# Market Bulletin

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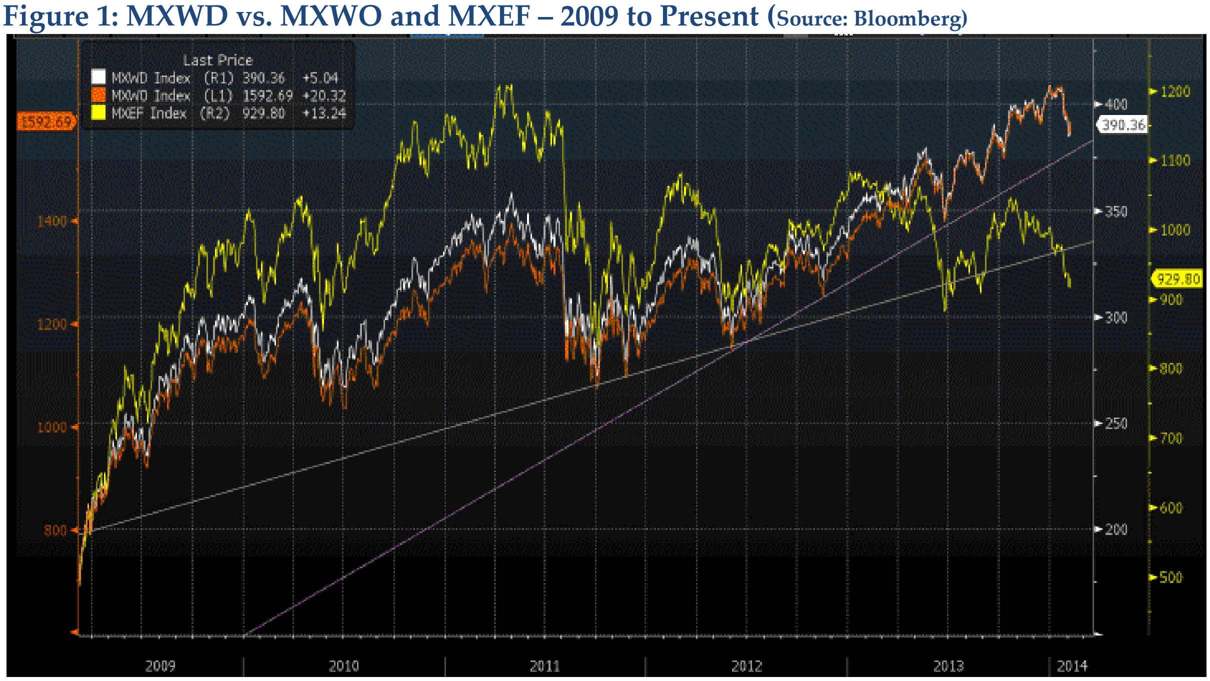
## Commentary–Will advanced economies' strength offset emerging mkt. weakness?

*Emerging markets guru Mark Mobius sees bigger selloff ahead*

This year's consensus view is that strength in the advanced economies will offset weakness in emerging markets. (In all fairness, however, it should be pointed out that this opinion was formulated before the bout of volatility that roiled global markets over the past couple of weeks). Figure 1 presents a graphical view of the relative performance of these two economic groupings since the start of this bull market in March 2009. We use the MSCI indexes as proxies, specifically the MSCI World Index (MXWO) which only includes developed markets, and the MSCI Emerging Markets Index (MXEF). These two indices together constitute the MSCI All-Country World Index (MXWD). As can be seen, the MXWD and MXWO move in sync – which is to be expected, given that the latter constitutes 83.3% of the MXWD – and still have some way to go before testing trend-line support (about 4% and 15% lower, to be precise). But it's a different story with the MXEF, which seems to be headed lower. The point is – emerging markets collectively make up only 16.7% of global equities, and as long as developed markets can grind their way higher, this five-year old bull run may have more longevity.

