Weekly Updates Issue # 575

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1. Weekly Markets Changes

[July 29, 2016]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
14,582.74 -17.92 -0.12%	2,173.60 -1.43 -0.07%	18,432.24 -138.6 -0.75%	5,162.13 +61.97 +1.22%	$0.7676 +0.57¢ +0.75%	$1,349.70 +27.60 +2.09%	$41.38 -2.88 -6.51%

2. Canada’s monthly GDP plummets due to Alberta fires

[July 29, 2016] The Alberta wildfires significantly impacted the Canadian economy in May, which saw the GDP contract by 0.6%. This is the country’s deepest one-month decline in more than seven years.

On Friday, Statistics Canada’s latest reading for real gross domestic product revealed the extent of the economic damage caused by the blaze that roared through the heart of oil sands country.

The dip in the economy was larger than expected. Economists had predicted real GDP to recoil by 0.4%, according to Thomson Reuters.

The fires led to the evacuation of Fort McMurray, shut down key crude operations and have dimmed economic growth prospects for the second quarter. They also destroyed more than 2,000 structures.

Statistics Canada said the decline in real GDP for May was largely due to a 22% drop in non-conventional oil extraction, the sector’s lowest level of output since May 2011. Excluding the decline in non-conventional oil extraction, real GDP still moved backwards in May by 0.1%.

The agency said the disaster was the main cause of a 2.8% drop in the output of all goods-producing industries.

Manufacturing output was also hurt. The industry was knocked back 2.4% in May in large part due to a 15% drop at petroleum refineries, which was created by a shortage of crude oil.

The May real GDP reading follows a slim economic growth reading of 0.1% in April and contractions of 0.2% in March and 0.1%in February.
Earlier this month, the Bank of Canada predicted the fallout from the wildfires would fuel a contraction of 1% in the second quarter, a period that includes April, May and June.
The central bank estimated the fires trimmed 1.1 percentage points from second quarter growth. In April, before the wildfires, the bank had forecast the economy would grow in the second quarter by 1%.
Looking forward, however, the bank also predicted a "marked rebound" in the third quarter thanks in part to the resumption of oil production and rebuilding efforts in the region. It projected third quarter growth to reach 3.5%.
The bank said it also expects that third quarter bounce back due in part to the federal government's measures to enhance child benefits, which will support household consumption, and its commitment to boost infrastructure spending.

3. Deutsche Bank's profit drops 98%

[July 27, 2016] Deutsche Bank says its second-quarter profit dropped 98% as the company pushed ahead with a restructuring effort and uncertainty over events such as Britain's vote on European Union membership weighed on markets.
Germany's biggest bank said Wednesday that it eked out net earnings of €20 million (CA$29 million) in the April-June period, down from €818 million a year earlier.
The bank said that net revenues dropped 20% to €7.4 billion, reflecting a "challenging" market situation marked by uncertainty over the June referendum in which Britons voted to leave the EU, ultra-low interest rates in Europe and "the implementation of strategic decisions."
Deutsche Bank said it also had to increase its provision for credit losses to €259 million from €151 million a year earlier.

4. Oil prices heading for another slide?

[July 26, 2016] Benchmark U.S. crude prices reached a three-month low on Tuesday, affirming an uneven road ahead for the energy sector.
Concerns about oversupply pushed down U.S. crude prices to US$42.86 a barrel on the New York Mercantile Exchange around midday. Brent crude had fallen to US$44.71.
American oil drillers have been planning increased production, adding rigs for four consecutive weeks and edging up the number of active rigs last week by 15, The Wall Street Journal reports.

Bjarne Schieldrop, commodities analyst from Sweden's SEB bank, told The WSJ that it was a turning point.
"The revival in rig count mirrors what happened to the oil price rally in 2015," he told the newspaper, referring to last year's collapse in oil prices. "We had expected to see some delayed reaction in the return of shale oil due to elevated debt levels, but the data is telling a different story."

5. Will Ontario follow B.C. by implementing real estate tax?

[July 26, 2016] Ontario's finance minister says he will be looking "very closely"' at B.C.'s tax aimed at foreign homebuyers as he looks for ways to address eroding affordability in Toronto's housing market.
Charles Sousa says he welcomes the 15% tax that the B.C. government will charge foreign nationals looking to snap up homes in Vancouver's scorching real estate market. The new tax comes in Aug. 2.
Sousa says he is part of a committee, alongside Federal Finance Minister Bill Morneau and B.C. Finance Minister Mike de Jong, that's looking for ways to improve housing affordability in Canada's hottest markets.
He says it's important to consider that any policies introduced to cool down Toronto's hot real estate sector could have effects on other parts of the province that aren't seeing the same problem.
BMO chief economist Douglas Porter has urged the Ontario government to follow B.C.'s move, given that single detached houses in the Greater Toronto Area have jumped almost 20% year-over-year.
Below are some facts about B.C.'s proposed law.

