Credential

Market Insights | MONTHLY

Month in Review

For the month ended September 30th, 2019

Overall Highlights

- **TSX gains.** The S&P/TSX Composite touched an all-time high during the month, posting a monthly gain and a positive performance for the third straight quarter. Energy (+5%) and Financials (6.4%) helped propel the Index higher during the month as both U.S. interest rates and global tensions eased. On the downside, Materials (-7.5%) and Industrials (-2.4%) had the biggest impact with close to an 11% weighting, respectively. On the close, the TSX finished at 16,659, a gain of 1.3% in September and 16.3% YTD.
- **Loonie rises.** The Loonie held its place as the best performing currency in 2019 at the end of September amidst a lull in U.S./China trade talks and with a robust economy considering the uncertainties that prevail. However, pending the outcome of trade discussions set to resume in October and global deceleration increasing, our dollar may give back some of its 3% gains earned year-to-date. At the close, the Loonie finished at 75.51 U.S. cents, up 0.4% from the previous month.
- **Gold falls.** As geopolitical tensions eased, investors exited the safe-haven asset sending prices falling to its lowest since August and closing below the US$1,500 barrier. This was the first decline in five months as the risk appetite by the markets increased along with strength in the U.S. greenback. In September, gold pulled back 3.1% for the month, closing at US$1,472.49 an ounce for a December contract. For the year, it is up 14.8%.
- **Oil slips.** A volatile month for oil ended on a down note as Saudi Aramco, whose facilities were the target of drone attacks and processes 5% of the global supply, reported they restored production capacity. The news was quicker than expected and along with slowing global growth, prompted selling of the commodity. At the end of the month, an October delivery on a barrel of WTI crude settled at US$54.07, down 1.9% in September and 7.5% for the quarter, but still up 19.1% YTD.
- **BoC holds rates.** Few surprises were given by the central bank as Governor Stephen Poloz held the key benchmark rate at 1.75% at their latest policy rate announcement.
- **No change in jobless rate.** The unemployment rate remained unchanged in August at 5.7%, in line with analyst forecasts.
- **Prices lower.** The cost on a notional basket of goods fell 0.1% in August following price declines in pork due to tougher restrictions by China to contain their swine flu outbreak.
- **Manufacturing activity contracts.** Production at factories weakened in August as new orders fell for a sixth straight month at its fastest rate in three and a half years.
- **U.S. Q2 GDP slows.** The Commerce Department reported growth at an annualized pace of 2%, unchanged from the previous estimate, in its final estimate of Q2 GDP growth.
- **Fed cuts rate.** The Federal Reserve decided to cut its benchmark interest rates by another 25 basis points at its September meeting.
- **U.S. non-farm payrolls disappoint.** The U.S. economy cranked out a lower number of jobs than expected in August, according to data released by the Labor Department.
- **Eurozone unemployment rate drops.** Despite many economic indicators pointing to a slowing economy, unemployment rate within the 19-member zone dropped to a decade low in August.
- **ECB provides stimulus.** At their latest meeting, the European Central Bank (ECB) reverted to providing its financial system stimulus to help counter the weak growth it has been experiencing.
- **BOJ keeps monetary policy on hold.** The Bank of Japan (BOJ) left its monetary policy unchanged after its September meeting.
- **Chinese inflation up.** The consumer price index rose in August driven primarily by rising meat costs, mainly pork prices that have surged almost 47% YoY amidst a swine fever outbreak.

Index/Commodity/Currency		
Close	**Month Change**	**YTD Change**
S&P/TSX Composite		
16,658.63	216.6	2,335.8
	1.3%	16.3%
Dow Jones Industrial Average		
26,916.83	513.6	3,589.4
	1.9%	15.4%
S&P 500		
2,976.74	50.3	469.9
	1.7%	18.7%
NASDAQ Composite		
7,999.34	36.5	1,364.1
	0.5%	0.0%
MSCI EAFE Index		
1,889.36	46.8	169.5
	2.5%	9.9%
WTI Crude Oil (per barrel, in $US)		
54.07	-1.0	8.7
	-1.9%	19.1%
Gold (per ounce, in US$)		
1,472.49	-47.9	190.0
	-3.1%	14.8%
Canadian Dollar (¢ per US$)		
75.51	0.3	2.2
	0.4%	3.0%

