Weekly Updates Issue # 619

1. Weekly Markets Changes

[June 23, 2017]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
15,319.56 +127.0 +0.84%	2,438.30 +5.15 +0.21%	21,394.76 +10.48 +0.05%	6,265.25 +113.5 +1.84%	$0.7567 -0.32c -0.42%	$1,257.80 +2.60 +0.21%	$43.17 -1.79 -3.98%

2. Global economic news: NAFTA, Brexit, and more

[June 23, 2017] U.S. negotiators will take a "do-no-harm" approach to renegotiating NAFTA due to fears that altering the deal could hurt many American agricultural sectors, says U.S. Trade Representative Robert Lighthizer. He repeated this message several times on Thursday as he testified before a House of Representatives committee in Washington.

He insisted he would enter the upcoming NAFTA talks with the goal of modernizing outdated aspects of the 23-year-old agreement, while protecting gains U.S. farmers and ranchers have been reaping from the trilateral pact.

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But, Lighthizer's responses Thursday to the ways and means committee suggest the U.S. is preparing for a surgical approach to try to avoid severing any American benefits. "Clearly, with respect to the provisions where NAFTA has been successful, we want to secure that going forward," said Lighthizer, who noted he will pursue adjustments to some rules of origins issues.

Lighthizer's remarks Thursday came shortly before Prime Minister Justin Trudeau told The New York Times, in an interview, that NAFTA had been improved a dozen times over the years and will be updated once again to adjust to new challenges.

"Canada is far more important to the United States that the United States realizes," said Trudeau, when asked about the future of the deal. "I can understand the politics around saying that 'Oh, we need to improve it, it's terrible.'" But, he added, "The facts don't necessarily bear that out […]. It's created massive numbers of jobs in both of our economies. It's created tremendous advantages."

Lighthizer has also indicated recently that the U.S. plans to move very quickly on NAFTA talks. The negotiations can begin Aug. 16, at the end of a 90-day consultation period in the U.S. He said the U.S. is still discussing the specific start date with its partners.

Brexit's one-year anniversary

Since the June 23, 2016 vote for Brexit, the British economy has defied the gloomy recession predictions of many, including calls made by the British Treasury and the International Monetary Fund.

Still, Britain's fate has been continuously debated over the last year. And, certain predicted events have occurred, such as a sharp fall in the pound and rising inflation. Overall, now that the official two-year Brexit process has begun there are renewed signs of economic pain.

So how is the British economy faring? Here's a brief guide.

Growth slowing. The British economy didn't contract in the wake of the Brexit vote, as many had warned. In fact, for much of the time since, it's grown faster than many of its peers in Europe, largely because of a sharp fall in the value of the pound. However, the economy is now weakening amid the Brexit uncertainty–and the pound's drop makes imports more expensive. The British economy is even trailing the likes of Greece since Britain grew by a quarterly rate of 0.2% in the first three months of the year, lower than any economy in the Group of Seven industrialized nations. At the same time, previously struggling continental economies like France have gained momentum, potentially affecting the dynamics of the Brexit talks, which started this week.

London at risk financially. Given its central role in the European financial sector, London's fate is uncertain. When Britain leaves the EU, British financial services companies would lose the automatic right to operate in all the other 27 EU states, a big handicap.

Recession on the way? The main worry is that pre-Brexit doom-mongers may be proved right should Britain crash out of the EU without a comprehensive trade deal. Ratings agency Standard & Poor's says Britain has the most to lose economically as it exports more to the EU, when calculated as a proportion of the economy, than any other country. The risk, it says, is magnified by the fact that the services sector, such as banking, accounts for a significant chunk of those exports. And services are less likely to be covered in any immediate trade deal to retain privileged access to the massive EU market. Any early post-Brexit arrangements may just be confined to goods.

Even so, Britain's main stock index, the FTSE 100, has actually hit a series of all-time highs, spiking by around a quarter following an initial drop–not a bad return for any investment. That's partly due to the export-boosting impact of the pound's drop. Many international companies, like Burberry, are listed on the FTSE 100, meaning their earnings in dollars and other non-British currencies are worth more when translated back into pounds. Other international companies like miners Glencore and Antofagasta have also benefited from commodity price rises.

Eurozone steady

Financial information firm IHS Markit says its eurozone composite purchasing managers' index, a broad gauge of economic activity across the manufacturing and services sectors, fell to 55.7 points in June from 56.8 the previous month. Despite the decline, the index is way above the 50 level that marks expansion.

The firm also said that job creation remained at a near decade-high as order books and business confidence were strong.

Chris Williamson, IHS Markit's chief business economist, said the survey is consistent with second-quarter growth of 0.7%, higher than the first quarter's 0.6%.

