

THE WEEKLY BOTTOM LINE

TD Economics



HIGHLIGHTS OF THE WEEK

March 4, 2016

United States

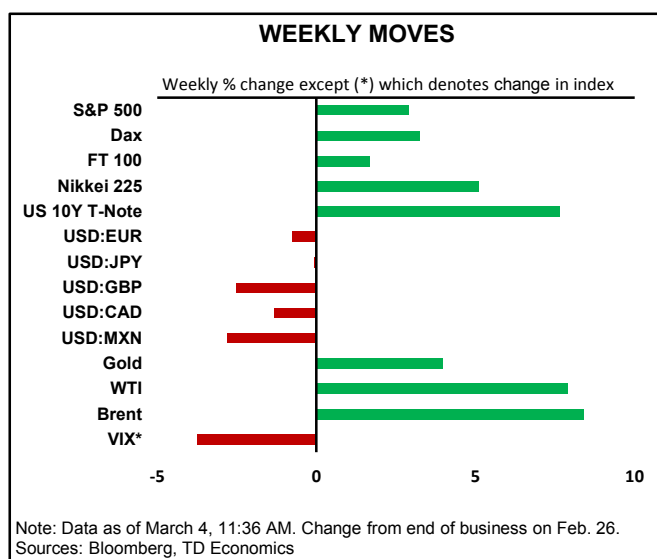
- Stronger than expected data out of the U.S. supported this week's risk-on bias in global financial markets. Nonfarm payrolls took center stage at the end of the week adding 242k jobs in February.
- Expectation for further stimulus out of the Eurozone and China appeared increasingly likely, boosting global sentiment further ahead of China's annual parliamentary sessions and the ECB's monetary policy meeting next week.
- Though we are of the view that the Fed will remain on the sidelines on March 16th, the improving domestic backdrop supports our view that the Fed will continue on with its gradual tightening cycle in June.

Canada

- The release of Canadian national accounts showed a 0.8% (annualized) gain in Canadian real GDP in the fourth quarter, slightly better than the zero print expected by markets. Digging into the details, however, paints a more disappointing picture. Stripping away net trade, final domestic demand fell by 0.6% in the quarter.
- The good news stories were in the forward looking indicators. Monthly real GDP grew by 0.2% in December, providing a nice hand-off into the first quarter of 2016. Real exports in January grew 2.5%, and net trade is poised to provide a significant boost to economic growth. TD economics is now tracking an above 2% growth rate for real GDP in Q1 2016.
- The better-than-expected economic turnout in the end of the year is likely to keep the Bank of Canada on hold at next week's interest rate decision.

THIS WEEK IN THE MARKETS				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	1,990	1,948	2,131	1,829
S&P/TSX Comp.	13,195	12,798	15,451	11,843
DAX	9,765	9,513	12,375	8,753
FTSE 100	6,163	6,096	7,104	5,537
Nikkei	17,015	16,188	20,868	14,953
Fixed Income Yields				
U.S. 10-yr Treasury	1.87	1.76	2.48	1.66
Canada 10-yr Bond	1.24	1.18	1.91	1.00
Germany 10-yr Bund	0.21	0.15	0.98	0.08
UK 10-yr Gilt	1.46	1.40	2.19	1.30
Japan 10-yr Bond	-0.04	-0.07	0.54	-0.07
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.75	0.74	0.84	0.69
Euro (USD per EUR)	1.10	1.09	1.16	1.05
Pound (USD per GBP)	1.42	1.39	1.59	1.39
Yen (JPY per USD)	113.5	114.0	125.6	112.1
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	34.9	32.8	61.4	26.2
Natural Gas (\$US/MMBtu)	1.56	1.66	3.27	1.53
Copper (\$US/met. tonne)	4864.5	4714.8	6481.8	4327.5
Gold (\$US/troy oz.)	1277.0	1222.7	1277.0	1051.1

*as of 10:25 am on Friday **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price), Copper-LME Grade A, Gold-London Gold Bullion; Source: 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)	0.05%
Bank of England (Repo Rate)	0.50%
Bank of Japan (Overnight Rate)	0.00%

Source: Central Banks.

