

Dollars and Sense:

A Q&A on Fiscal and Monetary Policy

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Last week we had a series of meetings with some of our longest standing clients and learned about what's keeping them up at night. As a second wave of COVID-19 infections takes hold around the world, many questioned if there's any more firing power, following the bazooka of fiscal and monetary measures that occurred during the spring. In this report, we tackle this and other pressing client questions.

Question 1: How can unemployment and consumer spending both be so high?

Unprecedented spending by U.S. and Canadian governments to ease the pandemic burden on households was a supersized application of Keynesian Economics 101. When the economy contracts, the government fills the void. In the case of the U.S. in the second quarter, a 33% annualized dive in nominal GDP and a 13% average unemployment rate, was met with a 44% jump in personal disposable income. This marked a complete departure from past experiences (Chart 1). Economic growth and income paths usually follow each other, with government automatic stabilizers only partially filling the gaps. The divergence this time came from a 75% increase in government transfer payments, equivalent to US\$2.4 trillion over the April to June period. This was the main factor allowing consumer spending to defy recession dynamics.

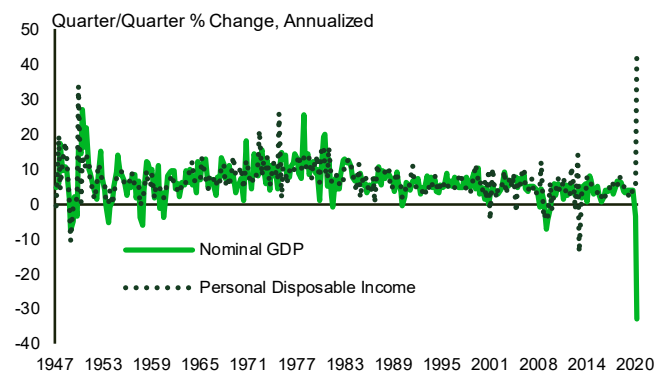
A similar phenomenon occurred in Canada in the second quarter. The economy declined by 41.5%, the unemployment rate also registered at 13% and household disposable income rose by 51% (annualized). Government transfers via employment insurance and other benefits (CERB, etc) increased 88% from the prior quarter. That marked an extra CA\$223 billion of government support.

Question 2: If government support comes off, does the economy fall off a cliff?

The short answer is that the pulling back of government supports to historical norms would cause spending to realign more closely to employment outcomes, with one caveat. The jolt in income over the spring allowed households to build up a larger war chest. This better starting position in savings would help initially cushion the blow, but not prevent financial strain on households over time, particularly those at the lower income distribution who are bearing the larger cost of job losses and have less savings than the rest of the population.

Comparing U.S. and Canadian experiences offers some insight. In July 2020, the U.S. allowed unemployment insurance top-offs

Chart 1: Government Support for Incomes Is Unprecedented



Source: BEA, TD Economics. Last data point Q2-2020.

and other pandemic measures to expire, while Canada not only extended, but enhanced government supports that were not measuring up. Data have revealed stronger spending and job patterns in Canada relative to the U.S. through the summer and early fall months. Our U.S. modelling demonstrates that a new fiscal package with a conservative estimate of only US\$400 billion in new spending would raise the level of GDP by 0.7% by the end of 2021. If this cycle had a typical relationship between GDP and employment, that difference would equate to approximately 600 thousand more Americans working by the end of 2021. But this is not a typical cycle. The speed of the recovery is dictated by the evolution of a virus and related government decisions to protect the population and health care capacity. So the near-term job multiplier is likely muted for every dollar of government spending. But there would be more bang-for-the-buck in the medium term via the protection of household finances. This would mitigate scarring and inequality, and thereby permit a faster rebound as virus risks recede.

Question 3: What's the bill adding up to?

