Credential

Market Insights | MONTHLY

Month in Review

For the month ended October 31st, 2019

Overall Highlights

- **TSX retreats.** The S&P/TSX Composite ended the month on a down note as China's economic data reports revived worries of growth concerns. Also impacting Canada's main stock exchange, as well as those south of the border, were doubts by Chinese officials on the long-term nature of any trade deals with the U.S. This sent investors flocking to precious metals and their producers, which helped cushion any further index declines. On the close, the TSX finished at 16,483, a loss of 1.1% in October.
- **Loonie rises.** The Loonie had a late month fall following the Bank of Canada's announcement to keep its overnight rate unchanged. Although markets were prepared for the news, it was the stance the central bank took, slightly dovish, that caught investors off guard and sending it lower in relation to its U.S. counterpart. However, for the month, our Dollar was still able to hold on to its recent strength against the U.S. greenback. At the close, the Loonie finished at 75.99 U.S. cents, up 0.6% from September's month end.
- **Gold shines.** Chinese trade pessimism along with weak factory production drove investors towards the yellow metal as a safe-haven. Adding support for gold were reports of falling consumer consumption in Germany, the largest economy in the European Union and the world's fourth largest, as effects of the U.S./China trade tensions ripple globally. In October, gold advanced 2.8% for the month, closing at US$1,512.99 an ounce for a December contract.
- **Oil up.** After seeing some upward momentum during the month, the commodity only managed to post a slight gain in October as the U.S. Energy Information Administration (EIA) reported crude supplies more than doubled forecasts. Less than enthusiastic Chinese economic data and reservations on a long-term trade deal between U.S. and China raised concerns around global growth. At the end of the month, a December delivery on a barrel of WTI crude settled at US$54.18, up 0.2%.
- **Back in for a second term.** In the days leading up to the opening of the election polls, the two-horse race was too close to call on who would win.
- **GDP up slightly.** Despite signs of weakness in many global economies, Canada's has shown some resilience edging up 1/10 of a percent in August, just below forecasts of a 0.2% gain.
- **BoC holds rates.** As expected, at the Bank of Canada policy announcement, Governor Stephen Poloz held interest rates as 1.75% for an eighth straight time.
- **Unemployment falls.** The labour market continues to surprise as 53,700 jobs were added in September, all of a full-time nature.
- **U.S. Q3 GDP grows faster than expected.** Economic activity in U.S. grew faster than expected according to the Commerce Department's first estimate of Q3 GDP.
- **Fed cuts interest rates.** The Federal Reserve lowered its benchmark interest rates by another 25 basis points for the third time this year after its October meeting, dropping the target range to 1.5% to 1.75%.
- **U.S. retail sales fall.** Retail sales fell for the first time in seven months, casting a shadow over the U.S. economy that had already shown signs of weakening.
- **Eurozone inflation continues to slow.** Eurozone's inflation slowed to its lowest level in almost three years in September, according to Eurostat.
- **Down to the wire.** After more than three years, three Prime Ministers and two delays to the original deadline, the United Kingdom was given a third extension by the European Council for the U.K. to leave the E.U. by January 31, 2020.
- **China's Q3 GDP growth slows.** The National Bureau of Statistics reported that China's Q3 GDP growth slowed to 6% year-over-year, down from Q2's pace of 6.2%.

Index/Commodity/Currency		
Close	**Month Change**	**YTD Change**
S&P/TSX Composite		
16,483.16	-175.5	2,160.3
	-1.1%	15.1%
Dow Jones Industrial Average		
27,046.23	129.4	3,718.8
	0.5%	15.9%
S&P 500		
3,037.56	60.8	530.7
	2.0%	21.2%
NASDAQ Composite		
8,292.36	293.0	1,657.1
	3.7%	25.0%
MSCI EAFE Index		
1,955.48	66.1	235.6
	3.5%	13.7%
WTI Crude Oil (per barrel, in $US)		
54.18	0.1	8.8
	0.2%	19.3%
Gold (per ounce, in US$)		
1,512.99	40.5	230.5
	2.8%	18.0%
Canadian Dollar (¢ per US$)		
75.99	0.5	2.7
	0.6%	3.7%

