Weekly Updates Issue # 560

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1. Weekly Markets Changes

[April 15, 2016]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
13,637.20 +240.5 +1.79%	2,080.73 +33.13 +1.62%	17,897.46 +320.5 +1.82%	4,938.22 +87.53 +1.80	$0.7797 +0.95¢ +1.23%	$1,235.80 -4.30 -0.35%	$40.40 +0.74 +1.87%

2. Home sales hit record high in March: CREA

[April 15, 2016] The number of homes trading hands in March rose by 1.5%– a new month-over-month record. Though sales edged lower in Greater Vancouver (0.3%) and the Greater Toronto Area (1.8%), both remain near record highs reached the month before.

"Greater Vancouver and the GTA are heading into the spring home buying season with soaring demand and a shortage of listings," says CREA president Cliff Iverson. "Meanwhile, other major urban markets in Canada are well balanced or are amply supplied."

Gregory Klump, CREA's chief economist, adds, "Sales below a half-a-million dollars, which were not subject to recently tightened mortgage regulations, are being increasingly restrained in [some] markets by a short supply of listings. If current sales and listings trends persist, price gains may pick up further this spring."

The number of newly listed homes fell 1.4% in March 2016 compared to February. The national decline was led by the GTA and Hamilton-Burlington, Ont.

With sales up on the month and new listings down, the national sales-to-new listings ratio rose to 61.7% in March 2016, the ratio's tightest reading since October 2009. A sales-to-new listings ratio between 40 and 60% is generally

consistent with balanced housing market conditions, with readings below and above this range indicating buyers' and sellers' markets respectively.
Two-storey single family home prices posted the biggest year-over-year gain (10.8%), followed by townhouse/row units (8.6%), one-storey single family homes (8.1%), and apartment units (7.3%).
The actual (not seasonally adjusted) national average price for homes sold in March 2016 was $508,567, up 15.7% on a year-over-year basis.

Regional price breakdowns

Year-over-year increases

- Greater Vancouver (23.2%)
- Fraser Valley, B.C. (22.1%)
- GTA (11.6%)
- Victoria, B.C. (10.8%)
- Vancouver Island (7.1%)
- Regina (0.5%)
- Ottawa (1.2%)
- Greater Montreal (1.5%)

Year-over-year decrease

- Calgary (3.7%)

3. Has China's slowdown bottomed out?

[April 15, 2016] China's economic growth slowed in the first quarter to 6.7%, largely in line with expectations, but its slowest pace since the global financial crisis. That compares to 6.8% in the previous quarter.
However, carefully targeted stimulus helped to prevent it from slowing even further, analysts said, raising hopes that growth may be stabilizing.
A prolonged slowdown took annual growth last year to 6.9%, the weakest annual expansion in a quarter century. The communist leadership is seeking to steer the economy toward greater reliance on services and private consumption, and away from a growth model based on export manufacturing and investment.
Officials are cautious. "The economy is at a critical stage of climbing uphill and getting over the structural adjustment's hurdles and the pain of the adjustment process persists," said National Bureau of Statistics spokesman Shen Laiyun at a press conference. "In the meantime the real economy is still in relative difficulty. Therefore, the downward pressure on the economy cannot be ignored."
Still, the latest numbers matched most economists' expectations and suggest the economy is on track to meet the official full-year growth target of 6.5% to

7%. Growth was the most subdued since a 6.2% pace seen in the first quarter of 2009, during the global financial crisis.
Fixed asset investment expanded 10.7% in the January-March period while industrial output grew 5.8% and retail sales increased 10.3%, according to data released by the National Bureau of Statistics. On a monthly basis, these categories improved in March from the previous two months, indicating that momentum is building. Inflation came in at 2.1%.
"The recent data has been too strong to pin on seasonal factors alone and leave us hopeful that growth has now bottomed out for the time being," says Julian Evans-Pritchard of Capital Economics in Singapore in a report.
Resorting to their usual policy tools, Chinese officials have cut interest rates repeatedly and lavished money on public works construction to counter the unexpectedly sharp downturn over the past two years.
"Data from the investment-industry nexus show that the tried-and-tested stimulus measures of recent months have stirred up the physical part of the economy, especially towards the end of [the first quarter], while consumption remained relatively robust," says Louis Kuijs of Oxford Economics.
While such measures slow progress toward the goal of cutting reliance on investment, they reduce the risk of politically dangerous increases in job losses.
Last month, Chinese Premier Li Keqiang outlined market-opening reforms, seeking to reassure investors that Beijing can keep growth on track after a tumultuous year of stock selloffs and gyrations in the value of the yuan.
Li also outlined plans to shrink bloated steel and coal industries, part of a sweeping effort to reduce capacity, cut the government's role in business and improve efficiency. About 1.8 million workers will lose their jobs at unprofitable government-owned companies, but leaders say they will be retrained for new work.
China's exports grew for the first time since last summer in March, in annual terms, while private and official surveys of factory purchasing managers showed activity rebounded strongly. Auto sales jumped by 10%.
And, while China's economy has slowed from the breakneck, double-digit boom of the previous decade, it remains a key driver of the world economy and the envy of advanced nations grappling with stagnation.
And, earlier this week, even though the International Monetary Fund trimmed its outlook for global growth—lowering it to 3.2% from the 3.4% forecast in January—it cited China as one of the few global bright spots. This is due to China's resilient consumer spending and thriving service industries.

