Weekly Updates Issue # 549

1. Weekly Markets Changes

[January 29, 2016]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
12,822.13 +432.6 +3.49%	1,940.24 +33.34 +1.75%	16,466.30 +372.8 +2.32%	4,613.95 +22.77 +0.50%	$0.7156 +0.72¢ +1.02%	$1,118.00 +19.80 +1.80%	$33.74 +1.49 +4.62%

2. Canadian economy inched forward in November

[January 29, 2016] Canadian economic growth crept upwards in November by 0.3% — the first sign of life in the monthly data since August, when there was a razor-thin increase of 0.1%.

Statistics Canada's latest reading for real gross domestic product followed zero growth in October and a contraction of 0.5% in September.

The federal agency said Friday that November's GDP growth was mostly due to increased activity in retail and wholesale trade, energy extraction and manufacturing.

Wholesale trade bounced back to expand 1.3% in November after shrinking for four straight months, the report said.

Growth in retail trade increased 1.2% following an October contraction of 0.2%, while manufacturing saw an increase of 0.4% after falling for two consecutive months, Statistics Canada said.

"We needed a rebound in Canada just to keep Q4 from being the third negative quarter for the year, and the 0.3% gain was if anything a bit disappointing," writes CIBC economist Avery Shenfeld in a note to analysts. "The anticipated strength showed up in retailing and wholesaling, but real factory GDP didn't quite live up to the earlier real shipments data, and outside wholesale/retail, services were weak, on a drop in public admin and finance/real estate. With the softness in September and October data, the November bounce leaves Q4 headed for a growth rate only marginally above zero."

Overall natural resources extraction rose 0.6% in November, the report said. Oil and gas extraction increased 2.1% to help offset the weight of the mining and quarrying component, which declined 2.3%.

Downward pressure on GDP — a broad measure of the economy — also came from the finance and insurance sector, which contracted 0.3% for its fourth straight monthly decline.

The GDP reading was released as Canada limps through the net negative effects of a commodity price shock that began in late 2014 and has lingered since.

The figure tees up a potentially weak GDP number for the fourth quarter amid downgraded expectations for the final three months of 2015.

The Bank of Canada recently lowered its GDP forecast for the fourth quarter to 0.3%, down from 0.7%. Earlier this month, the central bank also decreased its GDP prediction for the first quarter of 2016 to 0.8% and for the second quarter to 1.4%.

Canada's economy fell into the technical definition of a recession in the first half of 2015 when GDP fell for two straight quarters. It decreased at an annual pace of 0.7% over the first three months of 2015 and again by 0.3% in the second quarter.

In the third quarter, however, GDP rebounded by generating 2.3% growth.

3. Tax fraudsters posing as officers, warn Toronto-area police

[January 29, 2016] Toronto-area investigators are warning residents about tax-collection scammers who are posing as police officers.

On January 26, 2016, York Regional Police say they responded to a fraud incident at a residence in the City of Markham. In a release, police say the victim explained she received a phone call from suspects claiming to be with the Canada Revenue Agency. The suspects allegedly told her she owed $58,000 dollars in overdue taxes. But, say police, the victim found the call suspicious and hung up.

Soon after, says the release, the victim received a second call from a number that showed up as York Regional Police on her display, during which the suspects allegedly told the victim she would be arrested if she didn't pay them immediately. The victim hung up again, say police, but the two suspects then arrived at her residence in a black SUV. They add the victim didn't answer the door.

York Regional Police caution they've seen a recent increase in reports of tax-related scams where suspects identify themselves as police officers. These are often done via phone calls or emails, they add.
York Regional Police remind residents they don't engage in tax collection of any type nor do they arrest individuals in relation to overdue taxes. And, they're warning people to report any calls or emails of this nature.
Also, if approached by suspicious individuals, people should ask for badge and photo identification. Any suspects should be reported to the York Regional Police Major Fraud Unit.

4. Bank of Japan introduces negative rate

[January 29, 2016] The Bank of Japan has introduced a negative interest rate policy for the first time to shore up its stumbling economic recovery. As part of that policy, lenders that leave too much cash on idle deposit with the BoJ will be charged.
This surprise move rattled stock market investors, with the Nikkei 225 index swinging between gains and losses after the announcement. It closed 2.8% higher. The Japanese yen slid, with the U.S. dollar rising to about 120.70 yen from about 118.50 earlier in the day.
The central bank said it is imposing a 0.1% fee on some new commercial bank deposits with the BOJ, effectively a negative interest rate. It hopes that will encourage commercial banks to lend more, rather than keeping cash at the BOJ, and stimulate investment and growth in the world's third-largest economy.
The BOJ said in statement that Japan's economy is still recovering, but risks from volatile global financial markets could undermine confidence and slow progress toward the central bank's 2% inflation target.
Bank deposits with the BOJ will be divided into three tiers: existing current account balances will earn a 0.1% positive interest rate; required reserves held at the central bank by financial institutions will earn zero interest; and any additional current account deposits would incur the minus 0.1% rate, the BOJ says.
And, the bank "will cut the interest rate further into negative territory if judged as necessary," it says. The central bank notes the policy will continue as long as needed to achieve its inflation target. In the meantime, it has pushed back its timeframe for achieving that goal from late 2016 to mid-2017.
"We think there is an increasing risk that an improvement in the business confidence of Japanese firms and the conversion of deflationary mindset may

