



June 07, 2019

In Focus

Global equities advanced for the week. U.S. equities surged, as markets priced in near-term Federal Reserve rate cuts in the wake of a disappointing employment report and weak wage inflation. Weak German data added to expectations that the European Central Bank would be obliged to ease.

U.S. equities started on a weak note due to worries about regulatory change related impact on large technology companies as well as due to ongoing fallout from the US-China trade war. However, technology stocks recovered sharply from their oversold position over the rest of the week.

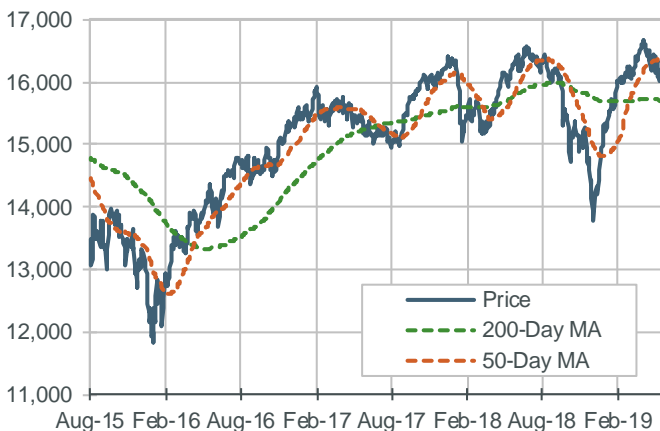
In trade dispute related developments, easing U.S.-Mexico tensions supported investor sentiment.

In fixed income, 10-year yield on U.S. treasuries fell after news that the US added only 75,000 jobs in May, less than half of consensus. German equivalent 10-year treasury bond yields also slipped lower.

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	16,230.96	1.21%	1.21%	13.32%
S&P500	2,873.34	4.41%	4.41%	14.62%
NASDAQ	7,742.10	3.88%	3.88%	16.68%
DJIA	25,983.94	4.71%	4.71%	11.39%
Russell 2000	1,514.39	3.34%	3.34%	12.30%
FTSE 100	7,331.94	2.38%	2.38%	8.97%
Euro Stoxx 50	3,378.38	2.99%	2.99%	12.56%
Nikkei 225	20,884.71	1.38%	1.38%	4.35%
Hang Seng	26,965.28	0.24%	0.24%	4.33%
Shanghai Comp.	2,827.80	-2.45%	-2.45%	13.39%
MSCI ACWI	509.76	3.58%	3.58%	11.87%
MSCI EM	1,007.39	0.94%	0.94%	4.31%
Fixed income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,114.46	0.41%	0.41%	5.99%
BBG Global Agg.	500.56	1.20%	1.20%	4.52%
TSX Pref	1,442.73	-1.22%	-1.22%	-2.92%
Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	1.46%	-2.7	-2.7	-50.6
10 yr U.S. Govt.	2.08%	-4.4	-4.4	-60.3
30 yr Canada Govt.	1.72%	-4.4	-4.4	-46.1
30 yr U.S. Govt.	2.57%	0.3	0.3	-44.3
Commodities	Close	Weekly	MTD	YTD
Oil	53.99	0.92%	0.92%	14.14%
Natural gas	2.34	-4.77%	-4.77%	-15.33%
Gold	1,340.86	2.70%	2.70%	4.55%
Silver	15.02	2.92%	2.92%	-3.07%
Copper	262.75	-0.47%	-0.47%	-0.51%
Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.7538	1.89%	1.89%	2.84%
USD/EUR	0.8823	-1.45%	-1.45%	1.17%
CAD EUR	0.6650	0.41%	0.41%	4.00%
USD/JPY	108.1900	-0.09%	-0.09%	-1.37%
USD/CNY	6.9098	0.07%	0.07%	0.46%
USD/MXN	19.6204	0.02%	0.02%	-0.15%
GBP/CAD	1.6896	-1.07%	-1.07%	-2.92%
GBP/USD	1.2737	0.86%	0.86%	-0.13%

