

Weekly Commentary – January 18, 2016

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Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
January 20	MBA 30-yr Mortgage Rate	January 16		4.12%
January 20	Inflation Rate Y/Y	December 15		0.5%
Canada				
January 22	New Housing Price Index Y/Y	November 15	1.6%	1.5%
Key Earnings:				
January 18: Bangkok Bank PLC				
January 19: Cohen & Steers Inc., eBay Inc., Netflix Inc.				
January 20: Hyundai Motor Co.				
January 21: Canadian Pacific Railway Ltd., ResMed Inc.				
January 22: General Electric Co., Rockwell Collins Inc.				

Source: Trading Economics, Yahoo Finance

Market Focus

Canadian housing market continues to send mixed signals

Statistics Canada announced that its New Housing Price Index gained 0.2% in December, following a 0.3% increase in November. On a year-over-year basis the index stood with a 1.6% advance. As in previous reports, the December figures reveal narrow pockets of strength. Higher prices were seen in the combined region of Toronto and Oshawa, the Vancouver census metropolitan area (CMA) and the city of Montreal. At the same time, Canada Mortgage and Housing Corporation reported a weakening in housing starts during December. The trend measure shrank from 208,204 units in November to 203,502 in December, led by a decrease in both multiple and single starts. Canada's housing sector continues to display considerable regional disparity that is unlikely to change any time soon.

U.S. Christmas shopping season falls flat

The latest figures from the U.S. Census Bureau revealed a 0.1% decline in retail sales during December. As a result, overall sales were up only 2.1% in 2015, the slowest pace of growth since 2009. On a quarterly basis, growth in retail sales stood at 0.2% (or 0.8% annualized), considerably weaker than the 1.1% and 1.7% figures posted for the third and second quarters of 2015, respectively. While the recent commentary from the Federal Reserve has focused on potential economic risks stemming from overseas, domestic conditions have been generally positive. However, some of the recent economic reports have cast some doubt on this view.

Yuan devaluation produces trade results

During the first week of the new year, China's central bank allowed the yuan to weaken by more than 1.5% against the U.S. dollar as it hit 6.5938 per USD. The aggressive move came on the heels of a 4.7% devaluation over the course of 2015. The latest trade results suggest that this currency adjustment is beginning to have some effect. China's General Administration of Customs reported that exports rose 2.3% (in yuan terms) in December (on a year-over-year basis), the first advance in five months. The yuan-based gain came despite a 1.4% decline (on the same basis) in U.S. dollar terms. Imports fell in both yuan terms (4.0%) and U.S. dollar terms (7.6%) from a year earlier, allowing the trade surplus to widened to US\$60.1 billion in December, a 21.1% jump from the November results.

Longer View

Following several years of a general expansion in the price-earnings ratio of equities, we believe returns from this asset class will moderate somewhat and become more closely tied to the rate of growth in company earnings. Also, we anticipate that after an extended period of declining yields in the bond market and therefore increasing bond prices, interest rates will likely rise, which would detract from bond performance. We continue to favour stocks over bonds as they have greater expected growth potential than bonds and are less sensitive to changes in interest rates. Having a professional advisor who can provide a diversified portfolio that takes into consideration your risk tolerance can help protect your investment returns from rising interest rates.

Weekly Summary

January 11

▼ Canada Mortgage and Housing Corporation announced that housing starts totalled 172,965 units (seasonally adjusted annual rate) in December. This is down from the 212,028-unit level in November (originally reported as 211,916). The decline in housing starts was due to a decrease in urban activity. These results are well below market consensus. Activity in the housing market has a significant "ripple" effect on the broader economy.

▲ The renminbi-based overnight Hong Kong interbank offer rate, or CNH-HIBOR (similar to LIBOR in Europe), jumped 939 basis points to 13.4% overnight, a record one-day move and a new all-time high (HIBOR was created in June 2013). The jump reflected the tight liquidity for CNH, the offshore rate for the renminbi traded in Hong Kong. CNH deposits in Hong Kong had declined for four straight months through November, reducing CNH liquidity. Of note, CNH weakened 1.7% last week, incentivizing foreign importers to use renminbi to pay for Chinese exporters to offload unwanted CNH.

