NATIONAL BANK OF CANADA
FINANCIAL MARKETS

Top News

Research Services

November 21, 2023

U.S. EQUITY FUTURES	LAST	CHANGE	%CHG
Dow Jones MINI futures	35,152.00	-73.00	-0.21%
S&P500 MINI futures	4,549.75	-12.50	-0.27%
NASDAQ MINI futures	16,010.25	-76.25	-0.47%
CANADA EQUITY MARKET	**LAST**	**CHANGE**	**%CHG**
S&P/TSX 60 futures	1,219.20	-2.90	-0.24%
OVERSEAS MARKETS	**LAST**	**CHANGE**	**%CHG**
DJ EURO STOXX 50	4,331.15	-11.26	-0.26%
FTSE 100 INDEX	7,454.60	-41.76	-0.56%
DAX GERMANY	15,904.79	3.46	0.02%
CAC 40 Index	7,216.87	-30.06	-0.41%
NIKKEI 225 INDEX	33,354.14	-33.89	-0.10%
HANG SENG INDEX	17,733.89	-44.18	-0.25%
SHANGHAI COMPOSITE INDEX	3,067.93	-0.39	-0.01%

COMMODITIES/ FX		LAST	CHANGE
CRUDE OIL WTI		$77.20	-$0.63
NATURAL GAS		$2.90	$0.02
GOLD		$1,997.40	$20.21
COPPER		$3.80	-$0.01
CAD / USD		$0.7297	$0.0013
CAD / EUR		€ 0.6664	€ 0.0007
USD / EUR		€ 0.9133	-€ 0.0006
USD / JPY		¥147.64	-¥0.72
GOVERNMENT BONDS	**2YR**	**5YR**	**10YR**
CANADA (YLD%)	4.42%	3.78%	3.66%
U.S. (YLD%)	4.90%	4.44%	4.43%

Source: Refinitiv

Morning News

Canada's annual inflation rate eased more than expected to 3.1% in October, largely due to lower gasoline prices, and core inflation measures edged down to their lowest levels in about two years. Analysts polled by Reuters had forecast inflation to cool to 3.2% from 3.8% in September. Month-over-month, the consumer price index was up 0.1%, matching forecasts. Dragging the annual inflation rate in October was a 7.8% drop in gasoline prices, which benefited from comparison with a price surge in October 2022. Grocery prices also cooled down to their slowest pace since November 2021. Excluding volatile food and energy, prices rose 3.4% compared with a 3.2% rise in September. While goods inflation slowed to 1.6% in October, services prices accelerated 4.6%, fastest pace since May. The deceleration in headline inflation could fortify investor bets that the Bank of Canada (BoC) will start lowering its key policy rate from a 22-year high of 5.00% in the first half of 2024. The BoC's core measures of underlying inflation edged lower, with CPI-median dropping to 3.6% and CPI-trim to 3.5%, lowest since December 2021 and November 2021, respectively. The BoC projects inflation to hover around 3.5% until mid-2024, before trickling down to its 2% target in late 2025. Also scheduled today, Finance Minister Chrystia Freeland will deliver a midyear fiscal update that is expected to show widening deficits and weak economic growth and include targeted spending to boost housing supply. One thing the government is considering is tax changes for short-term rentals to make services like Airbnb less lucrative in an effort to increase the supply of homes. Ottawa has already announced measures including a plan to convert six federal properties into new homes by March and to identify more public buildings for home conversion. According to a CBC News report, the updated economic statement is also expected to offer C$15 billion in 10-year loans for new rental housing construction, a C$1-billion fund dedicated to getting more affordable housing built, and new mortgage rules for lenders dealing with homeowners at risk. In the U.S., stock index futures inched lower today as investors stayed on the sidelines ahead of artificial intelligence chip leader Nvidia's quarterly results after markets close and the release of the Federal Reserve's meeting minutes. The chip designer is expected to deliver yet another blockbuster quarter, but the real focus will be on the impact of widening U.S. curbs on sales of its high-end chips to China. Before the quarterly report, minutes of the Fed's November meeting are likely to offer more cues on the monetary policy path after evidence of slowing inflation boosted expectations that U.S. interest rates had peaked. The minutes are due to be released at 2:00pm ET. Traders have fully priced in the probability that the Fed will hold interest rates steady in December, with 28% betting on the likelihood that the central bank will deliver a rate cut as soon as March. On the retail earnings front, Lowe's Cos fell after the home improvement chain projected a bigger drop in annual comparable sales and trimmed its profit forecast for the year, while Best Buy also slipped after the electronics retailer said it expects a steeper drop in annual comparable sales.

