Credential

Market Insights | WEEKLY

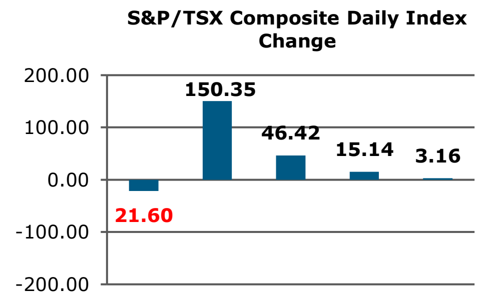
Canadian Markets

For the week ending June 7th, 2019

- **TSX higher.** The S&P/TSX Composite had a strong week on continued positive employment news amidst weakened global growth outlook as the U.S. remains in trade disagreements with China and Mexico—and now potentially Europe and Japan, too. South of the border, speculation the Federal Reserve could cut rates after successive hikes rallied markets. On the close, the TSX ended at 16,231, up 1.2% for the week.
- **Loonie soars.** Our dollar had a strong week as job growth continued at home, but faltered down south, as commodities and resource valuations gained. As well, U.S. Fed action to cut rates in response to its ongoing trade tensions on multiple fronts impacted the Greenback to the benefit of the Loonie. At the close, the Loonie flew higher by 1.9% to finish at 75.36 U.S. cents.
- **Gold shines.** The yellow metal extended its daily session streak to its longest since March 2018 as poor jobs data was reported out of the U.S. and earlier reporting was revised lower. Adding to gold's recent success were hints the Feds could possibly cut rates as trade disputes has its effects on the U.S. economy. At week's end, gold closed at US$1,340.86 an ounce for an August contract, an increase of 2.7%.
- **Oil spurts.** The commodity posted a gain on optimism of a trade resolution between the U.S. and Mexico. More importantly, crude oil got a boost as investors expected major oil producers to extend their output cuts past this month's expiration. Oil was further supported by a decline in U.S. drilling activity, its largest since late April. At the end of the week, a July contract on a barrel of WTI crude settled at US$53.99, a rise of 0.9%.
- **Unemployment falls.** After a surprisingly strong April, the labour market continued to churn out jobs as the jobless rate fell to 5.4%, comfortably below expectations and the previous month's 5.7% reading. For May, employers were able to fill 27,700 positions, all part-time in nature, mainly in the healthcare, professional services, and transportation sectors. The participation rate, the ratio of people working relative to the work force, fell two notches to 65.7%.
- **Manufacturing falls.** The manufacturing sector contracted for the second straight month as measured by IHS Markit's Manufacturing PMI in May. The latest reading of 49.1 was well below expectations of 49.8 and the lowest it's been since December 2015 with both output and new orders declining. Also adding to lower productivity was decline in supply chain efficiency of raw materials that lead to delays. It was a different story in terms of outlook as it climbed to a 13-month high on factory expansion and new product news in the sector.

U.S. & International Markets

- **U.S. market rebounds strongly.** After the first negative month of 2019 in May, the U.S. stock market rebounded strongly during the first week in June. An increasingly dovish tone by the Federal Reserve was the main driver of the bounce back. The broad-based S&P 500 gained 4.4%, closing the week above the 2,800-level at 2,873. The Dow Jones Industrial Average rose 4.7% for the week, ending at 25,984. The tech-heavy Nasdaq moved up 3.9%, wrapping up the week at 7,742.
- **U.S. economy pumps out less jobs than expected**. Job creation widely missed expectation in May, spurring speculation that the Federal Reserve may have to cut interest rates sooner than expected. The Labor Department reported that non-farm payrolls were up by 75,000 in May, missing economists' expected increase of 180,000 by a large margin. It was the second time in four months that non-farm payrolls rose by less than 100,000, signaling some weakening of the job market. Unemployment rate remained unchanged at 3.6%.



Indices	Week	YTD
S&P/TSX Composite		
16,230.96	193.47	1,908.10
	1.21%	13.32%
Dow Jones Industrial Average		
25,983.94	1,168.90	2,656.48
	4.71%	11.39%
S&P 500		
2,873.34	121.28	366.49
	4.41%	14.62%
NASDAQ		
7,742.10	288.95	1,106.82
	3.88%	16.68%
Hang Seng Index		
26,965.29	64.19	1,119.59
	0.24%	4.33%
FTSE 100		
7,331.94	170.23	603.81
	2.38%	8.97%

