THE WEEKLY BOTTOM LINE

TD Economics

HIGHLIGHTS OF THE WEEK

July 12, 2013

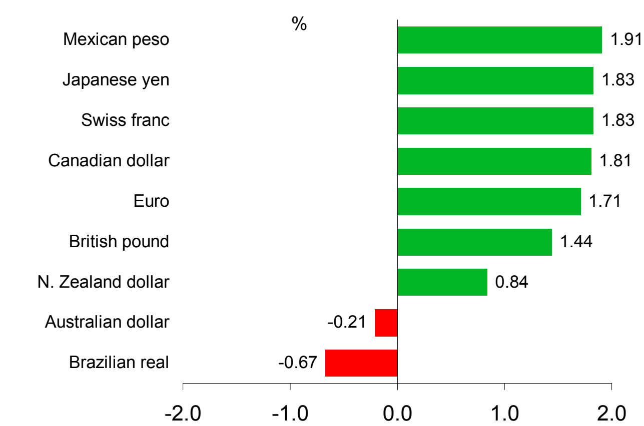
- Solid week for global markets as the Fed message that "tapering is not tightening" hits home after the Chairman's remarks on Wednesday. Domestic equities hit fresh highs, while bonds recover slightly. Global equities rally as risk sentiment rises.
- Wholesale inventories for May surprise to the downside, while April's are revised lower, taking a chunk out of setting second-quarter growth - now tracking barely above 1% annualized.
- June import prices fall, surprising to the downside, as a stronger dollar manifests itself.
- Initial jobless claims register higher, but the 4-week moving average still within a healthy range.

THIS WEEK IN THE MARKETS

	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	1,675	1,632	1,675	1,335
S&P/TSX Comp.	12,493	12,135	12,879	11,425
DAX	8,210	7,806	8,531	6,390
FTSE 100	6,552	6,376	6,840	5,498
Nikkei	14,506	14,310	15,627	8,366
Fixed Income Yields				
U.S. 10-yr Treasury	2.53	2.74	2.74	1.39
Canada 10-yr Bond	2.41	2.55	2.55	1.58
Germany 10-yr Bund	1.55	1.72	1.81	1.17
UK 10-yr Gilt	2.30	2.49	2.54	1.44
Japan 10-yr Bond	0.82	0.86	0.93	0.45
Foreign Exchange Cross Rates				
C$ (USD per CAD)	0.96	0.95	1.03	0.95
Euro (USD per EUR)	1.30	1.28	1.36	1.21
Pound (USD per GBP)	1.51	1.49	1.63	1.49
Yen (JPY per USD)	99.2	101.2	103.2	77.5
Commodity Spot Prices*				
Crude Oil ($US/bbl)	104.9	103.2	106.5	84.4
Natural Gas ($US/MMBtu)	3.64	3.52	4.38	2.63
Copper ($US/met. tonne)	6992.0	6782.5	8362.6	6637.8
Gold ($US/troy oz.)	1278.3	1223.2	1790.4	1200.7

*as of 9:40 am on Friday, **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price), Copper-LME Grade A, Gold-London Gold Bullion; Source: Bloomberg

WEEKLY MOVES vs U.S. DOLLAR



Source: Bloomberg, as at 12:38 pm, July 12, 2013

GLOBAL OFFICIAL POLICY RATE TARGETS

	Current Target
Federal Reserve (Fed Funds Rate)	0 - 0.25%
Bank of Canada (Overnight Rate)	1.00%
European Central Bank (Refi Rate)	0.50%
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 7/12/13	2013 Q1	2013 Q2	2013 Q3	2013 Q4F	2014 Q1F	2014 Q2F	2014 Q3F	2014 Q4F
Fed Funds Target Rate (%)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
2-yr Govt. Bond Yield (%)	0.32	0.25	0.36	0.30	0.40	0.45	0.55	0.75	0.90
10-yr Govt. Bond Yield (%)	2.53	1.87	2.52	2.45	2.60	2.75	2.85	2.95	3.05
30-yr Govt. Bond Yield (%)	3.59	3.10	3.52	3.65	3.75	3.90	4.00	4.00	4.05
Real GDP (Q/Q % Chg, Annualized)	1.8 (Q1)	2.4	1.5	2.4	2.8	2.7	3.2	3.3	3.1
CPI (Y/Y % Chg.)	1.4 (May-13)	1.7	1.3	1.3	1.3	1.4	2.1	2.1	2.1
Unemployment Rate (%)	7.6 (June-13)	7.7	7.6	7.5	7.4	7.3	7.2	7.0	6.9

