Credential

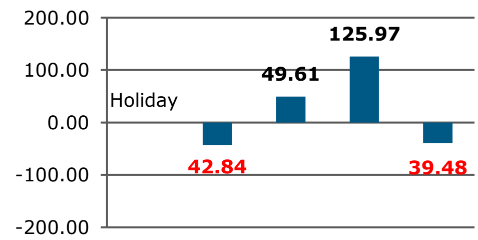
Market Insights | WEEKLY

Canadian Markets

For the week ending September 6th, 2019

- **TSX gains.** The S&P/TSX Composite rose on optimism of renewed trade talks between the U.S. and China set for October. This was a reversal from the situation less than two weeks ago when both countries were retaliating against one another. Also providing a boost was the Fed's commitment to continue along the path of helping the U.S. economy grow with the tools it has at its disposal. On the close, the TSX ended at 16,535, an increase of 0.6% for the week.
- **Loonie flies higher.** Our dollar reached a month-high, gaining first on the Bank of Canada choosing to hold interest rates based on confidence that the economy was quite healthy despite the ongoing growth concerns at home and abroad. Secondly, the labour market continues to shine as the August jobs report exceeded economist forecasts and sent the Loonie surging at the end of the holiday-shortened week. At the close, the Loonie finished at 75.95 U.S. cents, up 1.1%.
- **Gold lower.** Investors' appetite for risk rose as they flocked back into equity markets on news of re-initiated trade discussions between the two largest global economies. The haven asset had served as a temporary shelter from the market volatility seen in recent weeks, but a positive outlook from the Feds sent demand for the metal falling, along with its price. At week's end, gold closed at US$1,506.82 an ounce for a December contract, a 0.9% decline.
- **Oil up.** A third straight week in active U.S. drilling rigs, as reported by Baker Hughes, and declines in U.S. inventories helped lift the price of the commodity after recent weakness. However, further gains may have been tempered as fewer than expected jobs were added in the U.S. Coupled with contraction in the manufacturing sector, the economy is showing signs of slowing. At the end of the week, an October delivery on a barrel of WTI crude settled at US$56.65, a surge of 2.8%.
- **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.
- **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 Daily Index Change



Indices	Week	YTD
S&P/TSX Composite		
16,535.33	93.26	2,212.47
	0.57%	15.45%
Dow Jones Industrial Average		
26,797.46	394.18	3,470.00
	1.49%	14.88%
S&P 500		
2,978.71	52.25	471.86
	1.79%	18.82%
NASDAQ		
8,103.07	140.19	1,467.80
	1.76%	22.12%
Hang Seng Index		
26,690.76	966.03	845.06
	3.76%	3.27%
FTSE 100		
7,282.34	75.16	554.21
	1.04%	8.24%

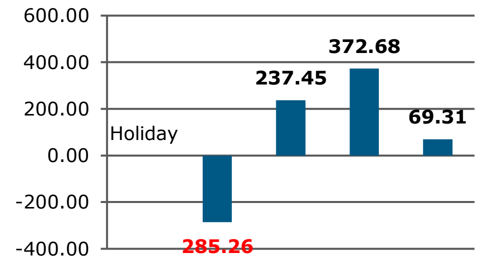
Source: Bloomberg

U.S. & International Markets

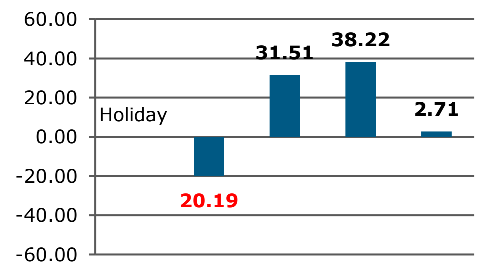
For the week ending September 6th, 2019

- **U.S. stock market rebounds.** After a lackluster August, the U.S. stock market rebounded solidly during the first trading week of September. News of an October meeting between the U.S. and China on trades gave a strong boost to the market. The broad-based S&P 500 rose 1.8% for the week, inching closer to the 3,000-level to end at 2,979, while the DJIA moved up 1.5%, closing at 26,798. The tech-heavy Nasdaq advanced by 1.8%, wrapping up the week above the 8,000-level at 8,103.
- **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%.
- **ISM manufacturing index drops.** Amid the bitter trade war with China, U.S. manufacturing sector fell into contraction territory for the first time in three years. The Institute for Supply Management's (ISM) manufacturing index declined to 49.1 in August, down from July's reading of 51.2; economists were expecting a reading of 51.3. The August contraction ended a 35-month expansion period. In a separate report, August's IHS Markit manufacturing PMI fell from 50.4 to 50.3, slightly above forecasts. Conversely, U.S. services sector expanded at a faster pace than expected in August. The ISM non-manufacturing index improved to 56.4 from July's reading of 53.7; economists were expecting a reading of 54.0. In a separate report, the IHS Markit services PMI fell to 50.7, missing forecast of 50.9.
- **Eurozone Q2 GDP growth slows.** Eurostat reported that Eurozone's Q2 GDP grew 0.2% in the second quarter, confirming earlier estimates and matching economists' expectations. The growth pace slowed from Q1's pace of 0.4%. On a YoY basis, the 19-member bloc grew by 1.2%.
- **Japan composite PMI rises.** The Jibun Bank Japan composite purchasing managers' index (PMI) increased from 50.6 to 51.9 in August, the highest level since December last year. The services sector shone, with the service PMI rising from 51.8 to 53.3, the highest level in nearly two years. The manufacturing PMI, however, edged down from 49.4 to 49.3, the fourth consecutive monthly decline.
- **China composite PMI rises.** Business activities in China improved in August, according to the Caixin/Markit composite purchasing managers' index (PMI). The composite PMI ticked up to 51.6 in August, a four-month high. The manufacturing PMI rebounded to expansion territory, advancing from July's reading of 49.9 to 50.4. Services PMI also rose, picking up from 51.6 to 52.1, the highest reading since May.

DJIA Daily Index Change



S&P 500 Daily Index Change



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Key Take-Away

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.