Credential

Market Insights | MONTHLY

Month in Review

For the month ended May 31st, 2019

Overall Highlights

- **TSX lower.** The S&P/TSX Composite experienced lows in May as the U.S. threatened to impose tariffs on Mexico if it did not do more to stem the flow of illegal immigrants across the U.S. southern border. This not only put the ratification of the USMCA trade deal at risk, but also added pressure on global economic growth given the many ongoing trade battles. On the close, the TSX ended at 16,037, down 3.3% for the month.
- **Loonie falls.** The fall of the Mexican peso was felt north of the U.S. border as our Loonie was stuck in a spat between our two southern neighbours over immigration. With the dispute, at risk is the passing of legislation by all three countries to make the USMCA agreement official. Adding to the Canadian dollar's woes on trade outlook was a steep decline in crude prices, a main export. At the close, the Loonie finished at 73.93 U.S. cents, a decrease of 0.6%.
- **Gold shines.** For the first time since January, the yellow metal posted its first monthly gain as trade tensions escalated in the latter part of the month. A decline in risk-on appetite by investors sent them towards the sidelines as new U.S. tariffs were set to take effect in June, with China expected to retaliate. At month's end, gold closed at US$1,305.58 an ounce for an August contract, an advance of 1.7%.
- **Oil slides.** Concerns of reduced global demand and rising supplies sent the commodity to a three-month low in May. A new U.S. battle with Mexico stoked global growth concerns and was a catalyst for the late month sell-off. In addition to the downward pressure was a rise in U.S. production that could curtail the production cut efforts of OPEC members who will meet in June to review this policy. At the end of the month, a July contract on a barrel of WTI crude settled at US$53.50, a fall of 16.3%.
- **GDP grows.** The economy followed up a poor Q4 performance with another weak quarter for its first back-to-back quarter loss since 2015.
- **BoC unchanged.** Central bank governor Stephen Poloz stood firm on his current policy position and left interest rates unchanged again at the latest Bank of Canada policy meeting.
- **Employment soars.** Employers were looking towards the future as employment rocketed upward with the addition of 106,500 jobs in April after the economy had shed 7,200 positions in March.
- **Inflation climbs.** Energy drove the Consumer Price Index higher in April as a carbon levy took effect on gasoline prices in several provinces.
- **Retail sales climb.** Increased receipts at the pumps and increased outdoor activities and projects helped push retails sales in March to $51.3B, a 1.1% monthly gain and the largest since May 2017.
- **U.S. Q1 GDP grows faster than expected.** The Commerce Department reported its second estimate of Q1 GDP growth. GDP grew by 3.1% in the first quarter on an annualized basis.
- **Fed remains patient.** The Federal Reserve maintained its patient stance on rate hikes, according to the meeting minutes released for its May meeting.
- **U.S. CPI misses expectations.** Missing by one-tenth, April consumer prices increased 0.3% with a core increase of 0.1%.
- **Eurozone Q1 GDP expands faster.** Eurostat reported its second estimate of Q1 GDP growth within the 19-member bloc.
- **Theresa May resigns.** After three years of hard battle over the "mission-impossible" Brexit, Theresa May finally stepped down as U.K.'s prime minster.
- **Bank of Japan Minutes released.** Meeting minutes from the Monetary Policy Board held March 14 and 15 indicated members left policy settings unchanged.
- **China's official manufacturing PMI falls.** China's manufacturing activity contracted more than expected in May

Index/Commodity/Currency		
Close	**Month Change**	**YTD Change**
S&P/TSX Composite		
16,037.49	-543.2	1,714.6
	-3.3%	12.0%
Dow Jones Industrial Average		
24,815.04	-1,777.9	1,487.6
	-6.7%	6.4%
S&P 500		
2,752.06	-193.8	245.2
	-6.6%	9.8%
NASDAQ Composite		
7,453.15	-642.2	817.9
	-7.9%	12.3%
MSCI EAFE Index		
1,817.39	-104.1	97.5
	-5.4%	5.7%
WTI Crude Oil (per barrel, in $US)		
53.50	-10.4	8.1
	-16.3%	17.8%
Gold (per ounce, in US$)		
1,305.58	22.1	23.1
	1.7%	1.8%
Canadian Dollar (¢ per US$)		
73.93	-0.41	0.66
	-0.6%	0.9%

