Weekly Updates Issue # 563

1. Weekly Markets Changes

[May 6, 2016]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
13,701.47 -250.0 -1.79%	2,057.14 -8.16 -0.40%	17,740.63 -33.01 -0.19%	4,736.16 -39.20 -0.82	$0.7745 -1.48¢ -1.88%	$1,289.70 -5.20 -0.40%	$44.56 -1.43 -3.11%

2. What's the impact of the Alberta wildfire on economy?

[May 6, 2016] The oil-production shutdowns caused by the huge Alberta wildfire pack plenty of potential for broader consequences across the entire Canadian economy, experts say.

The growing emergency near Fort McMurray has forced several oil companies in the area to shutter operations that, combined, produce hundreds of thousands of barrels of crude each day. Observers will be watching a key factor that will determine the magnitude of any fallout: the duration of the closures.

Experts say it's too early to know exactly what lies ahead, but past events offer some clues.

BMO senior economist Robert Kavcic notes how real gross domestic product in Canada's energy sector fell 4.2% in May 2011, after an Alberta wildfire roared through the community of Slave Lake. "That was big enough to pull Canadian growth down into negative territory temporarily, at least, for one month."

At the time, Statistics Canada highlighted the mining, oil and gas sector as the "main source" behind the overall real GDP decline in May 2011.

For the second quarter of 2011, Statistics Canada once again pointed to the wildfires, along with maintenance shutdowns, as a contributing factor to the headline real GDP figure for Canada, which contracted by 0.1%. A decrease of 3.6% in real GDP that quarter in oil and gas extraction contributed to the reversal, Statistics Canada said at the time.

At the moment, experts are still trying to get a handle on the spreading wildfire near Fort McMurray. The nearby oilsands represent the world's third-largest reserve after Venezuela and Saudi Arabia.

"Analysts frankly don't know the magnitude of potential production cuts or the duration," says a research note sent to clients Thursday by Scotiabank economists Derek Holt and Dov Zigler. "That this adds a heavy headwind to the economy in Q2 (the second quarter) is increasingly clear."

The note also referred to the dismal March trade data released earlier this week. Those trade numbers suggest Canada's second-quarter economic growth could be disappointing thanks to what's shaping up to be a weak handoff from the tail end of the first quarter.

"The shock that is hitting the heart of Canada's energy sector only adds to risk of very little growth in Q2 and risk of contraction," the note says.

While the oilsands facilities themselves have so far been spared by the flames, the operations are suddenly facing a massive labour shortage because Fort McMurray was evacuated.

"It's a question of, 'When will companies be able to get workers back?' " Todd Hirsch, chief economist at ATB Financial, says in an interview Thursday. "It's really anyone's guess at this point."

Hirsch adds if operations remain down for more than a couple of weeks, the economic damage will mount because the oilsands represent more than half of the province's crude production. Even though oil prices are low, it remains a key commodity.

And the fact all business operations came to halt in a Fort McMurray, a city of 90,000 people, could also affect Canada's GDP reading for May.

"I think (the Fort McMurray fire) will be enough to move the needle into negative territory," he says, noting that temporary business closures due to the 2013 floods in Calgary and Southern Alberta also pushed down the country's GDP.

But even if the economy dips, Hirsch and Kavcic both say GDP could bounce back quickly from the destruction once the rebuilding process begins as it did following the Slave Lake fire and Alberta floods.

However, they also caution that GDP is not a good indicator under these circumstances.

Although reconstruction of a building adds to the GDP, they noted that replacing an old structure doesn't represent new growth.

3. Services in Greece grind to halt due to labour strike

[May 6, 2016] Services have ground to a halt in Greece because workers have walked off the job at the start of a three-day general strike, which is protesting new bailout austerity measures that could further reduce incomes.

Several thousand demonstrators gathered in central Athens for planned rallies as part of the protests. These indicate growing discontent with the left-led coalition government.

Unions on Thursday called the 48-hour strike, which will add to a previously declared strike on Sunday. State-run and many private services, including garbage collection, public transport, municipal offices and news broadcasts were suspended.

Ferries to and from the Greek islands would not operate until Tuesday morning. Doctors, dentists and journalists joined the strike, leaving state-run hospitals functioning with emergency staff and all news broadcasts off the air, while lawyers have abstained from court appearances for months.

The strike was timed to coincide with the parliamentary vote Sunday night of a bill overhauling the pension system, a reform proposed by the government under requirements for Greece's third international bailout.

The vote will test Prime Minister Alexis Tsipras, who initially came to power in January 2015 on promises to repeal austerity measures previous governments had imposed as part of requirements to overhaul the economy and qualify for international rescue loans.

Tsipras' government has a majority of just three seats in the 300-member parliament, and has lost its lead to opposition conservatives in opinion polls amid mounting voter disillusionment.

