Credential
Market Insights | MONTHLY

Month in Review

For the month ended November 30th, 2017

Overall Highlights

- **TSX posts a gain.** The S&P/TSX Composite ended the month with a single day gain that was its largest since September. Good news from the Energy sector and strong corporate earnings from Financials sent the Index hovering at record highs set earlier in the month. The Composite closed November at 16,067, a 0.3% monthly gain.
- **Dollar flat.** Our Dollar was little changed and able to recover lost ground as the U.S. greenback suffered its worst monthly decline since the summer. Political drama in Washington with the Russian investigation and rumoured changes in the Trump Administration added to the difficulties of the U.S. tax reform proposals, sending the U.S. dollar lower against global currencies. In November, the Loonie ended at US77.59 cents for one Canadian dollar, virtually unchanged for the month.
- **Gold shines.** The yellow metal eked out a slight gain for the month amidst strong economic data in the U.S. that supports an expected Federal Reserve rate hike in December. Fortunately, the pressure on gold was lessened as the Feds mull future rate movements in 2018. The precious metal closed the month at US$1,274.90, an increase of 0.2%.
- **Oil gushes.** After weeks of speculation, investors were rewarded with news that OPEC and other major oil producers would continue their efforts to cut production to alleviate the global oversupply. The pact was extended to December 2018 as hold-out Russia, a non-OPEC member, also agreed to the extension. The January contract for a barrel of WTI crude ended trading at US$57.34, a 5% gain for the month.
- **Unemployment rises.** An increase in Youths seeking employment pushed the national unemployment rate higher in October.
- **Inflation up.** Higher transportation costs was the big contributor to the 0.1% rise of the consumer price index in October.
- **Manufacturing sales rise.** Increased demand in coal and petro goods pushed manufacturing sales higher in September, surprising analysts who had anticipated a decline.
- **Retail sales edge higher.** Higher prices at the pumps was more than enough to offset declines in cars and clothing as retail sales rose slightly in September.
- **U.S. Q3 GDP revised up.** The U.S. economy fared better in the third quarter than initially thought.
- **U.S. CPI rises.** The Labor Department reported that consumer prices rose slightly in October.
- **Euro-zone unemployment rate falls.** Euro-zone's labour market remained robust in October. Eurostat reported that the jobless rate within the single-currency bloc declined to 8.8% in October.
- **Euro-zone economic sentiment rises.** Despite some political issues in Germany and Spain, economic sentiment within the 19-member region rose to its highest level in 17 years in November.
- **Japan's GDP continues to grow.** The world's third largest economy posted a 0.3% quarter-over-quarter growth in Q3, matching economists' expectations.
- **China manufacturing PMI falls.** The gauge of manufacturing activity for small and medium-sized firms posted its weakest reading in five months in November.

Index/Commodity/Currency		
Close	**MonthChange**	**YTDChange**
S&P/TSX Composite		
16,067.48	41.9	779.9
	0.3%	5.1%
BMO Nesbitt Burns Small Cap		
903.85	-0.3	23.6
	0.0%	2.7%
Dow Jones Industrial Average		
24,272.35	895.1	4,509.8
	3.8%	22.8%
S&P 500		
2,647.58	72.3	408.8
	2.8%	18.3%
NASDAQ Composite		
6,873.97	146.3	1,490.9
	2.2%	27.7%
MSCI-EAFE Index		
2,020.13	17.6	336.1
	0.9%	20.0%
WTI Crude Oil (per barrel, in $US)		
57.34	2.7	3.5
	4.96%	6.5%
Gold (per ounce, in US$)		
1,274.90	3.1	124.0
	0.2%	10.8%
Canadian Dollar (¢ per US$)		
77.59	0.0	3.1
	0.0%	4.2%

