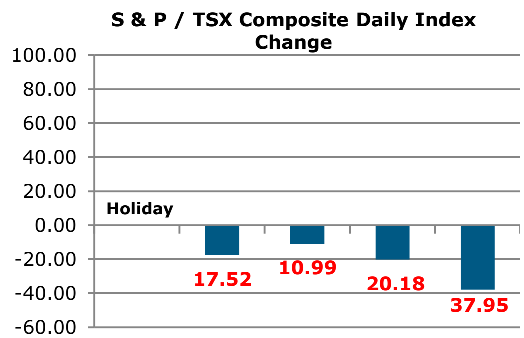
Credential

Market Insights | WEEKLY

Canadian Markets

For the week ending May 25, 2018

- **TSX retreats.** Downward pressure on energy stocks due to a sell-off in oil sent Canada's main equity index lower for the holiday-shortened week. Strong factory sales data helped minimize further losses due to consideration of increasing output by OPEC and non-OPEC members participation in current production cutbacks. On the close, the TSX ended at 16,076, a 0.5% decrease.
- **Dollar dips.** The Loonie was weakened on two fronts during the week—the decline in oil prices and potential U.S. auto tariffs (of which Canada is a major export of to the United States). Our currency fell to a two-week low as expectations are for the Bank of Canada to hold rates at their May meeting and remain cautious as trade uncertainty lingers. On the close, our Dollar lost 0.7% to finish at 77.08 U.S. cents.
- **Gold shines.** A decline in the U.S. dollar index and treasury yields boosted the precious metal following U.S. president Donald Trump's decision to cancel a planned historical meeting with North Korea in June. Gold had already been on a slight upward trajectory as the latest Fed minutes were released, indicating a likely June rate hike but less hawkishness thereafter. At week's end, gold closed at US$1,306.50 an ounce for a June contract, a gain of 1.2%.
- **Oil slips.** Despite the U.S. re-imposing economic sanctions against oil-producing Iran, providing a recent boost to crude prices, news of OPEC and Russia considering increasing output by as much as 1M barrels a day sent oil falling late in the week. This was the lowest the commodity has been for a month as the global supply nears OPEC targets and prices and are close to a three-year high. At the end of the week, the July contract on a barrel of WTI crude settled at US$67.50, a fall of 5.4%.
- **Wholesale sales jump.** Factory trade reversed February's declines on contributions from the auto and parts sectors. In March, wholesales sales receipts tallied $62.8B, a monthly increase of 1.1% as four of the seven sectors followed by Statistics Canada as volumes also rose 0.8%. Food and beverage was one of the big decliners for the month, falling for a second month in a row. For the quarter, wholesales sales increased 0.4% in constant dollar terms compared to Q4, the eighth straight quarterly gain.



Indices	Week	YTD
S&P/TSX Composite		
16,075.67	-86.64	-133.46
	-0.54%	-0.8%
Dow Jones Industrial Average		
24,753.09	38.00	33.87
	0.15%	0.1%
S&P 500		
2,721.33	8.36	47.72
	0.31%	1.8%
NASDAQ		
7,433.86	79.52	530.47
	1.08%	7.7%
Hang Seng Index		
30,588.04	-459.87	668.89
	-1.48%	2.2%
FTSE 100		
7,730.28	-48.51	42.51
	-0.62%	0.6%