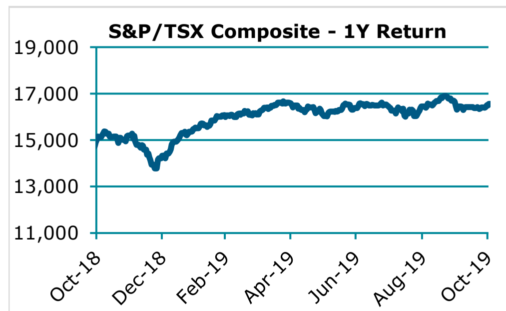
Source: Bloomberg

Canadian Markets

- **Back in for a second term.** In the days leading up to the opening of the election polls, the two-horse race was too close to call on who would win. In the end, the Liberals led by incumbent Prime Minister Justin Trudeau prevailed, but at the cost of the majority government he had enjoyed for the last four years. The Liberals lost 27 seats winning with a total of 157, 13 shy of the 170-majority marker, while the Conservatives became the official Opposition Party by capturing 121 seats and a heavy presence in the Prairies. The rather muted market reaction to the election results did not come as a surprise either. With less power in Ottawa, Trudeau will need to work closely with other political parties, perhaps the NDP, to form a coalition government to help pass legislation through Parliament.
- **GDP up slightly.** Despite signs of weakness in many global economies, Canada's has shown some resilience edging up 1/10 of a percent in August, just below forecasts of a 0.2% gain. Manufacturing (+0.5%), forestry and agriculture (+0.4%), and construction (+0.3%) provided the lift from previous month's flat growth. Fourteen of the 20 sectors followed by Statistics Canada gained as the services sector also contributed to the month's growth rising 0.1%. The surprising strength continues to be fodder for the Bank of Canada to hold off on cutting any interest rates.
- **BoC holds rates.** As expected, at the Bank of Canada policy announcement, Governor Stephen Poloz held interest rates as 1.75% for an eighth straight time. Citing heightened global risks, the BoC forecasted Canada's economy will continue to weaken, making the current level "appropriate" to provide the central bank with options in the future. The BoC's neutral stance is contrary to its global peers that have been more accommodative lately in managing their interest rates. With a dovish tone to Poloz's speech, the Bank will continue to monitor the economy and may possibly cut the rate during the last meeting of the year on December 4.
- **Unemployment falls.** The labour market continues to surprise as 53,700 jobs were added in September, all of a full-time nature. This helped drop the national unemployment rate to 5.5%, down from 5.7%, and just above the all-time low of 5.4% in May of this year. Expectations were for only 7,500 jobs to be added and for the jobless rate to be unchanged. Most of the new positions were seen in Ontario and Nova Scotia, and in the healthcare and food services industries, with declines in info tech. StatCan also reported that the more than 358K jobs added in the first nine months of the year is the best since 2002.
- **Prices fall.** The cost of a notional basket of goods in Canada fell in September, down 0.4% from the previous month. This was lower than August's decline of 0.1% and below expectations of -0.2% as prices fell on transportation, recreation, and education. On an annualized basis, CPI was unchanged, holding at 1.9% for another month and below forecasts of 2.1% as gasoline prices declined over the period. Core inflation told a similar story as well holding at 1.9% for the second time in as many months, on par with expectations.

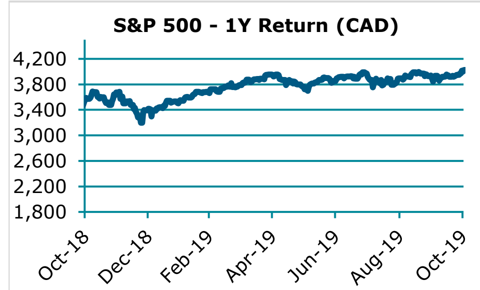
S&P/TSX Composite Index
Sector Snapshot

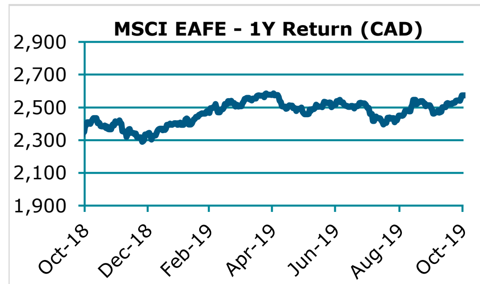
Sector	Month Return	YTD Return	Weight (%)
Consumer Discretionary	-4.27	11.42	4.20
Consumer Staples	-4.55	12.45	3.90
Energy	-4.33	5.05	16.00
Financials	-0.06	16.65	33.20
Health Care	-4.59	-10.07	1.30
Industrials	0.85	18.97	11.10
Information Technology	-1.12	46.03	5.10
Materials	2.93	17.01	11.30
Real Estate	-2.69	18.33	3.60
Communication Services	-1.53	6.69	5.50
Utilities	-1.14	28.86	4.70



