July 2020 Financial Markets Update

A Complete Wrap-Up Across FX, Interest Rates, and Energy Commodities

ATB listens

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Macro Overview

Mark Johnson MBA, Director Interest Rate Sales

I saw the Sine?

As I stumbled my way through the Ivey Business School, the various disciplines on offer were afforded a varying level of my limited attention span, but one of the most engaging was International Business, as taught by Associate Professor, (Dr) Tony Frost. Why do I tell you this? Well, because during the early days of the lockdown I was lucky enough to hear Tony's thoughts on what the recovery might look like. The various letters and symbols were discussed - U, V, Nike Swoosh - but he introduced the possibility of a recovery that looks like something of a Sine Wave, with growth and contraction in an oscillating fashion based on the extent of the COVID threat and the degree of lockdown/inhibited hiring and consumer activity as a result.

For a month or so now that prospect has looked remote. It still does in Canada and most of Europe and Asia. In contrast, the recent developments in the US speak loudly to the possibility of it happening there.

What might all this mean? Well, clearly the economic recovery could be challenged. Certainly, potential would be held back as investment and hiring is compromised. In Canada, it appears that we are to experience a more consistent and reliable re-open, but of course we are likely to see our recovery limited by any US issues. We would see that effect in the months to come. What about right now?

The new Bank of Canada Governor, Tiff Macklem recently said that he saw the recovery as very likely, "prolonged and bumpy." When referencing a potential recent pick up in activity, he said, "it will be important not to assume that these growth rates will continue beyond the reopening phase." Data revealed this week spoke to such a pattern for growth in Canada. April GDP fell 11.6% - the largest ever. However, it did beat the 13% drop expected and indications for May are showing a record 3% monthly bounce back - and early signs are that June will be even better than that, with 60% of businesses reporting being fully re-opened, 25% of them reporting "normal" levels of sales and 35% "normal" levels of staffing.

Promising signs, but it is clear that the Bank of Canada will not be getting carried away and drawing too many long term conclusions from the data any time soon. During the past month, I read some analysis by Björn van Roye and Tom Orlik of Bloomberg Economics on the potential for the rebuilt job market in the US. They believe that 30% of the workforce will suffer from "reallocation" shock and not regain employment. Perhaps those Canadian numbers speak to this possibility?

The implications for monetary policy are clear. Even in a recovery scenario, "normalization" of policy will be slow. The Bank of Canada will want to support the recovery through keeping borrowing rates down for consumers in 2 ways. By keeping the target rate at the Effective Lower Bound (ELB) of 0.25% (helping banks pass on historically low rates) and also by continuing QE in the bond market (the average consumer and small business borrows money for longer terms - for mortgages and autos - and those rates are driven by bond yields. They may even start Yield Curve Control - attempting to target a specific rate in the 5 year bond sector (the most active term for borrowing).

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Keeping yields in the bond market down across the curve is also relevant to that other borrower - the federal government. With such fiscal muscle-flexing, major refinancing will be required. The lower the rates, the cheaper that will be for the taxpayer. However, lowering costs to borrow is not the sole driver here for the Feds and the BoC.

So, rates will be raised slowly. But will they be raised steadily? With 2 year swap rates at 0.56% and 5 year at 0.76%, the market appears to be suggesting that we will likely see a hike of 25 bps by the end of 2022 and another one by the start of 2024. Now, that would be a plausible response to a normal, low inflation recovery. The type that follow "normal" recessions - slow to arrive in full force and slow to depart. But, there is nothing normal about this recession and its movement does not track like that on the economic GPS. It may be that when policy rates are finally under pressure to rise, they will move higher faster than they have previously in the 21st century.

Why? Well, a few reasons:

1. They will have been held down artificially for a long time
2. They will have been held down at the ELB
3. We may see something that we have not for some time - a bond market tantrum. The BoC may raise rates in order to ease the worry of the bond market and to stop them pushing those important bond yields higher in fear.

How far rates rise is almost irrelevant here. Only 0.75% is currently embedded in the curve. Also, one suspects that it will not take 18 months to see these two 25 bps moves. Will moves even be 25bps? They were not on the way down. It is likely that when the time comes to move we will have steady growth and inflation above target. If we are ready for hikes, surely we will have the stomach for larger ones?

Nobody is calling for an aggressive cycle or a high peak. However, it is hard to look at the curve and not think that the market is struggling to price things logically right now.

So, opportunity knocks. Despite the growing prospect of that Sine Wave recovery in the US and the drag it would have on Canada, the shape of the curve here may be tough to flatten much further. We could potentially see some real oscillations in economic activity and some scary headlines and developments, but we also may have as limited a change in policy built in for 2023 - 2025 as we are likely to see.

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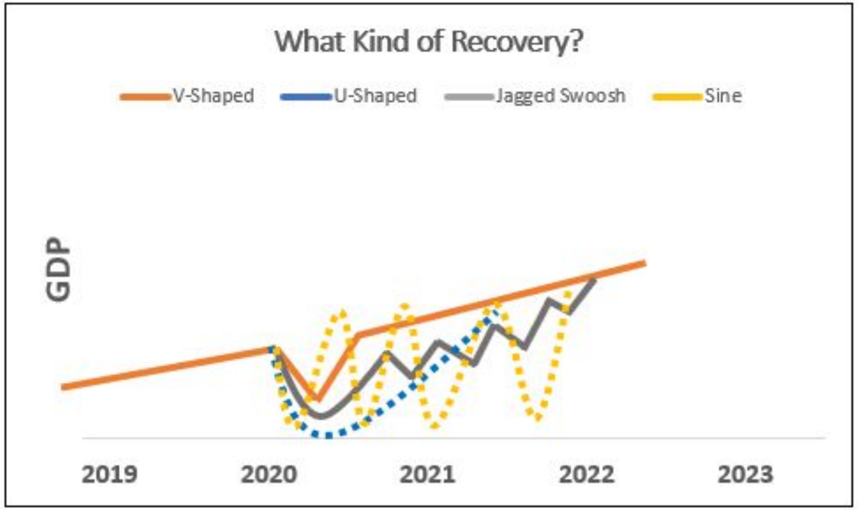
Macro Overview

Mark Johnson MBA, Director Interest Rate Sales



Source: Bloomberg, ATB Financial Markets

- Canadian GDP tumbled to a record contraction in April - but there have been green shoots since with rebounds in employment and manufacturing data offering reasons for some optimism
- However the path towards recovery is not clear - modelling the economic impact of a global pandemic is afterall very difficult...
- The recovery could take many forms: The 'V' shaped being the most optimistic, while the 'Sine Wave' would prove very challenging over the coming years

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Canadian Dollar

Janek Guminski CFA, Sr. Director FX Sales

Viewers of our webinars and readers of our updates should recall that we have pointed out how CAD has traded virtually in lockstep with equity markets of late. When stocks have been going up, the CAD has been strengthening and conversely, when stocks have gone down, so has our dollar. In recent years, an important driver of the value of our dollar had been Central Bank policy as it related to interest rates (especially the differential between ours and the US)….we can see from the heat map (next page) that this correlation is essentially non-existent now. We can also see how CAD has become much more highly correlated to the equity markets (we use the S&P 500 as a proxy for the equity market in general) and to copper, a metal that is highly correlated to global economic activity. From the attached charts, you can see how the correlation began to really strengthen in early March.

Likely the main driver, or perhaps, suppressor, of economic activity in the near term will be how well Covid-19 management globally has or hasn't prevented a second wave of infection. Certainly, there is material uncertainty to any forecast about economic activity because of this. Already, we are hearing of jumps in infection rates as economies open up and the warning signs are visible that (certain parts of) the economy might face another shutdown. The implications of further shutdowns are for job losses, the extension of government aid to their respective citizens, lower equity valuations, extended travel bans, a lower equity market, and ultimately a weaker CAD.

The counterpoint to this is for the market to shrug off Covid-19 and for the equity markets to continue to move higher on the back of low interest rates, which would result in a stronger CAD. I expect the former scenario, but can envision the second quite easily as acknowledgment that 'the market can remain irrational longer than you or I can remain solvent'.

Another driver will be the upcoming US election. As to social media and attempts at fact checking, I doubt it can be done impartially (as evidenced by recent issues at Facebook)…If you have friends on both sides of the political spectrum, you have already seen how one event can be spun to favour one side over the other, only for the other side to spin that same event differently in order to do the opposite….the only thing I know for certain is that you can expect more of that!

I anticipate an increase in uncertainty due to this election, and the circusses that may surround it, which will undoubtedly have an impact on FX markets (recall that the USD has historically gained a 'safe haven' bid in times of uncertainty). Pundits are even discussing the potential for a Democratic win with a risk of President Trump refusing to leave office and the constitutional crisis that it would lead to……what a time we live in!