Source: Bloomberg

U.S. & International Markets cont'd

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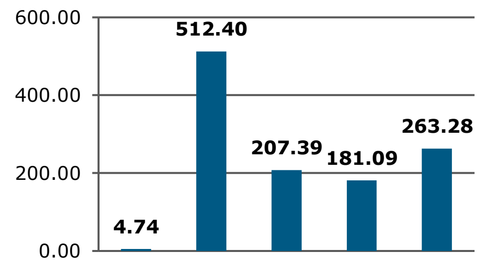
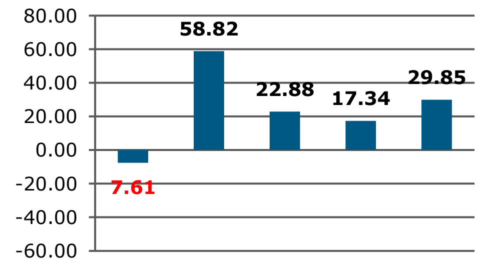
- **ISM non-manufacturing index increases.** Services sector in the U.S. expanded more than expected in May. The Institute for Supply Management's non-manufacturing index rose to 56.9 in May, up from 55.5 in April. Economists were expecting the index to remain flat. In a separate report, the IHS Markit services purchasing managers' index (PMI) fell from 53.0 to 50.9, matching forecasts.
- **U.S. trade deficit falls.** U.S. trade deficit fell to $50.8B in April, matching economists' expectations. Exports fell $4.6B to $206.8B while imports dropped $5.7B to $257.6B. The politically sensitive trade deficit with China increased by $2.1B to $29.4B as exports fell by $1.8B.
- **ECB pushes back rate hike.** Amid a global trade war, recession fears, and stubbornly low inflation, the European Central Bank (ECB) announced that it would delay its first post-crisis rate hike until the middle of next year. The central bank kept the key interest rates unchanged as expected after its June meeting, but in its forward guidance, ECB said that it "now expects the key ECB interest rates to remain at their present levels at least through the first half of 2020."
- **Euro-zone Q1 GDP grows.** Q1 GDP of the 19-member region expanded by 0.4%, an improvement from the 0.2% growth pace reported in the previous quarter. The growth pace in Q1 matched economists' forecast. On a year-over-year basis, Q1 GDP grew by 1.2%, also in line with forecasts.
- **Euro-zone inflation falls.** Inflation within the 19-member region fell surprisingly sharply in May. Preliminary reading of the harmonised index of consumer prices (HICP) dropped to 1.2% on a year-over-year basis. It fell significantly from April's pace of 1.7%, also missing economists' estimate of a 1.4% annual rate. The core figure, which excludes energy, good, alcohol, and tobacco prices, dropped to 0.8% from 1.3%, also missing forecasts.
- **Euro-zone unemployment rate reaches lowest in decade.** The unemployment rate within the Euro-zone fell to its lowest level in more than a decade, according to data released by Eurostat. The statistics agency reported that May's unemployment rate dropped to 7.6% from April's 7.7%. Economists were expecting the rate to stay flat. May's figure was at its lowest level since August 2008.
- **Euro-zone composite PMI rises.** Business activity within the Euro-zone improved slightly in May. The IHS Markit composite purchasing managers index (PMI) improved to 51.8 in May, up slightly from April's reading of 51.5, beating economists' expected reading of 51.6. Services sector PMI rose from 52.8 to 52.9, also higher than forecasts.
- **China services PMI falls.** In May, China's services sector grew at the slowest pace in three months. The Caixin/Markit services purchasing managers index (PMI) dropped to 52.7, down from April's reading of 54.5. It was the lowest reading since February. Recent economic data had pointed to a slowdown in China's economy amid a bitter trade war with the U.S.

DJIA Daily Index Change



S&P 500 Daily Index Change



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Key Take-Away

"R" is for *R*eversing course. Three-and-a-half years after embarking on a new direction, North American markets received a boost as rumours the U.S. Federal Reserve is considering a rate cut floated about. As global growth continues to wane on trade tensions throughout the world between top economies, the U.S. central bank hopes its efforts would stimulate its own economy—which has begun to show signs of weakening as demonstrated by the latest jobs report falling short of expectations. The Bank of Canada has already pondered the possibilities of lowering rates after aggressive hiking for the last two years but refrained from doing so as its economy has weathered the trade turmoil and global slowdown. Employment has continued to rise with over 27,000 jobs added in May. Meanwhile, around the world, other central banks maintain holding their benchmark rates at super-low levels and/or adding liquidity to their financial systems. To many, the 'R' word is something to not be spoken of, but to others, namely central banks, it's hopefully the means to continue the Bull run that's persisted for the last decade.