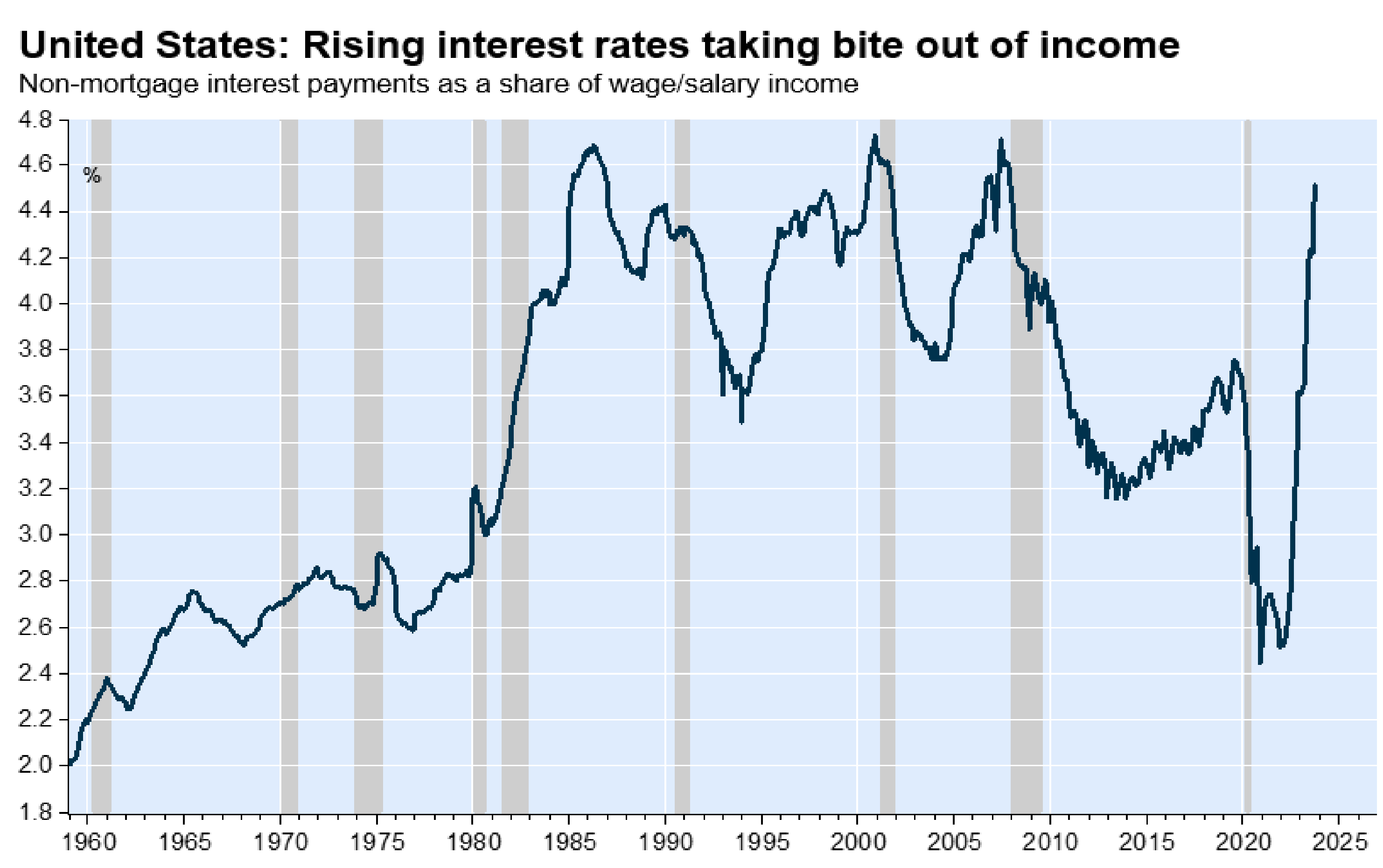
U.S Economic Calendar

Time	Indicator Name	Period	Consensus	Actual	Prior	Revised
08:30	National Activity Index	Oct		-0.49	0.02	-0.02
10:00	Existing Home Sales	Oct	3.90M		3.96M	
10:00	Exist. Home Sales % Chg	Oct			-2.0%	

Canadian Economic Calendar

Time	Indicator Name	Period	Consensus	Actual	Prior	Revised
08:30	CPI Inflation MM	Oct	0.1%	0.1%	-0.1%	
08:30	CPI Inflation YY	Oct	3.2%	3.1%	3.8%	
08:30	CPI BoC Core YY	Oct		2.7%	2.8%	
08:30	CPI BoC Core MM	Oct		0.3%	-0.1%	
08:30	CPI Median	Oct		3.6%	3.8%	3.9%
08:30	CPI Trim	Oct		3.5%	3.7%	
08:30	CPI Common	Oct		4.2%	4.4%	
08:30	New Housing Price Index	Oct		0.0%	-0.2%	

Chart of the day



Top News
Canadian Stocks

Morning news

Capital Power Corp: The Canadian energy company said on Monday it was acquiring two U.S.-based natural gas-fired generation facilities in California and Arizona for a net cost of $1.1 billion. Following the completion of the deal, Capital will become the fifth largest non-regulated gas-powered generator in North America from ninth position. It plans to be net-zero emissions by 2045. The acquisition is expected to generate around $265 million in core profit for the 2024-28 period, and is estimated to be 8% accretive. The deal is expected to close in the first quarter of 2024. "The acquisition of La Paloma and the partnership in Harquahala offer an attractive entry point in the Western Electricity Coordinating Council market, are immediately accretive and maintains our investment grade credit ratings and balance sheet strength," said Sandra Haskins, CFO of Capital Power.

George Weston Ltd: George Weston on Tuesday reported a decline in profit in its fiscal third quarter due to an unfavorable fair-value adjustment on its properties, while revenue rose in the period. George Weston posted net income from continuing operations of C$624 million, or C$4.41 a share, down from C$903 million, or C$6.14 a share, in the comparable quarter a year ago. George Weston said the decrease was due primarily by the unfavorable year-over-year effect of the fair-value adjustment on its investment properties. Adjusted earnings, which strips out the one-off costs and items, rose to C$3.36 a share. According to FactSet, analysts were expecting C$3.35 a share. Revenue rose to C$18.41 billion from C$17.52 billion, in line with expectations of an increase to C$18.4 billion. The company benefited from a strong performance from its food and pharmacy retailer segment, Loblaw, in which it has a controlling interest of 52.5%. Meanwhile, its Choice Property unit saw a rise in revenue to C$325 million from C$309 million a year ago.