Canadian Dollar

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Canadian Dollar Correlations

	S&P 500	Copper	Gold	WTI	2Y IRD	VIX
Nov-19	0.25	0.46	0.22	0.61	0.13	-0.21
Nov-19	0.10	0.33	0.09	0.43	0.28	-0.23
Nov-19	0.14	0.34	0.07	0.42	0.29	-0.24
Nov-19	0.14	0.34	0.10	0.42	0.27	-0.23
Nov-19	0.14	0.32	0.08	0.34	0.27	-0.21
Dec-19	0.12	0.36	0.07	0.37	0.27	-0.19
Dec-19	0.24	0.35	0.09	0.41	0.31	-0.33
Dec-19	0.21	0.34	0.11	0.40	0.32	-0.38
Dec-19	0.19	0.34	0.25	0.41	0.33	-0.31
Jan-20	0.10	0.27	0.35	0.42	0.35	-0.25
Jan-20	0.06	0.24	0.34	0.46	0.34	-0.18
Jan-20	0.10	0.23	0.33	0.47	0.34	-0.19
Jan-20	0.05	0.24	0.40	0.52	0.34	-0.11
Jan-20	0.27	0.49	0.28	0.54	0.45	-0.38
Feb-20	0.13	0.49	0.31	0.56	0.42	-0.28
Feb-20	0.18	0.50	0.34	0.60	0.43	-0.33
Feb-20	0.10	0.49	0.35	0.57	0.45	-0.27
Feb-20	0.49	0.49	0.61	0.68	0.30	-0.53
Mar-20	0.49	0.49	0.51	0.70	0.29	-0.52
Mar-20	0.69	0.54	0.77	0.84	0.14	-0.47
Mar-20	0.85	0.77	0.66	0.92	0.00	-0.35
Mar-20	0.90	0.71	0.77	0.80	-0.12	-0.35
Apr-20	0.88	0.68	0.76	0.44	-0.12	-0.27
Apr-20	0.89	0.71	0.78	0.30	-0.10	-0.30
Apr-20	0.88	0.68	0.78	0.29	-0.10	-0.30
Apr-20	0.88	0.68	0.78	0.28	-0.09	-0.29
May-20	0.89	0.67	0.76	0.27	-0.10	-0.28
May-20	0.89	0.69	0.74	0.34	-0.09	-0.31
May-20	0.89	0.69	0.71	0.26	-0.12	-0.31
May-20	0.90	0.72	0.67	0.29	-0.12	-0.33
May-20	0.89	0.72	0.63	0.31	-0.11	-0.34
Jun-20	0.88	0.75	0.49	0.34	-0.08	-0.36
Jun-20	0.88	0.73	0.46	0.35	-0.07	-0.38
Jun-20	0.88	0.76	0.47	0.34	-0.37	-0.37
Jun-20	0.89	0.75	0.46	0.34	-0.37	-0.38
Jul-20	0.89	0.76	0.45	0.35	-0.37	-0.39
Jul-20	0.90	0.76	0.45	0.35	-0.37	-0.40

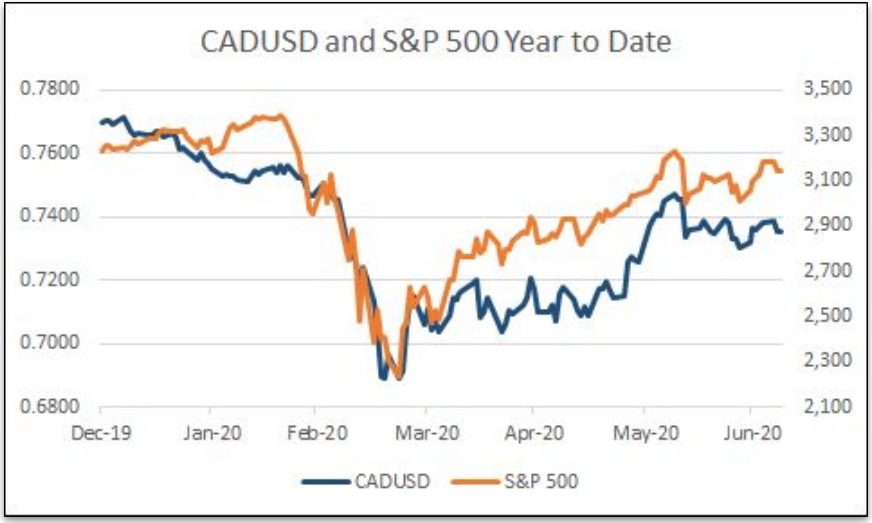
What's Driving the Loonie?

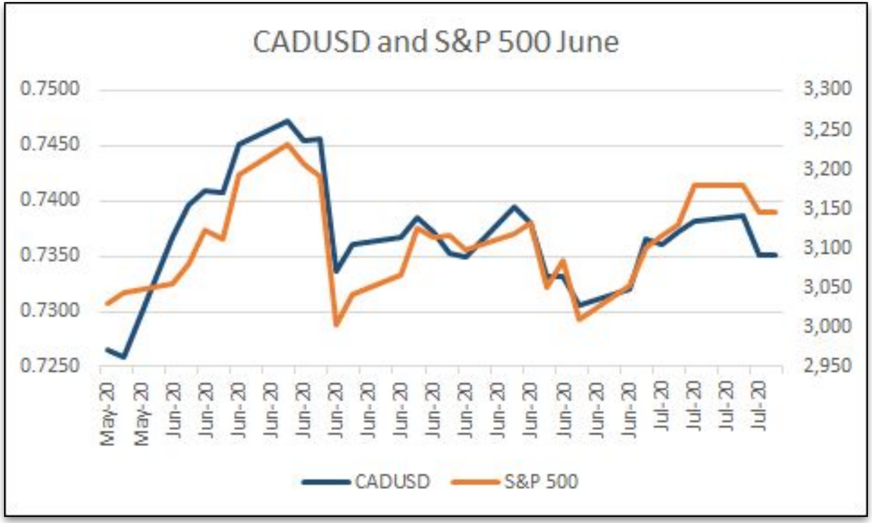
- In this heat map we track rolling 20-week correlations for CADUSD with various asset classes
- You can see that different drivers come in and out of favour
- Since March 2020 oil prices have held a weakening correlation with the Loonie...
- ...While the S&P 500 and Copper have displayed a strengthening correlation
- ***At the moment, as equity markets go...so goes the CAD***

Asset	Economic Dynamic
S&P 500	Equity Markets / Risk Appetite
Copper	Manufacturing / Global Aggregate Demand
Gold	Safe Haven / Inflation Hedge
WTI	Oil Prices / Economic Growth
2y IRD	Interest Rate Differential Between US and Canada / Fund Flows
VIX	Market Volatility / Risk Appetite

Canadian Dollar

Janek Guminski CFA, Sr. Director FX Sales





Source: Bloomberg, ATB Financial Markets

- The Loonie has tracked equity markets, represented here by the S&P 500 Index, very closely since the crisis began
- As our Heat Map indicates, the CAD is highly correlated with the S&P 500 at the moment, tracking at a 0.88-0.90 since late March
- This compares with almost no correlation to equities in late December 2019 (0.12) illustrating that identifying shifting trends and drivers can be a key part of making informed FX risk management decisions

USD Index & G10 FX

Mark Engelking CFA, Director FX Trading

2020 continues to fly by at breakneck speed and with the calendar turning over to July we are officially halfway through the year. The monthly wrap is taking a bit of a different theme this month and we are instead focusing on what has gone on year to date and where we go from here. I remember naively thinking for a few days in the winter that the fires in Australia might be the biggest story of 2020 and boy was I wrong.

There has been enough bad news this year to cry uncle several times over but one thing about adversity is it gives you a chance to grow. If you woke up today and looked at a chart of the DXY you may be quite shocked to see that despite all the volatility and the aforementioned growing/shrinking we sit at almost the same levels today that we did on December 31st. If you look at the currencies hardest hit common themes like "commodity block" or "strongest ties to equity markets" would apply while the currencies outperforming the USD are the safety currencies.

FX Returns YTD: Safe Havens Have Outperfmored

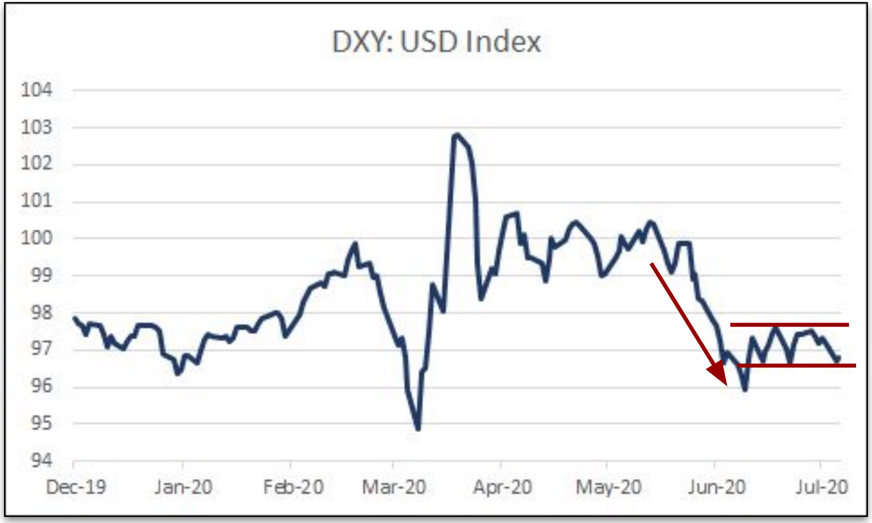
FX Returns: YTD Against USD	
Swiss Franc	2.55%
Japanese Yen	0.59%
Danish Krone	0.82%
Euro	0.55%
Swedish Krona	0.45%
Australian Dollar	-1.29%
New Zealand Dollar	-3.70%
Canadian Dollar	-4.38%
British Pound	-5.66%
Norwegian Krone	-8.62%
Mexican Peso	-18.07%
Brazilian Real	-26.40%

So where does the rest of 2020 take us? I think those prognosticating on currency performance would do well to look at local leadership through this crisis for a sense of who will enjoy the best recovery. I feel like a broken record but this is a medical crisis first and foremost and the countries that take that part seriously will see their economies (not necessarily the stock markets) rebound the quickest.

I think the decoupling of the USD from a "risk-off" high performer to underperformer is a very real possibility and my forecast is for some USD weakness on the horizon. The question is what do you buy against it and I think it might be a little too early for a definitive answer but I look to currencies like the Euro for some temporary strength against the greenback.

USD Index & G10 FX

Mark Engelking CFA, Director FX Trading



Source: Bloomberg, ATB Financial Markets

- The USD DXY Index is trading in a very tight range (red lines) with risks skewed to a break lower in the near term. We also note that despite the incredible volatility seen earlier this year, the DXY is pretty much at the same level as Dec 2019....

- Conversely, the Euro is looking rather strong and threatening to retest its March highs near 1.1495. A weekly close above that level would be needed to begin a larger cyclical bull market for the Euro against the USD

Energy: Oil and Gas

JP Dore, Markets Analyst

Crude and natural gas markets have had a rough ride to start 2020 with both exhibiting heightened levels of volatility driven by extreme jolts to their delicate supply/demand balances as a result of the shutdown of the global economy.

For oil markets, the theme has been two-fold: First, a physical crisis in which existing storage and energy infrastructure were stretched to the max causing prices to dip into negative territory. And second, the beginning of a long and slow re-balancing process that could still take many months.