Rate hike in Mexico

On June 22, Mexico's central bank raised its benchmark interest rate a quarter-point to 7% in an effort to limit inflation. The country's medium-term

inflation target is 3% but prices have been rising recently at an annual rate of 6%.
Treasury Secretary Jose Antonio Meade says two further increases are possible as the Bank of Mexico seeks to slow inflation below 4% by 2018.
The central bank's Thursday statement cites external risks to Mexico's economy, including uncertain U.S. policies, geopolitical tensions and weak oil prices. Nevertheless, it expresses confidence in the strength of the global economy for the rest of 2017 and 2018.
The hike comes just eight days after the U.S. Federal Reserve raised its key interest rate and shortly after the BoC hinted at possible action in 2017.

3. Canadian inflation eased to 1.3% in May

[June 23, 2017] Canadian inflation eased up on the accelerator last month as weaker year-over-year growth in gasoline prices helped slow the annual rate to 1.3%, Statistics Canada said Friday.
The May inflation rate was also lower than April's reading of 1.6% because prices declined in electricity, bakery products and Internet access services, the agency said in its latest monthly report.
The data comes as the economy strengthens and the Bank of Canada prepares to make a scheduled interest rate announcement on July 12.
Last month's smaller inflation number could weigh on the central bank's decision, as the rate moved further away from its ideal target of 2%.
The latest consumer price index also showed lower readings for two of the Bank of Canada's three preferred measures of core inflation, which the central bank will scrutinize ahead of its interest rate decision.
Governor Stephen Poloz recently signalled he's moving closer to a hike in the benchmark interest rate. Many analysts now believe the bank will start moving the rate upwards from its historically low level of 0.5% before the end of the year.
However, some economists have pointed to weak core inflation as a possible reason for the bank to hold off a little longer.
In its report Friday, Statistics Canada said year-over-year gas prices rose 6.8% in May after climbing 15.9% the previous month.
But despite the slower price growth, gasoline remained one of the biggest upward contributors to inflation last month, along with other costs associated with shelter and transportation.
Last month's 5.5% decline in electricity was one of the biggest downward contributors and recent changes in Ontario's hydro rates appear to have had an impact on the national number.

Compared to a year earlier, Statistics Canada said the price of electricity in the country's most-populated province fell last month by 16.1%.
Ontario had promised to cut electricity bills by an average of 17% and the reductions were scheduled to start taking effect in May.
The Statistics Canada report also found weaker price growth in every province last month, with the biggest slowdown in Manitoba.
Food prices fell 0.1% last month compared to a year earlier, shelter prices rose 1.9% and transportation increased 2.2%.
"Growth is coming in hot but inflation is not," Nick Exarhos of CIBC Economics wrote in a note to clients. Exarhos also said the modest slip in two of the central bank's preferred inflation readings cut "against recently more aggressive pricing for a rate hike as early as July."

4. Retail sales gain more than expected in April, climb 0.8%

[June 22, 2017] Retail sales in Canada were better than expected in April as they rose 0.8 per cent to $48.6 billion for the month.
Excluding sales at motor vehicle and parts dealers, retail sales climbed 1.5 per cent.
"The Canadian economy appears to have continued to improve in April, building on a strong run that has left growth well above its 'trend' rate over the last three quarters," RBC economists said in a note, adding that the report followed on gains for wholesale and manufacturing sale volumes.
"[T]he data is suggesting April GDP rose 0.2% to build on a 0.5% jump in March even with the fire-related shutdown of a major oil sands producer in April," RBC said.
Economists had expected an overall gain of 0.2 per cent and an increase of 0.7%, excluding autos, according to Thomson Reuters.
Statistics Canada says retail sales were up in nine of 11 subsectors tracked by the agency, with the largest increase in dollar terms at general merchandise stores where sales gained 2.1%.
Sales at motor vehicle and parts dealers fell 1.0% in April due to lower sales at new and used car dealers.
Retail sales in volume terms were up 0.3%.

