Credential

Market Insights | MONTHLY

Month in Review

For the month ended December 31st, 2019

Overall Highlights

- **TSX rises.** Canada's main stock index rose slightly in December; more importantly, it also reached record highs in 2019 and recorded its best annual performance since the global financial crisis. Optimism around the trade war between China and U.S., rising commodity prices, and a rather stable economy were the main driving forces behind the surge of the stock market. The S&P/TSX Composite gained a slight 0.1% in December to end the month at 17,063. On the year, the index was up 19.1%.
- **Loonie rises.** The Canadian dollar was the best performing currency among the major G-10 countries in 2019 when compared to the U.S. dollar. A relatively hawkish tone by the Bank of Canada, a stable economy, and a rise in oil prices were some of the factors behind the strength of the Loonie. At the end of December, our Dollar finished at 76.99 U.S. cents, a monthly gain of 2.3%. The Loonie was up 5.0% compared to a year ago.
- **Gold rallies.** Gold rose to its highest level in more than three months, capping its best year in nearly a decade. A weakening USD and emerging geopolitical risks were behind the year-end rally, especially in a thinly traded market near the end of the year. The price of gold hit its highest level since September, gaining 3.7% for the month of December to close at US$1,517.77 an ounce for a February contract. On the year, gold was up 18.3%.
- **Oil surges.** Oil prices rose to a three-month high, heading for the biggest annual rise since 2016. The strength behind oil was supported by optimism around the U.S.-China trade deals and a decision around production cuts by OPEC and its allies. Tensions in the Middle East also played a role in the recent climb. At the end of the month, a January delivery on a barrel of WTI crude settled at US$61.16, up 10.9% from last month. For 2019, WTI rose 34.7%.
- **No change by the Bank of Canada.** Canada's top banker stuck by his stance that the economy was resilient and kept the overnight benchmark rate unchanged at 1.75%.
- **Unemployment rate surges.** The national jobless rate reached its highest point all year, rising sharply to 5.9% in November from 5.5% a month earlier.
- **Inflation slips in November.** Pressure from lower gasoline and falling prices on recreation and education pushed monthly inflation lower by 0.1%, offsetting the 0.3% increase in the prior month.
- **Retail sales fall.** Retail sales were 1.2% lower, missing a 0.5% expected gain, with broad declines in eight of the 11 subsectors followed by Statistics Canada.
- **Fed leaves rate unchanged**. The Federal Reserve kept its benchmark interest rates unchanged after its two-day December meeting.
- **U.S Q3 GDP growth up.** As reported by the Department of Commerce, economic growth was finalized at 2.1% annualized.
- **U.S. consumer sentiment rises.** Consumer sentiment rose to a seven-month high in December, according to a survey by the University of Michigan.
- **Eurozone GDP grows.** Eurostat reported that the 19-member economy grew by 0.2% during the third quarter, consistent with Q2's growth pace and in line with economists' forecast.
- **Eurozone inflation falls.** Monthly price growth in November was lower by 0.3% compared to the previous month
- **BoJ hold rates.** Following the introduction of a new consumption tax that has had the effect of slowing economy, the Bank of Japan left its ultra-accommodative monetary policy unchanged.
- **China's consumer prices soar.** China's consumer inflation jumped in November due to skyrocketing of pork prices, according to the National Bureau of Statistics.

Index/Commodity/Currency		
Close	**Month Change**	**YTD Change**
S&P/TSX Composite		
17,063.43	23.2	2,740.6
	0.1%	19.1%
Dow Jones Industrial Average		
28,538.44	487.0	5,211.0
	1.7%	22.3%
S&P 500		
3,230.78	89.8	723.9
	2.9%	28.9%
NASDAQ Composite		
8,972.60	307.1	2,337.3
	3.5%	35.2%
MSCI EAFE Index		
2,035.99	61.5	316.1
	3.1%	18.4%
WTI Crude Oil (per barrel, in $US)		
61.16	6.0	15.8
	10.9%	34.7%
Gold (per ounce, in US$)		
1,517.77	53.8	235.3
	3.7%	18.3%
Canadian Dollar (¢ per US$)		
76.99	1.7	3.7
	2.3%	5.0%