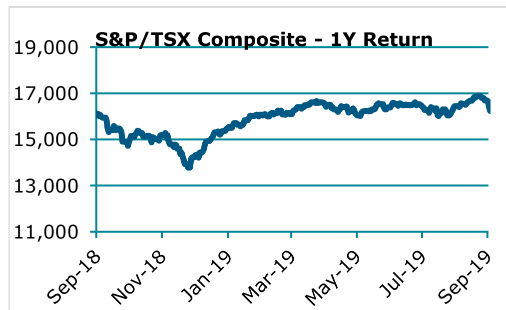
Source: Bloomberg

Canadian Markets

- **BoC holds rates.** Few surprises were given by the central bank as Governor Stephen Poloz held the key benchmark rate at 1.75% at their latest policy rate announcement. In their assessment, the economy was in good shape with rising exports and rising wage inflation. However, the BoC's concerns of the state "escalating trade conflicts" could sway them to a rate cut to keep the economy stimulated. The last rate action was an increase in October 2018 just as the economy was entering a soft patch.
- **No change in jobless rate.** The unemployment rate remained unchanged in August at 5.7%, in line with analyst forecasts. Unexpectedly, employment rose by 81,100 as employers were able to fill positions in the services sector and within the younger demographics. Broken down, most of the jobs were of a part-time nature (+57,200) in the finance, insurance, and educational sectors. Earlier estimates were for the addition of 15,000 positions during the month. The participation rate edged higher to 65.8% from 65.6% in July.
- **Prices lower.** The cost on a notional basket of goods fell 0.1% in August following price declines in pork due to tougher restrictions by China to contain their swine flu outbreak. Fresh vegetables also suffered a 6.5% drop, its largest in over five years. The month's reading was better than analyst predictions of a 0.2% decline. Annualized, inflation fell slightly to 1.9% from 2% to a five-month low as falling costs at the pumps was the cause. Core inflation, a more accurate measure of prices after removing volatile components, also eased to 1.9%, below expectations of 2%.
- **PPI rises.** As a measure of price changes of goods sold by producers, StatCan's Industrial Producer Price Index (IPPI) rose 0.2% in August, bouncing back from the previous month's 0.3% drop. Increases in prices for meats, dairy products and non-ferrous metals were countered by declines in energy and petroleum costs. Compared to the period 12 months earlier, IPPI is down for a third straight month to 1%.
- **Wholesale sales climb.** A rise in demand for pharmaceuticals and automobiles in July, 7.3% and 4.8% respectively, sent wholesale sales rising 1.9%, bettering forecasts of a 0.4% gain. This was the fastest pace for this reading since 2016, as reported by Statistics Canada, and was optimistic news that the Canadian economy was not slowing as much as initially thought. The month's data may support the Bank of Canada's decision to not move interest rates at their next meeting.
- **Manufacturing sales slump.** Factory sales took a tumble in July with falling demand in autos (-4.7%) and in most primary metals (-7.3%), leading declines seen in 11 industries for the month. Statistics Canada reported manufacturing sales fell 1.3% to total receipts of $57.2B. The sector continues to remain depressed as it feels the ongoing effects of global trade tensions. On a constant dollar terms, sales were down 1.6% as volumes in goods declined.
- **Manufacturing activity contracts.** Production at factories weakened in August as new orders fell for a sixth straight month at its fastest rate in three and a half years. Slowing economic growth in the U.S. and globally affected exports as IHS Markit's manufacturing PMI fell to 49.1, a three-month low, from 50.2 in the previous month. Trade pressures continue to take their toll on the sector as it experienced it's fourth contractionary reading in the last five months, while a year ago, the reading was at 56.8.

