THE WEEKLY BOTTOM LINE

TD Economics

HIGHLIGHTS OF THE WEEK

September 30, 2016

United States

- Concerns over German banks and a surprise production cut announcement by OPEC provided some volatility to financial markets this week.
- Economic data was mixed this week. Second quarter real GDP was revised up to 1.4% (from 1.1%), and August goods exports beat expectations. This was offset by weaker-than-anticipated consumer spending data for the month, which declined 0.1%.
- While the composition has shifted slightly toward foreign demand and away from domestic demand, the economy continues to track real GDP growth close to 3.0% in the third quarter, enough for the Federal Reserve to remain on course for a December rate hike. A key data point to watch on this front is next week's payroll report for September, where we expect a gain of 160k jobs – slower than earlier in the recovery, but still consistent with ongoing labor market improvement.

Canada

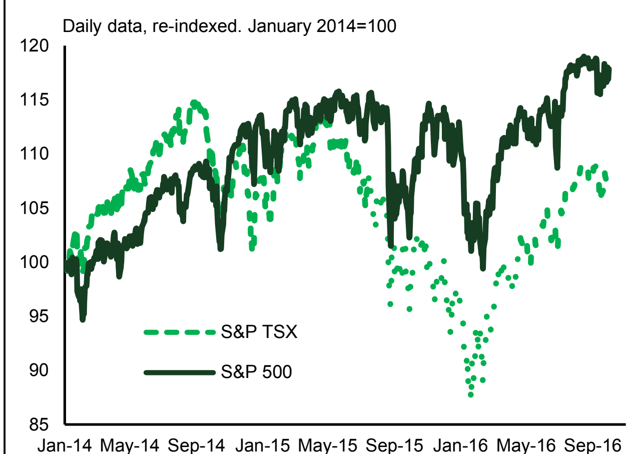
- Canadian real GDP grew by 0.5% in July, following a 0.6% advance in June. A revival of oil production played a key role, but the underlying details of the report were also strong, with broad-based expansion of economic activity during the month.
- OPEC surprised markets this week by coming to an agreement to collectively cut oil production. Oil prices rose on the news, but lack of detail on when and where the cuts will come from suggests that prices are unlikely to gain much ground on a sustained basis.

THIS WEEK IN THE MARKETS

	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	2,171	2,165	2,190	1,829
S&P/TSX Comp.	14,769	14,698	14,813	11,843
DAX	10,515	10,627	11,382	8,753
FTSE 100	6,908	6,909	6,941	5,537
Nikkei	16,450	16,754	20,012	14,952
Fixed Income Yields				
U.S. 10-yr Treasury	1.59	1.62	2.34	1.36
Canada 10-yr Bond	0.98	1.04	1.72	0.95
Germany 10-yr Bund	-0.12	-0.08	0.69	-0.19
UK 10-yr Gilt	0.76	0.73	2.05	0.52
Japan 10-yr Bond	-0.09	-0.05	0.34	-0.29
Foreign Exchange Cross Rates				
C$ (USD per CAD)	0.76	0.76	0.80	0.69
Euro (USD per EUR)	1.12	1.12	1.15	1.06
Pound (USD per GBP)	1.30	1.30	1.55	1.29
Yen (JPY per USD)	101.3	101.0	123.6	99.9
Commodity Spot Prices*				
Crude Oil ($US/bbl)	48.1	44.3	51.2	26.2
Natural Gas ($US/MMBtu)	2.95	3.03	3.14	1.49
Copper ($US/met. tonne)	4825.3	4833.0	5328.8	4327.5
Gold ($US/troy oz.)	1321.0	1337.7	1366.4	1051.1

*as of 11:30 am on Friday **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price), Copper-LME Grade A, Gold-London Gold Bullion; Source: Bloomberg.