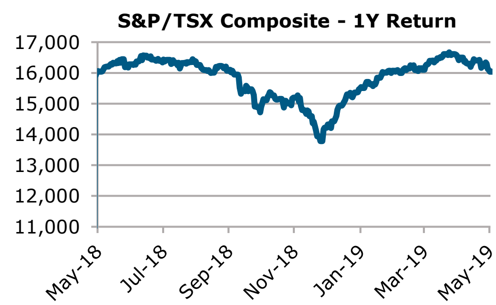
Source: Bloomberg

Canadian Markets

- **GDP grows.** The economy followed up a poor Q4 performance with another weak quarter for its first back-to-back quarter loss since 2015. For the first three months of the year, the economy mustered 0.1% growth, matching forecasts, thanks to a better than expected March month expansion of 0.5% versus a 0.4% estimate. A decline in exports and consumer spending attributed to the quarterly performance but is expected to get better in the second half of 2019 as demonstrated by improved economic data from the second quarter.
- **BoC unchanged.** Central bank governor Stephen Poloz stood firm on his current policy position and left interest rates unchanged again at the latest Bank of Canada policy meeting. The benchmark rate sits at 1.75% with the last increase occurring late October 2018. The basis for holding rates was the slowdown seen in late 2018 and into 2019. The economy has appeared to right itself with some growth seen in Q2 as consumption increases along with exports and support from a strong labour market. Exogenous factors that could have an impact on outlook remain, prompting the BoC to continue to act cautiously.
- **Employment soars.** Employers were looking towards the future as employment rocketed upward with the addition of 106,500 jobs in April after the economy had shed 7,200 positions in March. Expectations were for an increase of 10,000 jobs. As a result, the unemployment rate fell a notch to 5.7%, below the previous month and below market forecasts. This was the greatest monthly increase on record as full-time hirings accounted for more than two-thirds of the gain. Geographically, Ontario, Quebec, and Alberta where the top regions, while it was little changed in other provinces.
- **Inflation climbs.** Energy drove the Consumer Price Index higher in April as a carbon levy took effect on gasoline prices in several provinces. CPI rose 0.4% from April led by a 10% rise in gas prices, which was in-line with forecasts. On an annual basis, prices rose as well to 2%, within the Bank of Canada's target range, from 1.9% in March. Core inflation, on the other hand, fell to 1.5% from 1.6%. Despite the surge in energy prices lately, the cost at the pumps is less than it was a year earlier.
- **PPI climbs.** The cost of producing goods rose in April due to an increase in energy and petroleum products used in manufacturing. For the month, the industrial product price index rose 0.8%, following March's 1.3% and bettering forecasts of a 0.7% increase, as crude energy products were higher by 5.6%. Of the 21 commodity groups followed by the StatCan, 10 advanced while four where unchanged. On an annualized basis, the PPI is higher by 1.8%, a jump from the previous month's 1.5%.
- **Wholesale sales surge.** At its fastest pace in almost 18 months, factory sales rose sharply in March by 1.4%, easing fears that the economy was going through a slow spell. With only the auto sector seeing weakness during the month, gains were broad-based in the remaining six of the seven sectors followed by Statistics Canada. Expectations had called for wholesale sales to rise 0.9%. On a volume basis, the reading was just as strong rising 1%, the most since May 2018.
- **Manufacturing sales rises.** Factory activity rose in March as sales received help from transportation, petroleum and primary metals sectors. For the month, total manufacturing sales were at $58B, a 2.1% increase from the previous month, topping analyst estimates for a 1.1% gain. Of the 21 industries tracked by Statistics Canada, 12 were higher led by a 4.5% in transportation equipment. On a volume basis, sales rose 1.6%.
- **Retail sales climb.** Increased receipts at the pumps and increased outdoor activities and projects helped push retails sales in March to $51.3B, a 1.1% monthly gain and the largest since May 2017. Beating forecasts of 1%, higher sales in gasoline, building supplies, and gardening equipment and supplies led advancers, as seven of 11 sectors rose. A leading decliner was auto sales and parts, which fell 0.7% after gaining 1.7% in the previous month. For the 12-month period, retails sales are 2.6% higher, while for Q1, sales edged 0.1% higher, reversing Q4's 0.5% decline.
- Canada housing news:
    - **Housing starts rise.** Reaching its highest levels in almost 10 months, ground breakings for new homes rose sharply in April on increased demand for multi-family units. For the month, starts were 235,460 units compared to 191,981 units in March. This exceeded analyst estimates of 196,400 units by more than 20% as residential construction ramped up in Toronto and Vancouver. Detached homes also increased by 6% during the month.
    - **New home prices flat.** The price of a new home in Canada was unchanged in March as federal, provincial, and municipal efforts to rein in the housing markets exerts its effects. This was the seventh flat month in eight with muted growth in perennial hot markets of Vancouver and Toronto. This StatCan index only accounts for detached homes and not the surging condominium market. On an annualized basis, home prices have risen 0.1%.