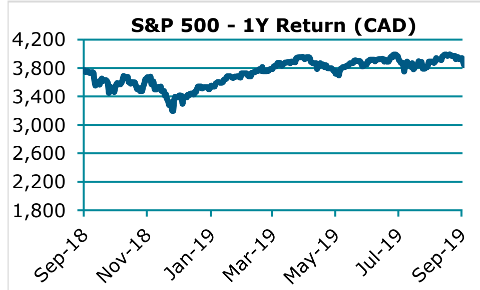
S&P/TSX Composite Index
Sector Snapshot

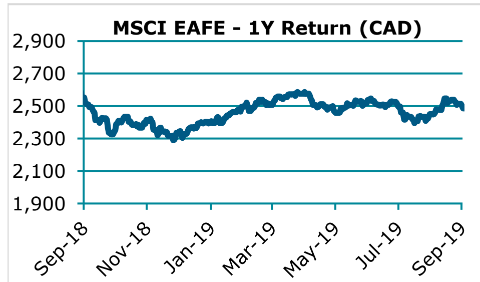
Sector	Month Return	YTD Return	Weight (%)
Consumer Discretionary	-1.25	16.39	4.30
Consumer Staples	-0.43	17.81	4.10
Energy	4.99	9.80	16.50
Financials	6.44	16.71	32.80
Health Care	-7.38	-5.74	1.40
Industrials	-2.39	17.97	10.90
Information Technology	-7.07	47.67	5.10
Materials	-7.51	13.69	10.90
Real Estate	2.78	21.60	3.60
Communication Services	0.14	8.35	5.60
Utilities	2.94	30.35	4.70



- **Consumer sales rise.** Despite missing forecasts of a 0.6% gain, consumers bucked a three month decline in July. For the month, retail sales rose 0.4% on increased sales in automobiles, health & personal goods, and food and beverage. The reason for falling under expectations was blamed on the higher debt undertaken by consumers resulting in rising servicing costs and lowering consumption. On a year-over-year (YoY) basis, retail sales are higher by 1.2% compared to the previous month's 1%.
- Canada housing news:
  - **Housing starts higher.** The number of ground-breaking for homes rose in August to a seasonally adjusted rate of 226,639 units, a 1.9% increase over July. CMHC expected a gain of 215,000 units as new construction ramped up in the last month of summer with both detached and multi-unit homes seeing gains, 13.6% and 1.4%, respectively, and broad increases across most of the country.
  - **Building permits rise.** The value of building permits issued by municipalities bounced back from June's decline, rising to $8.3B. This was a 3% gain from a month earlier mainly due to a rise in demand for multi-unit dwellings and commercial permits, up 4.2% and 6.7%, respectively. Geographically, half of the provinces across Canada rose with B.C. leading advancers and responsible for a third of the national gains, while Québec was the largest laggard falling 4%.
  - **New home prices lower.** The average price of a new home in Canada fell in July for the third straight month. The change from the previous month was 0.1% lower, below estimates of no change, due to lower selling prices compared to the ask and weak market conditions. Leading decliners were Edmonton (-0.8%) with perennial hot markets Toronto and Vancouver also declining 0.6% and 0.5%, respectively. On an annualized basis, new home prices are lower by 0.4%, weaker than the -0.2% in June.