NORTH AMERICAN STOCK MARKETS



Data to 12:30 PM, Friday, September 30, 2016. Source: WSJ / Bloomberg

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. – VOLATILITY TO CONTINUE

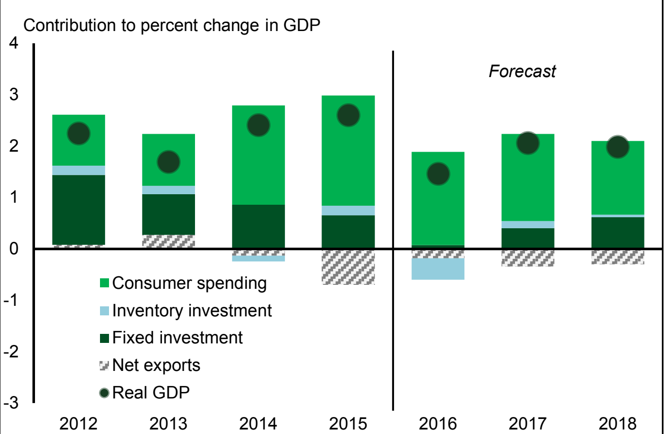
Concerns over German banks and a surprise production cut announcement by OPEC provided some volatility to financial markets this week. Equity markets were up following the OPEC announcement but sold off dramatically on Thursday as anxieties mounted over the health of German Banks. Reassuring statements from European regulators and bank CEOs helped push equities back up on Friday.

The see-saw action is likely to continue as financial markets digest a number of key event risks over the next several months including the U.S. election, another OPEC meeting in November, an Italian constitutional referendum, and last but not least, a potential rate hike by the Federal Reserve.

OPEC's extraordinary meeting was light on details, but telegraphed its intent to cut production to a target range between 32.5 and 33 million barrels a day. The WTI benchmark price rose an initial 5% from $44 to over $47 in reaction to the cut and has moved above $48 per barrel this morning. This is likely to be the extent of the impact, however, as continued oversupply should limit any further price gains. We expect prices to remain in the US$40-50 per barrel range in the near term, before gradually trending above US$50 per barrel in 2017 as the market moves into a more balanced position.

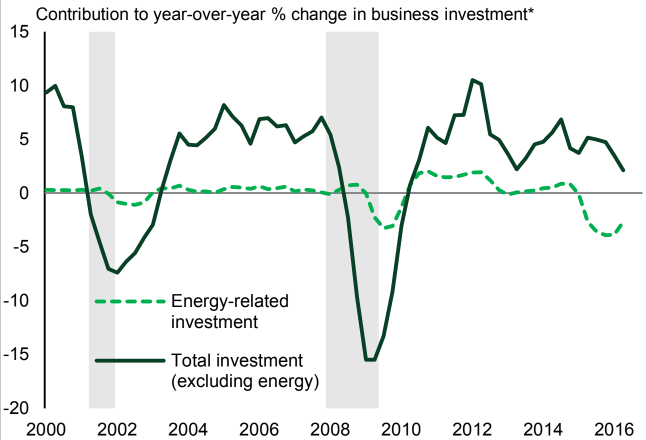
Still, slowly rising oil prices should provide some reprieve to shale producers and limit any further reductions in oil-related investment. This is welcome following six straight quarters in which declining oil exploration has cut an average of 0.3 percentage points (annualized) from quarterly real GDP growth. Unfortunately, overall business investment will continue to be a weak spot for the American economy in the third quarter, as telegraphed this week by a 0.4% decline in core durable goods shipments. The good news is that even as shipments fell, new orders rose, suggesting that investment will pick up in the months ahead.

CHART 1: CONSUMER SPENDING THE MAIN CONTRIBUTOR TO GDP GROWTH



Forecast by TD Economics. Source Bureau of Economic Analysis

CHART 2: DRAG FROM ENERGY INVESTMENT WILL DIMINISH AS PRICES RISE



*Non-residential. Source: Bureau of Economic Analysis, TD Economics.

