THE WEEKLY BOTTOM LINE

TD Economics

HIGHLIGHTS OF THE WEEK

January 13, 2017

United States

- Financial markets this week were captivated by policy-related tweets and a mid-week press conference by President-elect Donald Trump that, while entertaining, proved to be short on policy detail.
- Retail trade data this week was broadly in line with market expectations, although the monthly advance was driven by increased purchases of autos and gasoline. Overall, the data remains consistent with our view that consumer spending will continue to support economic activity in 2017.
- Promises from policymakers are nothing new, and are an important driver of consumer and business expectations. However, the post-election euphoria may be premature. We remain hopeful that more policy certainty will materialize after the inauguration next week.

Canada

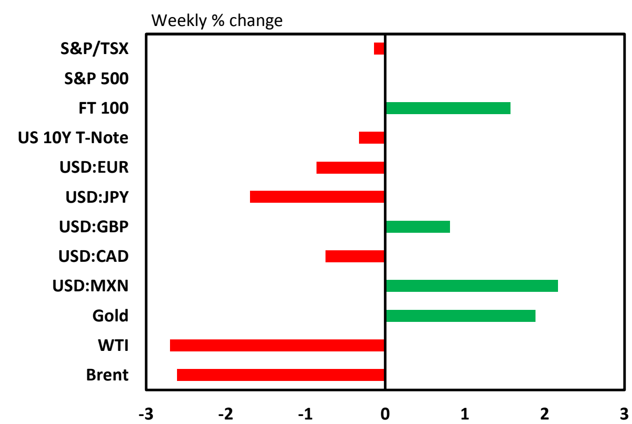
- The Bank of Canada's Business Outlook Survey pointed to continued improvement in the Canadian outlook, as firms grew increasingly confident about Canada's economic prospects. Similarly, housing starts remained resilient in December, suggesting decent momentum in construction heading into 2017.
- For the Bank of Canada, the upcoming monetary policy decision will require balancing these positive developments against a soft pace of inflation and heightened uncertainty post-U.S. election.
- Ultimately, the Bank of Canada is likely to leave its monetary policy interest rate at 0.50%, with communication likely to emphasize the many reasons for maintaining this accommodative rate for some time to come.

THIS WEEK IN THE MARKETS

	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	2,277	2,277	2,277	1,829
S&P/TSX Comp.	15,456	15,496	15,587	11,843
DAX	11,626	11,599	11,646	8,753
FTSE 100	7,333	7,210	7,333	5,537
Nikkei	19,287	19,454	19,594	14,952
Fixed Income Yields				
U.S. 10-yr Treasury	2.41	2.42	2.60	1.36
Canada 10-yr Bond	1.73	1.73	1.84	0.95
Germany 10-yr Bund	0.35	0.30	0.57	-0.19
UK 10-yr Gilt	1.36	1.38	1.73	0.52
Japan 10-yr Bond	0.05	0.06	0.24	-0.29
Foreign Exchange Cross Rates				
C$ (USD per CAD)	0.76	0.76	0.80	0.69
Euro (USD per EUR)	1.06	1.05	1.15	1.04
Pound (USD per GBP)	1.21	1.23	1.49	1.21
Yen (JPY per USD)	115.1	117.0	121.1	99.9
Commodity Spot Prices*				
Crude Oil ($US/bbl)	52.6	54.0	54.1	26.2
Natural Gas ($US/MMBtu)	3.32	3.33	3.76	1.49
Copper ($US/met. tonne)	5813.8	5569.3	5945.0	4327.5
Gold ($US/troy oz.)	1193.4	1172.9	1366.4	1078.5

*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.

NORTH AMERICAN EQUITIES FLAT ON THE WEEK



Note: Data as of Jan. 13, 11:15 AM ET.
Sources: Bloomberg, TD Economics

GLOBAL OFFICIAL POLICY RATE TARGETS

	Current Target
Federal Reserve (Fed Funds Rate)	0.5 - 0.75%
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. – RISING OPTIMISM BUT FEW DETAILS

