

January in Review

North American equity markets posted positive results in January, as Canadian and U.S. equities gained 0.55% and 6.26% respectively. Emerging markets led the pack returning 10.20% during the month. Crude oil slid -10.17%.

A surprise interest rate cut. The Bank of Canada (BoC) surprised market watchers in late January by cutting its key interest rate by 0.25%, bringing it to 0.75%. In a statement released by the BoC, the rate cut was viewed as “insurance” against the effects of low oil prices on the economy. The BoC also went on to say that “Outside the energy sector, we are beginning to see the anticipated sequence of increased foreign demand, stronger exports, improved business confidence and investment, and employment growth.”

Canadian inflation takes a dip. With the price of gasoline having fallen at the pumps, the rate of inflation in Canada has slowed to 1.50% on a year-over-year basis, according to Consumer Price Index data released by Statistics Canada. Core inflation, which removes gasoline and other volatile products from the inflation calculation, was up 2.20% from the previous year. On a monthly basis, inflation was negative in December, falling 0.70% while core inflation fell -0.30% compared to November. The BoC is forecasting core inflation of 2.00% over the next year.

A tale of two GDPs. Canadian GDP data for November showed that the economy contracted 0.20%, the most in 11 months. The bulk of the shrinkage was due to weakness in manufacturing, which suffered a decline of 1.9% in November. Economists were expecting little change in output. Meanwhile, south of the Border, U.S. GDP came in at a healthy 2.6% clip in the fourth quarter of 2014, with the majority of the strength coming from personal consumption expenditures and inventory investments.

Europe to unleash quantitative easing (QE) program. The President of the European Central Bank (ECB), Mario Draghi, unveiled a European QE program to help reinvigorate the eurozone economy. The program, valued at €1.1 trillion in total, will allow the central bank to directly purchase the sovereign bonds of member nations, injecting liquidity into the economy in a bid to stoke inflation and growth. The plan will be in effect until September 2016, and will be split into monthly purchases of €60 billion. QE programs have been previously used by central banks in the U.S., Japan and the U.K. to stimulate their economies.

INDEX (C\$)†	Change (%)			Index Level
	1 Mth	YTD	1 Yr	
Treasury Bill (FTSE TMX Canada 60 Day T-Bill)	0.12	0.12	0.95	157
Bonds (FTSE TMX Canada Universe Bond)	4.63	4.63	11.17	1,005
Canadian equities (S&P/TSX Composite)	0.55	0.55	9.93	14,673
US equities (S&P 500)	6.26	6.26	29.32	2,538
Global Equities (MSCI World)	7.60	7.60	22.07	2,134
Emerging markets (MSCI Emerging Markets)	10.20	10.20	20.27	1,223

CURRENCIES†	Change (%)			Exchange Rate
	1 Mth	YTD	1 Yr	
C\$/ US\$	-8.73	-8.73	-12.36	0.78
C\$/ Euro	-2.17	-2.17	5.25	0.69
C\$/ Pound	-5.47	-5.47	-3.95	0.52
C\$/ Yen	-10.45	-10.45	0.24	92.27

COMMODITIES (US\$)†	Change (%)			Price
	1 Mth	YTD	1 Yr	
Gold Spot (\$/oz)	7.96	7.96	2.57	1,279.20
Oil WTI (\$/barrel)	-10.17	-10.17	-45.55	48.24
Natural Gas (\$/MMBtu)	-7.08	-7.08	-39.72	2.69

†As at January 31, 2015. Source: Bloomberg

Did you know?

Prior to the rate cut announcement on January 21, the Bank of Canada had not changed its overnight rate since September 2010. Between October 2008 and September 2010, the BoC changed the rate six times in response to the economic downturn precipitated by the U.S. housing bubble, reaching a low of 0.25%.

Crude Perspective: Depends on where you stand

Having lost over half of its value since the summer, the recent drop in crude oil has been dramatic, but by no means random. The two main drivers of the slump have been an oversupply and slower global growth. While the tone and tenor of recent headlines have tilted toward the negative, as with all things, there are generally two sides to every story and that is particularly true when it comes to oil.

Here are a few points to keep in mind when considering the recent oil price volatility:

1. Lower oil prices typically lead to lower gasoline prices, resulting in savings at the pump for consumers
2. Consumers may then redirect these savings by purchasing other goods and services such as groceries, clothing or other discretionary spending.
3. Industries where fuel is the largest expense typically benefit as their biggest input cost becomes less expensive. Airlines, shipping and transportation companies are examples of those who stand to benefit.



4. The Canadian dollar has traded in tandem with the price of crude. A lower Canadian dollar makes domestic goods and services more attractive to foreign buyers and may provide a boost to the export sector.

5. While we can't count Canada among them, nations that are net-importers of oil stand to be major

beneficiaries as they spend less money on energy to fuel their economies. This is generally a positive for global growth.

What impacts one industry can be a boon for another, and although we are in a period of low oil prices, eventually prices will change direction.

In a surprise move, the Bank of Canada (BoC) took out an "insurance" policy to protect the Canadian economy against the ill effects of lower oil prices, by cutting its key interest rate. Acknowledging that the risks to the

economy are very real, the BoC believes that the economy will fully recover by the end of 2016.

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