Credential

Market Insights | MONTHLY

Month in Review

For the month ended April 30th, 2018

Overall Highlights

- **TSX higher.** Despite the country's main stock exchange experiencing a surprise hardware glitch—shutting it down temporarily—it was able to close the month in the positive. Optimism in the process of tri-lateral trade talks with Mexico and the U.S. help the Index move higher. As well, pushed upward by crude prices, the TSX touched a six-week high led by the Energy and Industrial sectors, while Financials were almost flat for the month. The Composite closed April at 15,608, a 1.6% monthly gain.
- **Dollar climbs.** The Canadian buck rallied on the backs of stronger oil prices, outperforming other global currencies that softened against the rising U.S. dollar. Our currency continued to be affected by trade, in particular, the ongoing NAFTA trade negotiations and the future of exemptions on U.S.-bound steel and aluminum import tariffs set to expire at the end of April. The Loonie closed the month at US77.91 cents for one Canadian dollar, a monthly increase of 0.5%.
- **Gold tarnishes.** Strength in the U.S. greenback ahead of a scheduled FOMC meeting in the beginning of May, sent the the yellow metal lower in April. The Federal Reserve is not expected to move rates given the robust health of the economy but it may take an increased hawkish position to hike rates in the near future. This caused gold, a non-yielding asset, to fall and end the month at US$1,316.10, down 1.0% from March's close.
- **Oil surges.** The commodity had another strong month following March's gains, closing on a high note as news arose of the U.S. unlikely to renew sanction waivers on Iran because of their nuclear program. This provided some bullish sentiment and tightening of the global crude supply given Iran provides about 500,000 barrels per day to the tally. A June contract for a barrel of WTI crude ended trading at US$68.57, up 5.6% for the month.
- **Rates hold.** There were minimal expectations the Bank of Canada (BoC) would increase rates at their latest policy meeting and they did not surprise.
- **Unemployment rate holds.** The jobless rate was unchanged in March despite the economy adding 32,300 new jobs.
- **Inflation higher.** Rising prices at the pumps and higher air plane tickets were the backstop to an increase in the Consumer Price Index for March.
- **Retail sales up.** There were few bright spots in retail as sales grew 0.4% in February, just bettering the 0.3% forecasted by economist.
- **U.S. Q1 GDP rises more than expected**. The Commerce Department released its first estimate of Q1 GDP growth, and it was better than expected.
- **Jerome Powell speaks.** Jerome Powell gave his first economic outlook since taking over Fed's top job from Janet Yellen.
- **U.S. adds less jobs than expected.** The U.S. economy pumped out a lot less jobs than economists' forecast.
- **ECB keeps rates unchanged.** In a widely expected decision, there was no action by the ECB after its April meeting. The ECB decided to keep its benchmark interest rates unchanged.
- **Euro-zone unemployment drops.** The unemployment rate within the Euro-zone fell to its lowest level since December 2008 in February.
- **BOJ stays its course.** As expected, Bank of Japan kept its monetary policy steady. Benchmark interest rates are to remain at historically low levels and the asset purchase program is to continue running.
- **China Q1 GDP grows.** China's statistics bureau reported that the world's second-largest economy grew by 6.8% in Q1 2018, topping economists' expected growth pace of 6.7%.
- **China manufacturing PMI drops.** The Caixin/Markit manufacturing purchasing managers' index (PMI) declined to a four-month low in March.

Index/Commodity/Currency		
Close	**MonthChange**	**YTDChange**
S&P/TSX Composite		
15,607.88	240.6	-601.2
	1.6%	-3.7%
BMO Nesbitt Burns Small Cap		
896.66	32.9	-39.7
	3.8%	-4.2%
Dow Jones Industrial Average		
24,163.15	1.5	-556.1
	0.0%	-2.2%
S&P 500		
2,648.05	5.7	-25.6
	0.2%	-1.0%
NASDAQ Composite		
7,066.27	1.8	162.9
	0.0%	2.4%
MSCI-EAFE Index		
2,043.66	38.0	-7.1
	1.9%	-0.3%
WTI Crude Oil (per barrel, in $US)		
68.57	3.6	8.5
	5.6%	14.1%
Gold (per ounce, in US$)		
1,316.10	-13.3	11.1
	-1.0%	0.9%
Canadian Dollar (¢ per US$)		
77.91	0.3	-1.8
	0.5%	-2.3%

