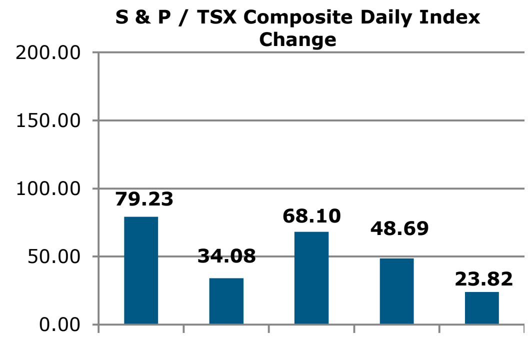
Credential

Market Insights | WEEKLY

Canadian Markets

For the week ending May 11, 2018

- **TSX climbs.** Despite weak employment data from StatCan, strength in resources and commodities provided the support for the S&P/TSX Composite to advance during the week. With the loss of jobs in April, the probability rose for the Bank of Canada to hold off any overnight rate movement until its July meeting and keep rates steady at its next meeting on May 30. On the close, the TSX ended at 15,983, a 1.6% increase.
- **Dollar flies higher.** The Loonie hovered at three week highs on the backs of higher oil prices in the wake of the U.S.'s re-instatement of economic sanctions on Iran. On the close, our Dollar gained 0.4% to finish at 78.16 U.S. cents.
- **Gold sparkles.** The yellow metal posted a gain for the week as the U.S. dollar pulled back. Economic data and its effect on inflation cast a cloud over the Federal Reserve and its decision to move interest rates. The weaker U.S. currency made the price of gold more attractive, allowing the resource to post its first positive week in a month. At week's end, gold closed at US$1,318.40 an ounce for a June contract, an increase of 0.3%.
- **Oil gains.** The commodity touched a 3½ year high during the week as U.S. president Trump announced his decision to re-impose sanctions against OPEC member Iran due to its nuclear program. The commodity returned some of its gains as not all countries were on side with the U.S., causing traders to believe the effects on global supplies would be reduced by 350K barrels per day instead of the 1M expected. At the end of the week, the June contract on a barrel of WTI crude settled at US$70.51, a rise of 1.1%.
- **Unemployment rate steady.** The country's jobless rate was unchanged in April at 5.8% and posted a net loss of 1,100 jobs as more part-time positions were shed despite 28,800 full time hirings being added. The unemployment rate continues to hold at its lowest level since 1976 for a third straight month as jobs were lost in the retail and construction sectors. On a year-over-year basis, employment rose by 278,000, or 1.5%, with the participation rate slipping a notch to 65.4%.
- **Manufacturing PMI slips.** Activity in the manufacturing sector slowed in April due in part to disruptions in the input to factories and capacity limitations. For the month, IHS Markit Canada's manufacturing PMI reading was 55.5, down from 55.7, but still signaled continued expansion in the sector. New business, increased export demand, and a rise in supply inflation helped prop the PMI reading from falling lower.
- Canada Housing News:
    - **Starts lower.** The number of new homes breaking ground slowed in April as higher interest rates and changes to regulations begin to have a slow impact on the housing market. CMHC reported home starts were at 214,379 units on a seasonally-adjusted basis, down when compared to March's 225,459 units with single detached homes falling 9.3%, while multi-unit dwellings declined by 2.7%.
    - **Building permits rise.** Increased demand for apartments and condos helped drive up the total value of building permits in Canada in March. The 3.1% increase for the month topped 2% estimates as residential permit demand rose 2.3%, with multi-unit homes rising 12.2%, and commercial/industrial structures higher by 4.5%. Single family homes were the lone decliner falling 7.9% as interest in the Toronto region fell for a second straight month.
    - **New home prices flat.** Higher prices in the Ottawa region balanced out declines in the Toronto market as prices for a new home were flat in March, on par with expectations. Stricter mortgage rules that came into effect at the beginning of the year helped temper the housing market as 13 markets saw higher prices, while 14 were unchanged or lower. Additional pressure could be placed onto borrowers as the Bank of Canada considers raising rates in the summer time to help cool the housing sector.



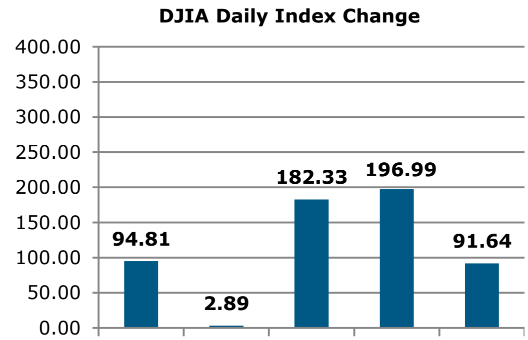
Indices	Week	YTD
S&P/TSX Composite		
15,983.32	253.92	-225.81
	1.61%	-1.4%
Dow Jones Industrial Average		
24,831.17	568.66	111.95
	2.34%	0.5%
S&P 500		
2,727.72	64.30	54.11
	2.41%	2.0%
NASDAQ		
7,402.88	193.26	499.49
	2.68%	7.2%
Hang Seng Index		
31,122.06	1195.56	1202.91
	3.99%	4.0%
FTSE 100		
7,724.55	157.41	36.78
	2.08%	0.5%

