Credential

Market Insights | MONTHLY

Month in Review

For the month ended August 31st, 2017

Overall Highlights

- **TSX higher.** The country's benchmark index rose for the first time in four months aided by positive data showing the economy is continuing its recovery. Materials, Industrials, and Consumer Discretionary were the month's sector leaders for the month while Healthcare and Energy were the laggards – despite gains in resources. The TSX ended August at 15,212, an increase of 0.4%.
- **Loonie lower.** Strong economic data at home helped keep our dollar on even footing with the U.S. greenback, along with the prospect of a rate hike by the Bank of Canada in the near future. However, weakness in crude and a flight to safety late in the month after another North Korean missile launch sent the Loonie below July's month-end close. For the month, the dollar ended at US79.77 cents per dollar, a loss of 0.4%.
- **Gold shines.** The yellow metal ended above the US$1,300 level in August, an 11-month high, as tensions returned to the Korean Peninsula following a DPRK missile over Japanese airspace. In addition, soft U.S. economic data may have slowed the Fed's advance for another rate hike, to the delight of gold investors. Gold closed higher by 4.2% to end the month at US$1,327.10 per ounce.
- **Oil slips.** Crude prices rallied late in the month as Hurricane Harvey forced refinery and drilling operations offline in the region. But this was not enough to offset earlier losses as Harvey was only a temporary setback to U.S. production and the global supply glut. At month's end, a barrel of WTI ended at US$47.08, down 6.2% from July.
- **Economy grows.** Increased household spending and energy exports in Q2 were the main drivers as GDP grew 0.3% in June to end the second quarter at 1.1% growth, besting forecasts of 0.7% and Q1's 0.9% gain.
- **Unemployment rate falls.** Not seen since October 2008, the national jobless rate fell in July to 6.3%, a 0.2% decline from June.
- **Inflation unchanged.** Consumer prices were unchanged from the previous month as prices at the pumps helped offset declines in electricity costs that were legislatively mandate in Ontario.
- **Retail sales up.** Consumers were less open to spending in June as retail sales increased slightly by 0.1%.

- **U.S. Q2 GDP growth revised up.** The Commerce Department released its second estimate of Q2 GDP growth, and the U.S. economy grew faster than initially thought.
- **FOMC members split on rate hikes.** The Federal Open Market Committee (FOMC) released minutes of its July meeting. The group came to the decision of holding its target rates unchanged, but the minutes reflected a split in opinions around the path of future rate hikes.
- **U.S. CPI rises less than expected.** The Labor Department reported that the consumer price index (CPI) rose 0.1% in July, lower than consensus increase of 0.2%.

- **Euro-zone unemployment rate stays steady.** The unemployment situation remained steady within the Euro-zone. Eurostat reported that July's unemployment rate remained at 9.1%, unchanged from the previous month.
- **Euro-zone industrial production declines.** Industrial output within the economic union fell in June, likely due to a stronger euro. Eurostat reported that industrial output within the Euro-zone dropped by 0.6% in June, in line with economists' forecast.
- **Japan Q2 GDP grows.** Japan's economy enjoyed a robust second quarter. Q2 GDP was reported to grow an annualized 4%, blowing past forecast of 2.5% growth.
- **China CPI rises less than expected.** The National Bureau of Statistics reported that China's consumer price index (CPI) rose 1.4% year-over-year in July, missing economists' estimates of a 1.5% increase.

Index/Commodity/Currency		
Close	**MonthChange**	**YTDChange**
S&P/TSX Composite		
15,211.87	68.0	-75.7
	0.4%	-0.5%
BMO Nesbitt Burns Small Cap		
867.02	0.9	-13.3
	0.1%	-1.5%
Dow Jones Industrial Average		
21,948.10	57.0	2,185.5
	0.3%	11.1%
S&P 500		
2,471.65	1.4	232.8
	0.1%	10.4%
NASDAQ Composite		
6,428.66	80.5	1,045.5
	1.3%	19.4%
MSCI-EAFE Index		
1,930.82	-6.1	246.8
	-0.3%	14.7%
WTI Crude Oil (per barrel, in $US)		
47.08	-3.1	-6.8
	-6.20%	-12.5%
Gold (per ounce, in US$)		
1,327.10	53.0	176.2
	4.2%	15.3%
Canadian Dollar (¢ per US$)		
79.77	-0.3	5.3
	-0.4%	7.1%

