Credential

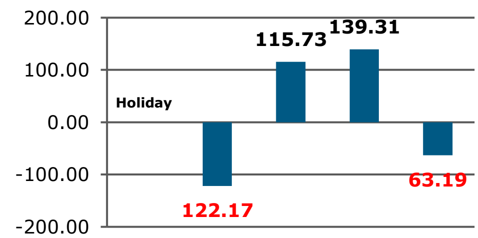
Market Insights | WEEKLY

Canadian Markets

For the week ending August 9th, 2019

- **TSX rises.** The S&P/TSX Composite was more resilient than its global equivalents in part to an economy that grew for a third straight month and a rally in gold prices due to its haven status. Even as uncertainty remains on trade, rising valuation on commodities and resources and a strong correlation to the U.S., our largest trading partner, the Index continues to push higher towards its all-time high set in April. On the close, the TSX ended at 16,341, higher by 0.4% for the week.
- **Loonie unchanged.** The Loonie that held its ground during a volatile week despite weakened oil and a rise in unemployment. Our dollar was able to gain back lost ground as calm returned to the market and investors left the safety of the U.S. greenback back into equities. At the close, the Loonie finished little changed at 75.63 U.S. cents.
- **Gold shines.** It was all about investors trying to find safety during the latest market rout and the yellow metal was the go-to asset. Gold had its best week since late June as negotiations between the U.S. and China have hit another bump in the road with U.S. imposing a 10% duty on US$300B of not-yet affected Chinese imports. At week's end, gold closed at US$1,496.95 an ounce for a December contract, a surge of 3.9%.
- **Oil slips.** Despite strong gains near the end of the week, the commodity slumped into bear territory following new tariffs on Chinese imports. With crude production already lower with Iran export sanctions and OPEC cuts, the latest volley by the U.S. towards China will prolong the trade wars and lessen energy demand. At the end of the week, a September delivery on a barrel of WTI crude settled at US$54.50, a loss of 2.1%.
- **Unemployment rises.** A decline in wholesale and retail positions, as well as in transportation, pushed the national jobless rate higher in July to 5.7%, up from June's 5.5%. This is the highest the reading has been since April. The economy shed 24,200 jobs during the month led by a decrease in both part-time and full-time jobs by 12,600 and 11,600, respectively. Geographically, noticeable changes had declines in Alberta (-14,000) and Nova Scotia (-6,200), while gains were posted in Québec (+17,000) and P.E.I (+1,000). The participation rate fell a notch to 65.6% for the month.
- **Manufacturing activity rises.** For the first time in four months, activity in factories grew in July after touching a three-and-a-half year low. IHS Markit Canada's manufacturing index registered 50.2 following June's 49.2 reading. Improvements were seen in new orders and output declined at a slower pace as the manufacturing sector continued to be concerned with demand due to trade rifts and weakening global growth.
- Canada housing news:
  - **New home prices lower.** The price of a new home fell 0.1% in June for a second consecutive month of declines, missing forecasts of no change, as blame was placed on a softening housing market. Prices were higher in the Gatineau (+1%), Hamilton (+0.7%), and Ottawa (+0.6%) regions due to higher construction and labour cost but were down 1% in Calgary. On a year-over-year basis, new housing prices are down 0.2%, below expectations of a 0.1% drop.
  - **Housing starts fall.** A decline in multi-unit dwellings befell housing start data in July compared to the previous month. On an annualized basis, 222,013 units broke ground, down 9.6% from June but ahead of forecasts of 203,500 units. Apartments and condominium starts fell 12% while detached homes dropped 4.6%.
  - **Building permits drop.** Less interest in future construction saw the value of building permits decline 3.7% to $8B in June. Expectations were for a 1.5% increase as demand for multi-unit complexes (-6.7%) and commercial structures (-1.1%) fell, as reported by Statistics Canada. Provincially, Alberta led six provinces that fell during the month responsible for over 30% of the declines.

S&P/TSX Composite Daily Index Change



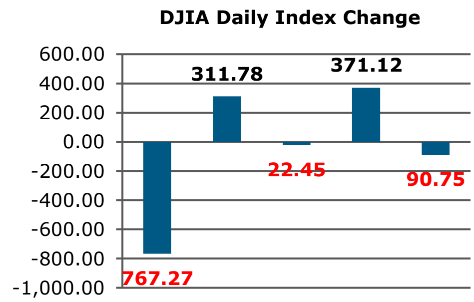
Indices	Week	YTD
S&P/TSX Composite		
16341.34	69.68	2,018.48
	0.43%	14.09%
Dow Jones Industrial Average		
26287.44	(197.57)	2,959.98
	-0.75%	12.69%
S&P 500		
2918.65	(13.40)	411.80
	-0.46%	16.43%
NASDAQ		
7959.14	(44.93)	1,323.86
	-0.56%	19.95%
Hang Seng Index		
25939.3	(979.28)	93.60
	-3.64%	0.36%
FTSE 100		
7253.85	(153.21)	525.72
	-2.07%	7.81%