be delayed," said BOJ Governor Haruhiko Kuroda at a news conference. And, he says "the underlying trend in prices might be negatively affected."

The European Central Bank has already imposed negative interest rates, after leaving interest rates near zero failed to entice banks into seeking higher returns through lending. In Japan, keeping interest rates near zero has also failed to yield the desired results—raising doubts about the credibility of the quantitative and qualitative monetary easing policies announced by BOJ Governor Haruhiko Kuroda in April 2013.

Data on Friday showed Japan's core inflation rate for 2015, excluding volatile food prices, at 0.5%. This and other figures show the economy remained anemic last year, as stagnant incomes, the slowdown in China and the mixed blessing of lower oil prices hobbled Prime Minister Shinzo Abe's recovery strategy.

Consumer spending fell 4.4% in December from a year earlier, as households chose to save rather than splurge on any gains from the low oil prices that are slowing inflation. It was the fourth straight month of year-on-year declines.

Industrial output fell 1.6% in December from a year earlier, partly due to slower demand for machinery and electronics components and devices in China.

"Today's activity data were disappointing and suggest that Japan's economy barely grew last quarter," Marcel Thieliant of Capital Economics said in commentary.

Abe took office three years ago vowing to get growth back on track through massive injections of cash by the government and central bank, and by sweeping reforms to boost competitiveness.

The central bank said Friday it would also persist with its "quantitative easing" purchases of about 80 trillion yen (about $660 billion) of government bonds a year.

The aim is to end a long spell of deflation, or falling prices, that is thought to be discouraging corporate investment. But while corporate profits have soared as massive stimulus weakened the Japanese currency, making earnings made abroad worth more when converted into yen, investment and wages have lagged.

Average incomes fell 2.9% from a year earlier in December. Even though unemployment was steady at 3.3% and the job market remained tight, companies wary over the economic outlook are opting not to raise pay.

Some economists contend that the Abenomics focus on inflation as a spur to growth is misplaced. Pushing the banks to lend will only work if companies borrow and invest.

"Corporate Japan has accumulated substantial cash on balance sheets, while the Japan labour market is getting tighter," Ajay Kapur of Merrill Lynch said in a recent report. "The key is to recirculate Japan's corporate cash to Japan's household-labour sector via wage increases. Otherwise, Abenomics is likely to fail in generating self-sustaining growth," he adds.

5. Fewer plan RRSP contributions

[January 28, 2016] The percentage of Canadians who plan on contributing to their RRSPs before the deadline at the end of next month is down slightly from last year, according to a poll issued by the Bank of Montreal.

However, the survey found that those who have already contributed and those who are still planning to add to their retirement savings are putting aside a little more than last year.

Of the Canadians surveyed, 61% of those not yet retired said they would be making a contribution to their RRSP, down from 64% a year ago.

But the average contribution for those who have already contributed was $3,984, up from $3,738 last year.

And among those planning to contribute, the average amount was $3,327, up from $2,892 a year ago.

The deadline to contribute to an RRSP for the 2015 tax year is Feb. 29.

The poll, conducted by Pollara for the Bank of Montreal, was based on an online sample of 2,177 adults between Dec. 30, 2015, and Jan. 4, 2016.

The polling industry's professional body, the Marketing Research and Intelligence Association, says online surveys cannot be assigned a margin of error because they do not randomly sample the population.

6. Overbuilding on the rise in real estate market

[January 28, 2016] Overbuilding is on the rise in the Calgary, Saskatoon, Regina and Ottawa real estate markets, according to the latest report from Canada Mortgage and Housing Corporation.

The housing agency says it uses two main factors to gauge overbuilding: the rental market vacancy rate and the inventory of completed, unsold units per 10,000 people.

"Overbuilding provides an indication of the possible excess supply that could exist in a market," Bob Dugan, CMHC's chief economist, said during a conference call Wednesday.

"In some cases, a correction in house prices may be required in order to ensure that excess supply is absorbed so that balance in the market can be restored."