Sources: Bloomberg, PC Bond

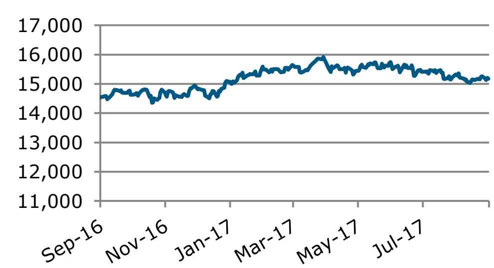
Canadian Markets

- **Economy grows.** Increased household spending and energy exports in Q2 were the main drivers as GDP grew 0.3% in June to end the second quarter at 1.1% growth, besting forecasts of 0.7% and Q1's 0.9% gain. On an annualized basis, the economy grew 4.5%, the best six month start since 2002 providing fodder for Governor Stephen Poloz and the Bank of Canada to possibly hike rates in early September.
- **Unemployment rate falls.** Not seen since October 2008, the national jobless rate fell in July to 6.3%, a 0.2% decline from June as released on August 4. This was the 8th straight month of labour market growth, as much of the improvement was due to fewer workers looking for employment. Overall, the economy added 10,900 new jobs of a full-time nature as the participation rate dipped lower to 65.7%.
- **Inflation unchanged.** Consumer prices were unchanged from the previous month as prices at the pumps helped offset declines in electricity costs that were legislatively mandate in Ontario. On an annual basis in July, prices were higher in six of the eight sectors tracked led by a 4.6% gain in gasoline, while food prices continue to rise higher. Annual inflation rose to 1.2% from 1% with core inflation inching a notch to 1.5%.
- **PPI falls.** In its largest decline since December 2014, the price received by manufacturers on their goods that leave the factory fell in July. Aided by a stronger Canadian dollar, monthly PPI fell 1.5% as 18 of the 21 commodities tracked declined and only one increased. Expectations were for a 0.7% decline. Had the Loonie remained constant, PPI would have fallen by 0.4%.
- **Wholesale sales fall.** Factory sales weakened in June, led by declines in autos (-1.7%) and food (-1.1%) sectors. After several months of gains, total receipts fell 0.5% to $61.4B, as five of the seven sectors tracked fell. On a volume basis, sales were down 0.7% from May as the economy showed signs of slowing after disappointing manufacturing and export data reported earlier in the month.
- **Manufacturing sales fall.** After three straight months of gains, factory sales fell for the first time on weakness in the petro and coal industries. For June, sales tallied to $53.9B, a 1.8% decline from the previous month, while on a volume basis, sales were down 1%. Sales decreased in 15 of 21 industries tracked as petroleum and coal products fell 7.1%.
- **Manufacturing PMI rises.** Factory activity climbed in July as new orders flowed into the manufacturing sector. Markit's Purchasing Managers Index rose to 55.5 on a seasonally-adjusted basis from 54.7 in June. Improved economic conditions and increased demand from the energy sector sent the index higher, while this sector continues to expand.
- **Retail sales up.** Consumers were less open to spending in June as retail sales increased slightly by 0.1%. Analysts' were expecting a rise of 0.3% for the month, but despite the data, many still expect a rate hike by the Bank of Canada later this year. Sales in six of 11 sectors gained with total receipts of $48.99B, a record high, led by general merchandise (+2.9%) and clothing (+2.7%). In terms of volume, sales were also higher by 0.5%.
- Canada Housing News:
  - **Housing starts rise.** Led by B.C., the seasonally adjusted annual rate of home groundbreakings rose to 222,324 units in July, besting estimates of 205,000 and higher than 212,948 in the previous month. The industry is on pace for its best year since 2008-09. Housing starts rose 20% in B.C., with most of the country seeing a cooling trend as multi-unit buildings rose 9% annualized, while single-detached fell 4% for the same period.
  - **Building permits higher.** The issuances of permits by local governments rose to $2.5B in June, a 2.5% increase from May and the second best tally ever. The increase was principally due to higher demand for multi-family dwelling and commercial buildings, as detached homes fell 12.5%, mostly in Ontario.
  - **Existing home sales drop.** For the fourth consecutive month, home sales nationally fell in July with declines led by Toronto, Calgary, Halifax-Dartmouth, and Ottawa regions. For the month, sales were 2.1% lower than in June as reported by CREA. On an annual basis, activity was lower by 11.9% as the national sales price also pared back 0.3% from a year earlier.
  - **New home prices edges up.** Price slowdown in Ontario helped suppress the rise in the cost of a new home in Canada for June. For the month, Statistics Canada reported the national average price rose 0.2%, half of what was expected by analysts, as prices were flat in Toronto and slowed in the surrounding regions. In the West, Vancouver's prices rose 1.5%, contributing to the monthly increase which excludes condominium and apartment data.

