

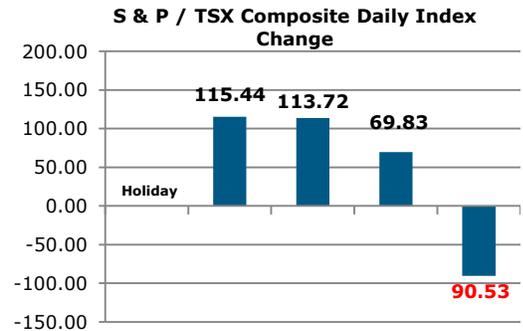
Market Insights

WEEKLY

Canadian Markets

For the week ending January 5, 2018

- TSX higher.** A collection of positive economic data during the week helped give the TSX Composite a couple of record high closings to help get the new year started on right track. Despite weakness in resources, financial stocks and marijuana companies—following increased U.S. regulation on the product—wiping out some of the gains later in the week, the TSX closed at 16,349, a 0.9% rise for the week.
- Dollar gains.** The Loonie flew to a three-month high against the U.S. dollar on the back of surprising jobs data and strong manufacturing report. The odds of a Bank of Canada rate hike jumped sharply to 60% as a four-decade low in the unemployment rate could force Governor Stephen Poloz’s hand to raise rates as soon as their next meeting on January 17th. On the close, our Dollar rose 1.5% finishing at 80.57 U.S. cents.
- Gold shines.** The yellow metal ended just shy of an 11-session winning streak as expectations of rate hikes by the Federal Reserve and the waning approval of the recently passed tax bill sent investors towards the safe-haven asset. Weakness in the U.S. greenback also provided some support as at week’s end, gold closed at US\$1,322.30 an ounce for an increase of 1%.
- Oil up.** The commodity climbed to a three-year high as a decline in U.S. crude inventories and unrest in oil-rich Iran prompted production concerns, which would benefit in alleviating the global supply glut. In addition, the exceptionally harsh winter weather battering eastern Canada and the U.S. will result in increased demand to stay warm. At the end of the week, a February contract on a barrel of WTI crude settled at US\$61.44, a gain of 1.7%.
- Unemployment rate falls.** At a level not seen in 40 years, the nation’s jobless rate fell to 5.7% from 5.9% in November. The economy added 78,600 jobs in December as employers sought additional help during the holiday season where more part-time positions (+54.9K) were filled compared to full-time (+23.7K). The participation rate, the ratio of employed and actively looking for work persons divided by the working-age population, rose a notch to 65.8%.
- Manufacturing activity rises.** Improvements in business conditions provided the boost to push IHS Markit’s Purchasing Manager’s index higher in December. For the month, the PMI reading was 54.7, maintaining an expansionary sentiment in the sector since March 2016. New orders and backlogs increased as manufacturers were upbeat for the forthcoming year as global economic conditions continue to improve.
- Producer prices higher.** A measure of input costs added by producers into their goods rose in November thanks to rising prices of energy and related products. During the month, PPI rose 1.4% as 16 of the 21 major commodity groups followed rose and one remained unchanged. Other categories that gained were raw materials, which grew 5.5% as the price of crude products increased, and vehicles by 0.7%. This was the largest monthly increase since February 2015.



Indices		
	Week	YTD
S&P/TSX Composite		
16,349.44	140.31	140.31
	0.87%	0.87%
Dow Jones Industrial Average		
25,295.87	576.65	576.65
	2.33%	2.33%
S&P 500		
2,743.15	69.54	69.54
	2.60%	2.60%
NASDAQ		
7,136.56	233.17	233.17
	3.38%	3.38%
Hang Seng Index		
30,814.64	895.49	895.49
	2.99%	2.99%
FTSE 100		
7,724.22	36.45	36.45
	0.47%	0.47%

Source: Bloomberg

U.S. & International Markets

- U.S. stock market surges.** The U.S. stock market opened 2018 on a high note. Each of the three major indices gained more than 2% during first week of trading. The broad-based S&P 500 moved up 2.6%, closing the week at 2,743. The Dow Jones Industrial Average advanced 2.3%, ending the week at 25,296. The tech-heavy Nasdaq was the best performer of the week, rising 3.4% to end the week at 7,137.
- U.S. gains fewer jobs than expected.** The U.S. economy pumped out fewer jobs than expected in December. The Labor Department reported the economy added 148,000 jobs in December, less than economists expected gain of 190,000. Unemployment rate remained steady at 4.1%.

