Credential

Market Insights | MONTHLY

Month in Review

For the month ended August 31st, 2015

Overall Highlights

- **S&P/TSX tumbles.** The S&P/TSX Composite Index took a dive in August. The main index for the Canadian stock market dropped 4.2% or 609 points for the month, closing at 13,859. Concerns about a potential slowdown in China and stubbornly low oil prices seemed to be shaking the confidence of Canadian investors. The industrials and consumer discretionary sector were hit hard during the month, losing 8.1% and 7.0% respectively.
- **Volatile month for Wall Street.** The U.S. market experienced what might be some of the most volatile trading sessions in recent years. Wall Street suffered its worst day in four years on August 24; the Dow Jones Industrial Average was, at one point, down more than 1,000 points. In addition to the volatility, it was also a bad month for stock investors. The Dow Jones Industrial Average posted a loss of 6.6% or 1,162 points, closing at 16,528. S&P 500 lost 6.3% or 132 points to end the month at 1,972; YTD return also turned negative this month. Nasdaq was hit the hardest, posting a negative return of 6.9% or a loss of 352 points, ending the month at 4,777.
- **Gold bounces.** After falling for seven consecutive weeks, the price of the yellow metal got a bounce after the first week of August. The devaluation of the Chinese currency and uncertainty around the timing of the much-anticipated Fed rate hike triggered some fears in the market, possibly leading to some flight to safety to gold. Gold price increased by US$39.1 or 3.6% for the month, ending the month at US$1,134.10.
- **Volatile month for oil.** Oil had a very dramatic month in August. The price of a barrel of West Texas Intermediate (WTI) dropped in the first three weeks of August. The price of WTI dropped below US$40 near the end of the month. However, the price of WTI had its biggest three-day rally in 25 years in the last three trading days, surging 27% in a three-day span. Because of this dramatic surge, WTI price ended the month at US$48.11, up 2.1% or US$1.
- **Loonie drops.** Our dollar touched an 11-year low in August due to concern about the health of the Canadian economy. It bounced back modestly near the end of the month but was still lower than the previous month. The Loonie ended the month down 39/100ths of a US cent or 0.5% to close at US$76.01 cents per Canadian dollar.
- **Unemployment unchanged.** The jobless rate in Canada was unchanged in July as the economy added 6,600 jobs for the month. Unemployment remained at 6.8% for a sixth straight month as part-time positions outpaced declines in full-time jobs. Québec and Nova Scotia were the big contributors nationally while Saskatchewan led all decliners with 7,500 jobs, mostly part-time positions. The participation rate, the number of employed relative to the total number of eligible workers, remained relatively steady at 65.7, down a notch from June's 65.8.
- **Inflation up.** The cost of a notional basket of goods rose in July despite lower energy costs. For the month, CPI was 0.1% on the backs of higher cost of vehicles and food products. For the year, annual inflation jumped to 1.3% from 1.0% in June, which was in line with expectations. Core inflation was unchanged on a monthly basis in July, but annualized rose 0.1% to 2.4%.
- **U.S.'s second quarter GDP revised higher.** The world's largest economy seemed to fare way better than expected in the second quarter. The Commerce Department released its second estimate of the second quarter U.S. GDP figure. The gauge of the health of the U.S. economy was revised from the first estimated 2.3% to 3.7%, beating economists' estimate for a revision to 3.2%.
- **Unemployment remains low. U.S.** Unemployment remained at its seven-year low level in July, one of the many positive signs recently pointing towards the Fed being likely to raise its benchmark interest rates soon.
- **China cuts rates and reserve ratio.** In an attempt to support the slowing-down economy and a diving stock market, China's central bank made another aggressive move on its monetary policy. The People's Bank of China (PBOC) cut both the one-year benchmark lending and deposit rate by 25 bps. It also reduced the reserve requirements ratio (RRR) by 50 bps to 18% for most big banks.