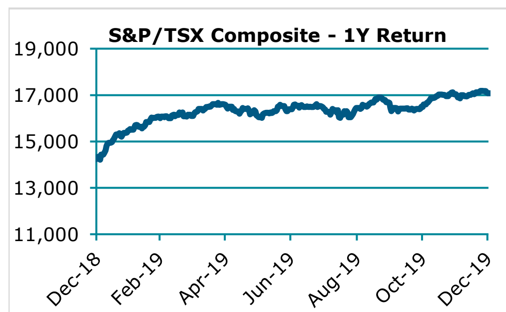
Source: Bloomberg

Canadian Markets

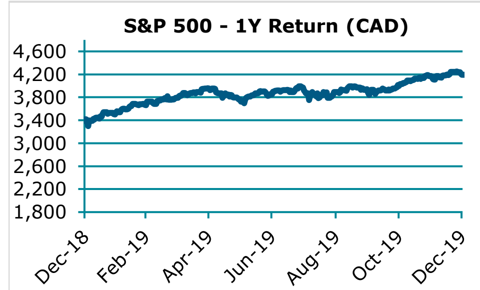
- **Canada GDP falls slightly.** Canada's economy shrank slightly in October. Statistics Canada reported that October's GDP fell 0.1% from September, missing economists' forecast of a flat reading. October's retail sales posted its biggest monthly decline since March 2016, down 1.2% from the previous month. On a year-over-year basis, GDP was up 1.2%.
- **No change by the Bank of Canada.** Canada's top banker stuck by his stance that the economy was resilient and kept the overnight benchmark rate unchanged at 1.75% at the final policy meeting of 2019. The move was widely anticipated by the markets as the Bank of Canada resists the urge and pressure to be dovish like their global counterparts. In his announcement, Governor Poloz stated "financial markets have been supported by central bank actions and waning recession concerns" but added a caveat of the uncertainty surrounding the ongoing trade conflicts.
- **Inflation slips in November.** Pressure from lower gasoline and falling prices on recreation and education pushed monthly inflation lower by 0.1%, offsetting the 0.3% increase in the prior month. Forecasts called for a 0.1%. However, it was the annualized inflation rate that garnered a lot of attention as it climbed from 1.9% to 2.2%, in line with estimates, on higher shelter and vehicle costs. Factoring out volatility and considered a better gauge of price growth, core inflation rose to 2.2%, its highest level in a decade.
- **Unemployment rate surges.** The national jobless rate reached its highest point all year, rising sharply to 5.9% in November from 5.5% a month earlier. This was unexpected news as 71,200 positions were lost mainly in the services sector (-44,400 jobs), while manufacturing also declined (-26,600). Optimistic forecasts were for 10,000 jobs to be added following a weak October report where 1,800 positions were lost. Full time positions fell by 38,400 as part-time fell 32,800, resulting in the largest monthly job loss in 10 years. The participation rate dropped a notch to 65.6%.
- **Manufacturing activity higher.** Factories were busier in November but not as much as analysts had forecasted. For the month, on the backs of greater output and a rise in domestic demand, manufacturing PMI rose for a third straight month to 51.4 from October's reading of 51.2. This was shy of the 52.6 expected but continued expansion in the sector is a positive sign heading into the holiday season.
- **Manufacturing sales fall.** The sector remains at the mercy of global trade tensions, falling for a second consecutive month in October by 0.7%, worse than the no change expected by the markets. Sales declines in autos (-4.7%), fabricated metal products (-8.2%), and plastics (-5.7%) were the biggest detractors as gains in petroleum and foods helped to provide cushion with 11 of 21 industries in the red. Volume wise, factory sales were lower by 0.7%.
- **Wholesale sales drop.** Wholesale trade from factories fell hard in October by 1.1% to total receipts of $64.2B. Of the seven sectors followed for the StatCan index, four declined which accounted for two-thirds of total sales for the month. Economists anticipated only a 0.1% drop but machinery & equipment (-3.0%) and the miscellaneous (-3.4%) sectors fell more than expected. Volumes were lower as well declining 1.1%.
- **Retail sales disappoint.** Canadian consumers were less in a spending mood in October heading into the holiday season. This was the first decline in four months as they had lower demand for autos and parts. For the month, retail sales were 1.2% lower, missing a 0.5% expected gain, with broad declines in eight of the 11 subsectors followed by Statistics Canada. Other major factors for the month's reading was a fall in building material and gardening supplies for a fourth straight month, while cannabis sales gained 4.9%. On a volume basis, sales are also down falling 1.4%.
- Canada housing news:
  - **Housing starts rise.** Housing starts in Canada rose slightly in November. The Canadian Mortgage and Housing Corporation (CMHC) reported that housing starts increased by 0.3% in November to a seasonally adjusted annualized pace of 201,318 units, beating economists' expectation of 205,000.
  - **New home prices lower.** The price of a new home fell on a month-over month basis in November by 0.1%, as reported by Statistics Canada. This continues the recent trend of flat or decline prices since the spring. Geographically, largest decreases were seen in Regina (-1.7%) and Edmonton (-1.0%), while Montréal lead all gainers up 1%. The month's reading was the first decline in four months.
  - **Building permits fall.** Building permits unexpectedly fell in October, according to Statistics Canada. Total value of building permits declined by 1.5% to $8.3 billion in October, missing economists' expectation of a 2.9% increase by a wide margin.

