TD Economics

Weekly Bottom Line

April 12, 2024

Highlights

U.S.

- Inflation, as measured by the Consumer Price Index, accelerated to 3.5% year-on-year in March – the highest reading in six months.
- Minutes from the Federal Reserve meeting in March showed that officials remained in favor of exercising patience amid persistent inflationary pressures.
- U.S. Treasury yields spiked roughly 15 basis-points as market expectations for lower interest rates were pushed back into the second half of the year.

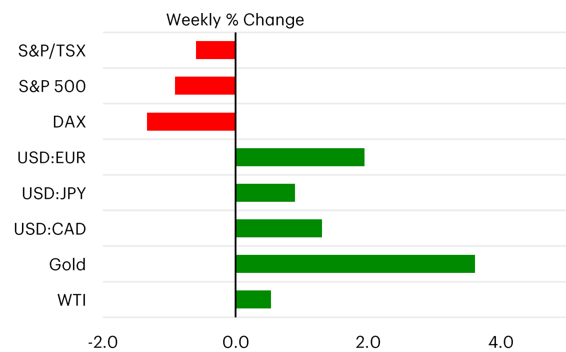
Canada

- The Bank of Canada held its policy rate at 5%, while comments from Governor Macklem indicated that a rate cut is "within the realm of possibilities" at the June meeting.
- Canadian Government bond yields moved higher in tandem with U.S. Treasuries. This may slow the Canadian housing market, reducing the extent of relief from expected rate cuts.
- The Federal government's housing plan will increase the Home Buyers Plan withdrawal limit and extend amortization for some borrowers but will likely have a limited impact on the housing market.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	5155	5204	5254	4056
S&P/TSX Comp.	22127	22264	22362	18737
DAX	17931	18175	18492	14687
FTSE 100	8009	7911	8009	7257
Nikkei	39524	38992	40888	28157
Fixed Income Yields				
U.S. 10-yr Treasury	4.50	4.40	4.99	3.34
Canada 10-yr Bond	3.63	3.59	4.24	2.76
Germany 10-yr Bund	2.34	2.40	2.97	1.90
UK 10-yr Gilt	4.11	4.07	4.75	3.44
Japan 10-yr Bond	0.86	0.79	0.96	0.36
Foreign Exchange Cross Rates				
C$ (USD per CAD)	0.73	0.74	0.76	0.72
Euro (USD per EUR)	1.06	1.08	1.12	1.05
Pound (USD per GBP)	1.24	1.26	1.31	1.21
Yen (JPY per USD)	153.0	151.6	153.3	132.6
Commodity Spot Prices**				
Crude Oil ($US/bbl)	85.0	86.9	93.7	67.1
Natural Gas ($US/MMBtu)	1.62	1.57	13.20	1.24
Copper ($US/met. tonne)	9209.9	9208.5	9283.0	7823.8
Gold ($US/troy oz.)	2414.5	2329.8	2414.5	1820.3

*As of 10:30 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

Stubborn U.S. Inflation Boosts Greenback, Weakens Equities



Note: Data as of 10:27 AM ET, Friday, April 12, 2024.
Source: Bloomberg, TD Economics.

Global Official Policy Rate Targets	
Central Banks	**Current Target**
Federal Reserve (Fed Funds Rate)	5.25 - 5.50%
Bank of Canada (Overnight Rate)	5.00%
European Central Bank (Refi Rate)	4.50%
Bank of England (Repo Rate)	5.25%
Bank of Japan (Overnight Rate)	0.10%

Source: Bloomberg.

U.S. – One Hundred Days into 2024, Rate Cuts Remain on the Horizon

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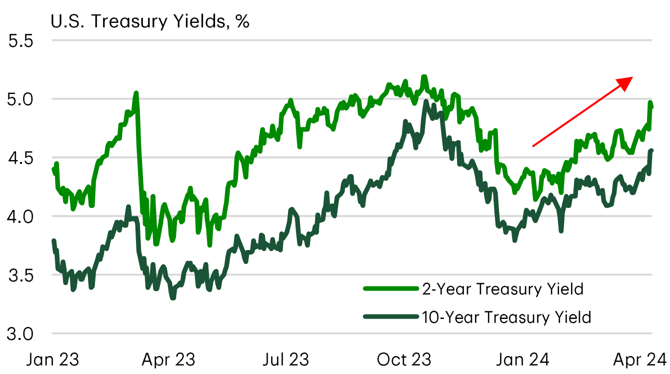
Financial markets were caught off-guard this week as slightly hotter than expected inflation data prompted a spike in U.S. Treasury yields and a modest retreat in equity prices. As of the time of writing, the ten- and two-year Treasury yields finished the week up roughly 15 basis-points (Chart 1), while the S&P 500 fell 0.9%. While the deviation relative to expectations for the March Consumer Price Index (CPI) inflation was marginal, the underlying details proved to be more concerning.

