Weekly Trends

PRIVATE CLIENT SOLUTIONS

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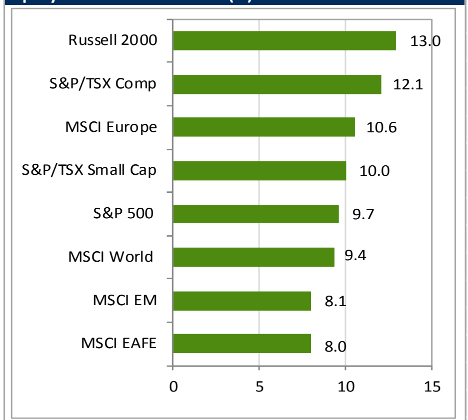
Checking Up on China

This week the Chinese National People's Congress (NPC) began with the government laying out a series of targets and measures for 2019. The ruling party officials cut China's economic growth target for a second time, now anticipating 6.0-6.5% in 2019, down from last year's target of about 6.5%. This is the first time policy makers have used a band rather than a specific targeted level, which according to Bloomberg gives China greater flexibility to maneuver. If China grows at 6% this year it would be the slowest pace of economic growth in almost three decades, which would have negative impacts on overall global GDP growth. However, beneath the headline there are a number of pro-growth policy initiatives announced this week

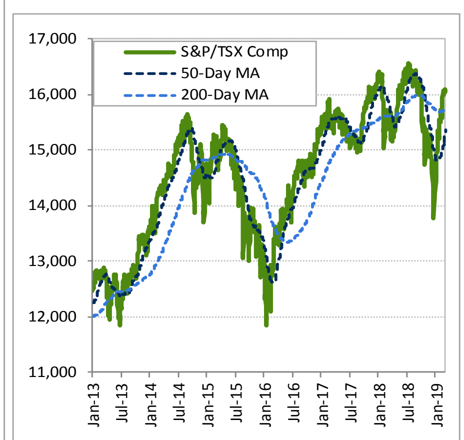
- The measures taken over the last few months are somewhat of a reversal from the general tightening bias China's policy makers have made in an effort to prioritize reining in debt risks and removing excesses in many industries. The tightening measures combined with general global economic conditions have resulted in more significant slowdowns than anticipated.
- While global equity markets are basking in the glow of central banks' dovish pivot, the shift in policy is an acknowledgement that growth has decelerated. Ultimately the pivot is meant to spur economic activity and, while there is positive economic data we can point to, the picture remains mixed, particularly in China.
- The Shanghai market, as other markets around the world, has responded to the central bank pivot and stimulus measures jumping over 28% over the past 8 weeks. The move has pushed the index above its long-term downtrend from the 2015 peak as the market attempts to move to the 61.8% Fibonacci retracement of the 2018/2019 bear trend.

Equity Market YTD Returns (%)



Canadian Sectors	Weight	Recommendation
Consumer Discretionary	4.2	Underweight
Consumer Staples	3.9	Overweight
Energy	18.4	Underweight
Financials	32.4	Market weight
Health Care	2.1	Underweight
Industrials	10.8	Market weight
Technology	4.3	Market weight
Materials	11.1	Market weight
Communications	5.7	Overweight
Utilities	4.1	Market weight
Real Estate	3.2	Overweight

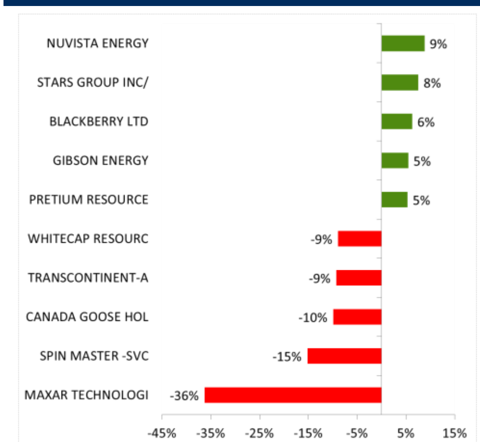
Technical Considerations	Level	Target
S&P/TSX Composite	16,057	15,600



Source: Bloomberg, Raymond James Ltd.

