Weekly Updates Issue # 679

1. Weekly Markets Changes

[August 31, 2018]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,262.88 -93.17 -0.57%	2,901.52 +26.83 +0.93%	25,964.82 +174.5 +0.68%	8,109.54 +163.6 +2.06%	$0.7660 -0.11c -0.14%	$1,203.62 -1.74 -0.14%	$69.80 +1.08 +1.57%

2. Coke gets some coffee; Tencent tumbles; NAFTA deal?

[August 31, 2018]

1. Coca-Cola's coffee bet: Coke is splashing out $5 billion to buy a global coffee store chain. It has agreed to purchase Costa Coffee from UK drinks and hotels group Whitbread.

Costa has nearly 4,000 stores across 32 countries. It will give Coca-Cola "a strong coffee platform across parts of Europe, Asia Pacific, the Middle East and Africa, with the opportunity for additional expansion," Coca-Cola said in a statement.

Shares in Whitbread, which had been planning to spin off its coffee business to focus on hotels, soared 15% in early London trading. Coke shares were little changed in premarket trading.

2. Tencent's tumble: Shares in the world's top gaming company fell nearly 5% on Friday after China announced plans to limit the number of new online games and restrict the amount of time kids spend playing on electronic devices. The government hopes to reduce nearsightedness among young people.

A huge part of Tencent's business comes from China, where it was already facing regulatory hurdles. Its stock has plunged nearly 30% since January, wiping out more than $160 billion in market value.

Tencent has still not gained approval from Chinese authorities to make money from some of its most popular mobile games such as "PlayerUnknown's Battlegrounds." Regulators also blocked a game called "Monster Hunter: World" for which big sales were expected.

3. Trade winds: Investors are keeping a close eye on various fronts in the global trade war. President Donald Trump told Bloomberg News on Thursday that the United States and Canada were "close to a deal" on trade but he wasn't certain it would happen Friday.

"Canada's going to make a deal at some point. It may be by Friday or it may be within a period of time. I think we're close to a deal," Trump said.

Agreement with Canada should pave the way for a rewrite of NAFTA, after the United States and Mexico announced Monday they had reached a preliminary deal.

But investors are worried that a major escalation in the fight between the United States and China may be just around the corner. Citing multiple sources, Bloomberg reported Thursday that Trump was ready to impose tariffs on $200 billion of Chinese imports as soon as next week.

In Europe, UK officials resume Brexit talks with their EU counterparts on Friday. There are just seven months to go before the United Kingdom is due to leave the bloc, and businesses are still fretting about what comes next.

4. Global market overview: Talk of new tariffs on Chinese goods hurt stocks Thursday. The Dow Jones industrial average was down 0.5%, while the S&P 500 fell 0.4% and the Nasdaq lost 0.3%.

Those trade war jitters hurt sentiment in Asian markets on Friday, with Hong Kong's Hang Seng index closing nearly 1% lower. European markets were also retreating in early trading, while US stock futures were little changed.

5. Argentina's agony: Emerging market turmoil added to the downbeat mood Thursday. Argentina's central bank jacked up its key interest rate by 15 points to 60% and said it would leave the rate at least that high until December as the country seeks a way to stop the collapse of the Argentine peso.

The Turkish lira, which has also plunged this year, steadied slightly on Friday after reports that the government had taken steps to encourage people to keep their savings in the currency.

6. Earnings and economics: India, the world's fastest growing major economy, is due to release GDP figures for the quarter ended June 30 at around 8a ET. Economists expect growth to have ticked down to 7.6% from 7.7% the previous quarter.

China's official purchasing managers' index edged up slightly in August, according to a survey published Friday, suggesting the country's huge manufacturing sector performed slightly better than expected despite the trade war.

3. Trump's explosive NAFTA comments detonate in Washington

[August 31, 2018] With a Friday deadline looming, Foreign Affairs Minister Chrystia Freeland is donning her best poker face as U.S. President Donald Trump's blunt assessment of the NAFTA talks—spoken in confidence but leaked to the media—lands with a thud on the negotiating table.