S&P/TSX Composite Index
Sector Snapshot

Sector	Month Return	YTD Return	Weight (%)
Energy	-3.52	-16.04	19.60
Telecoms	1.04	7.99	5.00
Industrials	2.99	9.62	9.50
Consumer Staples	0.44	0.83	3.70
Utilities	1.48	7.04	3.30
Financials	0.10	0.70	34.50
Consumer Discretionary	1.62	9.64	5.30
Health Care	-10.30	-13.83	0.60
Materials	5.45	5.84	12.30
Information Technology	1.48	9.43	3.30
Real Estate	1.22	2.11	3.00

S&P/TSX Composite - 1Y Return



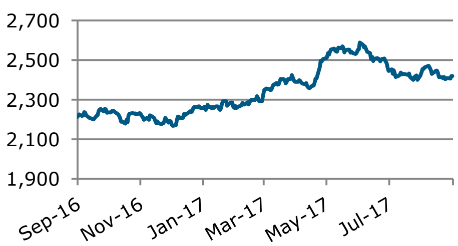
U.S. Markets

- **U.S. stock market gains slightly.** The U.S. stock market had a volatile month. The tension between North Korea and the U.S., as well as Trump's comments following events in Charlottesville hammered the market during mid-month. However, the much-anticipated U.S. tax reform received positive commentary, and helped propel the market back to the positive territory toward the end of the month. The broad-based S&P 500 index moved up 0.1% for the month, closing at 2,472. The Dow Jones Industrial Average gained 0.3%, ending the month at 21,948. Nasdaq was the best performer of the month, moving up 1.3% to end the month at 6,429.

S&P 500 - 1Y Return (CAD)

- **U.S. Q2 GDP growth revised up.** The Commerce Department released its second estimate of Q2 GDP growth, and the U.S. economy grew faster than initially thought. Second quarter's GDP growth was revised to a 3% annual rate, up from the first estimate of 2.6% reported last month. The revision was higher than economists' expected 2.7% growth rate. Consumer spending, which accounts for two-thirds of the country's economy, was revised up from 2.8% growth pace to 3.3%.
- **FOMC members split on rate hikes.** The Federal Open Market Committee (FOMC) released minutes of its July meeting. The group came to the decision of holding its target rates unchanged, but the minutes reflected a split in opinions around the path of future rate hikes. Some of the members expressed concern about the recent slowdown in inflation and argued against additional hikes until inflation was on track with the Fed's inflation target. On the other hand, some of the more hawkish members worried about overshoot of employment target and financial instability if the rate hike is delayed.

MSCI EAFE – 1Y Return (CAD)