TransAlta Corp: TransAlta will invest about C$3.5 billion to add more capacity to its fleet by way of acquisition, construction or development, aiming for higher growth by the end of 2028. TransAlta said Tuesday that it has set a new growth target to add up to 1.75 gigawatts of new capacity to its fleet. Chief Executive John Kousinioris said the company has significant growth opportunities across its markets of Canada, the U.S. and Australia, with a particular focus on renewable and storage power solutions for large customers. The growth will be focused on customer-centered renewables and storage through the development of the company's 4.8-gigawatt development pipeline and expanding it to 10 gigawatts by 2028. Additionally, the company's board approved a 9% increase to its dividend to 6 cents a share. The new payout represents an annual yield of about 2.087% based on Monday's closing price of $11.50. The new dividend is payable April 1, 2024, to shareholders as of March 1, 2023. For 2024, management expects adjusted earnings before interest, taxes, depreciation and amortization to be in the range of C$1.15 billion to C$1.3 billion, with free cash flow between C$450 million and C$600 million.

NBF Research

RATING AND TARGET PRICE CHANGES

Canadian Banks - Q4/23 Preview
Oilfield Services - Hitting Pause on OFS; Neutralizing Ratings on Earnings Outlook

DAILY BULLETIN HIGHLIGHTS

CANADIAN BANKS: Q4/23 Preview

Event: Canadian bank earnings season starts on November 28,2023

Key Takeaways: Despite the recent rally in bank stocks tied to the “peak rates” theme, the group is still underperforming the S&P/TSX YTD. Negative EPS revisions have been the primary factor, with 2024E consensus EPS having been cut by 10% YTD. With the NIM and expense outlook more stable, the main source of uncertainty is credit quality. On that front, 2024E consensus forecasts reflect a 37 bps PCL ratio, in line with historical averages. Assuming a “modest” recessionary level of PCLs (60 bps) would translate into EPS downside of ~15%. Until investors gain confidence that a recession can be avoided, the sector will remain valuation-constrained. Heading into Q4/23, we are most cautious on TD and LB. TD has outperformed peers by ~500 bps since Q3/23 reporting, which we attribute largely to buybacks. However, we believe TD could disappoint on NIM in the Canadian bank and potentially, expenses. Turning to LB, demand deposits fell by ~3% through Q4/23 QTD (September end). Deposit outflow risk was one of the main drivers of our downgrade to Underperform.

Top News
Canadian Stocks

OILFIELD SERVICES - Hitting Pause on OFS; Neutralizing Ratings on Earnings Outlook

Event: As previously referenced, we continue to await a stabilization of OFS activity levels to spur the next phase of the cycle, but given the constrained commodity backdrop, the wait remains…

Key Takeaways: After observing trends through reporting, and reflecting on the cadence of activity within the sector, we are projecting that there is at least a one quarter lull to earnings coming through the fourth quarter. As a result, we are tactically downshifting our stance on its participants to neutral (Sector Perform) on a wholesale basis. With that, our pecking order remains unchanged (PSI, TCW, CEU, PD, EFX), where best entrenched & high-quality offerings should continue to benefit from the long-duration nature of the cycle, and long-term value remains in-hand as multiples re-rate to historical through the continued validation of a resilience & quality of earnings (but requiring "flat" and not "down") compounded through stout FCF, return of capital & option-value (a veritable juxtaposition of the short-term vs. long-term narrative).

DOLLARAMA INC.: Q3 F2024 Preview: Consumer trends suggest continued sales strength

DOL (TSX)	**C$98.57**
Target:	**C$104.00**
	(Unchanged)
Stock Rating:	**Outperform**
	(Unchanged)
Est. Total Return:	**5.8%**

Event: DOL reports Q3/F24 results on December 13, 2023, at 7:00 A.M. EST. A conference call is scheduled at 10:30 A.M. EST.

Key Takeaways: (1) We project Q3/F24 EPS of $0.84, versus consensus at $0.86; last year was $0.70. We forecast sssg of 10.1% vs. last year at 10.8%; we reflect basket growth of 1.0% y/y and transaction growth of 9.0% y/y. (2) We review changes in Dollarama's assortment (>3,000 items at Dollarama stores). Our proprietary analysis points to an incremental shift upwards in the price mix, reflecting an increase in SKUs sold at higher price points (>$3) versus May and July. (3) We expect the F2024 outlook to be favorably revised. In particular, we believe that the F2024 sssg outlook of 10.0-11.0% is low (NBF is 11.6%). (4) Maintain Outperform rating; price target is $104.