Index/Commodity/Currency		
Close	**Month Change**	**YTD Change**
S&P/TSX Composite		
13,859.12	-609.3	-773.3
	-4.2%	-5.3%
BMO Nesbitt Burns Small Cap		
687.96	-17.5	-65.9
	-2.5%	-8.7%
Dow Jones Industrial Average		
16,528.03	-1,161.8	-1,295.0
	-6.6%	-7.3%
S&P 500		
1,972.18	-131.7	-86.7
	-6.3%	-4.2%
NASDAQ Composite		
4,776.51	-351.8	40.5
	-6.9%	0.9%
MSCI-EAFE Index		
1,736.81	-142.9	-38.1
	-7.6%	-2.1%
WTI Crude Oil (per barrel, in $US)		
48.11	1.0	-5.4
	2.1%	-10.2%
Gold (per ounce, in US$)		
1,134.10	39.1	-49.4
	3.6%	-4.2%
Canadian Dollar (¢ per US$)		
76.01	-0.4	-10.2
	-0.5%	-11.8%

Sources: Bloomberg, PC Bond

Canadian Markets

- **Unemployment unchanged.** The jobless rate in Canada was unchanged in July as the economy added 6,600 jobs for the month. Unemployment remained at 6.8% for a sixth straight month as part-time positions outpaced declines in full-time jobs. Québec and Nova Scotia were the big contributors nationally while Saskatchewan led all decliners with 7,500 jobs, mostly part-time positions. The participation rate, the number of employed relative to the total number of eligible workers, remained relatively steady at 65.7, down a notch from June's 65.8.

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- **Canada PPI rises.** Canada's producer price index (PPI) rose in July by 0.7%, beating economists' expectations for a flat reading. On a year-over-year basis, the index gained 0.1% in July, the first year-over-year advance in seven months. Despite a slump in energy and material prices, industrial product price posted a 12-month gain of 3.8%, the largest increase in four years.

- **Wholesale sales up.** After five months of decline, the wholesale trade posted a surprise increase of 1.3% in June to seasonally adjusted sales of $55.3B. Forecasts had called for an increase of 1% from May. Pharmaceuticals led all sectors with a 3.8% rise, followed by technology and telecom at 3.6%, and autos at 3%. Excluding the volatile auto sector, sales would have risen only 0.9%. This provided some good news for the Canadian economy that has been battered by low commodity and resource prices prompting interest rate action by the Bank of Canada. On a volume basis, sales were higher for the month by 1.1%.

- **Manufacturing sales up.** Factories were busier in June, as sales rose 1.2% in June from 0.2% (revised) in May to $50.8B, the second straight month of gains. Expectations had called for an increase of 2.1%. This bodes well for the Bank of Canada, which is hoping exports can help revive the economy due to lagging oil. Of the 21 sectors trace, 18 rose higher led by a 5.4% gain in chemical products and 4.2% in autos. Volumes were also higher, rising 0.5% for the month following a similar decline in May.

- **Manufacturing PMI falls.** Manufacturing conditions continued to worsen in the month of July led by improved exporting activities. The overall PMI for the month fell to 50.8 from a six-month high of 51.3 in June, indicating a slower pace than anticipated. However, the outlook for the second half looks more promising as the strength of the U.S. economy and lower Canadian dollar should further improve business conditions and exports.

- **Retail sales higher.** Higher prices were the main reason for June's rise as the value of sales increased 0.6% to $43.2B on a seasonally adjusted basis. Gasoline and electronics were the sectors with the biggest gains of 2.6% and 9.4%, respectively, while cars, their parts, and clothing declined the most by 0.1% and 0.4%, respectively. On a volume basis, which is considered a better measure of retail activity was unchanged for the month.

- **Housing news:**

  - **Starts lower.** The number of new constructions breaking ground slipped in July, as starts fell to 193,032 units compared to the previous month's 202,338 units. Analysts were forecasting 195,000 units for the month. Single family dwellings fell 0.8%, as reported by CMHC, while condominiums and apartments fell more steeply by 8.2%. B.C. was the only province seeing gains, while the rest of Canada saw declines.