Forecast by TD Economics. Source: Bloomberg, TD Economics

THREE WEEKS LATE… BUT MAYBE FINALLY SINKING IN

This week has been good for markets across nearly every asset class. Equities, bonds, metals, and emerging markets all ended the week on a positive note. However, most of the gains were related more to a rebound from losses sustained in the previous weeks, than to positive economic data. The shifting monetary policy landscape – sparked by a clearer outline of the eventual exit strategy from large scale asset purchases by the Fed – has shaken global markets to the core. By providing additional clarity and giving a nod that an inflection point in monetary policy is near – not a surprise in and of itself – the Fed intended to reduce volatility.

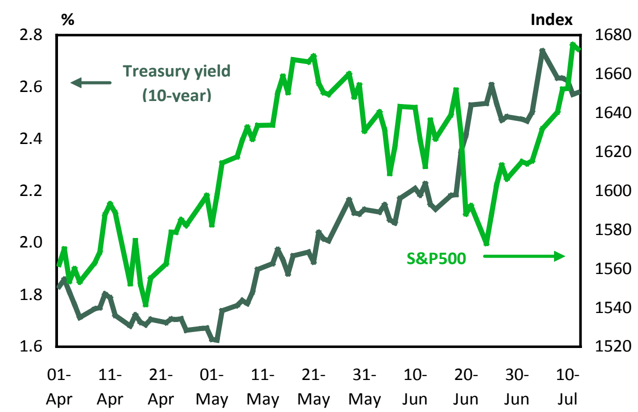
But, instead of 'inflection point' the markets heard 'turning point' and tapering and tightening became near synonyms. Bonds sold-off as term-premia blew up and the rate hike was re-priced well in advance of the mid-2015 Fed 'forward guidance.' Equities also sold-off with the still fragile recovery believed to be at a risk of stalling in the absence of quantitative easing. The barrage of Fed speeches since have all tried to explain the distinction between tapering and tightening, reiterating that forward guidance is very much intact, and reminding that future policy is data dependent.

It took nearly three weeks, but the message may finally be sinking in. In the Q&A session following his speech at the NBER this Wednesday, Chairman Bernanke restated what he and most of the Federal Open Market Committee have been saying all along. Still, stating that "[h]ighly accommodative monetary policy for the foreseeable future is what's needed in the U.S. economy," he drove global risk sentiment higher. Equity markets were ecstatic, with domestic indices at fresh historic highs. Bond markets recovered also, with the 10-year Treasury yield down nearly 20bp on the week.

Indeed, the fact that very accommodative policy will be needed for an extended period is hard to argue. Payroll growth has so far proven resilient in the face of fiscal and international headwinds. But, progress has been gradual and choppy. Personal income has grown, but the pace is slow and furloughs are just beginning. The unemployment rate has trickled down, but remains elevated. Much of its improvement is due to the unemployed giving up actively searching and leaving the labor force instead. Economic growth in the most recent three quarters looks decidedly 'European' in magnitude. After advancing 0.4% in the fourth-quarter, first-quarter growth was revised down to just 1.8%. Accounting for Wednesday's abysmal wholesale inventories report, second-quarter growth is now tracking close to 1%.

However, there are a number of factors that support

EQUITIES MAKE A COMEBACK… BONDS LESS SO



Source: Bloomberg. Data for July 12 as of 12:00 EDT.

our optimism about the outlook. The inventory draw-down should reverse this quarter, boosting growth within earshot of 3%. Healing in the housing market should continue. Home prices have recovered, and the trend remains supportive. Mortgage rates have pulled back some, after their tapering inspired spike. Affordability is high, while pent-up demand is far from satiated. Furthermore, while it's early in the earnings season, corporate profits look better-than-expected. In all, recovering house and equity prices will drive further improvements in confidence and household balance sheets. This will support private spending. Federal finances are improving also. The Treasury registered an even larger surplus in June, with receipts up 14.4% from last year, amid contracting spending. This gives some hope that there will be less need for tighter fiscal policy in the future.

