Weekly Updates Issue # 564

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1. Weekly Markets Changes

[May 13, 2016]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
13,748.58 +47.11 +0.34%	2,046.61 -10.53 -0.51%	17,535.32 -205.3 -1.16%	4,717.68 -18.48 -0.39	$0.7730 -0.15¢ -0.19%	$1,274.30 -15.40 -1.19%	$46.37 +1.81 +4.06%

2. China is buying Canada: inside the real estate frenzy

[May 13, 2016] Paul Shen can tick off the reasons Mainland Chinese people buy property in Canada as surely as any fast-talking B.C. realtor. Some long to escape the fouled earth and soupy air of their country’s teeming cities, he explains, while others are following relatives to enclaves so well-populated by other Chinese expats they hardly feel like foreigners.

The richest, of course, regard homes in the West as stable vessels for disposable cash, but Shen lays no claim to such affluence. Last spring, the 39-year-old left behind his middle-management advertising job in Shanghai to seek the dream of home ownership he and his wife couldn’t afford in their home city. “We just followed our hearts to begin a totally different life,” he tells Maclean’s, adding: “We can make the house dream come true in Canada.”

The starting point was one-half of a modest duplex near downtown Victoria, close to the university where his wife is seeking a master’s degree, and priced about right for their limited means. Selling points ranged from the quiet of the street—perfect for their six-year-old son—to the stunning Vancouver Island vistas all around. High on his list, though, was Victoria’s comfortable distance from the bustling Chinese communities of B.C.’s Lower Mainland. As Shen—betraying his limited knowledge of presettlement Canadian history—puts it: “We wanted a place that would allow us to live with the natives.”

It’s hard not to smile at his idealism. Substitute any one of two dozen nationalities, after all, and you have a chapter in Canada’s cherished narrative of migration, settlement and shared prosperity.

But as a Chinese newcomer with a buy-at-all-costs resolve, Shen also personifies a phenomenon dividing those “natives” he’d like to call his neighbours. In the past five years, the flow of money from mainland China into Canadian real estate has reached what many consider dangerous levels, contributing to a gold-rush atmosphere in the nation’s leading cities, while stirring anger among young, middle-class Canadians who feel shut out of their hometown markets.

3. Canadian regulators sign off on Rona takeover

[May 13, 2016] Lowe’s has received approval from Canadian regulators to buy rival home improvement retailer Rona.The company said it expects the deal to close next week.

Lowe’s, which is based in Mooresville, North Carolina, announced it was buying Rona in February for about $2.3 billion. It previously tried to buy Rona in 2012, but that deal fell through.

By acquiring Rona, Lowe’s will increase its business in Canada. Lowe’s has more than 40 stores in the country, while Rona has nearly 500–U.S. rival The Home Depot Inc., which is based in Atlanta, has about 180 Canadian stores.

Shares of Lowe’s Cos. slipped 17 cents to $75.23 in morning trading Friday.

4. Apple invests $1 billion in Chinese Uber competitor

[May 13, 2016] Apple Inc. has invested $1 billion in Chinese ride-hailing service Didi Chuxing, the main competitor in China for Uber Technologies Ltd.

Apple will become a strategic investor alongside Chinese e-commerce giant Alibaba Group and Tencent Holdings Ltd., an online games and entertainment service.

China’s ride-hailing industry has grown rapidly, with competitors spending heavily to subsidize rides to capture market share. And, this latest deal reflects Apple’s increased emphasis on services as growth in its iPhone business slows, said Jack Kent of IHS Technology in a report.

“The investment in Didi highlights the strategic importance of China and the services segment for Apple’s future strategy,” Kent adds. “It could help

Apple gain greater insight into the behaviour of users beyond its own ecosystem."

Didi Chuxing, previously Didi Kuaidi, operates in 400 Chinese cities.

Further, in September, the company and Lyft of the United States agreed to link their services to allow travelers to use them in each other's markets.

Then, in December, their alliance added India's Ola and Southeast Asia's GrabTaxi.

5. Vatican bank: now "impossible" to launder money here

[May 12, 2016] The head of the Vatican's scandal-marred bank declared Thursday it's now "impossible to launder money" there after a years-long cleanup that saw norms imposed to fight money laundering and tax evasion.

