Weekly Market Pulse

Week ending October 8, 2021

Market developments

Equities:

Markets saw some recovery following the volatility of recent weeks. Investor sentiment was calmed somewhat as the United States Congress neared a deal to raise the debt ceiling by US$480B until December 3. While temporary, the short-term deal provides time for politicians to come to an agreement. Performance was stronger in reopening sectors and the tech-heavy NASDAQ was unable to keep pace with the S&P 500 Index, as investors prepared themselves for tapering from the U.S. Federal Reserve.

Fixed income:

Yields rose strongly during the week. The raising of the debt ceiling reduced some risk-off sentiment, and despite the miss in U.S. payrolls investors largely expect the Fed to stay the course with its tapering.

Commodities:

The potential energy crunch continues to see energy prices rise. Oil rose even as Russia offered to help ease pressures in Europe. The OPEC+ coalition stuck with its schedule to increase output by 400K barrels per day in November. Investors had expected OPEC+ would further increase production in a tighter market.

Performance (price return)

SECURITY	PRICE	WEEK	1 MONTH	3 MONTH	YTD
Equities ($Local)					
S&P/TSX Composite	20416.31	1.32%	-1.57%	1.77%	17.11%
S&P 500	4391.34	0.79%	-2.72%	1.63%	16.91%
NASDAQ	14579.54	0.09%	-4.63%	0.14%	13.12%
DAX	15206.13	0.33%	-2.59%	-1.39%	10.84%
NIKKEI 225	28048.94	-2.51%	-7.06%	-0.25%	2.20%
Shanghai Composite	3592.17	0.67%	-2.26%	1.89%	3.43%
Fixed Income (Performance in %)					
Canada 10-Year Yield	1.63	0.16	0.42	0.36	0.95
US 10-Year Yield	1.61	0.15	0.27	0.32	0.70
German 10-Year Yield	-0.15	0.07	0.17	0.16	0.42
US High Yield Spread	3.28	0.06	0.10	0.06	-0.52
Commodities ($USD)					
Oil	79.35	4.57%	14.50%	8.79%	63.54%
Gold	1757.13	-0.22%	-1.80%	-2.53%	-7.44%
Copper	427.55	2.08%	1.03%	0.09%	21.50%
Currencies ($USD)					
DXY	94.10	0.07%	1.57%	1.83%	4.63%
Loonie	1.2472	-1.39%	-1.73%	-0.49%	-1.99%
Euro	0.8640	0.16%	2.09%	2.35%	5.55%
Yen	112.24	1.07%	1.80%	2.30%	8.71%

As of October 8, 2021

Macro developments

Canada – Total employment returns to pre-pandemic levels; Small business confidence declines

Employment rose by 157.1K jobs in September, returning total employment back to pre-pandemic levels following another 90.2K increase in August. Gains continue to be concentrated in the services sector, with an increase of 142.4K jobs. However, despite the unemployment rate declining 20 basis points to 6.9%, the number remains above pre-pandemic levels of 5.7% due to population growth during the period.

Canadian small business confidence dropped in September, as the CFIB Business Barometer Index declined to 57.8 from 67.1. Sentiment was clouded by the uncertainty of the federal elections, as most responses were collected by the second week of the September, as well as by the introduction of new restrictions and the implications of vaccine passports.

U.S. – Payrolls miss expectations; Factory orders rise

Total nonfarm payrolls rose by 194K jobs in September, the lowest reading this year and missing market expectations of 500K. The unemployment rate declined by 40 basis points to 4.8% on a decline in labour force participation. Private payrolls rose 317K, driven by a strong service sector. Within services, retail trade, transportation and warehousing, and professional business services saw notable increases. Government employment on the other hand declined 123K, as employment in education declined. Back-to-school hiring that typically occurs in September was lower than usual due to the pandemic and when seasonally adjusted, the payroll reading actually reflected a decline. Fed Chairman Jerome Powell has previously said that tapering could come following a decent employment reading. This weaker-than-expected reading has led to some market uncertainty regarding the Fed's next moves, as questions remain as to whether this reading will be deemed as weak enough to stall tapering.

Factory orders rose 1.2% in August, following the 0.7% increase in July. Transportation equipment led the increase, rising 5.4% due to a renewed upturn for aircrafts. Excluding transportation, orders rose just 0.5%.

International – China Services PMI rises; ECB minutes highlight inflation concerns; Germany industrial production falls sharply

The Caixin China General Services Purchasing Manager's Index rose to 53.4 in September, from 46.7 in August. Services activity turned expansionary as the sector saw a revised increase in work and output, with firms quoting declining COVID case counts boosting market conditions. Employment rose, and price indicators continued to accelerate amid reports of higher costs for staff, transportation, and materials.

The European Central Bank had policymakers reduce the pace of bond purchases in Q4. The minutes showed that the decision to decrease the pace was unanimous, highlighting views going both ways. Some argued that financial conditions were in a good place to return to the significantly lower pace of purchases seen earlier this year. Others were worried that markets could instead reprice future expectations, triggering a tightening of conditions. Similarly, with inflation to remain below 2% in the forecast period, ECB members were concerned that markets would raise questions about the central bank's commitment to its monetary strategy of a 2% target. Some members are increasingly worried about the upside risk to inflation, as supply bottlenecks and excess savings could continue to contribute to wage growth flowing through to inflation.

German industrial production fell 4.0% in August, reversing the 1.3% recovery in July. Market consensus was for a decrease of just 0.5%. Manufacturing production fell 4.7% on motor vehicle production, dropping 17.5% and highlighting the ongoing supply crunch. Energy production on the other hand increased 4.1%.

Quick look ahead

Canada – Manufacturing sales (October 14)

A quiet week for Canadian data with manufacturing sales as the only notable release.

U.S. – CPI and FOMC minutes (October 13); Empire manufacturing, retail sales, and University of Michigan consumer sentiment (October 15)

CPI in September could see upwards pressure on continued supply chain pressures and rising energy prices. Housing costs could also start showing some acceleration given the weaker increases so far. Market consensus is for a 0.3% increase in the month, which would see the year over year reading unchanged at 5.3%.

Federal Open Market Committee minutes could provide more context as to the required "substantial further progress" for employment following the weaker-than-expected payrolls reading. Chairman Powell had previously said that some members had felt that the test has already been met. Markets appear to be discounting the belief that the most recent reading would not deter the Fed from starting to taper.

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

Retail sales are expected to have slowed in September, with expectations for a slight decline of 0.2%. Vehicle sales are expected to drag on these results, because of lower volumes.

Investors will watch for any indication of improving consumer sentiment, which has fallen sharply in recent months on Delta-variant concerns.

International – German ZEW survey and Japanese machine orders (October 12); Chinese exports and CPI (October 13)

The ZEW survey has seen continuous declines in the past few months, falling on ongoing bottlenecks holding back production and slowing growth. The survey, which captures opinions of professionals, could see further declines on recent weak data releases.

Japanese machine orders could have continued to recover in August. Companies had indicated appetite to increase capital expenditures for the year, but orders could see weakness given the state of emergency in place.

Chinese export growth will likely continue to ease given base effects. The effect of power shortages could also dampen the reading as companies could not operate at full capacity. Nonetheless, export growth is expected to have continued at a solid 22.3% year over year.

China's consumer price index is expected to rise to 1.0% year over year, from 0.8%. Energy prices could have contributed given the recent power shortages and global price increases, while food prices fell on pork prices.