Naturally, higher government support means higher debt. Since March, marketable debt in the U.S. has grown by over US\$3 trillion. The IMF has the Federal government's net debt-to-GDP ratio (net of cash and equivalents) reaching 107% by 2021 (Chart 2).¹ This is rare, but not the first time that debt levels have reached such high levels. In the 1940s, government spending to support the war effort caused the debt-to-GDP ratio to double from 42% to 106% over four years. Over the subsequent three decades, that ratio declined, with government spending as a share of real GDP dropping from a peak of 85% in 1944, to 26% in 1947. However, repeating this outcome is highly unlikely. The U.S., along with other countries, is likely to maintain a structurally higher debt ratio over the long run. Before the pandemic, spending as a share of GDP was already just 19%. With little fat to trim on non-discretionary spending, the options for a quick resolution are more limited.

In Canada, it is estimated that the Federal net debt will reach 48% of GDP by the end of the upcoming fiscal year. That's up from 26% prior to the pandemic. Although this compares extremely favorably relative to stateside, it's important to remember that most American states are prohibited from running cyclical deficits. Combining the debt of Canadian provinces to the Federal total brings the net

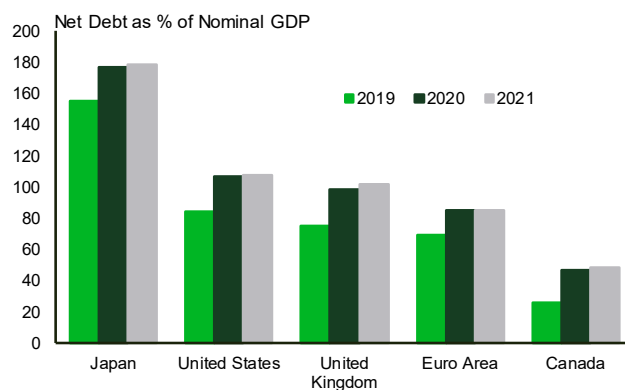
debt-to-GDP to 85%. While still favourable, Canada's small, open economy is held to a different investor and credit standard than the U.S. Those that lived through the early 1990s will recall the credit downgrades and fiscal belt tightening that occurred after the Federal government's net debt-to-GDP ratio reached nearly 70%. Canadian government debt has already been downgraded by Fitch, to AA+ in June. Part of the downgrade reflected the weak fiscal position of Canadian provinces that "will likely increase the need for federal support".² If the future brings more downgrades across the range of rating agencies, the debt service cost would rise through an interest rate penalty, undermining the needed dynamics to mitigate the debt-to-GDP ratio.

The good news is that Canada is not alone when it comes to higher debt levels and has a better starting position at the Federal level relative to its peers. What ultimately matters is whether government spending succeed in placing a stronger foundation under jobs and business investment and, by extension, expedite the recovery in the economy and future tax base. This will only be known with time.

Question 4: Who's paying for this? Me? My kids? My kids' kids?

There is a long list of options on the table for addressing high government debt. Higher taxes (on capital gains, income, sales, wealth, and principal residences) are a hot topic of conversation at our virtual cocktail parties. So too are future spending cuts. Neither path would be well received by everyone.

Chart 2: Debt Levels to Reach New Highs



Source: IMF Fiscal Monitor, TD Economics.

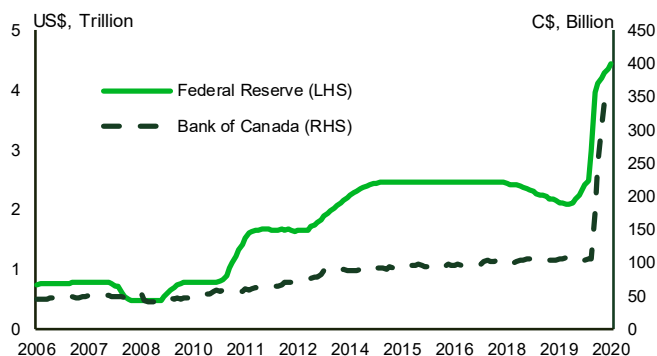
This is where central banks can help to ease the burden. Over the last few months, we witnessed just how much support they can provide. For the U.S. government, the Federal Reserve's quick actions not only eased financial market dislocation, but it made the cost of debt cheaper. It did this through a series of programs, coupled with cutting its policy rate to the zero lower bound and using forward guidance to push market expectations to be flat on the policy rate for the next decade. The average interest rate on U.S. government debt is now just 1.68%, while the average on newly issued debt is well below 1%. By keeping rates low, the average rate the government pays on all of its debt will decline over time.

