Credential

Market Insights | MONTHLY

Month in Review

For the month ended June 30th, 2019

Overall Highlights

- **TSX climbs.** The S&P/TSX Composite capped off a strong first half of 2019 with a gain ahead of a meeting of U.S. President Trump and China's President Xi Jinping at the G20 meeting where investors were optimistic of a path to resolve the trade dispute between the two largest economies. Possible rate cuts by the Feds, rising oil prices, and positive economic data in Canada helped buoy the Index higher for the month. On the close, the TSX ended at 16,382, up 2.1% for the month and 14.4% for the first half of 2019.
- **Loonie flies higher.** Weakness in the U.S. greenback was good news for the Loonie as it seized the opportunity to climb higher. Helping our currency were GDP numbers supporting a stronger second half of the year for the economy as forecasted by the Bank of Canada. In addition, there was a strong run-up in crude prices, one of the country's main exports, while talk of rate cuts by the BoC further stoked interest in our currency. At the close, the Loonie finished at 76.41 U.S. cents, an increase of 2.6%. It's up 4.2% year-to-date.
- **Gold shines.** June was the strongest monthly gain for the yellow metal since June 2016, touching a six-year high late in the month. Global tensions continued to push investors towards gold, but it was the actions of the U.S. Federal Reserve, from hawkish to dovish in six months, that provided a tailwind for the metal's rise in price. At month's end, gold closed at US$1,409.55 an ounce for an August contract, an advance of 8% and 9.9% for the month and year, respectively.
- **Oil gushes.** Markets await the outcome of two key meetings occurring in the latter part of June. One is the G20 meeting, where hopefully indifferences between the U.S. and China in their year-long trade dispute can see some positive discussions towards an agreement. With the world's largest economies at odds, demand for oil has weakened as growth slows. The second meeting is between OPEC members where expectations are for an extension of continued cuts in output to alleviate global oversupply inventories. At the end of the month, an August contract on a barrel of WTI crude settled at US$58.47, a rise of 9.3% and a whopping 28.8% over the last six months.
- **GDP higher.** Strong gains in crude helped push the economy higher in April and beat expectations. For a second month in row, GDP rose by 0.3%, topping 0.1% estimates and follows March's 0.5% gain.
- **Inflation climbs.** Inflation picked up in May as all eight major components rose. For the month, the cost of a notional basket of goods rose 0.4%, doubling forecasts, as food and transportation were big contributors.
- **PPI gains.** The Industrial Producer Price Index, IPPI, rose slightly in May as prices fell for ferrous metals and lumber, and slowed for energy products and food.
- **Unemployment falls.** After a surprisingly strong April, the labour market continued to churn out jobs as the jobless rate fell to 5.4%, comfortably below expectations and the previous month's 5.7% reading.
- **Retail sales gain.** Consumers were a little tighter with their pocketbooks as retails sales were almost flat in April edging up 0.1%, but below the 0.2% expected, to $51.5B.
- **U.S. GDP Q1 growth unrevised.** U.S. Q1 GDP growth was confirmed to grow at an annualized pace of 3.1%, reported by the Commerce Department.
- **Federal Reserve hints at possible rate cut.** The Fed announced that it would keep its benchmark interest rates unchanged after its two-day meeting in June.
- **U.S. economy pumps out less jobs than expected**. Job creation widely missed expectation in May, spurring speculation that the Federal Reserve may have to cut interest rates sooner than expected.
- **Euro-zone Q1 GDP grows.** Q1 GDP of the 19-member region expanded by 0.4%, an improvement from the 0.2% growth pace reported in the previous quarter.
- **China CPI and PPI rises.** Consumer inflation in China rose to its highest level in 15 months in May, according to the National Bureau of Statistics. In May, the consumer price index (CPI) rose 2.7% from a year ago, matching expectations.

Index/Commodity/Currency		
Close	**Month Change**	**YTD Change**
S&P/TSX Composite		
16,382.20	344.7	2,059.3
	2.1%	14.4%
Dow Jones Industrial Average		
26,599.96	1,784.9	3,272.5
	7.2%	14.0%
S&P 500		
2,941.76	189.7	434.9
	6.9%	17.3%
NASDAQ Composite		
8,006.24	553.1	1,371.0
	7.4%	20.7%
MSCI EAFE Index		
1,922.30	104.9	202.4
	5.8%	11.8%
WTI Crude Oil (per barrel, in $US)		
58.47	5.0	13.1
	9.3%	28.8%
Gold (per ounce, in US$)		
1,409.55	104.0	127.1
	8.0%	9.9%
Canadian Dollar (¢ per US$)		
76.41	1.9	3.1
	2.6%	4.2%

