

THE WEEKLY BOTTOM LINE

TD Economics



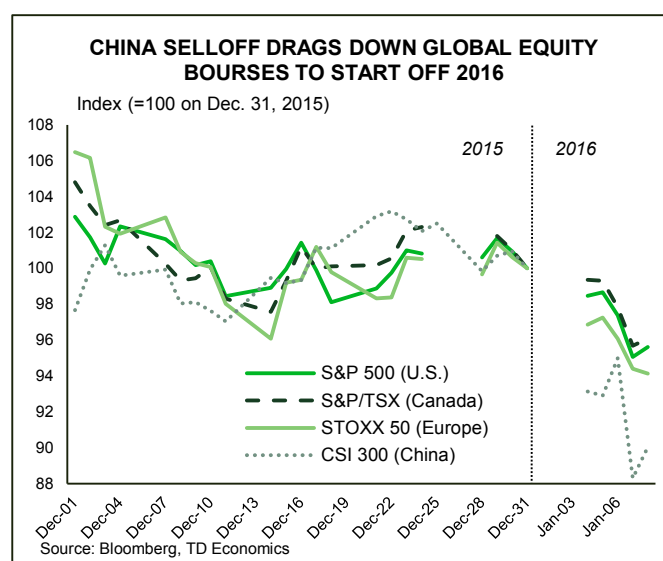
HIGHLIGHTS OF THE WEEK

January 8, 2016

- For global investors 2016 has so far been off to a rocky start. Global equities lost more than \$2 trillion, before recovering somewhat, as a slump in Chinese equities triggered unease across other bourses.
- The selloff in China was related to both a weakening macroeconomic backdrop as well as immature policy choices which may have exacerbated the panic.
- U.S. data did little to inspire confidence early in the week, with manufacturing and non-manufacturing ISMs deteriorating. But, this was more than made up for by the resounding strength in the labor market. Jobless claims reversed last week's uptick, while the American job machine created 292,000 positions in December. Alongside positive revisions, this capped off the second best year of hiring this century, after last year's spree.

THIS WEEK IN THE MARKETS				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	1,943	2,044	2,131	1,868
S&P/TSX Comp.	12,448	13,010	15,451	12,448
DAX	10,079	10,743	12,375	9,428
FTSE 100	6,000	6,242	7,104	5,874
Nikkei	17,698	19,034	20,868	16,796
Fixed Income Yields				
U.S. 10-yr Treasury	2.18	2.27	2.48	1.64
Canada 10-yr Bond	1.35	1.39	1.91	1.24
Germany 10-yr Bund	0.54	0.63	0.98	0.08
UK 10-yr Gilt	1.80	1.96	2.19	1.33
Japan 10-yr Bond	0.23	0.27	0.54	0.20
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.71	0.72	0.85	0.71
Euro (USD per EUR)	1.08	1.09	1.18	1.05
Pound (USD per GBP)	1.46	1.47	1.59	1.46
Yen (JPY per USD)	118.3	120.6	125.6	116.2
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	33.3	37.0	61.4	33.3
Natural Gas (\$US/MMBtu)	2.35	2.31	3.29	1.53
Copper (\$US/met. tonne)	4524.0	4705.8	6481.8	4512.5
Gold (\$US/troy oz.)	1099.7	1061.4	1302.1	1051.1

*as of 9:00 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)	0.10%

Source: Central Banks, Haver Analytics

TD ECONOMICS KEY FORECASTS									
	Current Rate	2015				2016			
	1/8/16	Q1	Q2	Q3	Q4E	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate (%)	0.50	0.25	0.25	0.25	0.50	0.75	1.00	1.25	1.25
2-yr Govt. Bond Yield (%)	0.97	0.56	0.64	0.64	1.00	1.25	1.50	1.75	1.75
10-yr Govt. Bond Yield (%)	2.18	1.94	2.35	2.06	2.40	2.45	2.50	2.50	2.50
30-yr Govt. Bond Yield (%)	2.96	2.54	3.11	2.87	3.15	3.15	3.20	3.20	3.20
Real GDP (Q/Q % Chg, Annualized)	2.0 (Q3 T)	0.6	3.9	2.1	2.0	2.4	2.5	2.6	2.4
CPI (Y/Y % Chg.)	0.5 (Nov-15)	-0.1	0.0	0.1	0.4	1.4	1.3	1.8	2.5
Unemployment Rate (%)	5.0 (Dec-15)	5.6	5.4	5.2	5.1	5.0	4.9	4.9	4.8

Forecast by TD Economics. Source: Bloomberg, TD Economics.

