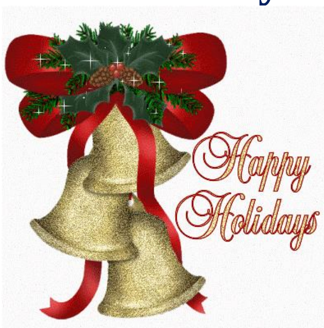
Happy 2018 dear clients and friends, and constant readers of my newsletter!



I wish you and your families good health, happiness and prosperity! Let’s hope we’ll celebrate together issue # 1000 of my newsletter!

Weekly Updates Issue # 645

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1. Weekly Markets Changes*

[January 6, 2018]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,349.44 +307.5 +1.92%	2,743.15 +67.34 +2.52%	25,295.87 +644.1 +2.61%	7,136.56 +296.5 +4.33%	$0.8063 +2.71c +3.48%	$1,319.59 +63.15 +5.03%	$61.44 +4.14 +7.23%

All the above changes in the value of the indexes, currencies and commodities are calculated based on the values as at December 15th 2017, the date of my last newsletter for the year 2017 #644.

2. December unemployment rate could push BoC hike: analysts

[January 5, 2018] The unemployment rate fell to its lowest level in more than 40 years as Canada closed out a calendar year that saw it produce jobs at a pace not seen since 2002.

Statistics Canada reported Friday that the unemployment rate dropped to 5.7% in December, down from 5.9% the month before, to reach its lowest mark since comparable data became available in 1976.

"The books closed on a phenomenal year for Canadian employment with another spectacular result for December," CIBC economist Nick Exarhos wrote in a brief report.

"In our judgement, that should be enough to see the Bank of Canada hike rates later this month, with the employment figures more than enough to offset recent disappointments on GDP."

In a daily points report from before Friday's jobs announcement, Scotiabank global economics expert Derek Holt forecasted today's jobs numbers would be watched more closely than those released in the U.S., especially because Canada "posted a blockbuster employment gain of about 80,000 in November."

Holt called for "a negative for December," due to "a potential correction in youth employment" and "any hiring response to looming minimum wage hikes in Ontario and Alberta."

But, in a follow-up research note, Holt said Scotiabank has also changed its Bank of Canada forecast for this month. On the back of today's "ridiculously strong" employment data, he says, Scotiabank "now expect[s] the Bank of Canada to hike by 25bps on January 17th."

The StatsCan numbers show wages for permanent employees (the BoC preferred measure) were up by 2.9% y/y and are skyrocketing. Says Holt: "Millionaires are not being created overnight, but the pace of change is eye-catching. […] Wage growth is at its highest since April 2016, which further reinforces how various factors including a temporary commodity income shock have turned around."

In December 2016, the unemployment rate was 6.9%, the StatsCan report said. The last time the jobless rate was 5.8% was October 2007.

The unemployment reading fell last month as the economy generated 78,600 net new positions, including 23,700 full-time jobs.

By region, Quebec and Alberta saw the biggest increases last month with each province adding more than 26,000 new jobs. Quebec's unemployment rate fell 0.5 percentage points to 4.9%, while Alberta's dropped 0.4 percentage points to 6.9%.

The December reading marked the 13th-straight month of job gains. However, about half of those positive numbers were within the survey's margin of error.

For 2017, the agency’s labour force survey said employment rose 2.3% for its fastest growth rate in 15 years. The economy added 422,500 jobs last year with the gains driven by 394,200 new full-time positions.

By industry, factories saw employment increase 3.5% in 2017, while the services sector experienced a boost of 2%.

The survey also found that over the last year the number of employed people aged 55 and over rose 5.3%. This exceeded the 2.9% rate of population growth for the age group.

Among core-aged workers, those between the ages of 25 and 54, employment increased 1.6% last year.

In a separate report Friday, Statistics Canada says the country’s merchandise trade deficit widened to $2.5 billion in November, compared to a $1.6-billion deficit the month before, as imports outgrew exports.

3. U.S. economy added 2 million jobs in 2017

[January 5, 2018] The U.S. economy added 2 million jobs in 2017, another solid year of gains.

In December, the economy added 148,000 jobs, according to Labor Department figures released Friday. That was below what economists expected, but still the 87th straight month of gains -- the longest streak on record.

"The 2017 job market was really great," said Cathy Barrera, chief economist at ZipRecruiter, a jobs website.

Unemployment remained at 4.1%, matching the lowest level in 17 years.