Trump, in a conversation Thursday with Bloomberg News, gave a dismissive off-the-record assessment of the Canadian position on major NAFTA sticking points that was leaked to the Toronto Star newspaper and published Friday morning.

"If I say no— the answer's no. If I say no, then you're going to put that, and it's going to be so insulting they're not going to be able to make a deal … I can't kill these people," Trump said of the Canadian government, according to the Star report, which cited an anonymous source.

Any deal with Canada would be "totally on our terms," Trump was quoted by the Star as saying. The newspaper said Bloomberg has not disputed the authenticity of the comments.

Freeland emerged from the morning's talks just minutes after news of Trump's remarks rippled through the media corps gathered outside the offices of the U.S. trade representative, where the negotiations have been taking place all week.

Despite repeated questions about whether the comments risked scuttling the talks, a stoic Freeland maintained her diplomatic countenance, saying only that both the Canadian negotiating team and USTR officials were working hard to reach an agreement.

"We're not there yet," she cautioned.

Asked directly about Trump's remarks and whether the Americans are bargaining in good faith, Freeland walked a diplomatic tightrope.

"Ambassador [Robert] Lighthizer and his team, throughout this negotiation, have been working really, really hard," she said.

"Our starting positions at the beginning were very far apart. I think, at this point, we know what each side needs and we're working hard to find a way. My jobs it to find the deal that works for Canada…

"Bob and I joke sometimes that we could switch chairs we know each other's positions so well. And we're working hard to find that win-win space."

Speaking to reporters Friday in Oshawa, Ont., Prime Minister Justin Trudeau was asked about the reports on Trump’s off-the-record comments.

Trudeau said that “over the past year and a half there’s a lot of things that have been said from time to time.”

He wouldn’t comment on the obstacles that remain and reiterated he won’t negotiate in public.

“I think people have noticed that our government’s approach is always to stay constructive, positive, to engage on the substance of issues and to demonstrate that we understand that the path forward is one of making sure that there’s win-win-win on all sides,” Trudeau said.

“We’re going to remain constructive, positive, serious and creative about what we do around the negotiating table. We are also going to be unequivocal about always standing up for Canadians’ rights and Canadians’ interests.”

Earlier in the day, both Canadian and American negotiators were showing few signs of budging on their most stubborn NAFTA positions as the day of Trump’s Friday deadline began.

A statement from the U.S. trade representative’s office said Canada had made no compromises to the American side on the thorny issue of dairy-market access: “there have been no concessions by Canada on agriculture,” it read.

Similarly, Canadian officials told The Canadian Press on Friday that expectations a NAFTA deal is imminent are exaggerated and premature.

Freeland has been in meetings all week with her American counterpart. They met late into the evening Thursday, until the talks ended abruptly just after 10 p.m. ET.

This week’s new round of U.S.-Canada negotiations had generated hopeful signals from both camps that a deal could be struck by the end of the week—but difficult discussions about dairy and dispute settlement remain, and were holding back progress on Friday morning.

Trump has repeatedly criticized Canada’s dairy industry and has used the threat of tariffs on Canada’s auto production to push for concessions. But Canada’s dairy industry is adamant that it won’t stand for the government allowing the U.S. any more market access, saying it has compromised enough on past trade deals with the European Union and Pacific Rim countries.

Another lingering sticking point is Chapter 19, set up to resolve disputes among the three countries and industry around how to implement NAFTA rules. The U.S. wants it out of the deal, but Canada says it must be included.

Trudeau held a conference call Thursday with premiers to discuss trade-offs, and in a statement said the federal government was committed to winning the best possible terms for Canada.

4. What propelled Canada's economy to Q2 gains

[August 30, 2018] A surge in exports of energy, aircraft and pharmaceutical products helped propel Canada's economy higher in the second quarter of this year, Statistics Canada said Thursday.

The economy rocketed to an annualized pace of 2.9% in the period from April 1 through June 30, compared with a slightly revised annual pace of 1.4% in the first three months of 2018, the agency said.

Economists had expected an annualized pace of 3% for the second quarter, according to Thomson Reuters Eikon.

