Weekly Market Pulse

Week ending November 12, 2021

Market developments

Equities:

It was a mixed bag for equity indices this week. The S&P/TSX Composite Index was strong as the materials sector rose to its highest level in five months. In the U.S., the S&P 500 Index closed lower, on the back of higher-than-expected inflation. The NASDAQ's performance was hurt by rising yields. European equities rose for the sixth straight week, boosted by robust corporate earnings and companies overcoming supply chain constraints. Chinese equities posted gains on expectations that the government may soften its regulatory stance on technology companies and its rules on asset sales for property developers.

Fixed income:

Yields rose during the week after U.S. inflation came in higher than expected. Short-dated Treasury yields edged higher as investors ramped up bets that the U.S. Federal Reserve will have to raise interest rates sooner than expected.

Commodities:

Oil prices fell for the third straight week on strength in the U.S. dollar and the potential release of oil reserves. Gold prices posted their biggest weekly gain in almost two months, driven by a higher- and broader-than-expected U.S. inflation.

Performance (price return)

SECURITY	PRICE	WEEK	1 MONTH	3 MONTH	YTD
Equities ($Local)					
S&P/TSX Composite	21768.53	1.46%	6.51%	6.08%	24.87%
S&P 500	4682.85	-0.31%	7.64%	4.98%	24.67%
NASDAQ	15860.96	-0.69%	9.64%	7.05%	23.06%
DAX	16094.07	0.25%	6.25%	0.98%	17.31%
NIKKEI 225	29609.97	-0.01%	4.89%	5.69%	7.89%
Shanghai Composite	3539.10	1.36%	-0.22%	0.41%	1.90%
Fixed Income (Performance in %)					
Canada 10-Year Yield	1.67	0.08	0.05	0.42	0.99
US 10-Year Yield	1.56	0.11	-0.02	0.20	0.65
German 10-Year Yield	-0.26	0.02	-0.17	0.20	0.31
US High Yield Spread	3.37	0.24	0.06	-0.01	-0.43
Commodities ($USD)					
Oil	80.79	-0.59%	0.19%	16.93%	66.51%
Gold	1864.9	2.56%	5.95%	6.39%	-1.76%
Copper	444.95	2.45%	2.87%	2.05%	26.44%
Currencies ($USD)					
DXY	95.12	0.85%	0.64%	2.24%	5.77%
Loonie	1.255	0.75%	0.66%	0.19%	-1.38%
Euro	0.8739	1.10%	0.76%	2.51%	6.76%
Yen	113.89	0.42%	0.25%	3.15%	10.31%

As of November 12, 2021

Macro developments

Canada

It was a quiet week in Canadian macroeconomic news, with no notable economic releases.

U.S. – Producer input costs rise sharply; Optimism among small business owners falls; Inflation rises and broadens across categories

Inflation as measured by the Producer Price Index rose 0.6% month on month in October, and 8.6% year on year. The annual increase in PPI was the highest since 2010. Excluding food and energy components, which tend to be more volatile, core PPI rose 0.4% month on month and 6.8% year on year. More than 60% of the headline increase in PPI was driven by goods prices, which rose 1.2%. This was mainly due to higher energy costs, including gasoline. Transportation bottlenecks, materials shortages, and increasing labour costs continue to be drivers of higher producer prices. Worker compensation in particular has faced growing price pressures, with wage levels at service providers hitting a 16-year high.

Optimism among U.S. small business owners fell to a seven-month low in October, as measured by the NFIB Small Business Optimism Survey. The Index slipped to 98.2 from 99.1 in the previous month. Inflationary pressures are a key concern for small businesses as rising materials and labour costs have hurt profits. A record share of owners indicated in the survey that they have raised compensation levels, and an unprecedented number of owners are also planning to raise compensation levels in the coming months to fill job vacancies.

The U.S. Consumer Price Index accelerated in October to 0.9% month on month, and 6.2% year on year. The monthly gain was the highest in four months, while the annual increase was at its fastest pace since 1990. Categories seeing high inflation are also broadening, with energy, shelter, food, and vehicles seeing significant price rises. Shelter costs, which make up about a third of the Index, rose 0.5% due to higher rents and home prices. Prices for new cars rose 1.4% as a global shortage of semiconductors continue to hamper production. A broad theme across the economy is that businesses, experiencing solid demand but hindered by supply chain bottlenecks and a shortage of qualified workers, have been raising prices for consumer goods and services.

International – Chinese producer costs and consumer prices rise; Expectations for German economy improve; Consumer-oriented sectors in the U.K. weaken in Q3

China’s CPI rose 1.5% year on year, and its PPI rose 13.5% year on year, coming in above estimates. CPI in October saw the steepest rise since September 2020 and was driven by unusual weather, supply and demand imbalances, and increasing producer costs. Non-food prices rose 2.4% year on year, reflecting some pass-through of high producer prices to downstream consumers. PPI growth accelerated to its highest level since July 1995, led by energy and raw material costs, and due to inflation in key imports. The gap between CPI and PPI inflation is now at its widest level in three decades.

The ZEW expectations survey, which is a survey of investor economic sentiment, was the first major European survey for November. The gauge rose to 31.7 in November, from 22.3 in October, and contrary to expectations of a decline to 20. This was the survey’s first improvement in six months. Investor confidence in the German economy appeared to improve on expectations that the country will benefit from global recoveries once temporary supply chain bottlenecks disappear. The outlook for the broader euro region also improved.

U.K. GDP in Q3 grew 1.3% month on month and 6.6% year on year, coming in below estimates. Consumer-facing sectors slid mainly due to a fall in output from the wholesale and retail sectors. Gains in accommodation, food services, and arts & entertainment offset some of the consumer sectors’ overall decrease. The fall in output in consumer-facing services is likely to keep the Bank of England concerned and could impact its rate hike decisions over the next few months. On the manufacturing front, transport equipment was a laggard, driven by carmakers continuing to have production issues due to disruption to the global supply chain. The pace of GDP growth is expected to be constrained by these disruptions in the near term.

Quick look ahead

Canada – CPI (November 17)

CPI for October is expected to rise 0.6% month on month and 4.5% year on year. Continued supply shortages are putting upward pressure on goods and food prices, and the recent easing of international travel restrictions may have also contributed to an increase in core CPI.

U.S. – Empire Manufacturing (November 15); Retail sales (November 16); Industrial production (November 16)

The Empire State Manufacturing Survey will be the first reading of manufacturing activity for November. As usual, supply chain and pricing indicators will be watched.

Economists are projecting a 1.1% monthly gain for retail spending in October, compared to a 0.7% rise in September. This would be the third straight monthly gain and could mark the first time in a year that spending has advanced three months in a row.

Industrial production is expected to have risen 0.8% in October. Waning concerns around COVID-19 and the return of workers back to manufacturing facilities after the expiration of government stimulus measures is expected to have helped.

International – Japan's core machine orders (November 16); U.K. CPI (November 17)

Japanese core machine orders for September will be released, with expectation of a 1.8% rise, compared to a 2.4% drop in August. Core machine orders is a leading indicator of capital spending.

U.K. CPI for October is expected to rise 0.8% month on month, and 3.9% year on year. A 12% rise in energy costs in early October is expected to have been the primary driver of higher inflation. In addition, continuing labour shortages and supply-chain blockages are also raising prices and putting upward pressure on wages. Job vacancies over recent weeks have continued to soar despite the government's pandemic-related furlough initiative ending in September. The BoE however still expects the rate of inflation to drop next year as temporary factors ease and base effects from the pandemic work their way out of the data.