Weekly Updates Issue # 688

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1. Weekly Markets Changes

[November 2, 2018]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
15,119.28 +231.0 +1.55%	2,723.06 +64.37 +2.42%	25,270.83 +582.52 +2.36%	7,357.00 +189.79 +2.65%	$0.7631 0.00c 0.00%	$1,232.89 -0.64 -0.05%	$63.14 -4.45 -6.58%

2. Canada's unemployment rate at four-decade low of 5.8%

[November 2, 2018] Canada's unemployment rate edged back down to its four-decade low of 5.8% last month as job growth was essentially flat and fewer people searched for work, Statistics Canada said Friday.

The latest labour force survey says the country added 11,200 net new jobs in October —including a gain of 33,900 full-time positions—but the numbers were too low for the agency to consider them statistically significant.

A dip in the labour force participation rate helped nudge the jobless rate down from its 5.9% reading in September to match the reading's 40-year low for the seventh time in last 12 months.

Economists had expected an increase of 10,000 jobs and an unemployment rate of 5.9%, according to Thomson Reuters Eikon.

But even in the strong labour market, wage growth continued along its downward trajectory.

Year-over-year average hourly wage growth, which is closely watched by the Bank of Canada, continued its steady decline in October to 2.19%—its weakest reading since September 2017.

Experts have predicted wage growth to rise in the tightened labour market, but it has dropped every month since May when it was 3.94%.

For employee work, the private sector added 20,300 positions last month, while the public sector lost 30,800 jobs.

Compared with 12 months earlier, national employment was up 1.1% following the addition of 205,900 positions, including 173,000 full-time jobs. Saskatchewan added 2,500 jobs in October, but employment levels were largely unchanged in the other provinces.
By industry, the goods-producing sector lost 12,000 jobs last month in a decline led by a notable loss of 7,100 positions in natural resources work.
The services sector added 23,200 jobs in October following a gain of 22,000 positions in business, building and other support services.
The employment data was good, but not good enough to expect an interest rate hike by the Bank of Canada in early December, said CIBC's Andrew Grantham, in a research note. "However, given the more hawkish tone of Poloz and co. recently, good rather than great data will be all that's needed for them to resume hiking interest rates in Q1."

3. U.S. creates 250K jobs as unemployment stays at 3.7%

[November 2, 2018] The final major economic report before Tuesday's congressional elections showed that U.S. employers added a stellar 250,000 jobs in October and raised average pay by the most in nearly a decade.
At the same time, the unemployment rate remained at a five-decade low of 3.7%.
Friday's employment report from the government pointed to a consistently robust job market that shows no sign of flagging even with the economy in its 10th year of expansion. Many employers have been struggling to find qualified applicants, which helps explain why average pay rose 3.1% over the past 12 months—the fastest year-over-year increase since 2008.
Those higher wages may be drawing more people into the labour market. An influx of new job-seekers increased the proportion of Americans with jobs to its highest level since 2009.
By some measures, consumers are the most confident they have been in 18 years, and their spending is propelling brisk economic growth. The economic expansion is now the second-longest on record, and October marked the 100th straight month of hiring, a record streak.
Strength in their customer demand has been a key factor leading companies to steadily add workers. Though economists predict that hiring will eventually slow as the pool of unemployed Americans dwindles, there's no sign of that happening yet.
Still, the latest month of healthy job growth might not tip many votes in the midterm elections. Polls have suggested that while Americans generally approve of the economy's performance, that sentiment hasn't necessarily

broadened support for President Donald Trump or for Republican congressional candidates.

The strong job growth and bigger pay increases will likely encourage the Federal Reserve to keep raising short-term interest rates. Most analysts expect the Fed to resume its rate hikes in December.

Hurricane Michael, which slammed into the Florida Panhandle and southern Georgia last month, had no discernible effect on the jobs data, the government said. Still, October's outsize gain might have reflected, in part, a rebound from September, when Hurricane Florence depressed job growth.

Hiring in October was strong in higher- and middle-income jobs. Professional and business services, which include engineers, architects and accountants, gained 35,000 jobs. Manufacturers added 32,000 after two months of smaller gains, defying fears that Trump's trade fights would slow hiring in that sector. Construction companies added 30,000 positions.

Retailers barely hired, adding just 2,400 positions, possibly reflecting the Sears bankruptcy. Restaurants and hotels gained 33,000, most of them lower-paying.