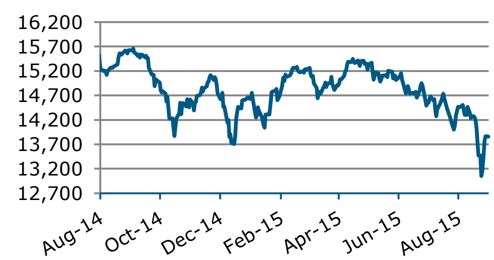
  - **New home prices higher.** The price of a new home continued to rise higher, led by the Toronto market. For the month of June, StatsCan's index rose 0.3% in June on a monthly basis, topping economists' 0.1% increase, which became the largest jump since August 2014. The market environment, higher costs of materials, labour, and land development were all reasons for this increase. On an annualized basis, prices have risen 1.3%.

  - **Permits jump.** The value of building permits in June beat forecasts, climbing 14.8%, with most of the permits being allocated to multi-unit homes. Estimates called for a 5% increase in the month. Overall, residential and commercial intents rose equally, but condos and apartments rose an explosive 36.9%. On an annualized basis, building permit values have declined 3.8%.

S&P/TSX Composite Index
Sector Snapshot

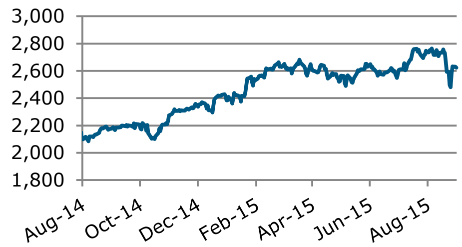
Sector	Month Return	YTD Return	Weight (%)
Energy	-3.29	-16.00	19.50
Telecoms	-2.08	0.72	5.20
Industrials	-8.06	-11.98	7.90
Consumer Staples	-2.31	7.68	4.20
Utilities	-1.81	-5.70	2.20
Financials	-3.74	-5.71	35.70
Consumer Discretionary	-7.04	2.07	6.90
Health Care	-8.85	70.81	6.00
Materials	-2.36	-16.99	9.60
Information Technology	-2.32	7.10	2.80

S&P/TSX Composite - 1Y Return

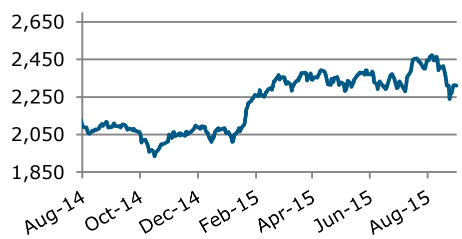


U.S. Markets

S&P 500 - 1Y Return (CAD)



MSCI EAFE – 1Y Return (CAD)