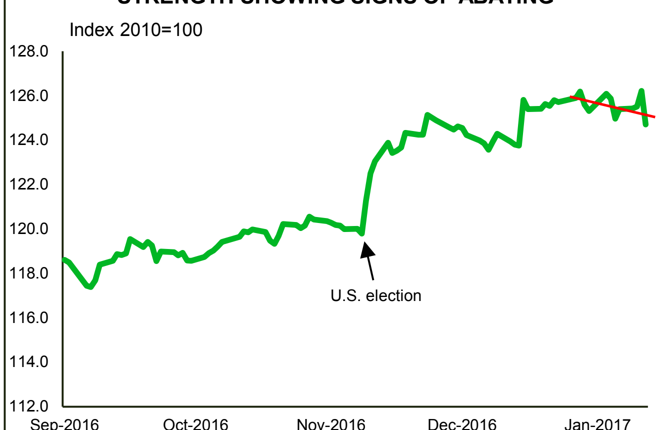
Financial markets this week had a fair bit of information to digest, mainly in the form of verbal communication from policymakers. Despite what was deemed a disappointing press conference by President-elect Trump this week given the lack of policy detail, equity markets are expected to end up on the week, while Treasuries round-tripped and should end the week roughly unchanged. The main story in financial markets this week was the volatility in the U.S. dollar index, which could mark the third consecutive week of declines.

The key economic data print this week was the December retail sales figure that showed a rise in consumer spending driven largely by autos and gasoline. While broadly in line with expectations, sales ex-autos and gasoline were virtually unchanged from the previous month. Overall, the data is consistent with our narrative that tightening labor markets and past gains in real income growth should support consumer spending in 2017.

Other data failed to garner as much attention this week. November data from the job openings and labor turnover survey didn't affect the narrative of a recovering labor market. Somewhat more interesting was price data from surveys of producers and international trade, which showed a pick-up in price growth over the last twelve months, driven in large part by higher energy prices.

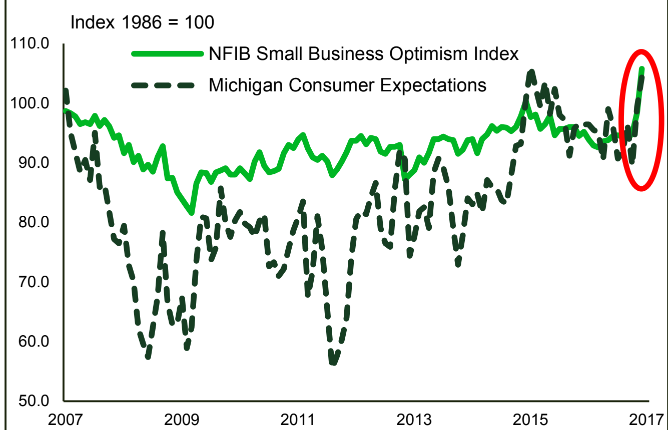
Given the lack of significant surprise in domestic economic data, markets focused their attention on what was being said by policymakers about the U.S. economy, particular concerning the outlook for monetary and fiscal policy. While market participants have long appreciated the power of central bankers to move financial markets with a few choice words, the dramatic market moves in reaction to recent policy proposals by elected officials has been noteworthy. Recent examples include the market's swift reaction to tweets by President-elect Trump, and the market volatility observed during his press conference this week.

CHART 1: POST-ELECTION U.S. DOLLAR STRENGTH SHOWING SIGNS OF ABATING



Source: JP Morgan nominal broad effective exchange rate via Haver Analytics.
Last Observation: January 12, 2017

CHART 2: CONSUMER AND BUSINESS OPTIMISM HAS SURGED POST U.S. ELECTION



Source: University of Michigan, NFIB via Haver Analytics.

The general optimism in the nation's equity markets to the election result have been echoed in surveys of business and consumer confidence. This week, the NFIB optimism index surged, ending 2016 with the largest quarterly increase since 1980. The University of Michigan's monthly survey of consumer sentiment, while pulling back ever so slightly in January, remained similarly upbeat, well above its pre-election level and at a rate that historically would suggest some upside to the outlook for consumer spending.

While stories have always mattered, and economists have long emphasized the importance of expectations about the future, there is a risk is that at least some of this elation is premature. With limited details on the scope of policy changes or their economic effectiveness, there is a chance that the fiscal policy of the new administration will fail to achieve the economic outcomes promised. In the short-term the rise in confidence (or animal spirits) is a positive for the outlook, but any disappointment could lead expectations to pull back.