Sectors are based on Bloomberg classifications

S&P/TSX Top 5 Gainers/Laggards*



S&P/TSX Market Internals

Weekly Advance	131	52%
Weekly Decline	107	43%
Advance-Decline	24	
New 52 wk high	19	8%
New 52 wk low	5	2%
No. Stocks Above 50-d	170	68%
No. Stocks Above 200-d	120	48%
Arms Weekly Index	0.85	Neutral
RSI (14-day)	68.6	Neutral
50-DMA	15,359	Uptrend
200-DMA	15,707	Uptrend

*Source: Bloomberg, Raymond James Ltd; * 5-day price return*

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RAYMOND JAMES

This week the Chinese National People's Congress (NPC) began with the government laying out a series of targets and measures for 2019. The ruling party officials cut China's economic growth target for a second time, now anticipating 6.0-6.5% in 2019, down from last year's target of about 6.5%. This is the first time policy makers have used a band rather than a specific targeted level, which according to Bloomberg gives China greater flexibility to maneuver. If China grows at 6% this year it would be the slowest pace of economic growth in almost three decades, which would have negative impacts on overall global GDP growth. However, beneath the headline there are a number of pro-growth policy initiatives announced this week:

- New local government bond issuance quota will increase +60% year-over-year (yoy), which is supportive of a pickup in infrastructure investment.
- Monetary policy will be biased towards easing. Money supply growth will keep pace with nominal GDP growth and be roughly in line with 2018's actual growth rates. Further, officials said monetary policy will be prudent, paying attention to the balance between tightening and loosening.
- Cut the value-added tax (VAT) for manufacturing and other sectors by 3%.
- The target budget deficit for 2019 was set at 2.8% of GDP, higher compared to last year's goal of 2.6%.

These announcements follow other stimulus measures introduced over the past few weeks:

- January 2: China's policymakers supported the private sector in the face of slowing economic growth. Banks that lend as much as 1.5% of their credit portfolios to small companies can qualify for a 0.5% reduction in their reserve requirement ratio (RRR). The NPC further expanded this measure by announcing an additional reduction in the RRR for smaller banks.
- January 4: The People's Bank of China (PBOC) announced a 100 bps cut in the RRR for deposits of financial institutions in a bid to increase lending.
- January 8: China's policymakers took steps to strengthen domestic consumption in China with its plan to boost domestic spending on items such as autos and home appliances in 2019.
- January 9: State Council unveiled $29 billion in annual tax cuts for smaller firms.
- January 24: PBOC set up a new facility to encourage bank lending in order to stimulate the economy.

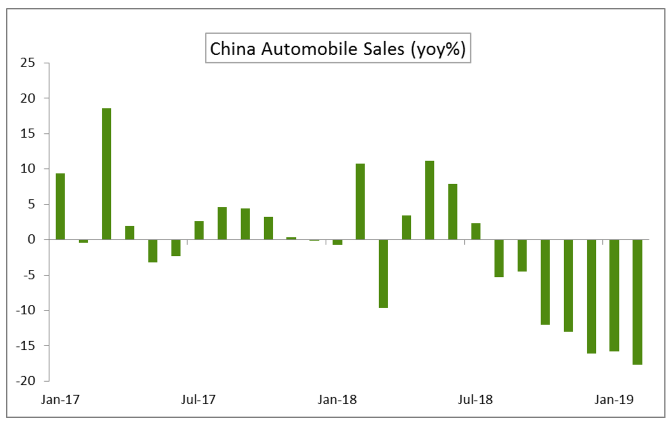
The measures taken over the last few months are somewhat of a reversal from the general tightening bias China's policy makers have made in an effort to prioritize reining in debt risks and removing excesses in many industries. The tightening measures combined with general global economic conditions have resulted in more significant slowdowns than anticipated. As such, officials have had to pivot away from their tightening efforts in order to stimulate growth, comparable to 2015/16. The US Federal Reserve, which typically sets the tone for other central banks, moving to a more dovish stance has allowed central banks around the world greater latitude to abandon their tightening bias. We can see this in the Bank of Canada's recent rate decision/commentary, the European Central Bank (ECB) holding its key policy rates and announcing a change in its rate guidance (the ECB's new guidance pushes back a rate hike to mid-2020) and the PBOC.

