THE WEEKLY BOTTOM LINE

TD Economics

HIGHLIGHTS OF THE WEEK

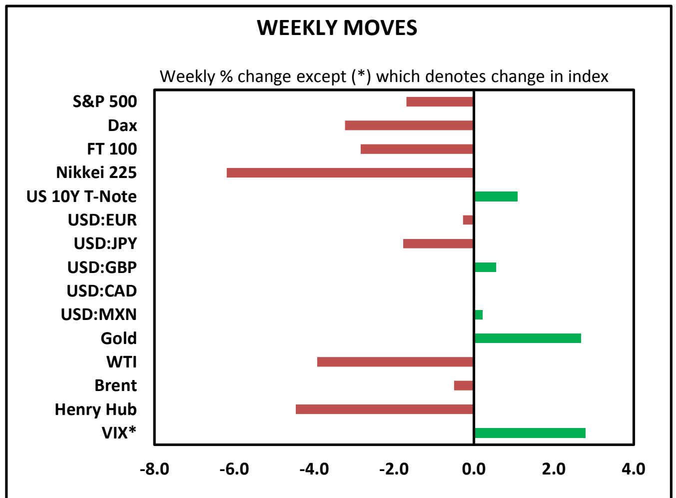
March 14, 2014

- Global markets remained tense this week as the continuing standoff between Russia and the West on the issue of Crimea weighed on sentiment.
- Chinese data on exports, industrial production and retail sales disappointed with the numbers for the January/February period painting a picture of an economy that's decelerating at a worrying pace.
- Unless the geopolitical situation deteriorates rapidly early next week, the Fed is likely to continue to trim bond buying by $10bn to $55bn per month, remaining of the view that much of the weakness in recent economic indicators has been weather related and economic growth will accelerate with the spring thaw.
- The acceleration could be helped along should the recent Senate proposal to extend jobless benefits retroactively for another five months pass Congress.

THIS WEEK IN THE MARKETS

	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	1,845	1,878	1,878	1,542
S&P/TSX Comp.	14,245	14,299	14,319	11,837
DAX	9,007	9,351	9,743	7,460
FTSE 100	6,522	6,713	6,866	6,029
Nikkei	14,328	15,274	16,291	12,003
Fixed Income Yields				
U.S. 10-yr Treasury	2.63	2.79	3.03	1.63
Canada 10-yr Bond	2.37	2.52	2.82	1.67
Germany 10-yr Bund	1.53	1.65	2.05	1.17
UK 10-yr Gilt	2.65	2.79	3.07	1.62
Japan 10-yr Bond	0.63	0.63	0.93	0.45
Foreign Exchange Cross Rates				
C$ (USD per CAD)	0.90	0.90	1.00	0.90
Euro (USD per EUR)	1.39	1.39	1.39	1.28
Pound (USD per GBP)	1.66	1.67	1.67	1.49
Yen (JPY per USD)	101.2	103.3	105.3	93.0
Commodity Spot Prices*				
Crude Oil ($US/bbl)	99.0	102.6	110.5	86.7
Natural Gas ($US/MMBtu)	4.40	4.77	8.03	3.27
Copper ($US/met. tonne)	6439.0	6805.0	7775.3	6439.0
Gold ($US/troy oz.)	1384.8	1340.0	1614.9	1188.7

*as of 11:15 am on Friday, **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price), Copper-LME Grade A, Gold-London Gold Bullion; Source: Bloomberg.



