Credential

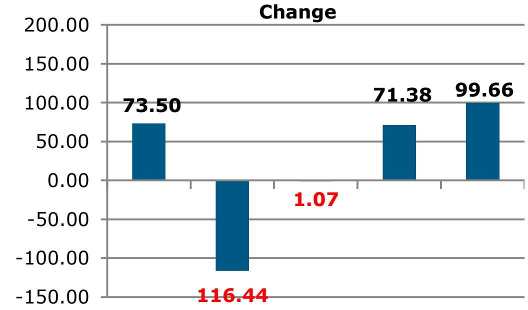
Market Insights | WEEKLY

Canadian Markets

For the week ending June 23, 2017

- **TSX gains.** The TSX composite ended higher for the week, with the energy and resource sectors providing a late lift. Of the ten main sectors of the Index, eight were higher as the energy group rose 1.4%. Crude prices prevented a stronger finish to the week as the TSX ended at 15,320, a gain of 0.8%.
- **Dollar falls.** Mixed economic data during the week had the Loonie relatively flat, until the news of weak inflation sent our dollar in the red by close on Friday. Also weighing down the dollar was falling crude prices and effects from the recent Federal Reserve rate hike that added strength to the U.S. greenback. On the close, the Loonie ended at US75.37 cents per dollar, a loss of 0.4%.
- **Gold up.** Ending with back-to-back-to-back session gains was enough to help erase earlier losses, sending the precious metal almost unchanged by week's end. Softness in the U.S. dollar relative to gold, in addition to comments from the St. Louis Fed president indicating no further rate hikes in the near future, pushed gold higher by 0.1% to end the week at US$1,257.80 per ounce.
- **Oil sputters.** For a fifth week in a row, crude oil finished lower as it entered into bear market territory, off at least 20% from its recent peak. Rising U.S. production, rising stockpiles, and increased drilling rig activity added to oil's demise, but commitments to cuts by OPEC helped support the commodity. At week's end, a barrel of WTI ended at US$43.17, down 3.5% from the previous week.
- **Inflation falls.** Declining prices at the pumps were the big contributor to the month's falling inflation rate, as May's increase compared to April was only 0.1%. Also adding to the decline was falling costs in electricity, foods, and other utilities. For the one year period, inflation dropped to 1.3% from 1.6%, while core inflation, a better measure of price growth, fell to 0.9%- the lowest since February 2011.
- **Wholesale sales climb.** Factory sales beat expectations in April, primarily led by the machinery, supplies, and equipment sectors. For the month, sales rose 1% to $61B, ahead of the 0.5% forecasted by analysts as three of the seven sectors tracked advances. Vehicle sales fell the most during the month, declining 1.7%, and had this sector been omitted, sales would have climbed 1.7%. On a volume basis, sales also rose 0.7%.
- **Retail sales higher.** Consumer spending rose in April on the backs of building supplies/materials, clothing, and electronics. Forecasts had called for a 0.3% monthly increase, but StatCan data showed a rise of 0.8% during the month, increasing possibilities of a rate hike by the Bank of Canada as early as their next meeting in July. Excluding the weakness in the auto sector, retails sales rose 1.5% compared to the previous month.

S & P / TSX Composite Daily Index Change



Indices	Week	YTD
S&P/TSX Composite		
15,319.56	127.02	31.97
	0.84%	0.2%
Dow Jones Industrial Average		
21,394.76	10.48	1632.16
	0.05%	8.3%
S&P 500		
2,438.30	5.15	199.47
	0.21%	8.9%
NASDAQ		
6,265.25	113.49	882.13
	1.84%	16.4%
Hang Seng Index		
25,670.05	43.56	3669.49
	0.17%	16.7%
FTSE 100		
7,424.13	-39.41	281.30
	-0.53%	3.9%

Source: Bloomberg

U.S. & International Markets

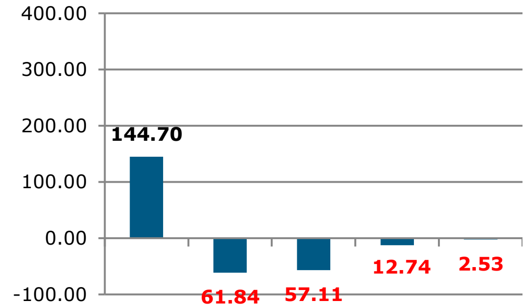
- **Positive week for U.S. stocks.** U.S. stocks had a positive week that was light on macroeconomic news. After a couple weeks of pulling back, Nasdaq outperformed the other two major indices this week. The broad-based S&P 500 index moved up 0.2%, ending the week at 2,438. The Dow Jones Industrial Average was up 0.1% for the week, closing at 21,395. Nasdaq rebounded as well, advancing 1.8% to close at 6,265.
- **U.S. 'flash' composite PMI falls.** The 'flash' HIS Markit composite purchasing managers' index (PMI) declined to a 3-month low in June. The 'flash' PMI dropped to 53.0 from May's final reading of 53.6, while economists were expecting a small increase to 53.8. The manufacturing PMI moved down to 52.1 from May's final reading of 52.7, while the services sector PMI fell to 53.0 from May's 53.6. Overall, both figures disappointed economists' forecast.