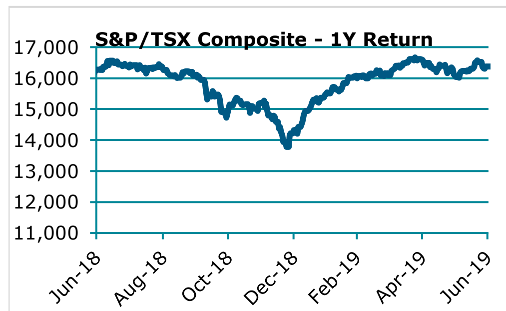
Source: Bloomberg

Canadian Markets

- **GDP higher.** Strong gains in crude helped push the economy higher in April and beat expectations. For a second month in row, GDP rose by 0.3%, topping 0.1% estimates and follows March's 0.5% gain. This marked the strongest back-to-back monthly increases since late 2017, helped by an increase in oilsands extraction and mining, quarry, and gas productions. The manufacturing sector, however, fell 0.8% as vehicle production declined due to temporary shutdowns in that industry.
- **Inflation climbs.** Inflation picked up in May as all eight major components rose. For the month, the cost of a notional basket of goods rose 0.4%, doubling forecasts, as food and transportation were big contributors. On an annual basis, it was more impressive as inflation touched a seven-month high to 2.4%, up from 2% in April. Core inflation, which excludes the effects of food and energy, rose sharply to 2.1% from 1.5%, its highest since 2012 and a deterrent for the Bank of Canada to cut rates.
- **PPI gains.** The Industrial Producer Price Index, IPPI, rose slightly in May as prices fell for ferrous metals and lumber, and slowed for energy products and food. The monthly reading of 0.1% was the slowest pace since the beginning of the year and lagged April's reading of 0.8%. The Raw Materials Price Index (RMPI), an index associated with IPPI, fell sharply by 2.3% after April's number was revised higher to 5.7%. On an annualized basis, IPPI was up 0.6% in May, falling from 1.7% in the previous month.
- **Unemployment falls.** After a surprisingly strong April, the labour market continued to churn out jobs as the jobless rate fell to 5.4%, comfortably below expectations and the previous month's 5.7% reading. For May, employers were able to fill 27,700 positions, all part-time in nature, mainly in the healthcare, professional services, and transportation sectors. The participation rate, the ratio of people working relative to the work force, fell two notches to 65.7%.
- **Manufacturing falls.** The manufacturing sector contracted for the second straight month as measured by IHS Markit's Manufacturing PMI in May. The latest reading of 49.1 was well below expectations of 49.8 and the lowest it's been since December 2015 with both output and new orders declining. Also adding to lower productivity was decline in supply chain efficiency of raw materials that lead to delays. It was a different story in terms of outlook as it climbed to a 13-month high on factory expansion and new product news in the sector.
- **Wholesale sales rise.** Not seen since 2016, wholesalers shrugged off talk of an economic soft patch and posted numbers in April that easily beat forecasts for a fifth straight month of gains. For the month, wholesale sales rose 1.7%, with increases in five of the seven sectors tracked by Statistics Canada, led by motor vehicles following by machinery, equipment and supplies. Expectations were for an increase of 0.2% and coupled with March's gains, was the best two-month increase since the end of 2015.

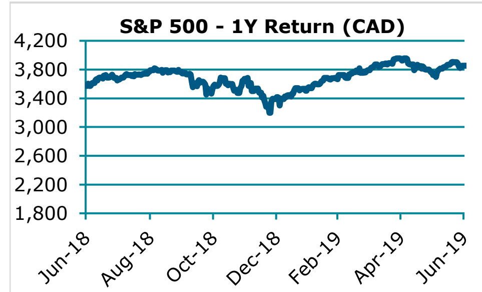
S&P/TSX Composite Index
Sector Snapshot

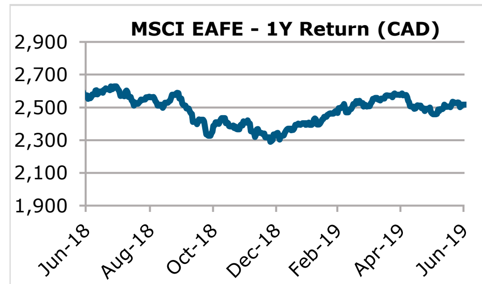
Sector	Month Return	YTD Return	Weight (%)
Consumer Discretionary	6.56	13.80	4.20
Consumer Staples	-1.93	11.75	3.90
Energy	-2.27	9.85	17.10
Financials	2.48	12.03	32.00
Health Care	3.03	34.91	2.00
Industrials	1.42	20.19	11.40
Information Technology	2.92	42.98	5.10
Materials	12.75	13.61	11.00
Real Estate	0.56	13.26	3.40
Communication Services	-2.17	7.38	5.60
Utilities	0.98	19.62	4.30



