Weekly Market Pulse

Week ending November 5, 2021

Market developments

Equities:

Equities posted broad-based gains. The exception was China, where macroeconomic and debt concerns lingered. U.S. equities advanced after the U.S. Federal Reserve announced reductions in bond purchases given economic strength, and reiterated it would be in no rush to raise interest rates. On Friday, markets received a boost with Pfizer announcing successful trials of its COVID-19 antiviral pill. A strong U.S. jobs report for October further boosted sentiment.

Fixed income:

Bond markets were driven by the Fed and Bank of England meetings. The BoE surprised markets by leaving U.K. interest rates unchanged. This decision was a surprise given the recent sharp pickup in consumer prices because of high energy costs and labour shortages. The U.S. yield curve flattened, with the benchmark 10-year yield hitting a six-week low.

Commodities:

Oil prices fell to a near four-week low during the week after a larger-than-expected buildup of U.S. crude oil inventories. Gold prices rose on the back of rising inflation pressures and as a consequence of key central bank meetings suggesting greater patience in tackling inflation and in raising interest rates.

Performance (price return)

SECURITY	PRICE	WEEK	1 MONTH	3 MONTH	YTD
Equities ($Local)					
S&P/TSX Composite	21455.82	1.99%	6.30%	5.30%	23.07%
S&P 500	4697.53	2.00%	8.10%	6.06%	25.07%
NASDAQ	15971.59	3.05%	10.65%	7.23%	23.92%
DAX	16054.36	2.33%	5.66%	1.97%	17.02%
NIKKEI 225	29611.57	2.49%	6.43%	6.79%	7.90%
Shanghai Composite	3491.57	-1.57%	-2.15%	0.72%	0.53%
Fixed Income (Performance in %)					
Canada 10-Year Yield	1.59	-0.13	0.05	0.42	0.91
US 10-Year Yield	1.45	-0.10	-0.07	0.23	0.54
German 10-Year Yield	-0.28	-0.17	-0.09	0.22	0.29
US High Yield Spread	3.13	-0.03	-0.15	-0.26	-0.67
Commodities ($USD)					
Oil	81.27	-2.75%	2.96%	17.63%	67.50%
Gold	1818.36	1.96%	3.31%	0.77%	-4.21%
Copper	434.30	-0.57%	3.59%	-0.11%	23.42%
Currencies ($USD)					
DXY	94.22	0.10%	0.26%	2.14%	4.76%
Loonie	1.2457	0.56%	-1.00%	-0.39%	-2.11%
Euro	0.8644	-0.07%	0.24%	2.28%	5.59%
Yen	113.41	-0.47%	1.75%	3.32%	9.84%

As of November 5, 2021

Macro developments

Canada – Manufacturing PMI (November 1); Labour force survey (November 5)

The IHS Markit Canada Manufacturing Purchasing Managers' Index rose to 57.7 in October, from 57.0 in September. Expansions were seen in output, new orders, and employment. Meanwhile, supply chain pressures continued to mount. Strong demand and concerns over continued supply shocks saw companies increasing pre-production inventories. Costs rose on material shortages and high transportation and energy costs, while selling prices rose to their second highest in the series' history.

The economy added 31.2K jobs in October, coming in below estimates of 41.6K. However, the jobs report signaled an underlying economy that continues to recover well from the pandemic. Job gains continue to normalize towards pre-pandemic levels when the economy averaged a gain of 23K jobs per month in the two years prior to the pandemic. Canada has fully recovered all the jobs lost during the pandemic; however, employment is still below the pre-pandemic trend line for job growth for the last 18 months, which suggests that while a lot of progress has been made in the right direction, there are still some ways to go. In October, the retail sector saw significant hiring, with a net gain of 72K jobs. Elsewhere, goods-producing industries lost 6.2K jobs, while public administration also saw a monthly decline after the temporary hiring of poll workers in September. The unemployment rate fell 20 basis points to 6.7%.

U.S. – Fed meeting (November 3); Nonfarm payrolls (November 5)

The Fed announced the start of tapering, "in light of the substantial further progress the economy has made toward the Committee's goals since last December." The monthly pace of purchases will slow by US$15B ($10B in Treasuries and $5B in mortgage-backed securities) starting this month, and by another US$15B in December, from the current pace of US$120B. Similar reductions in the pace of purchases will likely continue in 2022, which would see purchases on track to end by June, but the Fed would watch for changes in economic conditions to adjust the pace if necessary. During the press conference announcement, Fed Chairman Jerome Powell said that the central bank would be patient on hiking interest rates, reiterating that high inflation due to supply and demand imbalances would work themselves out. Powell also noted that the Fed is not seeing persistent pressure in wage growth yet, but on the other side also acknowledged that maximum employment may look different compared to pre-pandemic conditions and that labour force participation could remain depressed.