Hopefully some of this policy uncertainty will begin to fade after president-elect Trump is confirmed as President at next Friday's inauguration. Still, if the events of the past week are any guide, expect financial market volatility to persist.

Fotios Raptis, Senior Economist 416-982-2556

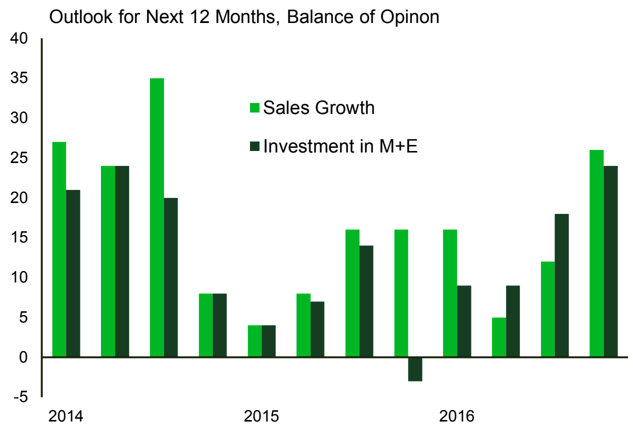
CANADA – POLOZ LIKELY TO FOCUS ON SOFT INFLATION, NOT GROWTH

There were more signs this week that the Canadian economy has regained its footing. The Bank of Canada's quarterly Business Outlook Survey showed a further improvement in business sentiment (Chart 1). Nearly all aspects of the report were positive, as the number of firms expecting improvement in sales and investment further outweighed those anticipating a decline. Firms pointed to the level of the Canadian dollar, as well as the outlook for U.S. demand as key factors for growth. It is impossible to talk about the impact of U.S. demand without discussing potential policy changes under President-elect Trump. Protectionist rhetoric and possible trade barriers are the fly in the ointment of an otherwise positive Business Outlook Survey.

Indeed, further underscoring the near-term momentum in Canada were the December housing starts figures, as homebuilders broke ground on 207k new housing units (at an annual pace). This was enough to keep the trend pace of starts around the 200k mark, roughly in line with Canadian household formation. Canadian housing is of course a story of regions: housing starts have failed to keep pace with underlying demand growth in Ontario. For this reason, although the national pace of activity is likely to slow next year, we expect Ontario to remain supported by pent-up demand.

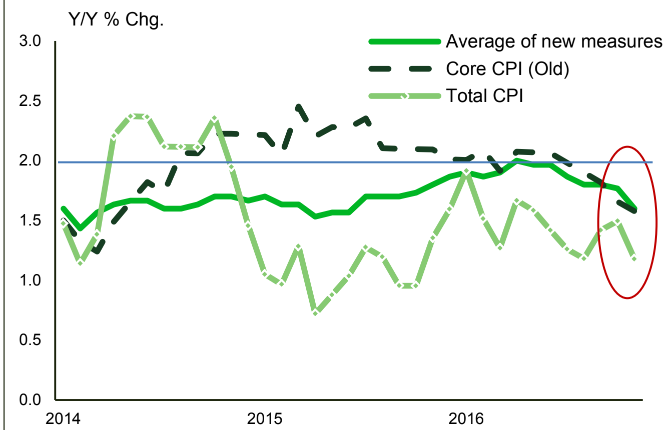
Bank of Canada Governor Stephen Poloz is seemingly trapped between two conflicting sets of data: on one side is near-term economic growth that is coming in stronger than the Bank forecast, alongside further improvement in the outlook over the next year. Offsetting this is soft inflation data, particularly as measured by the Bank's new set of core inflation measures (Chart 2).

CHART 1: CANADIAN BUSINESS SENTIMENT CONTINUES TO IMPROVE



Source: Bank of Canada

CHART 2. CORE INFLATION MEASURES HAVE BEEN TRENDING LOWER



Source: Statistics Canada, TD Economics.

The latter set of data is likely to prevail for a number of reasons. First, the Bank of Canada's core mandate is to target inflation, and so the sizeable deviation from the 2% target that has emerged recently will be of primary concern for Poloz. Additionally, near term growth prospects remain solid, but the improvement in the outlook (as captured by the Business Outlook Survey) remains highly uncertain given the U.S. political climate. Poloz has shown a willingness to take a 'wait and see' approach in the face of uncertainty before, such as in January 2016 decision.