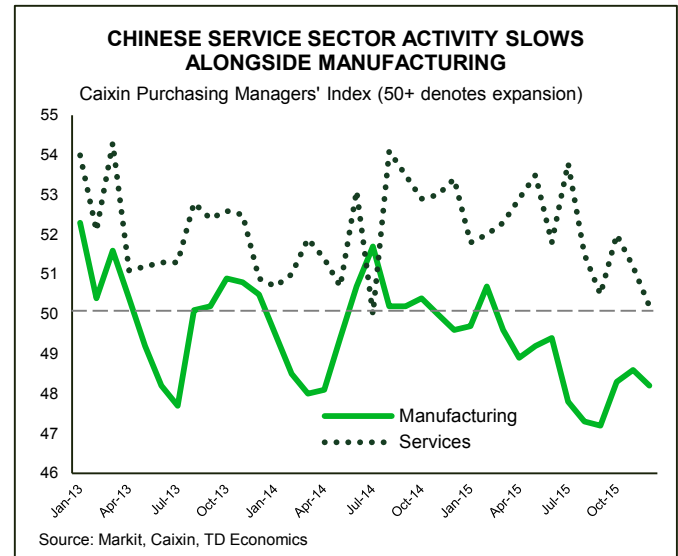
CHINA SLOWING, BUT AMERICAN JOB MACHINE RUMBLES ON

For global investors 2016 has so far been off to a rocky start. Global equities lost more than \$2 trillion, before recovering some, as a slump in Chinese equities triggered unease across other bourses. Chinese blue-chip stocks slid more than 7% on Monday, triggering the newly minted circuit breakers designed to temporarily halt trading once the broad index falls by 5%, and end the daily trading session if a cumulative 7% threshold is breached. The scenario was repeated on Thursday within 29 minutes of the opening bell. The selloff appears to be related to both to the weak macroeconomic backdrop as well as immature policy decisions.

Chinese economic data released this week was indeed weak. The manufacturing sector continued to contract for the 10th consecutive month in December, according to the private sector PMI, with the pace of decline accelerating slightly at the end of 2015. The gloomy mood was further exacerbated by the services PMI, which fell one point to its lowest level in more than a year (see chart), suggesting that the service sector may not be immune to the slowdown in manufacturing. Weak economic data have been putting downward pressure on the renminbi in the offshore market, leading the PBoC to devalue the currency by the most since the summer this week in its daily fixing.

In addition to the macro factors, some of the declines in Chinese equities were related to the looming end of the ban on large investor stock sales, scheduled to take place this week. Moreover, the introduction of circuit breakers itself may have made the anxiety more acute. Despite higher inherent volatility, the 5%/7% thresholds which bring on temporary halt and close trading for the rest of the day, are set much lower in China than the 7%/13%/20% thresholds in place in the U.S. Furthermore, the narrow two point spread between the two thresholds makes the daily close very probable once the temporary halt is initiated. At this point, the regulators have abandoned the circuit breaker, while the ban on large investor sales was extended until new rules are implemented on January 9th. These moves seem to have helped calm markets, with Friday's session relatively upbeat. But, the slowing economy is likely to weigh on sentiment going forward with bouts of volatility still likely in the relatively immature market.

Global sentiment was further dented by geopolitical tensions on the Korean peninsula as well as in the Middle East. Mid-East tensions initially boosted oil prices, before the market digested the implications of Saudi Arabia and Iran, the two largest OPEC producers, severing diplomatic ties – something that's likely to cause disagreement within the already frayed cartel. By mid-week, oil prices fell to the lowest levels in



more than a decade, pressured further by demand worries out of China as well as a large build in U.S. refined petroleum inventories.