Sources: Bloomberg, PC Bond

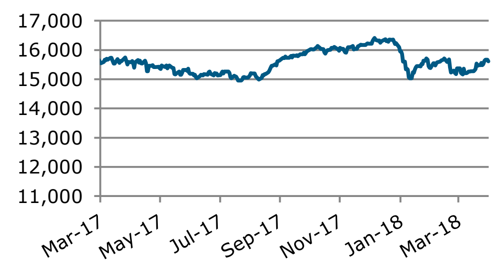
Canadian Markets

- **Rates hold.** There were minimal expectations the Bank of Canada (BoC) would increase rates at their latest policy meeting and they did not surprise. BoC Governor Poloz held the overnight rate at 1.25% as the economy underperformed in the first quarter of 2018 and inflation is expected to remain within its current 2% range after the impact of higher gas prices and minimum wage increases disperses through the economy. Other factors cited by Mr. Poloz as reasons to hold rates were the noticeable weakness in the housing market—especially in the top regions—and continued uncertainty in NAFTA.
- **Unemployment rate holds.** The jobless rate was unchanged in March despite the economy adding 32,300 new jobs. This was the third month out of the last four where the unemployment rate fell to a historical low of 5.8% as hirings in construction and building (+18,300) led all sectors followed by public administration (-11,900). Consensus estimated only 20,000 would be added but a surge in full-time employment (+68,300) more than overcame the decline in part-time employment (-35,900). The participation rate also held steady at 65.5% as more people entered the labour force.
- **Inflation higher.** Rising prices at the pumps and higher air plane tickets were the backstop to an increase in the Consumer Price Index for March as seven of the eight main components monitored rose. Reported by Statistics Canada, prices rose 0.3% from the previous month, driven by higher minimum wages in Ontario and other regions but was also tempered by lower prices seen in electronic and digital equipment. Annualized, inflation inched up a notch to 2.3% from 2.2% in February, while the less volatile core inflation measure fell slightly to 1.4% from 1.5%
- **PPI rises.** The rising input cost of paper and pulp and energy products sent Statistics Canada's Product Price Index gauge higher in March by 0.8%. A 0.7% gain had been expected as 16 of the 21 major groups tracked increased while only one was unchanged. A decline in the value of the Canadian dollar contributed to the rising prices during the month where some are priced in U.S. dollars. On an annualized basis, prices were 2.3% higher, unchanged from the previous month.
- **Manufacturing PMI edges higher.** Canadian factories were busier in March on a rise in new orders and increased output. In March, as a gauge of manufacturing activity, Markit's PMI reading was 55.7 on a seasonally adjusted basis, a notch up from February's 55.6. One measure of PMI was particularly interesting as purchasing activity of input materials reached its highest since April 2011 due to businesses accumulating their stock buffers and to accommodate rising production.
- **Manufacturing sales rise.** Factory sales rose in February, boosted higher by increased demand in the transportation equipment industry. For the month, Statistics Canada reported receipts of $55.8B, a 1.9% increase from the month previous. Fourteen of the 21 industries tracked were higher as the sector strengthened and recovered from two straight monthly declines.

S&P/TSX Composite Index
Sector Snapshot

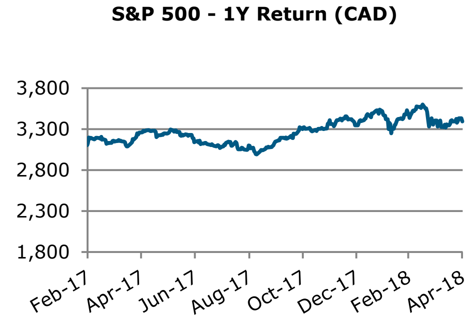
Sector	Month Return	YTD Return	Weight (%)
Energy	6.77	-4.29	19.50
Telecoms	0.68	-7.13	4.50
Industrials	2.84	-0.24	9.90
Consumer Staples	-1.36	-7.51	3.50
Utilities	-1.79	-8.62	3.60
Financials	-0.04	-4.25	34.30
Consumer Discretionary	1.04	-2.39	5.50
Health Care	-3.65	-16.85	1.20
Materials	0.36	-4.23	11.40
Information Technology	2.42	12.74	3.80
Real Estate	-0.61	-1.28	2.90