OTHER COMMENTS

Dollarama Inc. - Q3 F2024 Preview: Consumer trends suggest continued sales strength
Lundin Gold Inc. - Net Cash Surplus Imminent
Weekly Canadian Financial Services
Weekly E&P Talking Points: WTI, NYMEX, CPG, BIR
Weekly Property Tour

RESEARCH FLASHES

Adventus Mining Corporation - Permitting Process Can Resume; However, Decree 754 was Ruled Unconstitutional
Aya Gold & Silver Inc. - Boumadine Highlight with Bonanza Grades over Wide Intercept
Exro Technologies Inc. - EXRO provides business update, with storage pilot and partnership developments
Foran Mining Corporation - Consolidating Exploration Lands Adjacent to McIlvenna Bay
Franco-Nevada Corporation - Guidance Cut Due to Ongoing Protests at Cobre Panamá
i-80 Gold Corp. - Another High Grade Zone at Cove
O3 Mining Inc. - Private Placement Supports Treasury
Primaris REIT - Acquiring Halifax properties for $370 mln: enhancing quality, neutral to FFO/u but leverage approaches top…

Canadian stocks ratings and target changes across the street

Aurora Cannabis Inc ACB.TO: Jefferies cuts target price to C$0.61 from C$0.69
Bank of Montreal BMO.TO: National Bank of Canada cuts target price to C$120 from C$123
Bank of Nova Scotia BNS.TO: National Bank of Canada cuts target price to C$65 from C$66
Boyd Group Services Inc BYD.TO: Stifel initiates coverage with buy rating; target price C$295
Canopy Growth Corp WEED.TO: Jefferies raises target price to C$0.73 from C$0.59
CCL Industries Inc CCLb.TO: Stifel initiates coverage with hold rating; target price C$65
CES Energy Solutions Corp CEU.TO: National Bank of Canada cuts to sector perform from outperform

Top News

Canadian Stocks

Cronos Group Inc CRON.TO: Jefferies raises target price to C$2.72 from C$2.61
Dentalcorp Holdings Ltd DNTL.TO: Stifel initiates coverage with buy rating; target price C$11.50
Dream Office Real Estate Investment Trust D_u.TO: RBC cuts target price to C$10 from C$15
Farmers Edge Inc FDGE.TO: Raymond James raises to market perform from underperform
Farmers Edge Inc FDGE.TO: Raymond James raises target price to C$0.25 from C$0.10
First Quantum Minerals Ltd FM.TO: BMO cuts target price to C$28 from C$30
Franco-Nevada Corp FNV.TO: BMO cuts target price to C$214 from C$219
Franco-Nevada Corp FNV.TO: Canaccord Genuity cuts target price to C$185 from C$205
Franco-Nevada Corp FNV.TO: CIBC cuts target price to C$250 from C$258
Franco-Nevada Corp FNV.TO: Raymond James cuts target price to C$162 from C$163
Ivanhoe Mines Ltd IVN.TO: TD Securities cuts target price to C$15.50 from C$16.50
Lithium Americas (Argentina) Corp LAAC.N: BMO cuts target price to US$7 from US$7.50
Lithiumbank Resources Corp LBNK.V: Raymond James starts with outperform rating; target price C$33
Lithium Royalty Corp LIRC.TO: Cormark Securities cuts target price to C$20.60 from C$20.75
Loop Energy Inc LPEN.TO: Cormark Securities cuts target price to C$0.15 from C$1.30
NFI Group Inc NFI.TO: Stifel initiates coverage with hold rating; price target C$15
Pan American Silver Corp PAAS.O: Canaccord Genuity cuts target price to US$22 from US$23.50
Park Lawn Corp PLC.TO: Stifel initiates coverage with buy rating; price target C$22
Pason Systems Inc PSI.TO: National Bank of Canada cuts to sector perform from outperform
Precision Drilling Corp PD.TO: National Bank of Canada cuts to sector perform from outperform
Primaris REIT PMZ_u.TO: TD Securities raises target price to C$16 from C$15.50
Royal Bank of Canada RY.TO: National Bank of Canada cuts target price to C$135 from C$136
Superior Plus Corp SPB.TO: Stifel initiates coverage with buy rating; target C$13
Trican Well Service TCW.TO: National Bank of Canada cuts to sector perform from outperform

S&P/TSX Earnings Calendar

Company	Symbol	Time	Consensus EPS Estimate
George Weston Ltd	WN.TO	07:00	3.38

Source: Refinitiv

Top News

U.S. Stocks

Agilent Technologies Inc: The company beat estimates for fourth-quarter profit thanks to lower costs, sending its shares up on Monday, even as the medical equipment maker forecast a downbeat 2024 on weakness in key market China. Agilent expects to earn adjusted profit between $5.44 and $5.55 per share for fiscal 2024, compared with analysts' expectations of $5.61 per share, according to LSEG data. The California-based company sees full-year revenue of $6.71 billion to $6.81 billion, compared with estimates of $6.98 billion. "Given the expected slower market conditions, we've taken additional steps to adjust our cost structure," finance chief Robert McMahon said on an earnings call. McMahon also said the company's full-year forecast included about $175 million of cost savings, driven by measures including some potential real-estate closures and job cuts.

Baidu Inc: The Chinese tech giant beat third-quarter revenue estimates and reaffirmed its commitment to invest in artificial intelligence to power future growth. The strong performance by the owner of China's largest search engine was helped by a jump in advertising income as the Chinese economy shows signs of recovery. Revenue for the quarter ended Sept. 30 was 34.45 billion yuan ($4.72 billion), compared with analysts' estimates of 34.33 billion yuan, according to LSEG data. Baidu's Chief Financial Officer Rong Luo said the firm will continue to prioritise AI investments, especially in generative AI and foundation models, to power its growth. "We will do so with an unrelenting focus on efficiency and strategic resource allocation," Luo said in a statement.