In Canada, the same holds true. The Parliamentary Budget Office (PBO) forecasts that even with the projected government debt increase in Canada, the servicing of that debt as a percentage of total tax revenue will “reach its lowest level on record”.³ Even though the debt-to-GDP is rising substantially, the interest rate decline more than offsets the cost to the government. With debt getting cheaper, there's an incentive for the government to borrow in order to support household incomes.

There's one important caveat here. This narrative will hold for as long as interest rates stay low. If rates rise, it would make a compelling case to reduce debt burdens actively and more aggressively. Clearly, the most desirable path before aggressive taxes or spending cuts is to try to ‘grow’ out of it. If GDP growth is greater than the interest rate on debt, it is reasonable that the economy can in fact reduce the debt burden over time. As the economic recovery gains time, receding support payments are filled by tax payments.

In contrast to Canada's PBO, the U.S. Congressional Budget Office (CBO) projects that the debt-to-GDP ratio will continue to increase over time. Once the pandemic impact is over, higher U.S. spending on social security and major health programs, combined with higher interest costs will push the debt-to-GDP level to 195% by the year 2050.⁴ According to the CBO's figures, even if interest rates stay low, there will have to be spending and/or revenue adjustments in order to keep the debt-to-GDP ratio stable at the current pandemic level. This in part reflects the worse starting point of U.S. debt levels, highlighting the importance of fiscal responsibility ahead of crisis moments.

Chart 3: Central Bank Ownership of Government Debt Continues to Rise



Source: FRB, BoC, TD Economics. Last data point September 2020.

Question 5: What's your take on the central bank buying so much government debt?

In the near term, this is not an issue so long as there are actions undertaken to mitigate economic and financial risks, which is exactly what's occurring. Ultimately, central bank actions should remain scaled in accordance to those risks. This is why the Federal Reserve is encouraging the government to act, while the Bank of Canada is scaling back programs that are no longer needed for its intended purpose of alleviating market strain.

In terms of the scale of what's occurring, since March, the Fed's balance sheet has grown by approximately US\$3 trillion to US\$7 trillion today. The majority of the assets held are U.S. Treasuries that have increased by approximately US\$2 trillion over the last seven months. That means the Fed has funded about two-thirds of all new government issuance, causing its total holdings to be approximately 22% of all outstanding U.S. government securities (Chart 3). While this is already greater than the 20% peak of the Global Financial Crisis (GFC), it is not at levels seen among a number of peer regions.

The asymmetric economic and financial risks is why the Fed is encouraging the government to spend further. Chair Powell has stated that if the government failed to reach a new stimulus deal, this would “lead to a weak recovery, creating unnecessary hardship for households and businesses”. A central bank that's acting as a partial backstop is quite the motivation for a government, but the encouragement at this point remains in alignment to the Fed delivering on its economic mandate.

By comparison, the Bank of Canada also owns a solid share of outstanding Canadian Federal debt at 29%. This is the Bank's first foray into the world of QE. During the GFC, the Bank of Canada did not embark on asset purchases like many of its central banking peers. Looking forward, the Bank of Canada will continue to purchase Federal and Provincial bonds in an effort to keep these bond yields low. But at the same time, the BoC is running down the asset holdings of some programs that are no longer needed to support short-term liquidity, such as Commercial Paper (zero balance), Banker's Acceptance (zero balance), and Repurchase Agreements. Additionally, mortgage bond purchases are also ending. Given that the spread on 5-year mortgage bonds relative to 5-year Canada bonds are lower than pre-pandemic levels, further purchases do not add much value.

The point here is that a logical adjustment period for the balance sheet is occurring by both central banks, with the primary intent being a balance sheet that supports the ongoing recovery. If this ceases to be the case, or the lines become blurred, then we would take issue with the policy approach.

Question 6: Isn't that MMT?