Ultimately, it is likely that the Bank of Canada will hold its policy interest rate at 0.50% on Wednesday, while at the same emphasizing the softness in core inflation measures, the elevated level of uncertainty, and the remaining Canadian economic slack (in contrast to the U.S.). Poloz may push back against expectations of interest rate increases, perhaps hoping to talk down longer-term yields.

In contrast to market views, TD Economics sees the risks around Canadian monetary policy as remaining skewed towards further easing, not an increase. While we expect inflation to tick back up in the coming months, helped by energy prices, persistently weak inflation may be the catalyst that spurs further monetary easing.

Brian DePratto, Senior Economist, 416-944-5069

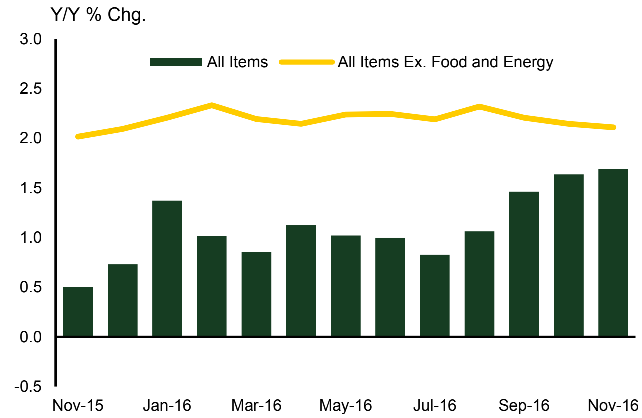
U.S.: UPCOMING KEY ECONOMIC RELEASES

U.S. Consumer Price Index - December*

Release Date: December 18, 2016
November Result: 0.2% m/m, core 0.2% m/m
TD Forecast: 0.2% m/m, core 0.2% m/m
Consensus: 0.3% m/m, core 0.2% m/m

Headline inflation is expected to breach the 2% mark for the first time since 2014, reflecting a jump in energy prices and a recovery in food prices. TD expects inflation to accelerate to 2.0% y/y in December, reflecting a 0.2% increase in prices on the month. Energy prices should be higher across the board while producer level and global commodity prices point to a rebound in food prices, with potential for its strongest read since May. Excluding food and energy movements, core prices are expected to rise 0.2% on the month, keeping the core inflation rate at 2.1% y/y. Core prices are expected to be supported by gains in healthcare and transportation services prices and the continued strength in home and rental prices. But potentially offsetting are core goods prices due to recent USD appreciation and sustained weakness in core import prices.

U.S. CONSUMER PRICE INDEX (CPI)



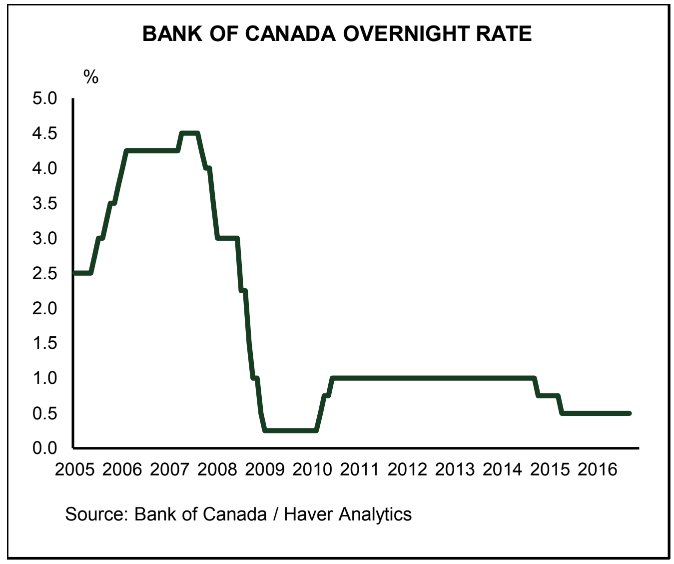
Source: Bureau of Labor Statistics / Haver Analytics

