Credential

Market Insights | WEEKLY

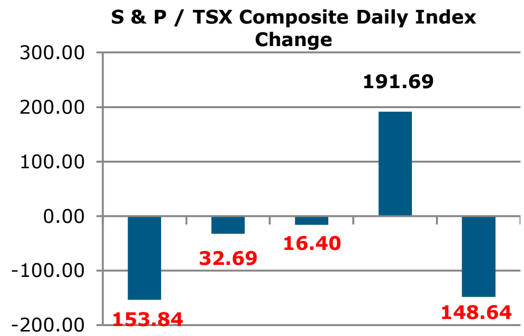
Canadian Markets

For the week ending April 6, 2018

- **TSX lower.** Global trade tensions were on the minds of investors as Canada's main index had a rollercoaster of a ride. Financials were most affected of all sectors as the Composite touched an eight-week low despite the positive economic data released. For the week, the TSX ended at 15,207, a 1% decrease.
- **Dollar flies higher.** The Loonie took advantage of weakness in the U.S. green back rising higher during the week. In the U.S., underwhelming jobs data and renewed trade nervousness with China sent its currency lower, while in Canada, our currency rose on strength in the manufacturing sector and positive jobs data. On the close, our Dollar climbed 0.9% to finish at 78.24 U.S. cents.
- **Gold shines.** The yellow metal was on track for a weekly gain following the release of U.S. employment numbers, which was below expectations. As well, the ongoing potential trade war between the U.S. and China heated up as President Trump considered adding Chinese goods to slap tariffs onto. At week's end, gold closed at US$1,336.10 an ounce for a May contract, an increase of 0.7%.
- **Oil slips.** An increase in the number of active oil rigs as reported by Baker-Hughes added pressure on the commodity. Rising protectionism in the U.S. will have the effects of fragmenting global economic growth and possibly demand for crude. This is especially concerning for oil given the two economies currently at odds, the U.S. and China, are the world's largest consumers. At the end of the week, a May contract on a barrel of WTI crude settled at US$62.06, a fall of 4.4%.
- **Unemployment rate holds.** The jobless rate was unchanged in March despite the economy adding 32,300 new jobs. This was the third month out of the last four where the unemployment rate fell to a historical low of 5.8% as hirings in construction and building (+18,300) led all sectors followed by public administration (-11,900). Consensus estimated only 20,000 would be added but a surge in full-time employment (+68,300) more than overcame the decline in part-time employment (-35,900). The participation rate also held steady at 65.5% as more people entered the labour force.
- **Manufacturing PMI edges higher.** Canadian factories were busier in March on a rise in new orders and increased output. In March, as a gauge of manufacturing activity, Markit's PMI reading was 55.7 on a seasonally adjusted basis, a notch up from February's 55.6. One measure of PMI was particularly interesting as purchasing activity of input materials reached its highest since April 2011 due to businesses accumulating their stock buffers and to accommodate rising production.

U.S. & International Markets

- **Turbulent week in the U.S. market.** Stocks were volatile this week as the increasing tension between China and U.S. on a possible full-blown trade war shook investors' confidence. All three major indices posted negative returns for the week, but it was the fluctuation being the highlight of the week. The S&P 500 index was down 1.4%, closing at 2,604. The Dow Jones Industrial Average dropped 517 points and 572 points on Monday and Friday respectively, declining 1% to close the week at 23,933. Nasdaq was the worst performer of the week, losing 2.1%, ending the week below the 7000-level at 6,915.
- **U.S. adds less jobs than expected.** The U.S. economy pumped out a lot less jobs than economists' forecast. The Bureau of Labor Statistics reported that nonfarm payrolls rose by 103,000 in March, missing economists' expected increase of 193,000. The unemployment rate remained at 4.1%. The average hourly wage, which recently has been seen as an important gauge of inflation, rose at a 2.7% annualized pace, in line with expectations.
- **Jerome Powell speaks.** Jerome Powell gave his first economic outlook since taking over Fed's top job from Janet Yellen. During his speech, the new Fed's boss indicated that the central bank would maintain its stance on gradually raising its benchmark interest rates. "As long as the economy continues broadly on its current path, further gradual increases in the federal funds rate will best promote these goals," Powell said at the event in Chicago.



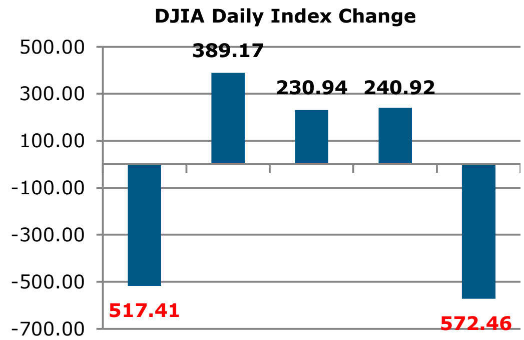
Indices	Week	YTD
S&P/TSX Composite		
15,207.41	-159.88	-1,001.72
	-1.04%	-6.2%
Dow Jones Industrial Average		
23,932.76	-228.84	-786.46
	-0.95%	-3.2%
S&P 500		
2,604.47	-37.84	-69.14
	-1.43%	-2.6%
NASDAQ		
6,915.11	-149.32	11.72
	-2.11%	0.2%
Hang Seng Index		
29,844.94	-248.44	-74.21
	-0.83%	-0.2%
FTSE 100		
7,183.64	127.03	-504.13
	1.80%	-6.6%