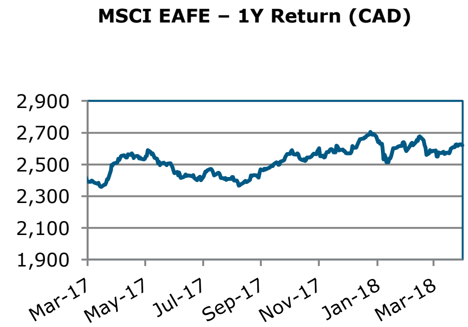
S&P/TSX Composite - 1Y Return



- **Wholesale sales fall.** Wholesale sales for a second straight month, with February's decline the largest since September 2017. For the month, sales fell 0.8% with four of the seven subsectors tracked by StatCan dropping. Total receipts were $62.8B, led by a 0.8% rise in the personal and household goods sector. In terms of volume, sales decreased even more to -0.9%.
- **Retail sales up.** There were few bright spots in retail as sales grew 0.4% in February, just bettering the 0.3% forecasted by economist. Of the 11 subsectors followed, only four increased—led by autos and general merchandise—with gainers representing 47% of overall retail sales. This was the largest monthly gain since October 2017 as trade in volume terms also rose higher by 0.3%. On an annualized basis, retail sales are up 3.5%, a jump from January's 2.5% reading.
- Canada Housing News:
  - **Housing starts lower.** The number of ground-breakings for homes slowed in March led by multi-unit dwellings. For the month, CMHC reported a seasonally adjusted annual rate of 255,213 units, down from more than 231,000 in February as non-detached homes fell 7.3% compared to the previous month. Detached homes helped cushion the drop by rising 9.5% as interest rates and government regulation have begun to have an effect on the housing sector.
  - **Building permits decline.** Weakness in Ontario was mostly to blame as the number of applications for future buildings fell 2.6% to a total value of $8.2B in February. This was down sharply from January's 5.2% advance as demand for single-family homes and commercial structures lagged. The Toronto and Oshawa regions topped all decliners where the Western metropolitan areas increased led by the continued recovery in Alberta.
  - **New home prices fall.** With interest rate hikes over the last few months and new mortgage rules that took place on January 1st, the price of a new home in Canada fell for the first time since July 2010, Statistics Canada reported. Prices were lower by 0.2%, after being unchanged in January, with Toronto seeing the largest monthly decline falling 0.6%, its largest since February 2010. Prices were unchanged as seven of the 27 metros followed in the index fall. On an annual basis, home prices are higher by 2.6%, the smallest pace since June 2016.
  - **Existing home sales higher.** Sales in pre-owned homes rose in March as more than half of the housing markets tracked by CREA gained. Compared to February, existing home sales rose 1.3% led by Ottawa and Montreal increases that countered declines seen in Vancouver, B.C. Okanagan, Calgary, and Edmonton regions. Non-seasonally adjusted sales activity is down 22.7% from a year ago as government and mortgage changes have caused uncertainty in the sector.