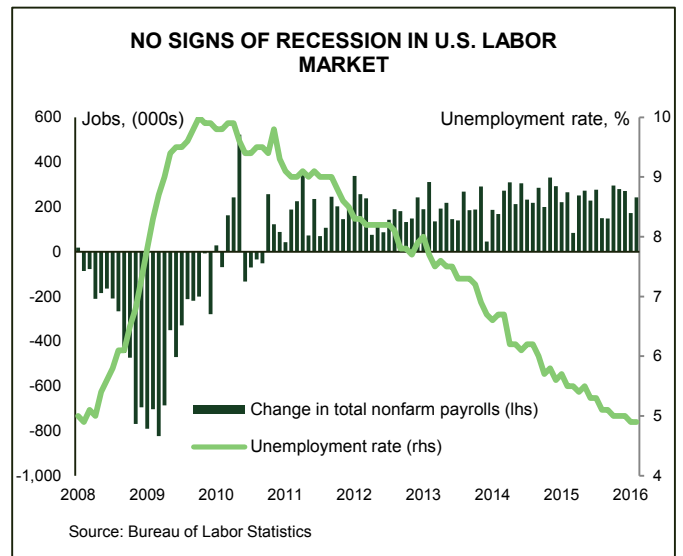
U.S. - INVESTOR SENTIMENT ON THE RISE, U.S. DATA REMAINS SUPPORTIVE

Following several weeks of deteriorating investor sentiment, market participants were decidedly more upbeat this week. Steady oil prices supported the risk-on bias, with the WTI benchmark trading near the \$35/barrel mark for much of the week. Oil prices received support despite reports of a large buildup in U.S. inventories, as investors increasingly believe that production will begin to decline and recessionary fears wane. This helped send the S&P 500 to a near 3% advance this week (as at mid-Friday morning). Meanwhile, the bond market sold off, pushing the yield on the 10-year Treasury note more than 15bps higher.

Investor sentiment was further boosted on expectations for more global stimulus. In China, the PBoC reduced the reserve ratio requirement on commercial banks by half a point to 17% on Monday. Moreover, the weak PMI readings from the country's manufacturing and services sectors raised the expectation that Premier Li may follow up on the reserve ratio cut with plans for further fiscal spending following China's annual parliamentary meetings this weekend.

In Europe, the likelihood that the ECB will expand its current stimulus measures at its monetary policy meeting next Thursday is almost certain at this point. Despite better than expected PMIs across the Eurozone, inflation came in below consensus at -0.2% y/y in February, the first negative print since September. Moreover, the core inflation metric decelerated from 0.9% to 0.7% on a y/y basis, diverging even further from the near-2% threshold the ECB targets.

Still, investors appeared to be most uplifted by better than expected data closer to home. The ISM manufacturing index remained in slight contractionary territory, but rose for the second month in a row in February. The report suggested that activity in the sector may be nearing its nadir and more

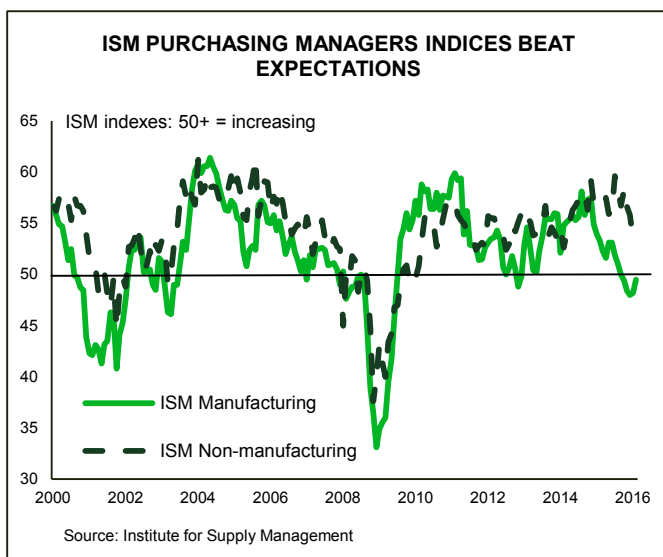


improvement may be on the way. The non-manufacturing index was also relatively constructive with weakness largely concentrated in the mining and support services industries. Importantly, the bulk of service sector industries fared well with activity rebounding strongly, pointing to continued strength in domestic demand. Other data out of the U.S. were even more encouraging. Construction spending expanded robustly, while auto sales held near a strong 17.5m mark.