Fighting avoidance

- All property transfer transactions will be subject to audits and all property transfer tax returns will be reviewed and verified.
- The audit period is six years from the day a property is transferred.
- Failure to pay may result in a fine of up to $100,000 for individuals and $200,000 for corporations, or up to two years in prison.

Defining foreign entities

- Classified as foreign nationals, foreign corporations or taxable trustees.
- Foreign nationals are transferees who are not Canadian citizens or permanent residents.
- Foreign corporations are not incorporated in Canada, but controlled by a foreign national or other foreign corporation.

Application of the tax

- Tax is in addition to the property transfer tax already in place of 1% below $200,000, 2% between $200,000 and $2 million, and 3% on the remainder of a purchase.
- Does not apply to non-residential property.
- Does not apply to Tsawwassen First Nation lands.
- Applies to any foreign entities proportion of the share even if the transfer is between relatives, is a result of an amalgamation or if it's moved to a surviving joint tenant.
- Applies Aug. 2, regardless of when the contract of purchase and sale was entered into.

6. B.C. announces additional real estate tax on foreign buyers

[July 25, 2016] Foreign nationals who buy real estate in Metro Vancouver would pay an additional property transfer tax of 15% under legislation introduced Monday by the British Columbia government.

Finance Minister Mike de Jong unveiled the tax as part of legislation aimed at addressing low vacancy rates and high real estate prices in southern B.C.

"For example, the additional tax on the purchase of a home selling for $2 million to a foreign national will amount to an additional $300,000," de Jong told members of the legislature.

The additional tax will take effect Aug. 2 and apply to foreign buyers registering the purchase of residential homes in Metro Vancouver, excluding treaty lands in the Tsawwassen First Nation.

All B.C. residents currently pay:

- a 1% tax on the first $200,000 of their purchase,
- a 2% on the remaining value up to $2 million; and
- a 3% on the portion above that.

"The amendments include anti-avoidance rules designed to capture transactions that are structured specifically to avoid the additional tax," says de Jong. The money from the additional tax would be used to fund housing, rental and support programs, the minister says.

De Jong says recent government housing data indicate foreign nationals spent more than $1 billion on B.C. property between June 10 and July 14, with 86% on purchases in the Lower Mainland area.

After the Bill was introduced, Premier Christy Clark said her government is focused on increasing the housing supply, protecting buyers and sellers and boosting the rental market.

“Today we are taking measures to ensure home ownership remains within reach of the middle class,” she says.
The legislation would also enable the City of Vancouver to amend its community charter in order to levy a **vacancy tax.**
In May, de Jong said he wasn’t in favour of a tax on foreign investment, saying he worried it would send the wrong message to Asia-Pacific investors.

7. No U.S. rate hike expected until end of year

[July 25, 2016] Anyone trying to peg the likelihood of a Federal Reserve interest rate hike this year has been subject to a topsy-turvy shift of expert opinion the past few months. And when the Fed holds its latest policy meeting this week, few think it will provide much more clarity.
A few months ago, it was widely assumed that the Fed would have resumed raising rates by now.
But that was before the U.S. government issued a bleak May jobs report and Britain’s vote to quit the European Union triggered a brief investor panic. Since then, a resurgent U.S. economy, a bounce-back in hiring and record highs for stocks have led many economists to predict a Fed move by December if not sooner.
After its meeting ends Wednesday, the Fed will issue a statement that may point, in particular, to signs of a strengthened job market: In June, employers added 287,000 jobs, the most since October 2015.
But the Fed will probably also acknowledge continued uncertainty about the consequences of Britain’s exit from the EU. Most economists think the statement will remain mum about a timetable for the next rate hike.
Some think the Fed may decide to raise rates when it meets in September, especially if economic figures that emerge in the next couple of months show solid hiring and a rebound from a slump in economic growth early this year.
“We have just come through too much volatility for the Fed to be able to reach a definitive conclusion about raising rates in July, but by September they will have more data,” says Sung Won Sohn, an economics professor at California State University, Channel Islands.
In December, the Fed raised its benchmark rate from a record low near zero, where it had stood since the depths of the 2008 financial crisis. It also laid out a timetable for up to four additional rate hikes this year. But as 2016 began, intensified fears about China’s economy, the world’s second-largest, and a plunge in oil prices sent markets sinking and led the Fed to delay any further action.