- **Manufacturing expands.** Factory activity picked up for only the second time in six months expanding to 51.0 from August's 49.1 reading. This was the fastest pace since February as output and new orders advanced, both for the first time in six months. Also helping was increased optimism on future factory expansion plans and new order growth. Forecasts for manufacturing PMI for September was 49.8.
- **Retail sales slip.** Consumers were in less of a spending mood in August as retail sales declined 0.1%, unexpectedly below the 0.4% that analysts had forecasted. With almost half of the sectors tracked by Statistics Canada lower for the month, food and beverage and gas receipts were the lead detractors falling 0.8% and 0.4%, respectively. Conversely, sales rose 0.8% at general merchandise stores and 0.1% at auto dealerships. In volume terms, retail sales were higher by 0.2% suggesting falling prices resulted in the weak reading.
- Canada housing news:
  - **Housing starts drop.** The annual pace of groundbreakings across the country fell in September to 221,202 units, as reported by CMHC. This was still above the 214,500 units forecasted but down 2.5% from August's reading. Urban starts were the largest detractor as multi-family complexes dropped 0.2% and single detached homes fell a sharp 9.2%.
  - **Building permits climb.** The total value of building permits issued across the country rose 6.1% to $9.0B in August. Multi-unit dwellings advanced 18.8% with B.C. accounting for more than half of the gains especially in the Vancouver region. Also contributing was single family homes (+3.2%) and industrial structured (+18.9%), while commercial and institutional permits declined 5.9% and 10.7%, respectively.
  - **Canadian existing home sales rise.** As reported by CREA, national existing home sales edged higher in September by 0.6% compared to a month earlier. This was the seventh straight month of gains after the index touched a six-year low earlier this year as advances were seen in the country's larger urban regions of Vancouver, Calgary, Edmonton, and the Greater Toronto Area. Unadjusted seasonal sales are up 15.5% on an annualized basis with the average price nationally up 5.3% to $515,500.
  - **New home prices inches higher.** The cost of a new home in Canada rose slightly in August for the first time in four months, rising 0.1% and topping estimates of no change. Most of the gains for the month were in Québec municipalities of Sherbrooke (+2.1%), Montréal (+1.1%), and Trois-Rivières (+0.5%) due to the rising cost of construction. On an annualized basis, prices were lower by 0.3% for the 12-month period, on par with forecasts and slightly better than July's reading of -0.4%.