As oil prices plunged into negative territory, annualized implied volatility for WTI rose to 515%, a 4- sigma event that far exceeded the worst volatility levels observed during the financial crisis of 2008. Since April oil production has declined globally, demand has normalized somewhat, and inventories have begun to re-balance.

The last time a supply shock of any magnitude hit the market (the 2014 Saudi price war), it took almost 24 months for prices to recover as the futures curve moved through three distinct phases: 1) super-contango; 2) through a flattening process; and finally 3) into backwardation again. We are now in the early stages of the second phase with the curve flattening as inventories normalize and demand slowly returns. Risks to the outlook are: First, another wave of Covid infections this fall that could lead to reduced mobility in 2H20; and second, the overhang of millions of barrels of shut-in oil production coming back online faster than expected. This is especially true for Canadian crude markets which saw a quarter of 2019 production (about 1m barrels) taken off line during April and May.

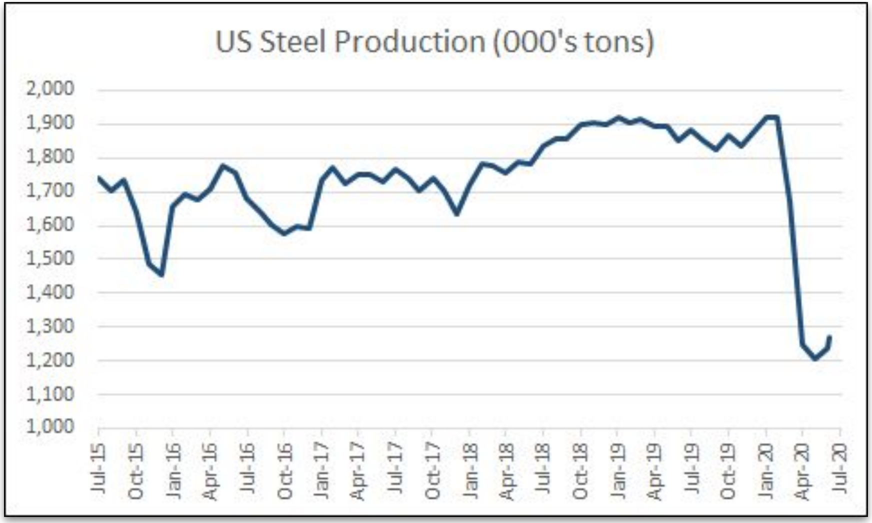
Natural gas markets initially benefited from the reduced volumes of associated gas that resulted from shut-in oil production. However, the market quickly had to grapple with the twin threats of reduced industrial demand and cancelled LNG shipments to Asia that have led to almost 800 Bcf of additional US gas injections in the past 2 months alone. US inventories now sit 17% above their 5yr average and 29% above 2019 levels.

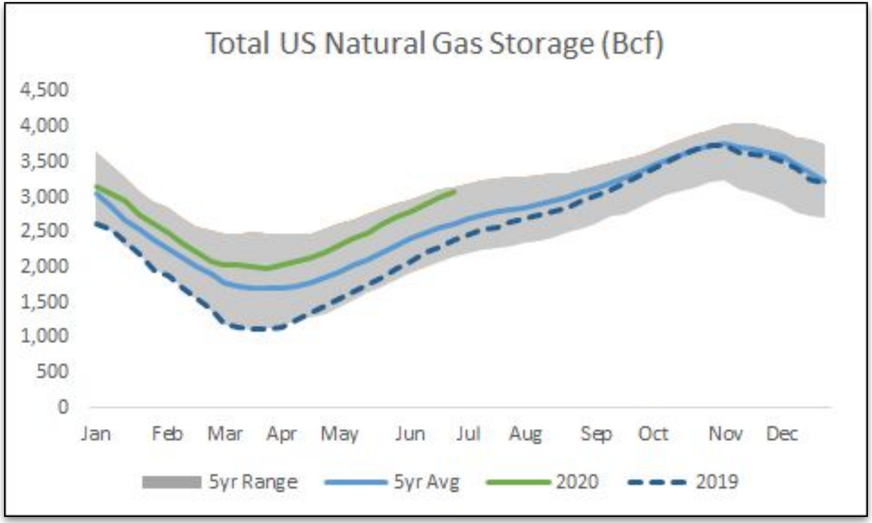
Luckily, some summer heat is starting to increase residential and commercial demand for A/C - but that is a minor factor as Cooling Degree Days are still running below long term averages. The real hope for a sustained recovery in gas prices remains increased demand from Europe and Asia for LNG as economies recover and industrial activity (energy intensive steel production, for example) begins to rebound.

Amid all of this we got another stark reminder this week that energy markets live under the constant threat of limited availability of physical infrastructure: The sudden and unprecedented court ordered shutdown of the Dakota Access Pipeline may permanently roil local North Dakota Bakken crude prices as takeaway capacity is removed. Unfortunately, this is a theme all too familiar for Canadian producers and one that should not be taken lightly given the precedent the US just set: Even operating pipelines can be shutdown…

Energy: Oil and Gas

JP Dore, Markets Analyst





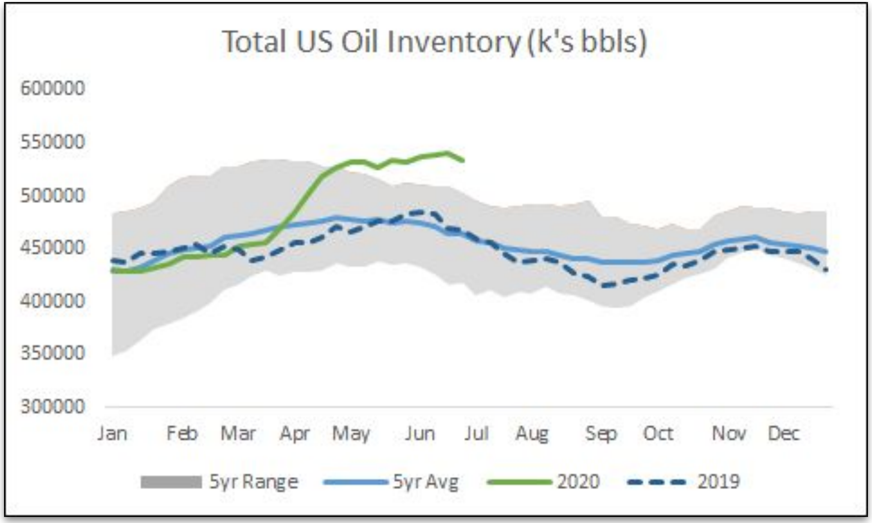
Source: Bloomberg, ATB Financial Markets

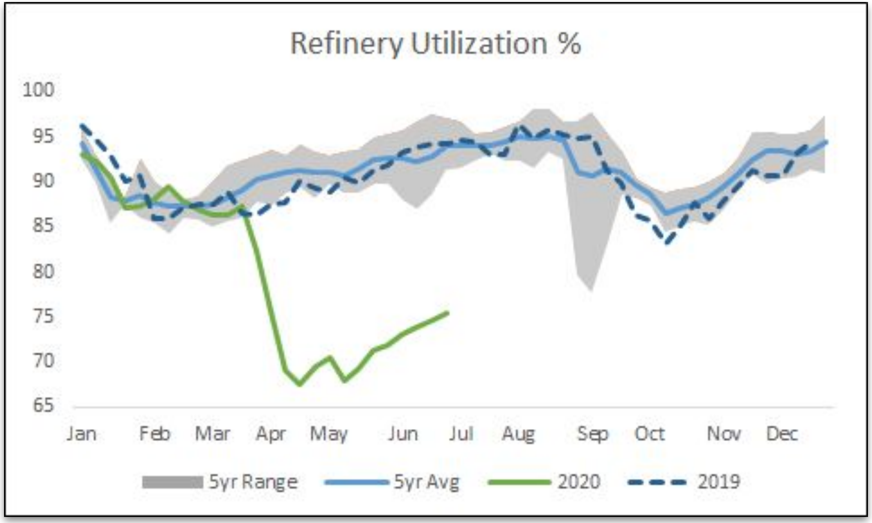
- The magnitude of the drop in economic and industrial activity is truly remarkable: Look at the decline in US Steel production relative to the last 5-years. A rebound in construction activity - and thus energy intensive industries such as steel production - should help normalize natural gas demand, but we have yet to see this dynamic show up in the data...

- As a result, US natural gas inventories are pushing up against 5-year seasonal highs as we head into the middle of the injection season

Energy: Oil and Gas

JP Dore, Markets Analyst





Source: Bloomberg, ATB Financial Markets

- Oil inventories are well above their 5yr range but we have seen some stabilization - after all, the market can only get so close to 'tank tops' before production has to stop...

- However, optimism surrounding the recovery needs to be balanced: Refinery activity is still well below average as the recovery in demand remains nascent but has proven steady as restrictions ease and mobility increases.