Other economic data was mixed this week. Second quarter real GDP was revised up to 1.4% (from 1.1%), largely on a smaller declines in business investment and stronger export growth. Export momentum continued into the third quarter with a 1.5% increase in August. Combined with a smaller gain in imports, net exports should contribute positively to third quarter growth.

These positive developments were offset by a downward revision to consumer spending (to 4.3% from 4.4%) in the second quarter and a disappointing outturn for monthly spending in August. Led by a pullback in durable goods, real personal consumption expenditures declined 0.1% on the month. As a result, the tracking for consumer spending growth has fallen to 2.7% (from 3.0% in our recent QEF). All told, while GDP is still tracking growth of slightly under 3.0%, the composition suggests a bit more foreign demand and a bit less domestic demand.

As long as this progress is maintained, the Federal Reserve will remain on track to raise interest rates. With a rate hike a week before the November election unlikely, a December hike still appears the most likely scenario. A key data point to watch on this front is next week's payroll report for September, where we expect a gain of 160k jobs – slower than earlier in the recovery, but still consistent with ongoing labor market improvement.

James Marple, Senior Economist 416-982-2557

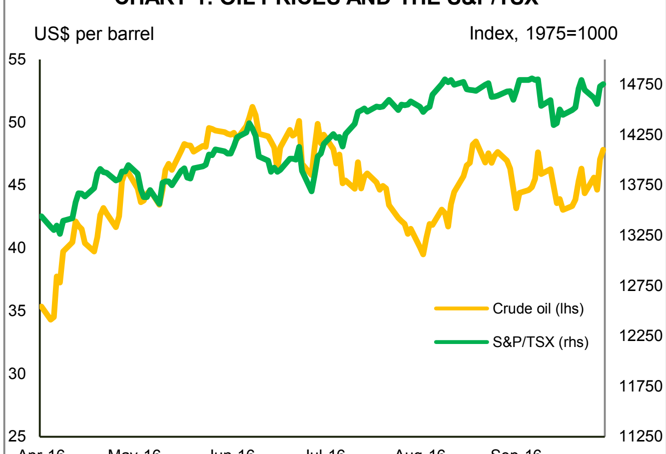
CANADA – OPEC AGREEMENT SPARKS PRICE RALLY

The Canadian economic data calendar was fairly light this week, with this morning's GDP report the only key release on tap. Building on the robust 0.6% advance in June, the economy grew by a solid 0.5% in July, as the resumption of oil production and related activities in Alberta following the wildfires added to growth. Looking past the wildfire impact, the underlying details of the report were also strong, with broad-based expansion of economic activity during the month. Still, the 3% pace of growth expected in the third quarter is unlikely to be sustained once the boost from the wildfires fizzles out, with economic activity likely to return to a more moderate pace of just under 2%.

The report helped lift the S&P/TSX and Canadian dollar on Friday; but both had been on the rise since mid-week thanks to a 7% jump in oil prices. The WTI benchmark reached US$48 per barrel after OPEC surprised markets by agreeing to cut production.