"Everything the unions are doing now is to justify their existence; absolutely nothing will change," says Athens resident pensioner Constantine Andreopoulos. "And those who came to power after 50 years will not risk their seats."

After months of tumultuous negotiations with Greece's international lenders (including other European countries that use the euro currency, and the International Monetary Fund), Tsipras called a referendum and new elections last summer, dropping his anti-bailout stance and signing up instead to a third program of rescue loans.

The planned pension reforms, under which workers will pay higher contributions, have triggered months of protests, including highway blockades by farmers.

The government insists the reforms will create a fairer system and end years of political pandering to powerful labour groups.

Greece has been hammered by six years of austerity measures after its collapsing finances locked the country out of international borrowing markets in 2010. About a quarter of the workforce is unemployed.
Talks on further reforms as part of the country's third bailout have been dragging for six months, delaying the payout of vital bailout loans. Eurozone finance ministers are to hold a special meeting on the Greek program in Brussels on Monday.

4. Canadian labour market stuck in neutral

[May 6, 2016] The overall Canadian labour market was stuck in neutral last month because a solid employment gain in the services sector was wiped out by job losses in the goods-producing industry, especially manufacturing.
Statistics Canada says the national unemployment rate for April remained unchanged at 7.1%. And, overall, the country lost 2,100 jobs nationally, a number that Statistics Canada considers to be close to zero.
In particular, Alberta's woes persisted as it lost 20,800 positions in April. The province has been hit hard by low oil prices and is now contending with a monstrous wildfire that has forced the shutdown of economically critical oilsands facilities and the evacuation of Fort McMurray.
Economists have been looking to Canada's manufacturing industry to pick up the slack from Canada's hobbled resources sector, which has struggled amid low commodity prices.
But in April, goods-producing work across Canada fell by 37,100 positions. This dip was led by a drop of 16,500 manufacturing jobs.
Between December and April, the country lost 51,700 manufacturing jobs, with 23,200 of them in Alberta, including 3,000 last month. Manufacturing work in the Prairie province was down 17.7% compared to the year before.
Also, with the wildfire continuing to rage in Alberta, it's unclear how significant the economic fallout will be in the province.
Last month, the Canadian economy added 35,000 services jobs, which was largely due to surges of 26,800 positions in wholesale and retail trade and 21,900 in accommodation and food services.
Services also saw losses of 16,000 positions in the category of business, building and other support services and a drop of 11,900 jobs in other services.
The number of employee positions in Canada increased in April by 22,800, while self-employed jobs fell by 24,900.
Overall Canadian employment last month was up 0.8% compared to 12 months earlier, the report said.

That flat national job number matched the projection of a consensus of economists, who had also predicted the jobless rate to creep up to 7.2%, according to Thomson Reuters.

5. Will insurance cover the damage in Fort McMurray?

[May 5, 2016] With Alberta officials reporting more than 1,600 properties destroyed in Fort McMurray, homeowners who discover their house—indeed their entire neighbourhood—has been burnt down will soon find themselves dealing with their insurance company. What level of coverage can they expect and what happens if they decide to move and rebuild elsewhere?

Those who suffer damage caused by fire can generally expect a payout from their insurer, according to the Insurance Bureau of Canada. If they're unable to return home because of insurable damage may also be entitled to additional living expenses in the interim.

That's in stark contrast to the experience of many Alberta homeowners who tried to make claims following the 2013 floods only to discover their policies didn't include "overland" flooding. Why? The industry says it distributes the cost of paying claims across of thousands of policy-holders, but since most don't live in flood-prone areas they are unwilling to pay higher premiums. Fire, on the other hand, is a much more common threat.

6. Building permits data weakens: StatsCan

[May 5, 2016] Statistics Canada says the value of building permits issued by municipalities in March fell 7% to $6.9 billion due to a drop in the non-residential sector.

The decline followed a 15.3% gain in February.

The value of building permits issued in the non-residential sector fell 22.8% to $2.4 billion in March, following a 32.6% increase the previous month.

Statistics Canada says all three components of the non-residential sector fell, led by commercial buildings.

The value of permits for commercial buildings dropped 27.7% to $1.5 billion, while permits for institutional buildings slid 12.2% to $591 million.

The value of industrial building permits fell 17.1%% to $395 million.

Meanwhile, the value of residential permits rose 4.8% to $4.4 billion in March, with gains in seven provinces, led by Ontario, British Columbia and Nova Scotia.

7. Vancouver home sales, prices soar

[May 3, 2016] The Real Estate Board of Greater Vancouver says home sales in the region hit a record level for April, with prices sharply higher compared to a year ago.

The board says sales totalled 4,781 for April, up 14.4% from 4,179 in the same month last year.

The increase came as the MLS composite benchmark price for all homes in Metro Vancouver climbed 25.3% from a year ago to $844,800.

