Credential

Market Insights | MONTHLY

Month in Review

For the month ended July 31st, 2018

Overall Highlights

- **TSX rises.** The backdrop of the short and long-term effects of rising trade threats from the U.S. muted the S&P/TSX from higher gains for the month. Regardless, the Index was propped up to a new record month-end close on strong economic data at home along with a rate increase by the Bank of Canada. The Composite closed July at 16,434, a 1% monthly gain.
- **Dollar higher.** The Loonie rallied on positive economic growth during the month; however, it was NAFTA—specifically lack of Canada's participation in the discussions—that kept our currency from moving higher. In July, the Loonie ended at US76.81 cents for one Canadian dollar, a monthly gain of 1.1%.
- **Gold dulls.** The U.S. dollar continued to have an impact on the yellow metal as the safe-haven asset posted its fourth consecutive monthly decline. Anticipation of the latest move by the Federal Reserve in early July on its rate action sent investors flocking to the safety of the greenback and placed downward pressure on bullion. A December contract for gold closed the month at US$1,233.00, a decrease of 1.7%.
- **Oil slips.** Worries of reverting back to oversupplies of global inventories sent crude retreating in July. An agreement by OPEC and Russia to open the taps—adding to global supplies—pushed output from this group to a high for the year. In addition, ongoing trade tensions between the U.S. and China stoked fears of lower demand for the commodity. A September contract for a barrel of WTI crude ended trading at US$68.38, a 7.9% decline for the month.
- **BoC hikes rates.** Supporting the expectations by markets, the Bank of Canada hiked its key lending rate by 25 basis points for the fourth time since last summer to 1.5%.
- **GDP surprises.** The economy fared better than forecasted rising 0.5% in May, beating forecasts of 0.4% growth. This was the strongest pace since the beginning of the year, led by rising crude prices.
- **Unemployment rate rises.** The economy added 31,800 new jobs in June, firmly ahead of the 20,000 economists expected.
- **Inflation rises.** Statistics Canada reported that the consumer price index (CPI) rose 2.5% year-over-year in June. It was the fastest annual increase since February 2012.
- **Fed's June meeting minutes.** The Federal Reserve released its June meeting minutes. The Federal Open Market Committee raised its benchmark interest rates by 25 bps for the second time this year.
- **U.S. Q2 GDP growth quickens.** The Commerce Department reported its first estimate of Q2 GDP growth.
- **U.S. non-farm payrolls rise.** The Labor Department reported that non-farm payrolls increased by 213,000 in June, topping economists' forecast of 195,000.
- **U.S CPI rises.** The Labor Department reported that its consumer price index (CPI) edged up 0.1% in June.
- **U.S. consumer sentiment falls.** Consumer sentiment slipped in July according to the survey by the University of Michigan. The university's consumer sentiment index came in at 97.9 in July.
- **Euro-zone GDP slows.** Eurostat reported its preliminary reading of Q2 GDP growth for the Euro-zone.
- **Euro-zone unemployment remains steady.** Euro-zone's unemployment rate remained at its lowest level since 2008 in June.
- **Euro-zone economic sentiment drops.** Economist sentiment within the 19-member bloc slipped in July.
- **Japan CPI stays flat.** Consumer prices in Japan remained steady in June.
- **China's goods trade surplus jumps.** China's trade surplus surged more than 70% to a six-month high of US$41.6B in June, crushing economists' expectations.

Index/Commodity/Currency		
Close	**MonthChange**	**YTDChange**
S&P/TSX Composite		
16,434.01	156.3	224.9
	1.0%	1.4%
BMO Nesbitt Burns Small Cap		
917.55	9.1	-18.9
	-1.0%	-2.0%
Dow Jones Industrial Average		
25,415.19	1,143.8	696.0
	4.7%	2.8%
S&P 500		
2,816.29	97.9	142.7
	3.6%	5.3%
NASDAQ Composite		
7,671.79	161.5	768.4
	2.2%	11.1%
MSCI-EAFE Index		
2,006.06	47.4	-44.7
	2.4%	-2.2%
WTI Crude Oil (per barrel, in $US)		
68.38	-5.9	8.3
	-7.9%	13.8%
Gold (per ounce, in US$)		
1,233.00	-21.2	-72.0
	-1.7%	-5.5%
Canadian Dollar (¢ per US$)		
76.81	0.9	-2.9
	1.1%	-3.6%

