Credential

# Market Insights | MONTHLY

## Month in Review

For the month ended October 31st, 2016

### Overall Highlights

- **S&P/TSX gains.** Canada's main equity index was able to net a monthly gain on the backs of positive economic data reported during the month. However, weakness in commodities and resources limited the Composite from rising higher as the TSX closed at 14,787, a 0.4% increase for the month. Adding to the volatility seen in October were the events of the U.S. elections and talks of a rate hike by the Federal Reserve.
- **Loonie falls.** The Loonie lost ground against its U.S. counterpart as energy and resources retreated from recent highs. Our dollar's woes were also caused by modest economic growth prompting rumours of a possible rate cut by the Bank of Canada to stimulate the economy. For October, one Canadian dollar was worth US74.57 cents, a 2.1% decline from September's month end.
- **Gold drops.** The increasing possibility of a rate hike by the Feds took a toll on the precious metal, sending it down 3.1% to end the month at US$1,277.80 per ounce. As well, the tight race for the U.S. presidency added uncertainty to the markets sending investors towards the safe-haven asset.
- **Oil lower.** After touching the psychological $50 level (fueled by a possible OPEC agreement to limit output), West Texas Intermediate (WTI) crude settled down and closed lower during the month. On the close, oil fell to US$46.76 a barrel, a loss of 2.6%. Rising U.S. stockpiles in its reserves also sent oil lower as the global glut persists.
- **No change in rates.** At their latest policy meeting, Governor Stephen Poloz and the Bank of Canada held its benchmark rate at their current low of 0.5%, in line with analysts' expectations.
- **Inflation higher.** Consumers had to pay more in September as the annual inflation rose to 1.3% from 1.1% in August.
- **Unemployment rate unchanged.** Employers were in a hiring spree as the economy added 67,000 jobs in September, rocketing past the marginal increase forecasted by economists.
- **Retail sales fall.** Fewer auto purchases impacted retail sales as a slight decline was seen in August.
- **U.S. Q3 GDP grows more than expected.** The Commerce Department released its first estimate of the Q3 GDP, and the growth was better than expected by economists.
- **Fed minutes show that rate hike is likely to come soon.** According to the Fed's September meeting minutes, the long-awaited rate hike is coming soon.
- **Euro-zone Q3 GDP grows.** Economic activity within the 19-member region continued its steady growth in the 3rd quarter despite the presence of Brexit.
- **ECB keeps interest rate unchanged.** As a widely expected decision, the ECB decided to stay its course.
- **Japan's consumer prices continue to fall.** Consumer inflation remained sluggish in Japan, according to the latest data.
- **China's trade growth underperforms.** Disappointing trade activity in September brought back concern about the health of the world's second largest economy.

| Index/Commodity/Currency | | |
|---|---|---|
| **Close** | **MonthChange** | **YTDChange** |
| **S&P/TSX Composite** | | |
| 14,787.27 | 61.4 | 1,777.3 |
| | 0.4% | 13.7% |
| **BMO Nesbitt Burns Small Cap** | | |
| 837.48 | -16.9 | 187.3 |
| | -2.0% | 28.8% |
| **Dow Jones Industrial Average** | | |
| 18,142.42 | -165.7 | 717.4 |
| | -0.9% | 4.1% |
| **S&P 500** | | |
| 2,126.15 | -42.1 | 82.2 |
| | -1.9% | 4.0% |
| **NASDAQ Composite** | | |
| 5,189.13 | -122.9 | 181.7 |
| | -2.3% | 3.6% |
| **MSCI-EAFE Index** | | |
| 1,665.72 | -36.0 | -50.6 |
| | -2.1% | -2.9% |
| **WTI Crude Oil** (per barrel, in $US) | | |
| 46.76 | -1.2 | 9.7 |
| | -2.56% | 26.1% |
| **Gold** (per ounce, in US$) | | |
| 1,277.80 | -41.0 | 217.3 |
| | -3.1% | 20.5% |
| **Canadian Dollar** (¢ per US$) | | |
| 74.57 | -1.6 | 2.4 |
| | -2.1% | 3.3% |