Statistics Canada said the sharp hike in growth was mainly the result of higher exports, which saw an increase of 2.9% in the quarter.

That was the highest growth rate for that category in four years, led by energy exports, which accelerated at a rate of 5.6%.

Exports of goods were 6.3% higher in the second quarter, driven particularly by pharmaceuticals while exports of aircraft, aircraft parts and engines grew by 13.4%.

Service exports edged 0.2% lower.

Imports, meanwhile, were higher by 1.6%, faster than the 1% growth rate recorded in the first quarter. Statistics Canada said much of that growth was a result of higher refined energy imports to offset an expected shutdown of four Canadian refineries in April and May.

Household spending was also higher, up 0.6% in the second quarter, compared with the 0.3% growth seen in the first three months of the year.

The increase was mainly a result of higher bills for utilities including water, electricity and gas, and because households were spending more for services such as renovations, up 0.8%.

Housing investment rebounded in the second quarter, up 0.3% compared with a revised 2.7% drop in the previous three-month period. But spending on home ownership transfer costs and new construction was lower.

Business capital investment was higher by 0.4%, but that was the slowest pace of growth seen in the segment since the fourth quarter of 2016 and largely the result of a slowdown in purchases of machinery and equipment.

While today's GDP news is positive, economists don't expect unbridled economic expansion from here.

"The economy was speeding ahead in the second quarter, but don't take that as a sign of things to come," said CIBC director and senior economist Royce Mendes in a research note. "The reading was a rebound from a sluggish first quarter, and the monthly GDP print for June suggests there was little momentum heading into Q3."

As well, Mendes doesn’t expect the Bank of Canada to rush a rate hike next week. Rather, he predicts it “will take the extra six weeks to monitor incoming data and make sure Canada-US negotiations don’t fly off the rails.”

National Bank managing director and senior economist Krishen Rangasamy is encouraged by both the “solid increase for nominal GDP” and the “continued recovery of business investment.”

Yet, he also warned in his commentary not to “expect another spectacular quarterly GDP growth print in Q3.” Exports could be slower after the implementation of U.S. aluminum and steel tariffs, he said, and oil and gas could also decline.

Rangasamy also doesn’t expect the GDP numbers “to hasten the central bank into tightening monetary policy.”

5. It's time for investors to go on the defensive

[August 29, 2018] Investors can't afford to be complacent.

Liz Ann Sonders, chief investment strategist at Charles Schwab, told CNN's Alison Kosik on "Markets Now" on Wednesday that investors are overestimating the longevity of the bull market. And they're putting themselves at risk.

To make the most of their investments, people need to stick to the "tried and true principles" of diversifying and rebalancing their portfolios, she said.

"Money that has been invested in the market has appreciated to a significant degree, and there's been no paring back," Sonders said. "That's why household exposure to equities is at a historically high level."

"There's never a bad time to pare back some profits," she added.

Investors know that they need to buy low and sell high. But "left to our own devices, we tend to do the opposite."

Rebalancing, Sonders said, "forces you to do what we know we're supposed to do."

"That's the most important thing to do right now," she said. "Don't get greedy."

Escalating trade tensions could slow the market, she said.

Sonders warned that if 25% tariffs go into effect on $200 billion of Chinese goods in September, the United States could be hit with unexpected retaliatory measures.

"China has a lot of ways that they can retaliate," she said. For example, China could devalue its currency to fight the tariffs, she said.

A weaker yuan could make China's export industry more competitive globally, as it makes Chinese products cheaper for those paying in dollars.

"I don't think we imminently face a currency war on top of a trade war, but that is a risk," she said.
"We're still underestimating what would happen" if the trade war gets worse.

6. Amazon-Whole Foods one year later: The grocery business will never be the same

[August 28, 2018] Whole Foods doesn't look much different since Amazon bought it a year ago. Salmon and avocados are a little cheaper. Shoppers are greeted by ads for Echos. Workers wear uniforms with the light blue Prime logo.
To find the big changes, look at the rest of the grocery business.
Incumbents like Walmart, Kroger, Costco, and Target have taken aggressive steps, in store and online, to wall off Amazon.
Each has expanded online delivery and in-store pickup, poured money into supply chains and technology improvements, and kept prices low, even in the face of higher costs, to prevent customer defections.
"This has been a big wakeup call," said Bill Bishop, co-founder of the grocery retail consulting firm Brick Meets Click.
Despite Wall Street's initial concerns, shoppers have stayed loyal to legacy players, propelling them to their fastest sales growth in years and reassuring investors.