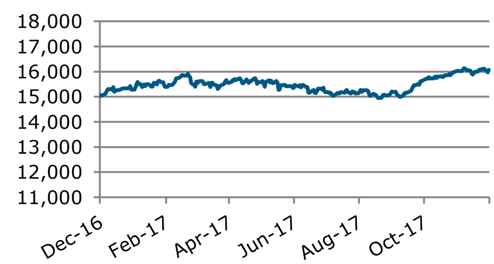
Sources: Bloomberg, PC Bond

Canadian Markets

S&P/TSX Composite Index
Sector Snapshot

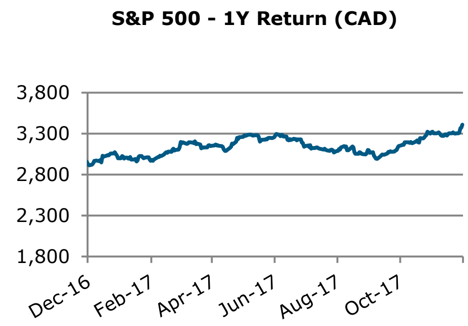
Sector	Month Return	YTD Return	Weight (%)
Energy	-0.57	-10.77	19.60
Telecoms	2.40	12.34	3.80
Industrials	-1.48	15.51	9.40
Consumer Staples	3.74	6.58	3.70
Utilities	-0.29	7.54	2.90
Financials	0.29	9.02	34.90
Consumer Discretionary	1.52	21.19	5.50
Health Care	18.22	6.89	4.90
Materials	-0.43	2.75	11.20
Information Technology	0.17	15.83	3.30
Real Estate	1.01	5.28	0.70

