Weekly Market Pulse

Week ending October 9, 2020

Market developments

Equities:

Stocks climbed higher last week as markets continue to pin hopes on a stimulus package being passed. Democrats and Republicans have seen limited progress in past weeks but have recently shown more compromise in their spending. Republicans have proposed a package as large as US$1.8T while democrats are looking for US$2.2T. Presidential candidate Joe Biden has also pulled ahead following the debate the week prior and has further gained his lead in the polls. The S&P 500 rose 3.84%. The S&P/TSX Composite rose 2.24%.

Fixed income:

Yields rose on optimism of a stimulus deal being passed. The U.S. Treasury 10-year yield rose 7 basis points, ending the week at 0.77%. The Government of Canada 10-year yield also rose 6 basis points ending the week at 0.63%.

Commodities:

Oil prices promptly recovered prior week losses, gaining 9.37% on supply disruptions from Hurricane Delta and hopes on a stimulus deal. Copper prices also gained 3.58% on the potential stimulus package. Gold increased 1.61%.

Performance (price return)

SECURITY	PRICE	WEEK	1 MONTH	3 MONTH	YTD
Equities ($Local)					
S&P/TSX Composite	16562.81	2.24%	1.09%	6.39%	-2.93%
S&P 500	3477.13	3.84%	2.30%	10.31%	7.63%
NASDAQ	11579.94	4.56%	3.93%	9.79%	29.06%
DAX	13051.23	2.85%	-1.40%	4.50%	-1.49%
NIKKEI 225	23619.69	2.56%	2.55%	4.84%	-0.16%
Shanghai Composite	3272.08	1.68%	0.54%	-5.17%	7.28%
Fixed Income (Performance in %)					
Canada 10-Year Yield	0.63	0.06	0.03	0.10	-1.07
US 10-Year Yield	0.77	0.07	0.07	0.16	-1.14
German 10-Year Yield	-0.53	0.01	-0.07	-0.06	-0.34
US High Yield Spread	5.04	-0.35	-0.13	-1.16	1.11
Commodities ($USD)					
Oil	40.52	9.37%	6.49%	2.27%	-33.64%
Gold	1930.40	1.61%	-0.84%	7.03%	27.23%
Copper	308.40	3.58%	1.45%	9.05%	10.26%
Currencies ($USD)					
DXY	93.04	-0.86%	-0.23%	-3.78%	-3.47%
Loonie	1.3121	-1.41%	-0.19%	-3.42%	1.01%
Euro	0.8456	-0.93%	-0.19%	-4.57%	-5.19%
Yen	105.62	0.31%	-0.53%	-1.47%	-2.75%

As of October 9, 2020

Macro developments

Canada – International merchandise deficit narrows slightly; Housing starts falter; Canadian employment continues strong gains

International merchandise trade deficit narrowed just slightly in August at $2.4B compared to $2.5B in July. Total imports in August fell 1.2% to $47.4B due to lower imports of aircrafts and aircraft parts. Total exports fell 1.0% to $44.9B as exports of motor vehicles and parts moderated following seasonally strong performance in July.

Housing starts in Canada fell 20.1% to 209.0K in September, from 261.5K in August, on a seasonally adjusted annual rate basis. The drop is associated to multiple urban starts which decreased 27.0%, while single-detached urban starts 3.4%.

Employment rose 378K in September, following a 246K increase in August. As a result, the unemployment rate fell 1.2% to 9.0%. The gains were concentrated in full-time work which gained 334K while part-time grew at a slower pace of 44K. Those who were employed but worked less than half their hours for reasons likely related to COVID-19 also fell by 108K in September to 605K. Overall, over 75% of Canadians affected by the COVID-19 economic shutdown have recovered and the current number of those still affected stands at 1.3M, down from a peak of 5.5M.