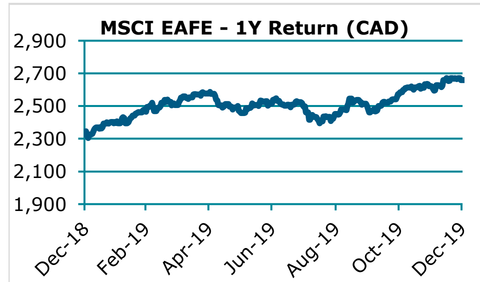
S&P/TSX Composite Index
Sector Snapshot

Sector	Month Return	YTD Return	Weight (%)
Consumer Discretionary	-3.48%	13.22%	4.10
Consumer Staples	-5.02%	13.04%	3.90
Energy	5.77%	16.30%	17.00
Financials	-2.56%	17.04%	32.10
Health Care	1.31%	-11.45%	1.30
Industrials	0.28%	23.69%	11.00
Information Technology	3.30%	63.77%	5.70
Materials	4.71%	22.29%	11.40
Real Estate	-2.77%	17.45%	3.50
Communication Services	-2.35%	8.27%	5.50
Utilities	-0.32%	31.62%	4.80



U.S. Markets





- **A robust year in the U.S. market.** 2019 saw a dramatic turnaround in the stock market. After recording the worst returns in a decade in 2018, the market posted a strong recovery in 2019 on the back of a 180-degree change in stance by the Federal Reserve. After raising its benchmark interest rates four times in 2018, the Fed reversed its course in 2019 by cutting interest rates three times amid softening economic data and the bitter U.S.-China trade war. Also, a breakthrough in the U.S.-China trade battle staged a year-end rally. All three major indices reached record-high territory. The broad-based S&P 500 index rose 2.9% in December, closing at 3,231 and up 28.9% for the year. The Dow Jones Industrial Average advanced by 1.7% for the month, ending at 28,538 and up 22.3% for the year. The tech-heavy Nasdaq was the big winner of the year, up 3.5% in December ending at 8,973 and up a whopping 35.2% for the year.
- **U.S Q3 GDP growth up.** As reported by the Department of Commerce, economic growth was finalized at 2.1% annualized. This was unchanged from the second estimate reading in November and slightly better than Q2's final reading of 2%. The American labour market continues to support the moderate pace of growth as consumer spending was better than expected, while business investments fell less than estimated.
- **Fed leaves rate unchanged**. The Federal Reserve kept its benchmark interest rates unchanged after its two-day December meeting. The Federal Open Market Committee (FOMC) left the federal funds rate target between 1.5% and 1.75% unchanged, after raising it by 25 basis points three times this year. The move was widely expected by market participants. During the press conference, Chairman Jerome Powell said that he doesn't think rates need to rise anytime soon, and the current monetary policy is in a "good place".
- **U.S. CPI rises.** U.S. consumer prices rose more than expected in November. The Labor Department reported that the consumer price index (CPI) increased by 0.3% in November; economists were expecting a rise of 0.2%. On a year-over-year basis, CPI rose 2.1%. The core CPI, which excludes the food and energy components, climbed 0.2% in November, matching forecasts. On the year, core CPI was up 2.3%.
- **U.S. PPI unchanged.** The Labor Department reported that both the producer price index (PPI) and the PPI, excluding food, energy, and trade services, remained unchanged in November. On the year-over-year basis, PPI increased by 1.1% while the PPI ex foods, energy and trade services was up 1.3%.
- **U.S. nonfarm payrolls surge.** The U.S. economy pumped out way more jobs than expected in November. The Labor Department reported that nonfarm payrolls increased by 266,000 in November, beating economists' expectation of 187,000 by a wide margin. The increase was the best since January's gain of 312,000. Unemployment rate ticked down to 3.5% from 3.6%, matching the lowest unemployment rate since 1969.
- **U.S. goods trade deficit shrinks.** U.S. goods trade deficit narrowed for the third straight month in November. The Commerce Department reported that the goods trade deficit for November dropped from October's figure of $66.8 billion to $63.2 billion; economists were expecting the deficit to widen to $68.7 billion. Exports rose 0.7% while imports fell 1.3% in November.
- **U.S. durable goods orders decline.** The Commerce Department reported that durable goods orders dropped by 2% in November, missing economists' expectation of a 1.5% increase by a wide margin. The nosedive in durable goods orders was attributed to a 5.9% drop in orders for transportation equipment. Core capital goods orders, which excludes aircraft orders, increased slightly by 0.1%, beating economists' forecast of a flat reading.