*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*

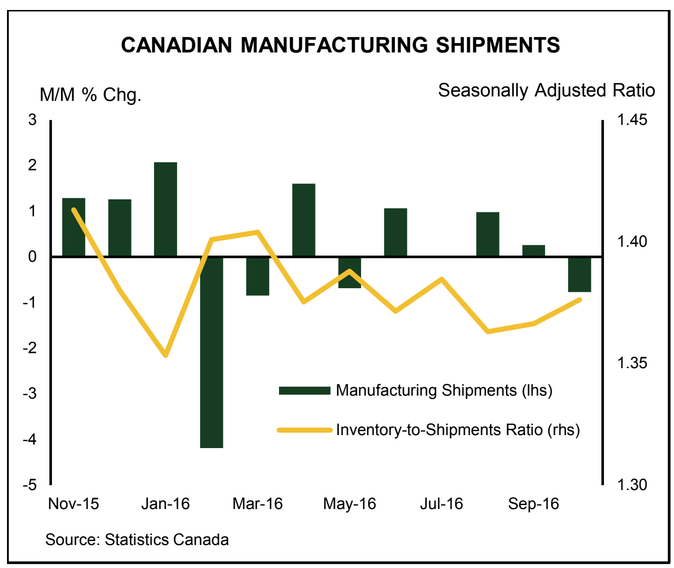
Release Date: January 18, 2016
December Result: 0.50%
TD Forecast: 0.50%
Consensus: 0.50%



The Bank of Canada is expected to leave its overnight rate unchanged at 0.50% in January. Constructive news on the growth front is likely to be offset by concerns over weaker core inflation, but the Bank is unlikely to act now as additional data will allow for more clarity on both the domestic economy and international politics. The Bank of Canada is likely to remain on the sidelines as domestic growth is holding up compared to the Bank's previous forecast, the US economic outlook and Fed's tightening bias remains intact with greater upside risks as evidenced by a more hawkish December FOMC dot plot, and heightened uncertainty over US fiscal policy remains unresolved. In the context of the Bank of Canada's risk management framework, the balance of risks has not changed materially since the last policy meeting. That said, the risks remain skewed to the downside in our view, and the recent sharp deceleration in core inflation measures and the prevailing level of uncertainty over rising US protectionism in particular argues for the Bank of Canada's dovish stance to hold at this meeting and beyond.

Canadian Manufacturing Sales - November*

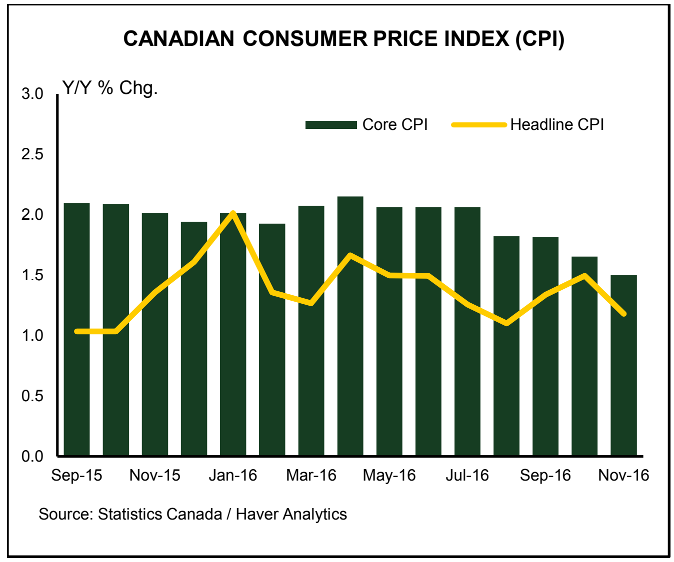
Release Date: January 19, 2016
October Result: -0.8% m/m
TD Forecast: 1.4% m/m
Consensus: 0.9% m/m



Manufacturing sales are forecast to advance by 1.4% m/m in November, fully reversing last month's 0.8% decline and resuming their upward trend. This reflects both strong export activity and a positive contribution from producer prices. While gains should be fairly broad-based, we look for manufactured commodity products (metals, forestry, food) to outperform, with the exception of energy products. This is partially due to an anticipated reversal from a weak October and a sharp rise in nominal exports. Energy products have scope to edge higher on a volumes basis, but weaker gasoline prices will weigh on nominal sales. Motor vehicle sales are also expected to underperform after soft production and export data. Manufacturing volumes are expected to underperform the nominal series but should still make a healthy contribution to growth in November.