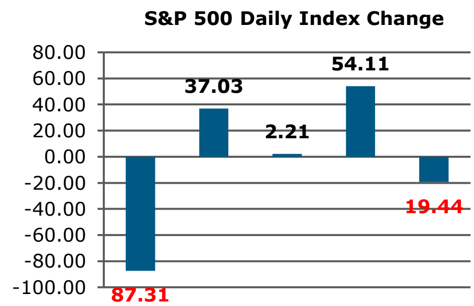
Source: Bloomberg

U.S. & International Markets cont'd

For the week ending August 9th, 2019

- **Volatile week on Wall Street.** The U.S. stock market saw one of the most volatile weeks this year. The stock market suffered its worst trading day in 2019 on Monday after China showed signs of letting its currency depreciate below a key psychological level to offset the tariffs Donald Trump had been imposing. All three major stock indices were deeply in the red on Monday. However, the market clawed back strongly toward the end of the week thanks to better than expected export data out of China. Despite all three indices ending in the negative for the week, they recouped almost all the losses suffered on Monday. The broad-based S&P 500 fell 0.5% for the week, closing below the 3000-level at 2,919. The Dow Jones Industrial Average lost 0.8%, ending the week at 26,287. The tech-heavy Nasdaq was once down more than 4% on Monday but closed the week down only 0.6% at 7,959.
- **ISM non-manufacturing index slows.** U.S. services sector growth slumped to the weakest level since 2016, according to the Institute for Supply Management (ISM). July's ISM non-manufacturing index fell to 53.7 from June's reading of 55.1, missing economists' expected reading of 55.5. The index was at its lowest level in three years. In a separate report, the IHS Markit services PMI rose from 51.5 to 53.0, beating economists' expectation of 52.2.
- **Eurozone composite PMI falls.** Overall business activity within the 19-member region continued to cool in July. The IHS Markit composite purchasing managers' index (PMI) fell from June's reading of 52.2 to 51.5, in line with forecasts. The manufacturing PMI slid to 46.5 from 47.6, indicating that the sector remained in contraction territory. The services sector PMI fell from 53.6 to 53.2, missing economists' estimate of 53.3.
- **Japan Q2 GDP grows more than expected.** Japan's economy expanded more than expected in Q2. Government data showed that the world's third largest economy's GDP grew by 0.4% in Q2, beating economists' expectation of 0.1% growth. On an annualized basis, Q2 GDP grew by 1.8%. Some economists said that the better than expected growth in Q2 would give Prime Minster Abe the confidence to increase the consumption tax from 8% to 10% in October.
- **China's consumer inflation rises.** A surge in food prices pushed up consumer inflation in China. The National Bureau of Statistics reported that the consumer price index (CPI) rose 2.8% in July on a year-over-year basis; economists were expecting an increase of 2.7%. A 9.1% jump in food prices was the major driver of the increase. In the same report, the producer price index fell 0.3% on the year, compared to the 0.1% decline expected by economists.





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Key Take-Away

Round Three. With no warning, the truce between the U.S. and China during their ongoing trade battle was over as the Trump Administration announced another round of tariffs on Chinese imports on August 1. At stake is the remaining US$300B of goods that will be subject to a 10% levy effective September 1; that is in addition to the US$250B with 25% tax already imposed. Not one to sit idly by, China retaliated by reportedly suspending tariff exemptions on U.S. agricultural imports and instructed state-owned companies to stop purchasing U.S. farm products. However, even more concerning is China's willingness to let its currency fall below the psychological seven yuan per U.S. dollar level—immediately making Chinese goods cheaper to purchase—for the first time in almost a decade. Global markets reacted as expected and reeled lower on the news as the bilateral trade dispute continued to have collateral disruption in surrounding regions and weakening global economic growth, which is already seen in Eurozone and, ironically, in the U.S. and China. For the first five trading days in August, the broad S&P 500 index was down 3.3%, with oil falling harder dropping 12.8%. In Canada, the impact was not as severe, perhaps buffered by the Civic Holiday, with the S&P/TSX Composite dropping 0.9% and our dollar dipping only 1.2%. Calm should return to the markets as it has in the past, but the dynamics of the global trade environment has changed to the point where there are no winners.