U.S. Markets





- **U.S. stocks edge up.** After a volatile month in August, the U.S. stock market bounced back in September amid some major stories continuing to emerge. Positive development on the trade battle between U.S. and China provided a lift to stocks while a potential impeachment of Donald Trump cast some dark cloud over the market. At the end of the month, all three major stock indices were positive. The broad-based S&P 500 index moved up 1.7%, closing the month at 2,977. The Dow Jones Industrial Average advanced by 1.9%, ending the month at 26,917. The tech-heavy Nasdaq underperformed for the month, rising a slight 0.5% to end at 7,999.
- **U.S. Q2 GDP slows.** The Commerce Department reported growth at an annualized pace of 2%, unchanged from the previous estimate, in its final estimate of Q2 GDP growth. The final estimated rate marked a deceleration from the 3.1% growth reported in the first quarter.
- **Fed cuts rate.** The Federal Reserve decided to cut its benchmark interest rates by another 25 basis points at its September meeting. Following the two-day policy meeting, the Fed took down the federal funds rate to a target range of 1.75% from 2%. The move was widely expected by market participants. The Federal Open Market Committee cut its benchmark interest rates for the first time in 11 years in July.
- **U.S. non-farm payrolls disappoint.** The U.S. economy cranked out a lower number of jobs than expected in August, according to data released by the Labor Department. Non-farm payrolls rose 130,000 in August, less than economists' expected increase of 159,000. It was also a drop off from July's 164,000. Average hourly earnings rose 3.2% on the year, a tick higher than economists' expected increase of 3.1%. Unemployment rate remained unchanged at 3.7%.
- **U.S. inflation gains.** The cost of a notional basket of goods in the U.S. rose in August, although slower than the previous month, as prices at the pumps fell; however, this was offset by higher prices of used vehicles and medical services. For the month, inflation rose 0.1%, just below forecasts of a 0.2% increase. Over the 12-month period, inflation fell as well to 1.7%, undershooting July's reading and estimates. Omitting food and energy items, core inflation for the month was on par at 0.3%, while annualized it rose 2.4%, besting the previous month's 2.2% pace.
- **U.S. PPI edges up.** The average change in prices charged by producers for their goods rose slightly in August beating expectations of no change for the month. The cost of services (+0.3%) provided all the upside and offset declines in the price of goods, which had fallen the most in seven months (-0.5%). On an annualized basis, PPI has risen 1.8% following July's and economist forecasts of a 1.7% reading. Excluding volatile components, monthly core PPI rose 0.4%, while rising 1.9% in the last 12 months.
- **U.S 'flash' composite PMI rises.** Business activity in U.S. improved slightly in September, thanks to a rebound in the manufacturing sector. The IHS Markit 'flash' composite purchasing managers' index (PMI) increased from August's final reading of 50.9 to 51.0, slightly lower than economists' expected reading of 51.2. After dipping below the 50-mark to contraction territory last month, the manufacturing PMI rebounded to 51.0 from 49.9, handily beating economists' expectation of 50.1. The service sector PMI remained unchanged at 50.9, missing forecasts of 51.4.
- **Retail sales rise.** Driven higher by increased auto purchases (+1.8%), U.S. retail sales rose 0.4% in August, on par with expectations but half of July's reading, as consumers and businesses have begun to feel the effects of the trade war and its tariffs. Also helping for the month was strong online sales that climbed 1.6% but weaker receipts at gasoline stations (-1%) retracted from any further upside. Excluding autos and related sectors, retail sales would have been flat for the month and below 0.2% estimates. Annually, retail sales climbed to 4.1% from 3.6% in July.
- **U.S. consumer sentiment rebounds.** Consumer sentiment improved in September, according to the University of Michigan. The university's consumer sentiment index rose from August's reading of 89.8 to 93.2, beating economists' estimate of 92.0. Despite the increase, one-third of respondents remained concerned about the uncertainties around trade policies.
- U.S. housing news:
    - **U.S. housing starts surge.** U.S. housing starts surged to a 12-year high in August. The Commerce Department reported that housing starts jumped 12.3% to a seasonally adjusted annual rate of 1.36 million units in August, the highest level since June 2007. Economists were expecting the annual pace to reach 1.25 million units. Building permits rose 7.7% to an annual rate of 1.42 million units, the highest level since May 2007.
    - **U.S. existing home sales rise.** The National Association of Realtors reported that existing home sales increased 1.3% to a seasonally adjusted annual pace of 5.49 million units in August, handily beating economists expected annual rate of 5.37 million units. It was the highest level in 17 months. The 30-year fixed mortgage rate dropped from a seven-year high of 4.94% in November to around 3.5% recently, which was believed to be one of the major factors driving up home sales.
    - **U.S. new home sales rise.** Sales of new homes in U.S. rose more than expected in August, according to the Commerce Department. New home sales increased by 7.1% to a seasonally adjusted annual pace of 713,000 units, handily beating economists' expectation of an annual pace of 660,000 units. On a year-over-year basis, new home sales were up 18%.
    - **U.S. home prices rise.** The S&P Corelogic Case-Shiller Home Price Index rose 3.2% year-over-year in July, matching June's pace. The 20-city index rose 2% on the year, down from June's annual pace of 2.2%, also missing economists expected increase of 2.1%. Phoenix, Las Vegas and Charlotte posted the largest percentage gains in July.

European Markets

- **Eurozone unemployment rate drops.** Despite many economic indicators pointing to a slowing economy, unemployment rate within the 19-member zone dropped to a decade low in August. Eurostat reported that August's unemployment rate within the Eurozone fell from July's 7.5% to 7.4%, reaching its lowest level since May 2008. Economists were expecting the unemployment rate to stay unchanged at 7.5% in August.
- **ECB provides stimulus.** At their latest meeting, the European Central Bank (ECB) reverted to providing its financial system stimulus to help counter the weak growth it has been experiencing. In his last statement as president, Mario Draghi lowered interest rates for deposits held by the ECB to minus 0.5% indefinitely. As well, he announced the re-initiation of the recently cancelled bond purchasing program where up to €20B in financial assets would be bought beginning in November, setting an example for other central banks to prepare to do the same.
- **Eurozone inflation stable.** Inflation within the 19-member zone remained at a low level in August. Preliminary reading of the harmonised index of consumer prices (HICP) rose 1% YoY in August, unchanged from July's pace and matched economists' expectations. It was the lowest level since November 2016.
- **More gloom in Eurozone.** Eurozone economy continued its slowing mode in September according to the 'flash' composite purchasing managers' index (PMI). Preliminary reading of September's IHS Markit composite PMI dropped from August's final reading of 51.8 to 50.4, missing economists' expectations of a small increase to 52.0. The manufacturing sector remained in contraction territory with the manufacturing PMI sliding from 47.0 to 45.6. Despite remaining in expansion mode, the services sector was also losing steam as the services PMI fell from 53.4 to 52.0. Germany recorded its worst composite PMI reading since October 2012 at 49.1.