January 12

▼ India's Ministry of Statistics and Programme Implementation (MOSPI) reported that industrial production in India fell 3.2% year-over-year in November 2015, the first annual drop since October 2014. The decrease was the result of the manufacturing sector, which shrank 4.4% during the period. Mining output rose 2.3% and electricity production went up 0.7%. These results are considerably weaker than market consensus.

January 13

▲ China's Finance Ministry reported that exports climbed 2.3% in yuan terms in December (year-over-year), ending a five-month stretch of declines. At the same time, imports dropped 4.0% from a year earlier, a significant improvement from November's 6.8% decline. The result suggests that a devaluation of the yuan was helping China's terms of trade. These results are stronger than expected.

January 14

▲ The U.S. Department of Labor announced that initial jobless claims totalled 284,000 (seasonally adjusted) in the week ending January 9, an increase of 7,000 from the previous week's unrevised level of 277,000. The four-week moving average was 278,750, an increase of 3,000 from the previous week's unrevised average of 275,750. These results are weaker than expected.

▲ Statistics Canada announced that its New Housing Price Index (NHPI) rose 0.2% in November, following a 0.3% increase in October. The gain in November was largely attributable to higher prices in the combined region of Toronto and Oshawa as well as the census metropolitan area (CMA) of Vancouver. On a year-over-year basis, the index is up 1.6%. These results match consensus expectations and suggest continued modest improvements in net worth for homeowners.

January 15

▼ The U.S. Census Bureau announced that retail sales were down 0.1% (seasonally adjusted) for the month of December but were 2.2% above December 2014 levels. Excluding autos, sales were also down 0.1% during the month but up 1.2% on a year-over-year basis. These figures are weaker than expected. Since consumer spending accounts for roughly two-thirds of U.S. economic activity, it is critical to overall GDP results.

▼ The U.S. Bureau of Labor Statistics reported that its Producer Price Index – Final Demand (PPI-FD) declined 0.2% (seasonally adjusted) in December. The index increased 1.0% for the 12 months ended December 2015. In December, the decrease in the final demand index can be traced to a 0.7% decline in prices for final demand goods. In contrast, the index for final demand services moved up 0.1%. These figures are in line with consensus expectations. The PPI data are closely watched as they indicate relative inflationary pressures at the industry level.

▲ With sanctions related to its nuclear program now expected to be lifted, the OPEC member's Tanker Loading Schedule reported that Iran is on track to ship 1.10 million barrels a day (bpd) of crude oil (excluding condensate) in January. This would be a 21% increase over December levels and a new nine-month high. As a result, Brent and U.S. crude oil prices shifted down overnight and were on track to close lower for a third consecutive week, down roughly 20% from their highs posted thus far in 2016.

▼ The U.S. Federal Reserve announced that industrial production declined 0.4% in December after dropping 0.9% in November. On a year-over-year basis, industrial production was reported to have fallen 1.8%. Capacity utilization for total industry fell to 76.5% from 76.9% in November and 79.0% a year earlier. These results are weaker than expected. The softening in production should be reflected as a slow-down in real economic output in the quarterly GDP figures.

▼ The U.S. Census Bureau announced that business sales dropped 0.2% in November 2015 and were down 2.8% from November 2014 levels. At the same time, inventories fell an identical 0.2% on the month but were up 1.6% on a year-over-year basis. As a result, the total business inventories/sales ratio at the end of November was 1.38. The November 2014 ratio was 1.32. These results were in line with consensus expectations. Flat business sales suggest sluggish economic growth while rising inventories/sales ratios suggest a business need to avoid accumulating unwanted stockpiles.

▲ The Thomson Reuters/University of Michigan index of consumer sentiment rose to 93.3 in the mid-month reading for January. This is stronger than the 92.6 level recorded for December. This is now the highest reading since mid-July 2015 and is stronger than market expectations. This is another indicator of the likely pattern of consumer spending.

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