Wages grew 2.5% compared with a year ago. Wages still aren't growing as quickly as the Federal Reserve would like, one reason so many Americans still feel left out of the recovery from the Great Recession.

"The real mystery is why hasn't wage growth really picked up?" says Michael Arone, chief investment strategist at State Street Global Advisors. "That continues to be the challenge for this job market."

Last year's job gains were below those of previous years.

The United States added almost 3 million jobs in 2014, 2.7 million in 2015 and 2.2 million in 2016. That trend is what's expected in such a long economic expansion. As unemployment moves to historic lows, job gains eventually slow down.

Still, industries across the economy added jobs last year.

Manufacturing, an industry that President Trump has sought to boost, added almost 200,000 jobs last year, a turnaround from 2016, when it lost jobs. Construction added 210,000 jobs in 2017. Bars and restaurants hired about

250,000 waiters, cooks and hostesses. Health care continued to lead the pack, adding 300,000 jobs in 2017.

There were weak spots, though: Retail stores lost 67,000 jobs last year after several years of robust gains. Traditional stores are struggling, and some going out of business altogether, as more people shop online.

The number of Americans who are working part-time but want a full-time job is about 5 million, still above where it was before the Great Recession began in late 2007.

That number has come down significantly since it peaked at 9.1 million in 2010. But these workers often are paid less, receive far fewer benefits like health care and are much more likely to live in poverty.

More broadly, the job market is shifting in a way that economists say helps explain why wage growth has been so sluggish.

Shortly after the recession, employers and hiring managers could pick and choose employees because unemployment was so high. Eight years later, with unemployment at 4.1%, workers have the upper hand.

A record share of small business employers, 54%, say they found few or no qualified job applicants in December, according to a report published Thursday by the National Federation of Independent Business, an advocacy group for small employers.

If that trend continues, more companies will be forced to raise wages in a meaningful way to compete for workers.

Already, the best parts of the U.S. job market are showing healthy wage growth.

In Phoenix, where the unemployment rate is a few notches below the national average, wages grew more than 5% in December, the best of any U.S. metro area, according to a separate report by Paychex, a payment processor, and IHS Markit, an analytics firm.

4. U.S. trade deficit at six-year high

[January 5, 2018] The U.S. trade deficit rose to $50.5 billion in November, the largest imbalance in nearly six years, as imports and exports both hit records.

The November deficit was 3.2% higher than October’s $48.9 billion imbalance, the Commerce Department reported Friday. U.S. exports of goods and services were up 2.3% to an all-time high of $200.2 billion. Imports rose an even faster 2.5% to a record $250.7 billion.

A rising trade deficit, which reduces economic growth, means that the United States is buying more goods and services from other countries than it is selling them. President Donald Trump views America's massive trade deficits as a sign of economic weakness. He blames them on bad trade deals and abusive practices by China and other trade partners.

The politically sensitive deficit with China rose to $35.4 billion in November, the biggest goods deficit that the United States runs with any country and the largest monthly deficit with China since September 2015.

The overall deficit in November in goods and services was the largest since January 2012. Through the first 11 months of 2017, the monthly deficits total $513.6 billion, 11.6% above the deficit total for the same period in 2016. The United States had run up a $737.4 billion deficit in goods trade through November and had a $223.8 billion surplus in trade in services such as tourism and banking.

Trump contends that the major tax cut legislation Congress approved last month will help reduce the deficits by encouraging companies to bring production back to the United States. He has also vowed tougher enforcement of U.S. trade laws by imposing penalty tariffs on foreign goods from countries that are using unfair practices to compete against American workers and companies.

Trump has pledged to renegotiate what he sees as bad trade deals such as the North American Free Trade Agreement with Canada and Mexico, and go after countries he believes have rigged the global trade system to their advantage.

But many private economists argue that trade deficits are largely caused not by flawed trade agreements or cheating by particular countries but by a bigger economic force–Americans spend more than they produce, and imports have to fill in the gap.

For November, the United States saw petroleum imports rise 10.1% to $17 billion, as the average price of a barrel of imported crude oil rose to $50.10, up from $47.26 in October.

U.S. exports of commercial aircraft, telecommunications equipment and American-made autos and auto parts were all up in November. U.S. manufacturers have been helped this year by a rebounding global economy and a weaker dollar which has made American goods more competitive on foreign markets.

5. Tesla stock: The new Big Short?

[January 4, 2018] Wall Street appears to be tired of Elon Musk overpromising and underdelivering on Tesla's new affordable Model 3 electric car.