Sources: Bloomberg, PC Bond

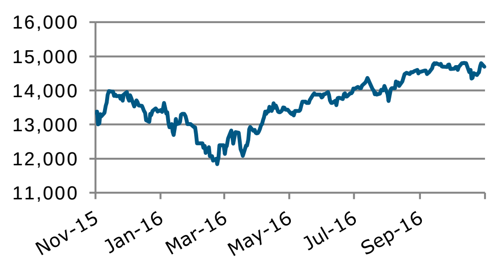
# Canadian Markets

- **No change in rates.** At their latest policy meeting, Governor Stephen Poloz and the Bank of Canada held its benchmark rate at their current low of 0.5%, in line with analysts' expectations. The dovishness set the tone of the Bank's positioning to keep future rates hikes as an option, if the need were to ever occur. At the same meeting, the BoC lowered its growth forecasts for the economy to 1.1% in 2016 on softness in Canadian exports.
- **Inflation higher.** Consumers had to pay more in September as the annual inflation rose to 1.3% from 1.1% in August. All eight CPI components tracked rose during the month led by housing and transportation costs, higher by 1.7% and 2.3%, respectively. Expectations were for an increase to 1.0% annually. Core inflation was on par at 1.8%. On a monthly basis, inflation edged higher by 0.1% from a month earlier.
- **Unemployment rate unchanged.** Employers were in a hiring spree as the economy added 67,000 jobs in September, rocketing past the marginal increase forecasted by economists. Despite the largest labour addition since early 2012, the jobless rate was unchanged at 7%. Most of the new hirings were part-time positions, which almost doubled full-time hires. Self-employment rose by 50,000 as the participation rate rose slightly to 65.7% from 65.5% in August.
- **PPI gains.** Producer prices rose in September on higher automobile and energy input costs. For the month, PPI rose 0.4%, doubling forecasts, as 15 of the 21 commodity groups tracked rose, while annually, PPI is down 0.5%. The fall in the Canadian dollar was partly to blame for the increase, especially in the auto sector since those products are priced in U.S. dollars.
- **Wholesale sales surge.** Machinery, equipment, and miscellaneous sectors helped lead intermediary sales in August, marking a fifth straight month of increases. For the month, sales were 0.8% higher than the month previous as wholesalers added to their inventories - likely in preparation for the upcoming holiday season. Most of the activity in sales was driven by increased activity in the services sector, which accounts for about two-thirds of Canada's GDP.
- **Manufacturing sales rise.** Positive news in the manufacturing sector as sales handily beat earlier estimates in August. For the month, sales rose 0.9% to $51.1B as increased demand for food, petroleum, and coal products led all categories. The upward momentum is expected to continue as robust U.S. growth fuels demand for Canadian products.
- **Manufacturing PMI falls.** Manufacturing health fell to a seven month low in September suggesting the sector is continuing to struggle to gain growth traction. For the month, the RBC index fell to 50.3 from 51.1 in August. Weakness in new orders and export orders was the main reason for the decline.
- **Retail sales fall.** Fewer auto purchases impacted retail sales as a slight decline was seen in August. With 11 of the 17 industries tracked, receipts were 0.1% lower to a seasonally adjusted $43.9B, as reported by Statistics Canada. Predictions were for a 0.3% gain during the month that would have been spurred by post-wildfires re-building and new child benefit payments.
- Canada Housing News:
    - An increase in the commercial and industrial sector helped drive **building permits higher** by $7.3B in August, a 10.4% rise from the previous month. The largest increases were seen in multi-family dwellings, which rose 14.7%, and non-residential structures, higher by 11.6%. **Home starts unexpectedly rose** in September driven higher by single and multi-unit homes, 14% and 22%, respectively. For the month, CMHC reported 221,000 starts against 184,000 in August. **Existing home sales increased** in September by 0.8% compared to a month earlier and 4.2% from a year ago. Most of the activity was in Toronto, up by 3.8%, while in Vancouver sales were down 2.1%. **Home prices climb** nationally by 0.8%, as reported by a Teranet-National Bank index, and higher by 11.7% from the same time last year.

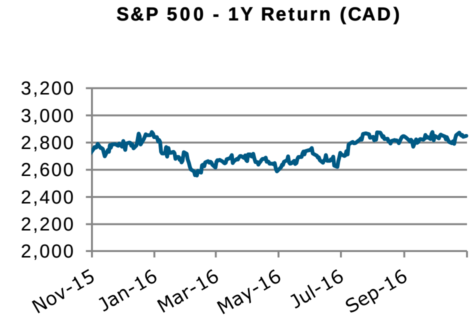
**S&P / TSX Composite Index Sector Snapshot**

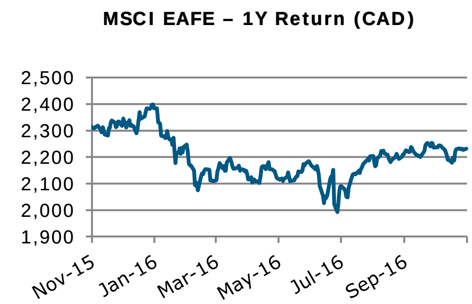
| Sector | Month Return | YTD Return | Weight (%) |
|---|---|---|---|
| Energy | 0.78 | 24.45 | 20.80 |
| Telecoms | -0.23 | 14.01 | 5.20 |
| Industrials | -0.29 | 14.76 | 8.80 |
| Consumer Staples | 1.80 | 10.08 | 4.20 |
| Utilities | 1.30 | 15.83 | 3.00 |
| Financials | 2.15 | 10.25 | 33.60 |
| Consumer Discretionary | -2.35 | 4.59 | 5.20 |
| Health Care | -17.82 | -75.36 | 0.60 |
| Materials | -0.98 | 47.18 | 12.90 |
| Information Technology | -1.35 | 3.72 | 2.80 |

