Weekly Updates Issue # 554

1. Weekly Markets Changes

[March 4, 2016]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
13,212.50 +414.7 +3.24%	1,999.99 +51.94 +2.67%	17,006.77 +366.8 +2.20%	4,717.02 +126.5 +2.76%	$0.7509 +1.09¢ +1.47%	$1,260.10 +37.30 +3.05%	$36.33 +3.49 +10.6%

2. Trade deficit increased to $655 million in January

[March 4, 2016] Statistics Canada says the country’s merchandise trade deficit increased to $655 million in January compared with $631 million in December.

Economists had expected a trade deficit of $1.05 billion for the month, according to Thomson Reuters.

The increase came as imports rose 1.1% in January to $46.7 billion, while exports totalled $46.0 billion, up 1% from December.

Exports excluding energy products increased 2.3%.

The deficit came as exports to countries other than the United States fell 3.7% to $11.1 billion in January.

Imports from countries other than the U.S. increased 1.1% to $15.4 billion.

Meanwhile, exports to the U.S. climbed 2.6% to $34.9 billion in January, while imports from the U.S. gained 1.1% to $31.2 billion.

3. U.S. adds 242,000 jobs

[March 4, 2016] U.S. employers added 242,000 workers in February, with retailers, restaurants and health care providers driving another solid month. The unemployment rate held steady at a low 4.9%.

The Labor Department on Friday also revised up its estimated job growth for December and January by a combined 30,000. Over the past three months, U.S. employers have added a strong 228,000 to their payrolls.

The pickup in job gains shows that the U.S. economy has weathered a global economic slowdown without suffering much blowback. Worker pay did slip last month after having picked up in January. But more Americans who had been sitting on the sidelines began searching for jobs last month and found them.

Employers expect solid consumer demand in the months ahead even though the stock market has turned turbulent, oil prices have hurt energy industry jobs and a stronger dollar has reduced export sales.

Retailers added 54,900 jobs last month. Restaurants and bars added 40,200. The health care sector hired 38,100.

Hiring by construction companies, retailers and health care providers has offset layoffs at manufacturers and fossil fuel companies—two sectors squeezed by the pressures of uncertainty in China, sluggishness in Europe, declining oil prices and a stronger dollar.

Job losses for the mining sector, an area that includes the battered energy industry, have totaled 140,400 in the past 12 months. And manufacturing has added just 12,000 jobs over that period.

Consumers have provided the foundation for much of the job market's improvement in what's become something of a self-sustaining cycle. More than 2.7 million workers hired over the past 12 months have bolstered spending on autos, housing and meals out. With unemployment remaining low, economists say more companies should begin to raise pay to attract workers, thereby fueling more hiring and increasing people's ability to spend, invest and save.

Friday's jobs report is sure to be closely monitored by the Federal Reserve and presidential candidates as a gauge of how well the economy is extending its six-and-half-year rebound from the recession.

One of the lingering weaknesses of the recovery has been tepid pay growth. Over the past 12 months, average hourly earnings have risen 2.2%. Earnings actually fell slightly between January and February in a sign that an expected liftoff in incomes has yet to be achieved.

But Ian Shepherdson, chief economist at Pantheon Macroeconomics, noted that wages may have fallen because the survey for the jobs report occurred before February 15, which is payday for people who are paid semimonthly.

Still, the hiring has translated into more consumer spending in several key sectors. Auto sales rose 7% over last February to 1.3 million vehicles, according to Autodata Corp.

Purchases of existing homes rose 0.4% last month to a seasonally adjusted annual rate of 5.47 million, according to the National Association of Realtors. That improvement followed a solid 2015, when sales achieved their highest level in nine years.

And spending at restaurants has risen 6.1% over the past 12 months.

Still, troubles abroad have tempered U.S. economic growth. China, the world's second-largest economy, is struggling with high corporate debts and slower growth. Oil prices have tumbled amid relatively low demand. The strong dollar has crushed exports, while the stock market has dropped in an extended bout of volatility this year.

The Fed is looking for further wage growth. The central bank is considering whether to raise interest rates again in the face of global risks that could imperil broader economic growth. In December, the Fed raised rates from record lows _ its first increase in nearly a decade.

Investors have largely dismissed the likelihood of another rate hike at the upcoming Federal Reserve meeting on March 15th and 16th.