Ah, this leads nicely into a discussion of Modern Monetary Theory (MMT). This is the idea that the government can spend all it wants because the central bank is able to buy the debt. Yes, the central bank is buying government debt, but this is not yet crossing the threshold of MMT. A key component of MMT is missing – that the central bank loses independence in taking up government debt. We'd argue that the Fed and other central banks are buying debt through QE to keep interest rates low and are still intending to reduce the size of their government debt holdings once the economic recovery is established. That is very different than giving up the reins of central bank independence.

What is happening now is more aligned to debt monetization (assuming that some of the purchases are permanent). The central bank is buying the government's debt to inject funds and support the financial system, with the goal of returning employment and inflation back to its mandate objectives. It is not the same outcomes as being a funding conduit to give the government the option to indiscriminately

spend tax payer money. But, we have to acknowledge that there is undoubtedly a risk here. The fact that the central bank is stepping in can create moral hazard. Should the government spend too much, causing rising debts to result in unsustainably higher interest rates, there is a feedback loop where the central bank's hand could be forced to step in to support government debt as a means towards financial and economic stability. That pressure would blur the lines on central bank independence and also the line between central bank support and MMT.

Question 7: What's the limit on higher government debt?

A long time ago, people would use the debt-to-GDP ratio and say that if the level gets above a certain threshold, the government would need austerity to address the fiscal situation. We know now that there is no specific level. It depends on the level of interest rates, the economic trajectory, the credibility of the central bank, and the confidence from investors in the government's ability and willingness to service and manage the debt. This is why a country like the U.S. can maintain a debt-to-GDP ratio above 100%, whereas a country such as Turkey saw investor flight when its debt ratio was less than 40%.

That said, there is a self-reinforcing mechanism for fiscal discipline – inflation. Economic history is littered with examples of governments that spent too much. From the Weimar Republic post-WWI, to Zimbabwe a little more than a decade ago, we know that uncontrolled government spending combined with unrestrained money printing leads to inflation. Those are extreme examples. What we are looking at now is a time period of low inflation due to a demand shock and an economic void that is being addressed by government spending. These efforts are intended to get the economy back to full capacity but not replace consumers and businesses as the economic growth engine. Among other factors, the central bank will be guided by inflationary pressures in pulling back monetary support. However, at this moment in time, the massive hit to aggregate demand and highly uncertain future (determined by a virus) means that the threat of economy wide inflation is very low.