In the July-September quarter, consumer spending grew by the most in four years and helped the economy expand at a 3.5% annual rate. That growth followed a 4.2% annual pace in the April-June quarter. Combined, the two quarters produced the strongest six-month stretch of growth in four years.

Manufacturing output and hiring remain healthy, according to a survey by a private trade association, although increased tariffs have raised factory costs.

By contrast, housing remains a weak spot in the economy, with sales of existing homes having fallen for six straight months as mortgage rates have risen to nearly 5%. But slower sales have started to limit home price increases, which had been running at more than twice the pace of wage gains.

There are other signs that pay growth is picking up. A measure of wages and salaries rose 3.1% in the third quarter from a year earlier, the best such showing in a decade, the government said Wednesday.

Although pay increases can help boost spending and propel the economy's growth, they can also lead companies to raise prices to cover their higher labour costs. That trend, in turn, can accelerate inflation.

So far, though, inflation remains in check. The Federal Reserve's preferred price measure rose 2% in September compared with a year earlier, slightly lower than the year-over-year increase in August.

4. BoE offers Brexit warnings, after standing pat on rates

[November 1, 2018] The Bank of England warned Thursday that Britain could suffer an economic shock if it crashes out of the European Union without a deal, saying it could cause gridlock at ports and an inflation-rearing fall in the pound that could require an increase to interest rates.

After the bank kept its main rate at 0.75%, as expected, Governor Mark Carney said the supply capacity of the British economy—basically what the country can produce—could "fall sharply" in the event of a disorderly Brexit.

"An abrupt and disorderly withdrawal could result in delays at borders, disruptions to supply chains, and more rapid and costly shifts in patterns of production, severely impairing the productive capacity of some U.K. businesses," he said.

Even in that scenario, Carney said he could foresee the bank being forced to raise interest rates. Whether it does could depend on how the pound reacts to the prospect—after Britain voted to leave the EU in June 2016, the currency fell 15% against major currencies and that stoked inflation by making imports more expensive.

The bank, which is tasked with keeping inflation stable, is predicting another fall in the pound if Britain leaves the EU without a deal and no transition to smoothen out the exit.

"There are scenarios where policy would have to be tightened," Carney told a news conference, while adding that a no-deal Brexit is "not the most likely scenario."

Many economists doubt that the central bank's initial response to a disorderly Brexit would be to increase rates. After the 2016 referendum, when the pound had fallen, the bank cut interest rates.

The Bank of England, which has raised its key rate twice over the past year, is more likely to slash its benchmark rate to zero, economists say. It could also extend its stimulus program by potentially buying corporate bonds.

Carney's comments come as Prime Minister Theresa May struggles to keep her divided Conservative Party in check during what looks like the final stages of the Brexit discussions.

The talks are hung up in particular on the question of how to avoid reinstating a hard exit between EU member Ireland and Northern Ireland, which is part of the United Kingdom.

A summit of EU leaders in October was supposed to be the moment by which to reach a Brexit deal, to give parliaments time to pass it into law ahead of the March departure. Now, officials are talking about a summit in December as the last chance for a deal. By then, many Britain-based firms may have already activated contingency plans that could include transferring business to the continent and cutting jobs.

May's proposal for a Brexit deal is to essentially keep Britain in the European single market for goods, which would avoid tariffs and help keep supply chains operating with delays. Carney noted that aspects of May's plan are unclear, particularly regarding the financial services industry.
One clear impact of the Brexit uncertainty has been a decline in business investment. In a survey, the Bank of England found that more than 50% of firms identified Brexit as being one of the top three sources of uncertainty in September and October, up around 10 percentage points from August.
The bank said there has been little evidence of significant precautionary stock-building ahead of Brexit, though it said it's possible that could occur over the rest of this year and early next if concerns about Brexit persist. If the Brexit transition goes smoothly, the central bank is predicting a pickup in business investment next year.
That would help growth rise to around 1.75% a year on average over the coming three years. Under this scenario, interest rates would rise by a quarter percentage point per year over the period.
But, echoing comments by the Treasury chief this week, Carney said the bank would have to revisit its forecasts in the event of a no-deal Brexit.
"The economic outlook depends significantly on the nature of EU withdrawal, in particular the form of new trading arrangements between the EU and U.K. and whether the transition to them is abrupt or smooth and how households, businesses and financial markets respond," he said.