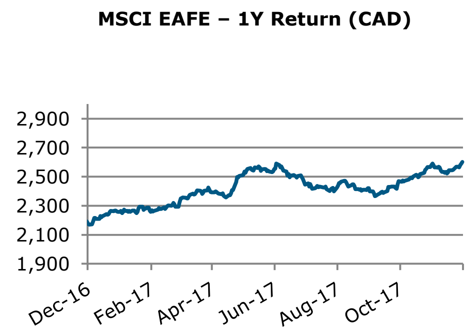
S&P/TSX Composite - 1Y Return



- **Unemployment rises.** An increase in Youths seeking employment pushed the national unemployment rate higher in October. For the month, the jobless rate rose to 6.3% as the economy added 35,300 new jobs due in part to more employers hiring for full-time positions. The "Other Services" category led monthly gains followed by construction, while retail and wholesale sectors led decliners. The participation rate rose slightly to 65.7%.
- **Inflation up.** Higher transportation costs was the big contributor to the 0.1% rise of the consumer price index in October. Prices for household goods, furnishings, and equipment also rose, but it was not enough to compensate for the decline in gasoline prices, which was the lone detractor of the eight major components of CPI. On an annualized basis, inflation stumbled lower to 1.4% from 1.6%. Core inflation gained 0.9% for the month, given it does not include volatile components such as energy and food products.
- **PPI surges.** Following a decline in September, wholesale inflation rebounded in October surpassing analyst forecasts. For the month, Statistics Canada's Product Price Index rose 1% compared to expectations of a 0.5%. A soft Loonie pushed the cost of vehicles higher as 18 of the 21 commodity groups were higher, while two remain unchanged. Had our currency remained unchanged, PPI would have increased 0.4%. Annually, PPI is up 1.8%, a jump from 1.5% in September.
- **Manufacturing sales rise.** Increased demand in coal and petro goods pushed manufacturing sales higher in September, surprising analysts who had anticipated a decline. For the month, total sales rose 0.5%, against forecasts of a 0.3% drop, as August's reading was revised down to 1.4% from 1.6%. Of the 21 industries tracked, only seven rose; coal and petrol rose 10.3%, likely attributed to the post-hurricane rebuilding in the U.S. south. Manufacturing sales also gained 0.7% on a volume basis.
- **Manufacturing PMI slips.** Factory activity and conditions slowed in October as new export orders declined and hurricanes in southern U.S. caused disruptions in the supply chain. Markit's PMI fell to 54.3 from 55.0 in September, its lowest since the beginning of the year and consistent with the general economic slowdown seen recently. Sub-components of the PMI reading saw export orders contracting for the first time in almost a year while other measures showed gains, particularly in employment and order backlogs.
- **Wholesale sales fall.** Factory output fell sharply in September as personal and household goods demand declined along with food and beverage. For the month, wholesale sales dropped 1.2%, with five of the seven sectors tracked lower and total receipts tallying $62B. Bucking the trend were building material and supplies as well as the auto and parts sectors. On a volume basis, sales were lower by 1.1%.
- **Retail sales edge higher.** Higher prices at the pumps was more than enough to offset declines in cars and clothing as retail sales rose slightly in September. The 0.1% reading reported by Statistics Canada was far short of economist estimates of 0.9%, as August numbers were revised higher to -0.1% from -0.3%. Having had a strong run in the first half of 2017, consumers have taken a breather that is expected to slow in Q3 and Q4, along with the broader economy.
- Canada Housing News:
  - **Starts gain.** Ground-breaking increased in October as the number of new construction in the Vancouver market rose to a 12-month high as the other hot-spot, Toronto, cooled. Nationally and on a seasonally-adjusted basis, 222,771 units were started for the month. Urban starts rose 2.5% as multi-unit dwelling rose 12.5% and detached homes fell 17.1%.
  - **Permits rise.** Applications for future buildings rose for the first time in three months due to increased demand in the commercial and industrial sectors. In September, building permits rose 3.8% as the non-residentials jumped 13.9% and residentials fell 1.7%. Total receipts of permits issued tallied $7.9B.
  - **Existing home sales fall.** Following mortgage rule tightening and foreign buyers tax in Toronto, sales of existing homes gained in October for a third consecutive month. As reported by CREA, sales were higher by 0.9% for the month; however, on an annual basis, non-seasonally-adjusted sales are lower by 4.3% on efforts by governments to rein in rising home prices.
  - **New home prices higher.** The price of a new home rose in September, led by increases seen in Vancouver. For the month, national prices rose 0.2% from August, on par with forecasts and 3.8% higher compared to a year ago. Prices in Toronto, following provincial legislation to control that market, had no change in their prices for a fourth straight month but still 6.4% higher annually.