| Interest Rate Outlook | | | | | | | | | | | | | |
|--------------------------------|---------------------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------|------|
| | Spot Rate Oct-16 | 2020 | | | | 2021 | | | | 2022 | | | |
| | | Q1 | Q2 | Q3 | Q4F | Q1F | Q2F | Q3F | Q4F | Q1F | Q2F | Q3F | Q4F |
| CANADA | | | | | | | | | | | | | |
| Overnight Target Rate | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 |
| 3-mth T-Bill Rate | 0.09 | 0.21 | 0.20 | 0.12 | 0.10 | 0.15 | 0.15 | 0.20 | 0.20 | 0.20 | 0.20 | 0.20 | 0.20 |
| 2-yr Govt. Bond Yield | 0.23 | 0.42 | 0.28 | 0.25 | 0.30 | 0.30 | 0.30 | 0.30 | 0.30 | 0.30 | 0.35 | 0.40 | 0.50 |
| 5-yr Govt. Bond Yield | 0.35 | 0.60 | 0.36 | 0.36 | 0.40 | 0.50 | 0.60 | 0.75 | 0.85 | 1.00 | 1.05 | 1.15 | 1.25 |
| 10-yr Govt. Bond Yield | 0.57 | 0.71 | 0.52 | 0.57 | 0.70 | 0.85 | 1.00 | 1.15 | 1.30 | 1.40 | 1.55 | 1.65 | 1.70 |
| 30-yr Govt. Bond Yield | 1.16 | 1.30 | 0.99 | 1.11 | 1.25 | 1.40 | 1.50 | 1.60 | 1.70 | 1.80 | 1.90 | 2.00 | 2.10 |
| 10-yr-2-yr Govt Spread | 0.34 | 0.29 | 0.24 | 0.32 | 0.40 | 0.55 | 0.70 | 0.85 | 1.00 | 1.10 | 1.20 | 1.25 | 1.20 |
| U.S. | | | | | | | | | | | | | |
| Fed Funds Target Rate | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 |
| 3-mth T-Bill Rate | 0.09 | 0.11 | 0.16 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 |
| 2-yr Govt. Bond Yield | 0.14 | 0.23 | 0.16 | 0.13 | 0.20 | 0.20 | 0.20 | 0.20 | 0.20 | 0.20 | 0.25 | 0.30 | 0.35 |
| 5-yr Govt. Bond Yield | 0.32 | 0.37 | 0.29 | 0.28 | 0.30 | 0.40 | 0.50 | 0.60 | 0.75 | 0.90 | 0.95 | 1.05 | 1.15 |
| 10-yr Govt. Bond Yield | 0.75 | 0.70 | 0.66 | 0.69 | 0.80 | 0.95 | 1.10 | 1.25 | 1.40 | 1.55 | 1.60 | 1.65 | 1.70 |
| 30-yr Govt. Bond Yield | 1.53 | 1.35 | 1.41 | 1.46 | 1.60 | 1.75 | 1.85 | 1.95 | 2.05 | 2.10 | 2.15 | 2.20 | 2.25 |
| 10-yr-2-yr Govt Spread | 0.60 | 0.47 | 0.50 | 0.56 | 0.60 | 0.75 | 0.90 | 1.05 | 1.20 | 1.35 | 1.35 | 1.35 | 1.35 |
| CANADA - U.S SPREADS | | | | | | | | | | | | | |
| Can - U.S. T-Bill Spread | 0.00 | 0.10 | 0.04 | 0.02 | 0.00 | 0.05 | 0.05 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 |
| Can - U.S. 10-Year Bond Spread | -0.17 | 0.01 | -0.14 | -0.12 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | -0.15 | -0.05 | 0.00 | 0.00 |

F: Forecast by TD Economics, October 2020; Forecasts are end-of-period.
Source: Bloomberg, Bank of Canada, Federal Reserve.