5. How global regulators are approaching cryptocurrencies

[November 1, 2018] A year after Bitcoin's meteoric rise, regulators are still figuring out what to do about cryptocurrencies while acknowledging the assets aren't going away.
Speaking Thursday at Hong Kong FinTech Week, Hong Kong Securities and Futures Commission (SFC) CEO Ashley Alder said regulators have to accept that virtual assets, or cryptocurrencies, "are now part of the landscape."
Figuring out how to regulate them is not simple, however.
"The most frustrating thing about this area at the moment is regulators rightfully identifying activities, conduct, assets that need to be regulated but not providing a way for companies—including our clients—to engage in those activities in a regulated manner," said Jai Massari, a partner at Davis Polk in Washington, D.C., speaking on a panel at the fintech conference.

Massari said regulators have had to either develop a new regulatory framework for cryptocurrencies or cram them into existing regimes.

“When regulators do that, you can see pretty clearly that they’re taking a look at what the activity is, what the market is, and deciding how they want to classify something based on how they want to regulate it,” she said.

This functional approach can mean treating cryptocurrencies as money, securities or commodities, depending on the context, she said.

Alder said in his speech that a core challenge for regulators has been determining whether they have legal jurisdiction over crypto firms.

“Some have decided that their current regulations already apply to those virtual assets which can be classified as securities, and have been active in this space,” he said. “Others have found they need to develop new legal frameworks. Others are adopting a wait and see approach.”

The U.S. Securities and Exchange Commission regards most cryptocurrencies as securities. In Canada, the CSA has said that many cryptocurrencies are securities, and must comply with securities law.

The U.K.’s Financial Conduct Authority said this week that it would launch a consultation early next year on whether to ban the sale of derivatives based on cryptocurrencies to retail investors.

Benedicte Nolens, head of compliance at global crypto finance company Circle, described the current regulatory environment as “a discovery exercise.” A former executive at Goldman Sachs and Credit Suisse, and former SFC regulator, Nolens told the panel that “every market is coming up with something slightly different.”

On Thursday, the SFC announced new rules for cryptocurrencies. Firms that invest more than 10% of a mixed portfolio in “virtual assets” will need to follow new requirements targeting crypto assets, “irrespective of whether they amount to ‘securities’ or ‘futures contracts,’” Alder said.

The measures are designed to protect investors at both the fund management level and the distribution level, he said. There is a “sizeable population” of investors in Hong Kong interested in trading virtual assets through unregulated platforms, as well as a growing demand for funds that invest in cryptos.

The SFC’s circular includes a framework for crypto exchanges whose activities don’t fall under the SFC’s purview but that wish to be supervised. The opt-in approach will allow operators to explore the framework in a sandbox environment.

Investors will benefit if the platforms that wish to be supervised are set apart, Alder said.

"Given the serious investor protection issues at stake, we see a real need to examine how the SFC might regulate these platforms under our existing legal powers, but without resorting to new legislation," Alder said.
Ronen Assia, co-founder and chief product officer of eToro, a cryptocurrency trading platform, told the panel he's eager for more regulation.
Companies are ready to comply, he said, and he's looking for more regulators to "step in and say, 'This is the way to do business.'"
Massari said she sees cryptocurrencies expanding through institutional and private fund managers, and through retail brokerages. While exchanges have had "a relatively open field," she said, "there are pretty significant legal or regulatory obstacles to address in terms of a broader mass retail adoption or an institutional adoption." Those obstacles include clearing, custody, auditing and insurance.
Alder raised some of these concerns in his keynote, noting that there are no standards on how to obtain audit evidence or to "judge the reasonableness of valuations."
Because crypto exchanges can act as both agents for investors and dealers, it's difficult to monitor conflicts of interest if they aren't regulated, he added.
Still, he said it's too early to create crypto-specific legislation.
"This world moves too fast to be pinned down by a bespoke legal framework; an international consensus on standards is yet to emerge and there is still much to learn," he said, adding that the sandbox would contribute to the learning.

Crypto trends to watch

In addition to increased regulation, Massari said she expects fewer initial coin offerings. Instead, there will be more startup companies building networks and issuing tokens once that network is running, rather than as a pre-sale.
She also said she expects more interest in stable coins, or those pegged to real-world assets—usually a currency such as the U.S. dollar or the euro.
Assia said he expects to see more institutional investors buying directly from cryptocurrency miners. "It's like the buying the purest form of crypto assets," he said, which can make it easier for compliance purposes.

6. Why Canada's comprehensive wealth matters

[October 30, 2018] If Canadians are worried about the future financial well-being of their children and grandchildren, those worries are well placed.
That sentiment comes from a report published by the International Institute for Sustainable Development, an independent think tank that promotes sustainability. It cites a poll that found 67% of Canadians think their children will be worse off than they are.