U.S. Markets





- **U.S. stock market surges.** The U.S. stock market had another strong month in November despite the uncertainties spurring from the much-anticipated U.S. tax reform. All three major indices posted solid gains for the month. The broad-based S&P 500 jumped 2.8%, closing the month at 2,648. The Dow Jones Industrial Average moved up 3.8%, passing the 24,000-level for the first time ever to close at 24,272. The tech-heavy Nasdaq rose 2.2%, wrapping up November at 6,874.
- **U.S. Q3 GDP revised up.** The U.S. economy fared better in the third quarter than initially thought. The Commerce Department released its second estimate of GDP growth for Q3, stating it grew at a 3.3% annualized rate compared to the first estimate of 3%. It was the fastest reported growth pace since the third quarter of 2014. Economists were expecting a smaller upward revision to 3.2%.
- **U.S. job openings increase.** The number of job openings in U.S. topped 6M for the fourth month in September. The Job Openings and Labor Turnover Survey (JOLTS) indicated that September's number of job openings moved up to 6.09M, slightly higher than economists' estimated 6.08M. It was the first time ever that the number of job openings remains above the 6-million mark for four straight months. Unemployment rate in October fell from 4.2% to 4.1% announced in early November.
- **U.S. CPI rises.** The Labor Department reported that consumer prices rose slightly in October. The consumer price index (CPI) was reported to increase by 0.1% in October after jumping 0.5% in September; economists were expecting the CPI to edge up 0.1%. On a year-over-year basis, CPI was up 2%, matching the expected forecast. The core CPI, which excludes energy and food prices, rose 0.2% month-over-month and 1.8% year-over-year.
- **U.S. industrial production jumps.** Industrial production bounced back after the disruptions caused by the hurricanes. The Federal Reserve reported that industrial output rose 0.9% in October, much better than economists expected increase of 0.5%. On a year-over-year basis, industrial production was up 2.9%.
- **U.S. 'flash' composite PMI falls.** Business activity in the U.S. eased in November, according to the 'flash' estimate of the composite PMI. The 'flash' IHS Markit composite purchasing managers' index (PMI) for November decreased to 54.6 from October's reading of 55.2; economists were expecting a reading of 55.6. Manufacturing PMI declined to a two-month low of 53.8 from October's reading of 54.6, missing economists' forecast of 54.5. Services PMI also fell to 54.7, down from October's 55.3, also missing economists' expected 55.3.
- **U.S. retail sales increases.** Retail sales unexpectedly increased in October. The Commerce Department reported that retail sales rose 0.2% in October, exceeding economists' expectation of no growth. On an annual basis, retail sales were up 4.6%. Auto sales continued to provide the push, rising 0.7% in October after jumping up 4.6% in September.
- **U.S. consumer sentiment gains.** Consumer confidence rose slightly in November, according to a report by the University of Michigan. November's final reading of the University's consumer sentiment index rose to 98.5 from October's reading of 97.8; economists were expecting 98.0.
- U.S. Housing News:
  - **U.S. housing starts rise.** Home building jumped to a one-year high in October according to a report by the Commerce Department. October's housing starts were reported to increase by 13.7% to a seasonally adjusted annual pace of 1.29M units. That was higher than economists' forecast of a 1.19M unit pace. October's pace was also the highest level of home building since last October. On the other hand, building permits rose 5.9% in October to an annual rate of 1.3M units, the highest level since January.
  - **U.S. pending home sales swell.** Pending home sales jumped in October, according to the National Association of Realtors (NAR). NAR's October pending home sales index rose 3.5% to 109.3 from September's reading of 105.6; economists were expecting a more modest gain of 1%. Compared to a year ago, however, pending home sales were down 0.6%. Limited stock continued to be a drag on sales.
  - **U.S. home prices rise.** Home prices rose more than expected in September, according to the S&P Corelogic Case-Shiller home price index. The index rose 6.2% on the year, slightly higher than economists' estimated 6.1% increase. The 20-city index also rose 6.2% in September, with Seattle, Las Vegas, and San Diego reporting the highest year-over-year gains.
  - **U.S. new home sales jump.** New home sales rose unexpectedly in October, reaching a 10-year high. The Commerce Department reported that new single-family home sales surged 6.2% in October to a seasonally adjusted annual pace of 685,000 units. It was the highest level since October 2007. Economists were expecting a fall of 6% to an annual pace of 625,000 units.
  - **U.S. existing home sales rise.** Existing home sales increased more than expected in October, but the limited supply in the housing market remained an obstacle. The National Association of Realtors reported that existing home sales rose 2% to a seasonally adjusted annual pace of 5.48M units, exceeding economists' estimated pace of 5.42M units. On a year-over-year basis, existing home sales fell 0.9%.

European Markets

- **Euro-zone unemployment rate falls.** Euro-zone's labour market remained robust in October. Eurostat reported that the jobless rate within the single-currency bloc declined to 8.8% in October from September's rate of 8.9%; economists were expecting a jobless rate of 8.9%. It was the lowest unemployment rate since January 2009.
- **Euro-zone inflation increases.** Inflation within the 19-member region picked up slightly in November, but remained below the 2% inflation target set by the central bank. The preliminary reading of the harmonized index of consumer prices (HICP) for November came in at 1.5% year-over-year, up from October's pace of 1.4%, but missing expectation of a 1.6% increase.
- **Euro-zone PMI rises.** Business activity accelerated within the single-currency bloc in November. IHS Markit's composite 'flash' purchasing managers' index (PMI) jumped to 57.5 in November, beating economists' estimate of 56.0; it was the highest reading since April 2011. Manufacturing PMI moved up to 60.0 from October's reading of 58.6, the second highest since the inception of the index. Services PMI advanced to a six-month high of 56.2 from October's reading of 54.9.
- **Euro-zone economic sentiment rises.** Despite some political issues in Germany and Spain, economic sentiment within the 19-member region rose to its highest level in 17 years in November. The European Commission reported that its economic sentiment index increased to 114.6 in November from October's reading of 114.1, the highest reading since October 2000. November's reading was in line with economists' expectations.

