The Weekly Bottom Line

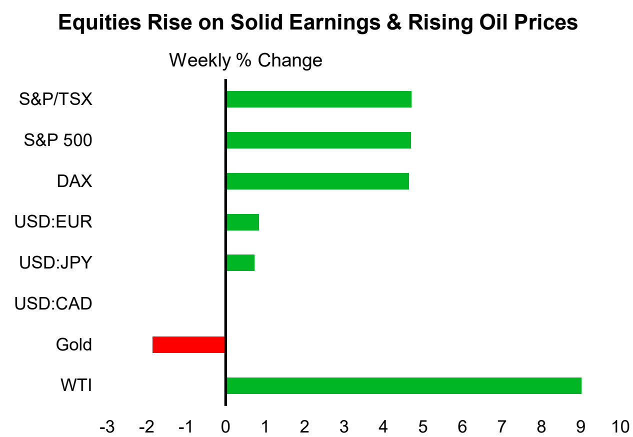
February 5, 2021

Highlights of the Week

- Economic data released this week was balanced enough to re-ignite optimism in financial markets without calling into question the next fiscal support package.
- Job market data showed a third consecutive decline in the weekly jobless claims as well as moderate progress in payrolls and an unexpected drop in the unemployment rate.
- Assuming continued progress on the health front, another round of substantial fiscal supports could push the American economy from stall speed to an outright sprint in the second half of this year.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	3883	3714	3883	2237
S&P/TSX Comp.	18149	17337	18149	11228
DAX	14057	13433	14060	8442
FTSE 100	6489	6407	7534	4994
Nikkei	28779	27663	28822	16553
Fixed Income Yields				
U.S. 10-yr Treasury	1.14	1.07	1.64	0.51
Canada 10-yr Bond	0.98	0.89	1.40	0.43
Germany 10-yr Bund	-0.45	-0.52	-0.19	-0.86
UK 10-yr Gilt	0.48	0.33	0.80	0.08
Japan 10-yr Bond	0.06	0.05	0.08	-0.16
Foreign Exchange Cross Rates				
C$ (USD per CAD)	0.78	0.78	0.79	0.69
Euro (USD per EUR)	1.20	1.21	1.23	1.07
Pound (USD per GBP)	1.37	1.37	1.37	1.15
Yen (JPY per USD)	105.4	104.7	112.1	102.4
Commodity Spot Prices**				
Crude Oil ($US/bbl)	57.1	52.2	57.1	-37.6
Natural Gas ($US/MMBtu)	2.96	2.73	3.14	1.35
Copper ($US/met. tonne)	7825.5	7862.4	8167.0	4625.0
Gold ($US/troy oz.)	1814.1	1847.7	2063.5	1471.2

*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.



Note: Data as of 12:35 PM ET, Friday, February 05, 2021.
Source: Bloomberg, TD Economics

Global Official Policy Rate Targets	
Central Banks	Current Target
Federal Reserve (Fed Funds Rate)	0.00 - 0.25%
Bank of Canada (Overnight Rate)	0.25%
European Central Bank (Refi Rate)	0.00%
Bank of England (Repo Rate)	0.10%
Bank of Japan (Overnight Rate)	-0.10%

Source: Bloomberg.

TD Economics Key Financial Forecasts

	Current Rate	2020				2021				2022			
	2/5/21	Q1	Q2	Q3	Q4	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
2-yr Govt. Bond Yield	0.10	0.23	0.16	0.13	0.13	0.15	0.18	0.20	0.20	0.20	0.25	0.30	0.35
10-yr Govt. Bond Yield	1.14	0.70	0.66	0.69	0.93	1.10	1.25	1.40	1.50	1.55	1.60	1.65	1.70
30-yr Govt. Bond Yield	1.94	1.35	1.41	1.46	1.65	1.85	1.95	2.05	2.15	2.20	2.25	2.30	2.35

Forecast by TD Economics as of December 2020; all forecasts are end-of-period. Source: Bloomberg, Federal Reserve Board, TD Economics.

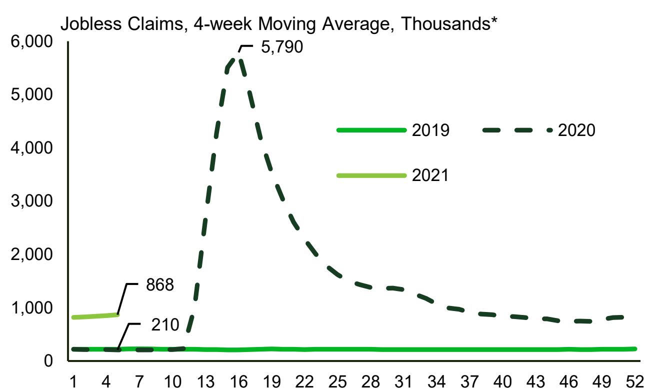
A Cautiously Optimistic Week

This week, one of the world's most famous prognosticators, Punxsutawney Phil, reportedly predicted another six weeks of winter followed by "one of the most beautiful and brightest springs you've ever seen." Economists seem to agree, forecasting weak short-term growth followed by a strong rebound later in the year. The timing and extend of the latter depend on getting enough people vaccinated to return to normal activities and spending habits. As of this week, daily vaccinations held at roughly 1.3 million doses. They are targeted to expand to 1.5 million a day to reach the Biden administration's goal of 150 million vaccines administered by the end of April.