CHARTPACK

Monthly and YTD Returns

Cross Asset			
Crude	Last	1MΔ	YTDΔ
WTI	$40.57	2.58%	-33.56%
Brent	$43.01	1.68%	-34.83%
WCS Differential	-$7.40	15.43%	67.11%
MSW Diff	-$4.50	-69.81%	28.00%
Syncrude Diff	-$2.75	21.43%	-120.00%
Edmonton C5 Dif	-$4.35	-50.00%	-317.50%
LLS Diff	$1.50	15.38%	-60.00%
Midland Diff	$0.70	600.00%	0.00%
Gas	Last	1MΔ	YTDΔ
Henry Hub	1.866	4.71%	-14.76%
AECO C$	1.646	17.57%	-4.80%
AECO Basis	-0.393	-12.93%	9.66%
AECO Cal20	2.08	2.16%	16.46%
Sumas Basis	-0.265	45.70%	11.07%
Dawn Basis	-0.145	-22.88%	-98.63%
Chi. Basis	-0.173	-15.33%	-57.27%
Waha Basis	-1.298	32.99%	27.57%
NGL's	Last	1MΔ	YTDΔ
GC Jet Fuel	$ 106.92	6.20%	-44.68%
GC Diesel	$ 119.62	11.21%	-38.35%
NY RBOB	$ 124.58	5.93%	-26.84%
Conway Propan	$ 0.46	-9.36%	1.35%
Mt. Bel Propane	$ 47.63	-9.50%	15.46%
Equity	Last	1MΔ	YTDΔ
Dow	26287.03	-3.04%	-7.89%
SPX	3179.72	-0.44%	-1.58%
NDX	10604.06	7.94%	21.42%
TSX	15669.67	-1.16%	-8.17%
TSX Energy	77.25	-16.33%	-47.07%
S&P500 Energy	541.81	-15.37%	-36.00%
SHCOMP	3332.881	13.72%	9.27%
DAX	12733.45	-0.89%	-3.89%

FX Returns: YTD Against USD	
Swiss Franc	2.55%
Japanese Yen	0.59%
Danish Krone	0.82%
Euro	0.55%
Swedish Krona	0.45%
Australian Dollar	-1.29%
New Zealand Dollar	-3.70%
Canadian Dollar	-4.38%
British Pound	-5.66%
Norwegian Krone	-8.62%
Mexican Peso	-18.07%
Brazilian Real	-26.40%

FX Returns: June Against USD	
New Zealand Dollar	2.57%
Australian Dollar	1.54%
Swiss Franc	1.44%
Danish Krone	0.92%
Euro	0.88%
British Pound	0.73%
Swedish Krona	0.47%
Canadian Dollar	-0.02%
Norwegian Krone	-0.15%
Japanese Yen	-0.32%
Brazilian Real	-1.85%
Mexican Peso	-4.18%

Source: Bloomberg, ATB Financial Markets

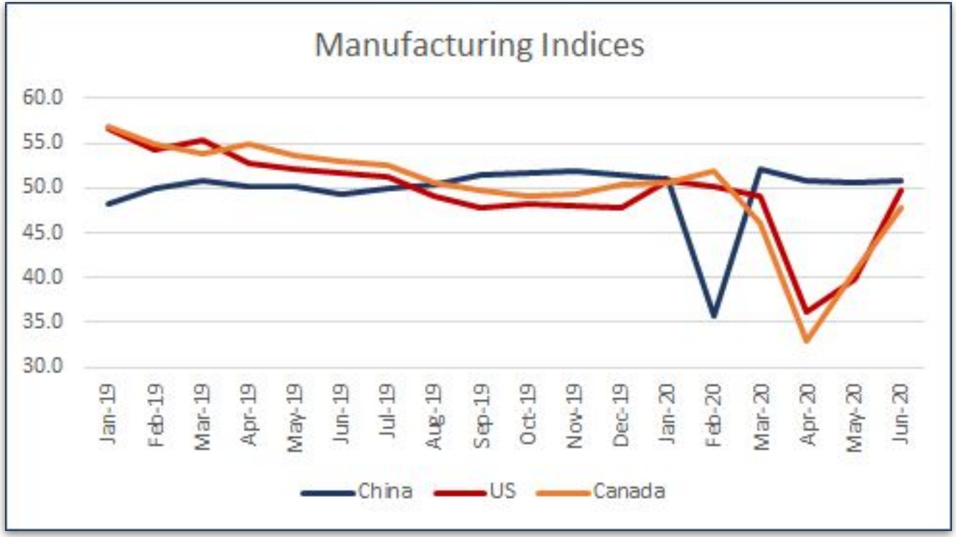
- In FX, CAD has been a mid to lower performer against the USD all year
- Equities have staged a nice rebound with the Nasdaq in particular roaring back to fresh all time highs, while energy continues to lag
- Crude benchmarks have consolidated gains and Canadian crude differentials have remained very strong

Global PMI Data

PMI Heat Map	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20
China	51.0	50.8	50.6	50.0	50.1	50.2	49.7	48.3	49.9	50.8	50.2	50.2	49.4	49.9	50.4	51.4	51.7	51.8	51.5	51.1	35.7	52.0	50.8	50.6	***50.9***
US	60.0	58.4	60.8	59.5	57.5	58.8	54.3	56.6	54.2	55.3	52.8	52.1	51.7	51.2	49.1	47.8	48.3	48.1	47.8	50.9	50.1	49.1	36.1	39.8	***49.8***
Canada	55.9	55.6	55.7	55.5	56.2	57.1	56.9	56.8	54.8	53.9	54.9	53.6	53.0	52.6	50.5	49.7	49.1	49.2	50.4	50.6	51.8	46.1	33.0	40.6	***47.8***

Source: Bloomberg, ATB Financial Markets

- Readings of global economic activity are represented here by Purchasing Managers Indices (PMI) from China, the US, and Canada
- Readings above 50 indicate an overall expansion of activity, below 50 would indicate an outright contraction
- China reported a massive drop in activity for February, an impressive rebound in March, and continued expansion since then
- May and June data for the US and Canada improved but we have yet to see activity move above the key 50 threshold



P/E Ratios And Dividend Yields

Date	Price to Earnings Ratio					Dividend Yield %				
	S&P 500	TSX COMP	Euro Stoxx 50	Nikkei	CSI 300	S&P 500	TSX COMP	Euro Stoxx 50	Nikkei	CSI 300
Jul-20	22.52	19.50	20.73	26.54	18.08	1.92	3.34	2.51	1.92	1.74
Jun-20	22.20	19.39	20.18	26.35	15.93	1.95	3.35	2.84	1.93	2.01
May-20	21.70	18.92	19.03	25.86	14.48	1.99	3.46	3.00	2.01	2.19
Apr-20	20.58	18.41	18.26	23.73	14.64	2.08	3.54	4.06	2.16	2.12
Mar-20	18.27	15.73	17.32	22.24	13.80	2.34	3.90	4.42	2.27	2.25
Feb-20	19.70	16.67	17.87	18.72	13.93	2.04	3.21	3.69	2.16	2.11
Jan-20	21.47	17.79	19.54	20.56	14.16	1.83	3.00	3.37	1.96	2.09
Dec-19	21.53	17.49	20.09	20.94	14.48	1.82	3.02	3.26	1.91	2.05
Nov-19	20.98	17.53	19.85	18.67	13.39	1.85	3.01	3.30	1.94	2.23
Oct-19	20.20	16.94	19.32	18.29	13.59	1.90	3.14	3.41	1.97	2.19
Sep-19	19.79	17.14	19.14	17.22	13.33	1.92	3.09	3.44	2.03	2.23
Aug-19	19.32	16.80	17.79	14.75	13.69	1.95	3.12	3.63	2.27	2.25
Jul-19	19.62	16.74	18.00	15.63	13.82	1.89	3.12	3.60	2.17	2.21
Jun-19	19.37	16.76	18.04	15.46	13.78	1.91	3.11	3.56	2.20	2.15
May-19	18.24	17.14	16.60	15.38	13.41	2.03	3.15	3.79	2.26	2.25
Apr-19	19.47	17.73	17.74	16.63	14.45	1.88	3.03	3.52	2.07	2.03
Mar-19	18.75	17.59	17.02	15.81	14.33	1.94	3.10	3.60	2.11	2.06
Feb-19	18.53	18.15	16.51	15.74	14.12	1.97	3.13	3.63	2.09	2.19
Jan-19	17.99	17.70	15.71	15.30	12.31	2.00	3.21	3.79	2.14	2.46
Dec-18	16.65	16.39	14.93	14.75	11.58	2.15	3.42	3.96	2.21	2.61
Nov-18	18.53	16.74	14.38	15.43	11.91	1.93	3.17	3.72	1.97	2.52
Oct-18	18.26	16.59	14.28	15.13	11.76	1.95	3.13	3.78	2.00	2.55
Sep-18	19.62	18.01	15.41	16.65	12.81	1.80	2.91	3.61	1.69	2.32
Aug-18	20.63	18.03	15.97	16.31	12.47	1.80	2.86	3.64	1.77	2.37
Jul-18	20.10	18.10	16.59	16.13	13.17	1.84	2.80	3.50	1.78	2.21
Jun-18	19.45	18.05	15.97	15.94	13.14	1.93	2.81	3.61	1.80	2.29
May-18	20.17	17.88	15.49	16.69	14.88	1.92	2.81	3.59	1.80	1.92
Apr-18	19.87	17.46	16.08	17.02	14.69	1.96	2.87	3.34	1.73	1.94
Mar-18	19.91	17.36	15.30	16.23	15.23	1.95	2.90	3.44	1.73	1.86
Feb-18	21.47	17.62	15.66	16.07	16.20	1.88	2.85	3.37	1.69	1.80
Jan-18	22.43	18.25	16.35	16.84	16.68	1.80	2.75	3.21	1.61	1.70

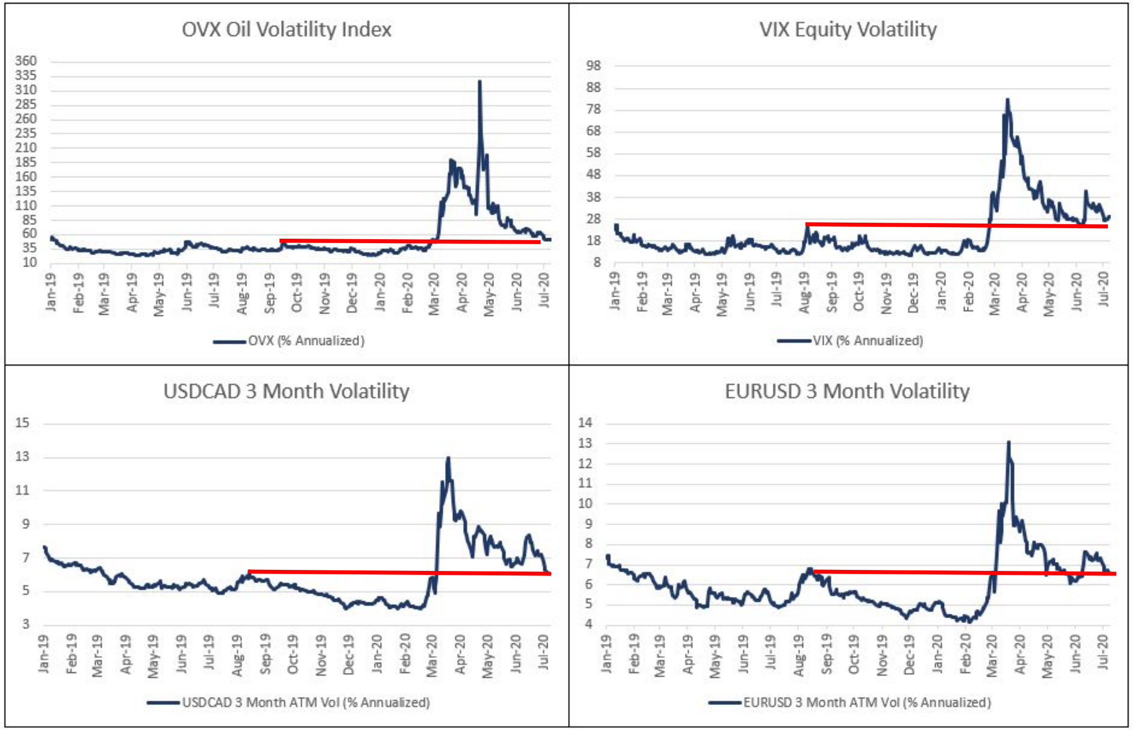
Source: Bloomberg, ATB Financial Markets