Once the markets stabilized, the Fed signaled a likely rate increase by mid-year. Anemic hiring in April and May, though, raised concerns about the economy, and it left rates alone. The central bank was also affected by Britain's forthcoming vote on whether to leave the EU, anticipation of which had rattled investors.

When Britain did vote to leave the union and markets sank, some economists even suggested that the Fed's next move might be to cut, rather than raise, rates. Now, though, the pendulum has swung back, especially after the arrival of a reassuring June jobs report. The Standard & Poor's 500 stock index had plunged 5.3% in the two trading days after Britain's vote only to rebound 8.8% as of Friday's close.

The economy is also picking up after the year's anemic start. Stronger consumer spending is thought to have lifted growth, as measured by the gross domestic product, from a 1.1% annual rate in the January-March quarter to around 2.5% in the April-June quarter, with further acceleration expected later this year. In the spring, consumers boosted spending at the fastest pace in a decade. Economists also foresee a lift from business investment, reflecting a rebound from cutbacks in the energy sector.

All that strength might argue for September rate hike, especially if monthly job growth equals as least 200,000 between now and then. Still, the risks of raising rates again too soon and possibly choking off economic activity may seem greater to the Fed than the risks of waiting longer. It has room to accelerate its rate increases if the economy were to heat up so much as to ignite high inflation.

"If we get a couple of strong employment reports and some solid GDP numbers, they might decide to go in September, but my guess is that risk management concerns will persuade them to wait until the end of the year," says Mark Zandi, chief economist at Moody's Analytics.

But, Zandi adds, "The slower they move rates this year, the faster they will have to raise rates in 2017 to play catch-up with a better economy."

According to data from the CME Group, investors foresee only about a 20% probability of a Fed rate hike by September, and only about a 50-50 chance by December.

Diane Swonk, chief economist at DS Economics, said she thinks the Fed could wait until January given the uncertainty surrounding both the global outlook, including the threat of further terrorist attacks, and the outcome of the U.S. presidential election.

"The Fed is hedging its bets because it doesn't have lots of ammunition if things go wrong," Swonk says.

8. Britain will push for Canada-EU trade deal despite Brexit

[July 25, 2016] Britain's envoy to Canada says his country will push hard for the speedy approval of the Canada-EU free-trade agreement, despite the Brexit referendum.

High Commissioner Howard Drake told The Canadian Press that Britain is bound by all European Union treaties until it formally negotiates and signs an agreement to leave—a process destined to take more than two years.

In the meantime, Drake said, Britain fully backs the current Canada-EU plan that would see the Comprehensive Economic and Trade Agreement be provisionally applied sometime early next year.

"There is quite an ambitious timetable for that to happen, and we will be in there making it happen," Drake says. "That's the timetable that European members _ of which we are one _ have been discussing with Canada."

Drake's comments are in line with those of Canadian Trade Minister Chrystia Freeland, who has said she received broad assurances from across Europe that the deal can be signed this fall and provisionally applied next year, after the European Parliament ratifies it.

Provisional application means that, by some estimates, as much as 90% of the deal would come into force without the ratification of the EU's 28 member parliaments because the vast majority of the pact would essentially fall under EU jurisdiction.

The waters were muddied recently when Britain's new trade minister, Liam Fox, reportedly told a British newspaper that "very fruitful" bilateral trade talks with Canada had begun.

Drake had nothing to say about the remarks attributed to Fox, but says his country had not started free-trade talks with Canada. "I can't comment on what's in the press. All I can tell you is what the government's position is."

Drake said Fox and Freeland had good discussions earlier this month when the Canadian minister was in London. But he said because Britain is still part of the EU, it can't sign any new trade deals of its own.

"We have had very, very good conversations with a number of our close friends around the world, some of whom we have very important trading relationships with. Canada is one of those," Drake says.

Britain has always been a trading country, and that's not about to change, he adds.

The first order of business for Britain will be to work out the details of its future trading arrangement with the EU, he says.

Britain has no actual trade negotiators of its own because it ceded that responsibility to the EU when it joined 43 years ago, so it will likely have to build a team that is expected to number in the hundreds.

But Drake notes that Britain has not invoked Article 50 of the EU treaty, which would trigger the two-year clock towards negotiating Britain's exit from the bloc.

Some analysts have said it might take much longer than that to negotiate Britain's departure because it has become so deeply intertwined with the EU.

Drake dismissed any suggestion that Britain may eventually decide not to leave, pointing to Prime Minister Theresa May's remark that "Brexit means Brexit" as a result of the June referendum result.

May has said Britain won't begin its exit talks with the EU this year because the country first needs clear objectives. "The detail of that is obviously a matter of negotiation between us and the EU," Drake said. "The prime minister has said that the UK approach and objectives for that discussion need to be worked out."

Have a nice and fruitful week!