Headline inflation in March jumped to 3.5% year-on-year, with energy prices seeing positive price growth in annual terms for the first time in over a year. Excluding energy and food prices, core inflation remained unchanged relative to February at 3.8%. The reason why the disinflation process stalled in the first quarter is related to two factors. The first is that disinflation in the heavily weighted shelter subcategory moderated relative to the previous quarter. While this offered less support to the Fed's mission to reattain price stability, the measurement of shelter prices is lagged relative to market trends by several months, and thus the direction of shelter inflation is still expected to be downward moving forward.

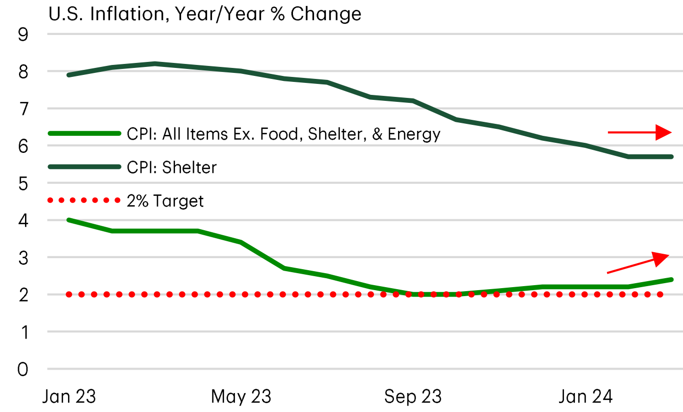
The second factor keeping inflation elevated was the acceleration in price growth for categories excluding food, energy, and shelter – aggregately referred to as supercore inflation. Inflation pressures within this subcategory were broad-based in the first quarter (Chart 2) which has not gone unnoticed by the Federal Reserve. In the March meeting minutes released this week, FOMC participants noted they were reluctant to discount the inflation data of the first quarter and emphasized that they would require greater confidence that inflation was on a sustainable trajectory back to the 2% target before considering less restrictive policy options.

Chart 1: U.S. Treasury Yields Rise as Inflationary Pressures Persist



Source: Federal Reserve Board, TD Economics. Last Observation: April 11th, 2024.

Chart 2: U.S. Disinflation Progress Stalls to Start 2024



Source: Bureau of Labor Statistics, TD Economics.

This lined up with the even-toned statements made by Federal Reserve officials this week, including Vice Chair and New York Fed President John Williams who stated that he expects "inflation to continue its gradual return to 2 percent, although there will likely be bumps along the way, as we've seen in some recent inflation readings". In a speech this week, Boston Fed President Susan Collins also stated "Overall, the recent data have not materially changed my outlook, but they do highlight uncertainties related to timing, and the need for patience". Market pricing for the first Federal Reserve cut this year shifted from June to July this week, although market confidence remains weak with the balance of risks skewed towards the potential for a later commencement date.

Looking to next week, we receive an update on retail sales for March on Monday, which are expected to show slower growth relative to the prior month, in part owing to a moderation in auto sales. Next week also marks the start of the Spring IMF meetings, which will include meetings between the Fed and the U.S. Treasury and their international counterparts, in addition to the publication of the IMF's updated World Economic Outlook.

Canada – A Week of Celestial Events

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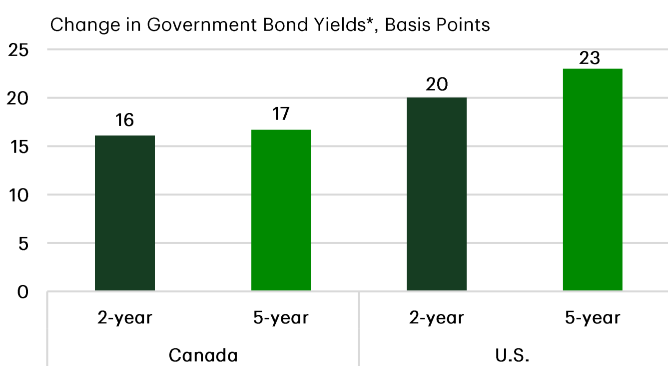
Two events garnered widespread attention in Canada this week: the solar eclipse and the Bank of Canada's (BoC) monetary policy meeting. Both have implications for the economy – the former by boosting demand for astro-tourism, the latter by capping demand for almost everything else. As widely anticipated, the Bank held its policy rate at 5%, while comments from Governor Macklem indicated that a rate cut is "within the realm of possibilities" at the June meeting. This had no major impact on the market expectations, where a full rate cut remains priced for the July meeting.