**Figure 1: MXWD vs. MXWO and MXEF – 2009 to Present (Source: Bloomberg)**



# Economic Analysis

## Mixed signals from Canadian jobs report for January

### *Loonie may find support at 90 US cents*

Canada's jobs report for January is not as positive as may seem at first blush, but has nevertheless been well received by the market and has helped the loonie rally today. The economy added 29,400 jobs (Table 1 on page 3) last month, making up to some extent for the 44,000 jobs lost in December, which in turn came after four successive months of job gains. Here's a summary of the positives and negatives from the January jobs report:

**Positive points**

- Overall jobs added exceeded economists' average estimate of 20,000. The December number was also revised to a loss of 44,000 jobs, compared with the initial estimate of a loss of 45,900 positions (note: this revision is not reflected in Table 1).
- Full-time positions increased by 50,500 positions last month and offset a decline of 21,100 part-time jobs; the increase in full-time jobs reversed the loss in December of 56,000 f-t positions (revised from -60,000).
- The unemployment rate improved to 7.0%, from 7.2% in December, which was also better than the 7.1% expected by economists.
- While the average workweek was unchanged from a year ago at 35 hours, average hourly wages for all employees rose 2.6% from a year earlier to $24.66 (compared with an increase of 1.9% in the US). Average hourly wages for permanent employees in Canada rose 2.7% from a year ago to $26.48, compared with a 2% increase last month.

**Negative points**

- The private sector shed 13,600 positions, and while this was half the 26,300 jobs it lost in December, this was still the second successive month of job losses for the sector. An increase of 14,700 public sector jobs enabled the overall employee count to gain by 1,100.
- Most (about 96%) of January's job creation was in the self-employed category, which has seen big monthly swings since September. Job quality in this category is a little suspect, since it doesn't take much for one to hang out a shingle and begin business as a self-employed person.
- The decline in the jobless rate was largely caused by about 21,000 people leaving the workforce. This resulted in a continued decline in the participation rate, which fell to 66.3% in January (from 66.4% in December). <u>This is the lowest since February 2002 and is a worrisome sign of ongoing weakness in the Canadian labour market</u>.

Other highlights of the January jobs report –

- Services accounted for the bulk of job creation with 25,800 positions, while goods producers added 3,600 jobs.

- Except for Quebec, modest job gains in the other three big provinces – Ontario, Alberta and BC – were led by an increase in full-time positions that offset part-time job losses.
- BC added 7,100 jobs, as an increase of 9,100 full-time positions offset a decline of 2,000 part-time jobs. The jobless rate declined to 6.4% (from 6.6%).

**Bottom-Line**: The TSX Composite rallied 0.6% today, while the Canadian dollar traded over 91 US cents before paring most of its gains to close at 90.65 US cents. Canada's jobs numbers, while mixed, were still stronger than the US payroll numbers (see analysis below), although investors overlooked the tepid US data on account of winter weather. The loonie is now trading more than a cent higher from its multi-year low of 89.10 cents reached on January 31. If the support level at 90 US cents holds, the currency may be able to work its way higher in the weeks ahead, provided emerging markets stabilize and risk appetite returns.

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

| | Oct. '13 | Nov. '13 | Dec. '13 | Jan. '14 |
|---|---|---|---|---|
| **Unemployment Rate** | **6.9%** | **6.9%** | **7.2%** | **7.0%** |
| | | | | |
| **Employment (net change)*** | **13,200** | **21,600** | **-45,900** | **29,400** |
| Full-time | 16,000 | 1,400 | -60,000 | 50,500 |
| Part-time | -2,700 | 20,000 | 14,200 | -21,100 |
| | | | | |
| **Worker classificn. (net change)** | **13,200** | **21,600** | **-45,900** | **29,400** |
| Employees | 25,200 | 2,500 | -8,000 | 1,100 |
| Self-employed | -12,000 | 19,100 | -37,900 | 28,300 |
| | | | | |
| **Public/private sector (net chg.)** | **25,200** | **2,500** | **-8,000** | **1,100** |
| Public sector | 47,300 | -28,800 | 18,200 | 14,700 |
| Private sector | -22,100 | 31,400 | -26,300 | -13,600 |
| *totals may not add up due to rounding | | | | |

## U.S. jobs gains of 113,000 in January miss forecasts for second straight month

***Investors unfazed by tepid date as major equity indices gain at least 1%***

The US economy added only 113,000 jobs in January, after adding 75,000 jobs in December that was the smallest jobs gain since January 2011. On the plus side, while December's jobs numbers missed economists' average forecast of 197,000 by a mile, the January shortfall was not as bad, given that the average forecast was for an increase of 180,000. Contrary to expectation, the nasty winter weather did not have as big an impact on the jobs data as it did in December. The number of people who could not report for work due to inclement weather was little changed from a year ago at 262,000, compared with 273,000 workers in December, which was the highest since 1977.

On another mildly positive note, the unemployment rate fell to 6.6% (from 6.7% in December), the lowest since October 2008, despite an increase of 523,000 in the labour force. The increase in the number of people looking for work also resulted in the participation rate ticking up to 63.0%, from a 35-year low of 62.8% in December.

