Weekly Market Pulse

Week ending September 10, 2021

Market developments

Equities:

Major developed market equity indices posted negative returns for the week. The S&P 500 Index experienced a five-day losing streak, posting its biggest decline since mid-June. In the U.S. and Canada, strong employment growth and record high job openings indicated strong economic fundamentals. However, a rise in Delta-variant cases (combined with hospitalizations and deaths trending up in the U.S.) has been weighing on investor sentiment recently. Chinese equities continued their positive performance, bouncing back from August's lows.

Fixed income:

Yields rose materially on Friday, after trending down earlier through most of the week. European yields rose on the European Central Bank indicating tapering is expected to start in Q4 2021.

Commodities:

Gold posted its first weekly loss in five weeks, driven by a strong U.S. dollar and higher U.S. producer prices prompting market participants to speculate on U.S. Federal Reserve tapering. Copper prices jumped as inventories dropped to their lowest level in almost 10 years.

Performance (price return)

SECURITY	PRICE	WEEK	1 MONTH	3 MONTH	YTD
Equities ($Local)					
S&P/TSX Composite	20633.06	-0.90%	0.67%	2.91%	18.35%
S&P 500	4458.58	-1.69%	0.49%	5.18%	18.70%
NASDAQ	15115.49	-1.61%	2.21%	7.81%	17.28%
DAX	15609.81	-1.09%	-1.02%	0.25%	13.78%
NIKKEI 225	30381.84	4.30%	8.94%	4.91%	10.70%
Shanghai Composite	3703.11	3.39%	4.91%	2.55%	6.62%
Fixed Income (Performance in %)					
Canada 10-Year Yield	1.24	0.05	-0.03	-0.13	0.56
US 10-Year Yield	1.34	0.02	-0.01	-0.09	0.43
German 10-Year Yield	-0.33	0.03	0.13	-0.07	0.24
US High Yield Spread	3.16	-0.03	-0.21	-0.17	-0.64
Commodities ($USD)					
Oil	69.67	0.55%	2.02%	-0.88%	43.59%
Gold	1787.58	-2.20%	3.39%	-5.84%	-5.84%
Copper	442.25	2.24%	1.57%	-1.39%	25.67%
Currencies ($USD)					
DXY	92.65	0.66%	-0.44%	2.86%	3.01%
Loonie	1.2692	1.34%	1.37%	4.93%	-0.26%
Euro	0.8467	0.58%	-0.76%	3.09%	3.43%
Yen	109.94	0.21%	-0.57%	0.56%	6.48%

As of September 10, 2021

Macro developments

Canada – BoC keeps benchmark overnight rate unchanged; Strong employment gains in August

The Bank of Canada kept its policy rate at 0.25%, in line with market expectations. Asset purchases are slated to continue at the weekly pace of $2 billion. The BoC believes that factors pushing inflation higher are “expected to be transitory,” but will continue to monitor conditions closely. The BoC also left unchanged its previous guidance of the output gap closing in second half of 2022, which serves as rough forward guidance for when it might consider a rate hike.

Canadian employment rose by 90.2K jobs in August, significantly beating estimates of a 68.2K growth. This follows 94K jobs added in July. August job gains were mainly driven by sectors such as accommodation and food (+74.6K), construction (+20.2K), and retail and wholesale trade (+16.9K). The unemployment rate dropped to 7.1% from 7.5% in July.

U.S. – JOLTS hits record high

U.S. job openings, according to Job Openings and Labor Turnover Survey data, rose to a record high of 10.9 million in July, illustrating significant staffing challenges for businesses looking to meet strong demand. Job openings rose from an upwardly revised 10.2 million for June. This rise in openings is growing despite several employers offering incentives, such as higher wages and one-time bonuses, to attract applicants. However, worker availability remains restricted due to factors such as the rise in Delta variant cases, which have hampered in-school learning and heightened safety concerns about returning to the office. Over time, these factors are expected to abate as virus fears recede and schools return to in-person learning.

International – ECB lowers bond purchases; German industrial production rises at a muted pace; China export growth surges

The European Central Bank announced that it will slow the pace of its pandemic bond buying program in Q4 2021. This was driven by the euro region showing an “increasingly advanced” rebound, which the ECB believes can be sustained with less monetary assistance. The ECB has thus far been purchasing assets at the rate of US$95 billion per month.

German industrial production expanded in July, led by activity at factories and construction sites. The 1% month-over-month increase was in line with consensus expectations. However, the indicator is still 5.5% below the pre-pandemic level reached in February 2020.

The ZEW Institute gauge of investor confidence fell for a fourth straight month in September, led by global supply disruptions and rising Delta variant cases. The indicator fell to 26.5, its lowest level in 1.5 years, from 40.4 in the previous month.

China’s export growth in August surged 25.6% year over year, beating consensus expectations of a 17.3% rise. The upside surprise helped ease some concerns around weak domestic demand. The growth likely was a result of strong external demand and diverted orders from COVID-affected rival exporters. Suppliers seemed to have boosted orders ahead of the year-end holiday shopping season, trying to offset any port disruptions that might affect delivery due to fresh outbreaks of the Delta variant. The top three exports by categories were electronics, high-tech products, and clothing/clothing accessories.

China’s consumer price index inflation came in at 0.8% year over year, marginally below consensus expectations of a 1.0% rise, and below July CPI of 1.0%. Weak consumer demand due to lingering Delta variant concerns is expected to continue to weigh on China’s CPI in the near term.

Quick look ahead

Canada – CPI (September 15)

The CPI inflation figure will be watched closely in light of the Bank of Canada’s view that supply bottlenecks and base-year effects are the primary factors affecting it. It will also be noteworthy to see how the strong jobs gain in August impacted CPI. July CPI stood at 3.7% year over year.

U.S. – CPI (September 14); Empire Manufacturing (September 15); University of Michigan Sentiment (September 17)

U.S. CPI is expected to rise 0.4% month over month, and 5.3% year over year, for August. In line with recent months, the key aspect to monitor will be the economic categories that are impacted the most and if the factors affecting them are expected to be transitory.

The Empire State Manufacturing Survey will provide a view of how manufacturers are faring so far in September. The indicator fell sharply in August to 18.3 (from 43 in July). Supply-side issues and an inability to meet demand have bogged down U.S manufacturing activity recently.

Consumer sentiment will be a key metric to watch after two steep drops in July and August. Consumers have previously expressed concerns about the high prices of homes, vehicles, and household durables. The recent rapid rise in Delta variant cases, including its effect on hospitalizations and deaths, may have further impacted sentiment.

International – China's Retail Sales (September 14); U.K. CPI (September 15)

China's retail sales are expected to report a 7% rise year over year for August, a slowdown from 8.5% growth in July. The slowdown was likely driven by weak consumer sentiment, which has impacted the purchase of automobiles in particular, and by weakness in the consumption and service-oriented sectors as well. Sentiment has been affected by new regulations on the property market and COVID outbreaks in several cities prompting new lockdowns during the month.

U.K. CPI is expected to have risen 0.5% month over month, and 2.9% year over year, for August. The pressure on prices is expected to be short lived, in line with the "transitory thesis" outlined by the Bank of England. The sharp year-over-year rise is also partly due to base-year effects (led by a sales tax cut for the hospitality sector in August 2020). U.K. economic indicators are being seen as a bellwether for several European countries due to the U.K.'s advanced vaccination and reopening status.