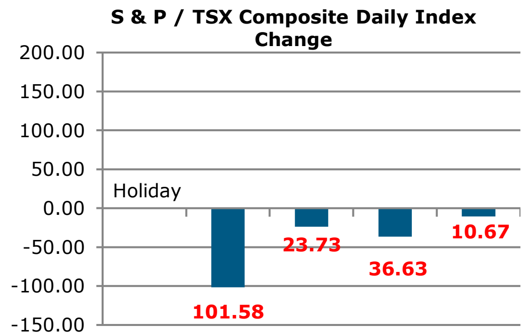
Credential

Market Insights | WEEKLY

Canadian Markets

For the week ending September 7, 2018

- **TSX drops.** A triple dose of negativity sent the S&P/TSX Composite lower for the week, closing at a three-month low. NAFTA trade talks, heading into their thirteenth month, continue to hamper economic growth while a rise in the unemployment rate seemed to support a weakening of business confidence in the short term. In addition, the Bank of Canada's announcement to hold rates at their latest meeting did little to help the Index move higher. On the close, the TSX ended at 16,090, a 1.1% decrease for the week.
- **Dollar flies lower.** Overshadowed by the trade talks and soft employment data, the Loonie fell during the week, supported only by the Bank of Canada’s comments that rate increases will not stop even if trade talks collapsed. After weeks of bearishness on our currency and pricing due to the possibility of no NAFTA agreement, the Loonie has begun to stabilize based on the country’s economic merits; however, it remains susceptible to external influences. At the close, our Dollar fell 0.8% to finish at 75.98 U.S. cents.
- **Gold tarnishes.** For the eighth time in nine weeks, the yellow metal posted another loss as the U.S. economy added 200,000 jobs in the most recent Commerce report, which also saw a rise in annualized wage growth—both indications of strong economic health. Investors remain cautious on the precious metal as the Federal Reserve looks towards a rate hike or two before year’s end. At week’s end, gold closed at US$1,200.40 an ounce for a December contract, a decrease of 1.1%.
- **Oil slips.** Lower demand because of global trade tensions send crude falling despite some support of tighter supplies once U.S. sanctions against Iran take effect later this year. New tariffs threatened by the U.S. against China weighed on the commodity as the repercussions may cause a global slowdown even as U.S. inventories decline. At the end of the week, an October contract on a barrel of WTI crude settled at US$67.75, a loss of 2.9%.
- **Rates on hold.** Still fresh from last month’s rate hike, the Bank of Canada went against market suspicions and did not hike rates again so soon afterwards. Opting to see the effects of its last 25bps rate increase to 1.50% on the economy, Governor Stephen Poloz also cited the uncertainty of the outcome of NAFTA as Canada continues to negotiate with the U.S. Despite this, the central bank remains on track with its gradual, rate-hiking strategy with the next meeting scheduled for October 24.
- **Unemployment rate rises.** After touching the historical low again, the national jobless rate rose to 6% as part-time jobs were shed with the summer coming to a close. For August, 51,600 jobs were lost, primarily of a part-time basis in the services, trade, and construction sectors. Expectations were for an increase of 5,000 positions with the rate rising to 5.9%. The participation rate fell slightly to 65.3% in August.
- **Manufacturing activity lower.** For a second straight month, business conditions in the manufacturing sector contracted as the latest IHS Markit PMI reading for August was 56.8. The previous month was 56.9 and forecasts were for an increase to 57.1. New orders declined but were offset by increased export demand from the energy sector. The sector remains in a holding pattern as it awaits the outcome of Canadian trade talks with the U.S.
- **Building permits drop.** Intentions to build, especially in the multi-dwelling market, fell in July as Statistics Canada reported a 0.1% decline, where estimates were for a 1% increase. Regardless, the month’s reading was an improvement over a revised higher 1.3% drop in June as total permit values tallied to $8.2B. Apartments and similar fell 1.1%, while single-family homes and non-residential structures rose 0.6% and 0.2%, respectively.



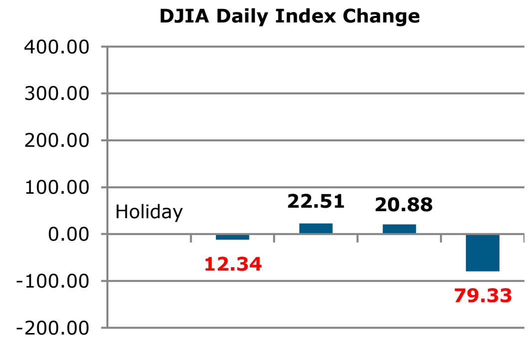
Indices	Week	YTD
S&P/TSX Composite		
16,090.27	-172.61	-118.86
	-1.06%	-0.7%
Dow Jones Industrial Average		
25,916.54	-48.28	1197.32
	-0.19%	4.8%
S&P 500		
2,871.68	-29.84	198.07
	-1.03%	7.4%
NASDAQ		
7,902.54	-207.00	999.15
	-2.55%	14.5%
Hang Seng Index		
26,973.47	-915.08	-2945.68
	-3.28%	-9.8%
FTSE 100		
7,277.70	-154.72	-410.07
	-2.08%	-5.3%

