

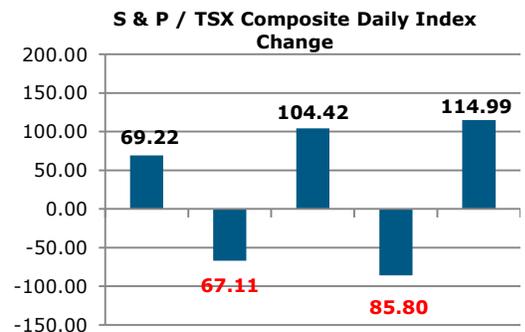
# Credential Market Insights

WEEKLY

## Canadian Markets

For the week ending June 22, 2018

- TSX higher.** The country's largest index rose during the week on the backs of marijuana stocks as the Federal Government passed its cannabis bill lighting the way for legalized recreational use within the next 2-3 months. As well, a rise in crude prices, one of our biggest exports, helped buoy the Composite to reach an all-time high. On the close, the TSX ended at 16,450, a 0.8% increase.
- Dollar lower.** On top of growing tensions with our largest trading partner south of the border, the Loonie weakened on disappointing retail sales and inflation news. Our currency hit a 12-month low as threats of U.S. tariffs on the vehicles made in Canada could spell trouble for the Canadian auto sector that adds about \$80B to the economy annually. On the close, our Dollar lost 0.7% to finish at 75.36 U.S. cents.
- Gold tarnishes.** Continued future expectations of rising interest rates by the Federal Reserve sent the U.S. dollar higher at the expense of the precious metal. As well, the ECB's announcement the previous week to finally end its accommodative bond purchasing and begin normalizing its monetary policy in 2019 added more future headaches for gold as higher rates eventually influence that economy. At week's end, gold closed at US\$1,271.10 an ounce for an August contract, a loss of 0.9%.
- Oil gushes.** Amidst earlier fears of some OPEC and non-OPEC countries increasing production, which would offset efforts to lower global excess inventory, the commodity touched a three-week high as new output was expected to be less. At the latest OPEC meeting in Vienna, reports see less than 1M barrels per day added to global output, most coming from Saudi Arabia and likely Russia. At the end of the week, the August contract on a barrel of WTI crude settled at US\$69.28, a rise of 7.6%.
- Inflation up.** The Consumer Price Index (CPI) rose slightly in May but well below expectations led by declines in telephone services and autos. Inflation was reported at a 0.1% gain as forecasts had called for a 0.4% increase for the month. Of the eight components used by Statistics Canada for their measure, all were higher with half growing at a slower pace than in April. On an annual basis, the inflation rate remained unchanged at 2.2%, while core inflation fell to 1.3% from 1.5%
- Wholesale sales edge higher.** Factory sales managed a gain in April, as reported by StatCan, on increased demand in the machinery, equipment, food, and beverage sectors. For the month, sales rose 0.1% to a total of \$63.1B with three of the seven sectors tracked seeing gains. Motor vehicles and parts subsectors was the big decliner falling 4%. On a volume basis, it was unchanged during the month.
- Retail sales slip.** Consumers were in less of a spending mood in April as retail sales fell for the first time in four months. For the month, total receipts fell 1.2% to \$49.5B as 8 of the 11 subsectors followed declined, led by autos and parts dealers. This was the biggest decline in two years as weather was partly to blame as well. Removing the influence of autos, retail sales would have fallen only 0.1%. On a 12-month basis, sales fell sharply from 3.9% to 1.6% in April.



Indices		
	Week	YTD
<b>S&amp;P/TSX Composite</b>		
16,450.14	135.72	241.01
	0.83%	1.5%
<b>Dow Jones Industrial Average</b>		
24,580.89	-509.59	-138.33
	-2.03%	-0.6%
<b>S&amp;P 500</b>		
2,754.88	-24.78	81.27
	-0.89%	3.0%
<b>NASDAQ</b>		
7,692.82	-53.56	789.43
	-0.69%	11.4%
<b>Hang Seng Index</b>		
29,338.70	-970.79	-580.45
	-3.20%	-1.9%
<b>FTSE 100</b>		
7,682.27	48.36	-5.50
	0.63%	-0.1%