Note: Change from end of business on Mar 7th. Data as of Mar 14th, 12:50 PM ET.
Sources: Bloomberg, TD Economics

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)	0.25%
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 3/14/14	2013 Q1	2013 Q2	2013 Q3	2013 Q4	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 (%)	0.33	0.25	0.36	0.33	0.38	0.40	0.45	0.55	0.65
10-yr Govt. Bond Yield (%)	2.63	1.87	2.52	2.64	3.04	2.95	3.10	3.30	3.40
30-yr Govt. Bond Yield (%)	3.57	3.10	3.52	3.69	3.96	4.00	4.15	4.30	4.40
Real GDP (Q/Q % Chg, Annualized)	2.4 (Q4)	1.1	2.5	4.1	2.4	1.4	3.5	3.1	3.2
CPI (Y/Y % Chg.)	1.6 (Jan-14)	1.7	1.4	1.6	1.2	1.4	1.8	1.7	1.9
Unemployment Rate (%)	6.7 (Feb-14)	7.7	7.5	7.2	7.0	6.6	6.5	6.4	6.3

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

STANDOFF INTENSIFIES AS REFERENDUM APPROACHES

Global markets remained tense this week as the continuing standoff between Russia and the West weighed on sentiment. After reaching record highs last Friday, the S&P500 index lost nearly 2%, giving up all of the gains sustained this year. Equities in Europe performed far worse, with the German Dax sliding over 4% on the week to nearly a five-month low. With the Crimean referendum on secession from the Ukraine quickly approaching this Sunday markets became increasingly jittery as the week wore on. The referendum is viewed as illegal by both the US and the EU and it going ahead will likely bring sanctions against Russia – perhaps as early as Monday. The situation has become all the more heated yesterday as clashes between pro-Russian and pro-Kiev protesters in eastern Ukraine resulted in strong rhetoric out of Moscow highlighting its "responsibility for the lives of compatriots and citizens in Ukraine" with Russia reserving "the right to take these people under its protection." Juxtaposed with the troop buildup and exercises near its western border with Ukraine, these events make for a potent mix of potentially destabilizing factors.

While we feel that the referendum in the Crimea will go ahead, and the likelihood that sanctions consisting of travel bans and asset freezes are implemented, we do not foresee the conflict escalating beyond that. While complicated by the Budapest Memorandum on Security Assurances – in which the Ukraine gave up its Soviet-era nuclear arsenal in exchange for protection from the US, UK, and Russia – there is some limited rationale for Russian intervention in the Crimea. The region remains predominantly Russian, is home to Russian military bases, and has been transferred to the Ukraine only decades ago when both Russia and Ukraine were part of the Soviet Union.

No such rationale exists for intervention in other parts of Ukraine. Any such incursion would be viewed as a far more severe infringement on Ukrainian sovereignty, and would likely trigger a significantly stronger response from the global community – such as trade and/or financial sanctions. This is something that the weak and export-dependent Russian economy is unlikely to take in stride. Economic growth in Russia virtually stalled last year, with output barely 1% higher than in the previous year. Exports account for 28% of output with receipts from commodity shipments making up more than half of government revenues. Fulsome trade sanctions would most certainly tip it into recession. At the same time, much of Europe is highly dependent on Russian energy with strong direct investment ties. As such, any escalation leading to trade sanctions remains a key economic and financial risk, but is not the most likely outcome.

Trade and financial links between the U.S. and Russian economies are far more limited. Russia accounts for just 0.7% of U.S. merchandise exports, mostly machinery and transportation equipment, with imports from Russia largely comprising of crude petroleum. In what appears to a clear message to Moscow, the U.S. government this week announced the first "test" sale of oil from strategic reserves since the first Gulf war. As such, alongside increasing domestic production, the strategic reserves provide the U.S. with a means to cushion the fallout of a temporary oil supply shock on its economy from any escalation in the conflict.

While prices of energy, gold, and wheat (major Ukrainian export) remained supported by the tensions in Eastern Europe, many other commodities slumped as Chinese data on exports, industrial production and retail sales disappointed. The numbers for the January/February period – reported together to control for the timing of the Lunar New Year – have painted a picture of an economy that's decelerating at a worrying pace. The growth target for 2014 has recently been reaffirmed at 7.5%, but recent comments by Chinese officials suggest that growth may come in weaker – with a figure of 7.2% recently suggested as being close enough for comfort for the Chinese leadership. The rapid deceleration has also thrown open the possibility that the People's Bank of China will abstain from its drive to drain excess liquidity from the financial system, with any increased accommodation likely to take the form of a cut to bank reserve ratios.