- **Chicago PMI improves.** Business activities in the Chicago area improved slightly in December but remained in contraction mode. The Institute for Supply Management reported that the Chicago purchasing managers' index (PMI) increased from November's reading of 46.3 to 48.9, exceeding economists' forecast of 48.2. It was the highest reading in four months. Despite the improvement, the gauge remained below the 50-mark separating contraction from expansion.
- **U.S. retail sales rise.** The Commerce Department reported that retail sales rose 0.2% in November. Economists were expecting a rise of 0.5%. On a year-over-year basis, retail sales were up 3.3%. The core retail sales, which excludes automobiles, gasoline, building materials and food services, edged up 0.1%.
- **U.S. consumer sentiment rises.** Consumer sentiment rose to a seven-month high in December, according to a survey by the University of Michigan. The university's consumer sentiment's index for November increased to 99.2 from October's reading of 96.8; economists were expecting a reading of 96.9. It was the highest reading since May.
- U.S. Housing News:
  - **Housing starts rise.** The Commerce Department reported that the start of construction on new homes rose in November to 1.36M units, up 3.2% from the previous month and ahead of estimates of 1.34M units. Building permits also jumped, rising 1.4% to an annualized rate of 1.48M units, reaching the highest level since May 2007.
  - **U.S. new home sales rebound.** The Commerce Department reported that new home sales rose 1.3% in November to a seasonally adjusted annual pace of 719,000 units; economists were expecting an annual pace of 734,000 units. On a year-over-year basis, sales were up 16.9%.
  - **Pending home sales rise.** The National Association of Realtors reported that pending home sales increased by 1.2% in November, beating economists' expectation of a 1.1% rise. On a year-over-year basis, pending sales were up 7.4%.
  - **U.S. home prices rise.** Home prices in the U.S. rose at the fastest pace in five months. The S&P CoreLogic Case-Shiller 20-City index rose 0.4% in October, beating economists' estimate. On a year-over-year basis, prices were up 2.2%, also higher than economists expected 2.1% increase. Phoenix, Tampa, and Charlotte were three cities leading the way in percentage gains on the year.

European Markets

- **Eurozone GDP grows.** Eurostat reported that the 19-member economy grew by 0.2% during the third quarter, consistent with Q2's growth pace and in line with economists' forecast. A jump in consumers' spending drove Q3's growth. On a year-over-year basis, the Eurozone economy grew 1.2%.
- **Eurozone inflation falls.** Monthly price growth in November was lower by 0.3% compared to the previous month but on par with estimates. Energy was the biggest detractor for the monthly reading. However, on an annualized basis, inflation rose to 1% on contributions from services, food & tobacco, and non-energy industrial goods, matching flash estimates. Excluding volatile components, core inflation gained for a third month in a row to 1.3% annualized but still below the ECB's preferred target range.
- **Eurozone flash PMIs mixed.** Early readings of sector activity in the Eurozone was varied. On the manufacturing side, it contracted even further with a PMI reading of 45.9 in December, down from the previous month's 46.9 and the sector's 11th straight month below the 50-threshold for expansion. This was under the 47.3 expected as output contacted the most since late 2012. Services was the opposite as it expanded further to 52.4 from November's 51.9, beating forecasts of 52 for its fastest growth in four months. Overall, the composite reading, a combination of manufacturing and services, was unchanged at 50.6 and slightly below estimates of 50.7.
- **Euro-zone industrial production falls.** Eurostat reported that industrial production within the 19-member zone fell 0.5% in October, worse than economists expected decline of 0.3%. On a year-over-year basis, industrial production was down 2.2%.

