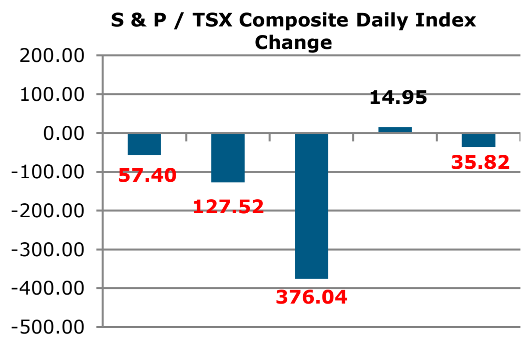
Credential
Market Insights | WEEKLY

Canadian Markets

For the week ending October 26, 2018

- **TSX plummets.** There was no mercy for the S&P/TSX Composite as the rout on global equities continued for a third week. Despite a few happy bits of news due to some positive corporate earnings, the Index experienced its worst single day decline since September 2015 mid-week as the Index continues to underperform relative to its global peers. On the close, the TSX ended at 14,888, a 3.8% decline and close to a two-year low. Year-to-date, the TSX is down 8.1%.
- **Dollar flat.** The Loonie was little changed for the week as the Bank of Canada attracted investors towards Canada by hiking our overnight rate for the second time in its last three policy meetings. As well, the optimism around the new tri-lateral trade agreement, USMCA, which replaces the old NAFTA arrangement, continued to provide support for our Dollar. At the close, our Dollar was essentially unchanged at 76.29 U.S. cents.
- **Gold shines.** For a fourth week in a row, the yellow metal posted a gain as investors sought the safety of the traditional safe-haven asset amidst the ongoing market volatility. Despite some better than expected U.S. economic data, which typically would push the precious metal lower because of resultant strength in the U.S. dollar, gold actually trended upward, placing it just shy of a three-month high. At week's end, gold closed at US$1,234.70 an ounce for a December contract, a gain of 0.5%.
- **Oil slips.** The prospects of energy demand as markets assess the health of global economic growth weighed on the commodity, sending its price down for a third straight week. The prospects of rising global supplies from OPEC and the U.S. have added to the recent bearishness for oil. At the end of the week, a December contract on a barrel of WTI crude settled at US$67.62, a loss of 2.2%.
- **Rates rise.** As expected, the Bank of Canada rose rates for a third time this year to 1.75% as it remains committed to unwinding its accommodative monetary policy. In their announcement, the central bank will "continue to take into account how the economy is adjusting to higher interest rates" as household debt to income of Canadians hold at record high levels. This is the fifth rate increase by the Bank since the summer of 2017—additional rate increases are anticipated to continue over the next year.
- **Wholesale sales drop.** Factory sales declined in August by 0.1% to $63.6B in total receipts, as reported by Statistics Canada. Four of the seven sectors followed declined as economist expectations called for no change in the measure. Building supplies and materials decreased the most, falling 2.3%, followed by automobiles and parts which fell 1.4%. In constant dollar terms, sales by volume also fell 0.1% for the month.



Indices	Week	YTD
S&P/TSX Composite		
14,888.26	-581.83	-1,320.87
	-3.76%	-8.1%
Dow Jones Industrial Average		
24,688.31	-756.03	-30.91
	-2.97%	-0.1%
S&P 500		
2,658.69	-109.10	-14.93
	-3.94%	-0.6%
NASDAQ		
7,167.21	-281.82	263.82
	-3.78%	3.8%
Hang Seng Index		
24,717.63	-843.77	-5201.52
	-3.30%	-17.4%
FTSE 100		
6,939.56	-110.24	-748.22
	-1.56%	-9.7%

Source: Bloomberg

U.S. & International Markets

- **U.S. market drops sharply.** The October sell off in the U.S. market continued this week with all three major indices deeply in the red. Disappointing quarterly results from some of the mega caps such as Amazon and Alphabet (Google) did not help. The broad-based S&P 500 index fell 4%, turning negative for the year to close at 2,659. The Dow Jones Industrial Average dropped 3%, also wiping out this year's gain, ending at 24,688. The tech-heavy Nasdaq was down 3.8%, closing the week at 7,167.
- **U.S. Q3 GDP growth better than expected.** The U.S. economy grew faster than expected in Q3, according to the Commerce Department. Q3 GDP was reported to grow at an annualized pace of 3.5%, slightly above consensus estimates of a 3.4% increase. Consumer spending rose a better than expected 4% during the quarter, offsetting the 7.9% decline in business spending.