U.S. economic figures also did little to inspire confidence, at least until later in the week. The ISM manufacturing index weakened at year end, suggesting that the sector, which has to contend with a high dollar, slow global growth, and collapsing energy sector investment, has yet to find a bottom. The service sector also decelerated in December, while newly released figures on trade, factory orders and construction suggest growth in the U.S. slowed to below 1% in the last quarter of 2015.

But, the tone of U.S. economic data improved markedly as the week progressed. Weekly jobless claims fell back after the big uptick in the previous week. And then there was the December employment report, which was a thing of beauty. The economy added 292k jobs, and along with the 50k of revisions to the previous two months, capped off another strong year of hiring with 2.65 million positions added. Strong demand for workers encouraged more to rejoin the labor force, helping eat up “shadow slack” – precisely what the Fed wants to see according to the minutes of its December meeting.

The one blemish on the report was the apparent lack of wage gains. Wage growth accelerated to 2.5% on a year-over-year basis, its fastest of the recovery, but remained flat on a monthly basis. Some of this could be related the seasonal hiring of lower-paid workers that may not have been fully accounted for in the seasonal adjustment. We are still of the view that tightening conditions will pressure wages up, and support core consumer inflation metrics. This trend should provide comfort for the Fed to continue on its gradual tightening cycle, with the next uptick in rates likely to take place in March.

Michael Dolega, Senior Economist

UPCOMING KEY ECONOMIC RELEASES

U.S. Retail Sales - December*

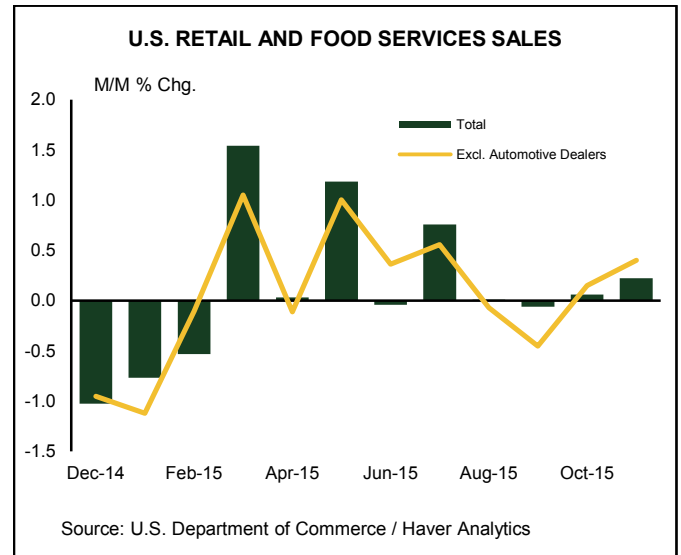
Release Date: January 15, 2016

November Result: Total 0.2% m/m, Core: 0.5% m/m

TD Forecast: Total -0.2% m/m, Core: 0.3% m/m

Consensus: Total 0.1% m/m, Core: 0.3% m/m

Retail sales activity is expected to be negatively affected by the combination of lower gasoline prices, weak auto sales and the hit on apparel spending from the record warm weather in December. TD's forecast is for headline retail sales to post a disappointing 0.2% m/m decline. Excluding autos, however, sales should be flat while core spending activity should rise at a relatively robust 0.3% m/m, underscoring the continued buoyancy in underlying consumer spending momentum. Nevertheless, with economic activity appearing to have shifted down a gear and the pace of jobs growth likely to slow in the months ahead, we expect some of the recent buoyancy in spending activity to be surrendered.