Still, all that was a mere appetizer, with investors eagerly awaiting today's employment report. The main course did not disappoint. Job growth accelerated in February to a blockbuster 242 thousand with another 30 thousand positions added to the previous two months' tally. Strong job growth enabled the unemployment rate to hold steady at 4.9% despite a large influx of people into the labor force. Americans are joining the labor force at the fastest pace in nine years with the participation rate rising by 0.2 percentage points to 62.9%, the highest level in over a year. Even more encouraging was the decline in the underemployment rate, which fell 0.2 percentage points to 9.7% last month, suggesting that the labor market gains are increasingly reaching those that are only marginally attached to the labor force.

All in all, the data this week were largely in line with our narrative of a resilient U.S. economy amid global weakness. Still, we remain of the view that the FOMC will stay on the sidelines when they meet in less than two weeks, but feel that continued progress in the labor market will support price and wage growth dynamics going forward. As such, we believe that the data will provide the necessary evidence for the Fed to continue on with its gradual tightening cycle by the time of the June meeting.

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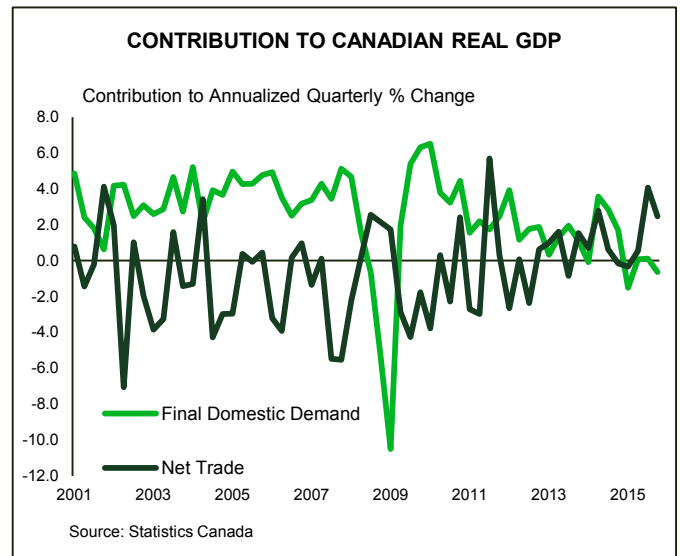


CANADA - TRADE MAKES CANADA GREAT AGAIN

The biggest news maker this week was the release of Canadian national accounts, which showed a 0.8% annualized gain in Canadian real GDP in the final quarter of last year. While not a thrilling print by any means, it did just enough to convince markets that the Bank of Canada might just not raise rates this year. Prior to the GDP print markets were almost fully pricing in a Bank of Canada rate cut by mid-year, now that probability is pegged at under 20%. The Canadian dollar closed the week at 74 U.S. cents, the highest level for the currency since the end of the year.

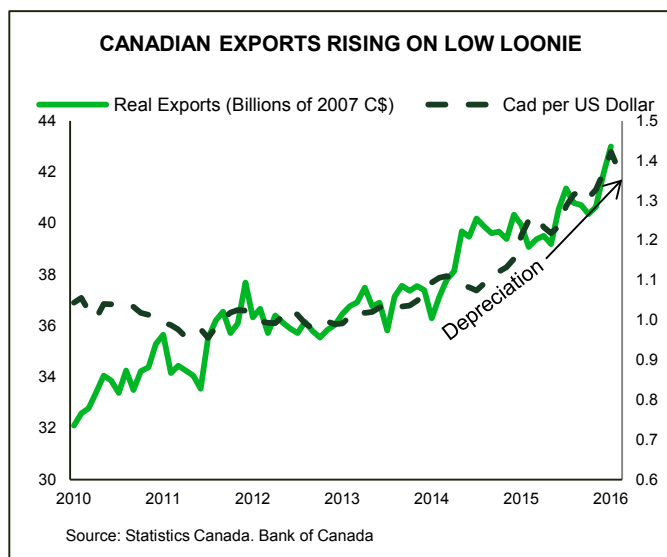
Taken together with this week's decent U.S. data releases, the real GDP report provided some optimism that the worst of the rough growth patch may be behind us. Consensus forecasts were calling for a zero print, and some growth is better than none. The better-than-expected print, however, was due more to accounting than any underlying strength in the economy. When imports rise, they subtract from GDP growth and when they fall, they add to economic growth. A heavy drop in imports added about 3.2 percentage points to real GDP growth in the fourth quarter of the year. Stripping away net trade, final domestic demand came in weaker than we were expecting, falling by 0.6% annualized in the quarter. Consumer spending growth clocked in at just less than 1.0% and business investment contracted 12.5% – a fifth quarterly consecutive double-digit decline.