Shares of Tesla fell 3% Thursday after the company disclosed that it is still having a tough time getting its Model 3 to customers on time. Tesla is way behind on its ambitious production goals.

The stock has now plunged more than 20% from the all-time high it set last year, which means that Tesla is technically now its own little bear market.

Short sellers, investors who bet that a stock will go down and profit when the price falls, have piled into Tesla lately.

According to research firm S3 Partners, which tracks short selling, Tesla has been an extremely profitable trade for the past few months.

Ihor Dusaniwsky, managing director of predictive analytics for S3 Partners, tweeted after Tesla's disappointing outlook that short sellers were set to make nearly $240 million from the stock's most recent decline.

Even big, well-known Wall Street firms are souring on Tesla.

JPMorgan analyst Ryan Brinkman wrote in a report last month that he thinks Tesla stock could fall 40% in 2018 due to the Model 3 difficulties.

Competition could be another big problem.

While Tesla is the clear leader with higher-end, luxury electric vehicles thanks to its Model S sedan and Model X crossover, it's unclear if Tesla will be able to sell as many cheaper Model 3s as needed to truly become a true mass market auto company.

Nissan already is selling the Leaf. And GM has a big lead over Tesla with its Bolt. General Motors said Wednesday that it delivered more than 3,200 Bolts to customers in December -- more than double the number of Model 3s that Tesla delivered for the entire fourth quarter.

There's also the issue of whether Tesla (and Musk for that matter) are overextended.

Tesla is also busy ramping up production of a semitruck for big corporate customers (Walmart and UPS have already placed orders) and integrating the SolarCity solar panel acquisition.

This wouldn't necessarily be a problem if Tesla was already a profitable market leader.

But the company is continuing to lose money, raising fears that Tesla may need to sell more stock to fund its ambitious plans. Doing that would reduce the value of shares for Tesla's existing investors.

Finally, Musk also runs rocket company SpaceX and tunneling business The Boring Company.

So it's reasonable for Wall Street to wonder if Musk simply has too much on his plate. Tesla is a classic cult stock. There is considerable hype and it may be impossible for Tesla to live up to it.

6. Toronto home sales down 18.3% from record 2016

[January 4, 2018] Home sales in Toronto last year were down 18.3% from the record set in 2016, the Toronto Real Estate Board (TREB) announced Thursday. The average selling price increased by 12.7% over the same period. After record sales in the first quarter of 2017, the market cooled in the second and third quarters after the Ontario government introduced the Ontario Fair Housing Plan (FHP), which taxed foreign buyers. Then, sales picked up in Q4, possibly due in part to new OSFI stress test guidelines that came into force Jan. 1, 2018, a TREB release said.

The average price for the 92,394 sales in 2017 was $822,681. The increase was driven by “extremely tight market conditions” at the start of the year, the release said. More listings and fewer sales over the rest of the year led to slower price growth.

In December, sales totalled 4,930, down from 5,305 in 2016, TREB said. The average price for the month was $735,021, up from $730,125.

Jason Mercer, TREB’s director of market analysis, said home price growth over 2017 varied depending on the type of home.

“The detached market segment—the most expensive on average—experienced the slowest pace of growth as many buyers looked to less expensive options. Conversely, the condominium apartment segment experienced double-digit growth, as condos accounted for a growing share of transactions,” he said in a release.

More information about the Toronto market will come on Jan. 30, when TREB releases its Market Year in Review and Outlook Report.

7. America could become oil king of the world in 2018

[January 3, 2018] America could be crowned the oil world's new king in 2018.

The United States is poised to ramp up crude oil production by 10% in 2018 to about 11 million barrels per day, according to research firm Rystad Energy. Surging shale oil output should allow the United States to dethrone Russia and Saudi Arabia as the planet's leading crude oil producer, Rystad predicted in a recent report. The U.S. hasn't been the global leader, nor ahead of both Russia and Saudi Arabia, since 1975.

"The market has completely changed due to the U.S. shale machine," said Nadia Martin Wiggen, Rystad's vice president of markets.

The prediction shows how the fracking revolution has turned America into an energy powerhouse -- a transformation that President Trump has vowed to accelerate by cutting regulation. This long-term shift has allowed the U.S. to be less reliant on foreign oil, including from the turbulent Middle East.

U.S. oil production slipped -- but didn't completely collapse -- after Saudi-led OPEC launched a price war in late 2015 aimed at reclaiming market share lost to shale and other players. A massive supply glut caused crude to crash from around $100 a barrel to a low of $26.