Global events are likely to stay top of mind for the FOMC as they begin their meetings next Tuesday. However, unless the situation deteriorates rapidly early next week we do not expect the Fed to pause the measured taper and trim bond buying by another $10bn to $55bn per month. The Fed remains of the view that much of the weakness in recent economic indicators has been weather related. This has been somewhat corroborated by yesterday's retail sales report, which saw purchases increase in February after sharp declines over the previous two months. Economic growth will be stunted during the first quarter – likely around 1.5% annualized – but should accelerate with the spring thaw. This could be helped along should the recent Senate bi-partisan proposal to extend jobless benefits retroactively for another five months pass Congress.

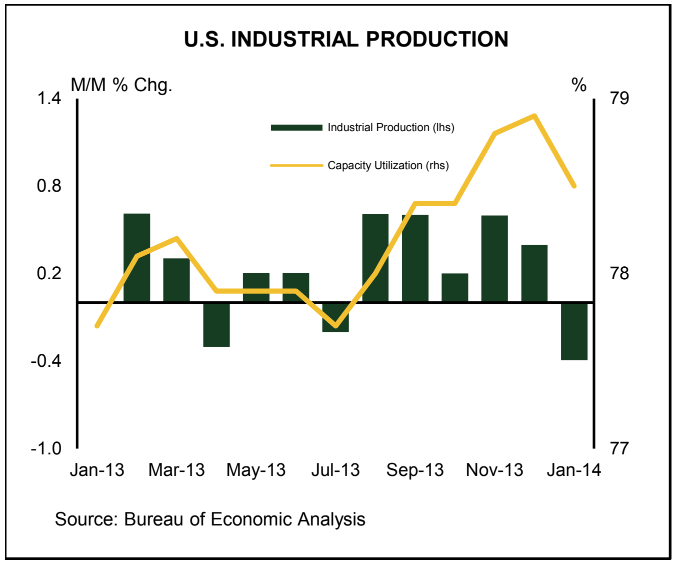
Michael Dolega, Senior Economist

UPCOMING KEY ECONOMIC RELEASES

U.S. Industrial Production and Capacity Utilization – February*

Release Date: March 17, 2014
January Result: -0.3% M/M, Capacity Utilization: 78.5%
TD Forecast: 0.5% M/M, Capacity Utilization: 78.7%
Consensus: 0.1% M/M, Capacity Utilization: 78.6%

Industrial sector activity is set to rebound meaningfully in February, with output expected to post a robust 0.5% m/m advance following the weather-induced 0.3% slump the previous month. Rising manufacturing sector activity, which we expect to boost a 0.5% m/m gain, should be the primary driver for the rebound in production – reflecting a partial correction from last month's pronounced 0.8% decline. While extreme weather was likely a drag on production activity during the month, the adverse conditions were skewed toward the earlier part of the month, likely giving manufacturers ample time to catch up on any lost production. The persistence of the cold temperatures across large portions of the country should help drive utility output another 2.0% m/m higher, following last month's 4.1% rise.