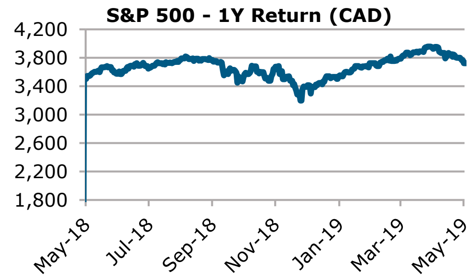
S&P/TSX Composite Index
Sector Snapshot

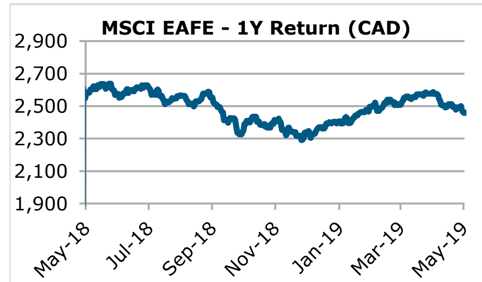
Sector	Month Return	YTD Return	Weight (%)
Consumer Discretionary	-8.67	6.79	4.07
Consumer Staples	2.65	13.96	3.90
Energy	-4.98	12.40	18.04
Financials	-5.07	9.32	31.72
Health Care	-13.80	30.95	2.20
Industrials	-0.84	18.51	10.94
Information Technology	4.28	38.92	4.47
Materials	-4.51	0.76	11.24
Real Estate	-0.32	12.63	3.49
Telecoms	1.79	9.76	5.75
Utilities	2.89	18.46	4.18



U.S. Markets

- **U.S. market tanks.** Wall street had its first negative month this year. Escalation of the bitter trade war between U.S. and China and some unpredictable actions by Donald Trump on the trade front were the highlights of the month. The broad-based S&P 500 index fell 6.6% for the month, closing below the 2,800 level at 2,752. The Dow Jones Industrial Average lost 6.7%, ending the month at 24,815. The tech-heavy Nasdaq was hit the hardest, down 7.9% from the previous month, closing at 7,453.
- **U.S. Q1 GDP grows faster than expected.** The Commerce Department reported its second estimate of Q1 GDP growth. GDP grew by 3.1% in the first quarter on an annualized basis, slightly better than economists' estimate of a 3% growth pace. However, it was a tick lower than the first estimate of 3.2% released earlier. Economists generally expected upcoming Q2 GDP growth to slow significantly.
- **Fed remains patient.** The Federal Reserve maintained its patient stance on rate hikes, according to the meeting minutes released for its May meeting. The Federal Reserve Open Committee (FOMC) kept the federal funds rate unchanged in its May meeting. Committee members believed that a lack of inflation pressures in the system would allow the central bank to monitor the situation patiently before the next move. "Members observed that a patient approach to determining future adjustments to the target range for the federal funds rate would likely remain appropriate for some time, especially in an environment of moderate economic growth and muted inflation pressures, even if global economic and financial conditions continued to improve," the meeting summary stated.
- **U.S. PCE picks up.** Consumer prices picked up in April, according to the Commerce Department. The personal consumption expenditures (PCE) price index rose 0.3% in April, higher than economists' estimate of a 0.2% increase. On a year-over-year basis, the PCE price index was up 1.5%. The Fed's preferred inflation gauge, the core PCE index which excludes food and energy components, rose 0.2% on the month and 1.65 on the year, both on par with forecasts.
- **U.S. CPI misses expectations.** Missing by one-tenth, April consumer prices increased 0.3% with a core increase of 0.1%. However, year-on-year rates are increasing modest at 2.0% and 2.1%, respectively, in line with the Fed's ideal target range.