- **Factory sales lower.** Lower demand in transportation and primary metals had manufacturing sales lower by 0.6% in April, as receipts totaled $57.8B. This was contrary to the strong 2.6% gain March and below estimates of a 0.4% gain for the month. Of the 21 industries tracked, eight declined, led by a 6.7% fall in transportation where had it been omitted the calculations, manufacturing sales would have increased 0.8% instead. On a volume basis, sales fell 0.8% for the same period.
- **Retail sales gain.** Consumers were a little tighter with their pocketbooks as retails sales were almost flat in April edging up 0.1%, but below the 0.2% expected, to $51.5B. This was the third straight month of increase as seven of the 11 categories followed by Statistics Canada rose, accounting for 74% of trade, with autos and gasoline receipts leading advancers. On the downside, building materials and gardening supplies were lower as April was colder than normal. In terms of volume, sales were lower by 0.2%.
- Canada Housing News:
  - **Starts decline.** Fewer ground breakings occurred in May as demand for multi-unit dwellings declined sharply. For the month, 202,337 units were started on a seasonally adjusted annualized rate as reported by CMHC. This equated to an 13.3% drop from the previous month and below analyst expectations of 205,000 units. Most of the declines were for condos and apartments, which fell 18.5%, while single detached homes rose 1.8%.
  - **Permits surge.** At a pace not seen since 2005, applications for building permits rocketed 14.7% in April, easily beating expectations of 1.8% and the prior month's 2.8% revised increase. Residentials were the driver for the month rising 24.5%, while commercial and industrial permits rose 1.1%. However, the data was mostly skewed as a result of a new incoming fee in Vancouver applying to new construction and permits being filed prior to implementation.
  - **New home prices unchanged.** The real estate market continued to show signs of weakness as the price of a new home was unchanged in April for a third straight month. Of the 27 metros traced by Statistics Canada, 19 showed little change from March, where the top two markets of Toronto and Vancouver remained soft at -0.1% and 0.2%, respectively. Top advancer was Ottawa at 0.5%, with the largest detractor being Regina where prices fell 0.8%. On an annualized basis, new home prices have risen 0.1%, also unchanged from the previous month.
  - **Existing home sales rise.** The housing market continued to be active in May as sales across the country rose 1.9% on a month-over-month basis. Toronto and Vancouver led local markets where roughly half saw gains during the month. On an annualized basis (not a seasonally adjusted basis), home sales are higher by 6.7% with the average sales prices for the same period higher by 1.8%.