The bottom line is that growth prospects are near a sweet-spot for equity markets – strong enough to be sustained, but not so much as to require a shift in monetary policy. This is all the more apparent given the weak inflation backdrop, which should be further pressured down by the recent dollar strength. The Fed is cognizant of this fact. Outlining the QE-exit strategy was the right move. Given the size of the balance sheet, additional purchases are providing less 'bang for the buck,' while risks around unwinding them later are growing. Relying on forward guidance is a sensible approach. Ultra-accommodative policy stemming from a rate at the effective lower bound and a still-swollen balance sheet should see the economy through the hump. By the time the brake is tapped, it should already be well on the straight and narrow.

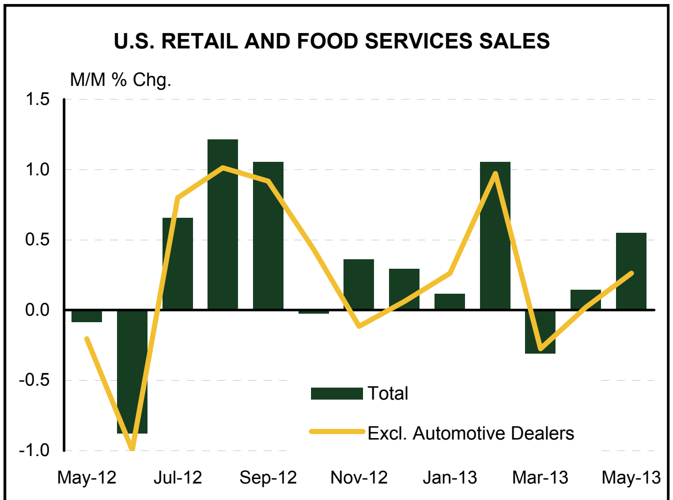
Michael Dolega, Economist

UPCOMING KEY ECONOMIC RELEASES

U.S. Retail Sales - June*

Release Date: July 15, 2013
May Result: Total 0.6% M/M; Ex-autos 0.3% M/M
TD Forecast: Total 1.0% M/M; Ex-autos 0.7% M/M
Consensus: Total 0.7% M/M; Ex-autos 0.4% M/M

As the drag from higher personal taxes fades and rising home and equity prices continue to buoy consumer confidence, we expect spending activity to bounce meaningfully in June, with retail sales rising at a brisk 1.1% m/m pace. Strong auto sales and higher gasoline prices should be the key drivers for the gain in spending. Excluding autos, sales should rise at a slightly less robust 0.7% m/m pace, while sales ex-autos and gas should post a more modest 0.5% m/m advance. With the improving tone in labor market and domestic economic activity, we expect the underlying tone in overall household spending activity to remain constructive, with core retail sales rising at a relatively decent 0.4% m/m. The tone of this report should be encouraging, pointing to continued positive momentum in household spending, consistent with the buoyancy in household sentiment.

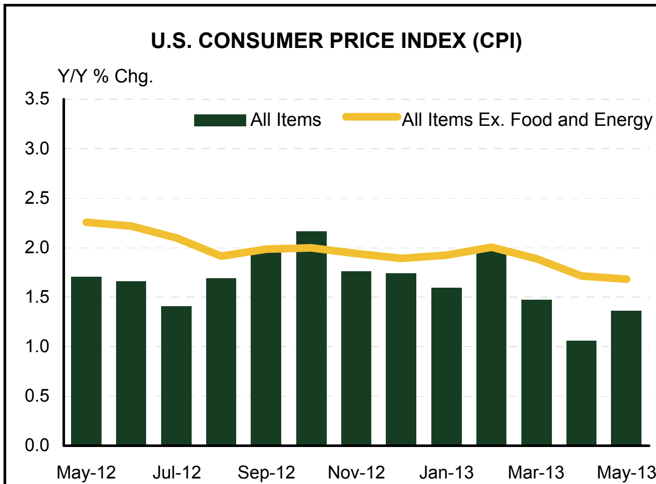


Source: U.S. Department of Commerce / Haver Analytics

U.S. CPI - June*

Release Date: July 16, 2013
May Result: All-items 0.1% M/M; Core 0.2 M/M
TD Forecast: All-items 0.4% M/M; Core 0.2% M/M
Consensus: All-items 0.3 M/M; Core 0.2% M/M