Evidence of overbuilding increased from weak to moderate in Calgary and Ottawa during the past quarter, and from moderate to strong in Saskatoon and Regina.
CMHC says it is also keeping a close eye on Toronto, where it expects that signs of overbuilding could begin to emerge in the condo market.
Currently, overbuilding in Toronto is not yet above the problematic threshold, Dugan said.
"But we're watching it because we're conscious of the fact that the pipeline of units that are under construction is relatively high," he added.
"That's come down a little bit recently but it's still elevated by historical standards. So our concern is that as some of these units under construction get completed, they could push that inventory of completed, unsold (units) higher."
Overall, the Toronto real estate market shows strong overall evidence of risk due to the presence of two other factors: price acceleration and overvaluation.
Other markets with strong overall evidence of risk include Calgary, Saskatoon and Regina.
Meanwhile, Vancouver held steady as showing only weak evidence of risky conditions, with moderate levels of overvaluation detected.
That's despite a slew of headlines in recent months calling attention to soaring prices in the city that have pushed many potential buyers out of the market.
"When we're looking at the ability of people to get into home ownership, it's important to remember that Vancouver is a very broad market," said Carol Frketich, CMHC's B.C. regional economist.
The rapid price growth in the region is being driven primarily by the single detached home segment of the market, Frketich said, while noting that prices in the rest of the market — such as condos and townhouses — are much lower.
CMHC's house price analysis and assessment aims to identify potential risks in Canadian real estate by evaluating economic, financial and demographic factors in a total of 15 housing markets.
On a national level, CMHC says there is only weak evidence of problematic conditions in the real estate market.
The four factors to identify the level of risk in regional housing markets are: overheating of demand, accelerating price growth, overvaluation of prices and overbuilding.

7. Laid-off oil and gas workers leaving industry

[January 27, 2016] For 36 years, Sue Jones rode out the ups and downs of Alberta's oil patch. But after she was laid off last March, she knew her days in the oil and gas industry were over.

Jones, 56, worked in data management and document control before she was let go. She says, "I'm older. I've been laid off so many times in oil and gas."

In the past, great pay and plenty of jobs attracted thousands to the province, but as the decline in crude prices stretches on, some industry veterans are deciding they can no longer take the boom and bust rollercoaster.

Jones says this downturn is "the worst one" she's seen. And figures released Tuesday by Statistics Canada would appear to back her up; Alberta lost 19,600 jobs last year, which is the most since 1982.

After months of searching, Jones finally found a job last week working in the back office of a heat and power supply company in Calgary. She has taken a pay cut, but says she won't be going back to the oil patch.

Lynn Berry, a Calgary career counsellor who also runs a government-supported career boot camp, says more people need to take Jones' cue and start looking elsewhere.

She suggests people need to get out of the mind frame of needing to work in oil and gas as a way to make money. "The reality of today's economy, it might not happen. They need to figure out what they're going to do next."

Susan MacDonald, a registered psychologist and career counsellor, also says the downturn is a great opportunity for people to look for a career that better suits them. "When they get laid off they're seeing it as an opportunity to say, 'Maybe I should go and check things out'."

One of her clients (who is in her late 20s) left a career as an economist in the oil industry to go to nursing school, for example. And another in his late 30s left an information technology career in the industry to go to school to become a doctor.

But there's one problem: recruiters say many companies are hesitant to hire oil and gas workers because they're concerned they will jump back to the industry when it recovers.

That why Nathan Tomusange, who was laid off last year, went back to school to make it easier to switch industries. But still, after sending out dozens of resumes, he's only had one call back from a potential employer, and that company eventually chose someone with more relevant experience.

So he's started looking into getting a taxi license, and is continuing with more courses to figure out which industry will offer the most stability.

8. Business owners strongly oppose the ORPP

[January 26, 2016] Seven in 10 Ontario business owners say the Ontario Retirement Pension Plan (ORPP) would force them to freeze salaries, reports CFIB (Canadian Federation of Independent Business).

"Ontario's small business owners stand firmly against this job-killing pension tax, with 90% opposing the ORPP," says Plamen Petkov, Vice President of the Ontario branch of CFIB. "More than half reported they would have to eliminate positions to deal with the added costs. Yet, these consequences continue to fall on deaf ears. It appears the government doesn't really care about the economic damage being done."

Once fully implemented, the ORPP will require every Ontarian without a workplace pension plan to pay up to $1,643 in mandatory pension premiums every year. Employers will have to match the contribution amount for each of their employees.

CFIB estimates the ORPP will increase Ontario's unemployment rate by 0.5% by 2020, and reduce wages in the longer term. In addition, it will take 40 years for contributors to receive maximum benefits, so those hoping to collect the full ORPP pension will have to wait until 2057 at the earliest.