Several takeaways emerged from the Monetary Policy Report – a fresh set of forecasts, accompanying the BoC's announcement. Namely, the near-term GDP forecast was upgraded reflecting higher population growth and some recovery in consumer spending. Despite the upgrade to the growth outlook, the BoC marked down its inflation forecast by two tenths of a percentage point and now expects its measure of core inflation to reach 2.2% by year-end. In his speech following the announcement, Governor Macklem maintained a cautious tone, stating he would rather err on the side of over-tightening policy to avoid any setbacks in lowering inflation.

Another 'celestial' announcement was a 25-basis point (bp) increase in the estimated neutral rate – the policy rate consistent with the economy operating at its full capacity with stable inflation. The Bank justified this increase by citing a higher global neutral rate (using the U.S. as a proxy) and "key Canadian domestic factors" like growth in total hours worked and a younger population of savers. Simply put, the Bank signaled the end point of its upcoming easing cycle will likely be a bit higher than previously thought.

Chart 1: Canadian Bond Yields Move in Tandem with U.S. Treasuries

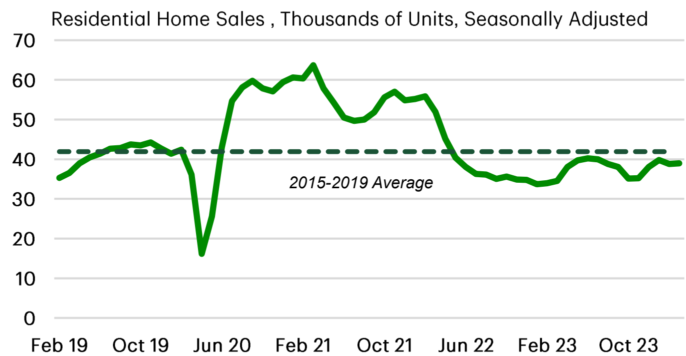


* April 5-11th, as at market closing time. Source: Tullett Prebon, TD Economics.

While hard to quantify, an increase in neutral rate likely had only a marginal effect on long-term rates this week. A stronger gravitational pull was exerted by the sharp rise in U.S. Treasury yields following another higher-than-expected inflation reading which resulted in one of the largest weekly moves in yields over the past two years (Chart 1).

This backup in yields casts a shadow over the Canadian housing market. On the one hand, existing home sales for March were up 0.5% on the month, and, according to CREA, new listings for April are tracking stronger, which could support higher sales activity this month. On the other hand, sales remain below their historical average while higher bond yields will exert additional pressure on affordability, signaling a period of slower activity in the months ahead (Chart 2).

Chart 2: Canadian Home Sales Were Higher in March but Remain Subdued Relative to History



Source: Canadian Real Estate Association, TD Economics.

From that perspective, today's release of the government's housing plan is timely. Based on Chrystia Freeland's speech, the government will be increasing the Home Buyers Plan withdrawal limit from $35k to $60k and lifting amortization for insured mortgages from 25 to 30 years for newly built homes and first-time buyers. Our initial assessment suggests that these measures will have a limited impact on the housing market but stay tuned for our comprehensive analysis of the Federal Government Budget next week.

Exhibits

Release Date		Economic Indicator/Event	Data for Period	Units	Current	Prior
Recent Key Economic Indicators: Apr 08 - 12, 2024						
United States						
Apr 8		NY Fed 1-Yr Inflation Expectations	Mar	%	3.0	3.0
Apr 9		NFIB Small Business Optimism	Mar	Index	88.5	89.4
Apr 10		Consumer Price Index	Mar	M/M % Chg.	0.4	0.4
Apr 10		Consumer Price Index	Mar	Y/Y % Chg.	3.5	3.2
Apr 10		Consumer Price Index Ex Food and Energy	Mar	M/M % Chg.	0.4	0.4
Apr 10		Consumer Price Index Ex Food and Energy	Mar	Y/Y % Chg.	3.8	3.8
Apr 10		Wholesale Trade Sales	Feb	M/M % Chg.	2.3	-1.4
Apr 11		Initial Jobless Claims	Apr 06	Thsd	211.0	222.0
Apr 11		PPI Ex Food and Energy	Mar	M/M % Chg.	0.2	0.3
Apr 11		PPI Final Demand	Mar	M/M % Chg.	0.2	0.6
Canada						
Apr 10		Bank of Canada Rate Decision	Apr 10	%	5.00	5.00
Apr 12		Existing Home Sales	Mar	M/M % Chg.	0.5	-3.1
International						
Apr 10	CH	Consumer Price Index	Mar	Y/Y % Chg.	0.1	0.7
Apr 11	EZ	ECB Main Refinancing Rate	Apr 11	%	4.50	4.50
Apr 12	UK	Monthly Gross Domestic Product	Feb	3M/3M % Chg.	0.2	0.0