The benchmark price for detached homes for the month was $1.4 million, up 30.1% compared with a year ago.

The board says home buyer competition remains intense across the region with April sales 41.7% above the 10-year average for the month.

It notes that new home listings totalled 6,127 in April compared with 5,897 in April 2015.

There were 7,550 properties listed for sale on the MLS system in Metro Vancouver, down 39.3% from a year ago.

8. Gold: the ultimate safe haven, or just a shiny metal?

[May 3, 2016] No investment topic gets people arguing quite like gold.

It's been much in the news of late, as governments and central banks use their wallets to express their views on the shiny yellow metal. Canada's federal government is now a hair's width from purging its reserves. Meanwhile, China, India and Russia, among others, are adding to their respective stashes.

Gold's recent performance has also rekindled investor interest. "Gold for immediate delivery jumped 16% in the first three months of the year, the biggest quarterly surge since 1986," Bloomberg reported at quarter-end. Investors have also been flocking to gold ETFs, with inflows up a robust 21%.

People invest in gold for all kinds of reasons and in different ways. Unless you're in the speculation game, potential gold investors need to know: is it the ultimate safe haven in the event of economic calamity?

Not so precious

Potentially not—and that's why some see the Canadian government's move as wise. "There is nothing to support the thought that gold will have any value in a major capitalist catastrophe," says Jay Nash, a portfolio manager at Roberts Nash Advisory Group, National Bank Financial in London, Ont.

"In traditional asset allocation, people believed you needed an allocation to gold. The thesis was that it's a material good, and in the event of catastrophe it could be traded and would retain its value. In the modern world, that doesn't seem to be the case anymore. The last few market corrections have shown that people don't flock to gold the way they once did."

This doesn't mean Nash won't touch it. He was long gold in 2011, but he generally avoids holding it in client portfolios. "My core issue is you aren't paid to hold gold—there's no dividend."

And Nash isn't persuaded by the argument that gold would be king if currencies became worthless. "I think it's wise to protect yourself in the case of a global calamity. But go out and learn a [survival] skill—that should be worth more to you in Armageddon than any precious metal."

Nothing better

Others say gold's sheen is legitimate. "I consider gold safer than any other form of money," says William Burt, a self-professed gold bug. "Gold is a safer investment than the debt of most governments."

Burt knows his way around the markets. "I was working at Friedberg Mercantile Group on Black Monday in 1987; I felt very bearish about stocks then. I was short stock market futures, which [at the time] were quite new, and about 70% of my stock portfolio was on the short side. The day was such a windfall for me that I retired not long after, age 42, after nine years working at Friedberg."

Burt's remained an active investor in a private capacity. He likes gold both as a speculative tool and as a safe haven. "How much gold you should have in physical form, if any, is arguable," says Burt. "I think gold ETFs are a much more practical way to have serious investable money in gold."

The question is whether gold ETFs are fully backed by physical gold. Fact is, not all gold ETFs are created equal, so you need to ask every ETF provider you consider.

George Milling-Stanley, head of Gold Strategy at State Street Global Advisors and a key architect of SPDR Gold Shares (GLD), answers this question for the world's largest gold ETF. "Every share is backed by physical gold in the form of 400-ounce bars stored in the vault of HSBC in London. If you value the shares it's approximately $32 billion, and there is, not coincidentally, $32 billion worth of gold sitting in the vault in the name of the trust. It's very simple and transparent."

Burt's fondness for gold is based in part on his not-so-favourable view of the behaviour of central banks, in particular their interest rate and money printing policies. "I think the central banks, like generals, are trying to fight a war with what worked in the previous war. What's different [now] is demographics and the amount of debt that's already there. The central banks must know that what they're doing isn't working, [but] they can't admit that."

Central banks think that by printing money they're spurring inflation. "Actually, they're causing deflation because they're causing oversupply," says Burt. Additional deflationary pressure comes from the challenging investment environment that's squeezing boomers. "If we can only make 2% to 3% on our average dividend stock—it used to be 5% to 6%—we have to cut down on consumption."

Burt sees a perfect storm: Already high government debt will be pushed higher by boomers living longer and needing more health care; the working-age population will shrink, meaning a smaller tax base. "The debt is getting worse all the time. [With] some European countries you have to pay the government to buy its debt. That's a very important bullish argument for gold."

He notes debt problems are not limited to governments. "There's an awful lot of private sector debt that's only limping along. As time goes on, what will happen is that more and more lower-rated debt gets taken behind the shed and shot like the oil debt was. Maybe that moves over to Europe where the PIGS [Portugal, Italy, Greece and Spain] get back in the news and their debt starts to rise relative to Germany's and people's faith in governments and government debt comes unstuck."

Burt says that while the price of gold fluctuates, you won't lose all your money investing in gold, as you would when a bad borrower goes bust. "And that's why gold is the safest form of money. Anything else you do with your money that's supposedly safe is still a loan."