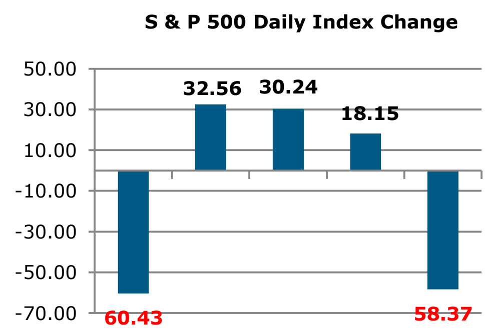
Source: Bloomberg

U.S. & International Markets cont'd

For the week ending April 6, 2018

- **ISM manufacturing index falls.** U.S. manufacturing activity slowed in March, according to the Institute for Supply Management (ISM). The ISM manufacturing index dropped to 59.3 from February's reading of 60.8; economists were expecting a reading of 60.0. On a separate report, the Markit manufacturing purchasing managers' index (PMI) rose to 55.6, barely missing economists' expected reading of 55.7.
- **U.S. services sector cools.** Service sector activity in U.S. slowed down in March. The Institute of Supply Management (ISM) reported that its non-manufacturing purchasing managers' index (PMI) fell to 58.8 in March, down from February's reading of 59.5; economists were expecting a reading of 59.0. On a separate report, the IHS/Markit service sector purchasing managers' index (PMI) came in at 54.0 in March, also down from February's 55.9.
- **Euro-zone inflation rises.** Inflation within the 19-member bloc increased in March. Eurostat reported that the 'flash' harmonised index of consumer prices (HICP) rose 1.4% year-over-year, matching economists' forecast and advancing from February's pace of 1.1%. Even with the modest rise in March, inflation within the region remained far below ECB's target inflation rate of 2%.
- **Euro-zone unemployment drops.** The unemployment rate within the Euro-zone fell to its lowest level since December 2008 in February. Eurostat reported that the unemployment rate within the single-currency bloc declined to 8.5%, a tick down from January's 8.6%.
- **Euro-zone composite PMI falls.** Overall business activity within the 19-member bloc cooled in March. The IHS/Markit composite purchasing managers' index (PMI) dropped to 55.2 in March from February's reading of 57.1; economists were expecting a reading of 55.3. Services sector PMI fell from February's 56.2 to 54.9, also missing estimated reading of 55.0. The IHS/Markit Euro-zone manufacturing purchasing managers' index (PMI) cooled off to 56.6 in March, down from February's reading of 58.6 and in line with forecasts. It was the lowest reading in eight months.
- **Japan composite PMI declines.** March's Markit/Nikkei composite purchasing managers index (PMI) declined from February's reading of 52.2 to 51.3. Services sector activity decelerated to its slowest pace in 17 months. The services sector PMI fell to 50.9, the lowest reading since October 2016. Manufacturing activity also slowed down as indicated by the drop of the manufacturing PMI from 54.1 to 53.1.
- **China manufacturing and services PMI drops.** The Caixin/Markit manufacturing purchasing managers' index (PMI) declined to a four-month low in March. The barometer of manufacturing activity, with a small and mid-size business bias, fell to 51.0 from February's reading of 51.6; economists were expecting the gauge to increase slightly to 51.7. China's services sector slowed as well in March as the Caixin Services PMI fell to 52.3, down from February's reading of 54.2. Economists were expecting a slight increase to 54.5.





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Credential

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Key Take-Away

Just getting started. During the campaign leading up to his presidency, Trump promised to level the playing field with those countries where the U.S. has a trade deficit. In early February, he made good on his 2016 promise with the implementation of tariffs on U.S. bound steel and aluminum imports. The reactions was negative, as expected, with broad sell-offs in global markets on concerns of trade wars between larger economies and repercussions on global growth. Fortunately, Trump changed his stance somewhat and investors returned with an appetite for equites once again. However, the latest posturing by Trump in March was similar, but very different, and pitted the world's largest economy against the world's second largest, China. The first shot across the bow was by the U.S. and involved imposing US$60B in tariffs on Chinese imports. Markets were rattled once again and more so after China countered with US$3B in tariffs of their own on U.S. imports such as pork, apples, and almonds. Interestingly, these tariffs don't appear to be random as some of the largest productions of each product are in key electoral swing states that can make or influence the direction of a U.S. election. To start April, the U.S. shot again with US$50B more on Chinese imports, who responded with US$50B on U.S. goods. Finally, to end the week, Trump moved to slap another $100B on Chinese products with China vowing to fight the U.S. "at any cost". On Friday alone, the S&P500 ended down 2.2%, while the Dow Jones was lower by 2.3%. There does not appear to be any end in sight for the trade tensions as things are just getting started.