U.S. Markets





- **U.S. market rebounded strongly in June.** The U.S. stock market had a strong showing in June after having the worst month this year in May. All three major indices posted strong returns for the month. A dovish Federal Reserve and optimism around the trade war between U.S. and China gave fuel to the market. The broad-based S&P 500 rose 6.9% for the month, breaking above the 2,900-level to close off the month at 2,942; it was the best first half for the index in two decades. The Dow Jones Industrial Average was up 7.2% in June, ending at 26,600. The tech-heavy Nasdaq rose 7.4% for the month, ending the month above the 8,000-level at 8,006.
- **U.S. GDP Q1 growth unrevised.** U.S. Q1 GDP growth was confirmed to grow at an annualized pace of 3.1%, reported by the Commerce Department. The figure was unrevised from the previous estimate, in line with economists' expectations.
- **Federal Reserve hints at possible rate cut.** The Fed announced that it would keep its benchmark interest rates unchanged after its two-day meeting in June. However, in a statement released after the meeting, they hinted a rate cut could be coming if the economy continues slowing down. The Fed kept its overnight lending rate target between 2.25% - 2.5% but removed the word "patience" from its statement. "The Committee will closely monitor the implications of incoming information for the economic outlook and will act as appropriate to sustain the expansion," the statement said.
- **U.S. economy pumps out less jobs than expected**. Job creation widely missed expectation in May, spurring speculation that the Federal Reserve may have to cut interest rates sooner than expected. The Labor Department reported that non-farm payrolls were up by 75,000 in May, missing economists' expected increase of 180,000 by a large margin. It was the second time in four months that non-farm payrolls rose by less than 100,000, signaling some weakening of the job market. Unemployment rate remained unchanged at 3.6%.
- **U.S. CPI increases.** Consumer prices rose slightly in May, according to the Labor Department. The consumer price index (CPI) reported a rise of 0.1% in May, matching economists' expectation. On a year-over-year basis, CPI was up 1.8%, lower than economists' expected pace of 1.9%. The core CPI, which excludes food and energy prices, rose 0.1% on the month and 2% on the year, both missing forecasts.
- **U.S. PPI rises.** Producer prices increased for the second straight month in May. The Labor Department reported that the producer price index (PPI) rose 0.1% after rising 0.2% in April, in line with economists' forecast. On a year-over-year basis, PPI was up 1.8%, lower than economists' expectation of a 2% annual increase.
- **U.S. 'flash' composite PMI drops.** Business activity in U.S. slowed to a multi-year low in June, according to the 'flash' composite purchasing managers' index (PMI). The 'flash' composite PMI fell from May's final reading of 50.9 to 50.6, missing economists' expected reading of 50.9. The manufacturing PMI fell from 50.6 to 50.1, the worst reading since September 2009. The services sector PMI declined to 50.7 from 50.9, the lowest level since March 2016.
- **U.S. retail sales rise.** Retail sales rose for the second straight month in May, easing concerns around a potential economic slowdown. The Commerce Department reported that retail sales rose 0.5% in May after rising 0.3% in April; economists were expecting a larger increase of 0.6%. On a year-over-year basis, retail sales were up 3.2%.
- **U.S. consumer sentiment eases.** Consumer sentiment eased in June as concerns around global trade tensions remained in consumers' minds. The University of Michigan's consumer sentiment index fell from May's reading of 100.0 to 98.2, slightly above economists' expectation of 97.9.
- **U.S. Housing**
    - **U.S. home prices rise.** Home prices gained in April, according to the S&P CoreLogic Case-Shiller U.S. National Home Price Index. The 20-city index rose 2.5% on a year-over-year basis, slightly lower than consensus estimate of 2.6%. Las Vegas, Phoenix, and Tampa saw the largest annual percentage gains among the 20 cities. Falling mortgage rates were believed to be driving up demand and pricing of real estate since the beginning of the year.
    - **U.S. new home sales fall.** New home sales fell for the second straight month in May. The Commerce Department reported that new home sales dropped 7.8% to a seasonally adjusted annual pace of 626,000 units, missing the expected annual pace of 680,000 units. It was the lowest level since last December.
    - **U.S. pending home sales**. The National Association of Realtors reported that its pending home sales index rose 1.1% to 105.4 in May; economists were expecting a rise of only 0.6%. On a year-over-year basis, pending home sales were down 0.7%, the 17th straight month of declines.
    - **U.S. housing starts fall.** Homebuilding in U.S. fall in May. The Commerce Department reported that housing starts dropped 0.9% to a seasonally adjusted annual rate of 1.27M units; economists were expecting an annual pace of 1.24M units. Building permits rose 0.3% to an annual pace of 1.29M units, the second straight monthly increase in permits, in line with expectations.
    - **U.S. existing home sales rise.** Existing home sales rose in May as lower mortgage rates lured buyers back to the housing market. The National Association of Realtors reported that existing home sales increased 2.5% to a seasonally adjusted annual pace of 5.34 million units, higher than economists' expected pace of 5.25 million units. Mortgage rates had been dropping since the Federal Reserve suspended its monetary policy tightening.