Last month's job gains continued to be driven by the US private sector (+142,000), which offset a decline of 29,000 government jobs. Contrary to the dominant trend in recent months, private-sector job creation in the goods-producing sector (+76,000) surpassed that in the service sector (+66,000), led by a rebound in construction jobs (+48,000, after a decline of 16,000 in December) and an increase of 21,000 manufacturing jobs that was 2x the forecasted number. The average workweek for all employees was flat from a year ago at 34.4 hours, while average hourly earnings rose by 46 cents or 1.9% from a year ago to $24.21.

**Market Reaction:** Investors seem to have given the soft jobs numbers the benefit of the doubt for the second successive month, given that last month was the coldest January in the United States in two decades. Jobs gains for the past two months average 94,000, compared with an average increase of 193,000 from September to November. Today's 1.3% gain in the S&P 500 follows a slightly smaller increase yesterday, for a 2.6% increase that is the index's best two-day rally since October. Investors have used the 5% downdraft in US indices since the beginning of 2014 as a buying opportunity, which would seem to be the right course of action as long as this bull market – which completes five years (hopefully) in a month – remains intact.

## Commodities

### Natural gas – inventories at decade low for this time of year

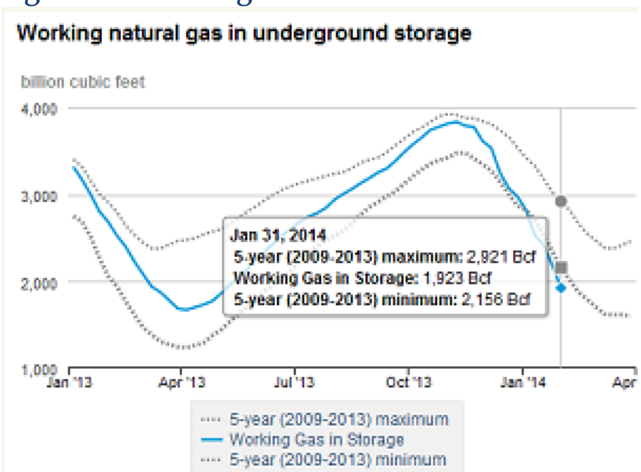
*Expect continued weather-driven volatility*

- Natural gas prices have experienced typical winter volatility over the past month, rising as much as 42%, from a low of $4.05/mmBtu on January 10 to a four-year high of $5.74 on February 5. The gains were triggered by below normal temperatures in January and earlier forecasts that a cold weather system could persist through February 16. According to Commodity Weather Group LLC, 2014 saw the coldest January since 1994. Total gas inventory levels currently stand at 1.923 tcf (Figure 2), the lowest level for this time of year in a decade.

- However, nat-gas futures have since tumbled by almost a dollar or 17% from their peak levels earlier this week on forecasts for warmer weather later this month and an inventory drawdown that was smaller than expected inventory. According to the Energy Information Administration, gas inventories had a drawdown of 262 billion cubic feet (bcf) for the week ended Jan. 31, versus expectations for a 276 bcf draw.

While traders may be taking nat-gas prices lower on the recent inventory draw disappointment, weather surprises later this month are still possible. Price insurance, as measured by options volatility, is notably expensive at present with at-the-money implied volatility at 71% vs. 32% this time last month.

**Figure 2: U.S. nat-gas inventories**




**Source: NatGasWeather.com**

## Market Snapshot

**At close on Friday, February 7, 2014**

| **S&P TSX** | 13786.50 | +73.10 | **Commodities** | | | **Yields (%)** | **Can.** | **US** |
|---|---|---|---|---|---|---|---|---|
| **TSX Venture** | 962.10 | +9.30 | Canadian $ (US cents) | 90.65 | +0.32 | 90 Day T-Bill | 0.87 | 0.08 |
| **DJIA** | 15794.08 | +165.55 | Gold (Spot)-US$ | 1267.27 | +9.08 | 2-Year Bond | 0.97 | 0.30 |
| **S&P 500** | 1797.02 | +23.59 | Oil (WTI-March) | 99.88 | +2.04 | 10-Yr.Bond | 2.40 | 2.68 |
| **NASDAQ** | 4125.86 | +68.74 | CRB Index | 289.77 | +2.56 | 30-Yr. Bond | 3.01 | 3.67 |

## Thought for the Day

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