- **U.S. CPI rises less than expected.** The Labor Department reported that the consumer price index (CPI) rose 0.1% in July, lower than consensus increase of 0.2%. Year-over-year, CPI rose 1.7% in July, also below the 1.8% increase expected. Core CPI, which excludes food and energy components, gained 0.1% for the month and 1.7% on the year, with both figures missing economists' forecasts. The recent slowdown in inflation may cause the Fed to proceed with caution regarding its interest rate decisions.
- **U.S. gains more jobs than expected.** The U.S. economy pumped out more jobs than expected in July. Nonfarm payrolls were reported to increase by 209,000 in July, handily beating economists' expected increase of 183,000. Unemployment rate ticked one notch lower from June's 4.4% to 4.3%. Average hourly earnings were up 2.5% on the year, matching last month's pace.
- **U.S. 'flash' PMI rises.** Service sector strength propelled business activity in U.S. in August. IHS Markit 'flash' composite purchasing managers' index (PMI) rose to 56.0 in August, beating economists' forecasts of 54.3. Services PMI rose to 56.9 from July's 54.2, reaching its highest level since May 2015. Manufacturing PMI declined from July's reading of 53.3 to 52.5.
- **U.S. industrial production rises.** Industrial production went up in July but auto production declined sharply. The Federal Reserve reported that industrial production rose 0.2% in July, slightly missing economists' forecast of a 0.3% rise. However, production of autos and parts posted a sharp drop of 3.6% in July as car sales have been slowing after a record year in 2016.
- **U.S. factory orders rebounds.** The Commerce Department reported that factory orders increased in June after two consecutive months of declines. Factory orders climbed 3% in June after a 0.3% decline reported in May. June's increase was the largest increase since October 2016. Economists were expecting an increase of 2.9%.
- **U.S. retail sales jump.** Retail sales posted its biggest increase in seven months in July. The Commerce Department reported that retail sales went up 0.6% in July, handily beating economists' estimated 0.4% rise; it was also the largest gain since December 2016. On the year, retail sales were up 4.2% in July. Core retail sales, which exclude autos, gasoline, building materials, and food services, advanced by 0.6%, also beating economists' forecast of a 0.4% increase.
- **U.S. consumer spending increases.** The Commerce Department reported that consumer spending in July rose 0.3% in July, slightly less than economists' estimated increase of 0.4%. The Fed's preferred gauge of inflation, the core personal consumption expenditures (PCE) price index, which excludes food and energy prices, rose 0.1% on the month and 1.4% on the year, both matching economists' forecast. However, it was the slowest year-over-year increase since December 2015. The core PCE price index has undershot the Fed's inflation target of 2% in the past five years.
- **U.S. consumer sentiment rebounds.** Consumer sentiment improved in August, according to the latest survey by University of Michigan. The University's consumer sentiment index rose to 97.6 in August from July's reading of 93.4, higher than economists' estimate of 94.0. It was the highest level since January. However, the reading had not reflected the nationalist rally happened in Charlottesville last weekend, which some economists believed would dampen consumers' confidence.
- U.S. housing news:
    - **U.S. housing starts drops.** Housing starts unexpectedly fell in July as multi-family construction fell to a 10-month low. The Commerce Department reported that housing starts fell 4.8% to a seasonally adjusted annual pace of 1.16 million units, missing economists' estimate of a slight increase to a 1.23 million-unit pace. The volatile multi-family segment tumbled by 15.3% in July, contributing to the unexpected decline
    - **U.S. pending home sales fall.** Sales of previously owned homes unexpectedly fell in July. The National Association of Realtors (NAR) reported that pending home sales declined by 0.8% in July, missing economists' forecast of a 0.4% rise by a wide margin. Pending home sales declined four times in the last five months, in part due to limited supply in the market.
    - **U.S. home sales decline.** *New* home sales in U.S. unexpectedly dipped in July as home prices continued to surge. The Commerce Department reported that new home sales slipped 9.4% to a seasonally adjusted annual pace of 571,000 units. Similarly, sales of *existing* homes unexpectedly dropped in July. The National Association of Realtors reported that home resales fell 1.3% in July to a seasonally adjusted annual pace of 5.44M units.
    - **U.S. home prices continue to move up.** Limited supply in the real estate market continued to push up housing prices in U.S. The S&P CoreLogic Case-Shiller home 20-city index rose a seasonally adjusted 0.1% in June, matching economists' forecast. On a year-over-year basis, the 20-city index increased by 5.7%, slightly missing economists' estimated 5.8% increase. All 20 major cities recorded price increases in June when compared to a year ago.

European Markets

- **Euro-zone Q2 GDP grows.** Eurostat released its second 'flash' report of Q2 GDP. Second quarter's GDP of the 19-member region was reported to grow by 0.6% compared to Q1's reported growth of 0.5%, matching economists' estimate. On a year-over-year basis, GDP was up 2.2%, the fastest pace since Q1 2011.
- **Euro-zone unemployment rate stays steady.** The unemployment situation remained steady within the Euro-zone. Eurostat reported that July's unemployment rate remained at 9.1%, unchanged from the previous month and in line with economists' expectations. It was also the lowest rate since February 2009. Germany, the economic locomotive of the bloc, saw its unemployment rate dip to a record low of 3.7%.
- **Euro-zone inflation rises**. Inflation within the 19-country zone rose more than expected in August, according to the 'flash' harmonized index of consumer prices (HICP). The index reflecting consumer price level within the Euro-zone increased to an annualized 1.5% in August, up from the 1.3% reported in July and higher than economists' estimate of an annual rate of 1.4%. The biggest driver of the increase came from the cost of energy, which jumped 4% in August.
- **Euro-zone 'flash' PMI rises.** The Euro-zone's business activity continued to grow on a solid pace in August, as indicated by the 'flash' composite PMI. August's IHS Markit 'flash' composite purchasing managers' index (PMI) was reported to be 55.8, a slight increase from July's reading of 55.7. Economists were expecting a reading of 55.5. Manufacturing PMI rose to 57.4 from 56.8, but services PMI dipped to 54.9 from July's 55.4.
- **Euro-zone industrial production declines.** Industrial output within the economic union fell in June, likely due to a stronger euro. Eurostat reported that industrial output within the Euro-zone dropped by 0.6% in June, in line with economists' forecast. A rising euro might have dampened the export sector, especially to the two largest export markets: U.S. and Britain. Despite the fall in June, industrial output was up a healthy 2.6% year-over-year.
- **Euro-zone economic sentiment jumps.** Economic sentiment within the 19-country bloc advanced more than expected in August, according to a report by the European Commission. August's economic sentiment index increased to 111.9 from July's reading of 111.3; economists were expecting the gauge to stay flat in August.

