Market Bulletin

Issue No. 233
December 9, 2013

Summary

Economic Analysis

- November jobs – Tepid payroll data in Canada, "Goldilocks" numbers in the US.

Chart of the Day

- Gold-to-DJIA ratio may portend more downside for bullion.

Recommendation

- **Suncor** – Reiterate Buy following 7.5% decline since Oct.31; target remains at $40.

The Market Bulletin will not be published on December 16.
This year's final Bulletin will be published on December 23.

Commentary – 2014 could be the best year for TSX since 2010

Index may benefit from stronger global growth, boost to earnings from weaker Canadian dollar
But with US indexes in uncharted territory, nimble trading may be required

Elvis Picardo, CFA

The TSX has not had an easy ride in this bull run that already spans 57 months. Look at the changes in the level of the index over the past six years: -35.1% ('08), +30.7% ('09), +14.5% ('10), -11.1% ('11), +4.0% ('12), and +6.8% (YTD '13). In our opinion, 2014 could well be the best year for the TSX since 2010, as the index benefits from stronger global growth, a rebounding domestic economy, and the boost to corporate earnings from a loonie that is at a three-year low.

Our preliminary end-2014 target for the TSX is currently 14,400, which is about 8.4% higher from its Friday closing level of 13,280. With the TSX currently offering a dividend yield of 3%, we believe there is a strong possibility that the index could generate double-digit returns for the second straight year in 2014. This obviously depends on how the TSX behaves in the final three trading weeks of this year, but on current form, a total return of +10% for this year appears eminently possible. (**Full details of our portfolio strategy for next year will be available in our 2014 Outlook report to be released on December 17**).

But it's very unlikely to be smooth sailing. US equity indexes are currently in uncharted territory, and while the relative ease with which they have scaled these heights is astounding, we think market volatility might return in earnest next year. In our view, nimble trading might be called for in order to protect gains and hedge downside risk even as equities advance.

Economic Analysis

Canadian jobless rate held near five-year low of 6.9% in November

Jobs gains driven by part-timers and self-employed

The Canadian economy added jobs for the fourth successive month in October, adding 21,600 positions. While this was well above economists' average forecast for a gain of 12,000, last month's job creation was of uneven quality, led by part-timers and self-employed people rather than full-time personnel. The jobless rate held at 6.9% – the lowest since December 2008 – for a third month, and the labour participation rate was unchanged at an 11½-year low of 66.4%. Key points of the November jobs report are summarized below –

- Job gains were led by part-time positions (+20,000) for the first time in three months. Full-time jobs growth was lacklustre (+1,400), after three months where an average of almost 19,000 jobs were added in this category. YTD, full-time employment accounts for 54% of all job gains, compared with 99% for the year-earlier period.
- Self-employed people (+19,100) accounted for almost all of November's job gains, with only 2,500 net employee positions created, as a big decline in public sector jobs (-28,800) offset an increase of 31,400 in private-sector positions.
- While the services sector (+15,700) continued to drive job creation, goods producers had mixed results (+5,900), as an unexpected increase in 24,900 manufacturing jobs offset declines in construction (-17,500) and agriculture (-5,500).
- Three of the biggest provinces added jobs, led by part-time positions in Quebec and Ontario and full-time jobs in Alberta. BC lost 8,200 jobs (-4,500 full-time, -3,700 part-time), while the jobless rate moved back up to 6.7% (from 6.5%).

Table 1: Canadian employment metrics (Source: Statistics Canada)

	Aug. '13	Sept. '13	Oct. '13	Nov. '13
Unemployment Rate	**7.1%**	**6.9%**	**6.9%**	**6.9%**
Employment (net change)*	**59,200**	**11,900**	**13,200**	**21,600**
Full-time	17,400	23,400	16,000	1,400
Part-time	41,800	-11,500	-2,700	20,000
Worker classificn. (net change)	**59,200**	**11,900**	**13,200**	**21,600**
Employees	39,900	57,300	25,200	2,500
Self-employed	19,200	-45,400	-12,000	19,100
Public/private sector (net chg.)	**39,900**	**57,300**	**25,200**	**2,500**
Public sector	9,000	-16,300	47,300	-28,800
Private sector	30,900	73,600	-22,100	31,400
*totals may not add up due to rounding				

U.S. records jobs gains of just over 200,000 for second month

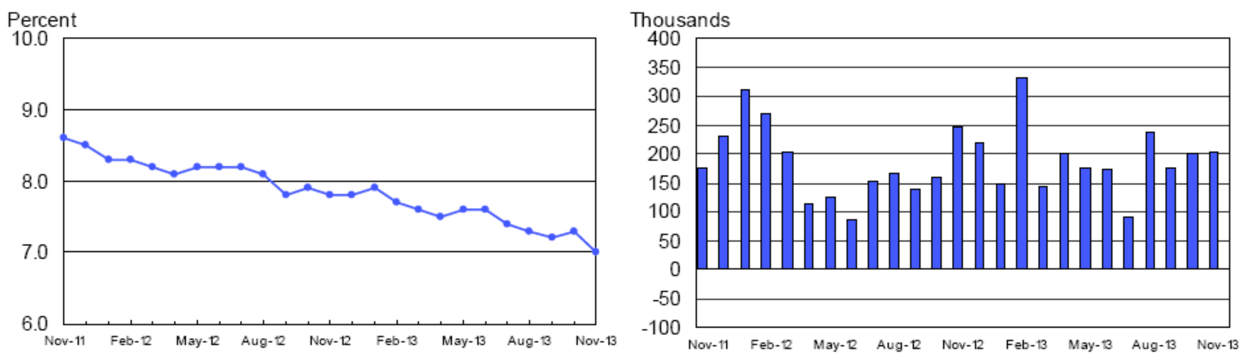
Equity indexes rocket higher as "Goldilocks" jobs numbers offset "taper talk"