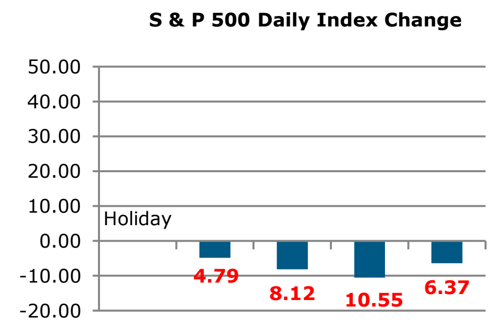
Source: Bloomberg

U.S. & International Markets

For the week ending September 7, 2018

- **U.S. stock market falls.** The U.S. stock market fell amid escalating trade war tension between U.S. and China. Technology stocks sell-off made Nasdaq the worst performer of the week. The S&P 500 index was down 1% for the week, closing at 2,872. The Dow Jones Industrial Average lost 0.2%, closing the week at 25,917. The tech-heavy Nasdaq was the worst performer of the week, tumbling 2.6%, ending at 7,903.
- **U.S. economy creates more jobs than expected.** The U.S. economy pumped out more jobs than expected in August, according to the report by the Bureau of Statistics. Non-farm payrolls increased by 201,000 in August, more than economists' forecast of 191,000. Unemployment rate held at a generational low of 3.9%. The average hourly wage increased by 2.9% year-over-year, hitting the fastest growth pace since April 2009.
- **ISM manufacturing and non-manufacturing indices rise.** Manufacturing activity accelerated to a 14-year high in August according to the Institute for Supply Management (ISM). The ISM manufacturing index rose from July's 58.1 to 61.3 in August, the highest reading since May 2004. U.S. services sector also expanded faster than expected as reflected in the ISM non-manufacturing index, coming in at 58.5, up from July' reading of 55.7, exceeding economists' expectations of 56.8 by a wide margin.
- **Euro-zone Q2 GDP rises.** Eurostat reported that Q2 GDP within the Euro-zone grew by 0.4% quarter over-quarter, confirming the preliminary reading. Year-over-year growth was revised from 2.2% down to 2.1%.
- **Euro-zone manufacturing PMI drops.** Manufacturing activity within the single-currency bloc slowed in August, according to the manufacturing PMI. The IHS Markit's manufacturing purchasing managers' index (PMI) fell to a 21-month low of 54.6 from July's reading of 55.1, matching economists' forecast.
- **Euro-zone composite PMI increases.** Business activity within the 19-member region accelerated in August, according to the composite PMI. The IHS Markit's Euro-zone purchasing managers' index (PMI) rose slightly to 54.5 from July's reading of 54.3; economists were expecting a reading of 54.4. Services PMI rose from July's 54.2 to 54.4, in line with forecast.
- **Japan composite PMI rises.** Japan's business activity expanded faster in August, according to the composite PMI. The Markit/Nikkei Japan composite purchasing managers' index (PMI) rose to 52.0 in August, up from July's reading of 51.8. Manufacturing PMI increased from 52.3 to 52.5 while services PMI advanced from July's 51.3 to 51.5.
- **China services PMI falls.** Growth in China's service sector decelerated in August. The Caixin/Markit services purchasing managers' index (PMI) declined to 51.5 in August, down from July's reading of 52.8. It was the lowest reading in 10 months.





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Key Take-Away

Not hiring, at least not right now. Statcan released the unemployment numbers for August and the results were 92,000 part-time positions lost, mostly in Ontario where 80,100 were shed. Of this number, 19,600 were in wholesale and retail trade and 16,400 in construction, typical sectors where employers find temporary workers to help during the busy summer period. Unfortunately, this bumped the unemployment rate up from a recorded low of 5.8% to 6%. On the bright side, the economy is considered on firmer ground as full time hirings grew by 40,400 for the month and has added 326,100 permanent positions for a net increase of 171,700 jobs for the last 12-month period. In the U.S., it's a different story as 201,00 jobs were created, above estimates, and the unemployment rate held at a historical low of 3.9%. Given the speedbumps overcome in the past and the hurdles to encounter in the upcoming months, the Canadian economy has fared well and will have the ability to get more people working, just not at the moment.