Asian Markets

- **Japan Q2 GDP grows.** Japan's economy enjoyed a robust second quarter. Q2 GDP was reported to grow an annualized 4%, blowing past forecast of 2.5% growth. Quarter-over-quarter, GDP expanded by 1% in Q2, also beating economists' estimate of a 0.6% growth; it was the sixth consecutive quarter the economy recorded expansion. Both consumer spending and capital expenditure rose at their fastest pace in more than three years.
- **Japan's CPI rises.** Japan's core consumer prices posted its seventh straight year-over-year increase, but was still a far cry from the central bank's 2% inflation target. Headline consumer price index (CPI) rose 0.4% on the year in July, matching economists' expectations. The Core CPI, which excludes fresh food prices, rose 0.5%, beating economists estimated rise of 0.4%.
- **Japan manufacturing PMI drops.** Japan's manufacturing activity slowed down in July. The Markit/Nikkei Japan Manufacturing Purchasing Managers Index (PMI) fell from June's reading of 52.4 to 52.1 in July. Despite the dip, the gauge of manufacturing activity had been above the 50-mark for the 11th straight month.
- **Japan services PMI drops.** Japan's services sector growth slowed down in July. July's Markit/Nikkei services purchasing managers' index (PMI) fell from June's reading of 53.3 to 52.0. Despite the fall, the services PMI had been above the 50-mark for the 10th consecutive month.
- **China CPI rises less than expected.** The National Bureau of Statistics reported that China's consumer price index (CPI) rose 1.4% year-over-year in July, missing economists' estimates of a 1.5% increase. On the other hand, the producer price index (PPI) increased by 5.5% in July, matching economists' forecasts and last month's pace. It was believed that a recent rally in steel prices contributed to the increase in PPI.
- **China's official manufacturing PMI rebounds.** China's official manufacturing purchasing managers' index rose in August. The China Federation of Logistics and Purchasing (CFLP) Manufacturing Purchasing Managers Index (PMI) rose to 51.7 from July's reading of 51.4., beating economists' forecast of 51.3. The index has remained above the 50-mark for thirteen straight months.
- **China's services PMI falls.** China's services sector expanded at a slower pace in July. The Caixin/Markit services purchasing managers' index (PMI) was reported to be 51.5 in July, a slight drop from June's reading of 51.6.

Key Take-Aways

News from Jackson Hole. Nestled between the Teton Mountain and the Gros Ventre Ranges, Jackson Hole, Wyoming, served as the host city in which the world's top central bankers met at an annual symposium to discuss and analyze important U.S. and global economic issues. Investors typically look towards this event in hopes of finding direction to monetary policy from the central banks that will shape the future of financial markets. This year, the Federal Reserve's Janet Yellen, in possibly her last speech as Chairwoman, spoke little on interest rates, focusing instead on the importance of regulation in the U.S. banking system. Also anticipated were the comments from the ECB's Mario Draghi, in which he stated that the European Union continues on the road to recovery, and suggested he would remain accommodative. At its conclusion, the conference provided minimal new information of central banks actions, but perhaps at this point in the global recovery, no news is good news.

Economy's health check. The Canadian economy has been on a roll so far this year with the latest 4.5% annualized growth reading exceeding the expectations of analysts and economists alike. Recent data, albeit lagging in nature, provide some insights of the health of the economy in the short term. Declining manufacturing sales data in June indicates a likelihood of a slower Q3 in 2017 as businesses hold back on accumulating too much inventory but also because the effects of a high Canadian dollar is starting to make Canadian goods less competitive. Fortunately, increasing domestic consumption is picking up the added slack left by lowered global demand as expressed by a rise in annual inflation and less volatile core inflation. With more attention paid to the latter of these two price measures, the probability is increasing for another rate hike in October, if not in September, to help keep the economy healthy and away from overheating.