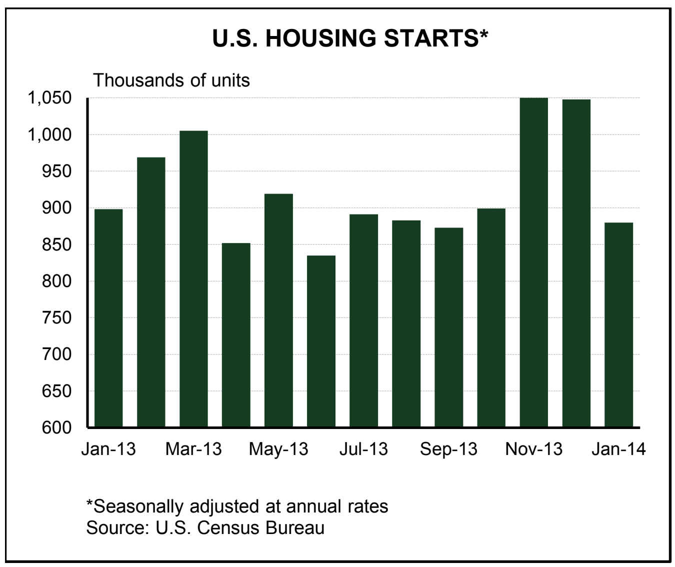


Mining activity should see another modest decline, falling a further 0.5% m/m. Given the likely rebound in headline industrial output, the pace of capacity utilization should edge higher, rising to 78.7% from 78.5%.

U.S. Housing Starts – February*

Release Date: March 18, 2014
January Result: 880K
TD Forecast: 935K
Consensus: 915K

Weather is likely to remains a dominant theme for the housing market story for yet another month in February, with new housing starts and permits expected to rebound following precipitous weather-induced declines at the start of 2014. We look for starts to increase 6.3% m/m to 935K, from 880K the month before. Permits approvals should also rebound, though at a slightly more modest 4.2% m/m pace to 985K from 945K. While weather should prove a drag on housing activity in early-February, the distribution of significant weather events was skewed toward the earlier part of the month, suggesting that activity may have rebounded substantially in late-February. We expect the pace of new residential construction activity to rise steadily in the coming months, as the drag from cold weather is reversed and both homebuilder and buyer confidence improves.

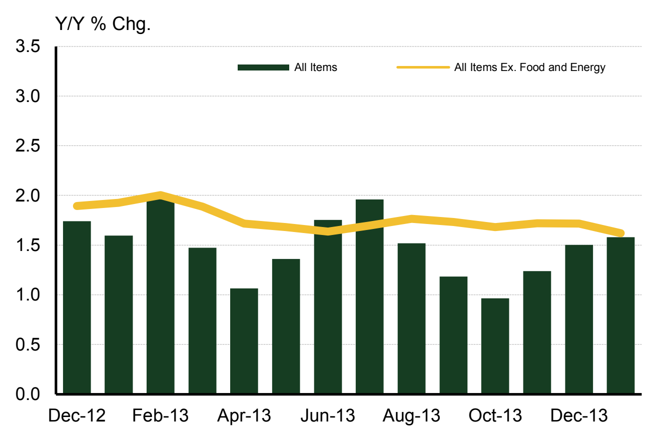


*Forecast by Rates and FX Strategy Group.

U.S. CPI - February*

Release Date: March 18, 2014
January Result: All-items 0.1% M/M; Core 0.1M/M
TD Forecast: All-items 0.1% M/M; Core 0.1% M/M
Consensus: All-items 0.1 M/M; Core 0.1% M/M

Headline consumer prices are expected to rise modestly in February as lower gasoline prices and further discounts on vehicles and apparel provide a partial offset to the gains in food and utilities prices. During the month, we expect headline CPI to post a modest 0.1% m/m (0.130% before rounding) increase, with the annual pace of headline CPI inflation decelerating from 1.6% y/y to 1.1% y/y. The core CPI index should also tick 0.1% m/m (0.119% at 3 decimal places) higher, with the annual rate of core inflation remaining steady at 1.6% y/y. While lower energy prices will weigh on headline CPI, we look for the 3-month and 6-month annualized pace of inflation to edge modestly higher, underscoring the reversal in the disinflationary momentum observed in recent months. In the coming months, we expect the pace of both headline and core inflation to begin drifting higher as favorable base effects abate, with inflation converging with the Fed's 2.0% y/y target by Q3.