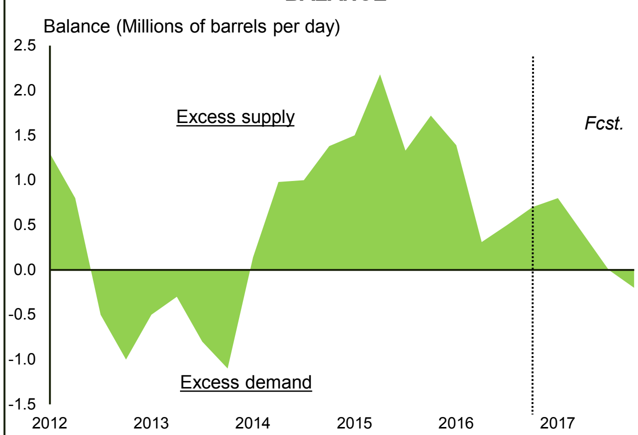
Rhetoric from Algeria early on suggested that no deal would be reached this week – these were meant to be discussions that would pave the way for an agreement at the next scheduled meeting in November. In a way, this is what happened, only now the group has a goal to work toward. OPEC members agreed to collectively cut production to a target range between 32.5 and 33.0 million barrels per day. This would translate into a 240k-740k barrel per day decline from OPEC's estimated August output of 33.24 million barrels per day. However, the cartel did not specify when the cuts would come into effect, nor did it specify specific targets for each member country. Instead, it decided to form a committee to study and recommend the implementation of the production levels across the members of the cartel. What's more, it is thought that Nigeria, Libya and Iran will be exempt from these cuts. And it is possible that the latter two could see sizable growth in output in the coming quarters. The cartel will likely try to co-ordinate with non-OPEC producers – particularly Russia, which could be swayed to at least freeze production given that output there is sitting at record levels and bumping up against capacity constraints.

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



Source: Haver Analytics.

CHART 2: GLOBAL OIL SUPPLY-DEMAND BALANCE



Source: Bloomberg, IEA, TD Securities, TD Economics.
Note: comprised of crude oil, condensates, NGLs and non-conventional-sourced.

The fact that OPEC members were willing to come to an agreement on reducing production is good news, which sparked the initial rally in prices. However, the lack of detail suggests that the organization has a tough set of negotiations ahead, which could ultimately end without an agreement in November. What's more, OPEC members are notorious for producing above quotas, which could mitigate any attempt to balance the market.

We have been saying for some time that the oil market needs a cut in production in order for the rebalancing process to take shape. However, the low end of the target range would only bring production down to levels seen in the first quarter of this year, which was already an elevated level. As such, prices are unlikely to gain much ground on a sustained basis in the near term. That said, further declines expected in U.S. production, combined with healthy demand growth, should help to bring the market into a more balance position by mid-2017. In turn, after holding in the US$40-50 per barrel range this year, prices should rise above US$50 per barrel in 2017.

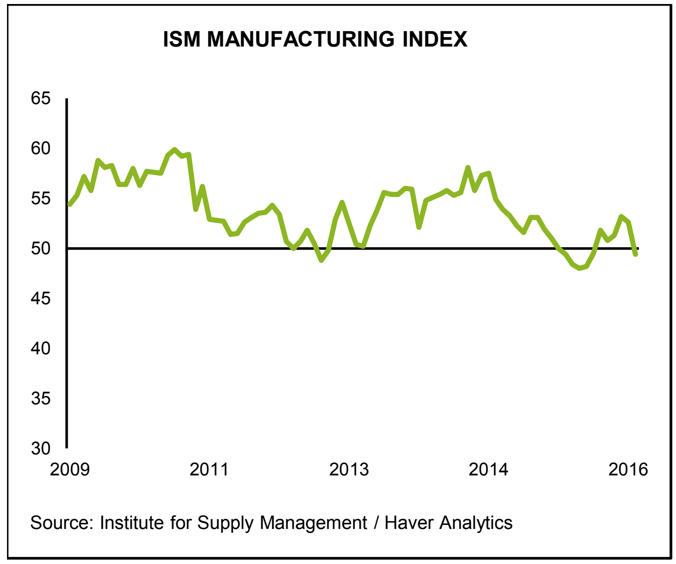
Dina Ignjatovic, Economist, 416-982-2555

U.S.: UPCOMING KEY ECONOMIC RELEASES

U.S. ISM Manufacturing Index - September*

Release Date: October 3, 2016
August Result: 49.4
TD Forecast: 50.0
Consensus: 50.5