- Here we display the p/e ratios and dividend yields for major global equity indices since January 2018 on a trailing 12 month basis for ease of comparison
- You can see that equity markets are pretty frothy at the moment as P/E multiples are elevated (red)
- The Shanghai CSI 300 is the best ‘value’ at 18x earnings, while the Nikkei is trading at a remarkable 26x...
- As we head into Q2 earnings season later this month it seems that most indices are priced to perfection with investors having to pony up eye-watering multiples to own companies that are operating in the most unprecedented of times
- Equity markets are forward looking and thus the one conclusive statement we can take from these data is that the outlook is “rosy”...as we head into Q2 earnings later this month let’s hope that this optimism is justified...

ATB

Volatility Remains ‘Elevated’

- In June’s update we noted that volatility remained elevated despite having exhibited ‘normalization’ relative to the extremes in March and April
- That process continues into July, however we also note that we have yet to convincingly break below June’s lows in all the major asset classes represented here (Oil, Equity, FX)
- That is interesting as all four of these underlying assets have seen prices appreciated since last month, a dynamic which is generally associated with lower volatility levels (Oil, S&P 500, Euro, and CAD all rose, while vol stayed flat)
- Keep on eye on this as the summer progresses - holiday thinned markets could make for interesting times amid persistently high vol



Source: Bloomberg, ATB Financial Markets

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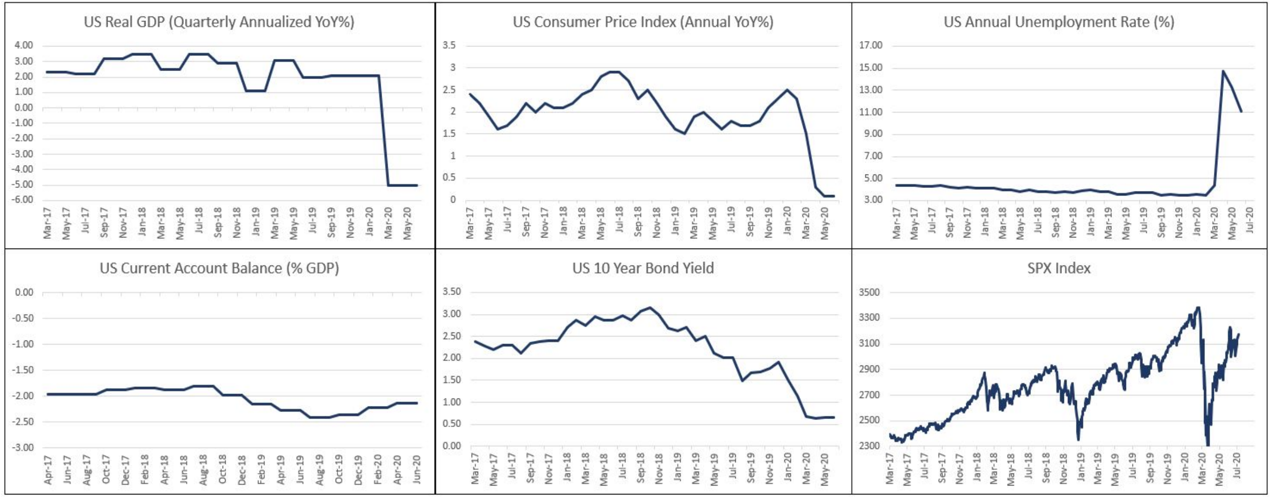
US Country Snapshot

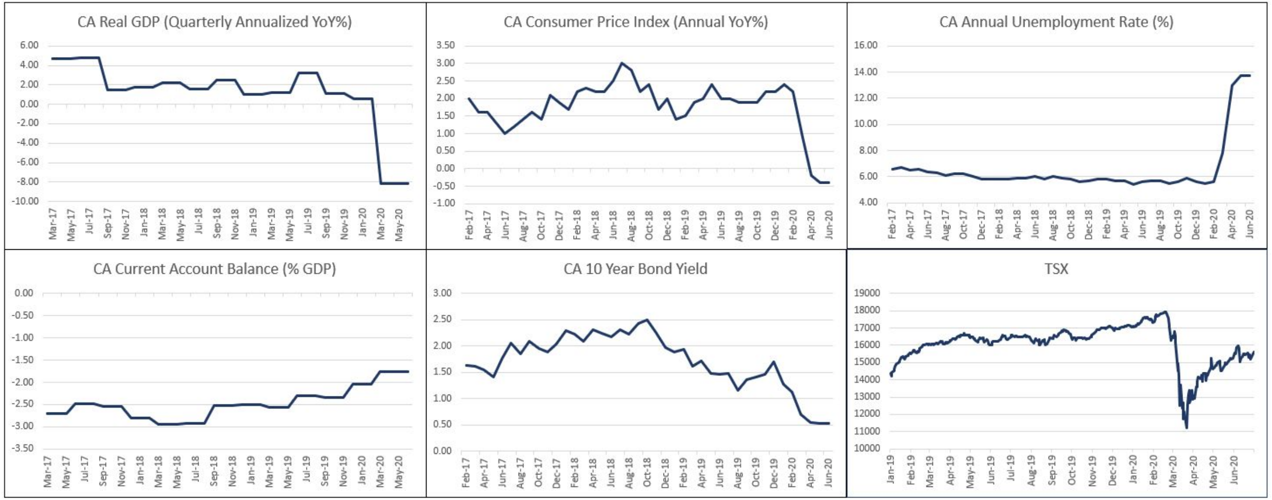
Indicator	Last
Real GDP (Annual YoY%)	-5.00
Consumer Price Index (Annual YoY%)	0.10
Annual Unemployment Rate (%)	11.10
Current Account Balance (% GDP)	-2.13
10 Year Bond Yield %	0.66



Source: Bloomberg, ATB Financial Markets

Canada Country Snapshot

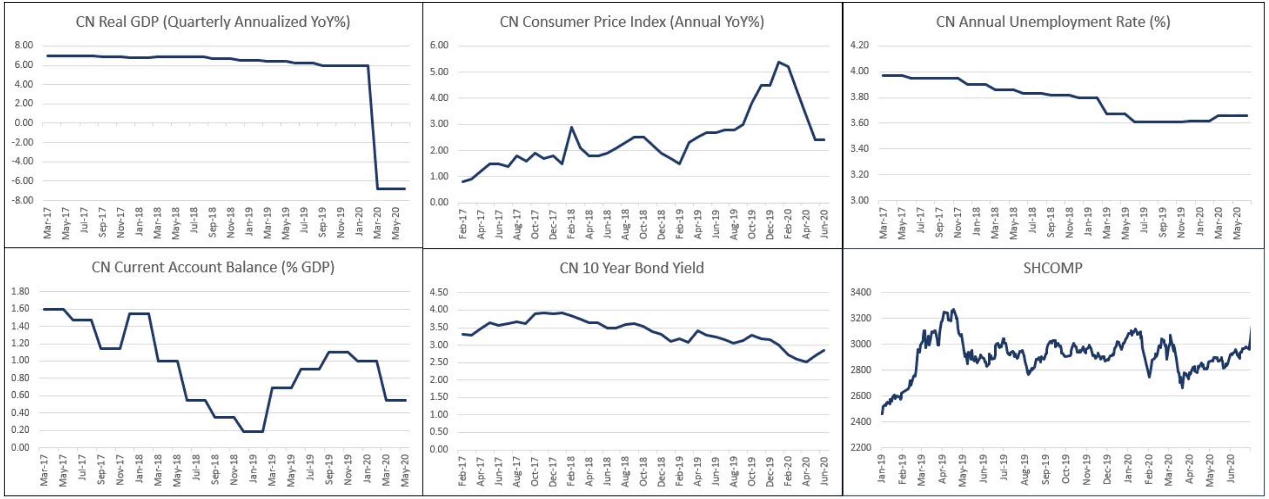
Indicator	Last
Real GDP (Annual YoY%)	-8.18
Consumer Price Index (Annual YoY%)	-0.40
Annual Unemployment Rate (%)	13.70
Current Account Balance (% GDP)	-1.76
10 Year Bond Yield %	0.53



Source: Bloomberg, ATB Financial Markets

China Country Snapshot

Indicator	Last
Real GDP (Annual YoY%)	-6.80
Consumer Price Index (Annual YoY%)	3.30
Annual Unemployment Rate (%)	3.66
Current Account Balance (% GDP)	0.55
10 Year Bond Yield %	2.77



