THE WEEKLY BOTTOM LINE

TD Economics

HIGHLIGHTS OF THE WEEK

January 8, 2016

United States

- 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.

Canada

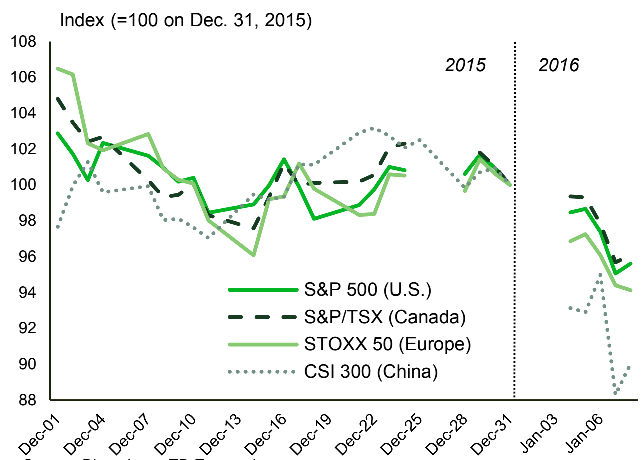
- Canadian markets continue to price in the probability of another rate cut by the Bank of Canada this year. Governor Stephen Poloz's speech this week offered little guidance either way, suggesting only that the central bank still has tools under its belt to fight economic risks, should they arise.
- While risks of a rate cut are on the rise, there are still plenty of reasons to argue against it. For one, some of the Canadian economic weakness in Q4 (real GDP growth is currently tracking near-0%) is likely to prove temporary. Second, the unemployment rate held steady at 7.1% in December, offering little reason to be concerned. At this point, we turn to next week's Business Outlook Survey to provide more guidance on what to expect from the Bank of Canada.

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.

CHINA SELLOFF DRAGS DOWN GLOBAL EQUITY BOURSES TO START OFF 2016



Source: Bloomberg, TD Economics

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

U.S. – CHINA SLOWING, BUT AMERICAN JOB MACHINE RUMBLES ON

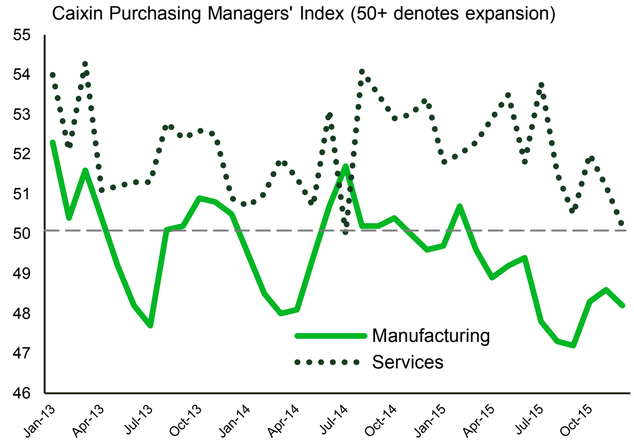
For global investors 2016 has so far been off to a rocky start. Global equities lost more than $2 trillion, before recovering some, as a slump in Chinese equities triggered unease across other bourses. Chinese blue-chip stocks slid more than 7% on Monday, triggering the newly minted circuit breakers 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 has 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.

CHINESE SERVICE SECTOR ACTIVITY SLOWS ALONGSIDE MANUFACTURING



Source: Markit, Caixin, TD Economics

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.

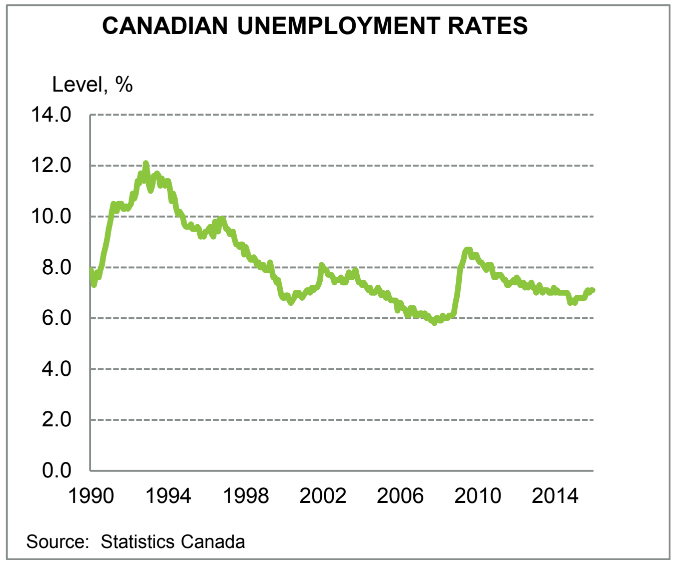
Michael Dolega, Senior Economist 416-983-0500