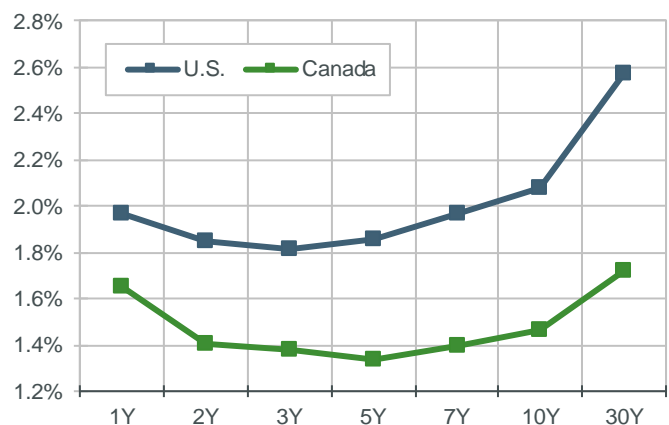
* Please refer to Appendix for the above table in Canadian dollar terms.

S&P/TSX Composite Index



Source: Bloomberg, DataStream.
Index returns are in local currency. All equity indexes are price returns and do not include dividends.

Treasury yield curves



Economic indicators	Period	Survey	Actual	Prior period
Canada unemployment rate	May	5.7%	5.4%	5.7%
Canada Markit manufacturing PMI	June	-	49.1	49.7
Canada net change in employment	May	-6.0k	27.7k	106.5k
U.S. ISM PMI	May	-	52.1	52.8
U.S. trade balance	April	-\$50.8bn	-\$50.8bn	-\$50.0bn
China Caixin manufacturing PMI	May	50.0	50.2	50.2
Eurozone GDP (QoQ)	1Q	0.4%	0.4%	0.4%

Canada

Canadian equities advanced for the week. While part of these gains reflected investor expectations of lower interest rates in the U.S., better-than-expected employment growth in Canada also supported investor confidence.

Among sectors, technology stocks advanced on strong earnings reports, while health care sector also advanced. The energy sector benefited from a rise in crude prices.

Canada's unemployment rate fell to 5.4% as the economy added more than 27000 jobs. This is the lowest level of unemployment since comparable data became available in 1976.

U.S.

U.S. equities surged from oversold conditions and as Chairman Powell appeared to say that the U.S. Federal Reserve may adopt a more accommodative policy stance.

The week started with a sharp sell-off in some large cap technology stocks as reports about an FTC anti-competition probe on Facebook, and fears that Alphabet (Google) could face anti-trust action by the Department of Justice.

These stocks recovered later in the week, as some investor took advantage of fall in

prices. Salesforce and Apple gained after the former reported an earnings beat and the latter confirmed that it was not targeted by China.

In economic data, U.S. Purchasing Manager's index remained in expansion territory at 50.5, but signalled only marginal growth for a US manufacturing sector that is being held down by weak exports and risks, given building trade tensions with China and Mexico, of falling into outright contraction.

Rest of the world

The European markets rose in anticipation of global monetary policy easing as both the U.S. Fed and the European Central Bank signalled an easing policy stance.

Purchasing Manager's Index in Germany and the U.K. fell to 44.3 and 49.4., respectively. Eurozone inflation also fell surprisingly sharply in May.

In Asia, Chinese equities came under pressure due to continued trade-related uncertainty. However, Japanese equities advanced. Trade-sensitive firms and major financial institutions were among the strongest performers.

Looking ahead

Economic indicators	Period	Survey	Prior period
Canada Housing Starts	May	198000	235,460
U.S. JOLTS (Job Openings and Labor Turnover)	April	7.4ml	7.5mln
U.S. NFIB Small Business Optimism Index	May	102	103.5
U.S. Jobless Claims	June	215k	218k
U.S. Retail Sales (MoM)	May	0.7%	-0.2%
China Industrial Production (YoY)	May	5.4%	5.4%
China: Retail Sales (YoY)	May	8.3%	7.2%