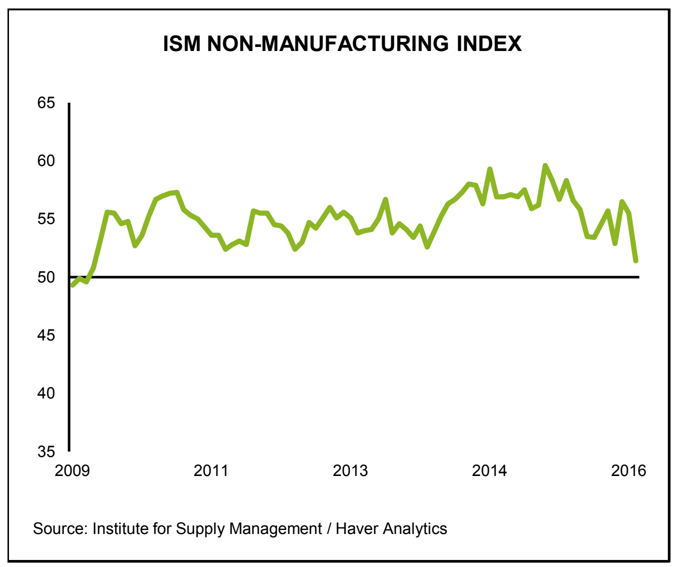
After falling a sharp 3.2 points to 49.4 in August, we look for the manufacturing PMI to move back to 50.0, just escaping contractionary territory. The August drop reflected unusually sharp descents in both new orders and production. Given the relative calm of global financial conditions, we expect corrections in these components to drive the improvement in September. Yet we look for only a modest reversal given the weak performance across regional surveys, including Philly Fed and Empire when reweighted to an ISM basis. At 50.0, the September level is markedly below recent averages but we expect further improvement toward the end of the year given still supportive economic and financial conditions in the manufacturing sector.



U.S. ISM Non-Manufacturing Index - September*

Release Date: October 5, 2016
August Result: 51.4
TD Forecast: 53.2
Consensus: 53.0

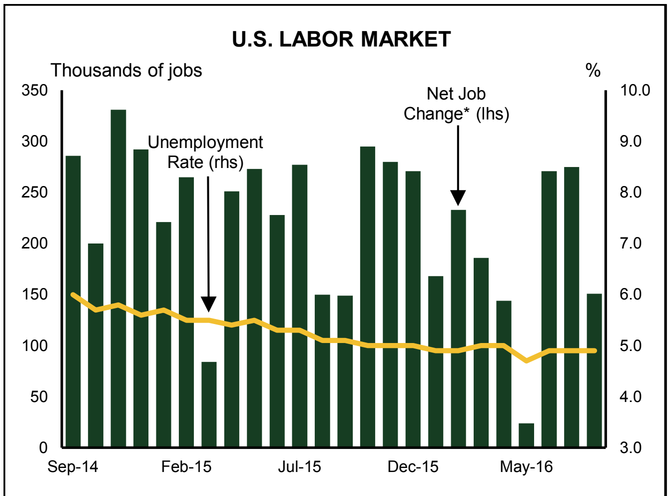
The ISM non-manufacturing index is expected to bounce back to 53.2, reversing roughly half of the drop recorded in August. We view the unexpected dip in August as largely a correction from unsustainable levels, particularly for the new orders and business activity indexes components. Both indexes remained in expansion, pointing to continued growth ahead. We look for the index to move higher to its average 54-55 range in the months to come, consistent with underlying growth slightly above trend.



U.S. Employment - September*

Release Date: October 7, 2016
August Result: 151k, unemployment rate 4.9%
TD Forecast: 160k, unemployment rate 4.9%
Consensus: 170k, unemployment rate 4.9%