Unfavorable season adjustments should push the pace of headline consumer prices up at a fairly strong 0.4% m/m pace in June. This will mark the fastest pace of consumer price gains since February, and the acceleration in inflation should be mostly on account of higher gasoline prices, which are expected to rise 5.0% m/m on a seasonally-adjusted basis. Consumer price inflation should also accelerate on a year-ago basis, rising to 1.7% y/y from 1.4% y/y the month before. Core prices should rise at a more modest 0.2% m/m pace, while the annual pace of core inflation remains unchanged at 1.7% y/y. In the coming months, as the favorable base effects continue to dissipate, inflationary pressures should continue drifting higher, though the annual pace of both headline and core inflation should remain under 2.0% y/y for the remainder of the year.



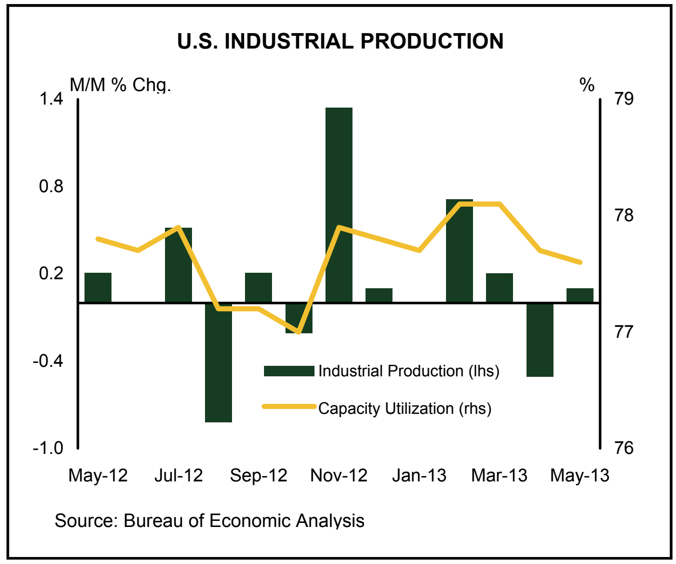
Source: Bureau of Labor Statistics / Haver Analytics

*Forecast by Rates and FX Strategy Group.

U.S. Industrial Production - June*

Release Date: July 16, 2013
May Result: Industrial Production 0.0% m/m;
Capacity Utilization 77.6%
TD Forecast: Industrial Production 0.5% m/m;
Capacity Utilization 77.8%
Consensus: Industrial Production 0.3% m/m;
Capacity Utilization 77.7%

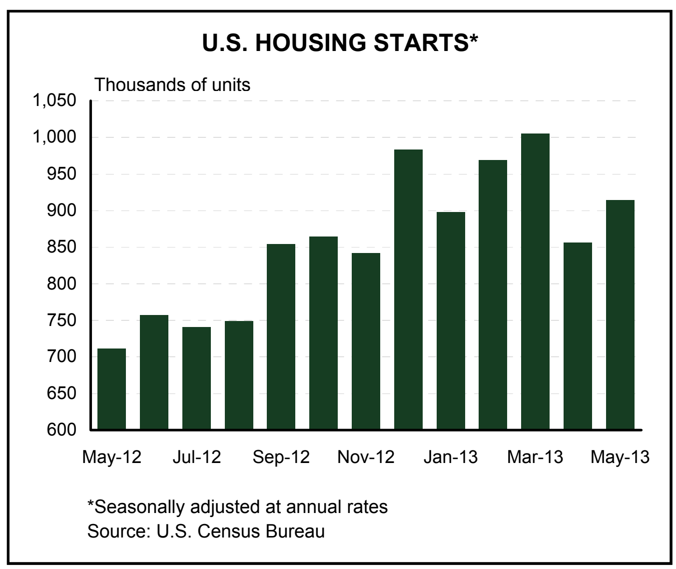
US industrial sector activity is expected to post a modest rebound in June, with output expected to register a 0.5% m/m gain after essentially stalling the month before. The rebound is expected to be driven mostly by strong manufacturing activity, which we expect to boast a 0.3% advance. Utility production should also rise, with the return of warm weather pushing output up 1.0% after falling sharply during the last two months. Mining activity should also tick higher. The gain in industrial output should push the pace of factory usage higher, with the rate of capacity utilisation rising to 77.8% from 77.6%. Despite the rebound in June, the softer economic backdrop should persist in the coming months, as the economy continues to navigate against the domestic fiscal headwinds and weak global demand.