Canadian Consumer Price Index - December*

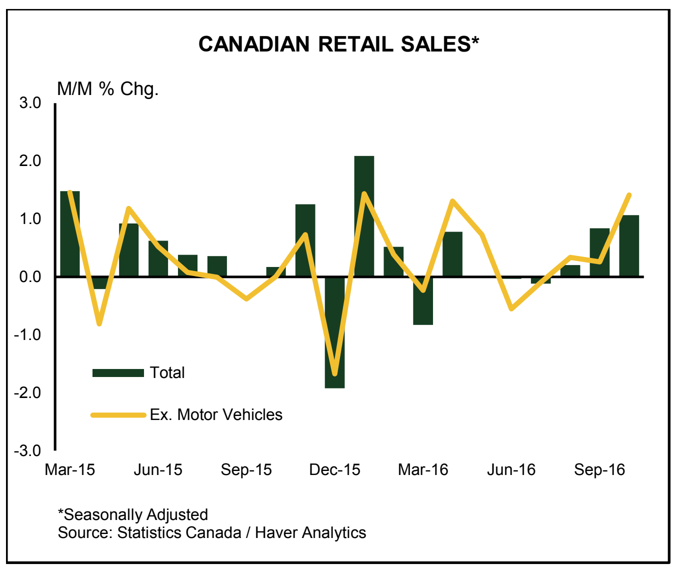
Release Date: January 20, 2016
November Result: -0.4% m/m
TD Forecast: 0.1% m/m
Consensus: N/A



Following the sharp deceleration in November, headline CPI inflation is expected to bounce back firmly on higher energy prices and favourable base effects. We expect inflation to firm to 1.7% y/y, reflecting a 0.1% increase in prices on the month. The headline however should mask the underlying weakness across the core components. Our forecast assumes the old CPIX core measure to stabilize at 1.5% y/y, suggesting stable to lower readings in the three new core metrics (CPI common, trimmed mean and median). Given limits to the data, however, we do not plan to attempt month-ahead forecasts for the core indicators. Nevertheless, the backdrop of significant slack and diminished exchange rate pass-through argues for near-term downside across the measures. Particular attention will be placed on the CPI-common due to its closer link to the output gap and its recent slide to a cycle low of 1.3%. As we have highlighted, further deceleration to 1.0% y/y and below will challenge the Bank's policy stance.

Canadian Retail Sales - November*

Release Date: January 20, 2016
October Result: 1.1% m/m; ex-auto 1.4% m/m
TD Forecast: 0.5% m/m; ex-auto -0.2% m/m
Consensus: N/A



November retail sales are expected to post a 0.5% m/m gain in November, largely due to robust motor vehicle sales, while the ex-auto measure is forecast to post a modest decline of 0.2% m/m. Adjusted industry data indicates that November auto sales may have set a new record, helped in part by the recent surge in job growth (albeit part-time), and strong Black Friday sales. Gasoline station sales will likely act as a headwind due to a material decline in the price at the pump, while more downside risk will emanate from the housing sector following the implementation of new regulatory measures. We expect to see weaker sales of household furnishings after the plunge in existing home sales while the slowdown in residential construction (prior to December bounce) could weigh on building material sales. Due to the pullback in November consumer prices, we look for retail volumes to outperform the nominal print.

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

RECENT KEY ECONOMIC INDICATORS: JANUARY 9-13, 2017							
Release Date		Economic Indicator/Event	Data for Period	Units	Current	Prior	
United States							
Jan 09		Consumer Credit	Nov	USD, Blns	24.5	16.2	R▲
Jan 10		NFIB Small Business Optimism	Dec	Index	105.8	98.4	
Jan 10		Wholesale Trade Sales	Nov	M/M % Chg.	0.4	1.1	R▼
Jan 12		Initial Jobless Claims	Jan 07	Thsd	247.0	237.0	R▲
Jan 13		Producer Price Index Ex Food and Energy	Dec	M/M % Chg.	0.2	0.4	
Jan 13		Producer Price Index Final Demand	Dec	M/M % Chg.	0.3	0.4	
Jan 13		Retail Sales Advance	Dec	M/M % Chg.	0.6	0.2	R▲
Jan 13		Retail Sales Ex Auto and Gas	Dec	M/M % Chg.	0.0	0.3	R▲
Jan 13		Business Inventories	Nov	M/M % Chg.		-0.2	
Canada							
Jan 09		Business Outlook Future Sales	4Q	Index	26.0	12.0	
Jan 09		Bank of Canada Senior Loan Officer Survey	4Q	Index	-2.6	3.3	
Jan 10		Housing Starts	Dec	Thsd	207.0	187.3	R▲
Jan 10		Building Permits	Nov	M/M % Chg.	-0.1	10.5	
Jan 12		New Housing Price Index	Nov	M/M % Chg.	0.2	0.4	
International							
Jan 09	CN	Consumer Price Index	Dec	Y/Y % Chg.	2.1	2.3	
Jan 09	CN	Producer Price Index	Dec	Y/Y % Chg.	5.5	3.3	
Jan 09	EZ	Unemployment Rate	Nov	%	9.8	9.8	

