 1.75% next week, in line with market expectations. The communique should be fairly short, and while the Bank will note that weaker commodity prices present a headwind to the outlook, we expect that they will again warn that higher interest rates will be needed. The biggest question mark will be around the Bank's treatment of the energy shock. Lower oil prices will materially suppress Q4 growth, and even if the impact is expected to be transitory markets will be looking for reassurance that a January rate hike is still a realistic possibility. If the Governor sounds overly concerned about falling oil prices, there is a risk that rates markets could rally sharply.



Canadian International Trade - October*

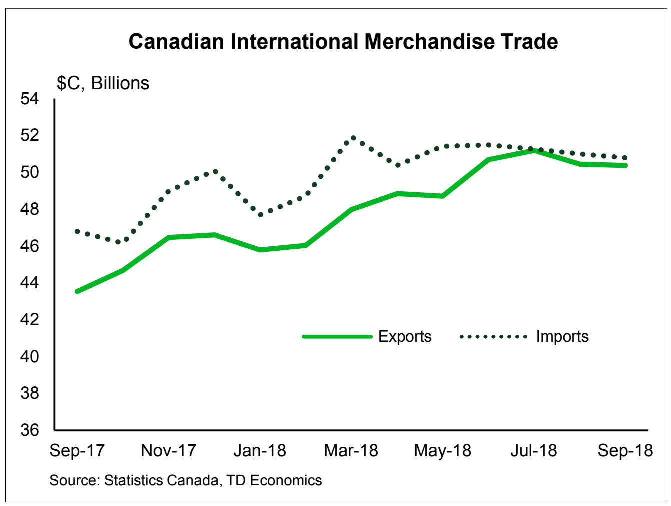
Release Date: December 6, 2018

Previous: -$0.42bn

TD Forecast: -$1.1bn

Consensus: N/A

TD looks for the merchandise trade deficit to widen to $1.1bn in October on a rebound in import activity while lower energy prices will weigh on exports. Imports have fallen for three consecutive months and will benefit from a rebound in transportation equipment, while non-energy exports should be supported by stronger auto production and a pickup in advance US imports, although weaker energy exports will likely offset any gains. This is largely due to wider WCS/WTI spreads, which imply that real exports should outperform the nominal figure, although shut-ins throughout the oil sands will weigh on real exports going forward.



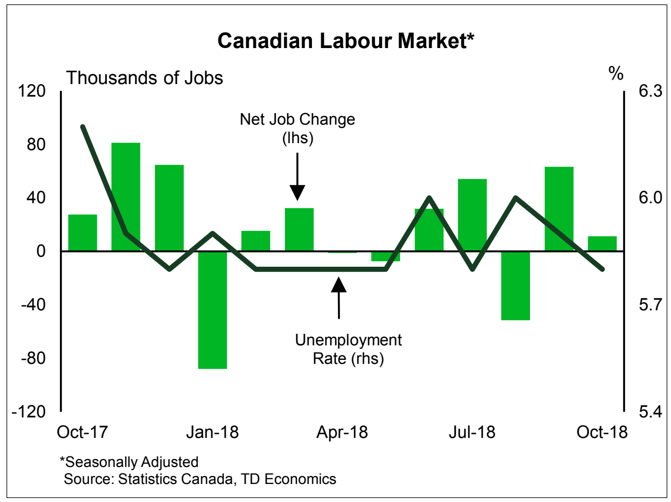
Canadian Employment - November*

Release Date: December 7, 2018

Previous: 11k, unemployment rate: 5.8%,

TD Forecast: 25k, unemployment rate: 5.7%

Consensus: N/A



TD looks for job growth to pick up to a 25k pace in November led by further gains in the services sector. Employment in goods producing industries will see a drag from oil and gas, where the blowout in WCS spreads has led firms to shut-in production, although this should be offset by hiring elsewhere in the goods sector. Job growth of 25k will allow the unemployment rate to edge lower to 5.7% although wage growth will paint a more downbeat picture, with average hourly earnings forecast to slip to 1.8% y/y.

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

Release Date		Economic Indicator/Event	Data for Period	Units	Current	Prior
RECENT KEY ECONOMIC INDICATORS: NOV 26 - 30, 2018						
United States						
Nov 27		Conf. Board Consumer Confidence	Nov	Index	135.7	137.9
Nov 27		House Price Purchase Index	3Q	Q/Q % Chg.	1.3	1.3
Nov 27		S&P CoreLogic CS US HPI	Sep	Y/Y % Chg.	5.5	5.7
Nov 28		Advance Goods Trade Balance	Oct	Blns	-77.2	-76.3
Nov 28		Core Personal Consumption Expenditure	3Q	Q/Q % Chg.	1.5	1.6
Nov 28		Gross Domestic Product Annualized	3Q	Q/Q % Chg.	3.5	3.5
Nov 28		New Home Sales	Oct	Thsd	544.0	597.0
Nov 28		Personal Consumption	3Q	Q/Q % Chg.	3.6	4.0
Nov 29		Initial Jobless Claims	Nov 24	Thsd	234.0	224.0
Nov 29		Pending Home Sales	Oct	M/M % Chg.	-2.6	0.7
Nov 29		Personal Consumption Expenditure Core	Oct	Y/Y % Chg.	1.8	1.9
Nov 29		Personal Consumption Expenditure Deflator	Oct	Y/Y % Chg.	2.0	2.0
Nov 29		Personal Income	Oct	M/M % Chg.	0.5	0.2
Nov 29		Real Personal Spending	Oct	M/M % Chg.	0.4	0.1
Canada						
Nov 29		CFIB Business Barometer	Nov	Index	61.2	60.5
Nov 29		Current Account Balance	3Q	Blns	-10.3	-15.8
Nov 30		Gross Domestic Product	Sep	M/M % Chg.	-0.1	0.1
Nov 30		Gross Domestic Product Annualized	3Q	Q/Q % Chg.	2.0	2.9
Nov 30		Industrial Product Price	Oct	M/M % Chg.	0.2	0.2
International						
Nov 28	JN	Retail Trade	Oct	Y/Y % Chg.	3.5	2.2
Nov 29	JN	Industrial Production	Oct	Y/Y % Chg.	4.2	-2.5
Nov 29	JN	Jobless Rate	Oct	%	2.4	2.3
Nov 29	CH	Manufacturing PMI	Nov	Index	50.0	50.2
Nov 29	JN	Tokyo Consumer Price Index	Nov	Y/Y % Chg.	0.8	1.5
Nov 30	EZ	Consumer Price Index Core	Nov	Y/Y % Chg.	1.0	1.1
Nov 30	EZ	Consumer Price Index Estimate	Nov	Y/Y % Chg.	2.0	2.2
Nov 30	BZ	Gross Domestic Product	3Q	Y/Y % Chg.	1.3	0.9
Nov 30	IN	Gross Domestic Product	3Q	Y/Y % Chg.	7.1	8.2
Nov 30	EZ	Unemployment Rate	Oct	%	8.1	8.1

