Credential

Market Insights | MONTHLY

Month in Review

For the month ended July 31st, 2017

Overall Highlights

- **TSX lower.** The country's benchmark index fell for a third straight month as investors took profits off the table, and the Bank of Canada hiked interest rates to cool down the economy. Healthcare, Industrials, and Consumer Staples were the month's laggard despite gains in commodities and resources. The TSX ended July at 15,144, a loss of 0.3%.
- **Loonie flies higher.** Strong economic data at home and a weakening U.S. dollar sent the Loonie higher in June, also buoyed by a 25 bps rate increase by the BoC. Our dollar has been one of the stronger currencies in recent months, gaining over 10% since May. On the close, the Loonie ended at US80.10 cents per dollar, a gain of 3.9%.
- **Gold shines.** The yellow metal reversed the previous month's decline, while the Federal Reserve put the brakes on any further tightening for the time being to assess the effects on the U.S. economy. Additionally, the political drama that continues to unfold in Washington sent investors towards the precious metal, as Trump's approval rating slipped to a low of 33%. Gold closed higher by 2.6% to end the month at US$1,274.10 per ounce.
- **Oil surges.** A late month reprieve gave crude its strongest performing month since April 2016. Renewed commitments by OPEC members to pare down output, instability in Venezuela (a major oil producer) a weaker dollar, and declining U.S. oil reserves all contributed to oil's surge in July. At month's end, a barrel of WTI ended at US$50.19, up 8.3% from June.

- **GDP rises.** Canada's economy soared past expectations as GDP in May was reported at 0.6% by Statistics Canada.
- **BoC pulls trigger.** For the first time in seven years, the Bank of Canada made it more expensive to borrow money by increasing its key benchmark rate by 25 bps to 0.75%.
- **Unemployment falls.** The economy bested forecasts as the unemployment rate fell to 6.5% from 6.6% on the addition of 45,300 jobs.
- **Retail sales solid.** The auto sector pushed retail sales higher in May for a third consecutive month, doubling early forecasts.

- **U.S. Q2 GDP growth accelerates.** The Bureau of Statistics reported its first estimate of Q2's GDP growth.
- **Fed is planning to unwind balance sheet soon.** A widely expected decision, the Federal Open Market Committee did not raise its benchmark interest rates in its July meeting.

- **ECB sounds dovish.** The ECB kept rates at record lows and confirmed its asset-buying program would continue at €60B per month, at least until December after its monetary policy meeting.
- **Euro-zone unemployment rate drops.** The labor market within the 19-member zone continued to improve in June.
- **Euro-zone consumer confidence falls.** The European Commission reported that consumer confidence unexpectedly fell in July within the Euro-zone.

- **BOJ maintains monetary policy.** After its two-day meeting, the Bank of Japan (BOJ) maintained its course on monetary policy but cut its forecast of inflation.
- **China reports better than expected Q2 GDP.** The world's second largest economy reported better than expected Q2 GDP growth

Index/Commodity/Currency		
Close	**MonthChange**	**YTDChange**
S&P/TSX Composite		
15,143.87	-38.3	-143.7
	-0.3%	-0.9%
BMO Nesbitt Burns Small Cap		
866.09	-4.2	-14.2
	-0.5%	-1.6%
Dow Jones Industrial Average		
21,891.12	541.5	2,128.5
	2.5%	10.8%
S&P 500		
2,470.30	46.9	231.5
	1.9%	10.3%
NASDAQ Composite		
6,348.12	207.7	965.0
	3.4%	17.9%
MSCI-EAFE Index		
1,936.91	53.7	252.9
	2.9%	15.0%
WTI Crude Oil (per barrel, in $US)		
50.19	3.9	-3.6
	8.3%	-6.8%
Gold (per ounce, in US$)		
1,274.10	32.7	123.2
	2.6%	10.7%
Canadian Dollar (¢ per US$)		
80.10	3.0	5.6
	3.9%	7.6%