September nonfarm payrolls are expected to rise by 160k, which partly reflects calendar effects that may bias the figure lower. Post-crisis, September payrolls have averaged just 110k (and have seen moderately high upward revisions). Moreover, September payroll prints tend to underperform ADP releases by a fairly wide margin. With ADP employment expected to decelerate in September, NFP estimates are subject to further downside risk. The 160k gain if realized, though relatively weak compared to payrolls in June/ July, is only a touch lower than the 6-month average (175k) and well above the trend pace of employment growth. By industry, we look for another weak month in manufacturing employment which is in line with regional survey data and continued cutbacks in the mining/oil/gas sector. In addition, we look for sustained services job growth albeit at a more modest pace in reflection of a labor market nearing full-employment and as presaged by lower readings in ISM employment indices. Thus, a slight pickup in construction jobs is likely to provide the main thrust of acceleration in September payroll growth. The unemployment rate likely was stable at 4.9% for the fourth month. Timing of the reference week points to a strong pickup in average hourly earnings, with the end of the week landing on a Monday.



Seasonally-adjusted data; * Change in non-farm payrolls
Source: U.S. Deptartment of Labor / Haver Analytics

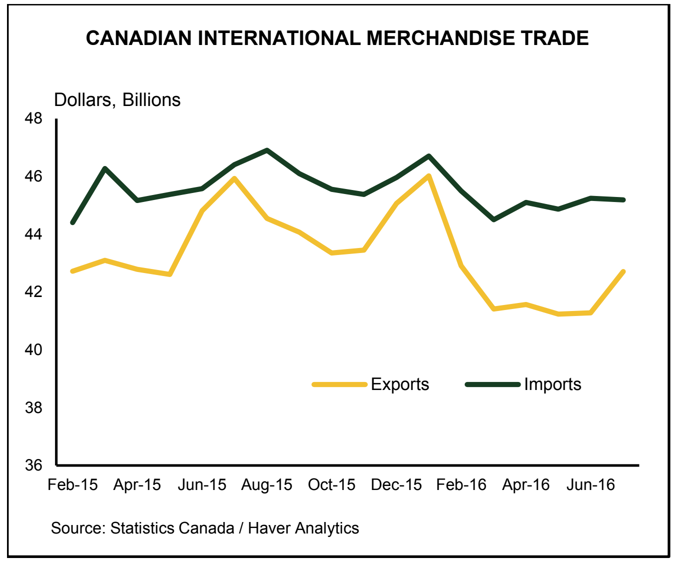
We pencil in a 0.3% m/m increase, leading the pace of earnings growth higher to 2.6% y/y with upside risk for a 2.7% print due to rounding. That would effectively leave wage growth back at its previously recorded highs in June/ July. Thus, the combination of modest payroll growth and accelerating wage gains should lend a constructive tone to the report. One aspect of the report that gets less attention is average weekly hours, which dipped to a 2-year low of 34.3 hours in August. A pickup in September to 34.4 hours is expected and would be a welcome development as another low read is not encouraging for the economic activity in the second half of this year.

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

CANADA: UPCOMING KEY ECONOMIC RELEASES

Canadian International Trade - August*

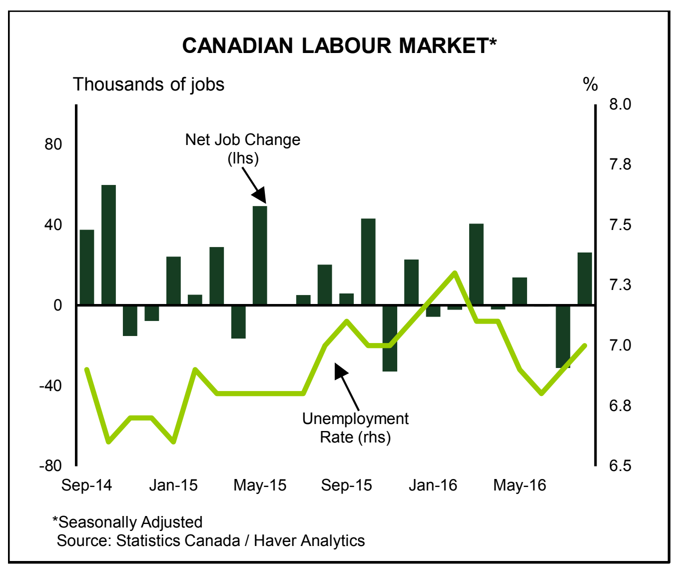
Release Date: October 5, 2016
July Result: -$2.49b
TD Forecast: -$3.0b
Consensus: -$2.45b