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



RECENT KEY ECONOMIC INDICATORS: JANUARY 4-8, 2015

Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior	
United States						
Jan 04	ISM Prices Paid	Dec	Index	33.5	35.5	
Jan 04	ISM Manufacturing	Dec	Index	48.2	48.6	
Jan 04	Construction Spending	Nov	M/M % Chg.	-0.4	0.3	R ▼
Jan 05	ISM New York	Dec	Index	6	60.7	
Jan 05	Total Vehicle Sales	Dec	USD, Mlns	17.22	18.05	
Jan 05	Domestic Vehicle Sales	Dec	USD, Mlns	13.46	14.00	
Jan 06	MBA Mortgage Applications	Jan 01	W/W % Chg.	-11.6	-17.4	
Jan 06	ADP Employment Change	Dec	Thsd	257.0	211.0	R ▼
Jan 06	Trade Balance	Nov	USD, Blns	-42.4	-44.6	R ▼
Jan 06	Factory Orders Ex Trans	Nov	M/M % Chg.	-0.3	0.1	R ▼
Jan 06	Factory Orders	Nov	M/M % Chg.	-0.2	1.3	R ▼
Jan 06	ISM Non-Manf. Composite	Dec	Index	55.3	55.9	
Jan 07	Challenger Job Cuts	Dec	Y/Y % Chg.	-27.6	-13.9	
Jan 07	Initial Jobless Claims	Jan 02	Thsd	277.0	287.0	
Jan 07	Continuing Claims	Dec 26	Thsd	2230	2205	R ▲
Jan 07	Bloomberg Consumer Comfort	Jan 03	Index	44.2	43.6	
Jan 08	Underemployment Rate	Dec	%	9.9	9.9	
Jan 08	Labor Force Participation Rate	Dec	%	62.6	62.5	
Jan 08	Change in Household Employment	Dec	Thsd	485.0	247.0	R ▲
Jan 08	Average Hourly Earnings	Dec	M/M % Chg.	0.0	0.2	R ▲
Jan 08	Change in Manufact. Payrolls	Dec	Thsd	8.0	2.0	R ▲
Jan 08	Change in Private Payrolls	Dec	Thsd	275.0	240.0	R ▲
Jan 08	Two-Month Payroll Net Revision	Dec	Thsd	50.0	-	
Jan 08	Change in Nonfarm Payrolls	Dec	Thsd	292.0	252.0	R ▲
Jan 08	Unemployment Rate	Dec	%	5.0	5.0	
Jan 08	Wholesale Trade Sales	Nov	M/M % Chg.	-1.0	-0.2	R ▼
Jan 08	Wholesale Inventories	Nov	M/M % Chg.	-0.3	-0.3	R ▼
Canada						
Jan 04	Bloomberg Nanos Confidence	Jan 01	Index	53.8	54.5	
Jan 05	Industrial Product Price	Nov	M/M % Chg.	-0.2	-0.5	
Jan 05	Raw Materials Price Index	Nov	M/M % Chg.	-4.0	0.0	R ▲
Jan 06	Int'l Merchandise Trade	Nov	CAD, Blns	-2.0	-2.5	R ▲
Jan 07	Ivey Purchasing Managers Index SA	Dec	Index	49.9	63.6	
Jan 08	Building Permits	Nov	M/M % Chg.	-19.6	9.9	R ▲
Jan 08	Unemployment Rate	Dec	%	7.1	7.1	
Jan 08	Net Change in Employment	Dec	Thsd	22.8	-35.7	
Jan 08	Full Time Employment Change	Dec	Thsd	-6.4	36.6	
Jan 08	Part Time Employment Change	Dec	Thsd	29.2	-72.3	
Jan 08	Participation Rate	Dec	%	65.9	65.8	
International						
Jan 04	GE Consumer Price Index	Dec P	Y/Y % Chg.	0.3	0.4	
Jan 05	JN Vehicle Sales	Dec	Y/Y % Chg.	3.1	0.3	
Jan 06	EC Producer Price Index	Nov	Y/Y % Chg.	-3.2	-3.2	R ▼
Jan 06	AU Trade Balance	Nov	AUD, Mlns	-2906	-3247	R ▲
Jan 08	GE Trade Balance	Nov	EUR, Blns	20.6	22.3	R ▼
Jan 08	UK Trade Balance	Nov	GBP, Mlns	-3170	-3507	R ▲

Source: Bloomberg, TD Economics.