Sources: Bloomberg, PC Bond

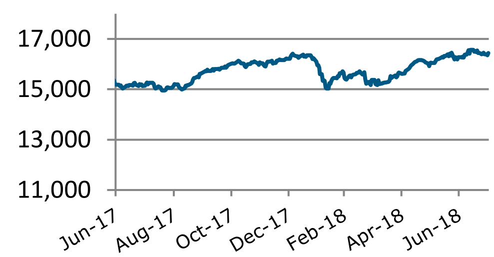
Canadian Markets

- **BoC hikes rates.** Supporting the expectations by markets, the Bank of Canada hiked its key lending rate by 25 basis points for the fourth time since last summer to 1.5%. BoC governor Stephen Poloz justified the rate increase as the economy heats up, the unemployment remains low, and inflation creeps higher. Other factors were also considered by Governor Poloz including the state of Canada's housing market and effects of additional debt on already stretched households. Though there is unlikely to be another increase in September, odds point to at least one more increase before year's end.
- **GDP surprises.** The economy fared better than forecasted rising 0.5% in May, beating forecasts of 0.4% growth. This was the strongest pace since the beginning of the year, led by rising crude prices. Of the 20 industries tracked by Statistics Canada, 19 saw gains for the month overshadowing the U.S. pressures on trade. On an annualized basis, the economy grew by 2.6%, with expectations of 2% growth in 2018.
- **Unemployment rate rises.** The economy added 31,800 new jobs in June, firmly ahead of the 20,000 economists expected. However, the influx of more than 75,000 jobs into the labour force resulted in the unemployment rate rising to 6% after remaining static at 5.8% for the last four months. Most of the month's additions were of a part-time nature as employers hire for the summer months. In the last 12 months, 215,000 positions were filled as the participation rate edged higher to 65.5% of the labour pool.
- **Inflation rises.** Statistics Canada reported that the consumer price index (CPI) rose 2.5% year-over-year in June. It was the fastest annual increase since February 2012. Economists were expecting an annual increase of 2.3%. A 12.4% jump in energy prices on the year was one of the main contributors to the acceleration.
- **PPI advances.** Off the backs of a revised 1.2% increase in May, the producer price index rose again in June by a slower 0.5%, but still above predictions of 0.3%. This is the sixth increase in a row as prices rose on non-ferrous metals and vehicles, as reported by StatCan. On a year-over-year basis, PPI rose 5.1%, surpassing the previous month's 3.4% increase.
- **Wholesale sales surge.** Aided by lumber, hardware, and building supplies, wholesale trade rose 1.2% in May to a record $63.7B. Estimates had called for a 0.7% increase as four out of the seven sectors tracked by Statistics Canada saw increases. One blemish was the large and influential auto and vehicle parts industry, which contracted 2.5% with $11.1B in total receipts, its slowest since December 2016.
- **Manufacturing sales jump.** In the latest reading by Statistics Canada, manufacturing sales rose 1.4% in May, almost tripling economist expectations of a 0.5% increase and more than offset April's 1.1% decline. Total receipts were $57.1B led by chemical and machinery industries as 14 of the 21 sectors following saw gains. The largest decline was in transportation equipment that has been directly affected by possible tariffs affecting the auto industry.

S&P/TSX Composite Index
Sector Snapshot

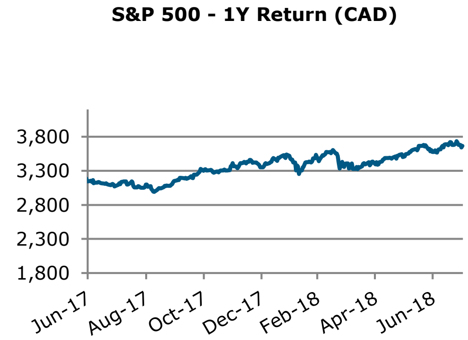
Sector	Month Return	YTD Return	Weight (%)
Energy	0.96	3.78	19.90
Telecoms	3.80	-3.62	4.50
Industrials	4.76	10.81	10.30
Consumer Staples	0.79	-2.50	3.40
Utilities	0.59	-7.92	3.80
Financials	2.18	-1.16	33.50
Consumer Discretionary	-0.36	2.04	5.70
Health Care	-8.87	-10.29	1.20
Materials	-3.99	-1.48	11.10
Information Technology	-2.07	19.49	3.80
Real Estate	1.58	4.42	2.80