U.S. & International Markets cont'd

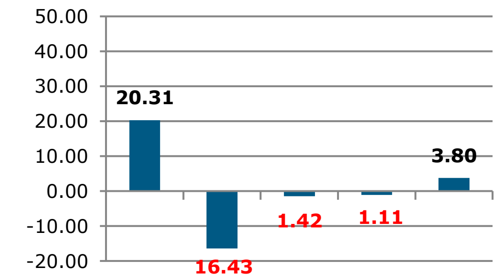
For the week ending June 23, 2017

- U.S. housing news:
  - **U.S. new home sales rise.** The Commerce Department reported that new home sales in U.S. rose 2.9% to a seasonally adjusted pace of 610,000 units. Economists were expecting an increase to a 600,000 unit pace. On a year-over-year basis, new home sales were up 8.9%.
  - **U.S. home prices continue to surge.** Home prices in U.S. continued to rise due to lack of supply in the market and low mortgage rates. The Federal Housing Finance Agency (FHFA) reported that its house price index rose 0.7% in April, beating economists' estimate of a 0.5% rise. On a year-over-year basis, prices rose from March's 6.4% pace to 6.8% in April, reaching its highest level in 3 years.
  - **U.S. existing home sales rise.** Existing home sales unexpectedly rose in the U.S. The National Association of Realtors reported that home resales increased 1.1% in May to a seasonally adjusted pace of 5.62M units. This increase surprised economists who expected sales to decline 0.5% in May. On a year-over-year basis, sales were up 2.7%.
- **Euro-zone 'flash' composite PMI drops.** Despite showing some softness in June, Euro-zone's economy continued its momentum in the second quarter. IHS Markit's 'flash' composite purchasing managers' index (PMI) for June was reported to be 55.7, a setback from the multi-year high reading of 56.8 recorded in April and May. On the quarter, however, the average composite PMI reached 56.4 in the second quarter, the highest level seen since the first quarter of 2011. The services sector lost some steam in June as the services PMI declined from 56.3 to 54.7. The softening in the services sector was offset by manufacturing, as the manufacturing PMI climbed to a six-year high of 57.3 in June.
- **Euro-zone's consumer confidence rises.** Euro-zone's consumers continued to be optimistic about the outlook of the 19-country economic zone. EU Commission's 'flash' index of consumer sentiment rose for the fourth straight month in June, up from May's final reading of -3.3 to -1.3. Economists were expecting the index to stay unchanged in June, and it was the highest level of the index in more than a decade.
- **BOJ continues its course.** Bank of Japan (BOJ)'s Governor Haruhiko Kuroda confirmed that despite improvement in the economy, BOJ will maintain its easy monetary stimulus, as price level remained well below its target. "Our economy is on firmer footing, but we are still distant from our 2 percent inflation target," Kuroda said. The central bank will continue its annual target of buying ¥80T of government bonds, contradicting speculation before Kuroda's statement that BOJ is planning to slow down the pace of bond buying.
- **Japan manufacturing slows.** Japan's manufacturing sector slowed down in June. The Markit/Nikkei 'flash' manufacturing purchasing managers' index fell from May's final reading of 53.1 to 52.0, a seven-month low. Despite the slowdown in June, the PMI was above the 50-mark for the tenth consecutive month.

DJIA Daily Index Change



S & P 500 Daily Index Change



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Key Take-Away

The Odds Game. Prior to the latest factory sales data, the probability of a rate hike was essentially zero percent. But following the announcement of data, which has risen for seven straight months, the odds of a rate jump by the Bank of Canada sooner rather than later rose. In addition, retail sales numbers released shortly afterwards pointed to rising domestic consumption, which added to the continued strengthening of the economy given that consumer spending accounts for almost two-thirds of the country's GDP. Suddenly, the probability jumped to 34.8% that Governor Stephen Poloz would increase the benchmark rate, given recent BoC candidness to speak on the topic. However, a weak inflation report dispelled those rumours, and the likelihood fell down to 22%. While the odds are against any rate movement at the next BoC policy meeting in July, it is certain that a hike will occur; it's just a matter of knowing when.