5. Berkshire Hathaway to buy nearly 20% stake in Home Capital

[June 22, 2017] Home Capital Group Inc. shares surged higher Thursday on news that the troubled mortgage lender has arranged $400-million in equity

investments and other financial support from companies run by famed billionaire investor Warren Buffett.
A subsidiary of Berkshire Hathaway, Buffett's main company, will also provide a new $2-billion line of credit on better terms than an expensive cash infusion provided to Home Capital by one of Ontario's large pension funds.
"We believe this represents a turning point for Home Capital as we look to restore investor and depositor confidence in the company," Home Capital interim chief executive Bonita Then said Thursday in a conference call with financial analysts.
Home Capital shares were up $1.86 or about 12% at $16.80 in trading on the TSX.
The stock plunged below $10 a share for several weeks after customers started withdrawing their deposits from deposit accounts that Home Capital uses to fund its mortgage lending.
That followed allegations that Home Capital misled investors in its disclosures. However, Home Capital agreed last week to settle both the Ontario Securities Commission allegations and a class-action lawsuit.
While the investment from Berkshire Hathaway can be seen as a vote of confidence, it is acquiring its shares in Home Capital at a significant discount from where they are trading today and with certain approvals required.
Under the agreement, it will make an initial investment of $153.2 million for 16 million Home Capital shares at a price of $9.55, representing a 19.99 per cent stake in the company, subject to approval by the TSX.
Berkshire Hathaway has also agreed to make a second investment of $246.7 million for nearly 24 million shares at a price of $10.30, which would take its stake in Home Capital to 38.4%, subject to shareholder approval.
The Berkshire credit facility will charge a slightly lower interest rate than charged by the Healthcare of Ontario Pension Plan.
The interest rate will initially drop to 9.5% and then to 9.0%, after the initial investment closes. HOOPP's interest rate has been 10%.
The Berkshire Hathaway agreement comes a day after Home Capital Group said it was selling $1.2 billion in mortgage assets to KingSett Capital, a private equity firm focused on real estate.

6. RBC to cut 450 jobs

[June 21, 2017] The bleeding continues at Canadian banks as Royal Bank of Canada says it is cutting 450 jobs, primarily from its head office locations in the Greater Toronto Area.

Under pressure from technological change and client preferences, the bank says it is consolidating its business where needed and reinvesting in areas such as digital, data, new technology and high-growth business areas.
Bloomberg reports that Canadian banks, over the past three years, have announced job cuts totalling more than 5,000 positions.
RBC says in a statement that it is also making hundreds of other changes including promotions, transfers and the creation of new roles and teams.
The bank says it will provide support to those affected by the changes, including career transition services and continued salary and benefits for a period of time.
RBC has more than 80,000 full- and part-time employees.

7. Despite dovish data, BoC could move in 2017

[June 19, 2017] Canadian economics data to be released this week could prove dovish, despite coming hot on the heels of last week's more hawkish tone from the Bank of Canada.
Retail sales (Thursday) and CPI updates (Friday) will significantly inform two key issues for Canada's forecast, says Derek Holt, vice-president and head of capital markets economics at Scotiabank, in a weekly economics report. Those issues are whether consumers remain resilient and whether inflation continues to fall.
Thursday's retail sales are for April.
"A decline in volumes of new cars and trucks sold, combined with a high jumping off point from the prior month, are expected to weigh on the headline dollar value of total retail sales more than the modest upside from gasoline prices that were higher in May over April," says Holt.
The seasonally adjusted volume of new car and truck sales fell by about 8% month-over-month in April.
Overall, Holt says retail sales "could be a headwind for monthly GDP."
Friday's CPI update is for May — a soft month for gas prices.
"Gasoline prices dropped an unusually large 1.8% in the month, possibly limiting the monthly headline price increase to 0.3%," says National Bank in a weekly economics report. "Based on that scenario, the annual inflation rate could drop one tick to 1.5%."
But, beyond gas prices, "It's what lurks beneath that will matter the most in CPI," says Holt. "And on that, the issue is whether the declines in core CPI measures are continuing in May data."

National Bank expects inflation to "gain a bit of traction" in light of recent economic momentum. "Accordingly, CPI-common should rise on tick to 1.4% on year-on-year basis in May."

When the Bank will make its move

Referring to last Monday's speech by Carolyn Wilkins, Bank of Canada's senior deputy governor, National Bank adds: "Even if inflation were to remain below the central bank's target, she seemed inclined toward a more hawkish approach, suggesting that policy-makers not only had to focus on current economic conditions, they also had to anticipate the road ahead.

Based on her remarks, National Bank expects the bank to raise the overnight rate by 25 basis points in October - three months sooner than previously assumed.

Putting Canada's current situation in historical context, Benjamin Tal, deputy chief economist at CIBC World Markets, says in a weekly economics report, "Every economic recession in the post-war era was helped, if not caused, by a monetary policy error in which central bankers sat on low interest rates for too long, only to raise them too rapidly and too aggressively to combat sneaking inflation."

He reminds that the "magic of monetary policy works with a lag, so any negative impact on economic activity [from a rate hike] will be largely offset by the wave of infrastructure spending that is expected to reach a peak in 2018."

He, too, forecasts the Bank's first hike will occur in October 2017.

"And we suspect that there might be some more juice left yet in the short-end of the curve play."

Have a nice and fruitful week!