4. Toronto condo rents soar

[April 14, 2016] A new report says the cost of renting a condo in Toronto climbed almost 7% in the first quarter of this year.

Real estate consulting firm Urbanation says average condo rents in Toronto rose to $2.53 per square foot, or $1,891 a month, in the three months ended March 31.

That's up by 6.8% from a year ago.

Urbanation's senior vice-president, Shaun Hildebrand, attributes the increase partially to the fact that many would-be buyers are getting priced out of the home ownership market, pushing demand for rental units higher.

Hildebrand says strong economic fundamentals such as employment and population growth also contributed to higher rents.

Meanwhile, the number of applications to build rental-only buildings jumped by 40% in the first three months of the year.

"Even with record numbers of condos coming up for rent by investors, conditions have tightened, supporting increased rental development," Hildebrand said in a statement.

5. Consumer spending up in Q1

[April 14, 2016] Consumer spending in Canada grew by 6.24% in the first quarter of 2016 on a year-over-year basis, according to a report by Moneris Solutions Corporation.

Following a flat period in 2014, Moneris has recorded six consecutive quarters of positive spending increases. All four quarters of 2015 saw growth of between 5% and 7%. Moneris' findings this quarter are consistent with positive economic indicators released by Statistics Canada showing GDP growth in January along with an uptick in retail sales and employment increases in March.

Consumer spending rose by 5.89% in January, 9.03% in February and 4.42% in March, compared to the first three months of 2015. All provinces posted year-over-year increases during the quarter, with the exception of Alberta. Nova Scotia posted the largest increase (11.65%) followed by New Brunswick (10.40%).

The oil-producing provinces posted growth below the national average; spending in Alberta declined by 2.99% and Saskatchewan saw an increase of 1.08%.

Credit card spending increased by 8.36% over the first quarter of 2015, holding a 64.66% share of purchases made. Debit sales rose by 2.57%, representing a 35.34% share of total card spending.

6. $6 trillion in bonds trading in negative yield

[April 14, 2016] Currently, there are negative bond yields in many parts of the world.

"In fact, about one third of European government bond yields are trading with a negative yield and, globally, about a quarter of government bond yields have a negative yield," says Patrick O'Toole, vice-president of global fixed income at CIBC Asset Management. He co-manages the Renaissance Canadian Bond Fund, an underlying fund in the Renaissance Optimal Income Portfolios.

Overall, he adds, "That means more than $6 trillion worth of bonds are trading in negative yield."

Some governments are keeping yields low to get banks to lend to consumers, says O'Toole. "By charging banks to hold government bonds, they're hoping banks will sell those bonds and take the money, and lend that money out into the economy." The theory is this should stimulate growth at a quicker pace.

However, the result has been that government yields are dropping, which is widening the spread between corporate and government bonds, he adds.

This has also occurred in Canada, even though we have low but not negative yields, O'Toole explains. "If you look in the Canadian market, one of the safest bonds you can buy, other than a government of Canada or provincial bond, is a deposit note from Canada's big banks. Whereas a five-year Government of Canada bond offers a yield of about 0.75%, a Canadian bank offers about 2% yield—that's almost triple the yield."

Further, the domestic investment-grade corporate bond market is offering a credit spread of 1.7%. O'Toole notes, "Outside the credit crisis of 2008 and 2009, today's spreads are [historically] high, meaning corporate bonds look cheap. They've only been this cheap about 5% of the time over the past 35 years."

In this type of environment, O'Toole suggests investors analyze companies to ensure they're able to "earn enough money to pay investors their coupons as well as pay bonds back at maturity." Currently, he finds, "Corporate balance sheets have fairly low leverage, particularly in Canada and the U.S. And, for bond investors, the lower the better."

He adds that companies' earnings are currently able to cover interest payments. So, since balance sheets are strong and corporate spreads are cheap, O'Toole finds it's time to increase allocation to corporate bonds and reduce exposure to government bonds.

When it comes to individual sectors, he says energy and materials bonds are attractive but still risky. "Given what we've seen with oil and commodity prices over the last almost two years, those two sectors just got pummeled, particularly last year. There are some cheap bonds at companies that were penalized along with some of their weaker counterparts, but we're not looking to overweight those sectors yet."