Central bank meetings			
Central banks	Date	Probability of change	Current rate
Federal Open Market Committee	19-Jun-19	-18.2%	2.50%
Bank of England	20-Jun-19	-2.2%	0.75%
Bank of Japan	20-Jun-19	-7.4%	-0.10%
Bank of Canada	10-Jul-19	-11.1%	1.75%
European Central Bank	25-Jul-19	-8.8%	0.00%

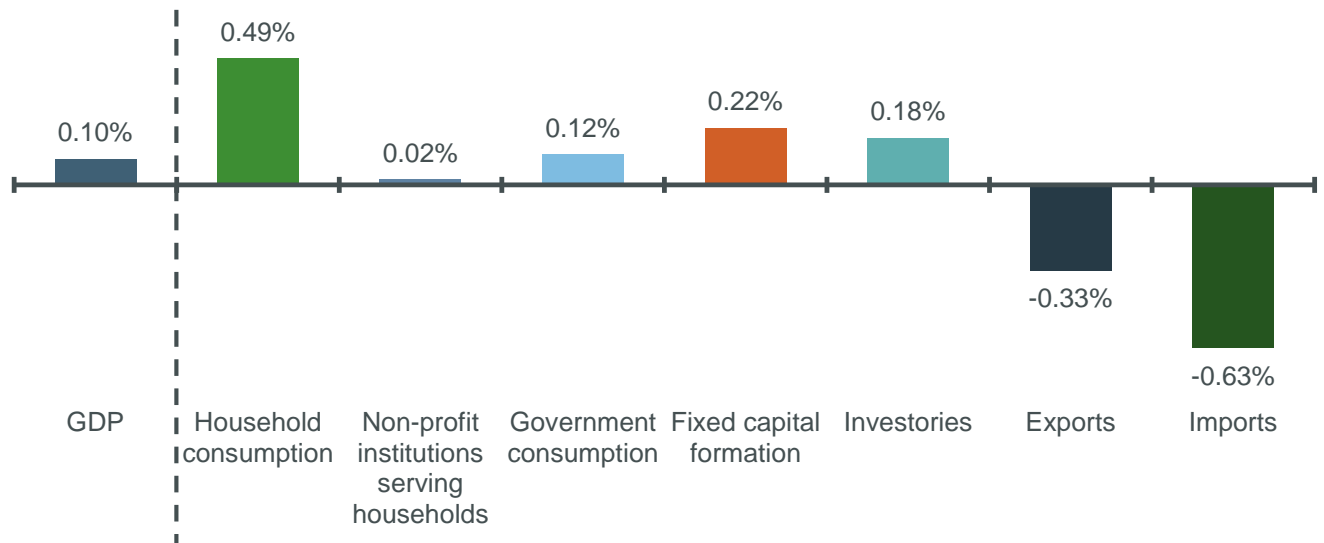
Source: Bloomberg. Probability of change implies the possibility of a central bank hiking interest rates during their upcoming meeting. A negative number in this case means chances of a rate cut rather than a hike.

Spotlight

Strong signs of a pick-up in Canadian economic growth

Canada's GDP growth in the first quarter of 2019 fell short of consensus expectations, but underlying drivers of growth supported optimism. Weak foreign trade accounted for most of the weakness, but household spending and business investment in machinery and equipment rose at a healthy pace. Maintaining its overnight rate target at 1.75%, the Bank of Canada also highlighted recently growing evidence of a strong pick-up in growth in the second quarter 2019.

Drivers of Canada's Quarterly GDP Growth



Source: Statistics Canada, May 31, 2019. Final consumption expenditure based GDP growth.

Appendix

Global markets (Returns in Canadian dollar terms)

Indexes	Close	Weekly	MTD	YTD
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Commodities	Close	Weekly	MTD	YTD
Oil	71.62	-0.96%	-0.96%	10.99%
Natural gas	3.10	-6.54%	-6.54%	-17.66%
Gold	1,778.49	0.79%	0.79%	1.68%
Silver	19.92	1.15%	1.15%	-5.62%
Copper	348.57	-2.32%	-2.32%	-3.26%
Currencies	Close	Weekly	MTD	YTD
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