CANADA - NOT SO FAST

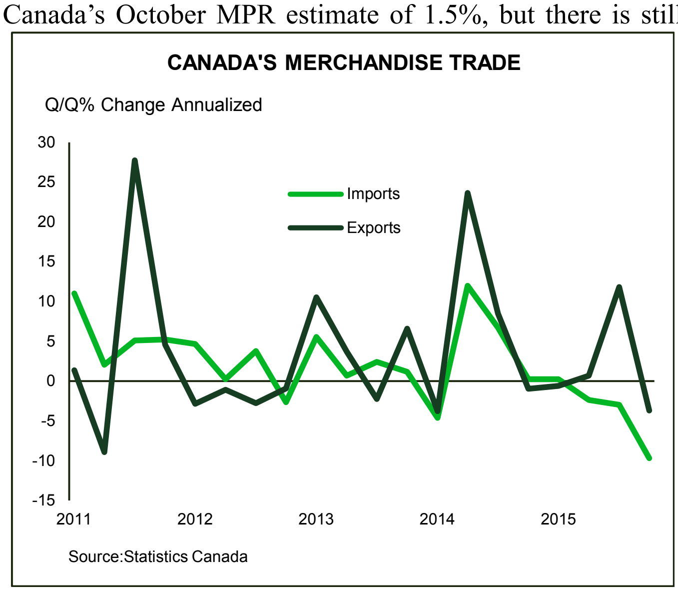
To cut, or not to cut – that is the question dominating Canadian financial markets so far in 2016 this year. Markets have been increasingly pricing in a probability of another Bank of Canada overnight rate cut. Canadian two-year bond yields dipped back near record lows levels and the Canadian dollar now worth less than71 U.S. cents at the time of writing. While risks of another rate cut by the Bank of Canada are rising, we remain unconvinced that it will happen.

In his first speech of the year delivered this week, Governor Poloz offered little guidance on what the central bank will do at its forthcoming fixed announcement date on January 20th. The speech focused more on economic and financial divergence between commodity-dependent economies, both globally and across Canadian regions. The governor noted that the transition away from commodity-dependence in Canada will be painful and protracted, highlighting the important role a flexible exchange rate will play in that process. The only reference to monetary policy was that the central bank still has a number of tools to help stimulate the economy, and it is ready to use them should any of the risks to the inflation outlook materialize. The question on whether downside risks to the inflation outlook are large enough to justify a rate cut remained unanswered.

The arguments for a rate cut are certainly not without merit. Oil prices continued to plunge recently, with the WTI benchmark dipping to US $33 a barrel this week – only two dollars above the lows hit during the 2008/2009 recession. Moreover, Canadian macroeconomic data is pointing to a very weak performance in the fourth quarter of last year. Our tracking for real GDP growth is currently in the range of 0% to 0.4% annualized . Not only is this well below the Bank of Canada's October MPR estimate of 1.5%, but there is still



considerable downside risk to this view which could manifest in another negative quarter. This week's trade report added further evidence of downside risks. Exports were up modestly in November, but the overall trade performance for the quarter thus far has been disappointing. Unless December surprises to the upside, real exports are on track for nearly a 4% decline in Q4. Net trade is expected to contribute positively to growth in the quarter, but only because imports have fallen more than exports – not a good sign for domestic demand.



Still, we remain reluctant to jump on the rate-cut bandwagon. For one, the Canadian employment report this week was relatively benign. The unemployment rate held steady at 7.1%,albeit a relatively elevated level, while the Canadian economy continued to add an average of 10,000 jobs per month over the last six months. Moreover, the fourth quarter economic weakness is likely to prove short-lived. The disappointing performance in Canadian trade and manufacturing over the last three months of the year could be tied to temporary weather-related economic weakness in the U.S. (Canada's largest trading partner). But, the U.S. economy added nearly over 300,000 jobs in December, pointing to a potential bounce-back in overall economic activity. If Q4 weakness is indeed seen as temporary, the Bank of Canada may prefer to keep further monetary tools stored safely in the tool box.

Next week's Business Outlook Survey should help provide more guidance on what to expect from the Bank of Canada. If business express very deep concerns about future economic prospects, the Bank of Canada may not want to stand still.

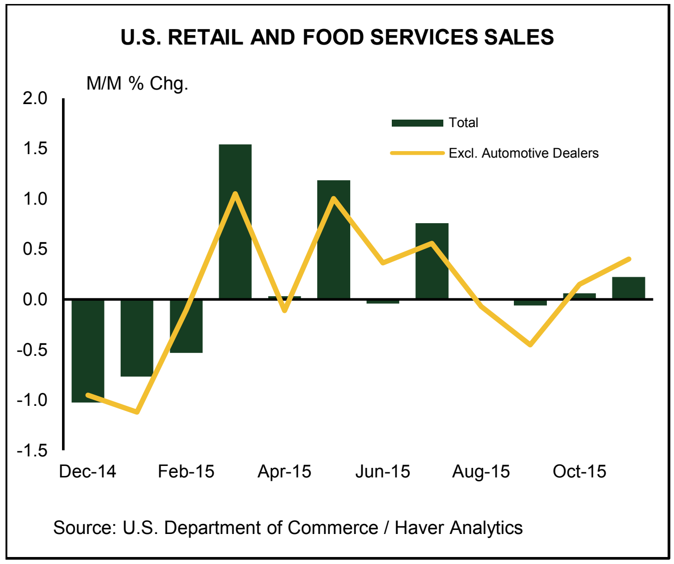
Diana Petramala, Economist, 416-982-6420

U.S.: 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.