Canada's trade deficit is expected to widen to $3.0bn in August, partly reversing the previous improvement to $2.5bn in July. Driving the sharp narrowing in the previous month was a revival in non-energy exports, which rose 4.1% following five consecutive declines. We look for non-energy exports to modestly correct in August led by reversals in a few categories (e.g., metals, machinery) that saw sharp gains with other goods (e.g., motor vehicles) showing continued growth or a pickup. Oil exports likely posted a moderate increase, partially offsetting our projected drop outside of energy. Imports are likely to contribute to the deficit widening in August in recording a strong increase. Driving this view is the strength seen in advance US exports report along with higher producer prices in the US. In sum, the widening expected in August is largely a result of higher imports with exports sliding marginally. Our estimate would leave the July-August average significantly below its Q2 average, pointing to a sizeable boost to Q3 GDP. If anything, there is risk for non-energy exports to rise further in August after having bottomed at a one-year low in June. This would add a bullish tone to the report even if the trade deficit widens on imports.

Canadian Employment - September*

Release Date: October 7, 2016
August Result: 26k, unemployment rate 7.0%
TD Forecast: 5k, unemployment rate 7.0%
Consensus: 7.5k, unemployment rate 7.0%



Canada's labour market is likely to shift down into a lower gear for the month of September with job creation forecast to slow to 5k, which is consistent with survey data indicating a downturn in hiring intentions. The details should reveal a continuation of last month's shift towards full-time hiring and a rotation from public sector hiring to the private sector. Industry-level employment will be driven by the anticipated reversals of a few major moves from the August report. The professional services industry will likely see a rebound in hiring after the loss of 23k positions last month while the public administration industry should see a pullback after the addition of 16k positions in August. Meanwhile, we see the unemployment rate holding steady at 7.0% due to seasonal factors that indicate modest labour force growth during the month of September.

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

RECENT KEY ECONOMIC INDICATORS: SEPTEMBER 26-30, 2016

Release Date		Economic Indicator/Event	Data for Period	Units	Current	Prior	
United States							
Sep 26		New Home Sales	Aug	Thsd	609.0	659.0	R▲
Sep 27		S&P CoreLogic C-S US Home Price Index (SA)	Jul	M/M % Chg.	0.4	0.2	R▼
Sep 27		S&P CoreLogic C-S US Home Price Index	Jul	Y/Y % Chg.	5.1	5.0	R▼
Sep 27		Markit US Services Purchasing Managers' Index	Sep P	Index	51.9	51.0	
Sep 27		Consumer Confidence Index	Sep	Index	104.1	101.8	R▲
Sep 28		Cap Goods Orders Non-defense Excluding Aircraft	Aug P	M/M % Chg.	0.6	0.8	R▼
Sep 28		Durable Goods Orders	Aug P	M/M % Chg.	0.0	3.6	R▼
Sep 29		Advance Goods Trade Balance	Aug	USD, Blns	-58.4	-58.8	R▲
Sep 29		GDP (Annualized)	Q2 T	Q/Q % Chg.	1.4	1.1	
Sep 29		Personal Consumption	Q2 T	Q/Q % Chg.	4.3	4.4	
Sep 29		Core Personal Consumption Expenditures	Q2 T	Q/Q % Chg.	1.8	1.8	
Sep 29		Initial Jobless Claims	Sep 24	Thsd	254.0	251.0	R▼
Sep 29		Pending Home Sales	Aug	M/M % Chg.	-2.4	1.2	R▼
Sep 30		Personal Income	Aug	M/M % Chg.	0.2	0.4	
Sep 30		Real Personal Spending	Aug	M/M % Chg.	-0.1	0.3	
Sep 30		PCE Deflator	Aug	Y/Y % Chg.	1.0	0.8	
Sep 30		Core Personal Consumption Expenditures	Aug	Y/Y % Chg.	1.7	1.6	
Canada							
Sep 29		CFIB Business Barometer	Sep	Index	59.0	59.8	
Sep 30		Gross Domestic Product	Jul	M/M % Chg.	0.5	0.6	
Sep 30		Industrial Product Price	Aug	M/M % Chg.	-0.5	0.2	
International							
Sep 28	JN	Retail Trade	Aug	Y/Y % Chg.	-2.1	-0.2	
Sep 29	JN	Jobless Rate	Aug	%	3.1	3.0	
Sep 29	JN	Consumer Price Index	Aug	Y/Y % Chg.	-0.5	-0.4	
Sep 30	EZ	Core Consumer Price Index	Sep A	Y/Y % Chg.	0.8	0.8	
Sep 30	EZ	Unemployment Rate	Aug	%	10.1	10.1	