4. Gazprom getting 2-billion Euro loan from Bank of China

[March 3, 2016] The Bank of China will give Gazprom a 2 billion euro ($2.2 billion), five-year loan, the Russian state-run energy company's largest loan agreement from a single credit institution.

In a Thursday press release, Gazprom said this is the company's first loan deal with the Bank of China.

Driven by China's growing energy needs, Beijing has been investing tens of billions of dollars abroad to help other countries develop their natural gas resources that can then be exported to China.

In May 2014, the state-owned China National Petroleum Corporation signed a $400 billion contract to buy natural gas from Gazprom over 30 years.

Gazprom, a state-owned oil monopoly, has been hard hit by Western sanctions, which tightened the terms and restrictions on loans from Western lenders to the company.

5. Don't forget these tax credits

[March 3, 2016] With tax season upon us, clients will be looking to use every available tax credit to cut down what they owe CRA. Here are some filing tips from H&R Block to keep in mind this April.

Family Tax Cut is still available

The Family Tax Cut is a non-refundable tax credit of up to $2,000 meant to help families with children under the age of 18 living at home. The way this works is that one spouse claims a credit for the taxes they would have saved if they had split their income off to the other spouse's return. Introduced in October 2014, this could be the final year to claim this credit. So, even if filers didn't qualify for it last year, they're still encouraged to look into whether they'll qualify this year.

Amount you can claim for child care has increased

In 2015, parents will be able to claim more of their child care expenses – limits have increased by $1,000. Child care expenses are claimed as a deduction from income to decrease the amount of taxable income for parents.

Children's Fitness Tax Credit (CFTC) now refundable

The CFTC helps families with the cost of children's fitness activities by allowing them to claim the related expenses on their tax filing, up to a maximum amount of $1,000. New for the 2015 tax filing year, it is now a refundable tax credit, meaning families will get some of those expenses back whether they owe tax or not.

Amount for children disappears from Schedule 1 form

This used to be a non-refundable tax credit but, as of the 2015 tax filing year, it will no longer appear on the Schedule 1 form. This means that it is no longer a credit that can be claimed on a person's income tax return and many families may be surprised to see this. The exception is a credit left for the family caregiver for impaired children.

Universal Child Care Benefit (UCCB) was enhanced

The UCCB is a taxable benefit that provides direct financial support to Canadian families with young children. In 2015, there were a couple changes to the UCCB that put more money into the pockets of these families. A new payment for children aged six to 17 was introduced, and the payments for children under six years old was increased. Families who receive these benefits will need to claim them as income and account for these enhancements.

Automatic enrollment for OAS and GIS benefits

By 2016, all eligible seniors will be automatically enrolled for OAS and GIS and notified by mail. This replaces the old system where seniors had to apply for those benefits. Seniors need to know that if they do nothing, the automatic enrollment goes ahead. But if they wish to defer these payments, they must let Service Canada know. These payments are part of seniors' tax filing, so it's important they understand the process.

First-Time Donor's Super Credit can be claimed until 2017

The First-Time Donor's Super Credit is meant to encourage donations by people who have not donated to charity before, or who had fallen out of the habit. You can claim an additional temporary supplement, in addition to the non-refundable tax credit for individual charitable donations. If you are saving up your receipts, the temporary credit can be claimed until 2017, but will be unavailable after that.

6. What the next U.S. president could mean for Canadian oil

[March 1, 2016] The U.S. presidential election is only months away, and the outcome could impact how much—and how—Canadian crude flows into the U.S.

Regardless of whether the Democratic nominee is Hillary Clinton or, as appears less likely, Bernie Sanders, a president from that side of the aisle would probably mean a continuation of the status quo established by the Obama administration as far as Keystone XL is concerned, says Tim Pickering, CEO and lead portfolio manager at Auspice Capital in Calgary. Clinton, he notes, has been vocal against Keystone XL. Sanders is also strongly against it.

A Republican winner in November, suggests Pickering, would be more likely to change course and reopen the issue. Keystone XL "is definitely not dead," he says. The U.S., he adds, has laid about 10,000 miles of pipelines since plans for Keystone were first filed.

Canada's the largest importer of oil into the United States—twice the daily level of Saudi Arabia. "So, this oil is very important to America […] and its energy security," says Pickering. Canadian crude is also some the cheapest oil our friends to the south can get.