Instead, O'Toole favours bonds tied to telecom, transportation and infrastructure companies. "We're looking at the telecoms—specifically, we like BCE. The REITs we like are Choice Properties, which are assets that are related to the Loblaw properties. And, in infrastructure, we like public private partnerships that have over been issued the past few years."

O'Toole is also looking at the high-yield bond market because spreads there have hit their highest level in four years. "There, too, we like the telecom sector. T-Mobile [bonds] are yielding about 5.5%, while Sprint is yielding over 10%." Both bonds are denominated in U.S. dollars.

Overall, he concludes, "We expect investment-grade and high-yield bonds to outperform government bonds going forward."

7. Organized crime prosecutors raid Panama Papers firm

[April 13, 2016] Organized crime prosecutors raided the offices of the Mossack Fonseca law firm Tuesday looking for evidence of money laundering and financing terrorism following a leak of documents about tax havens it set up for wealthy international clients.

Soon after news reports based on a trove of documents from the firm began emerging more than a week ago, Panama's government had said it would investigate. A half dozen police officers set up a perimeter around the offices while prosecutors searched inside for documents.

The attorney general's office said in a statement that the objective of the raid was "to obtain documentation linked to the information published in news articles that establish the use of the firm in illicit activities." It said searches also were made at other subsidiaries of the firm in Panama and at the telephone company's computer support centre.

Mossack Fonseca has denied any wrongdoing, saying it only set up offshore financial accounts and anonymous shell companies for clients and was not involved in how those accounts were used.

The law firm said on its Twitter account Tuesday night that it "continues to co-operate with authorities in investigations begin made at our headquarters."

The search came a day after intellectual property prosecutors visited Mossack Fonseca to follow up on the firm's allegations that a computer hack led to the leak of millions of documents about tax havens.

The firm filed a complaint charging the security breach shortly before the first media reports working with the documents offered details on how politicians, celebrities and companies around the globe were hiding assets in offshore accounts and shell companies.

“Finally the real criminals are being investigated,” co-founder Roman Fonseca said in a message to The Associated Press on Monday.

Fonseca has maintained that the only crime which can be taken from the leak was the computer hack itself. He has said he suspects the hack originated outside Panama, possibly in Europe, but has not given any details.

The law firm is one of the most important in the world for creating overseas front companies.

Panamanian President Juan Carlos Varela has defended the country’s financial sector, which is considered of strategic importance for the economy. But Varela has also promised the international community that he is willing to make reforms to make the sector more transparent.

On Tuesday, Varela met with legal, banking and business professional associations. Afterward, he asked France to reconsider its decision to place Panama on a list of unco-operative countries in financial information.

The government announced that Joseph Stiglitz, who won the Nobel Prize in economics in 2001, would be one member of an international panel formed to review Panama’s legal and financial practices and recommend improvements.

8. Five big banks get failing grades for crisis plans

[April 13, 2016] U.S. federal regulators say that five of the biggest banks in the country have inadequate plans for unwinding operations in case of failure, potentially leaving them unable to cope with financial distress without another taxpayer bailout.

JPMorgan Chase, Bank of America, Wells Fargo, Bank of New York Mellon and State Street were cited Wednesday by the Federal Reserve and the Federal Deposit Insurance Corp. for gaps in their bankruptcy plans known as “living wills” that they were required to submit. The five banks were among eight Wall Street behemoths whose plans were evaluated.

The two agencies found the five banks’ plans are “not credible” or insufficient for an orderly restructuring in bankruptcy. The regulators gave the banks an Oct. 1 deadline to fix the problems or face possible “more stringent” requirements. That could include ordering the banks to beef up their capital cushions against unforeseen losses. If the regulators still weren’t satisfied, banks eventually could be forced to sell off assets.

The news comes in a week when several major banks are expected to report disappointing earnings for the fourth quarter.

“We are going to do everything we can to fix this issue,” JPMorgan CEO Jamie Dimon said in a conference call with reporters.

In their 18-month review, the Fed and the FDIC also found weaknesses that must be addressed in the plans of Goldman Sachs and Morgan Stanley. The agencies’ assessments differed. Only the FDIC deemed Goldman’s plan “not credible,” the more serious label, while only the Fed accorded the “not credible” finding to Morgan Stanley.

The agencies also found shortcomings to be fixed in Citigroup’s plan, but they didn’t rise to the “not credible” level.

All eight banks must file the next round of plans by July 1 of next year.

The exercise was mandated under the financial overhaul law enacted in the wake of the crisis that struck in 2008 and set off the Great Recession. It is designed to check that big banks — which received hundreds of billions in bailouts — are prepared in case of financial disaster and aren’t “too big to fail.”