At present, the job market shows tepid signs of improvement. On Thursday, the Department of Labor reported a third consecutive decline in the weekly number of Americans seeking unemployment benefits. Recent reports come with the caveat of considerable revisions due to difficulties in adjusting the historically-high level for seasonal factors. Even when smoothed over four weeks, claims remain around 650 thousand higher than a year ago (Chart 1).

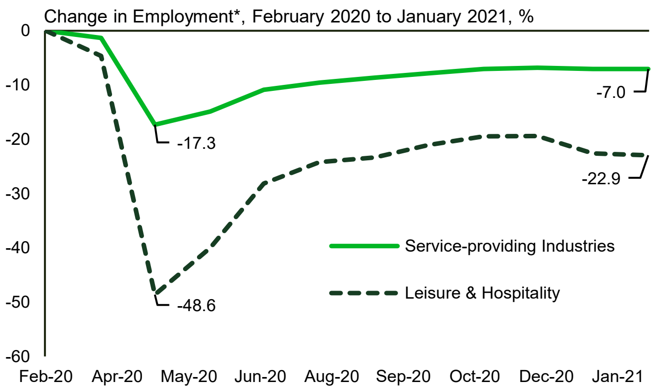
Likewise, today's employment report for January showed moderate progress, with payrolls rising by 49 thousand, while the unemployment rate unexpectedly fell to 6.3% from 6.7% in December. Despite this progress, the economy has thus far recovered just over half of jobs lost during the initial lockdown period. The pandemic continues to inflict disproportional pain on the services sector, deepening inequality (see report). One particularly dire spot remains the leisure & hospitality sector, which reported another month of losses in January. With the setback, employment in the sector is now 22.9% below its pre-pandemic level (Chart 2).

Chart 1: Initial Unemployment Claims Remain Historically High



*Seasonally Adjusted.
Source: Department of Labor, TD Economics. Last observation: Week ended January 30, 2021.

Chart 2: Leisure and Hospitality Sector Remains Disproportionally Hit



*Seasonally Adjusted.
Source: Bureau of Labor Statistics, TD Economics.

In other data releases, ISM manufacturing and services sector indexes remained in expansionary territory. The manufacturing index dropped by two points (indicating a slowdown in growth), while the non-manufacturing index rose by one (indicating accelerating growth). While supply chain backlogs remain problematic, the increase in employment sub-components, especially in the services index, gives cause for optimism on the jobs recovery.

On the financial front, economic data was balanced enough to re-ignite optimism in financial markets without calling into question the next fiscal support package. The S&P 500 index ended the week 4.7% higher than the previous week and the 10-year U.S. Treasury rose to 1.15% from 1.08%.

This week, a report by the Congressional Budget Office estimated that the recently passed $900 billion stimulus package (signed into law at the end of December) would raise the level of GDP by 1.5% in 2021 and 2022, with most of that boost occurring this year. At $1.9 trillion, the next proposed round of fiscal support is even bigger. The income supports in the package will go a long way to bridging the gap to the other side of the health crisis and, with additional funding for vaccine distribution and testing, hopefully speed it along. Assuming continued progress on the health front, there is a good chance that the economy moves from stall speed to an outright sprint in the second half of this year (see report).

Maria Solovieva, CFA, Economist | 416-380-1195

Upcoming Key Economic Releases

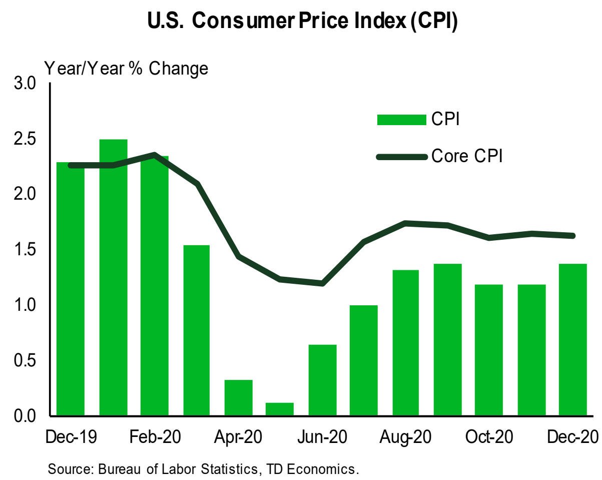
U.S. Consumer Price Index – January*

Release Date: February 10

Previous: 0.4% m/m, 1.4% y/y

TD Forecast: 0.3% m/m, 1.4% y/y

Consensus: 0.4% m/m, 1.5% y/y



Oil prices have bounced, and the gasoline component of the CPI likely rose sharply again in January, but we expect another tame reading for the trend-setting core series, even with some tendency for above-trend gains in January in recent years. The rise in the core index was probably held down by a fourth consecutive decline in used vehicle prices (after sharp increases) and minimal gains once again in the rental components. We continue to view COVID as disinflationary, on balance. Our forecast implies 1.4%/1.5% y/y for total/core prices in January, little changed from 1.4%/1.6% y/y in December and down from 2.3%/2.4% y/y in February 2020 (pre-COVID).