U.S. – FOMC minutes support inflation overshoot; Trade deficit expands

The main takeaway of the FOMC minutes this time around were details surrounding the framework change to Average Inflation Targeting (AIT) and forward guidance. Most Fed participants supported “indicating that it would likely be appropriate to maintain the current target range until labor market conditions were judged to be consistent with the Committee's assessments of maximum employment and inflation had risen to 2 percent and was on track to moderately exceed 2 percent for some time.“ The minutes reiterated inflation is expected to only overshoot 2% beyond 2023, and given the recent move to AIT would imply no rate changes until at least 2024 which even then may not be a given as the Fed looks to anchor long-term inflation expectations. “With inflation running persistently below its longer-run goal, participants judged that it would be appropriate to aim to achieve inflation moderately above 2 percent for some time so that inflation would average 2 percent over time and longer-term inflation expectations would remain well anchored at 2 percent.” Other notable mentions in the minutes includes some worry regarding the timing of additional fiscal support which could prolong the economic recovery and a possible future asset purchase assessment which may imply further increases or purchasing for longer.

The U.S. trade deficit expanded to US$67.1B in August, from US$63.4B in July, as imports rose faster than exports. Exports rose 2.2% on industrial supplies, materials, and food, while imports rose 3.2% on consumer goods and automotive vehicles and parts.

International – Eurozone retail sales surprises; Germany factory orders rises; Germany industrial production wanes

Eurozone retail sales rose 4.4% in August, following a 1.8% fall in July, beating the consensus of 2.5%. Some relaxation of COVID-19 containment measures in many EU Member States supported a 6.1% increase for non-food products, 2.4% for food, drinks and tobacco, and a 2.1% for automotive fuels. Compared to August 2019, retail sales are impressively up 3.7%.

Germany factory orders rose 4.5% in August, following a 3.3% rise in July. Compared to February pre-coronavirus levels, new orders remain 3.6% lower. The recent rise was driven by foreign orders which rose 6.5%, with a strong increase of 14.6% from the euro area compared to 1.5% from other countries. Domestic demand had only risen 1.7%. Sector-wise, the gain was widespread between intermediate, capital and consumer goods.

Germany industrial production meanwhile fell 0.2% in August, following a 1.4% rise in July. Markets had forecasted a continued recovery with a gain of 1.5% for the month. Within manufacturing, production in the automotive industry had fallen by 12.5% in the month.

Quick look ahead

Canada – Manufacturing sales (October 16)

A light week of data for Canada, with the only highlight being August manufacturing sales. Manufacturing sales are expected to have slowed 1.8% in August, following three strong consecutive recovery months.

U.S. – CPI (October 13); Empire Manufacturing and Philadelphia Fed Business Outlook (October 15); Retail sales and industrial production (October 16)

U.S. CPI is expected to register at 0.2% in September as the higher readings from pandemic related price gains in the last few months are expected to moderate. The Empire Manufacturing and Philadelphia Fed Business Outlook will provide a glace into the manufacturing sector, with business sentiment expected to stay positive and business conditions expansionary. Retail sales and industrial production for September are expected to continue at a similar pace as August, forecasted to grow 0.8% and 0.6% respectively.

International – Japan core machine orders (October 11); Germany ZEW survey, IMF World Economic Outlook, and China trade (October 13); China CPI and China aggregate financing (October 15)

Japan core machine orders is expected to drop a slight 0.4% with projected falling corporate profits prompting companies to delay capital expenditure plans. The Germany ZEW survey will also be of interest as it had last hit a 20-year high pointing towards a positive economic narrative. In additional the IMF World Economic Outlook will be published and will be watched for any changes to growth and inflation forecasts.

Later this week a slew of September economic data will be released in China. The first of which is trade data where exports are projected to have increased 10.0% on a year-over-year basis while imports are expected to be flat at 0.1%. There is a lingering risk of deteriorating demand from Europe with the recent outbreaks. Next, Chinese CPI is expected to come out at 2.0% year-over-year, down drastically from 2.4% year-over-year in August, on lower food prices. Lastly Chinese aggregate financing is expected to have slowed in September due to tightening liquidity, but the amount is still expected to register at CNY3.0T.