Keysight Technologies Inc: The electronic equipment maker beat market estimates for fourth-quarter profit on Monday, as it continued to benefit from steady demand in segments such aerospace and defense. The company said it saw a 4% rise in revenue from segments aerospace, defense and government, aided by investments in defense technology modernization, electromagnetic spectrum operations, radar and space and satellite. On an adjusted basis, it earned $1.99 per share in the quarter through October, compared with average analysts' estimate of $1.87 per share, according to LSEG data. California-based Keysight forecast its first-quarter 2024 adjusted profit to be between $1.53 and $1.59 per share, compared with LSEG estimates of $1.68 per share.

Lowe's Companies Inc: The company forecast a bigger drop in annual comparable sales than previously expected, as inflation-hit consumers cut back spending on big home-improvement projects. Lowe's saw a "greater-than-expected pullback in DIY discretionary spending, particularly in bigger ticket categories" in the third quarter, CEO Marvin Ellison said. Store traffic at Lowe's worsened further, with visits to stores falling 9.4% in the July-September period, bigger than the 8.2% decline seen in the prior three months, data from Placer.ai showed. The company reported a 7.4% drop in same-store sales for the three months ended Nov. 3, compared with analysts' average estimate of a 5% drop, according to LSEG IBES data. Lowe's now expects full-year comparable sales to decline 5%, compared with its prior outlook for a 2% to 4% drop. Analysts on average expect a 3.4% drop. Full-year per-share profit is now expected to be $13, down from a range of $13.20 to $13.60 estimated previously.

Medtronic Plc: The company raised its annual profit forecast for the second time this year after beating second-quarter earnings estimates, as a post-pandemic pickup in surgical volumes boosted demand for its medical devices. It now expects profit to be between $5.13 per share and $5.19 per share for the fiscal year 2024, above the range of $5.08 per share to $5.16 per share expected previously. On an adjusted basis, the Dublin-based company reported a profit of $1.25 per share for the second quarter, above analysts' average estimate of $1.18 per share, according to LSEG data.

Zoom Video Communications Inc: The company raised its annual revenue and profit forecasts on Monday, as hybrid work trends and the integration of artificial intelligence technology into its products boosted demand. Zoom now expects annual adjusted profit per share between $4.93 and $4.95, higher than its prior forecast of $4.63 and $4.67. The company lifted its full-year revenue forecast to between $4.506 billion and $4.511 billion, from $4.485 billion to $4.495 billion earlier. "We bolstered Zoom's all-in-one intelligent collaboration platform with advanced new capabilities like Zoom AI Companion and continued to evolve our customer and employee engagement solutions," CEO Eric Yuan said. The company's quarterly free cash flow grew 66.2% to $453.2 million, and Zoom expects $1.34 billion to $1.35 billion for the full year.

Live Nation Entertainment Inc: The company and its subsidiary Ticketmaster is being sent a subpoena for documents regarding ticket pricing, fees and secondary sales, a U.S. Senate panel said on Monday. "Live Nation has egregiously stonewalled my Subcommittee’s inquiry into its abusive consumer practices — making the subpoena necessary," Senator Richard Blumenthal, Democratic chair of the U.S. Senate Permanent Subcommittee on Investigations, said in a statement. In a cover letter that accompanied the subpoena, Blumenthal said Live Nation had failed to fully comply with document requests sent in March. A Live Nation spokesperson said the company had provided "extensive information" to the subcommittee and met with staff several times. The subpoena would require the company to turn over internal documents and communications related to ticket prices, annual financial data regarding fees, the ticket resale business as well as its relationship with artists and venues.

Top News
U.S. Stocks

S&P500 Earnings Calendar

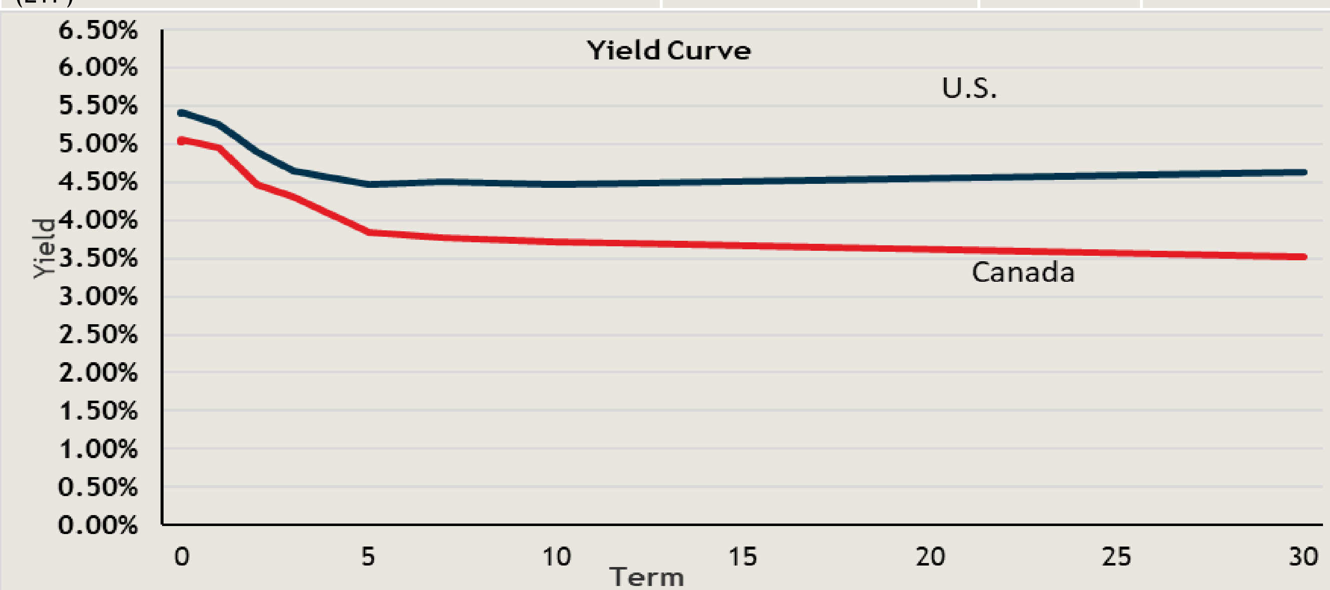
Company	Symbol	Time	Consensus EPS Estimate
Analog Devices Inc	ADI	07:00	2.00
Autodesk Inc	ADSK	AMC	1.99
Best Buy Co Inc	BBY	BMO	1.18
HP Inc	HPQ	AMC	0.90
Jacobs Solutions Inc	J	BMO	1.87
Lowe's Companies Inc	LOW	BMO	3.10
Medtronic PLC	MDT	BMO	1.18
NVIDIA Corp	NVDA	16:20	3.36