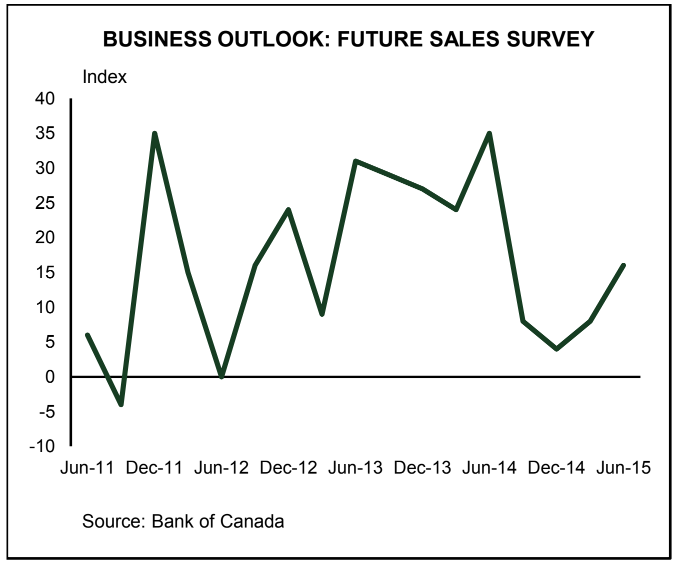
*Forecast by Rates and FX Strategy Group. For further information, contact TDRates&FXCommoditiesResearch@tdsecurities.com

CANADA: UPCOMING KEY ECONOMIC RELEASES

Canadian Business Outlook Survey (Q4 2015)

Release Date: January 11, 2016
Q3 Results: +16
TD Forecast: +10
Consensus: N/A

The Business Outlook Survey is the last major release heading into the Bank's January 20th FAD. Note that the survey was conducted between the middle of November and the middle of December so it will capture a portion of the renewed push lower in commodity prices. The balance of future sales is forecast to remain subdued at +10 and the accompanying commentary is likely to repeat the familiar narrative of a divergent performance between the resource and the non-resource sectors of the economy. The market will be focused on future investment intentions and evidence of credit tightening in the resource sector. A deterioration on either front or a pullback in hiring intentions (which have remained more upbeat that we would have expected) would be consistent with a weaker outlook that will create more spare capacity and ultimately demand more accommodation.

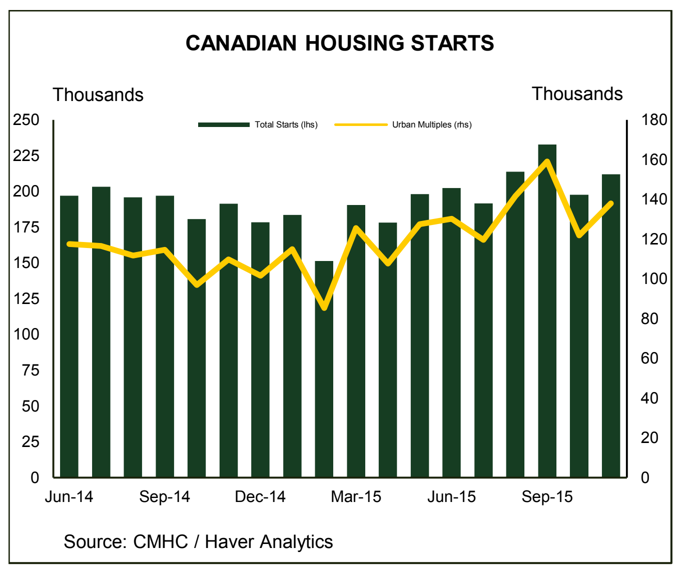


With the Bank's attention squarely on growth, questions on inflation arguably matter less to the conduct of monetary policy given the transitory nature of the depreciation in the exchange rate.

Canadian Housing Starts - December*

Release Date: January 11, 2016
September Result: 212k
TD Forecast: 200k
Consensus: N/A

Above-average seasonal temperatures are expected to have provided a partial offset to the retrenchment in housing starts that typically arrives in the month of December. As such, we are looking for a pullback to 200k annualized units. Multiple unit starts are forecast to have weakened, which is consistent with a sharp retrenchment in November building permits. While there are regional pockets of concern in the national housing market, conditions generally remain well supported by low interest rates and a respectable pace of growth in the labour market.



*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		*Fed's Lockhart Speaks on U.S. Economic Outlook in Atlanta*				
Jan 11	17:50		*Fed's Kaplan Speaks on Economy and Monetary Policy in Dallas*				
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		*Fed's Lacker To Speak on Outlook in Columbia, South Carolina*				
Jan 13	7:00		MBA Mortgage Applications	Jan 08	W/W % Chg.	-	-11.6
Jan 13	12:30		*Fed's Evans Speaks on Economy and Monetary Policy in Iowa*				
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		*Fed's Bullard Speaks to Economic Club of Memphis*				
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		*Fed's Dudley Speaks on Economy and Policy in New Jersey*				
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.