Source: Bloomberg, TD Economics.

UPCOMING ECONOMIC RELEASES AND EVENTS: OCTOBER 3-7, 2016

Release Date	Time*		Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States							
Oct 03	10:00	US	ISM Manufacturing	Sep	Index	50.2	49.4
Oct 03		US	Wards Total Vehicle Sales	Sep	Mlns	17.40	16.91
Oct 04	8:05	US	*Fed's Lacker Speaks at West Virginia Economic Outlook Meeting*				
Oct 04	19:50	US	*Fed's Evans Speaks on Economy and Policy in Auckland, NZ*				
Oct 05	8:15	US	ADP Employment Change	Sep	Thsd	160.0	177.0
Oct 05	8:30	US	Trade Balance	Aug	USD, Blns	-41.5	-39.5
Oct 05	9:30	US	*Fed's Kashkari Gives Opening Remarks at Development Conference*				
Oct 05	10:00	US	Factory Orders	Aug	M/M % Chg.	-0.5	1.9
Oct 05	10:00	US	Factory Orders Excluding Transportation	Aug	M/M % Chg.	-	0.2
Oct 05	10:00	US	ISM Non-Manufacturing Composite	Sep	Index	53.0	51.4
Oct 05	13:00	US	*Fed's Lacker to Speak at Marshall University*				
Oct 06	8:30	US	Initial Jobless Claims	Oct 01	Thsd	-	254.0
Oct 07	8:30	US	Change in Nonfarm Payrolls	Sep	Thsd	175.0	151.0
Oct 07	8:30	US	Unemployment Rate	Sep	%	4.9	4.9
Oct 07	8:30	US	Average Hourly Earnings MoM	Sep	M/M % Chg.	0.2	0.1
Oct 07	10:00	US	Wholesale Trade Sales MoM	Aug	M/M % Chg.	-	-0.4
Oct 07	10:30	US	*Fed's Fischer Speaks in Washington*				
Oct 07	12:45	US	*Fed's Mester Speaks in New York*				
Oct 07	15:00	US	*Fed's George Speaks in Washington*				
Oct 07	16:00	US	*Fed's Brainard Speaks in Washington*				
Canada							
Oct 05	8:30	CA	International Merchandise Trade	Aug	CAD, Blns	-	-2.5
Oct 07	8:30	CA	Net Change in Employment	Sep	Thsd	-	26.2
Oct 07	8:30	CA	*Unemployment Rate*	Sep	%	-	7.0
Oct 07	10:30	CA	BoC Senior Loan Officer Survey	3Q	Index	-	5.0
International							
Oct 03	4:30	UK	Markit UK PMI Manufacturing (SA)	Sep	Index	52.1	53.3
Oct 05	5:00	EZ	Retail Sales	Aug	Y/Y % Chg.		2.9

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