The good news stories were found elsewhere, and were more forward looking in nature. For one, monthly GDP by industry rose by a healthy 0.2% in December, providing a decent hand-off into 2016 and quieting concerns that the



Canadian economy could dip back into recession. But, the best news came with the release of Canadian trade data for January. Real exports were up 2.5% in January (in national account terms), following a 3.2% gain in the prior month. Real exports have surged 10% since May of 2015 and are now sitting at their highest level on record. The good news has been spread across a wide-range of categories, with motor vehicle and parts, consumer goods, forestry, and building and packaging material leading the way. Net exports are on track to provide a strong boost to real GDP in the first quarter of the year. We are now expecting economic growth to top 2% annualized in the quarter, which beats our prior forecast of 1.5% and the Bank of Canada's call for 1.0%.

The data this week confirmed the view that weak domestic drivers in Canada would eventually be offset by a currency-driven pick-up in real exports. That rotation in growth drivers is becoming more entrenched as we head into 2016. Of course, improving economic prospects are likely to be most felt in regions of the economy less dependent on oil production, like Ontario, B.C. and Quebec. In contrast, the adjustment to low oil prices in Alberta will continue to be painful in the year ahead and the economy is expected to suffer a second annual economic contraction in 2016, capping total annual Canadian real GDP growth at a sub-2% pace in the year. So, while there may be less justification for a rate cut by the Bank of Canada at next week's interest rate decision, prospects for rate hikes are still far off into the future.



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CANADA: UPCOMING KEY ECONOMIC RELEASES

Canadian Housing Starts - February*

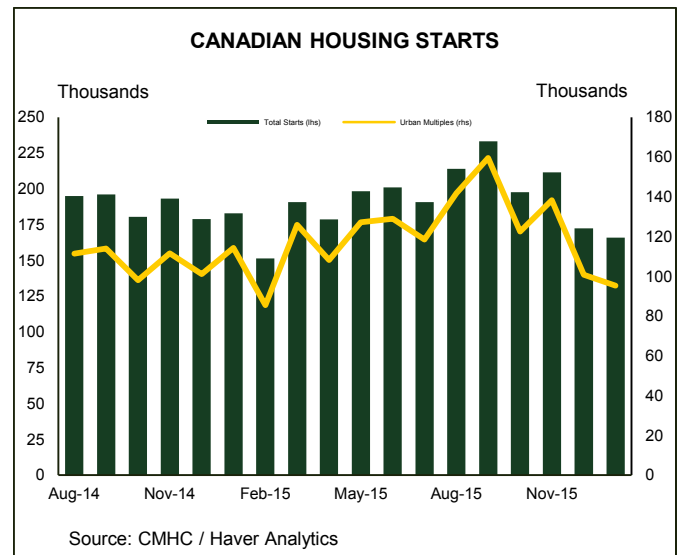
Release Date: March 8, 2016

January Result: 165.9k

TD Forecast: 177k

Consensus: N/A

New residential construction should see a restrained rebound in the month of February, with the pace of housing starts increasing to 177k. The pickup in building activity will be driven by the more volatile multifamily segment which reached a 12 month low in January. On a regional basis, construction growth will be most prominent in Ontario and British Columbia, while Alberta will suffer from continued layoffs in the oil and gas sector and a glut of new housing projects currently underway.



