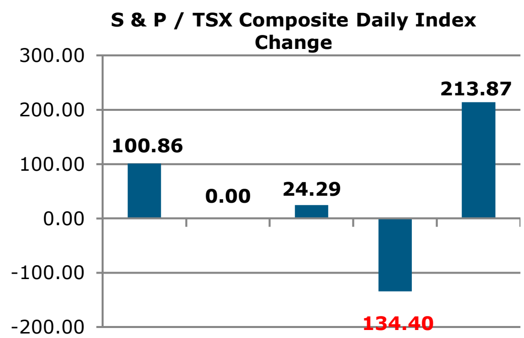
Credential

Market Insights | WEEKLY

Canadian Markets

For the week ending January 4, 2019

- **TSX rises.** Canada's main equity index started the year on a roller-coaster ride. Dips in corporate bellwether earnings sent markets tumbling, but they quickly recovered on surprise job numbers from the U.S. and Canada. In addition, a gain in crude prices helped the Energy sectors lead advancers on the Composite followed by Financials. On the close, the TSX ended at 14,427, a 1.4% increase.
- **Dollar flies higher.** The Loonie strengthened to a three-week high as a rise in oil prices was good news for Canada, one of its major exporters. Better-than-expected employment data north and south of the 49th parallel helped dispel some recessionary fears. At the close, our Dollar rose 2% to finish at 74.77 U.S. cents.
- **Gold higher.** The yellow metal touched a six-month high earlier in the week but dropped sharply after the announcement of U.S. unemployment numbers that more than surpassed forecasts. Despite this, gold still managed a gain for a third consecutive week as market volatility continued as investors exited the safe-haven asset as their risk appetite increased. At week's end, gold closed at US$1,285.80 an ounce for a February contract, a gain of 0.2%.
- **Oil rallies.** For the first time in a month, the commodity posted a weekly gain thanks to a decline in output from major producers and optimism with ongoing trade talks between China and the U.S. Also helping were unexpectedly strong job numbers in the U.S., helping lessen recessionary fears and lower demand concerns. At the end of the week, a February contract on a barrel of WTI crude settled at US$47.96, a gain of 5.8%.
- **Unemployment lower.** A small increase in people able to find work in December left the unemployment rate unchanged at 5.6%, a 43-year low, StatCan reported. For the month, 9,300 jobs were added compared to forecasts of 5,500 as part-time employment offset a decline in full-time positions. The participation rate was unchanged, holding at 65.4% of the eligible workforce in Canada being employed.
- **Manufacturing PMI slips.** Factory activity fell to a two-year low as growth and output slowed. In December, the IHS Markit Manufacturing PMI fell to 53.6 from 54.9 in the previous month as business conditions deteriorated, caused in part by the continued global trade battles. With the decline in crude prices, it was no surprise that the Energy sector was impacted the most and may continue to see rough roads ahead.
- **Producer price index falls.** Lower energy prices sent Statistics Canada's PPI measure falling by 0.8% in November. This was the largest decline in products sold by producers in two years as energy fell 6.6% and chemical products declined 1.6%. On an annualized basis, PPI fell to 2.8% over a 12-month period, down from 5.2% in October.



Indices	Week	YTD
S&P/TSX Composite		
14,426.62	204.62	103.76
	1.44%	0.7%
Dow Jones Industrial Average		
23,433.16	370.76	105.70
	1.61%	0.5%
S&P 500		
2,531.94	46.20	25.09
	1.86%	1.0%
NASDAQ		
6,738.86	154.34	103.58
	2.34%	1.6%
Hang Seng Index		
25,626.03	121.83	-219.67
	0.48%	-0.8%
FTSE 100		
6,837.42	103.45	109.29
	1.54%	1.6%