Sources: Bloomberg, PC Bond

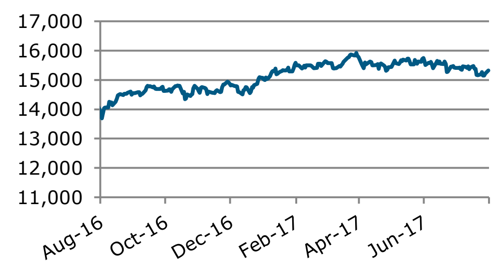
Canadian Markets

- **GDP rises.** Canada's economy soared past expectations as GDP in May was reported at 0.6% by Statistics Canada. The Energy sector played a large role in the growth, as forecasts were for a month increase of 0.2%. Manufacturing activity rose 1.6%, while services grew by 0.2%. This was the 7^{th} consecutive monthly gain, and had the economy clocking 4.6% on an annualized basis, the fastest in 17 years.
- **BoC pulls trigger.** For the first time in seven years, the Bank of Canada made it more expensive to borrow money by increasing its key benchmark rate by 25 bps to 0.75%. With several comments regarding a pending rate hike in the past, Governor Stephen Poloz made it official based on the strength of the Canadian economy, and warned of more hikes in the future, potentially before the end of the year.
- **Unemployment falls.** The economy bested forecasts as the unemployment rate fell to 6.5% from 6.6% on the addition of 45,300 jobs. Most of the month's additions were of a part-time nature, as employers added to the professional and technical services sectors. The month's data was the lowest since April, but more impressively, the amount was more than four times the 10,000 expected, as the participation rate rose to 65.9% with more people entering the work force.
- **Inflation slips.** Consumer prices decreased in June to its lowest since October 2015. Price declines in energy, electricity, and clothing were the main contributors, as the monthly CPI was 0.1%, on par with earlier forecasts. Annually, inflation fell to 1%, slightly less than forecasted but a sharp decline from May's 1.3%. CPI Common, the best gauge to measure price growth, rose to 1.4% from 1.3%.
- **PPI declines.** The cost of input material for producers fell in June, primarily on lower energy prices. For the month, the Industrial Product Price Index fell 1%. Of the 21 sub-groups, 16 fell while only five advanced. On an annualized basis, the PPI slowed to 3.3% from 5.2% in May.
- **Wholesale sales higher.** Factory sales hit a record high in May, as the economy and the manufacturing sector continues to gain momentum. Six of the seven sectors tracked gaining during the month, driven higher by automobile sales and agricultural supplies. Total sales were tallied to be $61.6B, a 0.9% climb from the month previous, and topping earlier estimates of a 0.5% increase.
- **Manufacturing sales up**. Sales from factories were higher in May for the third straight month, led by transportation and chemical manufacturing sectors. Expectations were for a 0.8% gain, but StatCan reported a 1.1% increase to $54.6B in sales. Sixteen of the 21 sectors tracked saw monthly gains, representing 71% of all manufacturing as volumes also increased by 1.1%.
- **Retail sales solid.** The auto sector pushed retail sales higher in May for a third consecutive month, doubling early forecasts. With sales receipts tallying $48.6B, consumers spent 0.6% more than the previous month as sales volumes climbed 1.1%. The strong data provided a backdrop of potentially more rate action by the Bank of Canada.
- Canada Housing News:
  - **Existing home sales fall.** Its largest decline since June 2010, existing home sales fell 6.7% in June from the previous month. This marked the third straight month of declines led by the Greater Toronto Area region. Activity compared to the same period a year ago is lower by 11.4% on a non-seasonally adjusted basis, as reported by CREA.
  - **Housing Starts rise.** Groundbreakings were mixed across the country as starts increased in Toronto, but slowed in Vancouver. On a seasonally adjusted basis, housing starts rose in June to 212, 695 units, topping estimates of an annual 200,000 unit pace. With the Bank of Canada increasing rates during the week, additional weakness is expected in the housing market.
  - **New Home Prices.** The hot spots of Toronto and Vancouver continue to push new home prices higher in May, rising 0.7% and more than doubling the expected 0.3% forecasted. The increase in prices was mainly due to shortage of developable land, leading to a supply shortage and increased building costs. This StatCan data excludes apartments and condominiums.