Source: Refinitiv

Top News
Fixed Income

Canadian Key Rate	Last	Change bps		Last	Change bps
CDA o/n	5.00%	0.00	CDA 5 year	3.75%	-2.4
CDA Prime	7.20%	0.00	CDA 10 year	3.63%	-2.2
CDA 3 month T-Bill	5.05%	0.0	CDA 20 year	3.60%	-2.4
CDA 6 month T-Bill	5.06%	0.0	CDA 30 year	3.45%	-2.4
CDA 1 Year	4.96%	0.0	5YR Sovereign CDS	39.61	
CDA 2 year	4.38%	-3.0	10YR Sovereign CDS	40.12	
US Key Rate	**Last**	**Change bps**		**Last**	**Change bps**
US FED Funds	5.25-5.50%	0.00	US 5 year	4.43%	-1.0
US Prime	8.50%	0.00	US 10 year	4.41%	-1.0
US 3 month T-Bill	5.27%	1.1	US 30 year	4.55%	-2.0
US 6 month T-Bill	5.45%	-0.5	5YR Sovereign CDS	53.11	
US 1 Year	5.25%	-1.2	10YR Sovereign CDS	61.73	
US 2 year	4.90%	-1.5			

Preferred Shares Indicators	Last	Daily %	YTD
S&P Preferred Share Index	521.81	-0.17%	-4.14%
BMO Laddered Preferred Shares (ETF)	8.8	-0.35%	-2.65%