- **U.S. 'flash' composite PMI falls.** The IHS Markit 'flash' composite purchasing managers' index (PMI) fell from April's final reading of 52.8 to 50.9, missing economists' expectation of 52.4. Manufacturing activity growth faltered to a multi-year low in May with the manufacturing PMI falling from April's 52.4 to 50.6, the lowest reading since September 2009. The services sector PMI also plunged from 52.9 to 50.9.
- **U.S. retail sales decline.** Retail sales unexpectedly fell in April. The Commerce Department reported that sales slipped 0.2% for the month of April, widely missing economists' expectation of a 0.2% increase. Retail sales surged by 1.7% in the previous month. On a year-over-year basis, retail sales increased by 3.1%.
- **U.S. consumer sentiment improves.** Consumer sentiment improved in May, according to a survey by the University of Michigan. The final reading of the university's consumer sentiment index rose from April's reading of 97.2 to 100.0 in May; economists were expecting a reading of 101.5.
- U.S. Housing News:
    - **U.S. housing starts rise.** Homebuilding in the U.S. rose more than expected in April. The Commerce Department reported that housing starts increased by 5.7% to a seasonally adjusted annual pace of 1.24M units; economists were expecting an annual rate of 1.21M. The number of building permits rebounded after three straight months of decline, up 0.6% to an annual pace of 1.30M units, beating economists expected pace of 1.29M.
    - **U.S. new home sales drop.** Sales of new homes fell from an 11-year high reported in the previous month. The Commerce Department reported that new homes sales sank 6.9% in April to a seasonally adjusted annual pace of 673,000 units, down from 723,000 reported in March. Economists were expecting an annual rate of 680,000 units. Rising prices and a lack of new listings were believed to contribute to the decline.
    - **U.S. pending home sales fall.** Pending home sales unexpectedly dropped in April. The National Association of Realtors reported that sales declined by 1.5% in April after rising 3.9% in March; economists were expecting sales to rise 0.5%. On a year-over-year basis, pending home sales were up 0.4%, the first positive reading in a year.
    - **U.S. home prices cool.** Home prices in the U.S. rose at the slowest pace in six and a half years in March. The S&P CoreLogic Case-Shiller 20-city home price index rose 2.7% year-over-year in March, down from February's pace of 3%. Economists were expecting an annual increase of 2.5%. Red hot cities such as Seattle, Las Vegas, and San Francisco that had seen prices skyrocket noticeably cooled. The cool down of home prices coincided with the recent slowdown in home sales.
    - **U.S. existing home sales fall.** Existing home sales fell for the second straight month in April, reported by the National Association of Realtors. Sales fell 0.4% in April to a seasonally adjusted annual pace of 5.19M units; economists were expecting sales rising 2.7% to an annual rate of 5.35M. On a year-over-year basis, existing home sales were down 4.4%, the 14th straight monthly decline.