Source: Bloomberg, ATB Financial Markets

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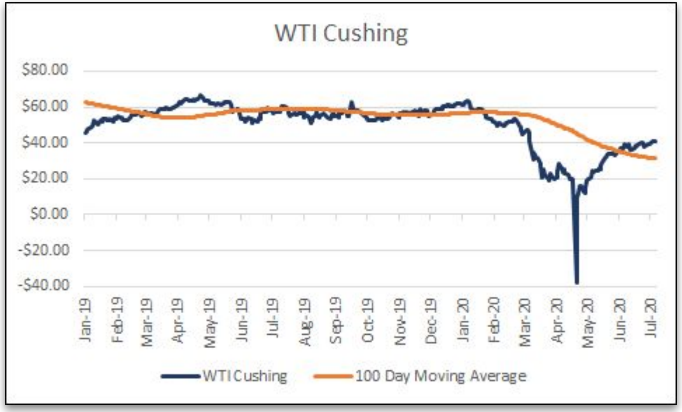
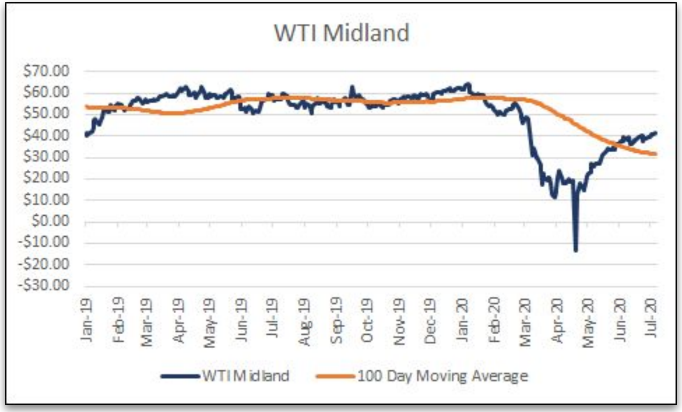
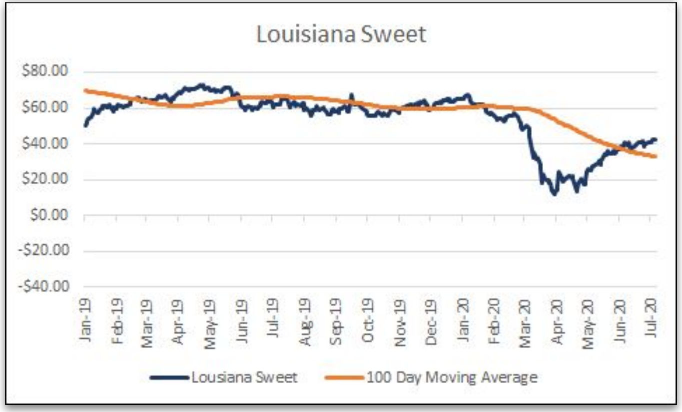
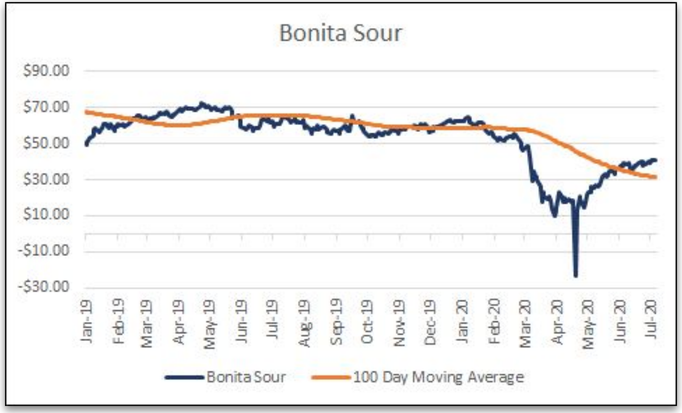
US Crude Prices ($/bbl)



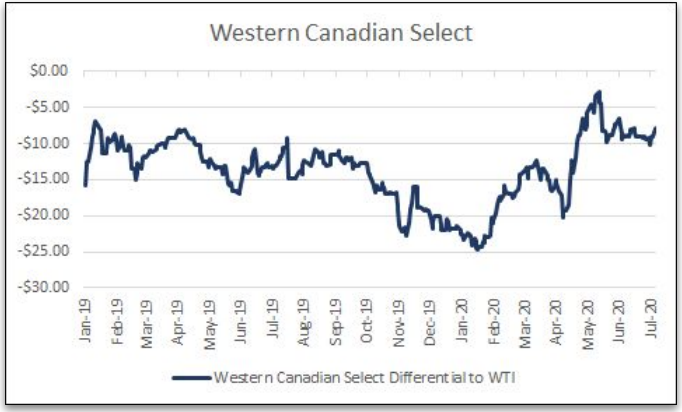


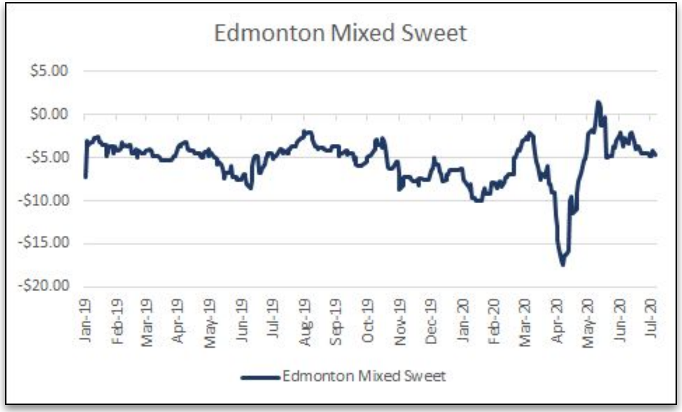


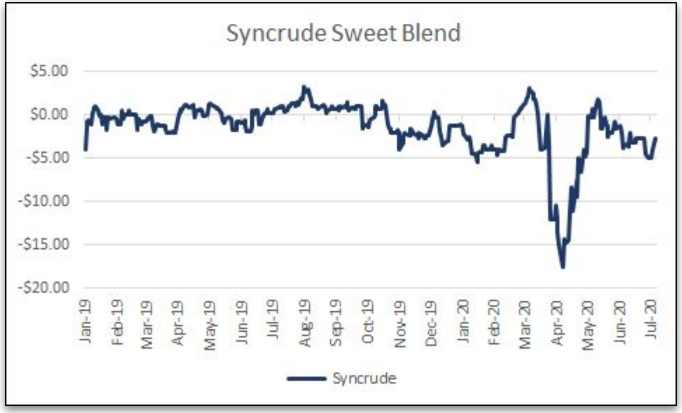


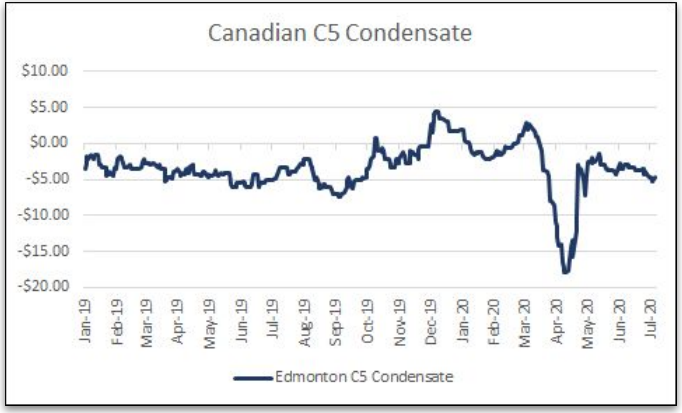
Source: Bloomberg, ATB Financial Markets

Canadian Crude Differentials ($/bbl)



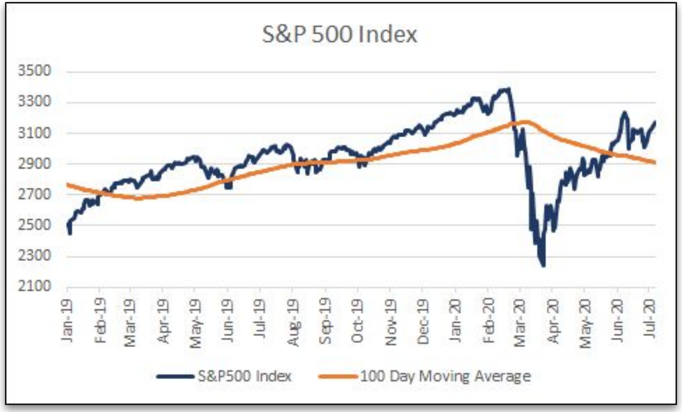


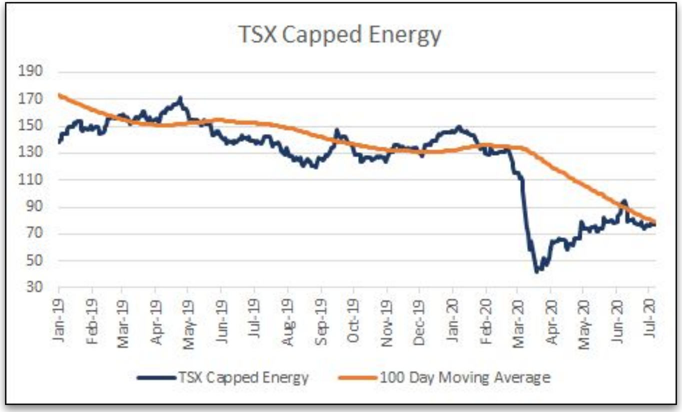


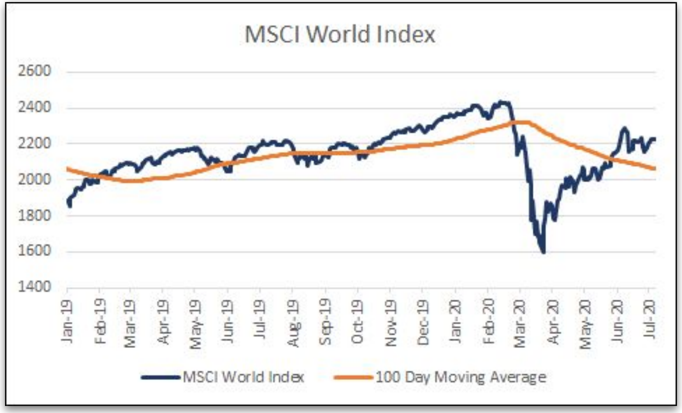


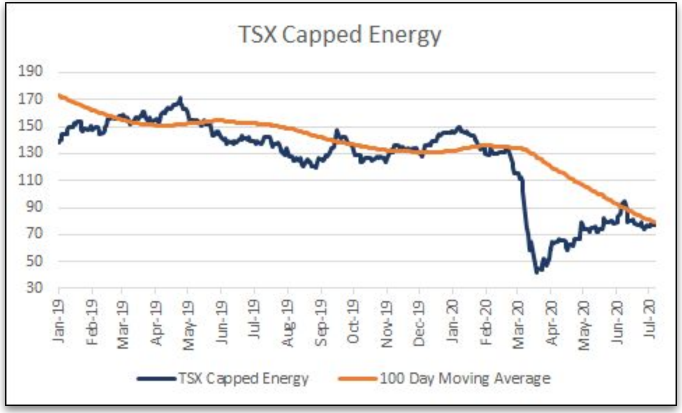
Source: Bloomberg, ATB Financial Markets