A safe haven, but not for long?

Gold has intrinsic value "because it's an asset that isn't someone else's liability," says Christopher Foster, CEO and portfolio manager at Blackheath Fund Management in Toronto.

But Foster's no gold bug. He suggests "it's fine as a diversifier," but overall he's skeptical and bearish.

He says if you "add up the sins of central bankers over the last five or 10 years, you could become convinced that we are ultimately going to have a day of reckoning. [But] in my view, central bankers have been […] doing things they shouldn't have done since the dawn of central banking, and yet we're still muddling along."

And you may be betting on the wrong horse if you think gold will be a store of value, Foster argues. "It could be silver, as it was in the past. Maybe it's going to be bitcoin, or a successor e-currency."

But Foster appreciates the prudence underlying the gold-bug perspective. He likens it to his own worries about power failures and the elaborate precautions he's taken. He owns a massive, costly gas-powered generator. His neighbours used to poke fun at him for it, but during the ice storm that hit Toronto a couple of winters ago, he was the one laughing as they checked into hotels.

"I had properly prepared for that unthinkable future where there was no electricity for a meaningful amount of time. And it actually happened. I was

walking around with a puffy chest for weeks after that. That's the kind of feeling gold bugs want. They want to show that they were more forward thinking, more cautious, more prudent than all of us."
A key reason Foster's cool on gold is he's concerned it'll be the target of a government crackdown at some point. "Gold is one of the last ways to launder money," he notes, adding governments may put it under the same microscope as the 500 euro note, which is nicknamed the Bin Laden "because you know it's out there, you know what it looks like, it moves around a lot but no one ever sees it," as a Daily Mail article puts it.
These notes have come under fire in the U.K. because it was discovered 90% were used to facilitate illegal activities, says the same Daily Mail article. Now, the European Central Bank is floating the idea of getting rid of Bin Ladens altogether. [Editor's note: the ECB announced on May 4, 2016 it is discontinuing the 500 euro note.]
Foster notes gold has a long history of facilitating illegal transactions. "It was used to avoid the sanctions on Iran. Turkish companies were buying crude oil from Iran with gold. They couldn't actually pay for it with a wire transfer because Iran was frozen out of the international settlement system, so they were using gold to buy black market crude oil from the Iranians."
Bottom line: "Gold may become a lot less desirable if governments start doing something about [it] being used for terrorist financing and money laundering."
Burt agrees. "There's a risk that they would say anyone who owns physical gold is trying to hide something. They can make holding gold bars illegal (for individuals) — they did it in the United States in the 1930s. That's not a prediction, but it's not an impossibility."

9. Two major energy companies abandon $34-billion merger

[May 2, 2016] Two companies crucial to the business of U.S. energy exploration have abandoned a planned $34-billion merger, the Justice Department said Sunday.
The department filed a suit on April 6, 2016 to block the merger of Halliburton and Baker Hughes. It claims the transaction would have unlawfully eliminated significant competition in almost two dozen markets crucial to the exploration and production of oil and natural gas in the United States.
"The companies' decision to abandon this transaction, which would have left many oilfield service markets in the hands of a duopoly, is a victory for the U.S. economy and for all Americans," Attorney General Loretta E. Lynch said in a statement on Sunday.

Justice officials said the merger of Halliburton and Baker Hughes would have raised prices, decreased output and lessened innovation in at least 23 oilfield products and services critical to the nation's energy supply.

As part of the agreement, Halliburton will pay Baker Hughes the termination fee of $3.5 billion by Wednesday, according to a joint release from the companies.

"While both companies expected the proposed merger to result in compelling benefits to shareholders, customers and other stakeholders, challenges in obtaining remaining regulatory approvals and general industry conditions that severely damaged deal economics led to the conclusion that termination is the best course of action," said Dave Lesar, Halliburton's chairman and CEO.

"Today's outcome is disappointing because of our strong belief in the vast potential of the business combination to deliver benefits for shareholders, customers and both companies' employees," said Martin Craighead, Baker Hughes' chairman and CEO.

Halliburton and Baker Hughes announced their plan to combine in November 2014, shortly after oil prices began to fall. However, few predicted the depth and duration of lower prices caused by a global oversupply of oil.

The glut slowed demand for drilling services and crushed the stock price of both companies.

The Justice Department indicated its concern about the acquisition in a lawsuit it filed against ValueAct Capital, a hedge fund that had bought more than $2.5 billion in stock of Halliburton and Baker Hughes.

The department said in the lawsuit that a Halliburton-Baker Hughes merger "threatens to substantially lessen competition in numerous markets."

Europe's top regulator, the European Commission, said it had also had concerns about the deal. It said that it had investigated its potential impact on competition together with regulators in the U.S., Brazil and Australia.

Have a nice and fruitful week!