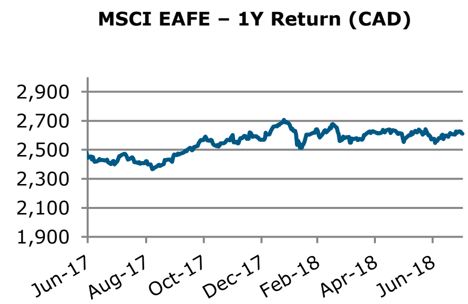
S&P/TSX Composite - 1Y Return



- **Manufacturing expands.** The latest report from IHS Markit on the health of Canada's manufacturing sector saw it's highest reading in over seven years. For June, the Purchasing Managers' Index registered 57.1 from May's 56.2 as producers rushed to build up inventory ahead of U.S. tariffs on raw materials. Output rose to its highest point since the beginning of the year as new orders rose to a four-and-a-half year high.
- **Retails sales surge.** Retail sales in Canada surged in May, thanks to robust sales at auto dealers and gas stations. Statistic Canada reported that retail sales rose 2% in May, handily beating economists' expectation of a 1.1% increase. Sales at auto dealers and gas stations were up 3.7% and 4.3%, respectively. On a year-over-year basis, retail sales were up 3.6%.
- Canada housing news:
  - **Starts climb.** The number of homes breaking ground spiked 28% in June to its fastest pace in a decade. During the month, 248,100 units, on an annualized basis, were started, driven by strong demand in multi-unit dwellings by millennials looking for affordability and aging demographics looking to downsize. Geographically, Ontario saw the majority of the starts, followed by Québec and the Maritime provinces.
  - **Permits rise.** Applications to build reversed in May, rising 4.7% from April's decline as residential demand outpaced intentions for commercial and industrial buildings. Residential permits, on the whole, rose 7.7% with increases in Ontario and BC led by a record-high tally in multiunit structures and a 6.2% rise in detached homes. Conversely, total value of non-residential buildings fell 0.7% as demand fell for commercial and institutional structures.
  - **New home prices flat.** For a third straight month, the price of a new home was little changed in May, coming in below expectations of a 0.1% increase. Of the 27 regional areas followed by Statistics Canada, 15 declined or were flat as tighter mortgage regulations and higher rates were to blame. On an annual basis, prices have increased 0.9%, down from April's annualized 1.6%.