U.S. & International Markets cont'd

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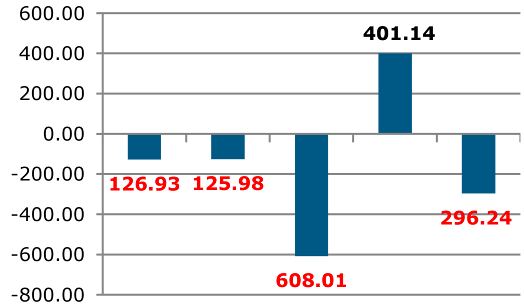
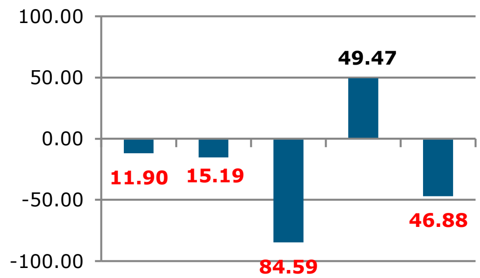
- **U.S. durable goods orders rise.** Durable goods orders rose in September, but at a much slower pace compared to the previous month. The Commerce Department reported that demand for durable goods edged up 0.8% in September, compared to a 4.6% surge reported in August. Economists were expecting a decline of 1.5%. Core capital goods orders, which excludes the volatile aircraft sector, dipped 0.1%, missing economists' forecast of a 0.5% increase.
- **U.S. 'flash' composite PMI advances.** The IHS Markit 'flash' composite purchasing managers' index (PMI) rose from September's reading of 53.4 to 54.8 in October; economists were expecting a reading of 54.1. Manufacturing PMI rose slightly from 55.6 to 55.9, beating forecasts. Services PMI improved from 52.9 to 54.7, also better than expectations.
- **U.S. consumer sentiment slips.** U.S. Consumers' confidence faded in October according to a survey by the University of Michigan. The University's consumer sentiment index dropped from September's reading of 100.1 to 98.6 in October; economists were expecting a reading of 99.0.
- **US Housing News**
    - **U.S. new home sales fall.** New home sales dropped to a two-year low in September. The Commerce Department reported that new home sales declined 5.5% to a seasonally adjusted annual pace of 553,000 units; it was the fourth straight month of decline and was the lowest level since December 2016. Economists were expecting an annual pace of 625,000 units.
    - **U.S. pending home sales increase**. The National Association of Realtors reported that pending home sales rose 0.5% in September, better than economists' expectation of no change. On a year-over-year basis, sales declined by 1%.
- **Euro-zone 'flash' composite PMI drops.** Business activity within the euro-zone slowed down in October according to the 'flash' composite PMI. October's IHS Markit 'flash' composite purchasing managers index (PMI) fell from September's reading of 54.1 to 52.7, a 25-month low. Manufacturing PMI dropped from 53.3 to 52.1 while the services PMI declined to 53.3 from 54.7.
- **Japan 'flash' manufacturing PMI rises.** Manufacturing activity in Japan accelerated in October. The 'flash' Markit/Nikkei manufacturing purchasing managers' index (PMI) for October increased from September's reading of 52.5 to 53.1; economists were expecting a reading of 52.6. It was the highest level since April.

DJIA Daily Index Change



S & P 500 Daily Index Change



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Key Take-Away

It was time. The recent volatility in the markets did not deter the Bank of Canada (BoC) as it ratcheted a second interest rate hike in a little over three months, sticking to its strategy of gradual easing of the monetary policy it started in 2008. After having aggressively increased rates three-fold in 15 months, the central bank has taken a wait-and-see approach to see how rates are affecting the economy as it nears capacity and on sounder footing. The more upbeat tone of the BoC's statement hinted to markets and investors to anticipate more hikes to come; however, the latest hike puts further rate action on the back-burner for now, allowing the BoC to turn its attention towards dealing with the persistently high household debt of Canadians. Similar to other central banks around the world—the U.S. Federal Reserve, the Bank of England, and perhaps soon the European Central Bank (ECB)—the time was right to ease off the stimulus pedal and begin introducing higher rates to control growth and inflation.