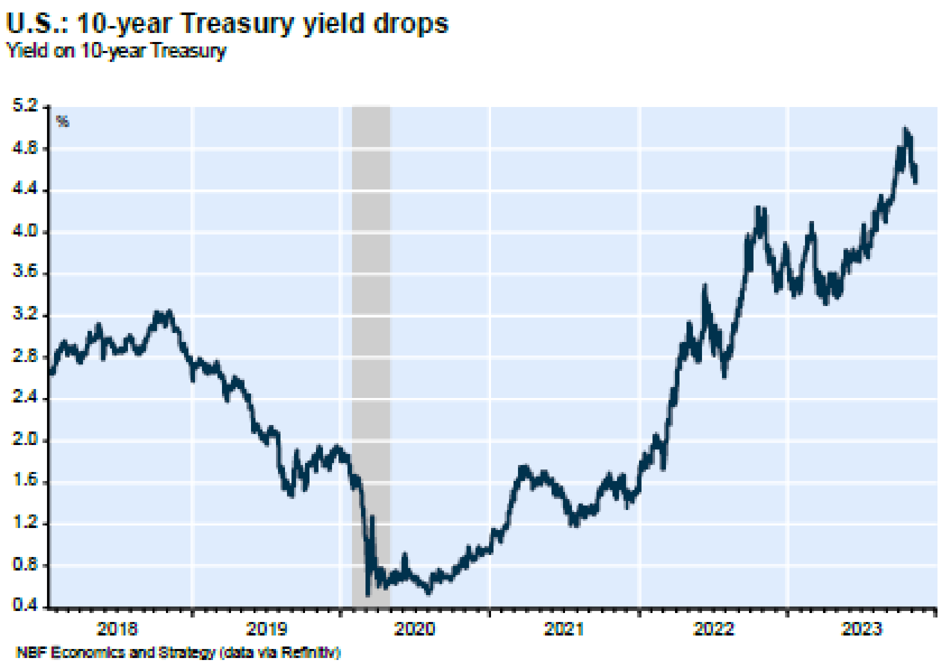


Source: Refinitiv

Monthly Equity Monitor - November 2023

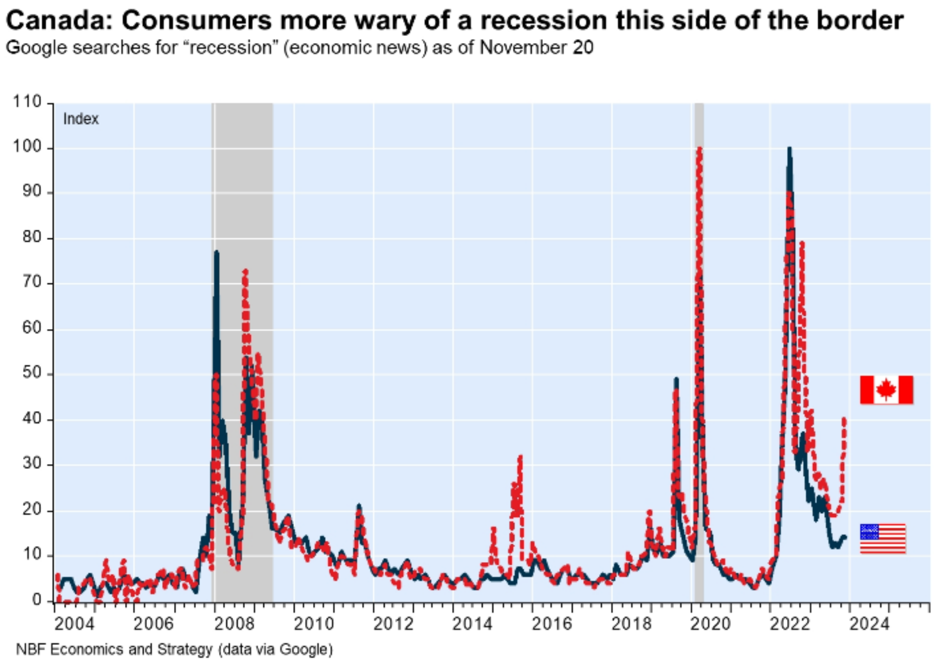
Highlights

- After a difficult month of October during which global equities registered a third consecutive monthly decline, the month of November is off to a strong start. This coexistence of economic growth and weakening price pressures has given comfort to proponents of an "immaculate disinflation" scenario is on track to materialize. We do not expect the recent upturn in earnings to last long, given that we anticipate a significant slowdown in economic activity.
- The S&P/TSX is significantly underperforming the S&P 500 so far in 2023. This reflects the fact that restrictive monetary policy is having a faster impact on the real economy on this side of the border. This is reflected in negative earnings growth and tepid job creation.
- Despite the recent rally in global equities, we still believe that economic growth and corporate profitability will surprise on the downside in the coming months. Monetary policy transmission lags may be slightly longer than historical averages, but they have not disappeared. We are maintaining our defensive asset mix, remaining underweight equities in favour of fixed income and cash.



Canada: Consumers more wary of a recession this side of the border

Since March 2022, the Bank of Canada has raised its policy rate by 475 basis points, representing a tightening of monetary policy of unprecedented speed and magnitude. Although the lags in the transmission of monetary policy mean that these rate hikes have not yet had their full effect, recent economic data clearly show that the economy is beginning to feel the impact. The unemployment rate has risen by 0.7 percentage points in six months with real GDP essentially stagnating over that period. While recent developments could escape the recession label, Canadians seem concerned about the situation currently prevailing in the country, especially given recent mass layoffs. As today's Hot Chart shows, Canadians are typing the word "recession" into their search engines far more than their American counterparts so far in November. It is well documented that a recession can be self-fulfilling, in the sense that it is all the more likely to occur when people feel they are in one and begin to adjust their behavior accordingly. This is consistent with our view detailed in our just published Monthly Economic Monitor showing economic contraction occurring sooner this side of the border. As for the United States, despite aggressive monetary tightening by the Federal Reserve to date, output has grown at an impressive 4.9% annualized rate in Q3 thanks to reckless consumers. We have repeatedly argued that this resilience can be attributed, at least in part, to the fact that consumers are spending more than they can afford, as evidenced by the low savings rate. Denial could come to an end and that means that Americans could soon have reason to Google "recession" too.



Market View - Leery of leverage

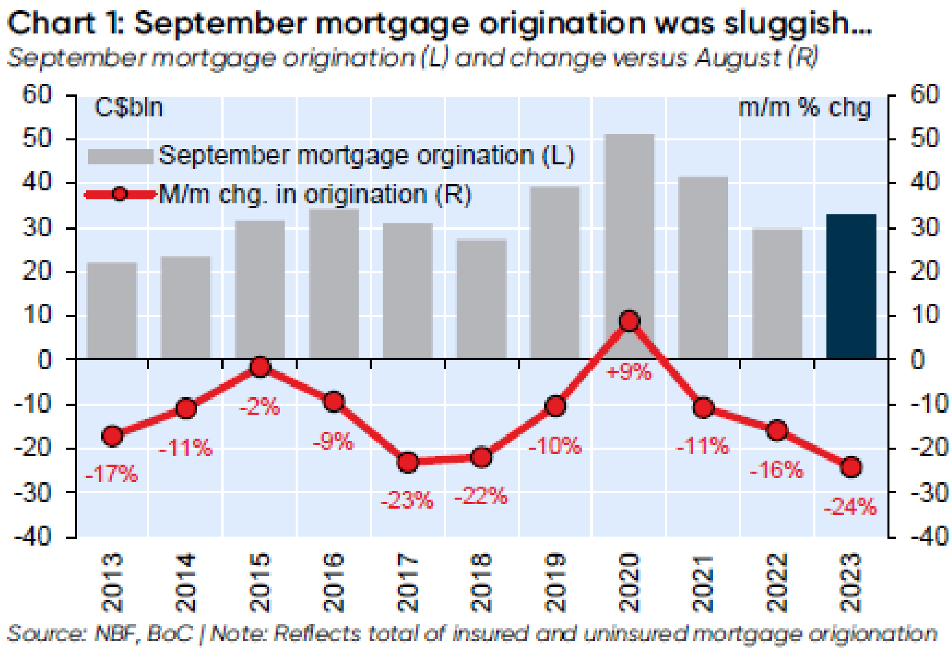
A few weeks ago, we looked at Canadian mortgage activity, exploring the implications for the mortgage market going forward, the broader economy and swap spreads. With a fresh month of data (September) available we thought it natural to provide an update.