Asian Markets

- **BOJ keeps monetary policy on hold.** The Bank of Japan (BOJ) left its monetary policy unchanged after its September meeting, keeping its overnight rate at -0.1% and 10-year bond yields at around 0%, while also maintaining its asset purchase program of ¥80T a year. However, BOJ governor Haruhiko Kuroda, hinted at possible change to the current policy in the next meeting when speaking at a press conference.
- **Japan Q2 GDP lower.** The effects of the trade war between the U.S. and its neighbour sent Q2 GDP lower than earlier estimated, mainly attributed to lower business spending which rose 0.2%, much lower than the 1.5% forecasted. For the three months, the Japanese economy expanded 0.3%, compared to Q1's 0.4%, and equating to 1.3% annualized growth. This was slower than the 1.8% estimated by economists and raised concerns of an even dismal Q3, prompting calls for the Bank of Japan to act and provide stimulus action.
- **Chinese inflation up.** The consumer price index rose in August driven primarily by rising meat costs, mainly pork prices that have surged almost 47% YoY amidst a swine fever outbreak. For the month, inflation rose 0.7% compared to July's 0.4% as the costs of fresh fruit and vegetables also contributed. Annualized inflation in China rose 2.8%, which was unchanged from the previous month and above analyst forecasts of a 2.6% increase.
- **China's manufacturing PMIs beat expectations.** Two widely monitored manufacturing indicators for China were released, both exceeding economists' expectations. The official purchasing managers' index (PMI), which has a bias toward large state-owned enterprises, came in at 49.8 in September, beating forecast of 49.5, but remaining below the 50-division mark. The Caixin/Markit manufacturing PMI, which focuses on small- to mid-sized firms, came in at 51.4 for September, also above consensus estimate of 50.2. It was also the highest reading since February 2018.

Key Take-Aways

Bps! They did it again. It was the worse kept secret at the recent Federal Open Market Committee (FOMC) meeting held by the U.S. Federal Reserve. Markets expected the central bank to cut rates in reaction to a slowing U.S. economy, but the unknown was by how much—by 25 or 50 basis points? It turned out to be the former and it was the second rate cut in as many meetings. In his statement, Fed Chairman Jerome Powell and his policymakers decided to cut U.S. interest rates as "an insurance against ongoing risks" as global growth shows signs of slowing amidst persistent trade tensions. This despite his optimism in the economy outlook as "favorable", with inflation hovering near the Fed's 2% target and their labour market on sure footing. However, there was uncertainty behind the scenes as the Board of Governors and Fed Bank presidents remain divided on future cuts and by how much. For comparison, Canada is taking a different strategy as BoC Governor Poloz continues to hold the line leaving his overnight rate unchanged for the foreseeable future. With U.S. markets climbing toward all-time highs, the latest Fed rate action will continue to provide fodder for extending the current historical Bull Run, with a chance of them raising rates again either this year or the next.

Just a little while longer. Governor Stephen Poloz continues to stand alone compared to his peers as the only central bank that has not moved, or even suggested, to begin adopting accommodative policy in the face of global economic slowdown. At their latest rate announcement meeting following a summer break, Mr. Poloz opted not to take any rate action, citing that the economy was on relatively sure footing, the housing sector was recovering and inflation within its preferred target rate at 2%. Even more fodder to hold rates was the August unemployment data that came in surprisingly strong with total hirings more than five times greater than analysts' earlier projections. However, the Bank of Canada made a cautionary note of the effects the trade conflicts between the U.S. and China, if prolonged, would have on the economy—as can be already seen by weakness in the manufacturing sector. As well, data in the U.S. pointed to a slowing economic machine as factory activity contracted for the first time in three years and job creation came in below expectations. In preparation, the U.S. Federal Reserve had cut rates in July by 25 basis points, with further gradual cuts throughout the remainder of the year. By taking action that is dependent on data, the Bank of Canada is in no rush to adjust the overnight benchmark rate and will continue, for a bit longer, to take a wait-and-see approach.

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