Cheap prices forced shale companies in Texas, North Dakota and elsewhere to dial back. Domestic output bottomed at 8.55 million barrels per day in September 2016, down 11% from the recent peak in April 2015, according to the U.S. Energy Information Administration.

But the resilient oil industry, led by the shale hotbed of the Permian Basin of Western Texas, rebounded nicely last year. The comeback was driven by higher crude prices as well as new technology that makes it cheaper and easier to frack.

The EIA recently forecasted that U.S. crude oil production would jump to an average of 10 million barrels per day in 2018. That would take out the previous annual record of 9.6 million barrels set in 1970.

Rystad Energy is even bullish on American oil. The Norwegian firm sees U.S. crude output hitting 11 million barrels per day by December, narrowly surpassing global leader Russia and OPEC kingpin Saudi Arabia.

Others are skeptical. Byron Wien, vice chairman of Blackstone's private wealth solutions group, predicted this week that fracking production would be "disappointing" in 2018, lifting crude oil prices above $80 a barrel.

Crude climbed above $61 a barrel on Wednesday for the first time in 2-1/2 years. The recent bump in prices has been driven by a pipeline explosion in Libya and protests in Iran.

Bigger picture, the oil rebound has been caused by solid demand and the whittling down of the epic supply glut that caused prices to crash in the first place. A big key behind fixing the oversupply problem has been OPEC and Russia dialing back their pumping. In late November, OPEC and Russia agreed to extend oil production cuts until the end of 2018. The production cuts have helped stabilize oil prices, paving the way for U.S. shale output to ramp up.

By contrast, Trump has vowed to usher in an era of "American energy dominance," in part by reducing red tape around oil drilling.

Last week, a U.S. safety regulator proposed rollbacks to offshore drilling rules. The Bureau of Safety and Environmental Enforcement, which was formed in the wake of the deadly 2010 BP oil spill, estimates the revisions would slash industry "compliance burdens" by at least $228 million over 10 years.

The rule change "moves us forward toward meeting the Administration's goal of achieving energy dominance without sacrificing safety," BSEE director Scott Angelle said in a statement on December 28.

Rystad Energy said market forces, not deregulation, has underpinned the upswing in U.S. oil output.

"I don't think it's had a significant impact," Rystad's Martin Wiggen said of Trump's efforts to roll back environmental regulations.

She added though that there is "not a fear under the Trump administration that he will suddenly outlaw shale." Bernie Sanders called for a national ban on fracking during the 2016 campaign.

Regardless of the driver, the ramp-up in oil pumping has lessened the need for the U.S. to rely on oil from unstable places like Venezuela and the Middle East.

"The fact that the U.S. produces more oil is a fantastic development in terms of security," said Martin Wiggen.

U.S. oil imports have dropped by 25% over the past nine years, according to the EIA. At the same time, the U.S. oil exports have flourished since the 40-year ban on shipping crude overseas was lifted in 2015. Exports have more than tripled over the past year to record highs. The U.S. still imports more oil than it exports, but that gap is shrinking.

8. Income gap between CEOs and average workers grows

[January 2, 2018] The income gap between Canada’s top executives and the average worker has reached a record high, according to a new report from the Canadian Centre for Policy Alternatives (CCPA).

The think tank’s annual report on executive pay in Canada found the country’s 100 highest-paid CEOs made an average of $10.4 million in 2016. That’s 209 times the average income of $49,738, and it marks the first time in the 11 years the CCPA has been tracking the ratio that it’s surpassed 200:1.

By 10:57 a.m. on Jan. 2, the top-paid CEOs will have already earned the average worker’s annual salary, the report says.

Average worker pay rose 0.5% in 2016, marking a decrease when inflation is taken into account, the report says, while top CEOs saw an 8% increase. It was the first time the average pay of top CEOs surpassed the $10-million mark.

“Taking a historical perspective, CEO pay is moving further away from a simple salary and toward all-out incentives,” the report says. “The base salary made up 14% of total compensation on average in 2008 and 11% in 2016.

And as stock market values recovered post-slump, so has the stock incentive portion [of] a CEO’s ever-growing pay.”
The CCPA calls for tax reform to rein in executive pay, including elimination of the capital gains partial inclusion on any share-based compensation granted to executives.
“This would have the double-benefit of increasing tax revenues, which could be put towards social programs that help everyone while reducing inequality, and improving CEO performance, which is currently skewed by the prevalence of stocks in overall compensation,” the report says.

Have a nice and fruitful week!