Equity: S&P 500, TSX, MSCI



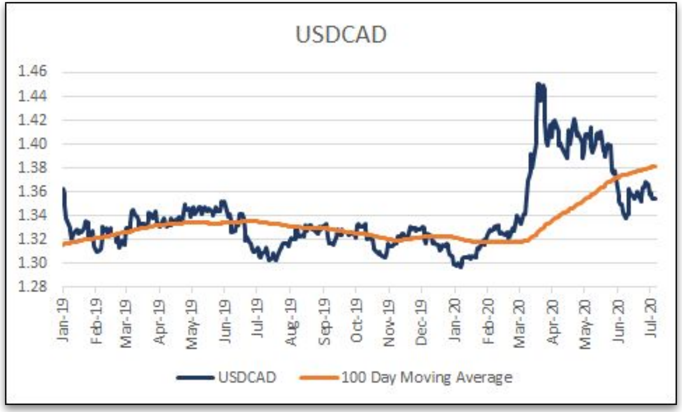


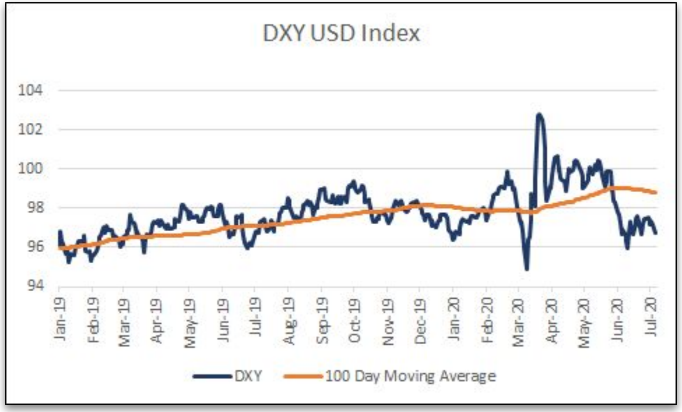


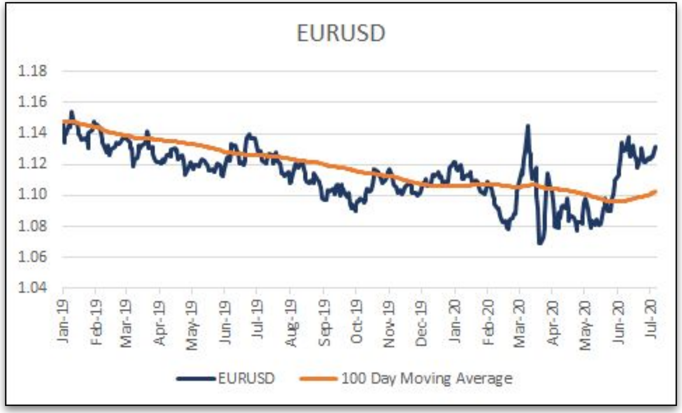


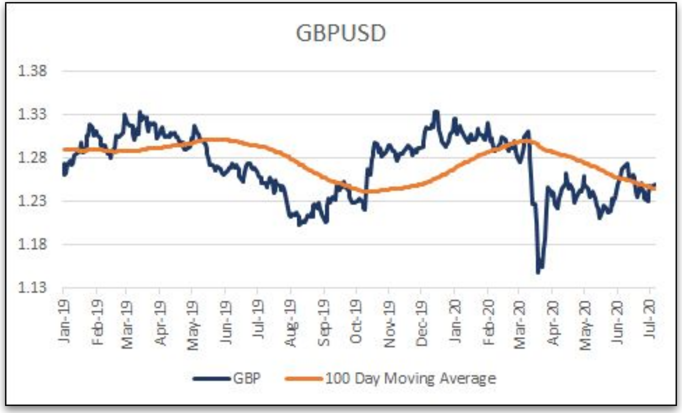
Source: Bloomberg, ATB Financial Markets

Global FX - CAD, DXY, EUR, GBP









Source: Bloomberg, ATB Financial Markets

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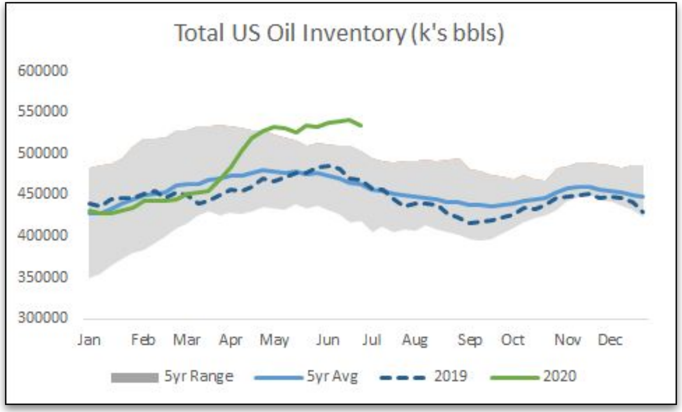
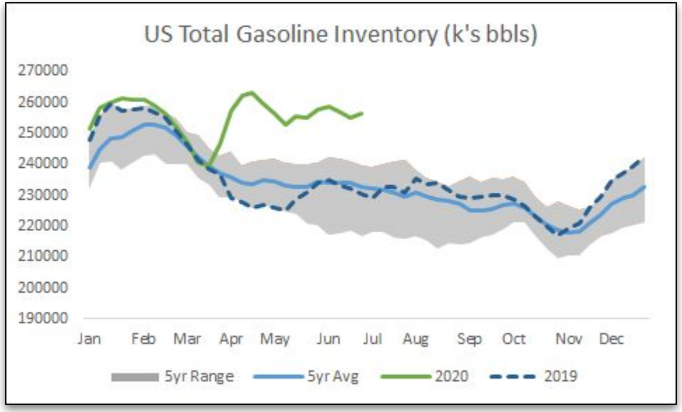
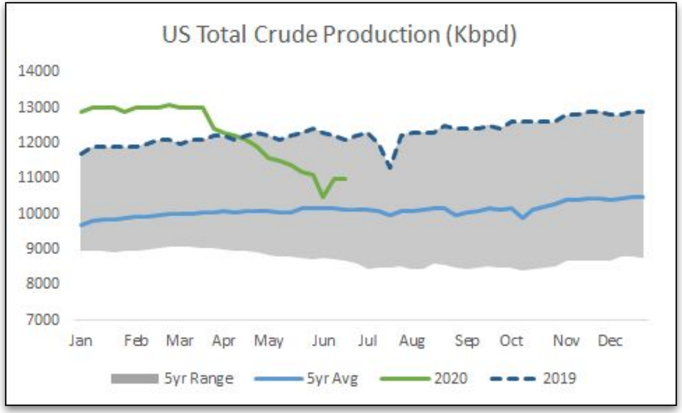
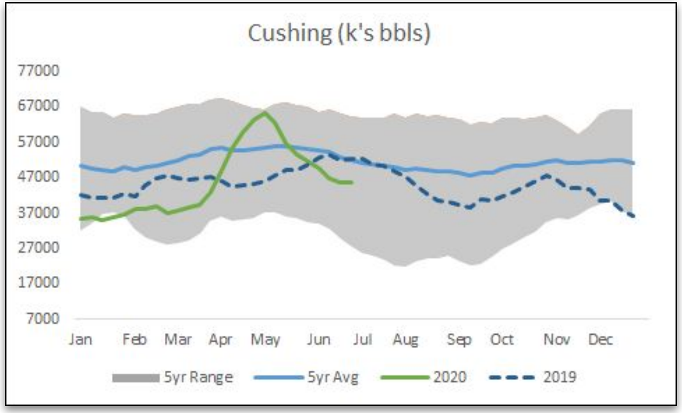
Oil Storage and Production Charts