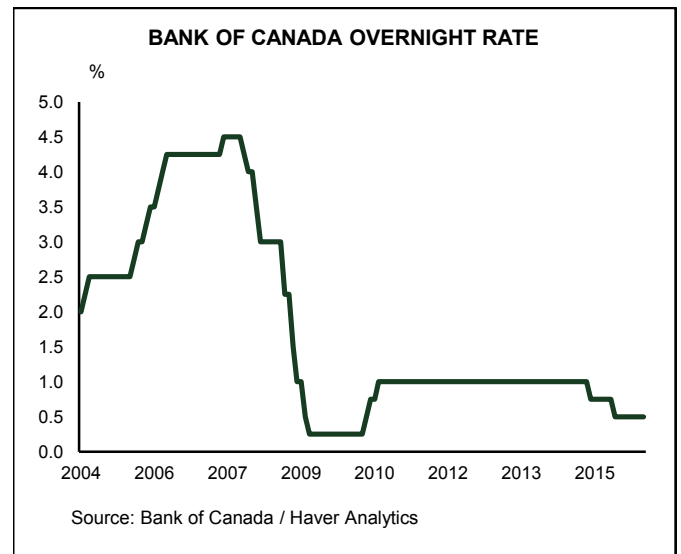
Bank of Canada Fixed Announcement Date

Release Date: March 9, 2016

TD Forecast: 0.50%

Consensus: 0.50%

The March FAD is shaping up to be a placeholder meeting, as TD expects the Bank to remain on the sidelines in anticipation of the March 22nd federal budget. Since the January MPR the economy has unfolded largely as expected and the Q1 growth forecast of 1% looks very achievable thanks to a solid hand-off from December industry-level GDP and strong export growth in January. However, financial conditions have tightened over the last two months, with the Canadian dollar trading at a 2-3 cent premium to levels assumed in the January MPR, while oil is only just approaching MPR levels. This, along with higher front-end government yields, could impose a restraint on economic



growth which is a risk that the Bank may highlight.

Canadian Employment - February*

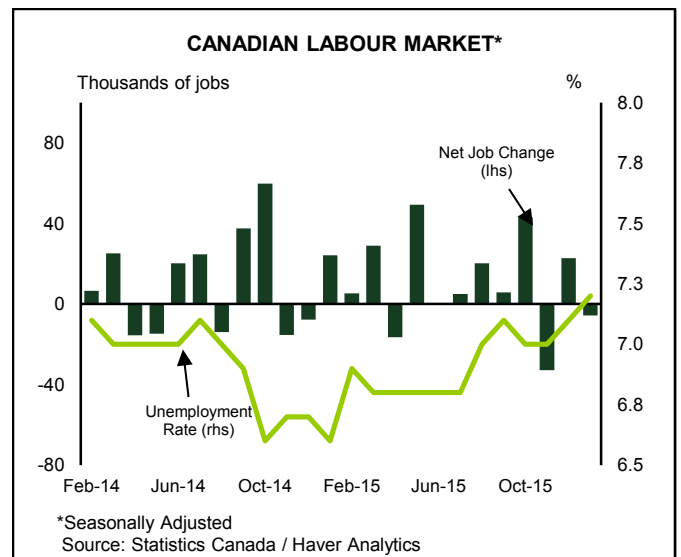
Release Date: March 11, 2016

December Result: -5.7k; unemployment rate 7.1%

TD Forecast: 5.0k; unemployment rate 7.2%

Consensus: 10.1k; unemployment rate 7.2%

The pace of hiring in the Canadian labour market likely remained subdued in February, with TD expecting the addition of a mere 5k jobs. The unemployment rate is forecast to have remained unchanged at 7.2%. A rebound in self-employment will help to support the headline series, as there is little to suggest that the other major components are poised to either unwind or extend their January moves. While there were several high profile announcements of layoffs in the resource sector through February, recent surveys of hiring intentions showed a modest improvement which provides a partial offset and further obscures the outlook. If our forecast is realized, the six-month pace of employment will slip modestly from 9k to 6k which is consistent with conditions in the wider economy.