Pickering adds that compared to other suppliers, such as Saudi Arabia, Canada shouldn't concern those who look beyond economic calculations when considering whom to buy from. "We're just such a good deal for [the U.S.]. We're a cheap barrel, we're safe and we've got no human rights violations. The only thing they can jam at us is [the] environmental [issue]. But there are environmental issues everywhere and Canada's track record, standards and development in that area are ahead of most of the world."

Other American policy concerns—the broader economy, immigration, healthcare—will likely dominate political discourse during the campaign and after a new president takes office. But the how of access to Canadian crude will still be on the agenda.

"It's an opportunity for our leadership, whether provincially or federally, to say, 'Look, this is the safest barrel on earth and it's your primary source. If you're not willing to give us fair market access, then we're going to look for other market access."

How bad is it?

Could oil prices drop further? Pickering says yes, but the situation may not be as dire as some think.

Global demand remains robust, even from a slowing China. The key problem is oversupply. But that supply overhang is only between one million and two million barrels a day. To put that in context, when there was an oversupply problem in the 1980s, the overhang was about 14 million barrels a day.

"Things can happen quite quickly to bring supply and demand back into balance," says Pickering. There will be Canadian oil players who take some production offline. The Bakken play in the U.S. is also seeing cuts. "So conceivably, right here in North America you could bring a million barrels a day off. Things are lining up so that the supply and demand imbalance is going to come back in line at some point. When? That's the million-dollar question, but the right things are happening, and first among them is that we do have demand."

So, while the near-term outlook is still questionable, the long-term outlook is positive, says Pickering. "The downside is now more limited than the upside potential."

If clients are thinking of participating in any future price upturn, think carefully about the vehicle by which they do so. If they try it via resource stocks, they may not get what they bargained for.

Why?

When you buy an oil company stock, you're buying a management team, a balance sheet, and other factors completely extraneous to the price of oil, notes Pickering. You're also buying a correlation to the broader stock market. As a result, the price of oil could climb, but that increase may not be reflected in the performance of oil company stocks. In fact, if the stock markets as a whole drop it could take oil stocks with it, regardless of any increases in the price of oil.

7. BoC warns about forged emails

[March 1, 2016] Bank of Canada is issuing a warning about email and social media scams that are claiming to come from the bank.

Canada's central bank says the scams are using its logos and letterhead without authorization and misrepresenting it.

The BoC says it does not accept deposits from individuals or on behalf of them, nor does it collect personal or financial information from individuals through email.
The central bank also does not request personal or financial information through social media messaging applications.
The BoC says if you have concerns about any Internet-based communication that purports to be from the bank, you should delete the message and contact your local authorities.
It warns not to follow any links included in the message and instead access the BoC's website by typing the address yourself.

8. Canadian economy grew 0.8% in Q4: Statistics Canada

[March 1, 2016] The economy exceeded low expectations to grow at an annual rate of 0.8% in the final three months of 2015, Statistics Canada says Tuesday.
A consensus of economists had predicted real GDP growth for the fourth quarter to produce a flat reading, according to Thomson Reuters.
While the latest report on real gross domestic product beat expectations, it still marked slow growth — something that Statistics Canada said was due to weakness in domestic demand, business investment and exports. These negative factors partially offset a positive boost from a decrease in imports.
The economy fell into a technical recession at the start of 2015 when it contracted over the first two quarters by a revised 0.9% and again by a revised 0.4%. Real GDP increased by a revised 2.4% in the third quarter.
The reading was released as the federal government prepares a spring budget expected to contain billions of dollars worth of commitments — such as infrastructure spending — that it insists will help revive economic growth and create jobs. The budget date is March 22.
Last week, the Liberal government acknowledged next year's deficit could surpass $20 billion, and some observers believe it could reach as high as $30 billion.
Statistics Canada also says Tuesday that the country's terms of trade — a measure of export prices relative to import prices — sunk for the fifth consecutive quarter to reach its lowest level since late 2003.
Looking back at 2015, the agency found that the economy grew by 1.2% — less than half of the 2.5% pace for 2014. Before that, the economy grew 2.2% in 2013, 1.7% in 2012 and 3.1% in 2011.

The report says the 2015 reading was dragged down by a contraction of 4.8% in business gross fixed capital formation, a category that includes buildings, machinery and intellectual property.
Statistics Canada notes the decline, the first after five consecutive years of increases, was mostly due to a 12.7% drop in business investment in non-residential structures.
Meanwhile, Canada's terms of trade shrunk by 6.9% last year, which followed a 1.3% decrease in 2014.
The agency also says real GDP grew at a month-to-month rate of 0.2% in December, which followed monthly increases of 0.3% in November and 0.1% in October.