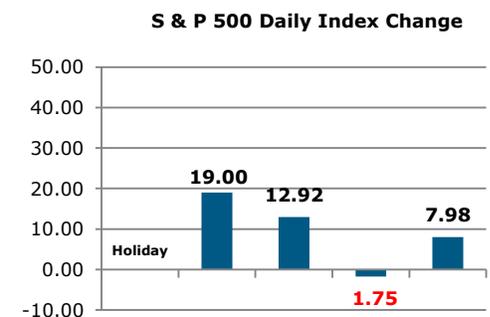
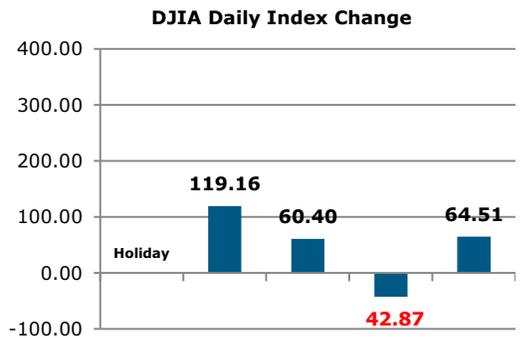
U.S. & International Markets cont'd

For the week ending January 5, 2018

- **U.S. manufacturing sector grows faster.** Manufacturing activity in the U.S. accelerated in December. December's IHS Markit manufacturing purchasing managers' index was reported to be 55.1, rising from November's reading of 53.9 and exceeding economists' estimate of 55.0; it was the highest reading since March 2015. Similarly, the Institute for Supply Management (ISM) manufacturing index also pointed to faster growth in the sector jumping to 59.7 in December from 58.2.
- **U.S. services sector slows.** The services sector growth slowed to a seven-month low in December, according to IHS Markit's services sector PMI. The services PMI fell to 53.7 in December, down from November's reading of 54.5. Economists were expecting 52.4. Similarly, service sector growth slowed down in December, according to the ISM non-manufacturing index, which declined to 55.9 in December from November's reading of 57.4; expectations were for 57.6 in December.
- **Euro-zone inflation falls.** Inflation within the 19-country region remained sluggish in December. The 'flash' harmonized index of consumer prices (HICP) declined to 1.4% year-over-year from previous month's 1.5%, in line with economists' estimates. Core inflation, which excludes energy, food, alcohol and tobacco, remained at 0.9%.
- **Euro-zone composite PMI advances.** Euro-zone's business activity ended 2017 on a high note. The IHS Markit's composite PMI climbed to 58.1 in December from November's reading of 57.5, the highest level since February 2011. The manufacturing PMI rose to 60.6 in December, matching economists' consensus and reaching its highest level since the survey began in 1997. The service sector PMI improved to 56.6 in December, the highest level in more than six years.
- **Japan manufacturing PMI rises.** Japan's manufacturing sector continued to expand in December. The Markit/Nikkei Japan manufacturing PMI rose to 54.0 in December from November's reading of 53.6, the 16th consecutive month that the index was above the 50-mark which separates contraction from expansion. December's reading was also at its highest level since February 2014.
- **China's manufacturing and services PMI rises.** China's manufacturing activity hit a four-month high in December. The Caixin/Markit manufacturing PMI rose from November's reading of 50.8 to 51.5 in December; economists were expecting the gauge to drop slightly to 50.6. On the other hand, the official manufacturing PMI, which has a bias toward state-owned large enterprises, dipped slightly from November's reading of 51.8 to 51.6, on par with economists' forecast. China's services sector activity expanded at its fastest pace in more than three years in December according to the Caixin/Markit services PMI. The services PMI advanced to 53.9 in December, up from November's reading of 51.9. It was the highest reading reached since August 2014.

Key take-Away

Another running start. The successes of 2017 spilled into 2018 as the economy continued to show progressive growth in all areas and silencing some skeptics—at least for the time being. The latest jobs data from Statistics Canada showed employers remained in hiring mode by sending the unemployment rate down to 5.7% in December. This is the lowest the rate has been in the current data set stretching back to 1976, over 40 years ago. In the fourth quarter, 193,400 jobs were added, the best quarterly increase since 1976, amidst signs that the economy was slowing. As a comparison in the U.S., only 148,000 jobs were added, shy of the 190,000 forecasted. For all of 2017, more than 422,000 jobs have been added in Canada, mostly of a full-time nature, resulting in the largest annual gain since 2002. The manufacturing sector continues to expand as PMI data rose with risking new orders, while exports surged 3.7% in November, its largest gain in 12 months. The TSX also reflected the optimistic outlook, closing at all-time highs in a couple sessions during the first week of January to hit 2018 running.



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