Source: Bloomberg, TD Economics.

UPCOMING ECONOMIC RELEASES AND EVENTS: JANUARY 16-20, 2017							
Release Date	Time*		Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
			United States				
Jan 17	8:30		Empire Manufacturing	Jan	Index	8.0	9.0
Jan 17	8:45		*Fed's Dudley Speaks in New York*				
Jan 17	8:45		*Fed's Dudley Speaks on Consumer Behavior in New York*				
Jan 17	18:00		*Fed's Williams Speaks in Sacramento*				
Jan 18	8:30		Real Average Hourly Earning	Dec	Y/Y % Chg.	-	-
Jan 18	8:30		Consumer Price Index	Dec	M/M % Chg.	0.3	0.2
Jan 18	8:30		Consumer Price Index Ex Food and Energy	Dec	M/M % Chg.	0.2	0.2
Jan 18	8:30		Consumer Price Index	Dec	Y/Y % Chg.	2.1	1.7
Jan 18	8:30		Consumer Price Index Ex Food and Energy	Dec	Y/Y % Chg.	2.1	2.1
Jan 18	9:15		Industrial Production	Dec	M/M % Chg.	0.6	-0.4
Jan 18	9:15		Manufacturing (SIC) Production	Dec	M/M % Chg.	0.5	-0.1
Jan 18	9:15		Capacity Utilization	Dec	%	75.5	75.0
Jan 18	10:00		NAHB Housing Market Index	Jan	Index	69.0	70.0
Jan 18	11:00		*Fed's Kashkari Speaks on Economy in Minneapolis*				
Jan 18	15:00		*Fed's Yellen Speaks in San Francisco*				
Jan 19	8:30		Initial Jobless Claims	Jan 14	Thsd	252.0	247.0
Jan 19	8:30		Housing Starts	Dec	Thsd	1200	1090
Jan 19	8:30		Building Permits	Dec	Thsd	1220	1201
Jan 19	20:00		*Fed's Yellen Speaks at Stanford*				
Jan 20	9:00		*Fed's Harker Speaks in New Jersey on Economic Outlook*				
Jan 20	13:00		*Fed's Williams Speaks at Event at San Francisco Fed*				
			Canada				
Jan 16	9:00		Existing Home Sales	Dec	M/M % Chg.	-	-5.3
Jan 18	10:00		*Bank of Canada Releases January Monetary Policy Report*				
Jan 18	10:00		Bank of Canada Rate Decision	Jan 18	%	0.5	0.5
Jan 19	8:30		Manufacturing Sales	Nov	M/M % Chg.	-	-0.8
Jan 20	8:30		Retail Sales	Nov	M/M % Chg.	-	1.1
Jan 20	8:30		Retail Sales Ex Auto	Nov	M/M % Chg.	-	1.4
Jan 20	8:30		Consumer Price Index	Dec	Y/Y % Chg.	-	1.2
Jan 20	8:30		Consumer Price Index	Dec	M/M % Chg.	-	-0.4
			International				
Jan 17	4:30	UK	Consumer Price Index	Dec	Y/Y % Chg.	1.4	1.2
Jan 18	4:30	UK	Unemployment Rate	Nov	%	4.8	4.8
Jan 18	5:00	EZ	Consumer Price Index	Dec	M/M % Chg.	0.5	-0.1
Jan 19	7:45	EZ	ECB Main Refinancing Rate	Jan 19	%	0.0	0.0
Jan 19	21:00	CN	Gross Domestic Product	Q4	Y/Y % Chg.	6.7	6.7
Jan 19	21:00	CN	Retail Sales	Dec	Y/Y % Chg.	10.7	10.8

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