Asian Markets

- **Japan's GDP continues to grow.** The world's third largest economy posted a 0.3% quarter-over-quarter growth in Q3, matching economists' expectations. It was the seventh straight quarter Japan's economy recorded quarterly expansion, the longest stretch in more than a decade. On an annualized basis, Q3 GDP grew 1.4%, a tick higher than economists' estimate of a 1.3% increase.
- **Japan core CPI jumps.** Japan's consumer prices continued to rise in October. The core consumer price index (CPI), which excludes fresh food prices, jumped 0.8% on the year in October, matching economists' expectations. It was up for the 10th straight month and was the largest year-over-year percentage increase since October 2014.
- **Japan manufacturing PMI surges.** Japan's manufacturing activity accelerated at the fastest pace in more than 3½ years. The Nikkei Japan manufacturing purchasing managers' index (PMI) rose from October's reading of 52.8 to 53.6 in November. It was the highest reading since March 2014.
- **Japan retail sales fall.** Japanese retail sales dropped for the first time in a year in October. The Ministry of Economy, Trade, and Industry reported that retail sales moved down 0.2% year-over-year in October, matching economists' forecast. It was the first year-over-year decline since October last year.
- **China's inflation rises more than expected**. Both consumer prices and producer prices in China increased more than expected in October. The National Bureau of Statistics reported that the consumer price index (CPI) rose 1.9% year-over-year in October, accelerating from September's pace of 1.6%; economists were expecting a rise of 1.8%. The producer price index (PPI) also increased more than expected, rising 6.9% on the year versus economists' forecast of a 6.6% rise.
- **China manufacturing PMI falls.** The gauge of manufacturing activity for small and medium-sized firms posted its weakest reading in five months in November. November's *Caixin/Markit* manufacturing purchasing managers' index (PMI) for China dropped to 50.8 from October's reading of 51.0; economists were expecting a slightly higher reading of 50.9. It was the lowest reading since June. However, according to the National Bureau of Statistics, China's manufacturing and services sectors accelerated in November. November's official manufacturing PMI came in at 51.8, topping economists' expected reading of 51.4 and October's reading of 51.6. The services PMI rose from previous month's reading of 54.3 to 54.8, also beating forecasts.

Key Take-Aways

Jobs-ucopia. Despite signs that the economy is slowing as indicated from the latest GDP and manufacturing data, employers continue to hire in preparation for the upcoming holiday season. In StatCan's most recent employment report for October, Youths, those between 15 to 24 years of age, were the big beneficiaries of the hirings but also the big reason for the bump in unemployment rate to 6.3% as many more looked for jobs. Fortunately, the net new jobs added during the month were of a full-time nature exemplifying increasing stability of the labour force and greater confidence by employers of future economic growth. The proverbial horn of plenty produced 308,100 jobs in the last 12 months and hopefully will continue to add more into the labour market.

In-FLAT-ion. The most recent consumer price index data reported by Statistics Canada was lackluster, increasing concerns that the growth spurt the country enjoyed for the better part of 2017 is over. In October, the monthly increase was 0.1%, half of September's reading, with annualized inflation at 1.4% for the same period. Both readings were of little surprise as they were in line with economists' forecasts; however, the annualized number fell further away from the Bank of Canada's (BoC) 2% target, the mid-way point of their comfort range for inflation to lie. For the US, the 0.1% increase matched expectations, but reached a 2% YoY increase. After two rate hikes this year, the BoC had limited options on what it could do to keep the economy growing. Fortunately, with the weak data, albeit not preferred, it does provide some breathing room for the central bank to take a "cautious approach" to measure the underlying fundamental risks while inflation remains flat. It is expected that the BoC will continue to be accommodative in their policy and only exercising rate hikes when needed.