| Foreign Exchange Outlook | | | | | | | | | | | | | | |
|---|---------------|----------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-----|
| Currency | Exchange rate | Spot Price Oct-16 | 2020 | | | | 2021 | | | | 2022 | | | |
| | | | Q1 | Q2 | Q3 | Q4F | Q1F | Q2F | Q3F | Q4F | Q1F | Q2F | Q3F | Q4F |
| Exchange rate to U.S. dollar | | | | | | | | | | | | | | |
| Chinese Yuan | CNY per USD | 6.70 | 7.08 | 7.07 | 6.79 | 6.80 | 6.80 | 6.80 | 6.80 | 6.80 | 6.80 | 6.80 | 6.80 | |
| Japanese yen | JPY per USD | 105 | 108 | 108 | 106 | 105 | 105 | 104 | 104 | 103 | 103 | 103 | 102 | |
| Euro | USD per EUR | 1.17 | 1.10 | 1.12 | 1.17 | 1.19 | 1.20 | 1.21 | 1.23 | 1.24 | 1.25 | 1.25 | 1.25 | |
| U.K. pound | USD per GBP | 1.29 | 1.25 | 1.24 | 1.29 | 1.31 | 1.33 | 1.34 | 1.36 | 1.37 | 1.38 | 1.40 | 1.40 | |
| Swiss franc | CHF per USD | 0.92 | 0.96 | 0.95 | 0.92 | 0.90 | 0.91 | 0.92 | 0.93 | 0.94 | 0.95 | 0.96 | 0.96 | |
| Canadian dollar | CAD per USD | 1.32 | 1.41 | 1.36 | 1.33 | 1.30 | 1.29 | 1.28 | 1.29 | 1.30 | 1.30 | 1.30 | 1.30 | |
| Australian dollar | USD per AUD | 0.71 | 0.61 | 0.69 | 0.72 | 0.73 | 0.74 | 0.74 | 0.73 | 0.72 | 0.73 | 0.73 | 0.73 | |
| NZ dollar | USD per NZD | 0.66 | 0.60 | 0.65 | 0.66 | 0.67 | 0.68 | 0.68 | 0.67 | 0.67 | 0.67 | 0.67 | 0.67 | |
| Exchange rate to Euro | | | | | | | | | | | | | | |
| U.S. dollar | USD per EUR | 1.17 | 1.10 | 1.12 | 1.17 | 1.19 | 1.20 | 1.21 | 1.23 | 1.24 | 1.25 | 1.25 | 1.25 | |
| Japanese yen | JPY per EUR | 123 | 118 | 121 | 124 | 125 | 126 | 126 | 127 | 128 | 129 | 128 | 128 | |
| U.K. pound | GBP per EUR | 0.91 | 0.89 | 0.91 | 0.91 | 0.91 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.89 | 0.89 | |
| Swiss franc | CHF per EUR | 1.07 | 1.06 | 1.06 | 1.08 | 1.07 | 1.09 | 1.11 | 1.14 | 1.16 | 1.18 | 1.19 | 1.21 | |
| Canadian dollar | CAD per EUR | 1.55 | 1.56 | 1.53 | 1.56 | 1.55 | 1.55 | 1.55 | 1.58 | 1.61 | 1.63 | 1.63 | 1.63 | |
| Australian dollar | AUD per EUR | 1.66 | 1.79 | 1.63 | 1.64 | 1.64 | 1.63 | 1.65 | 1.68 | 1.72 | 1.71 | 1.71 | 1.71 | |
| NZ dollar | NZD per EUR | 1.77 | 1.85 | 1.74 | 1.77 | 1.77 | 1.77 | 1.78 | 1.82 | 1.86 | 1.87 | 1.87 | 1.87 | |
| Exchange rate to Japanese yen | | | | | | | | | | | | | | |
| U.S. dollar | JPY per USD | 105 | 108 | 108 | 106 | 105 | 105 | 104 | 104 | 103 | 103 | 103 | 102 | |
| Euro | JPY per EUR | 123 | 118 | 121 | 124 | 125 | 126 | 126 | 127 | 128 | 129 | 128 | 128 | |
| U.K. pound | JPY per GBP | 136 | 134 | 133 | 136 | 138 | 139 | 140 | 140 | 141 | 143 | 144 | 144 | |
| Swiss franc | JPY per CHF | 115.2 | 111.7 | 113.8 | 114.9 | 116.7 | 115.0 | 113.3 | 111.6 | 110.2 | 108.9 | 107.6 | 106.2 | |
| Canadian dollar | JPY per CAD | 79.9 | 76.1 | 79.2 | 79.2 | 80.8 | 81.0 | 81.3 | 80.2 | 79.4 | 79.2 | 79.0 | 78.8 | |
| Australian dollar | JPY per AUD | 74.6 | 66.0 | 74.3 | 75.6 | 76.2 | 76.9 | 76.5 | 75.4 | 74.5 | 75.2 | 75.0 | 74.8 | |
| NZ dollar | JPY per NZD | 69.6 | 64.1 | 69.5 | 69.8 | 70.4 | 71.1 | 70.8 | 69.8 | 68.9 | 69.0 | 68.8 | 68.7 | |
| Exchange rate to Canadian dollar | | | | | | | | | | | | | | |
| U.S. dollar | USD per CAD | 0.76 | 0.71 | 0.74 | 0.75 | 0.77 | 0.78 | 0.78 | 0.78 | 0.77 | 0.77 | 0.77 | 0.77 | |
| Japanese yen | JPY per CAD | 79.9 | 76.1 | 79.2 | 79.2 | 80.8 | 81.0 | 81.3 | 80.2 | 79.4 | 79.2 | 79.0 | 78.8 | |
| Euro | CAD per EUR | 1.55 | 1.56 | 1.53 | 1.56 | 1.55 | 1.55 | 1.55 | 1.58 | 1.61 | 1.63 | 1.63 | 1.63 | |
| U.K. pound | CAD per GBP | 1.71 | 1.76 | 1.68 | 1.72 | 1.70 | 1.72 | 1.72 | 1.75 | 1.78 | 1.80 | 1.82 | 1.82 | |
| Swiss franc | CHF per CAD | 0.69 | 0.68 | 0.70 | 0.69 | 0.69 | 0.70 | 0.72 | 0.72 | 0.72 | 0.73 | 0.73 | 0.74 | |
| Australian dollar | AUD per CAD | 1.07 | 1.15 | 1.07 | 1.05 | 1.06 | 1.05 | 1.06 | 1.06 | 1.07 | 1.05 | 1.05 | 1.05 | |
| NZ dollar | NZD per CAD | 1.15 | 1.19 | 1.14 | 1.14 | 1.15 | 1.14 | 1.15 | 1.15 | 1.15 | 1.15 | 1.15 | 1.15 | |