S&P/TSX Composite Index Sector Snapshot

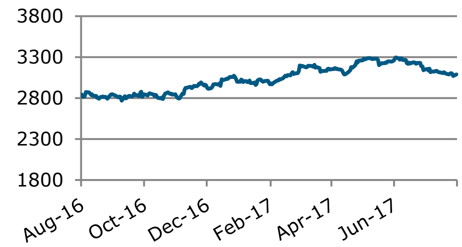
Sector	Month Return	YTD Return	Weight (%)
Energy	2.01	-12.98	20.40
Telecoms	1.53	6.89	5.00
Industrials	-3.98	6.44	9.30
Consumer Staples	-3.22	0.39	3.70
Utilities	-2.10	5.49	3.20
Financials	-0.14	0.60	34.60
Consumer Discretionary	-2.83	7.89	5.30
Health Care	-5.23	-3.94	0.70
Materials	1.71	0.37	11.70
Information Technology	-1.15	7.83	3.30
Real Estate	-2.36	0.88	2.90

S&P/TSX Composite - 1Y Return

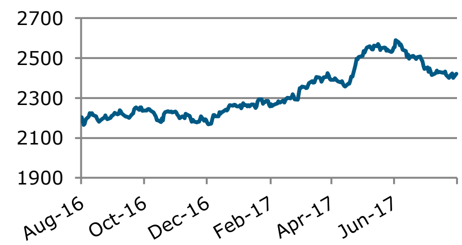


U.S. Markets

S&P 500 - 1Y Return (CAD)



MSCI EAFE – 1Y Return (CAD)



- **Nasdaq rebounds.** After being the worst performer in June, the tech-heavy Nasdaq rebounded in July to become the best performer among the three major indices. Improved corporate earnings were the main driver of the U.S. market in July. The broad-based S&P 500 index rose 1.9% for the month, ending the month at 2,470. The Dow Jones Industrial Average moved up 2.5% to close at 21,891, approaching the 22,000 historical level. Nasdaq outperformed the other two indices, up 3.4% for the month, and closing July at 6,348.
- **U.S. Q2 GDP growth accelerates.** The Bureau of Statistics reported its first estimate of Q2's GDP growth. The U.S. economy grew an annualized 2.6% in the second quarter, matching economists' expectations. Q2's growth pace more than doubled Q1's growth rate of 1.2%.
- **Fed is planning to unwind balance sheet soon.** A widely expected decision, the Federal Open Market Committee did not raise its benchmark interest rates in its July meeting. However, it hinted at unwinding its $4.5 trillion balance sheet in the near future. "The committee expects to begin implementing its balance sheet normalization program relatively soon, provided that the economy evolves broadly as anticipated," the Fed said in its post-meeting statement.
- **Janet Yellen speaks.** Federal Reserve Chair Janet Yellen delivered her semi-annual testimony to the Congress this week. "A strengthening in economic growth abroad has provided important support for U.S. manufacturing production and exports," Yellen said in her opening remarks. The focus of her speech was the Fed's stance on interest rate movement in the near future. Ms. Yellen noted that the pace of interest rate increases will depend on the inflation outlook. She also mentioned that the Fed is likely to start reducing its massive bond portfolio, which accrued during the financial crisis, sometime this year.
- **Fed releases minutes.** The Fed released the minutes of its June meeting, and announced a quarter point increase in its benchmark interest rate. In the minutes, Fed officials expressed concerns that keeping policy loose would increase risks to financial stability and the economy. However, the committee expressed little concern regarding the recent slowdown in inflation, believing it was transitory. It was also revealed in the minutes that officials were divided on the timing of when to start unwinding its $4.5T balanced sheet of bond holdings, which accrued during the period of quantitative easing.
- **U.S. nonfarm payrolls beats expectations**. The U.S. economy pumped out more jobs than expected in June. The Labor Department reported that 222,000 were created, handily beating economists' expected increase of 175,000. The unemployment rate moved up a tick from May's 4.3% to 4.4%. Wage growth remained muted, with average hourly earnings increasing 2.5% on an annualized basis, unchanged from the previous month.
- **U.S. CPI unchanged.** The Labor Department reported that the consumer price index (CPI) remained flat in June, missing economists' estimated 0.2% increase. On a year-over-year basis, CPI was up 1.6%, the smallest gain since October last year. Core CPI, which excludes food and energy prices, went up 0.1% from last month and 1.7% from a year ago.
- **U.S. PPI rises.** Producer prices in the U.S. rose in June as the cost of services increased. The Labor Department reported that the producer price index (PPI) rose 0.1% in June, while economists were expecting prices to remain unchanged. On a year-over-year basis, PPI was up 2%, higher than economists' expected 1.9% but lower than May's 2.4% pace. Price of services gained 0.2% in June.
- **U.S. industrial production rises.** Industrial output rose for the fifth straight month in June, according to the report by Federal Reserve. Industrial Production increased by 0.4% for the month, slightly higher than economists' forecast of 0.3%. Manufacturing output rebounded from a fall of 0.4% in May, posting a 0.2% gain.
- **U.S. 'flash' manufacturing PMI jumps.** U.S. manufacturing activity recorded its fastest expansion in four months. The IHS Markit 'flash' manufacturing purchasing managers' index (PMI) rose to 53.2 from June's final reading of 52.0., much higher than economists estimated reading of 52.0. July's reading was at its highest level in four months. The IHS Markit "flash" Services PMI remained unchanged at 54.2.
- **U.S. retail sales falls.** U.S. retail sales fell for the second straight month in June. The Commerce Department reported that June's retail sales fell 0.2%, missing economists' expectation of a 0.1% increase. Core retail sales, which strips out automobiles, gasoline, building materials, and food services, slipped 0.1%, disappointing forecasts of a 0.4% rise.
- US Housing News:
  - **U.S. home prices continue to rise.** The S&P CoreLogic Case-Shiller home price index rose 5.6% year-over-year in May, matching April's pace. The 20-city index was up 5.7%, down slightly from April's pace of 5.8%. Seattle, Portland, and Denver continued to lead the pack, recording the highest year-over-year gains among the 20 cities.
  - **U.S. new home sales increase.** The Commerce Department reported that June's new home sales gained 0.8% to a seasonally adjusted pace of 610,000 units, slightly less than economists' estimated pace of 611,000 units. On the year, new home sales were up 9.1%. Home sales in the West soared 12.5% for the month to reach the highest level since July 2007.
  - **U.S. housing starts rebounds.** Housing starts rebounded in June after three straight months of decline. The Commerce Department reported that housing starts increased by 8.3% in June to a seasonally adjusted annual pace of 1.22M units, versus economists expected 1.16M-unit pace. June's figures were also at the highest level since February. It was also reported that building permits shot up 7.4% in June to its highest level since March.
  - **U.S. existing home sales fall.** Existing home sales dropped in June as home prices hit record highs. Home resales fell 1.8% to a seasonally adjusted annual pace of 5.52M units in June, while economists were expecting an annual pace of 5.58M units. Median price of homes jumped 6.5% year-over-year to a record high of $263,800 in June.
  - **U.S. pending home sales increases.** Pending home sales rebounded in June after three months of decline. The National Association of Realtors reported that its pending home sales index jumped 1.5% in June, handily beating economists estimated increase of 0.7%.

