Credential

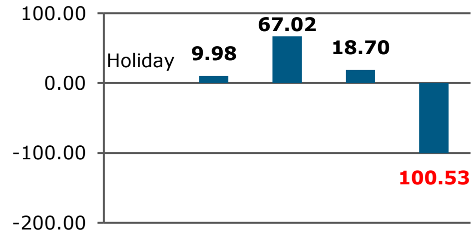
Market Insights | WEEKLY

Canadian Markets

For the week ending February 21st, 2020

- **TSX falls slightly.** A mixed bag of good and bad news on the coronavirus drove Canada's main equity index during the holiday shortened week. A slowdown in the reported number of new cases up to mid last week propped markets higher with the TSX touching another all-time record high. However, the impact from a corporate perspective on earnings in the coming quarters added downward pressure on the Energy and Financial sectors. The S&P/TSX Composite was little changed ending the week at 17,844.
- **Loonie gains.** The Bank of Canada's hold on its overnight rate continues to provide support for the Loonie against a strong U.S. dollar as investors flock to the latter for safety. Rising strength in gold and a rebound in crude prices also helped our currency post another weekly gain. At the close, our Dollar was up 0.2% to 75.60 U.S. cents.
- **Gold rises.** The yellow metal continued to be the go-to asset as investors' appetite for equities lessened. Gold gained for a seventh consecutive week and had its biggest gain in eight months as U.S. economic data and corporate earnings outlook were less than optimistic in the coming quarters. Gold jumped 3.8% for the week, closing at US$1,643.41 an ounce for an April contract.
- **Oil up.** Efforts by the Chinese government to combat against COVID-19 helped alleviate pressures on the commodity as markets optimistically hoped the impact on their economies would be minimal. Discussions on whether to curb output will be high on the agenda for the upcoming OPEC meetings in Vienna, and again in Russia in early March. At the end of the week, an April delivery on a barrel of WTI crude settled at US$53.38, higher by 2.6%.
- **Inflation rises.** Higher prices at the pumps drove inflation up in January, beating market expectations. For the month, inflation rose 0.3%, topping December's flat reading as tensions between the U.S. and Iran increased concerns of global oil supplies. Food, clothing and footwear also rose, while shelter and home furnishing costs declined. On an annualized basis, inflation rose to 2.4%, its highest since May 2019.
- **Manufacturing sales slump.** Sales from factories were lower in December with total receipts tallying to $56.4B, a monthly decline of 0.7%. Forecasts were for a 0.7% gain. This was the fourth straight month of falling sales in the sector as it continues to struggle amidst the ongoing trade tensions. Of the 21 sectors followed by Statistics Canada, eleven were lower, led by airplane products (-16%) and autos (-6.8%). In volume terms, sales were lower as well by 0.4%.
- **Retail sales flat.** Consumers were in a less of a spending mood in December compared to November, as retail sales were flat, missing expectations of a slight gain for the month. Increased sales in building materials and garden supplies, food and beverage, and health care was not enough to offset declines in autos and parts, and gasoline. Total value of goods sold was $51.6B as seven of the tracked 11 categories fell. For all of 2019, retail sales were up 1.6%, the slowest pace of growth in a decade during the economic downturn.
- **New home prices unchanged.** The price of a brand-new home was unchanged in January, coming in below estimates of a 0.2% gain for the month, as reported by Statistics Canada in their New Home Price Index (NHPI) of 27 metro areas. Leading the way for advancers was Ottawa (+1.4%) and greater Sudbury region (+1.1%), while Regina and Saskatoon were the big decliners falling 1.2% and 0.5%, respectively. Perennial hot markets Toronto (-0.4%) and Vancouver (-0.2%) were both off as Montreal saw a 0.3% increase. Annually, new home prices were up 0.2%, doubling consensus numbers.

S&P/TSX Composite Daily Index Change



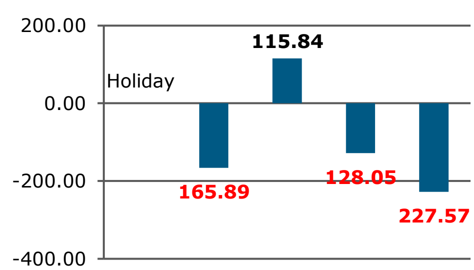
Indices	Week	YTD
S&P/TSX Composite		
17,843.53	(4.83)	780.10
	-0.03%	4.57%
Dow Jones Industrial Average		
28,992.41	(405.67)	453.97
	-1.38%	1.59%
S&P 500		
3,337.75	(42.41)	106.97
	-1.25%	3.31%
NASDAQ		
9,576.59	(154.59)	603.99
	-1.59%	6.73%
Hang Seng Index		
27,308.81	(506.79)	(880.94)
	-1.82%	-3.13%
FTSE 100		
7,403.92	(5.21)	(138.52)
	-0.07%	-1.84%