Source: Bloomberg

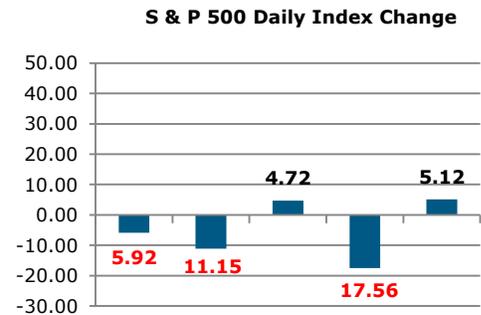
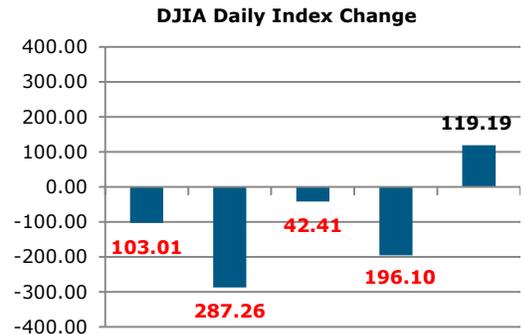
## U.S. & International Markets

- U.S. market falls.** With the looming fears of a potential global trade war, the U.S. stock market posted losses for the week. The broad-based S&P 500 index dropped 0.9%, closing the week at 2,755. The Dow Jones Industrial Average tumbled 2%, ending the week at 24,581. The tech-heavy Nasdaq fared the best among the three indices, losing 0.7% to close the week at 7,693.

# U.S. & International Markets cont'd

For the week ending June 22, 2018

- **U.S. 'flash' composite PMI rises.** U.S. business activity accelerated slightly in June. The 'flash' IHS Markit composite purchasing managers' index (PMI) rose to 56.0 in June from May's final reading of 55.7; economists were expecting a reading of 56.3. Growth in the services sector was offset by a slowdown in manufacturing. The services PMI rose from previous month's reading of 55.7 to 56.5 while the manufacturing PMI dropped from 56.6 to 54.6. The manufacturing PMI was at its lowest level in seven months.
- **U.S. existing home sales fall.** The National Association of Realtors reported that existing home sales dropped 0.4% to a seasonally adjusted annual pace of 5.43M units in May, missing economists' expectation of a 1.5% rise by a wide margin. This was the second straight month of declines. On a year-over-year basis, existing home sales fell 3% in May. Existing home sales account for approximately 90% of total home sales in U.S.
- **U.S. housing starts surge.** U.S. housing starts jumped to near an 11-year high in May. The Commerce Department reported that housing starts rose 5% to a seasonally adjusted annual pace of 1.35M units in May; economists were expecting housing starts to rise at a pace of 1.31M units only. It was the highest level since July 2007. Building permits, however, fell 4.6% to an annual pace of 1.30M units, the lowest level since last September.
- **Euro-zone 'flash' composite PMI climbs.** Services sector activity within the 19-member region accelerated in June but manufacturing slowed. The 'flash' IHS Markit's composite purchasing managers' index (PMI) rose to 54.8 from May's final reading of 54.1, beating economists' forecast of 53.9. Services PMI increased from 53.9 to 55.0 while the manufacturing PMI eased from 55.5 to 55.0.
- **Japan's inflation remains sluggish.** Government's data showed that Japanese inflation remained stagnant in May. The consumer price index (CPI) rose 0.7% year over-year in May, same pace as the previous month's, but still a far cry from the central bank's inflation target of 2%. The core measures, which strips out food and energy prices, rose even less, just 0.3% when compared to last year.
- **Japan 'flash' manufacturing PMI advances.** Manufacturing activity in Japan accelerated in June, according to the 'flash' Markit/Nikkei manufacturing purchasing managers' index. The preliminary reading of the manufacturing gauge rose to 53.1 in June from May's reading of 52.8. The index remained above the 50 division mark for the 22<sup>nd</sup> consecutive month.



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## Key Take-Away

**A Setback.** After consecutive interest rate freezes by the Bank of Canada (BoC) following multiple hikes, the latest retail sales and inflation data sees a Canadian economy slowing down in the first half of 2018. A steep decline in spending by consumers in April, whose activities account for two-thirds of the GDP, had implications on the inflation rate, which the BoC uses to model its monetary policy. With price growth rising at a slower pace than earlier, the central bank has the difficult task of trying to keep the economy from overheating - but also from deceleration - as a result of ongoing NAFTA discussions and possibly punishing tariffs on Canadian exports to the U.S. Before the release of the data from StatCan, the probability of a July hike was at 69%. Now it has fallen to 54%, while the odds of an increase before the end of the year at below 50%.

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