European Markets

- **ECB sounds dovish.** The ECB kept rates at record lows and confirmed its asset-buying program would continue at €60B per month, at least until December after its monetary policy meeting. In its statement, the ECB sounded more dovish. "If the outlook becomes less favorable, or if financial conditions become inconsistent with further progress towards a sustained adjustment in the path of inflation, the Governing Council stands ready to increase the program in terms of size and/or duration," the ECB said in its announcement.
- **Euro-zone unemployment rate drops.** The labor market within the 19-member zone continued to improve in June. The unemployment within the Euro-zone fell to 9.1% in June according to Eurostat, the lowest jobless rate since February 2009. Germany continued to have the lowest unemployment rate within the region at 3.8%, while Greece had the highest at 21.7%.
- **Euro-zone inflation remained tamed.** The preliminary data on inflation indicated that the price level within the Euro-zone remained flat in July. The 'flash' harmonized index of consumer prices (HICP) was reported to rise 1.3% year-over-year in July, matching the pace reported in June. The core measure, which excludes food and energy prices, increased from 1.2% to 1.3%, the highest level since August 2013.
- **Trade activities increase in Euro-zone.** Eurostat reported that both exports and imports increased within the 19-member economic bloc in May. Exports advanced 12.9% year-over-year in May to €189.6B. Imports also grew 16.4% yearly for a total volume of €168.1B. The faster growth in imports resulted in a lower trade surplus of €21.4B, compared to the €23.4B surplus reported in the same month last year.
- **Euro-zone industrial production increases.** Industrial output within the 19-member economic bloc rose more than expected according to Eurostat. Production increased for a third straight month in May, rising 1.3% month-over-month and surpassing economists' expected 1.2% rise. France posted the largest monthly increase of 1.9%, one among the four largest economies in the zone. On a year-over-year basis, industrial production was up 4%.
- **Euro-zone 'flash' composite PMI slows down.** Business growth within the 19-member bloc took a break in July, according to the preliminary reading of the composite PMI. July's 'flash' composite purchasing managers' index dropped from June's final reading of 56.3 to 55.8, while economists were expecting a smaller dip to 56.2. The manufacturing PMI dropped from June's reading of 57.4 to 56.8, and the services PMI remained unchanged at 55.4.
- **Euro-zone consumer confidence falls.** The European Commission reported that consumer confidence unexpectedly fell in July within the Euro-zone. The 'flash' consumer confidence index of July dropped to -1.7 from June's final reading of -1.3, while economists were expecting the index to increase to -1.1.