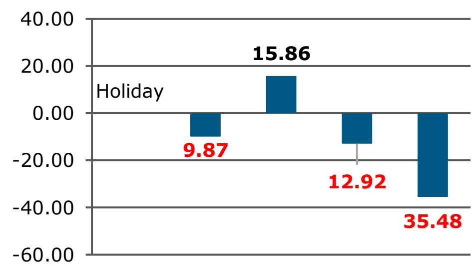
Source: Bloomberg

U.S. & International Markets

For the week ending February 21st, 2020

- **U.S. market retreats.** The U.S. stock market retreated from record levels this week amid increasing fear over a global outbreak of the coronavirus. All three major indices were in the red. The broad-based S&P 500 index fell 1.3% for the week, closing at 3,338. The Dow Jones Industrial Average gave back 1.4%, ending the week at 28,992. The tech-heavy Nasdaq fell the most, dropping 1.6% to end the week at 9,577.
- **U.S. PPI gains.** Producer prices increased by the most in more than a year in January, according to the Labor Department. The producer price index (PPI) rose 0.5% in January, handily beating economists' expected increase of 0.1%. It was the largest monthly gain since October 2018. On the year, PPI was up 2.1%.
- **U.S. 'flash' composite PMI falls.** The spread of the coronavirus globally seemed to take its toll on the U.S.'s business activity. Preliminary reading of the composite purchasing managers' index (PMI) for February dropped from 53.1 to 49.6, widely missing economists' estimate of 52.5. The manufacturing PMI fell from 51.7 to 50.8, missing forecasts of 51.4. The services sector fell below the 50-division mark to 49.4, into contraction mode, for the first time since 2016.
- **U.S. housing starts drop.** The Commerce Department reported that housing starts fell 3.6% to a seasonally adjusted annual pace of 1.57M units in January, less than economists' estimate of a larger fall to 1.42M units. On a year-over-year basis, housing starts rose 21.4%. Building permits rose in January though, up 9.2% to 1.55M units, beating forecasts of an annual rate of 1.45M units.
- **Eurozone 'flash' composite PMI rises.** Business activity within the 19-member bloc showed some improvement in February. Preliminary reading of the IHS Markit composite purchasing managers' index (PMI) for February climbed from January's reading of 50.9 to 51.6, beating economists' expectation of 51.0. The manufacturing PMI rose from 47.8 to 49.1, above forecast of 47.5. The services PMI improved to 52.8 from 52.2, also beating expectations of a flat reading.
- **Eurozone inflation rises.** Eurostat reported that the harmonised index of consumer prices (HICP) rose 1.4% on the year in January, in line with economists' expectations, also confirming the preliminary reading released earlier. Italy reported the lowest annual inflation rate (0.4%) while Hungary reported the highest (4.7%).
- **Japan 'flash' composite PMI tumbles.** The spread of the coronavirus seemed to impact the world's third largest economy. Preliminary reading of the Jibun Bank composite purchasing managers' index (PMI) for February fell sharply from January's 50.1 to 47.0, the lowest level since April 2014. The manufacturing PMI fell from 48.8 to 47.6, the lowest since late 2012. The services PMI tumbled to 46.7 from 51.0, marking its lowest reading since April 2014.





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Key Take-Away

The backup plan. The inflation rate is one of the key metrics used by the Bank of Canada to determine interest rates. Now, the BoC finds itself in an awkward position where a once stubborn inflation rate that was persistently below the BoC's targets has now remained there for multiple months. As reported by Statistics Canada, the latest headline annualized CPI data of 2.4% added fodder to further dispel thoughts that the reading was an anomaly; particularly as this was the third straight month of the rate holding within the 2-4% range. Along with a strong labour market, the inflation reading is the second of three measures, the third being GDP, that should be aligned before BoC Governor Stephen Poloz would normally consider changes to his benchmark rate—normally in the form of an increase to keep the economy from overheating. However, with the effects of the coronavirus yet to be felt and reflected in economic data, Mr. Poloz may instead need to deviate from his regular plan and be more dovish to keep the economy from slowing down too much.