U.S. Housing Starts - June*

Release Date: July 17, 2013
May Result: 914K
TD Forecast: 975K
Consensus: 954K

The US housing market has been on a sustained upswing as rising prices, sales activity and falling foreclosure rates are continuing to boost the sector. Residential construction activity has also been on a steady climb, reflecting the increased confidence among homebuilders about future sales performance. In June, we expect construction activity to rise, with the pace of new housing starts advancing a further 7% m/m to 975K. This is consistent with the strong gains in the NAHB confidence index, which posted the first above-50 print since early 2006. Permit approvals should also be quite brisk, though they are likely to remain unchanged at 975K. In the months ahead, we expect the pace of residential construction activity to remain robust, reflecting the steady improvement in housing market activity.



*Forecast by Rates and FX Strategy Group.

RECENT KEY ECONOMIC INDICATORS: JULY 8-12, 2013

Release Date		Economic Indicator/Event	Data for Period	Units	Current	Prior	
United States							
July 8		Consumer Credit	May	USD, Blns	19.615	10.867	R▼
July 9		NFIB Small Business Optimism	June	Index	93.5	94.4	
July 9		JOLTs Job Openings	May	Thousands	3828.0	3800.0	R▲
July 10		Wholesale Inventories	May	M/M % Chg.	-0.5	-0.1	R▼
July 10		Wholesale Sales	May	M/M % Chg.	1.6	0.7	R▲
July 10		*Fed Releases Minutes from June 18-19 FOMC Meeting*					
July 10		*Fed's Bernanke Speaks in Boston*					
July 11		Import Price Index	June	M/M % Chg.	-0.2	-0.7	R▼
July 11		Initial Jobless Claims	July 6	Thousands	360.0	344.0	R▲
July 11		Continuing Claims	June 29	Thousands	2977.0	2953.0	R▲
July 12		Producer Price Index	June	M/M % Chg.	0.8	0.5	
July 12		Producer Price Index Ex Food & Energy	June	M/M % Chg.	0.2	0.1	
July 12		University of Michigan Confidence	July P	Index	83.9	84.1	
Canada							
July 8		Building Permits	May	M/M % Chg.	4.5	11.2	R▲
July 8		BoC Senior Loan Officer Survey	2Q	Index	-12.7	-5.8	
July 8		Business Outlook Future Sales	2Q	%	9.00	24.00	
July 9		Housing Starts	June	Thousands	199.6	204.6	R▲
July 11		New Housing Price Index	May	Y/Y % Chg.	1.8	2.0	
July 12		Teranet/National Bank HPI	June	Y/Y % Chg.	1.8	2.0	
International							
July 7	JN	Trade Balance - BOP Basis	May	Yen, Blns	-906.7	-818.8	
July 8	GE	Trade Balance	May	Euros, Blns	13.1	18.0	R▼
July 8	FR	Bank of France Business Sentiment	June	Index	96	94	
July 8	GE	Industrial Production NSA WDA	May	Y/Y % Chg.	-1.0	0.9	R▼
July 9	UK	Industrial Production	May	Y/Y % Chg.	-2.3	-1.4	R▼
July 9	UK	Manufacturing Production	May	Y/Y % Chg.	-2.9	-0.9	R▼
July 9	UK	Trade Balance	May	GPB, Mlns	-2435.0	-2073.0	R▲
July 9	UK	NIESR GDP Estimate	June	M/M % Chg.	0.6	0.6	
July 10	JN	Consumer Confidence Index	June	Index	44.3	45.7	
July 10	FR	Current Account	May	Euros, Blns	-4.1	-2.8	
July 10	FR	Industrial Production	May	Y/Y % Chg.	0.4	-0.5	
July 10	FR	Manufacturing Production	May	Y/Y % Chg.	-0.8	-0.3	R▼
July 10	AU	Employment Change	June	Thousands	10.3	-0.7	R▼
July 10	AU	Unemployment Rate	June	%	5.7	5.6	R▲
July 11	JN	BOJ Target Rate	July 11	%	0.10	0.10	
July 11	GE	Wholesale Price Index	June	Y/Y % Chg.	0.7	-0.1	
July 11	FR	Consumer Price Index	June	Y/Y % Chg.	0.9	0.8	
July 12	UK	Construction Output	May	Y/Y % Chg.	-3.4	-0.7	R▲
July 12	EC	Euro-Zone Industrial Production WDA	May	Y/Y % Chg.	-1.3	-0.6	

