Credential

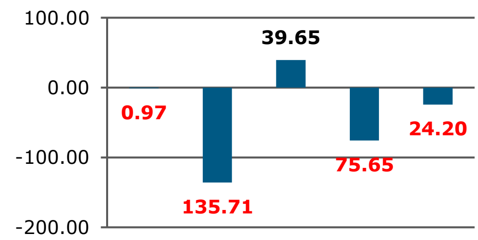
Market Insights | WEEKLY

Canadian Markets

For the week ending May 10th, 2019

- **TSX tumbles.** A rise in Sino-American trade tension sent global markets reeling during the week and our main equity index, the S&P/TSX Composite, had its worst weekly decline following its impressive 2019 performance thus far. The year-long skirmish between the top global economies have many worried that trade war will be prolonged as the U.S. imposes new tariffs on $200B worth of Chinese imports with the likelihood of China retaliating. On the close, the TSX ended at 16,298, down 1.2% for the week.
- **Loonie flat.** The Loonie recovered from losses during the week and then some as the latest Statistics Canada numbers showed a record monthly increase in employment in April on top of a stellar start to the year. However, the upside for the dollar was capped as the U.S. continues its trade tiff with China. At the close, the Loonie finished at 74.53 U.S. cents essentially unchanged.
- **Gold sparkles.** A sudden risk-off appetite of investors stoked demand for the safe-haven asset as U.S. indices had a bad week. Tariffs on select Chinese goods rose from 10% to 25%, stoking the continued U.S./China trade dispute. Also weighing on the precious metal was the Federal Reserve and what actions they intend to take in the future despite holding off on further hikes for the time being. At week's end, gold closed at US$1,286.05 an ounce for a June contract, an increase of 0.5%.
- **Oil slips.** With two of the largest economies at odds over trades, crude oil began to feel the potential collateral effects of lower demand from those economies as the talks drag on. Adding to more worries for the commodity were the increasing tensions between the U.S. and Iran, with the former having sent military support to Middle East region and raising the threat to production output. At the end of the week, a June contract on a barrel of WTI crude settled at US$61.66, a fall of 0.5%.
- **Employment soars.** Employers were looking towards the future as employment rocketed upward with the addition of 106,500 jobs in April after the economy had shed 7,200 positions in March. Expectations were for an increase of 10,000 jobs. As a result, the unemployment rate fell a notch to 5.7%, below the previous month and below market forecasts. This was the greatest monthly increase on record as full-time hirings accounted for more than two-thirds of the gain. Geographically, Ontario, Quebec, and Alberta where the top regions, while it was little changed in other provinces.
- Canada housing news:
    - **Housing starts rise.** Reaching its highest levels in almost 10 months, ground breakings for new homes rose sharply in April on increased demand for multi-family units. For the month, starts were 235,460 units compared to 191,981 units in March. This exceeded analyst estimates of 196,400 units by more than 20% as residential construction ramped up in Toronto and Vancouver. Detached homes also increased by 6% during the month.
    - **New home prices flat.** The price of a new home in Canada was unchanged in March as federal, provincial, and municipal efforts to rein in the housing markets exerts its effects. This was the seventh flat month in eight with muted growth in perennial hot markets of Vancouver and Toronto. This StatCan index only accounts for detached homes and not the surging condominium market. On an annualized basis, home prices have risen 0.1%.

S&P/TSX Composite Daily Index Change



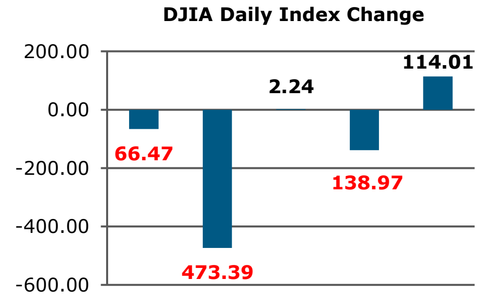
Indices	Week	YTD
S&P/TSX Composite		
16,297.55	(196.88)	1,974.69
	-1.19%	13.79%
Dow Jones Industrial Average		
25,942.37	(562.58)	2,614.91
	-2.12%	11.21%
S&P 500		
2,881.40	(64.24)	374.55
	-2.18%	14.94%
NASDAQ		
7,916.94	(247.06)	1,281.66
	-3.03%	19.32%
Hang Seng Index		
28,550.24	(1,531.31)	2,704.54
	-5.09%	10.46%
FTSE 100		
7,203.29	(177.35)	475.16
	-2.40%	7.06%

