Credential

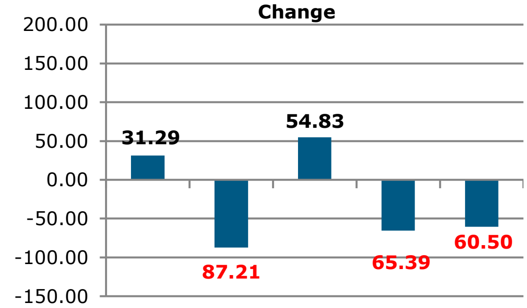
Market Insights | WEEKLY

Canadian Markets

For the week ending October 5, 2018

- **TSX drops.** Despite a new NAFTA deal being reached, rising oil prices, and strong jobs data, Canada's main stock index went into negative territory for the week. A steep sell off in U.S. treasuries arising from inflation fear weighted on global stocks and bonds. The TSX fell 0.8% to close below the 16,000-level at 15,946.
- **Dollar flat.** The Canadian dollar started October with a strong rally thanks to the new NAFTA deal being reached on Sunday; however, it gave back most of the gains by the end of the week. Our dollar was up more than 1% to start the month, but gradually declined to close the week up only 0.05%. At the end of the week, our Dollar finished at 77.29 U.S. cents.
- **Gold rises.** After weeks of sluggishness, the yellow metal posted solid gains for the week. Safe-haven buying and inflation pressure could be the factors driving this week's gain. At week's end, gold closed at US$1,205.60 an ounce for a December contract, up 0.8% from the previous week.
- **Oil rises.** Oil had a volatile week. Prices reached a four-year high mid-week before giving back some of the gains after Saudi Arabia and Russia announced that they would increase output. Concerns over global supply, strong demand, and upcoming U.S. sanctions on Iran had been pushing up prices in recent months. At the end of the week, a November contract on a barrel of WTI crude settled at US$74.34, a rise of 1.5%.
- **NAFTA deal reached.** After months of back-and-forth negotiations and political dramas, the U.S., Canada, and Mexico reached consensus on a new trilateral trade deal. The new trade pact will be renamed the United States-Mexico-Canada Agreement (USMCA). Details around the new trade agreement are still forthcoming, but it is expected to clear some of the uncertainties that have been lingering around for months. Stock markets had little reaction to the news.
- **Unemployment rate drops.** Statistic Canada reported that unemployment rate dropped 0.1 percent to 5.9% in September, matching the forecast. The economy added 63,300 job positions after a decline of 51,600 reported in August, beating economists' expectations of 25,000 jobs added by a wide margin. Most job gains came from British Columbia and Ontario.
- **Trade surplus is back.** Canada recorded its first goods trade surplus since December 2016 in August. Statistic Canada reported a merchandise trade surplus of $526 million, up from a $189 million deficit reported in July. The surplus was mainly driven by a drop in imports which saw a monthly decline of 2.5%. Exports also fell, down 1.1%. Trade surplus with the U.S. was unchanged at $5.35 billion.
- **Ivey PMI falls.** Business activities in Canada cooled down in September, according to the Ivey purchasing managers' index (PMI). The PMI fell from August's reading of 61.3 to 56.5. The employment index dropped dramatically from 59.6 to 51.6 in September, the lowest reading in 16 months.

S & P / TSX Composite Daily Index Change



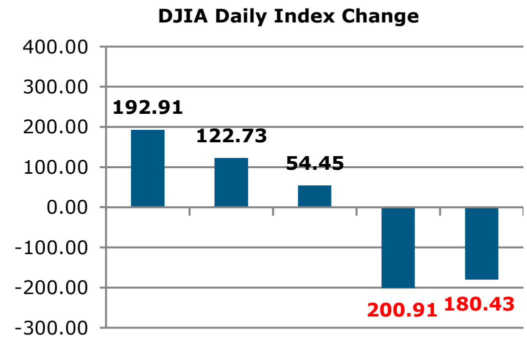
Indices	Week	YTD
S&P/TSX Composite		
15,946.17	-126.97	-262.96
	-0.79%	-1.6%
Dow Jones Industrial Average		
26,447.05	-11.26	1727.83
	-0.04%	7.0%
S&P 500		
2,885.57	-28.41	211.96
	-0.97%	7.9%
NASDAQ		
7,788.45	-257.90	885.06
	-3.21%	12.8%
Hang Seng Index		
26,572.57	-1215.95	-3346.58
	-4.38%	-11.2%
FTSE 100		
7,318.54	-191.66	-369.23
	-2.55%	-4.8%