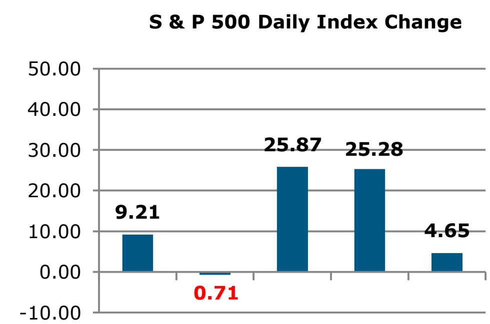
Source: Bloomberg

U.S. & International Markets

For the week ending May 11, 2018

- **U.S. stocks edge higher.** U.S. stocks posted solid gains for the week where economic data was relatively light. The broad-based S&P 500 index rose 2.4%, ending the week at 2,728. The Dow Jones Industrial Average advanced 2.3%, closing the week at 24,831. The tech-heavy Nasdaq was the best performer of the week, up 2.7%, wrapping up the week at 7,403.
- **U.S. CPI rebounds.** Consumer prices rebounded after a small drop in March. The Labor Department reported that its consumer price index (CPI) rose 0.2% in April after a 0.1% decline in March; economists were expecting a 0.3% increase. On a year-over-year basis, CPI rose 2.5% in April, up from the 2.4% pace in March. Core CPI, which excludes energy and food prices, inched up 0.1% on the month and 2.1% on the year, both missing economists' forecast.
- **U.S. non-farm payrolls increase less than expected.** The U.S. economy pumped out less jobs than expected in April, according to the Labor Department. Non-farm payrolls increased by 164,000 in April, less than economists expected increase of 191,000. Despite the miss, the unemployment rate dropped to 3.9% in April, a level not seen since December 2000. Average hourly earnings increased by 2.6% year-over-year, less than economists' expectation of a 2.7% increase.
- **U.S. PPI rises.** Producer prices rose less than expected in April. The Labor Department reported that the producer price index (PPI) edged up 0.1% in April, missing economists' estimate of a 0.2% increase. On a year-over-year basis, PPI rose 2.6%, down from the 3% pace reported in March, also missing economists' expected 2.8% rise.
- **U.S. consumer sentiment stays steady.** Consumer sentiment remained steady in U.S., according to a survey by the University of Michigan. The preliminary reading of the university's consumer sentiment index came in at 98.8 for May, same as the final reading in April and higher than economists' expectation of 98.5.
- **Euro-zone composite PMI drops.** Business activity within the 19-member region cooled off in April, according to the composite PMI. IHS Markit Euro-zone composite purchasing managers' index (PMI) declined to 55.1 from March's reading of 55.2. Economists were expecting the gauge to stay flat. The services PMI fell to 54.7 from 54.9, also missing forecast.
- **China's CPI slows but PPI up.** Consumer price inflation cooled down in April while producer prices picked up, according to the National Bureau of Statistics. The consumer prices index (CPI) rose 1.8% year-over-year in April, down from the 2.1% pace reported in March; economists were expecting a 1.9% increase. The producer price index (PPI) edged up 3.4% year-over-year, accelerating from 3.1% in March; economists were expecting a pick up to 3.5%.
- **China services PMI increases.** Services sector in China expanded at a faster pace than the previous month in April. The Caixin/Markit services purchasing managers' index (PMI) went up to 52.9 in April from March's reading of 52.3. The official PMI also pointed to acceleration in growth, rising from 54.6 to 54.8.
- **China back to trade surplus.** After reporting a rare trade deficit in March, China was back to a trade surplus in April. China's trade balance was a positive $28.8B in April, topping economists' estimate of a $24.7B surplus. Imports jumped 21.5% while exports rose 12.9%, both exceeding economists' expectations.





Key Take-Away

Inflation from wages. The national jobs numbers were released by Statistics Canada and was weaker than forecasted. With predictions of a gain in April of 17,400 positions, actual data reported a decline of 1,100 jobs mostly of a part-time nature. The loss was not considered significant as the unemployment rate continued to hold steady at a 40-year low of 5.8% for a third consecutive month. The Bank of Canada (BoC) will unlikely raise interest rates at their May 30th policy meeting, but it does increase the probability of them acting at their July meeting. Not considered one of the main factors in a rate hike, the BoC keeps close tabs on the rate of increase in wages, which rose to 3.6% on an annual basis during the month from 3.3% in March. Wage growth, or wage inflation, is important because of its correlation to the broader Consumer Price Index (CPI) and what the central bank wants to control as the labour market tightens. The U.S. Federal Reserve is experiencing a similar situation with wages rising 4.45% annualized in March as its jobless rate fell to a 17-year low of 3.9%. Ironically, central banks consider a healthy economy when consumers are spending, but preferably at a moderate pace.