U.S. Markets





- **U.S. stock market flat for the month.** After plunging in March, the U.S. stock market ended flat in April after experiencing plenty of volatility over the course of the month. Positives from robust earnings reported by some market heavyweights were offset by the uncertainties around a potential trade war between China and U.S. The broad-based S&P 500 rose 0.2% in April, ending at 2,648. The Dow Jones Industrial Average was flat for the month, closing at 24,163. The tech-heavy Nasdaq was also flat, closing at 7,066. Nasdaq is the lone index that has remained positive YTD among the three major indices.
- **U.S. Q1 GDP rises more than expected**. The Commerce Department released its first estimate of Q1 GDP growth, and it was better than expected. Q1 GDP was reported to grow at an annualized pace of 2.3%, beating economists' estimate of 2%. However, it was a slowdown from previous quarter's 2.9% pace. Consumer spending, which accounts for two-thirds of the country's economic activity, slowed to a 1.1% gain on a quarter-over-quarter basis, the slowest pace since Q2 2013.
- **Jerome Powell speaks.** Jerome Powell gave his first economic outlook since taking over Fed's top job from Janet Yellen. During his speech, the new Fed's boss indicated that the central bank would maintain its stance on gradually raising its benchmark interest rates. "As long as the economy continues broadly on its current path, further gradual increases in the federal funds rate will best promote these goals," Powell said at the event in Chicago.
- **U.S. adds less jobs than expected.** The U.S. economy pumped out a lot less jobs than economists' forecast. The Bureau of Labor Statistics reported that nonfarm payrolls rose by 103,000 in March, missing economists' expected increase of 193,000. The unemployment rate remained at 4.1%. The average hourly wage, which recently has been seen as an important gauge of inflation, rose at a 2.7% annualized pace, in line with expectations.
- **U.S. CPI falls.** Consumer prices fell for the first time in ten months in March, according to the Labor Department. The consumer price index (CPI) slipped 0.1% in March, the first monthly drop since May last year; economists were expecting a flat reading. On a year-over-year basis, CPI increased by 2.4%. Core CPI, which excludes food and energy prices, rose 0.2% on the month and 2.1% on the year, both were in line with forecasts.
- **U.S. producer price rises.** Producer prices in U.S. increased more than expected in March. The Labor Department reported that the producer price index (PPI) rose 0.3% in March, beating economists' expectations of a 0.1% increase. On a year-over-year basis, PPI increased by 3%, also exceeding forecasts.
- **U.S. durable goods orders rise.** The Commerce Department reported that durable goods orders increased by 2.6% in March, thanks to a 7.6% surge in transportation equipment orders. Economists were expecting a 1.6% rise only. Core capital goods orders, which exclude the aircraft component, dropped 0.1% in March, missing economists' estimate of a 0.6% increase by a wide margin.
- **U.S. 'flash' composite PMI increases.** Business activity in U.S. expanded at a faster pace than the previous month. April's IHS Markit 'flash' composite PMI rose from March's reading of 54.3 to 54.8, beating economists' expectation of 54.6. Both manufacturing and services posted gains: manufacturing PMI moved up to 56.5 from March's reading of 55.7; services PMI rose slightly from 54.1 to 54.4.
- **U.S. retail sales rebound.** Retail sales bounced back nicely in March, according to the Commerce Department. Retail sales rose 0.6% in March after slipping in the first two months of the year. It was the largest monthly increase since last November. Economists were only expecting an increase of 0.4%.
- **U.S. consumer sentiment declines.** Consumer sentiment dropped in April, according to a report by the University of Michigan. The university's consumer sentiment index dropped from March's final reading of 101.4 to 98.8 in April. Economists were expecting a steeper decline to 98.0.
- U.S. Housing:
  - **U.S. pending home sales rises.** The National Association of Realtors reported that its pending home sales edged higher by 0.4% in March, the second consecutive monthly increase. Economists were expecting a larger increase of 1%. On a year-over-year basis, pending home sales were down 3%.
  - **U.S. housing starts rise.** Housing starts increased more than expected in March. The Commerce Department reported that March's homebuilding increased by 1.9% to a seasonally adjusted annual pace of 1.32M units. Economists were expecting an annualized pace of 1.26M units. Building permits rose 2.5% to an annual pace of 1.35M units.
  - **U.S. home prices surge.** Home prices advanced to a four-year high in February, according to the S&P Corelogic Case-Shiller home price index. The 20-city index rose 0.8% for the month, beating economists' expected increase of 0.7%. On the year, the 20-city index rose 6.8%, up from January's pace of 6.4%, also higher than economists' estimate of a 6.2% increase. The index was at its highest level since mid-2014. Seattle, Las Vegas and San Francisco continued to lead the pack in percentage increase.
  - **U.S. new home sales rise.** New home sales in U.S. increased to a four-month high in March, according to the Commerce Department. New home sales increased by 4% in March to an annualized pace of 694,000 units. Economists were expecting an annual pace of 625,000 units for March.
  - **U.S. existing home sales rises.** The National Association of Realtors reported that existing home sales rose 1.1% to a seasonally adjusted annual pace of 5.60M units in March; economists were expecting a decline to an annual pace of 5.51M units. On a year-over-year basis, existing home sales were down 1.2%.

European Markets

- **ECB keeps rates unchanged.** In a widely expected decision, there was no action by the ECB after its April meeting. The ECB decided to keep its benchmark interest rates unchanged and left the size of the asset purchase program at the current pace of $30 billion euro. "The Governing Council expects the key ECB interest rates to remain at their present levels for an extended period of time, and well past the horizon of net asset purchases," the ECB said in a statement.
- **Euro-zone inflation increases.** Inflation within the 19-member bloc accelerated in March. Eurostat reported that the final harmonised index of consumer prices (HICP) rose 1.3% year-over-year in March, up from 1.1% reported in February. Economists were expecting the price gauge to rise 1.4% in March.
- **Euro-zone unemployment drops.** The unemployment rate within the Euro-zone fell to its lowest level since December 2008 in February. Eurostat reported that the unemployment rate within the single-currency bloc declined to 8.5%, a tick down from January's 8.6%.
- **Euro-zone 'flash' composite PMI remains flat.** Business activity within the 19-member bloc maintained its pace of growth in April. The IHS Markit 'flash' composite PMI remained unchanged at 55.2 in April. Economists were expecting the gauge to decline to 54.8 from March's reading of 55.3. Manufacturing PMI dropped slightly from March's final reading of 56.6 to 56.0 while the services PMI remained unchanged at 55.0.
- **Euro-zone industrial production declines.** Eurostat reported that industrial production within the 19-member region fell 0.8% in February, missing economists' expectations of a 0.1% increase by a wide margin. On the year, production increased by 2.9%, also missing estimates of a 3.8% rise.
- **Euro-zone consumer confidence rises.** Consumer confidence within the Euro-zone rose in April. The European Commission reported that the preliminary reading of its consumer confidence index for April increased to 0.4, up from March's final reading of 0.1; economists were expecting the index to fall to -0.2.