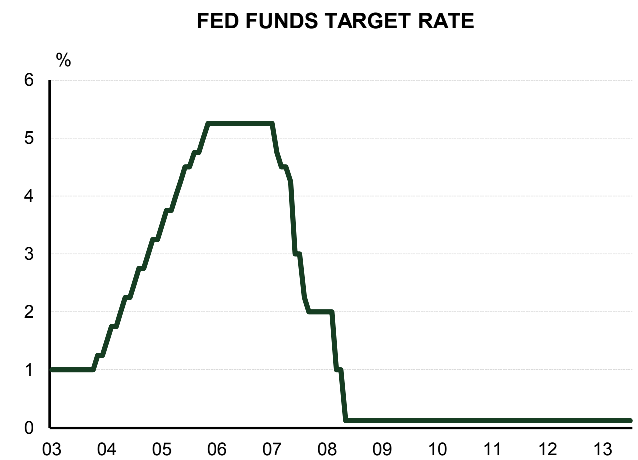


Source: Bureau of Labor Statistics / Haver Analytics

U.S. FOMC Interest Rate Decision*

Release Date: March 19, 2014
Current Rate: 0.0 0% to 0.25%
TD Forecast: 0.0 0% to 0.25%
Consensus: 0.0 0% to 0.25%

The current bout of global financial market volatility is not enough to push the Fed's tapering agenda off-course. And with the flow of US economic data beginning to confirm their expectation for growth momentum to re-accelerate after the weather-induced slowdown earlier this year, we look for the Fed to deliver another $10B cut in QE3 purchases – distributed equally over MBS and Treasuries. Where there is some potential for surprise is on the action taken about the current forward guidance framework. The Fed is likely to undertake a major overhaul of its current forward guidance framework, and our expectation is for them to drop the current 6.5% unemployment rate threshold entirely in favor of a more "qualitative" approach. The overall tone of the statement and accompanying SEP should reflect the Fed's dovish monetary policy stance, even as they continue to pivot away from QE. We look for this message to be reinforced by Fed Chair Yellen during her fist press conference later in the day.



Source: U.S. Federal Reserve Board / Haver Analytics.

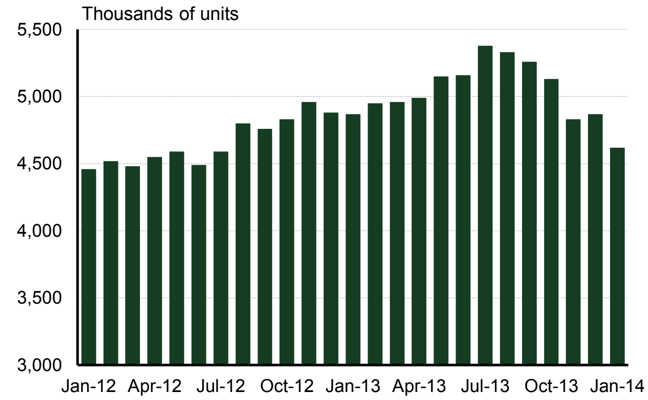
*Forecast by Rates and FX Strategy Group.

U.S. Existing Home Sales – February*

Release Date: March 20, 2014
January Result: 4.62 million
TD Forecast: 4.55 million
Consensus: 4.62 million

The housing sector remains in a soft patch, as the lagged impact from higher mortgage rates and unseasonably cold weather dampen sales activity. In February, we expect the pace of existing home sales to post its second consecutive monthly decline, falling 1.5% m/m to 4.55M units. The risks to this forecast are tilted to the downside, with the disappointing trend in pending home sales (which has declined a cumulative 14.3% since June) suggesting that there is little pent-up demand that could boost near-term existing home sales. In addition to the drag from higher mortgage rates, the prolonged period of cold weather over the past 3 months should also be a key factor dampening foot traffic, and consequently, sales activity. Nevertheless, with underlying buying conditions remaining quite favorable we expect the pace of home sales to thaw during the spring buying season, as strong underlying fundamentals reassert themselves, helping to reaccelerate market activity.