Source: Bloomberg, TD Economics.

UPCOMING ECONOMIC RELEASES AND EVENTS: DEC 3 - 7, 2018							
Release Date	Time*		Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States							
Dec 03	9:15		*Fed's John Williams speaks at a conference in New York City, NY*				
Dec 03	9:45		Markit US Manufacturing PMI	Nov	Index	-	55.4
Dec 03	10:00		ISM Employment	Nov	Index	-	56.8
Dec 03	10:00		ISM Manufacturing	Nov	Index	58.0	57.7
Dec 03	10:30		*Fed's Lael Brainard speaks at a conference in New York City, NY*				
Dec 03	13:00		*Fed's Robert Kaplan speaks at Texas A&M University in Laredo, TX*				
Dec 03			Wards Total Vehicle Sales	Nov	Mlns	17.1	17.5
Dec 04	10:00		*Fed's John Williams participates in a panel in New York City, NY*				
Dec 05	8:15		ADP Employment Change	Nov	Thsd	200.0	227.0
Dec 05	8:30		Unit Labor Costs	3Q	Q/Q % Chg.	1.1	1.2
Dec 05	9:45		Markit US Services PMI	Nov	Index		54.4
Dec 05	10:00		ISM Non-Manufacturing Index	Nov	Index	59.5	60.3
Dec 05	10:15		*Fed's Jerome Powell speaks before Congress's Joint Economic Committee*				
Dec 05	14:00		*U.S. Federal Reserve Releases Beige Book*				
Dec 06	8:30		Initial Jobless Claims	Dec 01	Thsd	-	234.0
Dec 06	8:30		Trade Balance	Oct	Blns	-54.9	-54.0
Dec 06	10:00		Cap Goods Orders Nondef Ex Air	Oct	M/M % Chg.	-	0.0
Dec 06	10:00		Durable Goods Orders	Oct	M/M % Chg.	-	-4.4
Dec 06	10:00		Factory Orders	Oct	M/M % Chg.	-2.0	0.7
Dec 06	10:00		Factory Orders Ex Trans	Oct	M/M % Chg.	-	0.4
Dec 06	12:00		Household Change in Net Worth	3Q	Blns	-	2191
Dec 06	12:15		*Fed's Raphael Bostic speaks at the Georgia Economic Outlook in Atlanta, GA*				
Dec 06	18:30		*Fed's John Williams speaks at the London School of Economics Foundation in New York City, NY*				
Dec 07	8:30		Average Hourly Earnings	Nov	M/M % Chg.	0.3	0.2
Dec 07	8:30		Change in Nonfarm Payrolls	Nov	Thsd	205.0	250.0
Dec 07	8:30		Unemployment Rate	Nov	%	3.7	3.7
Dec 07	10:00		Wholesale Trade Sales	Oct	M/M % Chg.	-	0.2
Dec 07	12:00		*Fed's Lael Brainard Speaks at Peterson Institute in Washington, D.C.*				
Dec 07	12:15		*Fed's Lael Brainard speaks at the Peterson Institute for International Economics in Washington, D.C.*				
Canada							
Dec 03	9:30		Markit Canada Manufacturing PMI	Nov	Index	-	53.9
Dec 04	8:30		Labour Productivity	3Q	Q/Q % Chg.	-	0.7
Dec 05	10:00		Bank of Canada Rate Decision	Dec 05	%	1.75	1.75
Dec 06	8:30		Int'l Merchandise Trade	Oct	Blns	-	-0.4
Dec 06	8:50		*Bank of Canada's Stephen Poloz speaks at the CFA Society in Toronto, ON*				
Dec 07	8:30		Net Change in Employment	Nov	Thsd	-	11.2
Dec 07	8:30		Unemployment Rate	Nov	%	-	5.8
International							
Dec 03	4:00	EZ	Markit Eurozone Manufacturing PMI	Nov	Index	51.5	51.5
Dec 03	4:30	UK	Markit UK PMI Manufacturing	Nov	Index	52.0	51.1
Dec 04	19:30	JN	Nikkei Japan PMI Composite	Nov	Index	-	52.5
Dec 05	4:00	EZ	Markit Eurozone Services PMI	Nov	Index	53.1	53.1
Dec 05	4:30	UK	Markit/CIPS UK Composite PMI	Nov	Index	-	52.1
Dec 07	5:00	EZ	Gross Domestic Product	3Q	Y/Y % Chg.	1.7	1.7

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

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