$800 billion grocery market at stake

Amazon's plunge into the $800 billion US grocery industry posed an existential threat to rivals.
Kroger is the nation's largest supermarket chain, and food and drink make up more than half of Walmart and Costco's sales. Groceries account for 20% of Target's revenue.
Amazon's move escalated the fight for online groceries.
Although online ordering has been slow to take off in the United States, MoffettNathanson analysts estimate it will account for 18% of grocery sales by 2025, up from about 2% today.
Considering its disruptive history, many analysts believed Amazon would use Whole Foods to siphon off competitors' loyalists.
But Whole Foods only represents around 2.5% of the US grocery market, and it caters to a smaller, wealthier segment of the population than Walmart or Kroger. The impact of the Amazon deal has proved overblown.
"The amount of industry share Amazon can take with the physical stores is limited," RBC analysts William Kirk and Mark Mahaney wrote in a research

report earlier this month. "We believe grocery is ownable in the face of the Amazon fear."

Doubling down on stores

Amazon has the logistics experience, but legacy retailers have played to Americans' preference to buy meat and produce in physical stories. At the same time, those retailers have marshaled new digital tools.

Costco has rolled out two-day home delivery for dry groceries, joined with Instacart on same-day delivery for fresh items, and partnered with startup Zest Labs to keep produce fresh as it travels through the supply chain.

Costco is trying to perfect what works: Selling stuff at lower prices in stores than competitors.

"We price Whole Foods twice a week in many, many markets around the country, and we're kind of scratching our head," CFO Richard Galanti told analysts last year, a signal of the company's confidence that it can beat Whole Foods on prices.

Walmart believes proximity to nearly every US household — 90% of the country lives within 10 miles of a store — gives it a significant advantage over Whole Foods.

Including Sam's Club, Walmart has around 4,360 stores in the United States, compared to approximately 470 Whole Foods locations.

More than 1,800 Walmarts now offer free grocery pickup, and the retailer plans to have it in as many as 2,220 stores by the end of this year. Whole Foods is just getting started.

Analysts say click-and-collect is more convenient for Americans who drive and don't have time to wait at home for fresh groceries.

At Walmart, digital sales jumped 40% last quarter from a year ago, and Morgan Stanley analyst Simeon Gutman estimated more than half of that growth came from grocery pickup.

Walmart has also expanded its online grocery delivery options with transportation partners like Postmates and DoorDash, and aims to cover 40% of the US population by year's end.

Last quarter, Walmart's grocery sales grew at the fastest pace in nine years and took market share from competitors.

Looking for deals

Target and Kroger have pursued a different approach, tapping outside help to build technology and infrastructure.

Last year, Target bought the grocery delivery startup Shipt, a $99-per-year membership platform, for $550 million to compete with Prime Now, Amazon's same-day delivery choice for household essentials.

CEO Brian Cornell said earlier this year that Target was not a "full-service grocer," but that it has the floor space and product selection to be a "convenient alternative."
Last quarter, on its way to its fastest sales growth in more than a decade, Target reported that food and beverage sales accelerated and gained market share.
Kroger has also thrown money at digital players to compete in the changing grocery landscape.
In recent months, it increased its stake in British online supermarket Ocado for automated warehouses, took over meal kit company Home Chef, and partnered with tech startup Nuro for driverless delivery.
At the same time, Kroger has expanded its own pickup service, ClickList, and rolled out Ship, its own delivery service for dry foods, earlier this month.
Kroger now has 1,250 curbside pickup stores and offers delivery from 1,200 through partnerships with Instacart and other third parties.
Last quarter, Kroger impressed Wall Street with 66% sales growth online. Meat, seafood, and natural foods were some of its strongest categories.
Whole Foods has not taken away Kroger customers either, CFO John Schlotman noted earlier in the year: "You don't see any damage to our business."