U.S. Markets





- **Strong month in the U.S. market.** Despite selling off on some of the mega tech names near the end of the month, the U.S. stock market ended July solidly. All three major indices were up more than 2%. The broad-based S&P 500 index was up 3.6%, ending the month above the 2,800-level at 2,816. The Dow Jones Industrial Average rose 4.7%, closing the month at 25,415. The tech-heavy Nasdaq was the weakest performer for the month due to major pullback of some mega names such as Facebook and Netflix; it was up 2.2%, wrapping up the month at 7,672.
- **Fed's June meeting minutes.** The Federal Reserve released its June meeting minutes. The Federal Open Market Committee raised its benchmark interest rates by 25 bps for the second time this year. The funds rate moved to a range of 1.75-2%. According to the minutes, some members of the committee expressed concern over an overheating economy which may cause heightened inflationary pressures. On the other hand, some committee members worried about the negative effects of trade tariffs will have on business sentiment and investment spending.
- **U.S. Q2 GDP growth quickens.** The Commerce Department reported its first estimate of Q2 GDP growth. The second quarter GDP recorded a whopping 4.1% annualized growth, up from the 2.2% reported in Q1. It was the fastest growth pace since 2014, most likely attributed to the big tax cuts by the Trump administration. Economists were expecting an even faster pace of 4.2%. Consumer spending rose 4% while business investment climbed 7.3%.
- **U.S CPI rises.** The Labor Department reported that its consumer price index (CPI) edged up 0.1% in June, missing economists' forecast of a 0.2% increase. On the year, the CPI increased by 2.9%, the biggest annual gain since February 2012.
- **U.S. PPI increases.** Producer prices went up in June. The Labor Department reported that the producer price index (PPI) climbed 0.3% in June, higher than economists' expectation of a 0.2% increase. Year-over-year, PPI increased by 3.4%, the biggest annual increase in 6½ years.
- **U.S. non-farm payrolls rise.** The Labor Department reported that non-farm payrolls increased by 213,000 in June, topping economists' forecast of 195,000. The unemployment rate rose from an 18-year low of 3.8% reported in May to 4%. Average hourly earnings rose 0.2% from the previous month, less than the expected 0.3% increase. On a year-over-year basis, average hourly earnings rose 2.7%, unchanged from the previous month.
- **U.S. 'flash' composite PMI weakens.** Business activity in the U.S. slowed down slightly in July yet remained robust. July's 'flash' IHS/Markit's composite purchasing managers index (PMI) fell slightly from June's final reading of 56.0 to 55.9; economists were expecting a rise to 56.3. Manufacturing activity improved as indicated by the manufacturing PMI, up from June's reading of 54.6 to 55.5, beating forecasts of 54.9. Services PMI declined from 56.5 to 56.2, missing estimates of 56.4.
- **U.S. industrial production rises.** Industrial production in U.S. rebounded in June. The Federal Reserve reported that industrial production rose 0.6% in June after a 0.5% drop reported in May; economists were expecting a 0.6% increase. A 7.8% jump in motor vehicle production helped propel a 0.8% jump in the manufacturing component. The mining component also posted a solid 1.2% increase in June.
- **U.S. retail sales rise.** Retail sales rose solidly in June, according to the Commerce Department. June's retail sales were reported to rise 0.5%, in line with economists' expectations. On a year-over-year basis, retail sales were up 6.6%. Core retail sales, which excludes automobiles, building materials, and food services, remained flat after rising 0.8% in May, missing forecast of a 0.4% increase.
- **U.S. consumer sentiment falls.** Consumer sentiment slipped in July according to the survey by the University of Michigan. The university's consumer sentiment index came in at 97.9 in July, down slightly from June's reading of 98.2. Trade war fears remained a concern in consumers' minds.
- **US Housing News:**
  - **U.S. home prices rise.** Home prices in U.S. rose rapidly in May. The S&P CoreLogic Case-Shiller 20-city home price index rose 6.5% in May on the year, down slightly from the 6.7% pace reported in April. Economists were expecting a 6.6% increase. Seattle, Las Vegas, and San Francisco led the percentage increase.
  - **U.S. pending home sales rise.** Pending home sales increased for the first time in three months in June. The National Association of Realtors reported that pending home sales surprisingly rose 0.9% in June, handily beating economists' expectation of a flat reading. On a year-over-year basis, pending home sales were down 2.5%.
  - **U.S. existing home sales drop.** Existing home sales fell for the third straight month in June. The National Association of Realtors reported that existing home sales declined 0.6% to a seasonally adjusted annual rate of 5.38M units, missing economists' prediction of a 0.5% gain to 5.44M units. Sales rose in the Northeast and Midwest area, but dropped in the West and South. On a year-over-year basis, existing home sales were down 2.2%.
  - **U.S. new home sales decline.** New home sales slowed to an eight-month low in June, according to the data released by the Commerce Department. June's new home sales were reported to decrease 5.3% to a seasonally adjusted annual pace of 631,000 units, the lowest level since October 2017. Economists were expecting a smaller drop of 2.8%. On a year-over-year basis, new home sales were up 2.4%.
  - **U.S. housing starts drops.** Housing starts plunged in June, dealing a blow to the housing market with a supply shortage. The Commerce Department reported that housing starts fell 12.3% to a seasonally adjusted annual pace of 1.17M units in June; economists were expecting an annual pace of 1.32M units. It was the lowest level since September 2017. Permits also fell, dropping 2.2% to an annual rate of 1.27M units.

European Markets

- **Euro-zone GDP slows.** Eurostat reported its preliminary reading of Q2 GDP growth for the Euro-zone. Q2 GDP within the 19-member region expanded by 0.3% quarter-over-quarter, down from the 0.4% pace reported for Q1. Economists were expecting a growth pace of 0.4% in Q2. When compared with the same quarter last year, GDP grew 2.1%.
- **Euro-zone unemployment remains steady.** Euro-zone's unemployment rate remained at its lowest level since 2008 in June. The Eurostat reported that the jobless rate within the single-currency bloc remained at 8.3%, matching economists' forecast. It was the lowest rate since May 2008. Germany recorded the lowest unemployment rate while Greece and Spain had the highest.
- **Euro-zone inflation rises.** Eurostat reported that June's harmonised index of consumer prices (HICP) rose 2% year-over-year, confirming the preliminary reading reported earlier. The rise was in line with economists' forecast. Core inflation, which excludes energy and unprocessed food prices, rose 1.2% on the year. The 'flash' estimate for July came in at 2.1% while the core figure was up 1.1% on the year.
- **Euro-zone economic sentiment drops.** Economist sentiment within the 19-member bloc slipped in July. The European Commission reported that economic sentiment within the Euro-zone edged lower from June's reading of 112.3 to 112.1; economists were expecting a reading of 112.1. The trade tension with the U.S. was one of the major factors dragging down sentiment.
- **Euro-zone 'flash' composite PMI falls.** Business activity within the 19-member region slowed in July according to the 'flash' composite PMI. July's preliminary reading of the IHS Markit's composite purchasing managers index (PMI) fell from June's final reading of 54.9 to 54.3; economists were expecting the gauge to remain flat. Manufacturing PMI rose slightly from 54.9 to 55.1, while services PMI declined from 55.2 to 54.4.