While global equity markets are basking in the glow of central banks' dovish pivot, the shift in policy is an acknowledgement that growth has decelerated. Ultimately the pivot is meant to spur economic activity and, while there is positive economic data we can point to, the picture remains mixed, particularly in China. As we can see in the table below, Chinese economic data has been broadly disappointing in 2018, but there are a few positives we can hang our hat on this year. The January trade and credit growth data came in better than expected and manufacturing Purchasing Managers' Indices (PMIs) show solid gains in new orders. This hints at potential stabilization and/or improvement in Chinese manufacturing activity in the coming months. However, this morning's February export data is throwing cold water on that thought, as the print was much worse than expected, slipping 21% yoy versus expectations of -5.0%. Exports to the US contracted 28.6% following a 2.8% decline in the prior month. All other major destinations also saw significant contractions. The data is suggestive of a further deterioration in global demand, though this data could be somewhat skewed by the Chinese New Year. Looking at domestic data, Chinese vehicle sales have been particularly weak slumping 17.7% yoy marking the seventh month of contraction. Auto manufacturers and dealers have been aggressively offering incentives and reductions equivalent to more than 10% of the sticker price and interest-free loans to bring buyers back to showrooms.

Chinese Key Economic Data

Date	China GDP (YoY)	China Industrial Production	China Retail Sales (YoY)	China Export Trade (USD YoY)	China PPI (YoY)	China Monthly Money Supply M2 (YoY)
January-17		6	10.9	-6.2	5.5	11.3
February-17	6.8	6	10.9	7.5	6.9	10.7
March-17		6	10.9	-1.7	7.8	10.4
April-17		7.6	10.9	16.4	7.6	10.1
May-17	6.8	6.5	10.7	8	6.4	9.8
June-17		6.5	10.7	8.7	5.5	9.1
July-17		7.6	11	10.3	5.5	9.1
August-17	6.7	6.4	10.4	6.4	5.5	8.9
September-17		6	10.1	4.9	6.3	8.6
October-17		6.6	10.3	7.9	6.9	9
November-17	6.7	6.2	10	6.3	6.9	8.9
December-17		6.1	10.2	11.5	5.8	9.1
January-18		6.2	9.4	10.9	4.9	8.1
February-18	6.8	6.2	9.4	10.7	4.3	8.6
March-18		6.2	9.7	43.6	3.7	8.8
April-18		6	10.1	-3	3.1	8.2
May-18	6.7	7	9.4	11.9	3.4	8.3
June-18		6.8	8.5	11.9	4.1	8.3
July-18		6	9	10.7	4.7	8
August-18	6.5	6	8.8	11.6	4.6	8.5
September-18		6.1	9	9.6	4.1	8.2
October-18		5.8	9.2	13.9	3.6	8.3
November-18	6.4	5.9	8.6	14.3	3.3	8
December-18		5.4	8.1	3.9	2.7	8
January-19		5.7	8.2	-4.4	0.9	8.1
February-19	NA	5.7	8.2	9.1	0.1	8.4
March-19		5.7	8.2	-20.7	0.1	8.4

China Vehicle Sales Under Pressure



China PMI Slips Below 50

Source: Bloomberg, Raymond James Ltd.

Thoughts on the Trade Deal

As for a US-China trade deal, it is difficult to say for sure how the market will react to the outcome. However, we are in the camp that the market has largely priced in any positive outcome at this point. As such, we could potentially see a “sell the news” reaction if and when a deal is announced. Further, there are media reports suggesting Trump wishes to finalize a deal sooner rather than later, as we are approaching the kick off of the 2020 election campaign. This increases the likelihood a deal may be rushed and therefore, allow the key structural issues to go unaddressed. In addition, the finalized deal may do little in the near term to spur global economic growth, similar to the revised NAFTA agreement (now CUSMA), which had limited economic impact.