Source: Bloomberg

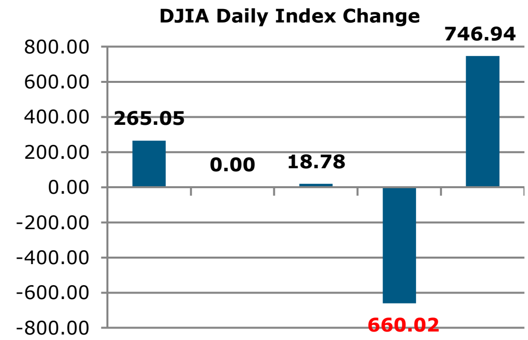
U.S. & International Markets

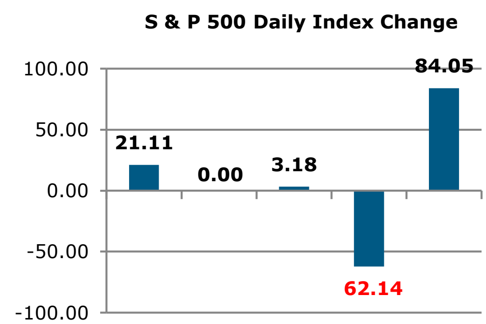
- **U.S. market starts on a new year positive note.** After a turbulent December, the U.S. stock market started the new year on a positive note. For the first three trading days of 2019, all three major indices were up. However, volatility remained the theme of the market. The broad-based S&P 500 index rose 1.9% for the week, closing at 2,532. The Dow Jones Industrial Average moved up 1.6%, ending at 23,433. The tech-heavy Nasdaq was the best performer, up 2.3% to close at 6,739.

U.S. & International Markets cont'd

For the week ending January 4, 2019

- **U.S. non-farm payrolls blows expectations.** The labor market was surprisingly strong in December according to a report by the Labor Department. Non-farm payrolls rose by 312,000 in December, handily beating economists' expectation of 184,000 positions created. It was also the highest number since February. The unemployment rate rose from a decade low of 3.7% to 3.9% as more workers entered the U.S. labor force. Average hourly earnings were up 3.2% on the year, the highest since 2009.
- **ISM manufacturing index slips.** The manufacturing sector expanded at its slowest pace in two years according to the Institute for Supply Management (ISM). The ISM manufacturing index fell to 54.1 in December, down from November's reading of 59.3. It was the lowest level since November 2016. In a separate report, the IHS Markit manufacturing purchasing managers' index (PMI) fell from November's reading of 55.3 to 53.8, the lowest reading in 15 months.
- **Euro-zone inflation falls.** Inflation within the Euro-zone continued to fall in December. Eurostat reported the preliminary reading of the harmonised index of consumer prices (HICP) dropped to 1.6% on a year-over-year basis. That was down from November's annual pace of 2% and missed economists' estimate of 1.8%. A tumble in oil prices was believed to be a major factor driving down prices.
- **Euro-zone composite PMI dips.** Business activity within the 19-member economic bloc slowed in December. The IHS Markit's composite purchasing managers' index (PMI) fell to 51.1 from November's reading of 52.7; economists were expecting a reading of 51.3. The manufacturing PMI dropped for the fifth straight month, dipping to 51.4 from 51.8. The services sector PMI declined from 53.4 to 51.2, also missing forecasts of 51.4.
- **Japan manufacturing PMI rises.** Japan's manufacturing sector expanded faster in December. The Markit/Nikkei manufacturing purchasing managers' index (PMI) increased from November's reading of 52.2 to 52.6.
- **China manufacturing PMI falls.** China's manufacturing sector contracted for the first time in 19 months according to the Caixin/Markit manufacturing purchasing managers' index (PMI). The manufacturing gauge, which has a bias toward small- and mid-sized enterprises, fell below the 50-mark to 49.7 in December, missing economists' forecast of 50.1. It was the first time the gauge fell below the 50-threshold, which divides expansion from contraction, since May 2017.





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Key Take-Away

Jobs Aplenty. Albeit at a slower pace than the previous two years, Canada's economy still managed to churn out 163,300 new jobs in 2018, for an annual increase of 0.9%. In 2017 it was 2.3%, while 2016 posted an increase of 1.2%. Most of the new hirings were in the services sector (+151,100) as the manufacturing industry (+12,300) continues to be affected by global trade tensions and crude prices. Diving deeper into the numbers, the labour force is on surer footing as all of the jobs were of a full-time nature, showing employers have a positive outlook of the economy and willing to hire for the longer term. One dark patch is the weak trend seen with wage inflation. In December, the wages rose 1.49%, slightly higher than November's 1.46%, well off May's 3.9% pace, and below the current price inflation rate. As a comparison, the U.S. economy added 2.6M jobs in 2018 but with wage inflation more than doubling Canada's at 3.2%. While the U.S. Federal Reserve will likely hold off on any rate hikes for now, to the Bank of Canada, this data will be an important factor in determining if it will increase rates or not in its January Monetary Policy Report.