Not surprisingly given the rate surge in early autumn, mortgage activity was way down in September. Chartered bank origination fell nearly 25% from August. Even though September is traditionally a down month, that's the sharpest deceleration in at least 10 years. At $32 billion, the level might not seem all that low given that it's right in line with the 2015-19 September average. But consider home prices are 40-80% more expensive today. After adjusting for the size of mortgage needed to buy a representative home, today's activity is much worse. Only September 2022 is a reasonable comp and of course the backdrop for that month was the BoC tightening 300 basis points over just six months (with more coming).

It's also not the case that Canadians are shunning banks for alternative lenders. There's been a sharp slowdown in mortgage credit growth at chartered banks and non-bank lenders alike. Together, the 3.4% Y/Y growth in outstanding residential mortgage liabilities of Canadian households is the slowest in over 20 years.

What of product selection? A relatively cheaper 5-year mortgage rate looks to be driving more homebuyers to lock in for long, despite historically (and presumably temporarily) elevated rates. Indeed, the share of fixed rate origination in the 5-year bucket rose again in September. It's still historically low but if this discount persists/grows, this share should rise further. For many buyers, the cheapest rate is the only affordable rate. Moreover, acceptance of 'higher-for-longer' might lead some to lock in and avoid as much uncertainty as possible. BoC officials are helping to ingrain this, telling Canadians to brace for an era of higher borrowing costs.

Bringing it around to swaps, one might assume that the lower bond yields of recent weeks will pass through to the mortgage market, driving a pick-up in origination, thus putting upward pressure on spreads. However, we'd note lenders have so far been reluctant to pass on lower yields. Rates on offer today are only slightly down from mid-October and are still up versus September. In other words, there's no clear catalyst for an imminent/material pick-up in activity. That should limit paying by mortgage hedgers and keep downward pressure on spreads, a trend we've seen of late. Meanwhile, the 5-year fixed discount might mean the share of paying tilts more



Weekly U.S. Recession Dashboard - November 17, 2023

Given the uncertain U.S. economic outlook, we provide on a weekly basis our tracking table for recession indicators. The table below shows the current reading and recent momentum of several indicators compared to the ones observed three months before the eight previous recessions. Red indicates that the current reading is worse than any historical episodes while green is better. Both yellow and orange are in the historical range, the former indicating a better situation compared to the median while the latter shows the opposite.

Over the past week, the signal of our dashboard tracking the risk of a U.S. recession was more pessimistic than in the previous release due to an increase in unemployment claims. On the financial and commodity indicators side, the overall signal was unchanged, as the movements in the individual indices were marginal and mixed. In terms of soft data, the only indicators updated over the last week was the index tracking the confidence of SMEs, which remained essentially unchanged at its worst historical pre-recession level. As detailed in our Monthly Economic Monitor, the current tepid level of our dashboard is consistent with our view that the start of a technical recession in the U.S. could be less than 3 months away. The week ahead will be relatively quiet in terms of economic indicators tracked in this dashboard.

Top News
Technical Analysis

Oil vs. Gas

WTI – US$77.82

- A two-day reversal on WTI last week may be signalling the end of the correction since late September.
- The correction on WTI took prices back into its base structure as the chart failed to hold first support at US$82.60.
- Further technical evidence of a turnaround comes when the chart breaks back above its 200-day at US$78.14 and breaks back above resistance at US$82.60.

Natural Gas – US$2.888

- Seasonal weakness is natural gas with a peak in November is becoming more evident.
- An eight-month rally on natural gas is starting to lose momentum as prices break below its 50-day.
- Chart support at 2.86 and rising trend line support at 2.82 is being tested.
- Failing support here translates into prices trading down to the low US2.00's.

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Top News
Technical Analysis

DJ North Am Select junior oil index – 1971.60

- Energy stocks held in relatively well as WTI corrected US20.00.
- The DJ North American junior oil index broke out of an ascending triangle at 1940 and continues to hold that support despite a big correction in WTI.
- Failing support at 1940 will be a red flag, but the positive trend on this chart remains effect until a break of 1800.00.
- Energy stocks will need WTI to break US$82.60 to ignite some upside and get going on the stocks.

ARC Resources Ltd. (ARX:TSX) – $21.62

- A two-week reversal on the ARX chart signals the end of the rally on the stock since the spring of this year.
- The stock rallied to a marginal high above its June 2022 high of $22.88 before reversing.
- The chart is also starting to break its rising trend line as it trades below its 50-day.
- A pullback to its 200-day would take prices back to approximately 18.50.

Top News
Technical Analysis

Birchcliff Energy Ltd (BIR:TSX) – $6.71

- BIR has the weakest chart among natural gas stocks.
- The chart spent most of 2023 in a tight topping formation.
- A 20-month top was completed last week when prices broke down at $7.50.
- Big volume and momentum confirmed the downside move.
- This stock has a long history of trading from the low teens to a low of three or four dollars.
- Breaking down from this top suggests the stock trades down to 4.50.

Chart source: Refinitiv

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