9. Canada closer to locking down EU free trade deal

[February 29, 2016] The federal government now expects the Canada-EU free trade agreement (CETA) to take effect next year, after completing a legal review of the deal.
In a statement, International Trade Minister Chrystia Freeland says the deal has been modified to allow for a permanent dispute-settlement tribunal and an appeal system, among other measures. "We have responded to Canadians, EU citizens and businesses with a fairer, more transparent system." She's now confident the agreement will be signed this year.
According to a release by the European Commission, "The negotiations on a free trade deal between the European Union and Canada were concluded in 2014 with a reformed investment dispute settlement system [that included] clear and unambiguous investment protection standards."
And now, "Following the legal revision of the text, the agreement goes even further: all the main elements of the EU's new approach on investment, as outlined in the EU's TTIP proposal of November 2015 and contained in the recently concluded EU-Vietnam free trade agreement, have been included in the finalized CETA text."
The release adds, "This represents a clear break from the old Investor to State Dispute Settlement approach, and demonstrates the shared determination of the EU and Canada to replace the current system with a new dispute settlement mechanism and move toward a permanent multilateral investment court."
Along with these changes, says the release, "CETA will now offer EU firms better business opportunities in Canada and support jobs, by making business between the EU and Canada easier. The deal will remove 99% of customs duties, leading to tariff savings for EU exporters of around 470 million euro a year for industrial goods."

This announcement marks a significant milestone for the trade deal, which has been in the works between Canada and the 28-member European Union for years. Negotiations began in 2009.

10. Housing too hot in Vancouver, Toronto

[February 29, 2016] In Toronto and Vancouver, home prices are soaring and continuing to raise the bar on home ownership, says the latest Housing Trends and Affordability Report issued by RBC Economics Research.

"There are few signs that housing affordability is problematic elsewhere in Canada," says Craig Wright, RBC chief economist. "Homes in other markets remain affordable, with the situation either improving or remaining fairly stable, while prices continue to escalate in Vancouver and Toronto markets."

Within these two markets, one of the main problems is there's a clear divergence in affordability conditions between single-detached homes and condo apartments, with most of the affordability-related stress concentrated in the single-detached segment.

And, "Current market conditions suggest [these markets] will stay on a deteriorating path in the near term. Sellers are very much in control of both markets, and prices are likely to continue to rise rapidly in the coming months," says Wright. "Recent changes to mortgage insurance rules aimed at cooling high-priced markets may slow down price increases at the margin, but we do not believe they will materially reverse current momentum."

Conditions in Vancouver, in particular, show increasing signs of over-heating in single-detached segments, where home prices have skyrocketed in the past year. With an average price exceeding $1.2 million, single-detached homes have long slipped out of reach for the average local homebuyer. As a result, purchasing a condo apartment is the only realistic option for most first-time buyers—although this too has become slightly less affordable in the last two quarters.

Meanwhile, single-detached home affordability in Toronto continues to slip deeper into stressful territory for homebuyers.

What about the rest of Canada?

Outside of Vancouver and Toronto, housing affordability remained stable across Canada in the fourth quarter of 2015, says the report.

The RBC Housing Affordability measure captures the proportion of pre-tax household income required to service the cost of owning a specific category of home at current market value (an increase in the measure represents a deterioration in affordability). An affordability reading of 50% means that home ownership costs, including mortgage payments, utilities and property taxes, would take up 50% of a typical household's monthly pre-tax income.

Overall, RBC's housing affordability measure for the aggregate of all housing types in Canada rose by 0.6 percentage points to 46.7% in the fourth quarter of 2015, the highest level in more than five years. The slight increase was broadly based across housing categories with the measure for single-detached homes climbing 0.6 percentage points to 51.3%, and condo apartments moving up by 0.3 percentage points to 35.2%.

Most of the markets seeing steady improvement in affordability were in the Atlantic region, where demand-supply conditions have been soft for some time amid economic and demographic challenges. In Alberta, flat affordability trends masked weakness in home prices and household income resulting from the energy bust and provincial recession. Price declines in markets such as Calgary will likely lead to improved affordability.

Have a nice and fruitful week!