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

RECENT KEY ECONOMIC INDICATORS: FEBRUARY 29 - MARCH 4, 2016

Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior		
United States							
Feb 29	ISM Milwaukee	Feb	Index	55.2	50.4		
Feb 29	Chicago Purchasing Manager	Feb	Index	47.6	55.6		
Feb 29	Pending Home Sales	Jan	M/M % Chg.	-2.5	0.9	R ▲	
Feb 29	Pending Home Sales NSA	Jan	Y/Y % Chg.	-0.9	3.1		
Feb 29	Dallas Fed Manf. Activity	Feb	Index	-31.8	-34.6		
Mar 01	ISM Prices Paid	Feb	Index	38.5	33.5		
Mar 01	ISM Manufacturing	Feb	Index	49.5	48.2		
Mar 01	Construction Spending	Jan	M/M % Chg.	1.5	0.6	R ▲	
Mar 01	IBD/TIPP Economic Optimism	Mar	Index	46.8	47.8		
Mar 01	ISM New Orders	Feb	Index	51.5	51.5		
Mar 01	Domestic Vehicle Sales	Feb	Mlns	13.74	13.79		
Mar 01	Total Vehicle Sales	Feb	Mlns	17.43	17.46		
Mar 02	MBA Mortgage Applications	Feb 26	W/W % Chg.	-4.8	-4.3		
Mar 02	ADP Employment Change	Feb	Thsd	214.0	193.0	R ▼	
Mar 02	ISM New York	Feb	Index	53.6	54.6		
Mar 02	<i>Fed's Williams Speaks in San Ramon, California</i>						
Mar 02	<i>U.S. Federal Reserve Releases Beige Book</i>						
Mar 03	Challenger Job Cuts	Feb	Y/Y % Chg.	21.8	41.6		
Mar 03	Continuing Claims	Feb 20	Thsd	2257	2254	R ▲	
Mar 03	Initial Jobless Claims	Feb 27	Thsd	278.0	272.0		
Mar 03	Bloomberg Consumer Comfort	Feb 28	Index	43.6	44.2		
Mar 03	Factory Orders Ex Trans	Jan	M/M % Chg.	-0.2	-0.9	R ▼	
Mar 03	Factory Orders	Jan	M/M % Chg.	1.6	-2.9		
Mar 03	ISM Non-Manf. Composite	Feb	Index	53.4	53.5		
Mar 04	Average Hourly Earnings	Feb	M/M % Chg.	-0.1	0.5		
Mar 04	Unemployment Rate	Feb	%	4.9	4.9		
Mar 04	Change in Manufact. Payrolls	Feb	Thsd	-16.0	23.0	R ▼	
Mar 04	Change in Private Payrolls	Feb	Thsd	230.0	182.0	R ▲	
Mar 04	Two-Month Payroll Net Revision	Feb	Thsd	30.0	-		
Mar 04	Change in Nonfarm Payrolls	Feb	Thsd	242.0	172.0	R ▲	
Mar 04	Trade Balance	Jan	USD, Blns	-45.7	-44.7	R ▼	
Mar 04	Change in Household Employment	Feb	Thsd	530.0	615.0		
Mar 04	Labor Force Participation Rate	Feb	%	62.9	62.7		
Mar 04	Underemployment Rate	Feb	%	9.7	9.9		
Canada							
Feb 29	Current Account Balance	Q4	CAD, Blns	-15.4	-15.3	R ▲	
Feb 29	Industrial Product Price	Jan	M/M % Chg.	0.5	-0.3	R ▼	
Feb 29	Raw Materials Price Index	Jan	M/M % Chg.	-0.4	-5.2	R ▼	
Feb 29	Bloomberg Nanos Confidence	Feb 26	Index	53.6	53.5		
Mar 01	Quarterly Gross Domestic Product Annualized	Q4	Q/Q % Chg.	0.8	2.4	R ▲	
Mar 01	Gross Domestic Product	Dec	Y/Y % Chg.	0.5	0.5	R ▲	
Mar 01	Gross Domestic Product	Dec	M/M % Chg.	0.2	0.3		
Mar 01	RBC Canadian Manufacturing PMI	Feb	Index	49.4	49.3		
Mar 04	International Merchandise Trade	Jan	CAD, Blns	-0.7	-0.6	R ▼	
Mar 04	Labor Productivity	Q4	Q/Q % Chg.	0.1	0.4	R ▲	
Mar 04	Ivey Purchasing Managers Index SA	Feb	Index	-	66.0		
International							
Feb 29	JN	Jobless Rate	Jan	%	3.2	3.3	
Mar 01	JN	Vehicle Sales	Feb	Y/Y % Chg.	-4.6	0.2	
Mar 01	EC	Unemployment Rate	Jan	%	10.3	10.4	
Mar 01	AU	Gross Domestic Product	4Q	Y/Y % Chg.	3.0	2.7	R ▲
Mar 02	EC	Producer Price Index	Jan	Y/Y % Chg.	-2.9	-3.0	