The US economy added 203,000 jobs in November, the biggest gain in three months and exceeding economists' median forecast of 185,000. October's jobs gains were revised marginally lower to 200,000 (from 204,000), while September's gains were revised higher to 175,000 (from 163,000), for a net revision of +8,000 over these two months. The unemployment rate resumed its declining trend, falling to a five-year low of 7.0% (Fig.1), from 7.3% in October, when the jobless rate rose for the first time in five months due to workers furloughed during the two-week federal government shutdown. Average hourly earnings for all employees rose by 4 cents from the previous month to $24.15, for a 2.0% increase over the past 12 months. The labour participation rate ticked slightly higher to 63.0%, the first gain since June and marginally higher than the 62.8% recorded in October, which was the lowest level since March 1978.

Last month's job gains continued to be driven by the US private sector, which added 196,000 positions, compared with only 7,000 government jobs. Private-sector job creation continued to be concentrated in the service sector, with a total of 152,000 jobs added in seasonal areas such as trade and warehousing, and others like education/health and professional/business services. Goods producers also continued to display steady improvement, adding 44,000 positions, led by manufacturing (+27,000) and construction (+17,000).

Market reaction: Payroll gains have averaged 193,000 for the past three months, which is about as close to a "Goldilocks" jobs number as investors can ask for, one that is neither too rapid nor too sluggish but is just right. While US equities were weighed down over the previous five trading days by slightly softer Black Friday weekend sales (down 2.9% to $57.4 billion, the first decline since 2009), and renewed concerns about the Fed tapering its bond-buying program, the DJIA and S&P 500 rebounded more than 1% on Friday. Bill Gross of PIMCO believes the jobs numbers signal a 50% chance that the Fed begins tapering in December itself, rather than wait until Q1 of 2014. But with US consumer confidence rising to a five-month high this month and equities surging, a strong finish to 2013 appears likely.

Figure 1: US unemployment rate and non-farm payroll change – Nov.2011 to Nov. 2013



Source: Bureau of Labor Statistics

Chart of the Day – Gold-to-DJIA ratio may portend more downside for bullion

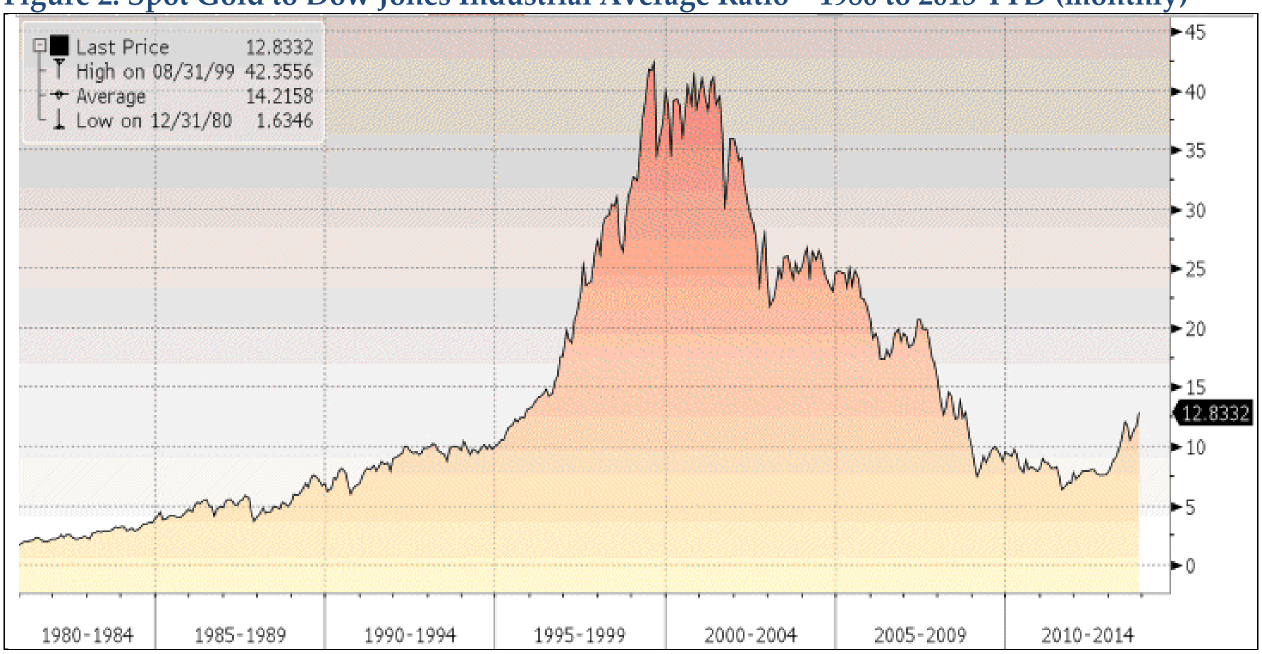
Ratio has surged from 66% YTD, from 7.8 at beginning of 2013 to 13.0 presently