UPCOMING ECONOMIC RELEASES AND EVENTS: JANUARY 11-15, 2015

Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Jan 11	10:00	Labor Market Conditions Index Change	Dec	Index	-	0.5
Jan 11	12:40	<i>Fed's Lockhart Speaks on U.S. Economic Outlook in Atlanta</i>				
Jan 11	17:50	<i>Fed's Kaplan Speaks on Economy and Monetary Policy in Dallas</i>				
Jan 12	6:00	NFIB Small Business Optimism	Dec	Index	95.1	94.8
Jan 12	10:00	JOLTS Job Openings	Nov	Thsd	5400	5383
Jan 12	10:00	IBD/TIPP Economic Optimism	Jan	Thsd	47.5	47.2
Jan 12	15:15	<i>Fed's Lacker To Speak on Outlook in Columbia, South Carolina</i>				
Jan 13	7:00	MBA Mortgage Applications	Jan 08	W/W % Chg.	-	-11.6
Jan 13	12:30	<i>Fed's Evans Speaks on Economy and Monetary Policy in Iowa</i>				
Jan 13	14:00	Monthly Budget Statement	Dec	USD, Blns	-2.7	1.9
Jan 13	14:00	U.S. Federal Reserve Releases Beige Book				
Jan 14	8:30	Continuing Claims	Jan 02	Thsd	2190	2230
Jan 14	8:30	<i>Fed's Bullard Speaks to Economic Club of Memphis</i>				
Jan 14	8:30	Import Price Index	Dec	M/M % Chg.	-1.5	-0.4
Jan 14	8:30	Initial Jobless Claims	Jan 09	Thsd	275.0	277.0
Jan 14	9:45	Bloomberg Consumer Comfort	Jan 10	Index	-	44.2
Jan 15	8:30	Empire Manufacturing	Jan	Index	-4.0	-4.6
Jan 15	8:30	PPI Ex Food, Energy, Trade	Dec	M/M % Chg.	-	0.1
Jan 15	8:30	Retail Sales Advance	Dec	M/M % Chg.	0.1	0.2
Jan 15	8:30	Retail Sales Ex Auto and Gas	Dec	M/M % Chg.	0.3	0.5
Jan 15	8:30	Retail Sales Control Group	Dec	M/M % Chg.	0.3	0.6
Jan 15	8:30	Retail Sales Ex Auto	Dec	M/M % Chg.	0.2	0.4
Jan 15	8:30	PPI Final Demand	Dec	M/M % Chg.	-0.1	0.3
Jan 15	8:30	PPI Ex Food and Energy	Dec	M/M % Chg.	0.1	0.3
Jan 15	9:00	<i>Fed's Dudley Speaks on Economy and Policy in New Jersey</i>				
Jan 15	9:15	Capacity Utilization	Dec	%	76.8	77.0
Jan 15	9:15	Manufacturing (SIC) Production	Dec	Index	-0.1	0.0
Jan 15	9:15	Industrial Production	Dec	M/M % Chg.	-0.1	-0.6
Jan 15	10:00	Business Inventories	Nov	M/M % Chg.	0.0	0.0
Canada						
Jan 11	8:15	Housing Starts	Dec	Thsd	-	212.0
Jan 11	10:00	Bloomberg Nanos Confidence	Jan 08	Index	-	53.8
Jan 11	10:30	Business Outlook Future Sales	Q4	Index	-	16.0
Jan 11	10:30	BoC Senior Loan Officer Survey	Q4	Index	-	4.4
Jan 13	8:30	Teranet/National Bank HPI	Dec	M/M % Chg.	-	0.2
Jan 14	8:30	New Housing Price Index	Nov	M/M % Chg.	-	0.3
Jan 15	9:00	Existing Home Sales	Dec	M/M % Chg.	-	1.8
International						
Jan 13	18:50	JN Producer Price Index	Dec	Y/Y % Chg.	-3.5	-3.6
Jan 13	19:30	AU Unemployment Rate	Dec	%	5.9	5.8
Jan 15	5:00	EC Trade Balance SA	Nov	Euro, Blns	20.5	19.9

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



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