UPCOMING ECONOMIC RELEASES AND EVENTS: MARCH 7-11, 2016

Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Mar 07	10:00	Labor Market Conditions Index Change	Feb	Index	1.0	0.4
Mar 07	12:00	<i>Conference</i>				
Mar 07	12:30	<i>Fed's Fischer Speaks at Annual NABE Conference in Washington</i>				
Mar 07	15:00	Consumer Credit	Jan	USD, Blns	16.5	21.3
Mar 08	6:00	NFIB Small Business Optimism	Feb	Index	94.2	93.9
Mar 09	10:00	Wholesale Trade Sales	Jan	M/M % Chg.	-0.2	-0.3
Mar 09	10:00	Wholesale Inventories	Jan	M/M % Chg.	-0.2	-0.1
Mar 09	7:00	MBA Mortgage Applications	Mar 04	W/W % Chg.	-	-4.8
Mar 10	8:30	Continuing Claims	Feb 27	Thsd	-	2257
Mar 10	8:30	Initial Jobless Claims	Mar 05	Thsd	275.0	278.0
Mar 10	9:45	Bloomberg Consumer Comfort	Mar 06	Index	-	43.6
Mar 10	12:00	Household Change in Net Worth	Q4	USD, Blns	-	-1232
Mar 10	14:00	Monthly Budget Statement	Feb	USD, Blns	-200.0	-
Mar 11	8:30	Import Price Index	Feb	Y/Y % Chg.	-6.6	-6.2
Mar 11	8:30	Import Price Index	Feb	M/M % Chg.	-0.8	-1.1
Canada						
Mar 07	10:00	Bloomberg Nanos Confidence	Mar 04	Index	-	53.6
Mar 08	8:15	Housing Starts	Feb	Thsd	-	165.9
Mar 08	8:30	Building Permits	Jan	M/M % Chg.	-	0.1
Mar 09	10:00	Bank of Canada Rate Decision	Mar 09	%	0.5	0.5
Mar 10	16:15	<i>Bank of Canada's Poloz gives introductory remarks in Ottawa</i>			-	
Mar 10	8:30	New Housing Price Index	Jan	Y/Y % Chg.	-	1.6
Mar 10	8:30	New Housing Price Index	Jan	M/M % Chg.	-	0.1
Mar 10	8:30	Capacity Utilization Rate	Q4	%	-	82.0
Mar 11	8:30	Net Change in Employment	Feb	Thsd	10.1	-5.7
Mar 11	8:30	Full Time Employment Change	Feb	Thsd	-	5.6
Mar 11	8:30	Part Time Employment Change	Feb	Thsd	-	-11.3
Mar 11	8:30	Unemployment Rate	Feb	%	7.2	7.2
Mar 11	8:30	Participation Rate	Feb	%	-	65.9
International						
Mar 08	5:00	EC Gross Domestic Product Seasonally Adjusted	Q4	Y/Y % Chg.	1.5	1.5
Mar 08	2:45	FR Trade Balance	Jan	EUR, Mlns	-4100	-3943
Mar 09	18:50	JN Producer Price Index	Feb	Y/Y % Chg.	-3.4	-3.1
Mar 10	2:00	GE Trade Balance	Jan	EUR, Blns	17.5	18.8
Mar 11	4:30	UK Trade Balance	Jan	GBP, Mlns	-3000	-2709

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



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