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Apr 15 - 19, 2024							
Release Date	Time*		Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States							
Apr 15	2:30		*Fed's Logan Speaks on Panel in Tokyo*				
Apr 15	8:30		Empire Manufacturing	Apr	Index	-5.0	-20.9
Apr 15	8:30		*Fed's Williams Appears on Bloomberg Television*				
Apr 15	8:30		Retail Sales Advance	Mar	M/M % Chg.	0.4	0.6
Apr 15	8:30		Retail Sales Ex Auto and Gas	Mar	M/M % Chg.	0.3	0.3
Apr 15	10:00		Business Inventories	Feb	M/M % Chg.	0.3	0.0
Apr 15	10:00		NAHB Housing Market Index	Apr	Index	52.0	51.0
Apr 15	20:00		*Fed's Daly Gives Keynote Remarks*				
Apr 16	8:30		Building Permits	Mar	Thsd	1520.0	1524.0
Apr 16	8:30		Housing Starts	Mar	Thsd	1480.0	1521.0
Apr 16	9:00		*Fed's Jefferson Speaks at Monetary Policy Forum*				
Apr 16	9:15		Capacity Utilization	Mar	%	78.5	78.3
Apr 16	9:15		Industrial Production	Mar	M/M % Chg.	0.4	0.1
Apr 16	9:15		Manufacturing (SIC) Production	Mar	M/M % Chg.	0.1	0.8
Apr 16	13:00		*Fed's Barkin Speaks on Economic Outlook*				
Apr 16	13:15		*Fed's Powell Participates in Moderated Q&A*				
Apr 17	14:00		*Federal Reserve Releases Beige Book*				
Apr 17	17:30		*Fed's Mester Gives Update on Fed*				
Apr 17	19:15		*Fed's Bowman Speaks at IIF Global Outlook Forum*				
Apr 18	8:30		Initial Jobless Claims	Apr 13	Thsd	215.0	211.0
Apr 18	9:05		*Fed's Bowman Gives Opening Remarks*				
Apr 18	9:15		*Fed's Bowman Speaks at SIFMA Basel III Endgame Roundtable*				
Apr 18	9:15		*Fed's Williams Participates in Moderated Discussion*				
Apr 18	10:00		Existing Home Sales	Mar	Mlns	4.16	4.38
Apr 18	11:00		*Fed's Bostic Speaks in Fireside Chat on Economy*				
Apr 18	17:45		*Fed's Bostic Chats About Economy, Monetary Policy*				
Apr 19	10:30		*Fed's Goolsbee Participates in Q&A*				
Canada							
Apr 15	8:15		Housing Starts	Mar	Thsd	243.5	253.5
Apr 15	8:30		Manufacturing Sales	Feb	M/M % Chg.	0.7	0.2
Apr 15	8:30		Wholesale Sales ex Petroleum	Feb	M/M % Chg.	0.8	0.1
Apr 16	8:30		Consumer Price Index	Mar	Y/Y % Chg.	2.9	2.8
Apr 16	8:30		Consumer Price Index NSA	Mar	M/M % Chg.	0.7	0.3
Apr 16	8:30		CPI-Median	Mar	Y/Y % Chg.	3.0	3.1
Apr 16	8:30		CPI-Trim	Mar	Y/Y % Chg.	3.2	3.2
Apr 16	13:15		*BoC's Macklem Participates in Moderated Q&A*				
International							
Apr 15	22:00	CH	Gross Domestic Product	Q1	Y/Y % Chg.	4.8	5.2
Apr 15	22:00	CH	Retail Sales	Mar	Y/Y % Chg.	5.0	-
Apr 15	22:00	CH	Surveyed Jobless Rate	Mar	%	5.2	5.3
Apr 17	2:00	UK	Consumer Price Index	Mar	Y/Y % Chg.	3.1	3.4
Apr 17	5:00	EZ	Consumer Price Index	Mar	Y/Y % Chg.	2.4	2.4
Apr 18	19:30	JN	National Consumer Price Index	Mar	Y/Y % Chg.	2.8	2.8
Apr 19	2:00	UK	Retail Sales Ex Auto Fuel	Mar	Y/Y % Chg.	1.0	-0.5

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

Disclaimer