U.S. Markets





- **U.S. stock market makes record high.** Amid positive development on the trade war between U.S. and China and a solid corporate earnings season, the U.S. stock market made record high this month. The Fed cutting interest rates for the third time this year also fueled the optimism. The broad-based S&P 500 index broke the previous high reached back in July this year, closing October above the 3,000-level at 3,038, up 2% from the previous month. The Dow Jones Industrial Average was up 0.5%, ending the month at 27,046. The tech-heavy Nasdaq advanced by 3.7%, wrapping up the month at 8,292.
- **U.S. Q3 GDP grows faster than expected.** Economic activity in U.S. grew faster than expected according to the Commerce Department's first estimate of Q3 GDP. Q3 GDP was reported to grow at an annualized rate of 1.9%, down slightly from the 2% pace reported for Q2. It was better than economists' expected growth of 1.6%. Strong consumer spending and rising government expenditures were driving the better than expected result.
- **Fed cuts interest rates.** The Federal Reserve lowered its benchmark interest rates by another 25 basis points for the third time this year after its October meeting, dropping the target range to 1.5% to 1.75%. The move was widely expected by market participants. In its post-meeting statement, a key clause stating that the Fed would "act as appropriate to sustain the expansion" was removed. In the press conference, Chairman Jerome Powell said that the central bank would need to see a significant uptick in inflation before considering any future rate hike.
- **U.S. CPI unchanged.** The Labor Department reported that the consumer price index (CPI) remained unchanged in September, missing economists' expected increase of 0.1%. On a year-over-year basis, CPI was up 1.7%. The core CPI, which excludes the food and energy components, rose 0.1% in September, also missing forecasts. On the year, core CPI was up 2.4%, matching August's pace.
- **U.S. nonfarm payrolls rise modestly.** The Labor Department reported that nonfarm payrolls increased by 136,000 in September, a drop off from August's gain of 168,000; economists were expecting an increase of 145,000. Unemployment rate dropped from 3.7% to 3.5%, the lowest level since December 1969. Average hourly earnings rose 2.9% year-over-year, missing expected increase of 3.2%.
- **U.S. 'flash' composite PMI rises.** Business activity in U.S. improved slightly in October. October's preliminary reading of the composite purchasing managers' index (PMI) rose from September's final reading of 51.0 to 51.2, missing economists' expected reading of 51.6. The manufacturing PMI improved from 51.1 to 51.5, beating economists' expectation of 50.7. The services PMI advanced slightly from 50.9 to 51.0.
- **U.S. industrial production falls.** Industrial production fell sharply in September, reported by the Federal Reserve. Data showed that production fell 0.4% from August, missing economists' expectation of a 0.2% drop. The utilities component rose 1.4%, offset by weakness in manufacturing and mining, which fell 0.5% and 1.3% respectively.
- **ISM nonmanufacturing index drops.** Growth in the services sector in U.S. slowed down in September, according to the Institute for Supply Management (ISM). The ISM nonmanufacturing index fell from August's reading of 56.4 to 52.6, missing economists' expectation of 55.3. Despite the sharp drop, the sector still remained in the expansion territory.
- **U.S. consumer sentiment rises.** Consumer sentiment improved in October according to a survey by the University of Michigan. The university's consumer sentiment index rose from September's reading of 93.2 to 95.5; economists were expecting a reading of 96.0. The report indicated that consumers remained concerned about the negative impact from the trade war between China and U.S.
- **U.S. retail sales fall.** Retail sales fell for the first time in seven months, casting a shadow over the U.S. economy that had already shown signs of weakening. The Commerce Department reported that retail sales dropped 0.3% in September, missing economists' estimate of a 0.3% increase by a wide margin. On a year-over-year basis, retails sales were up 4.1%. Households cutting back spending on motor vehicles, building materials, and hobbies were the drag on sales in September.
- U.S. housing news:
  - **U.S. home prices rise at a slow pace.** Home prices in U.S. continued to rise, but at a slow pace. The S&P CoreLogic Cash-Shiller 20-City home price index rose 2% year-over-year in August, Matching July's annual pace. It was the slowest annual pace of increase in seven years. Economists were expecting a 2.5% annual rate. Phoenix, Charlotte and Tampa had the largest annual percentage increase.
  - **U.S. pending home sales increase.** Pending home sales rose more than expected in September. The National Association of Realtors reported that its pending home sales index advanced by 1.5% to a reading of 108.7; economists were expecting a 0.9% increase. The index was sitting at its highest level in two years.
  - **U.S. new home sales decline.** The Commerce Department reported that new home sales fell 0.7% to a seasonally adjusted annual pace of 701,000 units in September, on par with economists' forecast. On a year-over-year basis, sales were up 15.5%.
  - **U.S. existing home sales fall.** The National Association of Realtors reported that existing home sales dropped in September. Sales fell 2.2% to a seasonally adjusted annual pace of 5.38M units, missing economists' expected pace of 5.45M units. A lack of supplies in the market was cited as a main reason for the decline in September. On a year-over-year basis, sales were up 3.9%.
  - **U.S. housing starts fall.** The Commerce Department reported that housing starts declined by 9.4% to a seasonally adjusted annual pace of 1.26M units. It was much lower than economists expected annual pace of 1.32M units. On a year-over-year basis, housing starts were up 1.6%. Building permits also dropped, down from August's annual pace of 1.43M units to 1.39M units, but better than forecasts of 1.34M units.

European Markets

- **Data out of the Eurozone.** A slew of data was reported out of Eurozone. The 19-member economic bloc's Q3 GDP grew 0.2% quarter-over-quarter according to the preliminary reading; economists were expecting a 0.1% growth. Preliminary reading of the harmonised index of consumer prices (HICP) by Eurostat indicated that inflation within the zone weakened further in October, falling from September's annual pace of 0.8% to 0.7%, on par with forecasts. Finally, the unemployment rate within the region remained unchanged at 7.5%, above expectations of 7.4%.
- **Eurozone inflation continues to slow.** Eurozone's inflation slowed to its lowest level in almost three years in September, according to Eurostat. The harmonized index of consumer prices (HICP) rose 0.8% on the year in September, slowing further from August's pace of 1%, also missing economists' expectation of a 0.9% annual increase. It was the slowest annual pace of increase since November 2016.
- **Down to the wire.** After more than three years, three Prime Ministers and two delays to the original deadline, the United Kingdom was given a third extension by the European Council for the U.K. to leave the E.U. by January 31, 2020. With the flurry of events leading up to this arrangement, the FTSE 100, the U.K.'s main stock exchange, posted a loss of 2.2% for the month, while the British pound fell 4.6% in Canadian dollar terms. However, with the extension granted, the fate of the United Kingdom in the E.U. and in the global community has simply been temporarily delayed as British Prime Minister Boris Johnson's next challenge is to attain a majority government at a snap election called for December 12, 2019.
- **Eurozone economic sentiment weakens.** Economic sentiment within the 19-member bloc continued to worsen in October. The European Commission reported that its economic sentiment indicator fell to 100.8 in October, down from September's reading of 101.7. The gauge declined for the second straight month. Economists were expecting a reading of 101.1.