Asian Markets

- **BOJ maintains monetary policy.** After its two-day meeting, the Bank of Japan (BOJ) maintained its course on monetary policy but cut its forecast of inflation. BOJ kept interest rates unchanged and maintained its course on monetary stimulus. However, the central bank slashed inflation forecasts from 1.4% to 1.1% for the current fiscal year. It also cut its forecast of 2018/2019 from 1.9% to 1.8%.
- **Japan's CPI remains stagnant.** Consumer prices in Japan remained stubbornly low, continuing to be a challenge for the central bank to meet its 2%inflation target. Japan's consumer price index (CPI) showed no gain for the month of June. On a year-over-year basis, CPI rose 0.4%, unchanged from May's pace of increase. Despite having a strong labor market and a recovering economy, companies still hesitated to raise prices with the fear of losing cost-sensitive consumers.
- **Japan's manufacturing dips.** Manufacturing activity in Japan slowed for the second straight month in July. July's 'flash' Markit/Nikkei manufacturing purchasing managers' index (PMI) fell from June's final reading of 52.4 to 52.2, the lowest reading in eight months. Despite slowing down, the gauge had been above the 50-mark separating expansion from contraction for eleven months straight.
- **China reports better than expected Q2 GDP.** The world's second largest economy reported better than expected Q2 GDP growth. Q2 GDP was reported to grow 6.9% from a year ago, slightly higher than economists' expectations of a 6.8% growth pace. Beijing has set a growth target of around 6.5% for the entire year of 2017.
- **China's CPI accelerates but PPI slows.** China's consumer prices and producer prices went different directions in May. The National Bureau of Statistics reported that the consumer price index (CPI) rose 1.5% year-over-year in May, accelerating from April's pace of 1.2%. However, the producer price index (PPI) rose only 5.5% year-over-year in May, slowing down from April's pace of 6.4% and missing economists' expected 5.7% increase. It was the third straight month that China's PPI eased.
- **China official manufacturing PMI falls.** China's official manufacturing PMI dropped slightly in July, and was below expectations. July's official manufacturing purchasing managers' index (PMI), which skews toward large state-owned enterprises, declined from June's reading of 51.7 to 51.4.Economists were expecting a reading of 51.6 for July.

Key Take-Aways

The Waiting Game Begins. Strong GDP data from Canada and accelerated growth in the U.S. helped justify the interest rate hike activity undertaken by the respective central banks to keep the economies growing, but at a controlled pace. In Canada, our economy stunned markets as it grew 4.6% on an annualized basis ending in May, leading growth amongst G7 nations. South of the border, the U.S. economic engine revved to 2.6% in Q2 on the Commerce Department's first estimate, more than doubling Q1 GDP numbers. Monetary policy action takes time to make its impact through the economy, which explains why both the BoC and the U.S. Federal Reserve did their rate hikes in the summer, and why the Feds left their rates unchanged at their latest meeting.

Following a different path. An economic slowdown would bring on interest rate cuts, while its recovery would justify central banks to increase them. This can be seen in Canada and the U.S. as their latest rate hikes, both within the last month, signaled that their respective economies were on the on the mend. However, the same cannot be said for other countries who continue to struggle to achieve growth momentum despite the years of easy monetary policy. Case in point is the Bank of Japan and the European Central Bank, who both remain committed their current stimulus program. Unfortunately, after pumping billions into their financial systems on a monthly basis, inflation and domestic consumption in these economic zones are stagnant. With interest rates already at historical lows, these central banks have to go down a different path to find options to stimulate growth.

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