Asian Markets

- **BoJ hold rates.** Following the introduction of a new consumption tax that has had the effect of slowing economy, the Bank of Japan left its ultra-accommodative monetary policy unchanged with interest rates at -0.1% and longer terms rates at about 0%. After their two-day meeting, Governor Kuroda spoke that weak global demand and natural disasters have weakened the export and production components of the economy. To support it, the BoJ will continue its asset purchase measures that could see up to US$237B injected into their financial system.
- **Japan flash PMI data mediocre.** The services sector was the only bright spot, but just barely, as the Jibun Bank services PMI reading increased to 50.6 from 50.3 in December. A second straight month of expansion was attributed to increased output and new business opportunities. On the flip side, the manufacturing sector continues to struggle to break the 50-threshold for an eighth straight month as output, new orders, and exports declined in December for a reading of 48.8, down from 48.9.
- **China's consumer prices soar.** China's consumer inflation jumped in November due to skyrocketing of pork prices, according to the National Bureau of Statistics. The consumer price index (CPI) rose 4.5% year-over-year, topping economists' estimate of 4.2%. Due to an outbreak of African swine flu, pork prices were reported to rise 110% from a year ago. On the other hand, the producer price index (PPI) fell 1.4% year-over-year, slightly higher than economists expected fall of 1.7%.
- **China industrial production strengthens.** Following a 4.7% increase in October, industrial output in China rose in November by 6.2% on a year-over-year basis. Much of the gains were seen in from the manufacturing and utilities sector driven higher by increased government demand. By industry, output grew for electrical machinery, ferrous metals, and communications.
- **Chinese retail sales gain.** Beating market expectation of 7.6%, retail sales in China rose on higher demand for personal care and cosmetic products, both seeing double digit growth. For the month of November, retail trade grew by 8% year-over-year, following 7.2% the previous month, as online sales continued to be robustly expanding. For year-to-date, sales have been strong up 8% for the 11 months on approximate receipts of US$5.3T.
- **China's official manufacturing PMI rises.** The official manufacturing purchasing managers' index (PMI) for the month of December came in at 50.2 according to the National Bureau of Statistics. It was the second straight month that the manufacturing gauge was above 50, indicating expansion. Economists were expecting the PMI to come in at 50.1. The sectors of food and beverage, clothing, medicine, and automobiles were some of the main drivers of growth.

Key Take-Aways

Let's make a deal. After 21 months of back-and-forth battles, U.S. and China finally reached a phase-one trade agreement. Under the agreement, China agreed to structural changes and massive purchase of U.S. agricultural products. In return, U.S. will not implement the originally planned 15% tariff on about US$160 billion of Chinese goods set for December 15. U.S. will also roll back some of the tariffs that were already implemented in the past. U.S. president Donald Trump claimed victory for the trade deal and indicated that phase-two negotiations will begin right away. The news of the long-awaited trade deal sparked a rally in global stock markets, seeing all three major U.S. indices climbing to record highs.

Serious consideration. The Bank of Canada and Governor Stephen Poloz have held off on following the lead of other global central banks and being accommodative given the strength of the Canada's economy. However, the time may come to step away from the sidelines and provide a little bit of help to stave off any recession. The slate of recent economic data has not boded well for the health of the economy as the trifecta of manufacturing, wholesale, and retail sales all fell in October pointing to a soft start to Q4 and possible to end the year. This data is in addition to an unexpected increase in the unemployment rate for November reported earlier that may be an indication of things to come. For some good news, NAFTA's replacement trade agreement, the USMCA, was passed by the House or Representatives and sent off to the Senate for ratification in the new year, providing relief on some trade concerns for our central bank. For Mr. Poloz, his holiday break will be figuring out if interest rates should remain unchanged, as he's done since October 2018, or add some insurance and drop rates to keep the growth momentum as has been undertaken by the U.S. Federal Reserve. All of this being done while keeping inflation in check from rising any further given the latest 2.2% year-over-year annualized reading. After being the envy of central bankers, Mr. Poloz may need to consider taking action sooner rather than later.