Asian Markets

- **Japan CPI stays flat.** Consumer prices in Japan remained steady in June. The headline consumer price index (CPI) rose 0.7% year-over-year, same as the annual pace reported last month. The so-called core-core CPI, which excludes food and energy prices, rose 0.2% on the year, slowing slightly from the 0.3% pace reported in May.
- **Japan 'flash' manufacturing PMI drops.** Manufacturing activity in Japan slowed to its slowest pace in 20 months according to the 'flash' manufacturing PMI. The preliminary reading of the Nikkei/IHS manufacturing purchasing managers index (PMI) fell to 51.6 in July, down from June's final reading of 53.0. It was the lowest reading since November 2016.
- **China CPI and PPI up.** Both consumer prices and producer prices in China went up in June on a year-over-year basis, according to the National Bureau of Statistics. The consumer price index (CPI) rose 1.9% year-over-year, compared with the 1.8% pace reported in the previous month. The producer price index (PPI) went up 4.7% on the year, up from the 4.1% increase reported in May.
- **China's goods trade surplus jumps.** China's trade surplus surged more than 70% to a six-month high of US$41.6B in June, crushing economists' expectations. Exports increased by 12.8% year-over-year while imports went up 19.9%. The focal point of recent months, the trade surplus with the U.S., widened to a record monthly high of US$29.0B. Many believed that the surge in exports in June was due to exporters attempting to ship out their goods before tariffs went into effect.
- **China manufacturing PMI falls.** The National Bureau of Statistics reported that the official manufacturing purchasing managers' index (PMI), which has a bias toward large state-owned enterprises, fell to 51.2 in July, down from June's reading of 51.5. Economists were expecting a slightly higher reading of 51.3. The Caixin manufacturing PMI, which has a small to mid-cap focus, also declined from 51.0 to 50.8.

Key Take-Aways

Economic Health Check. Gross domestic product, or GDP, is the blood pressure of an economy; a weak pulse is a sign of contraction and a strong one is a sign of expansion or growth. In the latest report from the U.S. Commerce Department, economic growth is on target for its fastest pace in four years, at a blistering 4.1% annualized. There was pessimism by some in the reading as being artificially higher than actual as it does not consider recent trade actions by Trump. Regardless of the final number, the robustness of the U.S. economy will continue to be the focus of the Federal Reserve and its efforts to keep things under control. At home, following a slow start to the year, the economy has surprised economists with 0.5% growth in May, 2.6% higher from a year earlier, despite hurdles in its path—namely trade tensions with our largest trading partner and NAFTA. The Bank of Canada forecasted real GDP to be close to 2% for 2018; however, with the latest sales metrics for May released, from the trio of retail, manufacturing, and wholesale data, GDP is estimated to push above the BoC's forecasts, raising the odds of another rate hike cure to slow things down. For now, it looks like an exceptionally strong bill of health for both economies; however, as U.S. protectionism remains prevalent, there could be a regression back to the norm of moderate growth—a position preferred by both central banks.

Two down... After months of waiting and weeks of hints and speculation, the Bank of Canada and its governor, Stephen Poloz, did what many had anticipated: Hiking its key overnight rate by 25 basis points to 1.5%. It was the second increase in six months as Mr. Poloz took his time to assess the effects of the higher rates on the economy and consumers following years of easy monetary policy. As it currently stands the economy is fairing better than expected, prompting the Bank to revise its forecast of an average 2% in GDP growth between 2018 to 2020. As well, rising inflation and a strong labour market provided additional fodder for Mr. Poloz to act against the back drop of trade tensions due to rising U.S. protectionism. The impact of tariffs is expected to slow economic growth, but the Bank forecasts this weakness will be offset by higher commodity prices and continued strength in the U.S. economy—both of which helps alleviate the reliance on household spending and the housing market to prop up the economy. With the fourth increase since last summer in the books, the odds of another in September is remote, but does improve the probability of one, or even two, more before the end of the year.