U.S. EXISTING HOME SALES*



*Seasonally adjusted at annual rates
Source: Census Bureau / Haver Analytics

*Forecast by Rates and FX Strategy Group.

RECENT KEY ECONOMIC INDICATORS: MARCH 10-14, 2014

Release Date		Economic Indicator/Event	Data for Period	Units	Current	Prior	
United States							
Mar 11		NFIB Small Business Optimism	Feb	Index	91.4	94.1	
Mar 11		JOLTs Job Openings	Jan	Thsd	3974	3914	R▼
Mar 11		Wholesale Inventories	Jan	M/M % Chg.	0.6	0.4	R▲
Mar 11		Wholesale Trade Sales	Jan	M/M % Chg.	-1.9	0.1	R▼
Mar 13		Retail Sales Advance	Feb	M/M % Chg.	0.3	-0.6	R▼
Mar 13		Retail Sales Excluding Auto and Gas	Feb	M/M % Chg.	0.3	-0.5	R▼
Mar 13		Initial Jobless Claims	Mar 7	Thsd	315	324	R▲
Mar 13		Continuing Claims	Feb 28	Thsd	2855	2903	R▼
Mar 13		Import Price Index	Feb	M/M % Chg.	0.9	0.4	R▲
Mar 13		Business Inventories	Jan	M/M % Chg.	0.4	0.5	
Mar 14		PPI Final Demand	Feb	M/M % Chg.	-0.1	0.2	
Mar 14		PPI Excluding Food and Energy	Feb	M/M % Chg.	-0.2	0.2	
Mar 14		University of Michigan Confidence Index	Mar P	Index	79.9	81.6	
Canada							
Mar 10		Housing Starts	Feb	Thsd	192.1	180.5	R▲
Mar 12		Teranet/National Bank Housing Price Index	Feb	M/M % Chg.	0.3	0.4	
Mar 12		Teranet/National Bank Housing Price Index	Feb	Y/Y % Chg.	5.0	4.5	
Mar 13		Capacity Utilization Rate	4Q	%	82.0	81.2	R▼
Mar 13		New Housing Price Index	Jan	Y/Y % Chg.	1.5	1.3	
International							
Mar 10	JN	Bankruptcies	Feb	Y/Y % Chg.	-14.6	-7.5	
Mar 10	FR	Industrial Production	Jan	Y/Y % Chg.	-0.1	0.3	R▼
Mar 10	FR	Manufacturing Production	Jan	Y/Y % Chg.	1.4	0.5	
Mar 11	GE	Labor Costs WDA	Q4	Y/Y % Chg.	2.0	1.9	R▲
Mar 11	GE	Trade Balance	Jan	EUR, Blns	15.0	13.9	R▼
Mar 11	GE	Current Account Balance	Jan	EUR, Blns	16.2	21.1	R▼
Mar 11	UK	Industrial Production	Jan	Y/Y % Chg.	2.9	1.9	R▲
Mar 11	UK	Manufacturing Production	Jan	Y/Y % Chg.	3.3	1.4	R▼
Mar 12	JN	Machine Orders	Jan	Y/Y % Chg.	23.6	6.7	
Mar 12	AU	Unemployment Rate	Feb	%	6.0	6.0	
Mar 12	AU	Participation Rate	Feb	%	64.8	64.6	R▲
Mar 13	FR	CPI EU Harmonized	Feb	Y/Y % Chg.	1.1	0.8	
Mar 13	FR	Consumer Price Index	Feb	Y/Y % Chg.	0.9	0.7	
Mar 14	UK	Trade Balance	Jan	GBP, Mlns	-2565	-668	R▲
Mar 14	EC	Employment	Q4	Y/Y % Chg.	-0.5	-0.8	

Source: Bloomberg, TD Economics.