**S&P / TSX Composite - 1Y Return**



# U.S. Markets




- **U.S. market slides.** U.S. stock markets declined in October, given the uncertainties around the upcoming U.S. election - which provides no shortage of storylines. The broad-based S&P 500 index fell 1.9%, ending October at 2,126. The Dow Jones Industrial Average gave back 0.9% during the month, closing at 18,142. Nasdaq was the biggest loser, posting a loss of 2.3%, ending at 5,189.
- **U.S. Q3 GDP grows more than expected.** The Commerce Department released its first estimate of the Q3 GDP, and the growth was better than expected by economists. The economy was reported to be growing at a 2.9% annual rate in the third quarter after rising at a 1.4% pace in the second quarter, better than economists' forecast of 2.5%. It was the strongest growth pace since the third quarter of 2014.
- **U.S. CPI increases.** Consumer prices continued to climb in September. The Labor Department reported that its Consumer Price Index (CPI) moved up 0.3% month-over-month in September, in line with economists' estimate. Year-over year, CPI accelerated by 1.5%, the biggest increase since October 2014. Core CPI, which strips out food and energy prices, rose 0.1% in September. Year-over-year, core CPI dropped slightly to 2.2% from August's pace of 2.3%.
- **U.S. economy creates 156,000 jobs.** The U.S. job machine continued to pump out jobs, although fewer than economists' had expected; 156,000 jobs were created in September, less than economists' forecast of 172,000 new jobs. Unemployment ticked up slightly to 5%, but was most likely due to an increase in participation rate to 62.9%.
- **Fed minutes show that rate hike is likely to come soon.** According to the Fed's September meeting minutes, the long-awaited rate hike is coming soon. Minutes from the September 20-21 meeting stated that "Several members judged that it would be appropriate to increase the target range for the federal funds rate relatively soon if economic developments unfolded about as the committee expected." Market participants generally believed that the rate hike will come in December as November's Fed meeting will happen just before the U.S. election.
- **U.S. 'flash' manufacturing PMI increases.** Manufacturing activity in the U.S. unexpectedly improved in October, according to the Markit's 'flash' manufacturing purchasing managers' index (PMI). The preliminary gauge of manufacturing activity in U.S. advanced to 53.2 in October from September's final reading of 51.5.
- **U.S. 'flash' services PMI surges**. The U.S. services sector showed some momentum in October, according to Markit's 'flash' services PMI. The 'flash' services sector purchasing managers index (PMI) was reported to be 54.8 in October, a jump from September's final reading of 52.3. The reading was the highest in 11 months.
- **U.S. industrial production rises.** Industrial production edged up in September, thanks to a rebound in manufacturing output. The Federal Reserve reported that industrial output moved up 0.1% in September, after a 0.5% decline reported in August. The rise was in line with economists' expectations. The industrial sector had been held back by a strong U.S. dollar and low oil prices.
- **U.S retail sales rises**. Retail sales rose in line with expectations in September, the Commerce Department reported. Retail sales in September were reported to climb 0.6%, matching economists' forecast; retail sales fell 0.2% in the previous month. Year-over-year sales were up 2.7%.
- **U.S. Housing News:**
    - **U.S. home prices continue to climb.** The S&P/Case-Shiller U.S. National Home Price Index was up 5.3% year-over-year in August, rising from the 5% pace reported in July. The three usual suspects, Portland, Seattle, and Denver, remained the top gainers in August, reporting annual growth of 11.7%, 11.4%, and 8.8% respectively.
    - **U.S. new and pending home sales rise.** The Commerce Department reported that new single-family home sales, which account for around 9.8% of the housing market, moved up 3.1% to a seasonally adjusted annual pace of 593,000 units last month. The pending home sales index rose 1.5% in September to a seasonally adjusted reading of 110.0. The jump was higher than the 1% increase forecast by economists. Year-over-year, pending home sales were up 2.4% in September.
    - **U.S. housing starts decrease.** The number of housing starts in September declined in U.S., and missed forecast. Overall ground-breaking activity dropped 9% to a seasonally adjusted annual rate of 1.05M units, missing economists' estimate for an annual pace of 1.18M units. One bright spot in the data is the rise of single-family housing starts, which rose 8.1% in September.
    - **U.S. building permits rise.** The number of building permits issued in September rose 6.3% to a seasonally adjusted 1.225M units from the 1.152M pace reported in August. Economists were expecting an annual pace of 1.165M units.