- **Volatile month for Wall Street.** The U.S. market experienced what might be some of the most volatile trading sessions in recent years. Wall Street suffered its worst day in four years on August 24; the Dow Jones Industrial Average at one point was down more than 1,000 points. In addition to the volatility, it was also a bad month for stock investors. The Dow Jones Industrial Average posted a loss of 6.6% or 1,162 points, closing at 16,528. S&P 500 lost 6.3% or 132 points to end the month at 1,972; YTD return also turned negative this month. Nasdaq was hit the hardest, posting a negative return of 6.9% or a loss of 352 points, ending the month at 4,777.
- **U.S.'s second quarter GDP revised higher.** The world's largest economy seemed to fare way better than expected in the second quarter. The Commerce Department released its second estimate of the second quarter U.S. GDP figure. The gauge of the health of the U.S. economy was revised from the first estimated 2.3% to 3.7%, beating economists' estimate for a revision to 3.2%.
- **Unemployment remains low.** U.S. unemployment remained at its seven-year low level in July, one of the many positive signs recently pointing towards the Fed being likely to raise its benchmark interest rates soon. July's unemployment rate remained consistent with June's 5.3% and very close to the 5%-5.2% range that the Fed deems full employment for the economy.
- **U.S. CPI up.** The Labor Department reported that the Consumer Price Index (CPI) edged up 0.1% in July, marking the gauge's sixth straight month of increase. The 0.1% increase was below economists' estimate for an increase of 0.2%. Compared to a year ago, the CPI was up by 0.2%. The so-called Core CPI, which excludes food and energy costs, was up 0.2% month-over-month and was up 1.8% year-over-year.
- **U.S. PPI rises.** Producer prices rose for the third straight month in July. The Labor Department reported that the producer price index (PPI) increased 0.2% in July compared to a 0.4% increase in June. Year-over-year, however, PPI dropped by 0.8% in July, after a similar decline of 0.7% in June. Economists estimated the PPI to rise 0.1% month-over-month and to fall 0.9% year-over-year.
- **Fed sees rate-raising conditions approaching.** In the minutes of the July 28-29 Federal Open Market Committee, Fed officials believed that the conditions for raising interest rates are approaching, but they would need to see further improvement in the labour market and have more confidence that inflation is moving toward their 2% target. The U.S. labour market has been robust, but inflation has been subdued due to low energy prices. A survey taken between August 7-12 indicated that 77% of economists expected the Fed to announce rates hike in the September meeting.
- **U.S. durable goods orders increases.** Orders for long-lasting manufactured goods rose in July by 2% after a 4.1% increase in June; economists expected a drop of 0.4% in July. The co-called core capital goods orders, excluding transportation equipment, increased by 2.2% in July, handily beating economists' estimate for a rise of 0.4%. The better than expected figure indicated businesses had confidence about the economy and were willing to deploy capital.
- **Factory orders rise.** New orders for U.S. factory goods rose strongly thanks to a surge in demand for transportation equipment. The Commerce Department reported new orders for factory goods increased by 1.8% in June, after a drop of 1.1% in May. Orders for transportation equipment provided the boost by surging 9.3% in June. A strong U.S. dollar and sluggish global demand had been seen as the drag on demand for manufactured goods.
- **U.S. 'flash' manufacturing PMI falls.** The U.S. 'flash' manufacturing Purchasing Managers' Index (PMI) reported by Markit fell to 52.9 in August, missing economists' forecast for a reading of 54.0. It was also the lowest reading since October 2013. It is believed that the strong U.S. dollar put pressure on exporters. Concerns over the health of the global economy also affected the sector negatively.
- **Wholesale inventories rise.** The Commerce Department reported wholesale inventories increase 0.9% in June, compared to a rise of 0.6% in May. Economists expected the gauge to increase by 0.4% only. One of the main contributors to the rise was the increase in oil price which gave the value of petroleum stocks a boost.
- **U.S. service sector shines but manufacturing disappoints.** The Institute for Supply Management (ISM) reported its service sector index rose to 60.3 in July, the highest reading in 10 years. July's reading also handily beat economists' forecast for a reading of 56.2. In contrast, the manufacturing sector showed some weakness. July's manufacturing PMI came in at 52.7, down from June's 53.5 which was also economists' forecast.
- **Retail sales rebound.** After posting zero growth in June, retail sales growth had a nice rebound in July, thanks to strong automobiles sales. Retail sales increased by 0.6% in July, led by a 1.4% increase in automobiles sales, which was in line with economists' forecast. The so-called core retail sales, excluding automobiles, gasoline, building materials, and good services, rose 0.3% after a 0.2% rise in June.
- **U.S. consumer spending rises.** Consumer spending rose in July, thanks to a strong month in the auto sector. Consumer spending, which accounts for two-thirds of U.S. GDP, rose 0.3% in July, slightly missing economists' forecast for a rise of 0.4%. The automobiles sales posted a strong July with a 1.1% increase from the previous month, reversing June's drop of 1.1%.U.S.
- **U.S. housing news:**
    - **Housing starts rises.** Housing starts increased 0.2% to a seasonally adjusted annual pace of 1.21 million units in July, beating economists' forecast for an annual pace of 1.19 million units. July's number was also the highest level since October 2007 and was the fourth straight month the gauge was above one million units.
    - **Building permits fall.** In contrast, building permits fell 16.3% in July to a 1.12 million-unit pace, worse than economists' expectation for a pullback of 8.4%. Single-family permits dipped 1.9% while multi-family permits tumbled 31.8%.
    - **U.S. home prices growth remains flat.** The S&P/Case Shiller Home Price Index rose 4.5% in the 12 months ended in June, almost unchanged from May's growth of 4.4%. The 20-city index, which tracks the 20 major cities in U.S., was reported to grow by 5%, on par with economists' forecast.
    - **New home sales increases.** The Commerce Department reported that new single-family home sales rose by 5.4% in July to a seasonally adjusted annual pace of 507,000 units, slightly less than economists' forecast for a pace of 510,000. Supply in the market increased by 1.9% to 218,000 units in July, the highest level since March 2010, but it was still less than half of the quantity available during the height of the housing boom.