F: Forecast by TD Economics, October 2020; Forecasts are end-of-period.
Source: Federal Reserve, Bloomberg.

International Interest Rates Outlook

| | Spot Rate Oct-16 | 2020 | | | | 2021 | | | | 2022 | | | |
|------------------------|---------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | | Q1 | Q2 | Q3 | Q4F | Q1F | Q2F | Q3F | Q4F | Q1F | Q2F | Q3F | Q4F |
| Germany | | | | | | | | | | | | | |
| ECB Deposit Rate | -0.50 | -0.50 | -0.50 | -0.50 | -0.50 | -0.50 | -0.50 | -0.50 | -0.50 | -0.50 | -0.50 | -0.50 | -0.50 |
| 3-mth T-Bill Rate | -0.68 | -0.71 | -0.56 | -0.62 | -0.60 | -0.60 | -0.60 | -0.60 | -0.60 | -0.60 | -0.60 | -0.60 | -0.60 |
| 2-yr Govt. Bond Yield | -0.78 | -0.70 | -0.70 | -0.70 | -0.70 | -0.65 | -0.60 | -0.55 | -0.49 | -0.46 | -0.42 | -0.36 | -0.28 |
| 5-yr Govt. Bond Yield | -0.80 | -0.66 | -0.70 | -0.71 | -0.65 | -0.60 | -0.55 | -0.50 | -0.44 | -0.41 | -0.37 | -0.31 | -0.23 |
| 10-yr Govt. Bond Yield | -0.62 | -0.47 | -0.46 | -0.52 | -0.50 | -0.45 | -0.40 | -0.35 | -0.29 | -0.26 | -0.22 | -0.16 | -0.08 |
| 30-yr Govt. Bond Yield | -0.20 | 0.02 | 0.00 | -0.10 | -0.15 | -0.10 | -0.05 | 0.00 | 0.06 | 0.09 | 0.13 | 0.19 | 0.27 |
| 10-yr-2-yr Govt Spread | 0.15 | 0.23 | 0.24 | 0.18 | 0.20 | 0.20 | 0.20 | 0.20 | 0.20 | 0.20 | 0.20 | 0.20 | 0.20 |
| United Kingdom | | | | | | | | | | | | | |
| Bank Rate | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 |
| 3-mth T-Bill Rate | 0.02 | 0.18 | 0.01 | 0.00 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.15 |
| 2-yr Govt. Bond Yield | -0.06 | 0.12 | -0.08 | -0.03 | 0.05 | 0.15 | 0.20 | 0.25 | 0.30 | 0.40 | 0.50 | 0.60 | 0.75 |
| 5-yr Govt. Bond Yield | -0.08 | 0.21 | -0.05 | -0.06 | 0.05 | 0.25 | 0.30 | 0.35 | 0.40 | 0.50 | 0.60 | 0.70 | 0.85 |
| 10-yr Govt. Bond Yield | 0.18 | 0.35 | 0.17 | 0.23 | 0.20 | 0.40 | 0.45 | 0.50 | 0.55 | 0.65 | 0.75 | 0.85 | 1.00 |
| 30-yr Govt. Bond Yield | 0.73 | 0.82 | 0.64 | 0.78 | 0.75 | 0.95 | 1.00 | 1.05 | 1.10 | 1.15 | 1.20 | 1.25 | 1.35 |
| 10-yr-2-yr Govt Spread | 0.24 | 0.23 | 0.25 | 0.26 | 0.15 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 |

F: Forecast by TD Economics, October 2020; Forecasts are end-of-period.
Source: Bloomberg.