Amazon plays from behind

At Whole Foods, Amazon's imprint is growing. Price reductions have improved traffic, same-store sales have grown about 3% since the deal, and the grocer got a big lift from July's Prime Day sale, according to RBC.
But instead of making drastic changes, Amazon has steadily attempted to use Whole Foods as a weapon to lock more Americans into the Prime ecosystem by offering member discounts and selling electronics in stores.
"It's now evident that the Whole Foods purchase was just part of the larger mosaic that is Amazon's longer-term growth plan," Bishop said.
Meanwhile, Whole Foods trails rivals in the race to expand pickup and delivery. And although it could prove more competitive in urban areas, it still faces an uphill climb with middle-class suburban and rural shoppers.
For savvy operators like Walmart, Kroger, and Costco, it may prove easier to catch up in the online grocery race than it will be for Amazon to match their experience selling food in stores.

7. U.S., Mexico reach trade ‘understanding’ to overhaul NAFTA: Trump

[August 27, 2018] Donald Trump said Monday that the United States and Mexico have reached a bilateral trade "understanding" that could lead to an overhaul—or perhaps the termination—of the three-country North American Free Trade Agreement.

The U.S. president also invited Canada to rejoin trade negotiations with its NAFTA partners—while also threatening Ottawa that if it can't reach a deal then he will impose devastating tariffs on automotive imports.

"We'll start negotiating with Canada relatively soon, they want to negotiate very badly," Trump said in the Oval Office, with Mexican President Enrique Pena Nieto joining by speaker phone.

"But one way or the other, we have a deal with Canada. It will either be a tariff on cars, or it will be a negotiated deal; and frankly a tariff on cars is a much easier way to go, but perhaps the other would be much better for Canada."

Through an interpreter, Pena Nieto said several times that he hoped Canada would be part of an eventual trilateral agreement.

Trump also wants to re-baptize the trade agreement with Mexico.

"I like to call this deal the United States-Mexico trade agreement," he said.

"I think it's an elegant name. I think NAFTA has a lot of bad connotations for the United States because it was a rip off."

Trump suggested he would terminate the 24-year-old trilateral pact with Canada and Mexico—a pact that has been critical for the Canadian economy—and replace it.

"When that happens, I can't quite tell you, it depends on what the timetable is with Congress, but I'll be terminating the existing deal and going into this deal," he said.

"We're looking to help our neighbours. If we can help our neighbours, that's a good thing, not a bad thing. So, we'll start that negotiation imminently. I'll be speaking with Prime Minister [Justin] Trudeau in a little while."

In emailed commentary, CIBC chief economist Avery Shenfeld says Trump's comments underscore that "Canada is going to be presented with more of a take-it-or-leave-it offer, with the now not-so-subtle threat that the U.S. is prepared to leave Canada out and work on a bilateral basis with Mexico." He adds that Mexico is signalling its interest in staying with a trilateral pact involving Canada, and that he expects Canada and the U.S. to get a deal done.

Following Trump's announcement, Trudeau's office issued a statement saying the prime minister spoke with Pena Nieto on Sunday about NAFTA's renegotiation and "shared their commitment to reaching a successful conclusion to this agreement for all three parties."

Trump also called on Canada to negotiate fairly, especially when it comes to dairy products.

Canada has been absent from the NAFTA bargaining table since trilateral talks paused last spring.

Observers have raised concerns that Canada's absence from the talks could put Ottawa in a position where it might be pressured into accepting a deal reached between the U.S. and Mexico.

Trudeau has insisted his government will only sign a deal that's good for Canada.

Foreign Affairs Minister Chrystia Freeland will head to Washington on Tuesday to re-join face-to-face negotiations with the U.S. and Mexico on the future of the NAFTA.

Still, uncertainty remains, and if not resolved quickly could keep the Bank of Canada on hold in September, says Shenfeld. "We would not therefore take this as a good news story for the [Canadian dollar] just yet," he adds.

Have a nice and fruitful week!