To achieve sustainable well-being, focusing on short-term economic indicators like gross domestic product is insufficient, says the report.
"GDP measures income today," it says. "But what matters in the long run is wealth, the foundation of income in the future."
It suggests establishing the following measures of sustainable wealth, which make up a comprehensive wealth portfolio:

- produced capital, such as infrastructure;
- natural capital, such as natural resources;
- human capital, such as workers' skills and knowledge;
- financial capital, such as stocks and bonds; and
- social capital, as measured by civic engagement and social cooperation.

For sustainable well-being, comprehensive wealth must be stable or growing over time on a per capita basis, the report says. "If it is not, the country is eroding its productive base, living off its inheritance rather than building for the future."
Using data from StatsCan and other sources, the report finds that Canada's GDP grew by an annual average rate of 1.31% from 1980 to 2015, while Canada's comprehensive wealth portfolio grew by only 0.23%.
"GDP grew more than five times faster than the wealth foundation on which it rests," says the report. "Viewed through the lens of comprehensive wealth, then, Canada's development has been far less impressive than GDP alone suggests."
Consistent with these findings, the report notes that the U.N. ranked Canada last among G7 members in comprehensive wealth growth. (Canada ranked first in the level of comprehensive wealth per capita, largely due to its natural capital.)
Beyond slow growth, the report highlights other areas of concern that threaten Canada's comprehensive wealth portfolio.
For example, Canadian households have unprecedented levels of debt and aren't saving enough. "Sustainability of well-being in the long term would be better served if households were less leveraged and held more balanced asset portfolios," says the report.
Also, business investment is increasingly concentrated in only two areas—housing and oil and gas—and climate change is a threat, with flooding, wildfires and tornadoes on the rise.

7. China's yuan sinks to 10-year low against dollar

[October 30, 2018] China's yuan sank to a 10-year low against the U.S. dollar on Monday, coming close to breaking the politically sensitive level of seven to the U.S. currency.

The yuan declined to 6.9644 per dollar at midday, passing its most recent low in 2016 before recovering slightly. It was the lowest level since May 2008.

The currency's weakness is one of a series of elements fuelling Washington's trade complaints against Beijing. The U.S. Treasury Department declined this month to label China a currency manipulator but said it was closely watching Beijing.

Chinese authorities have promised to avoid "competitive devaluation" to boost exports amid a tariff war with U.S. President Donald Trump over Beijing's technology policy. But they are trying to make the state-controlled exchange rate more responsive to market forces, which are pushing the yuan lower.

The level of seven yuan to the dollar has no economic significance, but could revive U.S. attention to the exchange rate.

Chinese authorities are likely to "stand their ground" and prevent a "capitulation beyond the 7 level," Mizuho Bank said in a report Monday.

The yuan, also known as the renminbi, or "people's money," has declined by almost 10% against the dollar since April as China's economy cooled and U.S. and Chinese interest rates went in opposite directions.

That helps exporters cope with tariffs of up to 25% imposed by Trump on billions of dollars of Chinese goods. But it raises the risk of inflaming American complaints about Beijing's trade tactics.

"The last thing they will do is to escalate the tension by starting a currency war amid a trade war," Macquarie Group said in a report last week.

A Treasury report on Oct. 17 said China failed to meet criteria to be labeled a currency manipulator, a status that can trigger sanctions. But it said Beijing was, along with Japan and Germany, on a list of governments whose currency polices would be closely monitored.

A weaker yuan also might encourage an outflow of capital from the world's second-largest economy. That would raise borrowing costs at a time when its leaders are trying to shore up cooling growth.

The People's Bank of China has been trying to make its exchange rate mechanism more efficient by increasing the role of market forces.

The exchange rate is set each morning and allowed to fluctuate by 2% against the dollar during the day. The central bank can buy or sell currency—or order Chinese commercial banks to do so—to dampen price movements.

Some forecasters say Beijing’s stance might change if Trump and his Chinese counterpart, Xi Jinping, make no progress at a possible meeting during a November gathering of the Group of 20 major economies.
The central bank tried to discourage speculation by imposing a requirement in August that traders post deposits for contracts to buy or sell yuan. That allows trading to continue but raises the cost.
Beijing imposed similar controls in October 2015 after a change in the exchange rate mechanism prompted markets to bet the yuan would fall. The currency temporarily steadied but fell the following year.

Have a nice and fruitful week!

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