* Eastern Standard Time; Source: Bloomberg, TD Economics

UPCOMING ECONOMIC RELEASES AND EVENTS: JULY 15-19, 2013

Release Date	Time*		Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States							
July 15	8:30		Empire Manufacturing	July	Index	5.00	7.84
July 15	8:30		Advance Retail Sales	June	M/M % Chg.	0.7	0.6
July 15	8:30		Retail Sales Less Autos	June	M/M % Chg.	0.4	0.3
July 15	10:00		Business Inventories	May	M/M % Chg.	0.2	0.3
July 16	8:30		Consumer Price Index	June	M/M % Chg.	0.3	0.1
July 16	8:30		CPI Ex Food & Energy	June	M/M % Chg.	0.2	0.2
July 16	9:00		Total Net TIC Flows	May	USD, Blns	--	12.7
July 16	9:15		Industrial Production	June	M/M % Chg.	0.3	0.0
July 16	9:15		Capacity Utilization	June	%	77.7	77.6
July 16	9:15		Manufacturing (SIC) Production	June	M/M % Chg.	0.2	0.1
July 16	10:00		NAHB Housing Market Index	July	July	51	52
July 17	8:30		Housing Starts	June	Thousands	954.0	914.0
July 17	8:30		Building Permits	June	Thousands	1000.0	974.0
July 17	14:00		*U.S. Federal Reserve Releases Beige Book*				
July 18	8:30		Initial Jobless Claims	July 13	Thousands	340.0	360.0
July 18	8:30		Continuing Claims	July 6	Thousands	--	2977.0
July 18	10:00		*Bernanke Delivers Semi-Annual Policy Report to Senate*				
July 18	10:00		Philadelphia Fed. Business Outlook Survey	July	Index	6.8	12.5
July 18	10:00		Conference Board Leading Indicators	June	M/M % Chg.	0.3	0.1
Canada							
July 15	9:00		Existing Home Sales	June	M/M % Chg.	--	3.6
July 16	8:30		Manufacturing Sales	May	M/M % Chg.	1.0	-2.4
July 17	8:30		International Securities Transactions	May	CAD, Blns	--	14.91
July 17	10:00		Bank of Canada Rate	July 17	%	1.00	1.00
July 18	8:30		Wholesale Sales	May	M/M % Chg.	--	0.2
July 19	8:30		Consumer Price Index	June	M/M % Chg.	0.1	0.2
July 19	8:30		Bank of Canada CPI Core	June	M/M % Chg.	-0.2	0.2
International							
July 15	18:45	NZ	Consumer Price Index	2Q	Y/Y % Chg.	0.8	0.9
July 16	4:30	UK	Consumer Price Index	June	Y/Y % Chg.	3.0	2.7
July 16	4:30	UK	Core CPI	June	Y/Y % Chg.	2.3	2.2
July 16	5:00	EC	Euro-Zone Trade Balance SA	May	Euros, Blns	16.2	16.1
July 17	4:30	UK	*Bank of England Minutes*				
July 17	4:30	UK	ILO Unemployment Rate (3mths)	May	%	7.8	7.8
July 17	5:00	EC	Construction Output WDA	May	Y/Y % Chg.	--	-6.6
July 18	4:00	EC	ECB Euro-Zone Current Account SA	May	Euros, Blns	--	19.5
July 19	2:00	GE	Producer Prices	June	Y/Y % Chg.	0.6	0.2

* Eastern Standard Time; Source: Bloomberg, TD Economics