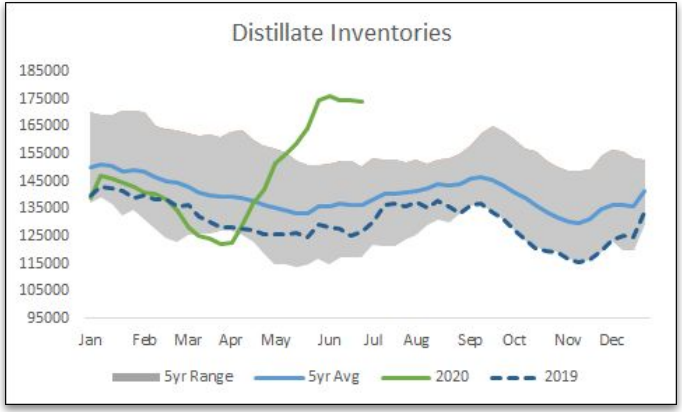


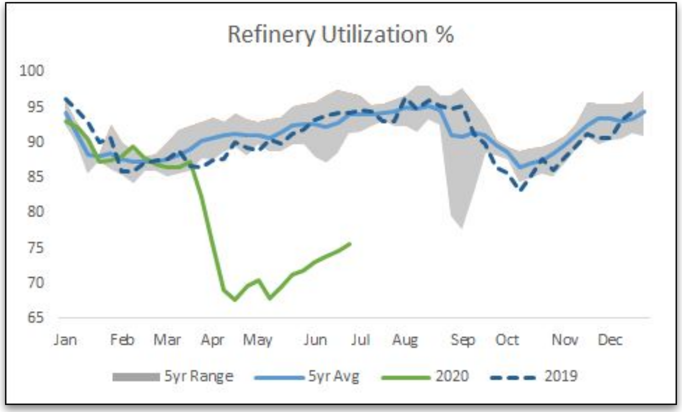


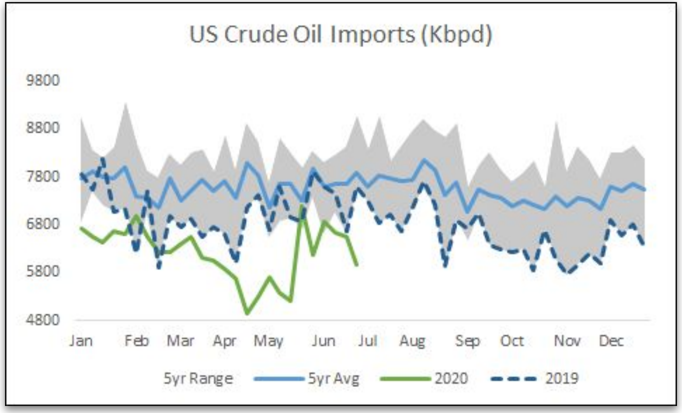


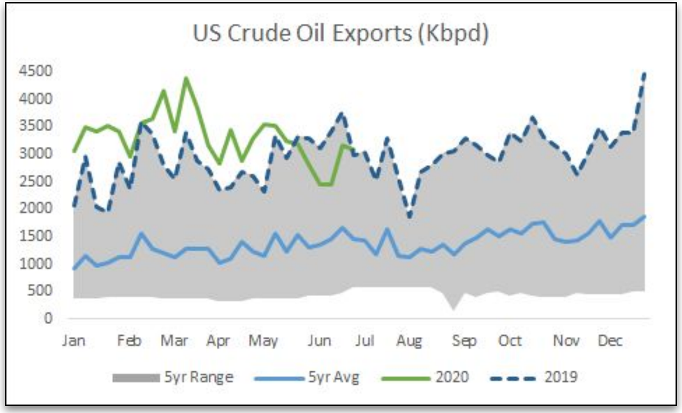
Source: DOE, ATB Financial Markets

US Oil Exports, Imports, Refining



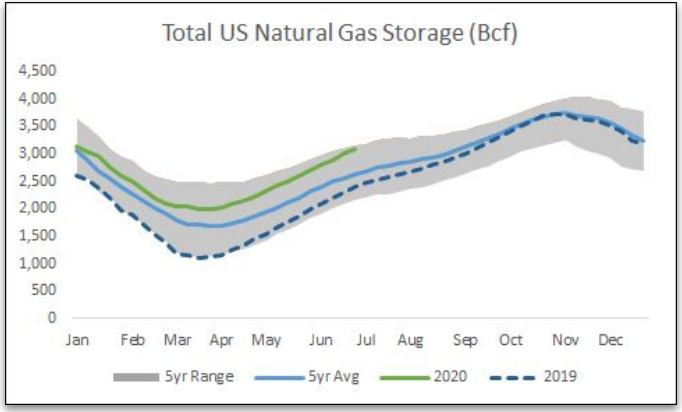


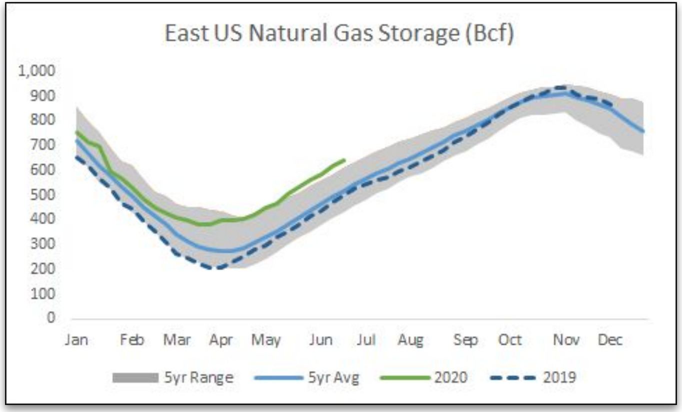


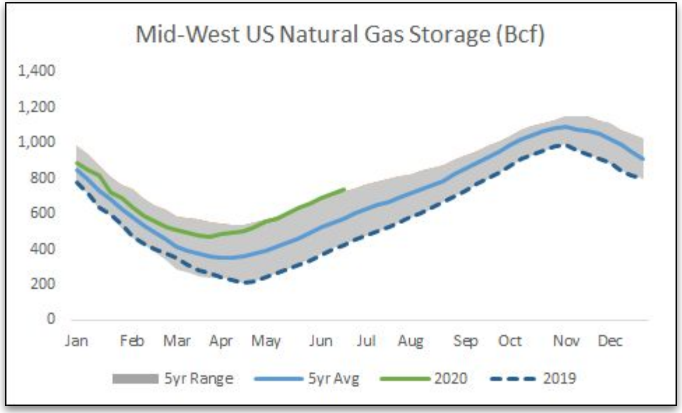


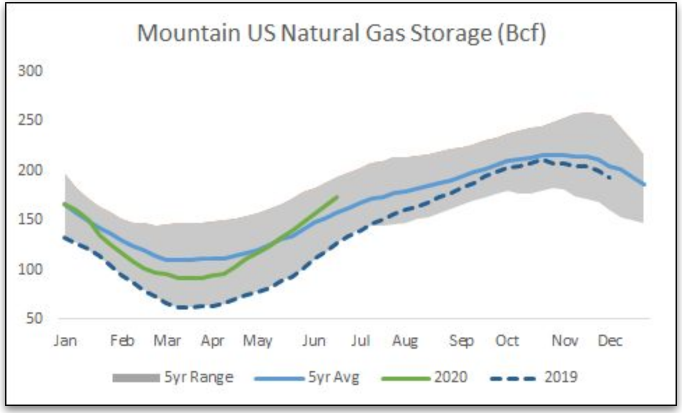
Source: DOE, ATB Financial Markets

Natural Gas Storage Charts



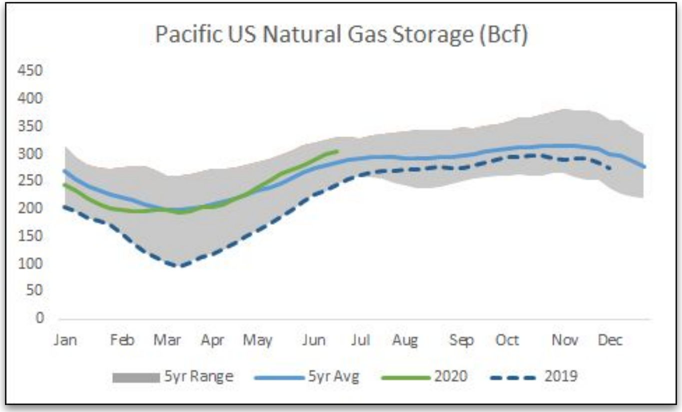


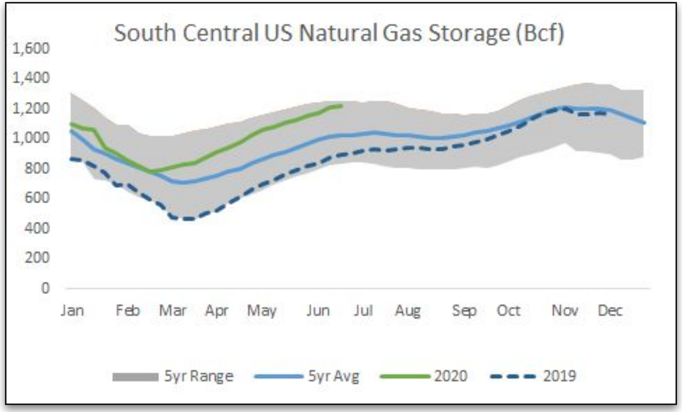


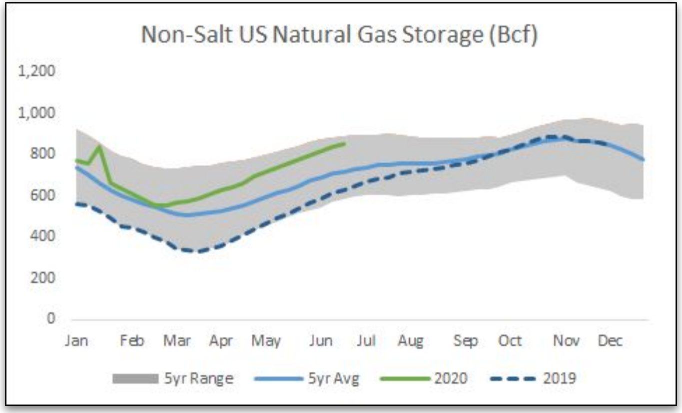


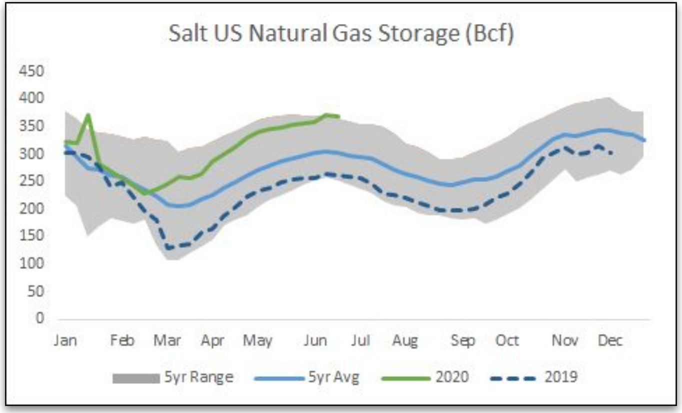
Source: DOE, ATB Financial Markets

Natural Gas Storage Charts









Source: DOE, ATB Financial Markets

Looking to hedge your risk?

Identify Exposure

Specify your goals

Develop a plan

Choose your tools

Evaluate your results

Talk to us…we're here to listen.

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ATB *listens*

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Reimagine it MAKE BANKING
WORK FOR PEOPLE
Because we carry the *outrageous*
belief that banking can change
PEOPLE'S LIVES FOR THE BETTER
Make their time richer
their aspirations closer
THEIR HAPPINESS DEEPER
HOW WILL WE DO THIS? By doing things other banks wouldn't do
By being ever loyal to our customers *relentlessly inventive*
and steadfastly genuine in our pursuit
of Albertans' greater good
BY USING BANKING TO CREATE HAPPINESS
WHY HAPPINESS?
Because good things happen when happiness becomes your purpose
that's why ATB
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BE MORE
than a bank