Source: Bloomberg

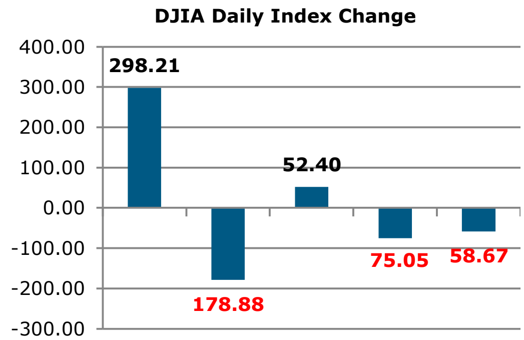
U.S. & International Markets

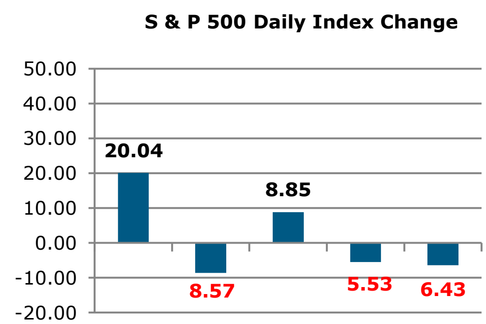
- **Nasdaq shines.** Despite a week full of geopolitical uncertainties, the U.S. stock market ended the week in the positive territory. All three major indices posted gains, with Nasdaq being the outperformer for the week. The broad-based S&P 500 index rose 0.3%, closing the week at 2,721. The Dow Jones Industrial Average gained 0.2%, ending the week at 24,753. The tech-heavy Nasdaq was the best performer among the three, gaining 1.1%, finishing the week at 7,434.
- **Fed less worried about inflation.** The Fed released its May meeting minutes. It showed that FOMC officials were less worried about inflation rising too quickly and were willing to let inflation stay above the 2% target for the time being. The minutes noted that "a temporary period of inflation modestly above 2 percent would be consistent with the committee's symmetric inflation objective and could be helpful in anchoring longer-run inflation expectations at a level consistent with that objective."
- **U.S. composite PMI rises.** Business activity in U.S. continued to expand in May. May's 'flash' IHS Markit composite purchasing managers' index (PMI) increased from April's final reading of 54.8 to 55.7, beating economists expected reading of 54.8. The manufacturing PMI advanced to 56.6 in May, up slightly from April's final reading of 56.5. The services PMI surged to 55.7, a three-month high, also exceeding forecasts of 54.6.

U.S. & International Markets cont'd

For the week ending May 25, 2018

- **U.S. durable goods orders drop.** Headline durable goods orders fell in April due to a tumble in transportation equipment orders. The Commerce Department reported that durable goods orders fell 1.7% in April, missing economists' expectation of a smaller fall of 1.2%. Orders for transportation equipment sank 6.1%. However, core capital goods orders, which excludes the volatile aircraft sector, jumped 1%, exceeding economists' forecast of a 0.7% increase.
- **U.S. consumer sentiment falls.** Consumer sentiment dropped in May, according to a survey by the University of Michigan. The university's consumer sentiment index fell from March's reading of 98.8 to 98.0 in April; economists were expecting the index to stay flat.
- **Housing News:**
  - **U.S. new home sales fall.** The Commerce Department reported that new home sales fell 1.5% to a seasonally adjusted annual pace of 662,000 units in April, down from March's pace of 672,000 units. Economists were expecting an annual pace of 677,000 units.
  - **U.S existing home sales drop**. Existing home sales declined more than expected in April according to the National Association of Realtors. Sales fell 2.5% to a seasonally adjusted annual pace of 5.46M units, missing economists expected pace of 5.60M units. On a year-over-year basis, existing home sales were down 1.4%.
- **Euro-zone composite PMI drops.** Business activity within the 19-country region slowed in May. The 'flash' composite purchasing managers' index (PMI) fell to 54.1 from April's final reading of 55.1, much lower than economists' expectations of a small dip to 55.0. It was the lowest reading in 18 months. The manufacturing PMI fell from 56.0 to 55.5; the services PMI went down from 55.0 in April to 53.9.
- **Japan's goods trade surplus drops.** Japan's trade surplus declined in April, but it was well above forecasts. April's trade surplus was reported to be ¥626B, down from March's figure of ¥797B; however, it exceeded economists' expectation of a ¥411B surplus by a wide margin. On a year-over-year basis, trade surplus was up 30.9%. Exports were up 7.8% on the year while imports were up 5.9%.
- **Japan's manufacturing PMI declines.** Manufacturing activity in Japan slowed down in May. The 'flash' Markit/Nikkei Japan manufacturing purchasing managers' index (PMI) fell to 52.5 in May, down from April's final reading of 53.8. It was the lowest level since August 2017.





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Key Take-Away

Oil's Slippery Slope. Recent reports has excess world supply of crude almost being alleviated. Current demand is expected to exceed supply as major oil producers Iran and Venezuela see their outputs fall because of economic sanctions. Remember a decade ago when prices hit an all-time high of US$141 per barrel only to see a deep global recession stifle demand, sending oil collapsing to a low of US$40 a barrel in late 2008? The commodity did manage to recover above the US$100 level but another steep decline sent prices falling below US$30. This was due in part to a slowing Chinese economy, whose demand waned, and other oil-producing nations, like Canada and the U.S., opting to increase their own domestic production to offset the impact of high prices on their economies. During this time, production remained high, resulting in worldwide inventories becoming over-supplied and creating the oft mentioned "global glut". Realizing this problem was not going to resolve itself, OPEC and non-OPEC members agreed to a collaborative agreement in 2016 to cut their production at the expense of some losing market share. Their efforts seemed to have paid off as global inventories are near their targets and prices have risen to a three-year high. The latest news that sent oil plunging lately was the possibility of OPEC and Russia considering increasing output by up to 1M barrels per day as the number of active oil rigs operating in the U.S. also rises. It's unlikely prices will decline precipitously but crude oil, the life blood of economies, will always be trying to find a balance on a slippery slope.