European Markets

- **Euro-zone Q1 GDP grows.** Q1 GDP of the 19-member region expanded by 0.4%, an improvement from the 0.2% growth pace reported in the previous quarter. The growth pace in Q1 matched economists' forecast. On a year-over-year basis, Q1 GDP grew by 1.2%, also in line with forecasts.
- **Euro-zone inflation remains stable.** After a sharp fall in May, inflation within the 19-member bloc remained stable in June. Preliminary reading of the harmonised index of consumer prices (HICP) for June remained at an annual rate 1.2%, matching economists' forecast and May's final print. The core figure, which excludes energy, goods, alcohol, and tobacco prices, rose 1.1% on the year, up from 0.8% reported for May.
- **ECB pushes back rate hike.** Amid a global trade war, recession fears, and stubbornly low inflation, the European Central Bank (ECB) announced that it would delay its first post-crisis rate hike until the middle of next year. The central bank kept the key interest rates unchanged as expected after its June meeting, but in its forward guidance, ECB said that it "now expects the key ECB interest rates to remain at their present levels at least through the first half of 2020."
- **Euro-zone unemployment rate reaches lowest in decade.** The unemployment rate within the Euro-zone fell to its lowest level in more than a decade, according to data released by Eurostat. The statistics agency reported that May's unemployment rate dropped to 7.6% from April's 7.7%. Economists were expecting the rate to stay flat. May's figure was at its lowest level since August 2008.
- **Euro-zone 'flash' composite PMI rises.** Business activity within the 19-member zone expanded faster in June, according to the 'flash' composite purchasing managers' index (PMI). June's 'flash' composite PMI rose from May's final reading of 51.6 to 52.1, a seven-month high, beating economists' expectations. The services sector PMI increased from 52.5 to 53.4, but the manufacturing PMI remained below the 50-mark, up slightly from May's reading of 47.7 to 47.8.
- **Euro-zone consumer confidence drops.** The European Commission reported that the preliminary reading of June's consumer confidence index fell from -6.5 to -7.2; economists were expecting a reading of -6.6. Despite improvement in the household income situation, the ongoing global trade tensions cast doubt in consumers' mind.

Asian Markets

- **Japan core CPI rises.** Government data showed that the core consumer price index (CPI), which includes energy prices but excludes fresh food components, rose 0.8% year-over-year in May. Stripping away both the energy and fresh food components, the so-called core-core CPI, rose 0.5% on the year, a tick lower than April's pace of 0.6%.
- **Japan 'flash' manufacturing PMI falls.** Japan's manufacturing sector contracted again in June, according to the 'flash' manufacturing purchasing managers' index (PMI). The IHS Markit/Nikkei 'flash' manufacturing PMI came in at 49.5 in June, down from May's final reading of 49.8. It was the gauge's lowest level since March and was the second straight month that it was below the 50-mark separating contraction from expansion.
- **China CPI and PPI rises.** Consumer inflation in China rose to its highest level in 15 months in May, according to the National Bureau of Statistics. In May, the consumer price index (CPI) rose 2.7% from a year ago, matching expectations. The CPI was at its highest level since February 2018 due to soaring food prices; pork prices and fresh fruit prices rose a whopping 18.2% and 26.7% respectively. The producer price index (PPI) rose 0.6% from a year ago, also in line with expectations.
- **China services PMI falls.** In May, China's services sector grew at the slowest pace in three months. The Caixin/Markit services purchasing managers index (PMI) dropped to 52.7, down from April's reading of 54.5. It was the lowest reading since February. Recent economic data had pointed to a slowdown in China's economy amid a bitter trade war with the U.S

Key Take-Aways

"R" is for *R*eversing course. Three-and-a-half years after embarking on a new direction, North American markets received a boost as rumours the U.S. Federal Reserve is considering a rate cut floated about. As global growth continues to wane on trade tensions throughout the world between top economies, the U.S. central bank hopes its efforts would stimulate its own economy—which has begun to show signs of weakening as demonstrated by the latest jobs report falling short of expectations. The Bank of Canada has already pondered the possibilities of lowering rates after aggressive hiking for the last two years but refrained from doing so as its economy has weathered the trade turmoil and global slowdown. Employment has continued to rise with over 27,000 jobs added in May. Meanwhile, around the world, other central banks maintain holding their benchmark rates at super-low levels and/or adding liquidity to their financial systems. To many, the 'R' word is something to not be spoken of, but to others, namely central banks, it's hopefully the means to continue the Bull run that's persisted for the last decade.

The price of inflation. Price growth, commonly known as inflation, is a key measure used by central banks in determining their interest rate policy. In Canada, the Bank of Canada uses an established inflation target range. When inflation lands within that range, coupled with economic growth and unemployment, it can result in multiple interest rate hikes like we've experienced over the last two years. However, those rate increases have stopped, not because of inflation falling, but because of slowing GDP due to ongoing global trade tensions. The U.S Federal Reserve uses similar measures to assess the health of their economy but have also cooled from further rate increases as of late and have considered the possibility of a cut. This is despite ultra-strong jobs growth, which is typically a catalyst for higher prices as workers have more spending capacity. In China, inflation is running hot at 2.7%, it's highest in 15 months. However, as the world's second largest economy transforms itself to a consumption model, U.S. trade tariffs have influenced slowing industrial output. This has resulted in the Chinese government taking extraordinary measures to keep the economic engine running. Inflation is not always a good thing, but it's sometimes the price we must pay to give central banks the control of knowing when to ease on the gas and keep things under control.