Nonfarm payrolls increased by 531K jobs in October, coming in above estimates of a 450K increase, and representing a broad-based payrolls gain. The job gain was led by the leisure & hospitality sector, which added 164K jobs. Professional services, transportation, and warehousing also saw significant gains. Employment in factories jumped 60K, posting the biggest increase since June 2020, and largely driven by increased hiring at automakers. This combined with greater hiring in transportation may help ease supply chain bottlenecks over the coming months.

International – China's PMI (November 2); Bank of England (November 4); Germany's industrial production (November 5)

The Caixin China General Composite PMI was relatively unchanged at 51.5 in October, compared to 51.4 in September. The Manufacturing PMI rose to 50.6 from 50.0, and the Services PMI rose to 53.8 from 53.4. Manufacturers reported an improvement in demand during the month, but power shortages and rising costs weighed on production. Supply chain delays worsened, amid increasing lead times and reports of material shortages and reduced power supply. Costs rose as a result. The services sector fared better, maintaining its growth momentum in October. Conditions improved as new demand expanded and export orders returned.

South Korean exports rose 24.0% year over year in October, following the 16.7% increase in September. Higher commodity prices supported the exports of petroleum products and petrochemicals. Semiconductor exports continued to rise solidly, with contractions reported in the auto sector due to ongoing supply chain disruptions in the industry.

The Bank of England voted 7–2 to keep the Bank Rate on hold at 0.1%, surprising markets as a number of committee members had recently expressed a stronger desire to tighten policy given rising inflation expectations. Instead, the central bank expressed concerns over slowing growth momentum, and only saw it necessary to increase rates in coming months if projections materialized. Near term labour-market uncertainty was also cited as a reason to favour a more cautious approach. The BoE downgraded GDP for the year to 6.7%, from 8.5% previously, and Consumer Price Index inflation rose to 4.3%, from 4.0%. Asset purchases also remained unchanged with a 6–3 vote.

German industrial production contracted by 1.1% in September, after a drop in August of 4.0%. Consensus estimates were for a small expansion. The prolonged impact of supply constraints and semiconductor shortages helped cause the contraction. Production in areas such as mechanical engineering, electrical and data processing equipment, and metal products contracted. By contrast, makers of cars and car parts in Germany are seeing some improvements after significant drops in production in prior months.

Quick look ahead

Canada

A quiet week is ahead for Canada in macroeconomic terms, with no notable economic releases scheduled.

U.S. – PPI (November 9); NFIB Small Business Optimism Survey (November 9); CPI (November 10)

The Producer Price Index in October is estimated to have risen 0.6% month on month and 8.6% year on year. The October release should shed light on the input cost pressures that manufacturers are facing. Pandemic-related supply constraints and strong demand from consumers and other businesses have led to an increase in production costs over recent months. The NFIB Small Business Optimism Survey will provide a pulse check on the state of small businesses. Small business owners have faced challenges over recent months due to worker shortages, supply shortages, and logistical disruptions. A record share of small business owners, relative to historical trends, had to raise compensation in October and a growing number are planning to fill vacancies in the coming months. Despite this, wage growth continues to remain well anchored when compared to historical averages. It will also be worthwhile to gauge how the recent reduction in COVID-19 cases has bolstered small business optimism.

CPI for October is estimated to have risen 0.5% month on month and 5.8% year on year. The established view has been that higher shipping costs, production disruptions, and a tight labour market have put upward pressure on consumer prices. However, these factors are expected to be temporary and are expected to ease over time. The key aspect to watch will be if inflationary pressures are broadening, which would challenge the established view.

International – China's CPI and PPI (November 9); Germany's ZEW Survey (November 9); U.K. Q3 GDP (November 11)

Markets expect an uptick in Chinese inflation metrics across the board, with CPI estimated to rise 0.6% month on month and 1.4% year on year, while PPI is estimated to rise 12.5% year on year. Rising labour and raw material costs have been a persistent recent trend. However, solid demand has allowed businesses to pass on part of this rise in costs downstream to consumers.

The ZEW survey will be the first major European survey for November. It will provide analysts' sentiment toward the German and eurozone economies. The ZEW survey expectations have fallen for five consecutive months. Supply-side disruptions and China's economic slowdown are reportedly holding back manufacturers. The U.K. GDP release for Q3 2021 will provide a snapshot of the efficacy of reopenings so far, and the lingering effects of COVID-19 on the country's recovery. Expectations are for sequential growth of 1.5%, down from 5.5% in Q2. The pace of GDP growth has been constrained by supply chain disruptions and is expected to continue to be constrained in the near term. The BoE has stated that it expects the U.K. economy to return to its pre-pandemic level by Q1 2022 after previously predicting a recovery by the end of 2021.

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