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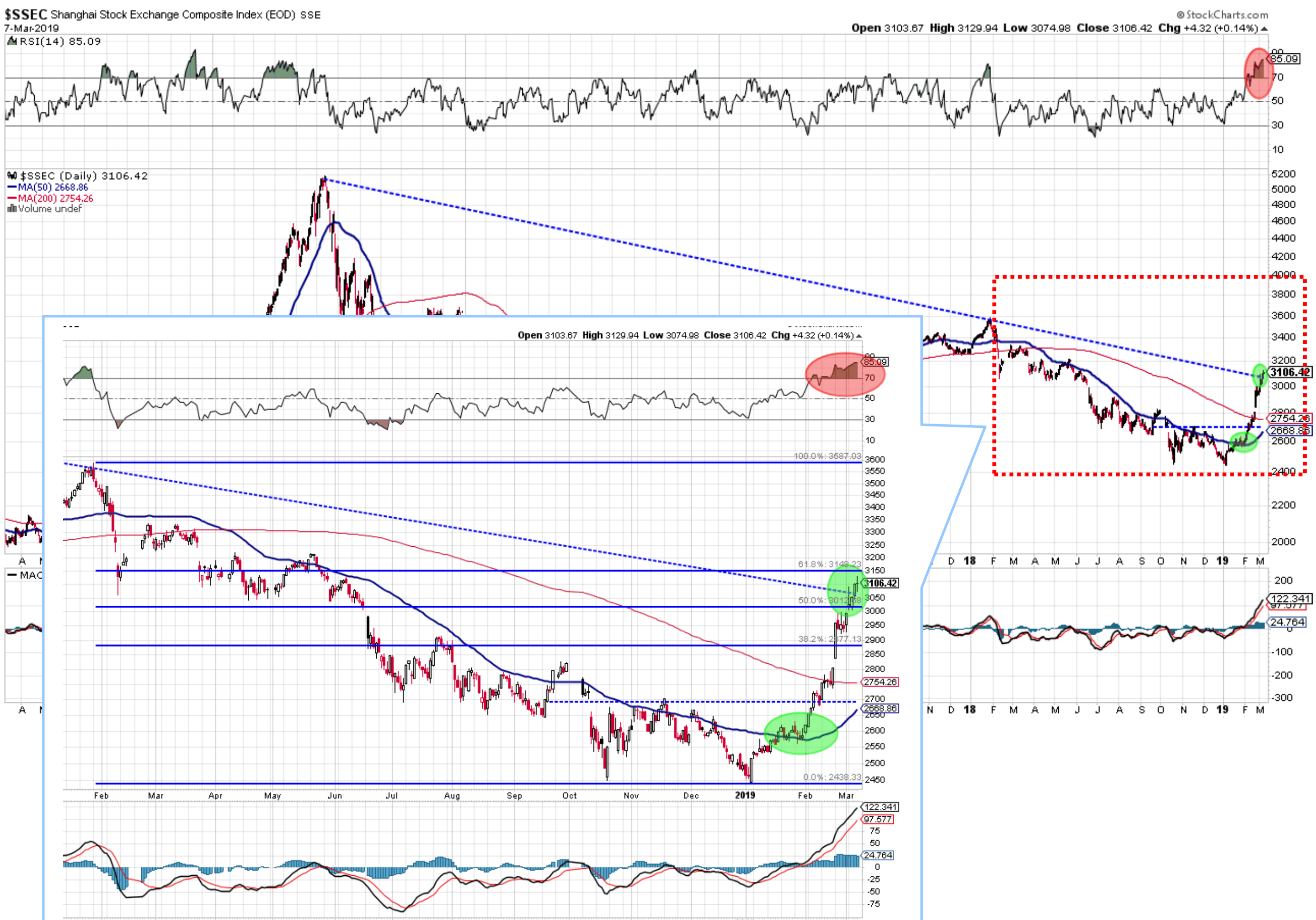
Shanghai Recovery; Time for a Pause



Source: Stockcharts.com, Raymond James Ltd.

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