"With opposition to the ORPP growing, the province continues to push Ontarians to a place where they just don't want to go," adds Petkov. "Most alarming, the province has already set up plans to increase future rates, and appears to have shifted to make the ORPP its first choice, trumping even the CPP expansion discussions that are now taking place at the national level."

Petkov notes, "Today, the government acknowledged that retirees will not benefit whatsoever from the new plan, and the near retirees will also get next-to-nothing in enhanced retirement benefits. All future government communications on the ORPP need to do the responsible thing and make that clear so Ontarians understand the impact of the plan being put before them."

9. Canadians hoarding cash amid volatility

[January 26, 2016] Canadians are holding a record $75 billion in extra cash and continue to sock away money at a rate not seen in more than four years, finds a CIBC World Markets report.

This cash is extra money Canadians normally would invest in the markets, which could cost them billions in lost investment returns.

"We are currently witnessing the creation of personal cash buffers larger than at any other time on record," says Benjamin Tal, deputy chief economist at CIBC World Markets. "From a broader perspective, the Canadian economy is losing out because capital is not being allocated efficiently."

Since the 2008 crisis, excess cash reserves held by Canadians have risen notably. And at the current level of $75 billion, they represent almost 10% of the total value of overall personal liquid assets in Canada.

In the past year alone, cash positions are estimated to have risen more than 11% – the fastest pace since early 2012. An overly sour view of Canada from foreign investors, combined with recent volatility, has made for a tough investing environment, the report says.

“Consistent with past behaviour, Canadian investors have used current market volatility as an excuse to let cash pile up in their chequing and savings accounts,” says Tal.

The report finds all Canadians, young and old alike, are making cash a bigger part of their portfolios. But, strikingly, those under 35 – the farthest away from retirement — are holding twice as much cash as those over the age of 65; about 33% versus 15%.

“While holding cash can guard against short-term spikes in volatility, it’s certainly a long-term drag on portfolio returns,” says Tal.

While the October 1987 stock market correction lasted two months, investors added to their cash position for 18 months following the crash, during which time the stock market rallied more than 20%. Following the 2001 flight to safety, overall liquidity positions surged by more than 30%, but again, investors failed to adjust their cash levels when the market recovered, maintaining record high cash levels during the bull market that began in early 2003.

“While the rush to cash during periods of volatility is understandable, the problem is that Canadians maintained those elevated cash positions for far too long after markets rebounded,” says Tal.

Likewise, the current rush is building on cash holdings that spiked following the 2008 market crash.

“What’s more troubling than holding cash for long periods of time is that investors often move into it at precisely the wrong time,” says Tal. “The usual response is to take money off the table at the worst possible time.”

Over the past five years, the TSX Volatility Index has peaked over the 20 mark eight times. However, in the 90 days following the peaks, the S&P/TSX Composite Index returned an average of 9%.

“We know that from the data on personal deposits that Canadians respond to adverse shocks by moving into cash,” says Tal. “But, that rebalancing means that investors are buying high and selling low.”

10. Short bets against Canadian banks increasing

[January 25, 2016] The TSX rallied as of the end of last week, but bearishness is still in the cards for markets, says Prab Sagoo, associate director at Nasdaq Advisory Services, in his weekly market commentary.

In particular, energy and financial names are feeling the pressure of domestic economic weakness. The main highlights of Sagoo's commentary are:

- The TSX rallied in the latter half of last week, as investors were emboldened by Mario Draghi's dovish comments. However, markets are not entirely convinced by this rebound and many think that there may be further pain ahead.
- In particular, the headwinds against the Canadian economy have not abated, the most pressing issue at the moment being the low price of oil. The commodity dove into the high $20 range at one point and excess is supply still an issue. As such, any notable upward movements in price may be limited.
- Further, bearishness in Canada still remains. During the height of the troubles in mid-January short bets against the iShares S&P/TSX 60 Index ETF jumped higher, closing in on the highs last seen in August 2015 (when we last had a sharp sell-off related to Chinese economic fears). Recently, short bets against TSX constituents rose by 10% on average. Canadian banks, in particular, have been seeing ever increasing amounts of short bets placed against them, with early January marking a continuation of this trend.
- Still, the Bank of Canada decided not to cut a third time, in a closely watched decision, leading the Canadian dollar to strengthen against the U.S. dollar. Poloz very interestingly made a direct mention about the benefits of a potential fiscal stimulus package, effectively asking the Trudeau government to do their part and fulfil on their campaign pledge.
- As such, energy and financial names are likely to continue to feel some of the pressure. However, due to the sharp equity pull back coupled with the very weak Canadian dollar, the strongest within these beaten up sectors may attract international capital flows into them. A weak Canadian dollar would increase the cheapness of these stocks for international investors due to favourable exchange rates.

Have a nice and fruitful week!