The chart below displays the monthly ratio of spot gold to the Dow Jones Industrial Average since 1980. The ratio offers a quick read on investors' relative preference for gold versus US stocks (using the DJIA as a proxy). Over the past 33 years, the ratio has ranged from a low of about 1.635 in December 1980 – the year gold reached its then record high of $850 – to a high of over 42 in August 1999, when US stocks were flying high as a result of the tech/dot-com boom and gold was languishing in the mid-$200s.

While the average level of the ratio over this period is 14.2, perhaps the mean level in this Millennium of about 19.6 may be more pertinent. In the year 2000, even as US stocks were topping out after a decade-long bull market, gold was forming a base prior to commencing a spectacular multi-year run that saw it top $1,900 in September 2011.

But the precious metal has lost much of its lustre since then, having plunged by close to $700 from its record high; with a 27% decline YTD, gold is on track for its first annual drop in 13 years. Bearish sentiment for gold does not yet seem to have run its course, despite investors having sold 800 metric tons from gold ETFs this year for the lowest holdings since March 2010. Goldman Sachs recently forecast that gold may drop to $1,110 in the next 12 months. The gold-to-DJIA ratio is at 13.0 presently (up 66% YTD), having doubled from a two-decade low of 6.4 reached in August 2011. In our opinion, this may portend more downside for gold prices as the ratio regresses to its long-term averages in the face of a buoyant stock market.

Figure 2: Spot Gold to Dow Jones Industrial Average Ratio – 1980 to 2013 YTD (monthly)



Source: Global Securities Research, Bloomberg

Recommendation

(Update) Reiterate Buy on Suncor, target at $40

We reiterate our Buy rating on Suncor Energy (TSX: SU, $35.77), with a target price of $40. The stock traded at a 28-month high of $38.68 on October 31, but has since declined 7.5%, presenting a buying opportunity in our view.

As noted in our November 11 update, Suncor's solid Q3 results reinforced the value of its integrated business model, which enables the company to capture Brent-based pricing on most of its oil sands output through its refining operations. The company had reduced its 2013 production guidance by 25,000–35,000 boe/d (from its July outlook) to 545,000-590,000 boe/d, due to the shut-in of Libyan production, unplanned outages and maintenance at Syncrude, and the sale of the company's nat-gas business. In its guidance for next year released on November 20, Suncor forecast 2014 production of 565,000-610,000 boe/d, an increase of about 3.5% from 2013. Cash operating costs per barrel are forecast to decline about 5.7% in 2014 to $31.50-$34.50, from $33.50-$36.50 expected this year.

On another note, Suncor's CFO Bart Demosky announced on November 29 that he would resign from the company on December 27, and would join Canadian Pacific as its CFO the next day. The move is not expected to have a material impact on Suncor's business.

Analysts continue to be almost uniformly bullish on Suncor, with their average 12-month target price of $44.43 up by $1 since our previous update. Our opinion that Suncor should be supported by its 2.2% dividend yield and an ongoing share buyback remain unchanged. We reiterate our Buy rating on Suncor, with a target price of $40.

Market Snapshot

At close on Friday, December 6, 2013

S&P TSX	13280.72	+80.32	**Commodities**			**Yields (%)**	**Can.**	**US**
TSX Venture	916.65	+1.87	Canadian $ (US cents)	93.99	+0.12	90 Day T-Bill	0.91	0.06
DJIA	16020.20	+198.69	Gold (Spot)-US$	1229.05	-3.88	2-Year Bond	1.09	0.30
S&P 500	1805.09	+20.06	Oil (WTI-Jan.)	97.65	+0.27	10-Yr.Bond	2.68	2.86
NASDAQ	4062.52	+29.36	CRB Index	278.66	+1.04	30-Yr. Bond	3.27	3.89

Thought for the Day

"It always seems impossible until it's done." – Nelson Mandela

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IMPORTANT RESEARCH DISCLOSURES

(1) The analyst and/or a member of the analyst's household have a long position in the following stocks discussed in this report – **Suncor**

Research Rating System

Strong Buy: Expected total returns of 20% or more over the next 6 – 12 months.
Buy: Expected total returns of 10% to 20% over the next 6 – 12 months.
Speculative Buy: Significant gains expected over the next 6 – 12 months, but entire investment may be at risk.
Hold: Expected total returns of 0% to 10% over the next 6 – 12 months.
Reduce: Expected total returns of up to -10% over the next 6 – 12 months.
Sell: Expected total returns of over -10% over the next 6 – 12 months.

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