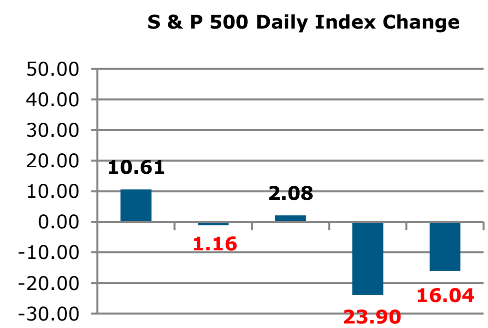
Source: Bloomberg

U.S. & International Markets

- **Nasdaq tumbles.** A spike in U.S. treasuries yield weighed on the global stock market this week. Among the three major U.S. indices, the tech-heavy Nasdaq was hit the hardest. The broad-based S&P 500 was down 1%, closing the week at 2,886. The Dow Jones Industrial Average was the best performer thanks to gains during the earlier part of the week; it ended the week at 26,447, almost unchanged from last week's close. Nsadaq tumbled 3.2%, closing below the 8,000-level at 7,788.
- **U.S. non-farm payrolls rise less than expected.** The Labor Department reported that the U.S. economy pumped out 134,000 jobs, way short of the estimated figure of 185,000. However, the unemployment rate dropped to 3.7%, its lowest level since 1969 and a tick lower than economists' expectation of 3.8%. Hourly wages rose 2.8% year-over-year, in line with forecasts.

- **ISM manufacturing index declines.** The Institute for Supply Management (ISM) reported that its manufacturing index dropped from August's reading of 61.3 to 59.8 in September; economists were expecting a reading of 60.4 for September. On a separate report, September's IHS Markit manufacturing PMI increased from August's reading of 54.7 to 55.6.
- **ISM non-manufacturing index rises.** The services sector in U.S. rose at the fastest pace on record, according to the Institute of Supply Management (ISM). The ISM non-manufacturing index rose to 61.6 in September, the highest level since the index was created in 2008. Economists were expecting a reading of only 58.0. In a separate report, the IHS Markit services PMI declined from August's reading of 54.8 to 53.5.
- **U.S. trade gap widens.** The U.S. trade deficit widened for the third straight month in August despite Trump's "American First" policies. The Commerce Department reported that the August trade deficit increased 6.4% to $53.2 billion; economists were expecting a slightly larger deficit of $53.5 billion. Exports fell 0.8% to $209.4 billion while imports rose 0.6% to $262.7 billion. The politically sensitive trade deficit with China gained 4.7% to a record high of $38.6 billion.
- **U.S. factory goods orders gain.** The Commerce Department reported that factory goods orders jumped 2.3% in August, the largest increase since September 2017. It was a nice rebound from a 0.5% decline reported in July. Economists were expecting a 2.1% increase. On a year-over-year basis, orders were up 8.6% in August.
- **U.S. construction spending rises.** The Commerce Department reported that construction spending edged up 0.1% in August; economists were expecting a larger increase of 0.4%. On a year-over-year basis, construction spending was up 6.5% in August.
- **Euro-zone unemployment rate drops.** The jobless rate within the Euro-zone fell to near a decade-low in August. Eurostat reported that August's unemployment rate dropped to 8.1% from July's 8.2%, the lowest level since November 2008. Economists were expecting the jobless rate to stay flat.
- **Euro-zone Composite PMI falls.** The IHS Markit composite purchasing managers index (PMI) fell from August's reading of 54.5 to 54.1 in September, missing economists' expectation of 54.2. The Services PMI, however, improved to 54.7, up from August's reading of 54.4. Manufacturing PMI dropped from August's reading of 54.6 to 53.2, the lowest level in two years.
- **Japan composite PMI drops.** The Markit/Nikkei Japan composite purchasing managers' index (PMI) dropped from the August reading of 52.0 to 50.7 in September. Services PMI fell to a two-year low of 50.2, down from August's reading of 51.5. Manufacturing PMI remained unchanged at 52.5.





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Key Take-away:

Good bye NAFTA, hello USMCA. On Sunday September 30, U.S. and Canada finally sealed the trade deal between U.S., Canada, and Mexico. The trilateral trade pact will be dubbed the U.S.-Mexico-Canada Agreement (USMCA). While some of the key details are yet to be revealed, here are some of the key changes:

- The agreement includes a provision to review the deal every six years; the mandatory review process can take up to ten years, giving the deal an effective life of up to sixteen years.
- The NAFTA dispute settlement system remains in place.
- Canada will give U.S. limited access to the daily market. U.S. will be able to export the equivalent of 3.6% of Canada's dairy market, compared to the existing level of 1%.
- 75% of a car must be produced by the three members for it to be duty-free, up from the previous 62.5%. Canada will be able to ship 2.6 million cars and $32.4 billion worth of parts to the U.S. without tariffs.
- Canada will give U.S. more access to its agricultural goods market.

As the new agreement cleared some of the uncertainties lingering around for months, it is expected to benefit our economy and equity markets. Also, with this major hurdle removed, the Bank of Canada will have more room to raise interest rates for the remainder of the year, which is likely to give our dollar a boost.