Note also that the BLS will be releasing its annual revision to the seasonal adjustment factors for the CPI on Monday, February 8. Revisions are typically small and offsetting; the non seasonally adjusted data are not revised.

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

Recent Key Economic Indicators: Feb 1 - 5, 2021							
Release Date		Economic Indicator/Event	Data for Period	Units	Current	Prior
United States						
Feb 1		Markit US Manufacturing PMI	Jan	Index	59.2	59.1
Feb 1		ISM Manufacturing	Jan	Index	58.7	60.5
Feb 2		Wards Total Vehicle Sales	Jan	Mlns	16.6	16.3
Feb 3		ADP Employment Change	Jan	Thsd	174.0	-78.0
Feb 3		Markit US Services PMI	Jan	Index	58.3	57.5
Feb 3		ISM Services Index	Jan	Index	58.7	57.7
Feb 4		Initial Jobless Claims	Jan 30	Thsd	779.0	812.0
Feb 4		Unit Labor Costs	4Q	Q/Q % Chg.	6.8	-7.0
Feb 4		Cap Goods Orders Nondef Ex Air	Dec	M/M % Chg.	0.7	0.6
Feb 4		Durable Goods Orders	Dec	M/M % Chg.	0.5	0.2
Feb 4		Factory Orders	Dec	M/M % Chg.	1.1	1.3
Feb 4		Factory Orders Ex Trans	Dec	M/M % Chg.	1.4	1.1
Feb 5		Change in Nonfarm Payrolls	Jan	Thsd	49.0	-227.0
Feb 5		Trade Balance	Dec	Blns	-66.6	-69.0
Feb 5		Unemployment Rate	Jan	%	6.3	6.7
Canada						
Feb 1		Markit Canada Manufacturing PMI	Jan	Index	54.4	57.9
Feb 5		Int'l Merchandise Trade	Dec	Blns	-1.7	-3.6
Feb 5		Net Change in Employment	Jan	Thsd	-212.8	-52.7
Feb 5		Unemployment Rate	Jan	%	9.4	8.8
International						
Feb 1	EZ	Markit Eurozone Manufacturing PMI	Jan	Index	54.8	54.7
Feb 1	UK	Markit UK PMI Manufacturing SA	Jan	Index	54.1	52.9
Feb 1	EZ	Unemployment Rate	Dec	%	8.3	8.3
Feb 2	EZ	Gross Domestic Product SA	4Q	Y/Y % Chg.	-5.1	-4.3
Feb 3	EZ	Consumer Price Index Estimate	Jan	Y/Y % Chg.	0.9	-0.3
Feb 4	EZ	Retail Sales	Dec	Y/Y % Chg.	0.6	-2.2
Feb 4	UK	Bank of England Bank Rate	Feb 4	%	0.10	0.10

Source: Bloomberg, TD Economics.

Release Date	Time*		Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
Upcoming Economic Releases and Events: Feb 8 - 12, 2021							
United States							
Feb 8	12:00		*Fed's Mester Discusses the Economy*				
Feb 9	6:00		NFIB Small Business Optimism	Jan	Index	97.0	95.9
Feb 10	8:30		Consumer Price Index	Jan	M/M % Chg.	0.4	0.4
Feb 10	8:30		Consumer Price Index	Jan	Y/Y % Chg.	1.5	1.4
Feb 10	8:30		Consumer Price Index Ex Food and Energy	Jan	M/M % Chg.	0.2	0.1
Feb 10	8:30		Consumer Price Index Ex Food and Energy	Jan	Y/Y % Chg.	1.5	1.6
Feb 10	10:00		Wholesale Trade Sales	Dec	M/M % Chg.	-	0.2
Feb 10	14:00		*Fed Chair Powell speaks to the Economic Club of New York*				
Feb 11	8:30		Initial Jobless Claims	Feb 6	Thsd	775.0	779.0
Canada							
Feb 10	11:30		*Bank of Canada Deputy Governor Lane Gives Speech*				
Feb 12	8:30		Wholesale Trade Sales	Dec	M/M % Chg.	-	0.7
International							
Feb 9	20:30	CH	Consumer Price Index	Jan	Y/Y % Chg.	-0.1	0.2
Feb 10	2:00	UK	Gross Domestic Product	4Q	Y/Y % Chg.	-8.2	-8.6

Source: Bloomberg, TD Economics.

Disclaimer