UPCOMING ECONOMIC RELEASES AND EVENTS: MARCH 17-21, 2014

Release Date	Time*		Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
			United States				
Mar 17	8:30		Empire Manufacturing	Mar	Index	6.50	4.48
Mar 17	9:00		Total Net TIC Flows	Jan	USD, Blns	--	-119.6
Mar 17	9:15		Industrial Production	Feb	M/M % Chg.	0.1	-0.3
Mar 17	9:15		Capacity Utilization	Feb	%	78.6	78.5
Mar 18	8:30		Consumer Price Index	Feb	M/M % Chg.	0.1	0.1
Mar 18	8:30		CPI Excluding Food and Energy	Feb	M/M % Chg.	0.1	0.1
Mar 18	8:30		Consumer Price Index	Feb	Y/Y % Chg.	1.3	1.6
Mar 18	8:30		Housing Starts	Feb	Thsd	915	880
Mar 18	8:30		Building Permits	Feb	Thsd	965	937
Mar 18-19			*Federal Reserve FOMC Meeting*				
Mar 19	8:30		Current Account Balance	Q4	USD, Blns	-88.0	-94.8
Mar 19	14:00		Fed QE3 Pace	Mar	USD, Blns	55	65
Mar 19	14:00		FOMC Rate Decision	Mar 19	%	0.25	0.25
Mar 20	8:30		Initial Jobless Claims	Mar 14	Thsd	--	315
Mar 20	8:30		Continuing Claims	Mar 7	Thsd	--	2855
Mar 20	10:00		Philadelphia Fed Business Outlook	Mar	Index	4.0	-6.3
Mar 20	10:00		Existing Home Sales	Feb	Mlns	4.62	4.62
Mar 20	10:00		Conference Board Leading Economic Indicators	Feb	M/M % Chg.	0.2	0.3
			Canada				
Mar 17	8:30		International Securities Transactions	Jan	CAD, Blns	--	-4.28
Mar 17	9:00		Existing Home Sales	Feb	M/M % Chg.	--	-3.3
Mar 18	8:30		Manufacturing Sales	Jan	M/M % Chg.	1.0	-0.9
Mar 19	8:30		Wholesale Trade Sales	Jan	M/M % Chg.	1.0	-1.4
Mar 21	8:30		Retail Sales	Jan	M/M % Chg.	0.8	-1.8
Mar 21	8:30		Retail Sales Excluding Auto	Jan	M/M % Chg.	0.9	-1.4
Mar 21	8:30		Consumer Price Index	Feb	Y/Y % Chg.	0.9	1.5
Mar 21	8:30		CPI Core	Feb	Y/Y % Chg.	1.1	1.4
Mar 21	8:30		CPI SA	Feb	M/M % Chg.	--	0.2
Mar 21	8:30		CPI Core SA	Feb	M/M % Chg.	--	0.2
			International				
Mar 18	6:00	EC	Trade Balance SA	Jan	EUR, Blns	--	13.7
Mar 18	17:45	NZ	BoP Current Account Balance	4Q	NZD, Blns	-1.3	-4.8
Mar 18	19:50	JN	Trade Balance Adjusted	Feb	Yen, Blns	-993.7	-1818.8
Mar 19	3:45	FR	Current Account Balance	Jan	EUR, Blns	--	-1.2
Mar 19	5:30	UK	*Bank of England Minutes*				
Mar 19	5:30	UK	ILO Unemployment Rate 3Mths	Jan	%	7.2	7.2
Mar 19	6:00	EC	Labour Costs	4Q	Y/Y % Chg.	--	1.0
Mar 19	17:45	NZ	Gross Domestic Product	4Q	Y/Y % Chg.	3.2	3.5
Mar 20	3:00	GE	Producer Price Index	Feb	Y/Y % Chg.	-0.9	-1.1
Mar 21	5:00	EC	ECB Current Account SA	Jan	EUR, Blns	--	21.3
Mar 21	11:00	EC	Consumer Confidence	Mar A	Index	-13.0	-12.7

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