The big banks are in strong financial shape and are facing no threat of collapse. They sit on sturdy bases of capital that the regulators ordered them to shore up in recent years. The banking industry as a whole has recovered steadily since the financial crisis, marking climbing quarterly profits.

Rather, the “living will” assessments are part of the regulators’ effort to avoid another taxpayer bailout of Wall Street banks in a crisis and to end the marketplace perception that the government would step in and rescue them.

Under the 2010 overhaul law, the FDIC has the authority to seize and dismantle big financial firms that could collapse and threaten the broader system. The banks’ “living wills” could serve as guidelines for possible breakups by the government.

The two agencies already had put the big banks on notice in mid-2014 that they had to correct serious deficiencies in their “living wills” — such as a lack of details and relying on unrealistic assumptions. The banks were told to go back to the drawing board. Only the FDIC, not the Fed, used the “not credible” wording at that time.

9. IMF cuts Canada’s growth estimate to 1.5% this year

[April 12, 2016] The IMF is lowering its economic growth projections for Canada and the world. Slowing growth in global oil exports, low crude prices and weak demand for non-oil commodities were identified as factors.

The IMF is now projecting Canada's economy to grow by 1.5% this year, and by 1.9% next year.
That would be an improvement on last year's growth of 1.2% but less than the IMF's January estimate, which projected Canada's economy would grow 1.7% in 2016 and 2.1% in 2017.
The IMF is also lowering its estimates for the U.S. and the global economy overall, with China being an exception.
It's now estimating China's economy will grow 6.5% this year and 6.2% in 2017, up 0.2 percentage points in each year from previous IMF forecasts.
The international body repeated a recent warning that the world's economic growth remains too slow and too fragile, increasing the risk of social and political stress in many countries.
In addition, the Bank of Canada will provide an update Wednesday on its key interest rate, currently at 0.5%, and an assessment of the Canadian economy.
In January, the central bank estimated Canada's economy would grow by 1.4% in 2016 — down from its fall forecast of 2.0% — and projected 2017 growth would be 2.4%.
Finance Minister Bill Morneau's first federal budget, released on March 22, uses a private-sector estimate of 1.4% GDP growth in 2016 and 2.2% in 2017.

10. Here's how CRA will crack down on tax evasion

[April 11, 2016] The Government of Canada is taking steps to halt tax evasion and tax avoidance. Most middle-class Canadians pay their fair share of taxes, says CRA, but some wealthy individuals avoid them by unfairly hiding their money in offshore tax havens.
That's why the government is investing more than $444 million to enhance the CRA's ability to detect, audit, and prosecute tax evasion, both at home and abroad, says Minister of National Revenue Diane Lebouthillier.

Detection

Since January 2015, the CRA has collected information on all international funds transfers of more than $10,000. Building on this new capability, Budget 2016 provides the agency with the ability to more fully examine potential tax evasion across an entire jurisdiction. The first to be investigated will be the Isle of Man, with additional jurisdictions following.

Audits and Investigations

To combat tax evasion, the CRA will create a special program to stop organizations that create tax schemes for the wealthy. This will result in a twelve-fold increase in the number of tax schemes examined, says CRA. Its team will apply penalties and refer cases for criminal investigation, where appropriate.

The budget's federal investment will give the CRA the ability to hire more auditors and specialists. This will increase the number of examinations focused on high-risk taxpayers – from 600 per year to 3,000 per year – and will bring in $432 million in new tax revenue.

In addition, new government funding will help the CRA bring in 100 additional auditors to investigate high-risk multinational corporations and collect an additional $500 million in revenue over five years.

Penalties and Prosecution

The CRA will embed legal counsel within investigation teams, so that cases can be quickly brought to court. The agency will use the latest investigative tools, paired with larger investigative teams, to detect more cases of tax evasion that result in the appropriate charges, fines, and penalties.

Minister Lebouthillier also announced the CRA will:

- bolster international collaboration to fight tax evasion,
- create an independent advisory committee on offshore tax evasion and aggressive tax planning; and
- begin work to estimate the tax gap, so that Canadians and Parliamentarians have confidence in the fairness of the tax system.

Quick facts

- New funding to crack down on tax evasion and fight tax avoidance is expected to return $2.6 billion in revenue to the Crown over five years.
- Electronic funds transfers to the Isle of Man totaled $860M in a 12-month period, and the CRA has assessed the risk of all 3,000 funds transfers involving approximately 800 taxpayers. The CRA will expand its analysis to other jurisdictions as well as financial institutions of concern this year, with a second project set to begin in May 2016.
- This year, through the voluntary disclosures program, the CRA is on track to identify $1 billion in income that would otherwise have been hidden. That is an increase of almost 400% over the last six years.

Have a nice and fruitful week!