Asian Markets

- **BOJ stays its course.** As expected, Bank of Japan kept its monetary policy steady. Benchmark interest rates are to remain at historically low levels and the asset purchase program is to continue running. Something that caught market participants by surprise was the removal of the time frame on achieving the 2% inflation target; the central banks had been forced to postpone the time frame due to sluggish inflation.
- **Japan composite PMI declines.** March's Markit/Nikkei composite purchasing managers index (PMI) declined from February's reading of 52.2 to 51.3. Services sector activity decelerated to its slowest pace in 17 months. The services sector PMI fell to 50.9, the lowest reading since October 2016. Manufacturing activity also slowed down as indicated by the drop of the manufacturing PMI from 54.1 to 53.1.
- **China Q1 GDP grows.** China's statistics bureau reported that the world's second-largest economy grew by 6.8% in Q1 2018, topping economists' expected growth pace of 6.7%. It was the third straight quarter China posted the same growth percentage. Other economic data out of China: Q1 fixed asset investment grew 7.5% year-over-year in Q1, missing economists' expected increase of 7.6%; retails sales rose 10.1% year-over-year, beating forecasts of 9.9% growth; industrial production advanced 6% on the year, matching forecasts.
- **China's CPI and PPI slows.** Both consumer prices and producer prices in China cooled down in March, according to the National Bureau of Statistics. The consumer price index (CPI) was reported to rise 2.1 on the year, missing economists' expected increase of 2.6% and slowing down from February's pace of 2.9%. The producer price index (PPI) rose 3.1% year-over-year in March, also cooling from February's pace of 3.7% and missing expectation of a 3.2% rise.
- **China manufacturing PMI drops.** The Caixin/Markit manufacturing purchasing managers' index (PMI) declined to a four-month low in March. The barometer of manufacturing activity, with a small and mid-size business bias, fell to 51.0 from February's reading of 51.6; economists were expecting the gauge to increase slightly to 51.7.
- **China services PMI falls.** The services sector in China slowed down in March. The Caixin services purchasing managers' index (PMI) fell to 52.3 in March, down from February's reading of 54.2. Economists were expecting a slight increase to 54.5.

Key Take-Away

Steady as she goes. This is what can be inferred following the Bank of Canada's latest policy announcement where Governor Stephen Poloz kept the benchmark overnight rate to 1.25% for a second month in a row after raising it in January. Numerous factors played into Mr. Poloz's decision, which was widely expected, but none was more important than this fact: the poor form of the economy at the start of this year is the opposite of last year's stellar start. Albeit positive, retail sales numbers told the tale of consumer fatigue as prices have begun to slowly creep higher in all goods and services. Wage inflation has risen to compensate (at 2.7% annualized) but remains below the 3% growth rate that the BoC "expect[s] where the economy operates with no excess labour." In addition, with the weakness seen in Q1, Mr. Poloz iterated that businesses still had capacity to expand the economy further before he would consider taking any rate action. From an international perspective, potential global trade wars and NAFTA continue to be concerns and potentially disrupt growth momentum that would be exasperated by a rake hike. Aside from the here and now, regards had to be given on the effects of raising rates, especially when household debt-to-income lingers at record levels and with a real estate sector that shows signs of softening. All in all, there's not one factor that will determine when the central bank will move rates, but many; and until they are all in sync, it's steady as she goes. At least until the next policy meeting in May. As for the rest of the world, while the Bank of Japan, the Bank of England, and the European Central Bank have not begun to raise their rates, they have all had serious discussions on doing so—perhaps as early as their next policy meetings. Similar to the Financial Crisis, central bank governors have coordinated their actions again, but this time to keep the world economies at manageable growth.