# European Markets

- **Euro-zone Q3 GDP grows.** Economic activity within the 19-member region continued its steady growth in the 3rd quarter despite the presence of Brexit. Q3 GDP expanded by 0.3% quarter-over-quarter, after a similar increase in the second quarter. Year-over-year, GDP expanded by 1.6%, in line with economists' expectations.
- **Euro-zone inflation picks up.** Despite still being far below the target desired by central bankers, inflation within the Euro-zone continued to climb. Consumer prices rose 0.5% year-over-year in October, after a 0.4% increase reported in September. Rebound in energy prices provided a lift for the overall price level. Core inflation, excluding food and energy prices, was 0.7% higher year-over-year, slightly lower than the 0.8% pace reported in the past five months.
- **ECB keeps interest rate unchanged.** As a widely expected decision, the ECB decided to stay its course. After the latest meeting, ECB President Mario Draghi announced that the central bank would keep interest rates at current levels and maintained its guidance for rates to stay at the current low level for an extended period of time. The decision was widely expected by the market. Mr. Draghi called the current status of the 19-member economic bloc "a moderate but steady" recovery and said that members did not discuss either ending or extending the program.
- **ECB ready to expand stimulus if needed.** ECB President Mario Draghi's denied the media's earlier interpretation that the ECB is planning to reduce its asset purchase program soon. In an annual gathering of central-bank governors in Washington, Mr. Draghi stressed that the ECB will "act by using all the instruments available within our mandate" in order to achieve its inflation target of 2%.
- **Eurozone PMI rises.** Eurozone PMI bounced back in October after a disappointing figure reported in September. October Markit's composite purchasing managers' index (PMI) was reported to be 53.7, an increase from September's 52.6; economists were expecting a reading of 52.8.
- **Euro-zone industrial production climbs up.** Despite still under the cloud of Brexit, Euro-zone industrial production picked up in August. Eurostat reported that industrial output increased by 1.6% month-over-month in August, beating economists' estimated 1.4% rise; year-over-year, output was up 1.8%. August's pickup was led by Germany, France, Italy, Spain, and Netherlands.

# Asian Markets

- **Japan's consumer prices continue to fall.** Consumer inflation remained sluggish in Japan, according to the latest data. Headline inflation dropped 0.5% year-over-year, the seventh consecutive decline, matching economists' estimate. The so-called core-core inflation, which excludes effects from food and energy, remained unchanged year-over-year in September. Household spending dropped 2.1% in September year-over-year, forcing retailers to cut prices.
- **Japan's exports and imports fall.** Japan's exports fell in September, but the drop was less than expected. Government reported that exports fell 6.9% year-over-year, less than the 10.4% drop estimated by economists. Imports also fell, down 16.3% year-over-year, in line with economists' forecast.
- **China's inflation higher than expected.** Both consumer prices and producer prices in China rose more than expected in September. The consumer price index (CPI) increased by 1.9% year-over-year, higher than the 1.6% rise expected by economists. Producer prices also surprised on the up-side with the producer price index (PPI) climbing up 0.1%, the first increase since 2012, when the forecast had been for a slip of 0.3%.
- **China's trade growth underperforms.** Disappointing trade activity in September brought back concern about the health of the world's second largest economy. China's exports dropped 10% in September, much larger than the 3.3% decline expected by economists. Imports also dropped by 1.9%, missing economists' forecast for a rise of 0.6%.

***<u>Key Take-aways:</u>***

The Canadian dollar continues to take it on the chin, besieged by a multitude of factors, hitting lows not seen since the first quarter of this year. At home, talk of possible rate cuts in the Bank of Canada's latest monetary policy report sent our currency reeling, along with the revised (lower) estimate of Canada's GDP growth for this year and the next. As a commodity and resource-driven currency, the external fluctuation in the prices of oil and gold has had a correlated effect on the Dollar. As well, the U.S. election has a direct and inverse correlation on the Loonie as the U.S. green back moves up and down on either a Democratic or Republican victory. With a strengthening manufacturing sector, our Dollar should be able to control domestic variables, but it will still remain highly susceptible to exogenous factors.

Lacklustre economic data at home and globally have stalled growth in the manufacturing sector for the last couple of years. As well, extraordinary events such as Alberta's wildfires and the U.K.'s Brexit referendum have put a damper on any positive momentum, at least for the short term. Despite this, the latest Canadian manufacturing numbers provided some hope that the industry is mending and on the road to recovery, as sector sales rose more optimistically than expected, increased expansion in industrial production, and the sector's labour market saw more hirings. These data points may not be the sole factors that drive growth but it's a step in the right direction - albeit small steps.