European Markets

- **Eurozone Q1 GDP expands faster.** Eurostat reported its second estimate of Q1 GDP growth within the 19-member bloc. Q1 GDP grew 0.4% from the previous quarter, doubling the growth pace reported for Q4 2018. It was the strongest growth rate since Q2 2018. On a year-over-year basis, GDP rose 1.2% in Q1. Both figures were in line with economists' expectations.
- **Theresa May resigns.** After three years of hard battle over the "mission-impossible" Brexit, Theresa May finally stepped down as U.K.'s prime minster. After Labour Party's leader Jeremy Corbyn pulling out of the cross-party talks in an attempt to reach a consensus, May almost had no choice but to quit after her Brexit proposals were rejected three times in Parliament. Britain now would have to choose between leaving the EU in October without a deal, which could be devastating to the U.K. economy, or canceling Brexit altogether.
- **Euro-zone 'flash' composite PMI rises.** The IHS Markit 'flash' composite purchasing managers' index (PMI) rose slightly to 51.6 in May, up from April's final reading of 51.3; economists were expecting a higher reading of 51.7. The manufacturing PMI fell from 47.8 to 47.7 while the services PMI stayed flat at 52.5, both missing forecasts.
- **Eurozone industrial production falls.** Industrial production within the 19-member bloc fell for the second straight month in March. Eurostat reported that output dropped by 0.3% in March, in line with economists' expectations. On a year-over-year basis, output was down 0.6%. Despite the back-to-back decline, Q1 production growth remained positive thanks to a 2% spike reported in January. It was the first positive month for Germany this year but was offset by weakness in France and Italy.

Asian Markets

- **Bank of Japan Minutes released.** Meeting minutes from the Monetary Policy Board held March 14 and 15 indicated members left policy settings unchanged with the excess reserve short term rate at minus 0.1 percent. The BoJ once again acknowledged that while Japan's economy was gradually expanding, inflationary pressures remain subdued.
- **Japan's merchandise exports fall.** Japanese exports declined for the 5th straight month in April. Merchandise exports in April fell by 2.4% on the year to 60.4 billion yen; economists were expecting a smaller drop of 1.5%. The U.S.-China trade tension and a slowdown in global tech cycle were believed to be weighing on demand.
- **Manufacturing in Japan rises.** The Nikkei Manufacturing PMI rose in April to a reading of 50.2, ahead of expectations. This level indicates a slight expansion, alleviating some concerns that the Japanese manufacturing sector has been dragged lower alongside escalation in trade tensions.
- **Economic data out of China.** A slew of weak economic data came out of China this week. Retail sales rose 7.2% year-over-year in April; the slowest pace since May 2003. Economists were expecting retail sales to grow by 8.6%. Industrial output grew 5.4% on the year in April, pulling back from the 8.5% growth pace reported in March. Fixed asset investment growth slowed to 6.1% year-to-date in April, down from March's pace of 6.3%, also missing economists' expectation of a 6.4% increase.
- **China's official manufacturing PMI falls.** China's manufacturing activity contracted more than expected in May. The official manufacturing purchasing managers index (PMI), which has a bias toward large state-owned enterprises, fell from 50.1 to 49.4 in May, dipping below the 50-mark that separates expansion from contraction. Economists were expecting a higher reading of 49.9.

Key Take-Aways

Trade wanted. Trade is an integral part of the growth of any country and for Canada, it's central to the economy given its vast quantities of raw materials. It is also important in building stronger ties and cooperation with global neighbours outside of the trading arena. The common factor to all of these relationships is trust and when it's lost, it difficult to get back. The year-long dispute between the U.S. and China entered another chapter with Chinese counter-tariffs in response to initial U.S. tariffs. Talks have been mediocre at best with no clear resolution in sight. However, there was good news for the USMCA Agreement, formerly NAFTA, in that steel and aluminum tariffs by the U.S. were lifted, removing a hurdle for eventual ratification by all three countries. Canada was directly affected by USMCA as its economy is slowing down; however, surprisingly robust economic data on GDP, inflation, and unemployment remained positive. Hopefully the existing trade disputes do not become a long, drawn out affair as in the end, no one wins.

Second wind. There are different measures to assess in an economy. The obvious is GDP itself, but the employment indicator tells the health from the perspective of those working to keep the economic engine running. The latest labour report, after a breather in March, saw explosive growth in the number of hirings (more than ten times forecasted by analysts). With over 106,000 positions filled, the news gets better as most of the hirings were of a full-time nature, which provides strength to the labour market as it proves employers are thinking for the longer term. In addition, the unemployment rate declined to 5.7%, while the participation rate rose to 65.9%. Comparatively with our southern neighbours, they too have enjoyed the success of strong employment as its jobless rate fell to an almost 50-year low of 3.6%. After a great start to the year, the economy got its second wind in April; however, the Bank of Canada likely won't be making any rate hikes anytime soon on this news as inflation remains benign and worries of trade and global growth persist.