Asian Markets

- **Japan CPI falls.** Japan's inflation slowed to a 29-month low in September according to the Internal Affairs and Communications Ministry. The core consumer price index (CPI), which excludes the fresh food components, rose 0.3% year-over-year, down from August's pace of 0.5%. It was the slowest growth pace since April 2017. A 6.9% year-over-year drop in gasoline prices was the major drag on consumer prices. Inflation in Japan has remained far below the Bank of Japan's 2% target.
- **China's Q3 GDP growth slows.** The National Bureau of Statistics reported that China's Q3 GDP growth slowed to 6% year-over-year, down from Q2's pace of 6.2%. Economists were expecting the world's second-largest economy to report a Q2 growth pace of 6.1%. It was the slowest growth pace since Q1 1992. However, it was still within the government's full year target range of 6.0%-6.5%. Other economic data out of China for September: fixed asset investment rose 5.4% on the year, in line with forecasts; industrial production advanced by 5.8% on the year, beating forecasts of a 5% increase; retail sales rose 7.8% on the year, on par with estimates.
- **China CPI edges up, but PPI declines.** China's consumer prices and producer prices went in opposite directions in September according to data released by the National Bureau of Statistics. The consumer price index (CPI) rose 3% on the year, up from August's growth pace of 2.8%, the highest so far this year. A whopping 69.3% surge in pork prices pushed up the food components by 11.2% on an annual basis. The product price index (PPI), on the other hand, fell 1.2% on the year, marking the third straight month of contraction.
- **China manufacturing PMI falls.** Manufacturing activity in China continued to slow according to data released by the National Bureau of Statistics. The official manufacturing purchasing managers' index (PMI) dropped to 49.3 in October, down from September's reading of 49.8. Economists were expecting a flat reading. It was the sixth consecutive monthly decline of the manufacturing gauge and was the lowest reading since February.

Key Take-Aways

Wind in the sails. The patience exercised by Bank of Canada governor Stephen Poloz appears to be prudent action on his part despite calls for rate action to be taken similar to his central bank counterparts. As one of the key measures in assessing changes in the overnight rates, the latest annualized CPI reading continued to hold steady at or near the BoC's target of 2%—essentially the midway within its inflation rate range—for a seventh straight month. Core inflation, typically considered a better measure of price growth as it removes volatile components, was the same, holding near the same target for five straight months. This comes as little surprise given the Canadian economy remains robust in the face of ongoing global trade tensions between two of its largest trading partners. As well, the labour market with unemployment that hovers near a 43-year low, continues to add jobs of the preferred full-time variety. Altogether, Mr. Poloz has a favourable wind at his back with monetary options to hopefully help the economy weather any storm it may encounter in the current geoeconomic environment.

Vacation's over. After optimistic economic metrics in Q3, especially due to a falling unemployment rate and rising wage growth, the latest reading on the health of the Canada's economy brought to light its susceptibility to oil and the global events of the day. StatCan reported no change in July GDP, attributed a pull-back in oil and gas production due to a shutdown of facilities in Newfoundland and Labrador for almost a month. Albeit the stoppage was due to maintenance issues, the energy extraction and quarrying sector fell 3.5% during the month as global growth slowed due to trade tensions dragging on, especially between the U.S. and China where the latest round of talks is scheduled for mid-October. Surprisingly, the economy has showed robustness in the face of geo-political pressures arising around the world, namely with Brexit, U.S. sanctions against Iran around their nuclear program, and recent impeachment inquiries in the U.S. Each of these events, individually or collectively, can directly or indirectly impact demand for our goods and services and eventually affect GDP growth. The economy has fared well, with rising employment and controlled inflation despite weakness seen in other major economies; however, the good times may be over, and attention will need to be focused on keeping expansion progressing forward.

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