Global Stock Markets

| | Price Oct-16 | 30-Day % Chg. | YTD % Chg. | 52-Week High | 52-Week Low |
|----------------------|-----------------|------------------|---------------|-----------------|----------------|
| S&P 500 | 3,484 | 2.4 | 7.8 | 3,581 | 2,237 |
| S&P/TSX Composite | 16,439 | 0.0 | -3.7 | 17,944 | 11,228 |
| DAX | 12,909 | -2.3 | -2.6 | 13,789 | 8,442 |
| FTSE 100 | 5,920 | -3.0 | -21.5 | 7,675 | 4,994 |
| Nikkei | 23,411 | -0.2 | -1.0 | 24,084 | 16,553 |
| MSCI AC World Index* | 582 | 1.1 | 3.0 | 594 | 384 |

*Weighted equity index including both developed and emerging markets.
Source: Bloomberg, TD Economics.

Commodity Price Outlook

| | Price Oct-16 | 52-Week High | 52-Week Low | 2020 | | | | 2021 | | | | 2022 | | | |
|---------------------------|-----------------|-----------------|----------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | | | | Q1 | Q2 | Q3 | Q4F | Q1F | Q2F | Q3F | Q4F | Q1F | Q2F | Q3F | Q4F |
| Crude Oil (WTI, \$US/bbl) | 41 | 63 | -38 | 46 | 28 | 41 | 41 | 42 | 44 | 48 | 49 | 50 | 51 | 52 | 53 |
| Natural Gas (\$US/MMBtu) | 2.16 | 2.87 | 1.33 | 1.91 | 1.71 | 1.99 | 2.60 | 2.90 | 2.75 | 2.70 | 3.10 | 3.15 | 2.80 | 2.90 | 3.16 |
| Gold (\$US/troy oz.) | 1899 | 2064 | 1454 | 1582 | 1708 | 1909 | 1950 | 1930 | 1910 | 1890 | 1850 | 1825 | 1800 | 1775 | 1750 |
| Silver (US\$/troy oz.) | 24.13 | 29.13 | 11.98 | 16.90 | 16.38 | 24.34 | 25.00 | 24.50 | 24.00 | 23.50 | 23.00 | 22.75 | 22.50 | 22.25 | 22.00 |
| Copper (cents/lb) | 306 | 311 | 210 | 255 | 243 | 296 | 298 | 297 | 304 | 306 | 310 | 311 | 312 | 312 | 313 |
| Nickel (US\$/lb) | 7.00 | 7.65 | 4.94 | 5.76 | 5.53 | 6.45 | 6.81 | 6.87 | 6.87 | 6.92 | 6.92 | 6.95 | 6.99 | 7.02 | 7.06 |
| Aluminum (Cents/lb) | 84 | 84 | 66 | 77 | 68 | 77 | 78 | 75 | 75 | 74 | 74 | 73 | 73 | 73 | 73 |
| Wheat (\$US/bu) | 6.86 | 7.29 | 5.75 | 6.60 | 6.46 | 6.36 | 6.81 | 6.83 | 6.84 | 6.84 | 6.84 | 6.82 | 6.80 | 6.77 | 6.75 |

F: Forecast by TD Economics, October 2020; Forecast are period averages; E: Estimate.
Source: Bloomberg, USDA (Haver).

Endnotes

1. <https://www.imf.org/en/Publications/FM/Issues/2020/09/30/october-2020-fiscal-monitor#Full%20Report%20and%20Executive%20Summary>
2. <https://www.fitchratings.com/research/sovereigns/fitch-downgrades-canada-ratings-to-aa-outlook-stable-24-06-2020>
3. https://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/RP-2021-027-S/RP-2021-027-S_en.pdf
4. https://www.cbo.gov/publication/56598#_idTextAnchor007

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