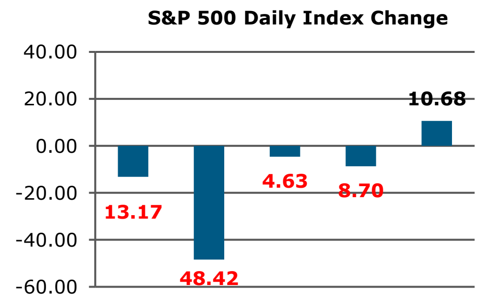
Source: Bloomberg

U.S. & International Markets cont'd

For the week ending May 10th, 2019

- **U.S. equity markets finish in the red.** Downward pressure on market indices persisted throughout the week with Trump declaring China "broke the deal" on Sunday night and then imposed 25% tariffs on all Chinese goods on Friday. Even though high-level talks between the U.S. and China resumed on Thursday evening prior to the tariff deadline, growing pessimism hit stock markets with the S&P 500 Index falling by 2.2% (in USD), to end the week at 2,881. Meanwhile, the widely tracked Dow Jones Industrial Average and NASDAQ Composite having detracted by 2.1% and 3% and closed at 25,942 and 7,917 respectively on the week.
- **U.S. CPI miss expectations.** Missing by one-tenth, April consumer prices increased 0.3% with a core increase of 0.1%. However, year-on-year rates are increasing modest at 2.0% and 2.1%, respectively, in line with the Fed's ideal target range.
- **U.S. International Trade deficit marginally widened**. The latest U.S. International trade results for March proved better than widely expected, recording a deficit of $71.4B, well under median expectations of a $74.0B deficit. Net exports have been a core source of central strength in the estimates for the first-quarter U.S. GDP.
- **U.S. JOLTS imbalances deepen.** March saw job openings rise 4.8% to 7.49M while hiring fell 0.6% to 5.6M. This gap stands at a record level of 1.8M. Earlier this month, the U.S. monthly employment report showed growth in non-farm payroll at 263,000 in April, while the unemployment rate declined to a 49-year low level of 3.6%. Nevertheless, wage growth remained modest and came in at the expected 0.2% monthly rate. The report displayed broad-based strength, with construction, professional & business services, and government payrolls all showing strong gains in April.
- **The Fed remains on the side.** In their latest meeting in the beginning of May, Fed Chair Jerome Powell and the FOMC decided to maintain the central bank's policy rates, as widely expected. Once again, the statement highlighted the strength of the U.S. labour market, despite a modest slowdown in household spending and business fixed investments. The central bank indicated that both inflation and core CPI have declined and are now trending below the Fed's ideal 2% target. The median dot plot continues to signal that the Fed will remain on hold for the remainder of this year. However, during the press conference, Chair Powell referred to the softer inflation to start the year as transitory with baseline expectations unchanged and expectations for the core PCE to trend near the 2% level over time.
- **Eurozone PMI subdues.** Final Services PMI weighed in at 52.8, a slight upward adjustment above expectations, but below the March number of 53.3. April saw a slight uptick in growth of new business, while employment saw its strongest advance in 5 months. This bodes well for business confidence which remained in positive territory and in line with expectations.
- **Manufacturing in Japan rises.** The Nikkei Manufacturing PMI rose in April to a reading of 50.2, ahead of expectations. This level indicates a slight expansion, alleviating some concerns that the Japanese manufacturing sector has been dragged lower alongside escalation in trade tensions.





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Key Take-Away

Second wind. There are different measures to assess in an economy. The obvious is GDP itself, but the employment indicator tells the health from the perspective of those working to keep the economic engine running. The latest labour report, after a breather in March, saw explosive growth in the number of hirings (more than ten times forecasted by analysts). With over 106,000 positions filled, the news gets better as most of the hirings were of a full-time nature, which provides strength to the labour market as it proves employers are thinking for the longer term. In addition, the unemployment rate declined to 5.7%, while the participation rate rose to 65.9%. Comparatively with our southern neighbours, they too have enjoyed the success of strong employment as its jobless rate fell to an almost 50-year low of 3.6%. After a great start to the year, the economy got its second wind in April; however, the Bank of Canada likely won't be making any rate hikes anytime soon on this news as inflation remains benign and worries of trade and global growth persist.