European Markets

- **Euro-zone's economy grows, inflation stalls.** GDP of the 19-member bloc grew by 0.3% quarter-over-quarter and 1.2% year-over-year in Q2. Economists expected the GDP to grow by 0.4% quarter-over-quarter and 1.3% year-over-year. Annual inflation rate reported for July was unchanged from June, staying at 0.2%, still far off the 2% target set by the ECB.

- **Euro-zone manufacturing continues to expand.** Despite weakness in Greece, the Euro-zone's manufacturing activity remained in expansion mode. The manufacturing purchasing managers' index (PMI) dropped slightly to 52.4 from June's 14-month high of 52.5 but still beat economists' forecast of 52.2. Greece's manufacturing PMI dropped to its lowest level on record to 30.2 amid the debt crisis it is currently fighting.

- **Greece stock market tumbles.** Investors holding Greece stocks chose to sell their holdings after the exchange reopened for the first time since late June on August 3. The selling waves sent the ASE index tumbling 16% on the day, the largest one-day decline since 1987. Eleven out of the sixty companies in the ASE index fell more than 29%, and financial stocks account for more than half of them. Capital controls implemented last month also added fuel.

- **Greece and lenders agree to bailout.** Greece and its lenders finally agreed to a bailout deal after long discussions. The size of the bailout agreement was approximately $85B Euro. The Euro-zone finance ministers approved the deal in order for Greece to make a crucial payment to the ECB that was due on August 20.

- **Tsipras calls for election.** Just elected back in January this year, Greece's Prime Minster Alexis Tsipras called for an election. After securing the Greece's third bailout with the Euro-zone countries, Mr. Tsipras claimed that he had the 'moral duty' to go to the polls. When elected in the first place, Tsipras' mandate was to fight against austerity measures imposed on Greece by its creditors, a main reason he was chosen as prime minister. This time around, his mandate is to help Greece get through the financial crisis, including deep spending cuts and tax increases. Despite the already-agreed-upon bailout agreement, the timing of the event added some uncertainties to the still-fragile Euro-zone.

Asian Markets

- **China cuts rates and reserve ratio.** In an attempt to support the slowing-down economy and a diving stock market, China's central bank made another aggressive move on its monetary policy. The People's Bank of China (PBOC) cut both the one-year benchmark lending and deposit rate by 25 bps. It also reduced the reserve requirements ratio (RRR) by 50 bps to 18% for most big banks.

- **China 'flash' manufacturing PMI disappoints.** The Caixin/Markit China 'flash' manufacturing Purchasing Managers' Index (PMI) fell to 47.1 in August, a drop from July's final reading of 47.8 and was below economists' forecast for a reading of 47.7. August's reading was the worst since March 2009 and was the sixth straight month that the gauge of manufacturing activity was below the 50-point level.

- **China shocks the currency world with devaluation.** China decided to devaluate its currency after a recent string of poor economic data. On August 11, the central bank set the official guidance rate down by 2% to 6.2298 yuan per U.S. dollar, the biggest one-day fall since 1994. Yuan dropped another 2% the next day on Wednesday. Economists deemed the dramatic move a reversal of a strong-yuan policy that aimed to boost local consumption and investments abroad.

- **Japan's economy shrinks.** Japan's economy contracted by an annualized pace of 1.6% in Q2, due to a slowdown in exports and reduction in consumer spending. The fall was slightly better than the -1.9% economists estimated, but was a blow to Abe's administration as it tries to stimulate the economy. Private consumption slumped 0.8% from the previous quarter, the first decline since Q2 2014. Exports also fell 4.4% from the previous quarter.

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