Jean-Baptiste Douville de Franssu made the claim as the bank reported net profit of 16.1 million euros ($23.5 million) last year, down from 69.3 million euros in 2014. The bank attributed the decrease to lower interest rates and market uncertainties and provisions to fix a foreign tax issue.

In an interview with Vatican media, de Franssu acknowledged that in the past the IOR had been subject to abuse "because you cannot serve two masters, and money is tempting."

But now that new norms are in place, he said: "It is impossible to launder money at IOR."

The bank has some 14,801 customers. About half are religious orders which use its investment services and to transfer money to missions around the world. Other customers include Vatican offices and employees. Total client assets under management at the end of 2015 were 5.8 billion euros ($8.5 billion).

Each year, the bank gives the pope around 50 million euros, much of it to run the Holy See. This year, Pope Francis is only getting the 16.1 million euro profit.

The bank's general director, Gian Franco Mammi, suggested that in previous years, the bank had dipped into its capital to make the donation.

"The novelty this year — and for me it is a great pleasure to be able to communicate this — is that the contribution has come only from the actual profits and not the capital," he told Vatican newspaper and radio.

For fiscal year 2014, the IOR gave the pope 55 million euros from a profit of 69.3 million euros. But in fiscal year 2013, the IOR gave him 54 million euro even though it only turned a 2.9-million Euro profit, suggesting that the

majority of the donation came from capital that was needed to run the Holy See.
The IOR embarked on a lengthy and costly cleanup to ascertain who exactly held accounts there and whether they were entitled to after years of scandals.

6. Oil patch money troubles going to get worse

[May 11, 2016] Consumer insolvencies have jumped in provinces affected by the energy sector downturn and could keep going up, says the Canadian Association of Insolvency and Restructuring Professionals (CAIRP).
Bankruptcies and consumer proposals in Alberta rose by 24.6% between February 2015 and February 2016, reports the Office of the Superintendent of Bankruptcy (OSB). That compares to a 2.8% rise a year earlier.
Similar increases were also recorded in Saskatchewan (18.2%) and Newfoundland and Labrador (22%). The Atlantic province has its own oil and gas industry and is home to many workers who travel west to work.
“We are only just now getting the statistics for February and certainly my experience here in south Saskatchewan is that we have been steadily getting busier since January,” says Ian Schofield, CAIRP Board Secretary and a Saskatchewan Licensed Insolvency Trustee.
While rates in other provinces remained relatively low – even declining in Ontario by 1.3% from February 2015 to February 2016 – the impact of the oil price downturn has been dramatic in provinces where oil and gas are produced.
Canada’s energy sector employed about 300,000 workers in 2014, according to Natural Resources Canada. But the petroleum industry has lost an estimated 40,000 jobs over the past two years, and such massive cuts inevitably leave some laid-off workers without the means to make monthly payments. When an industry loses jobs in an economy that doesn’t have a lot of diversity, insolvencies rise.
“I have found over the past thirty-plus years that even if the economy starts turning around, insolvency filings generally increase for some considerable time as individuals clear up the debt hangover […] from having lost their previous jobs,” says Schofield.
“I think it’s going to get significantly worse before it gets better.”

7. Who owns America's debt?

[May 10, 2016] Donald Trump says he can "make a deal" on America's debt.

Last week, he implied that he could negotiate with America's creditors to get them to accept a lower rate of repayment, such as 85 cents for every dollar. It sounds shrewd, until you think about who would get hurt under this scenario. Who exactly owns the $19 trillion-plus of U.S. debt?

There's been a lot of attention in recent years over China rising to become one of the largest holders of U.S. debt. China's share of the debt is sizable -- about 7% -- but it's hardly the largest holder of U.S. government bonds.

The top holder by far is U.S. citizens and American entities, such as state and local governments, pension funds, mutual funds, and the Federal Reserve. Together they own the vast majority -- 67.5% -- of the debt.

Foreign nations only hold 32.5% of the total.

Trump's proposal stunned the financial world. The U.S. government is the world's safety net. Lenders expect the U.S. Treasury to always make good on its payments.

"The global financial system is built on the notion that U.S. Treasuries are absolutely safe assets," economist Doug Holtz-Eakin told CNN's Jake Tapper Monday. "If he were to put a crack in that foundation, the global financial system would crater and we would have a global economic recession."

Renegotiating debt terms is a common practice among companies in financial trouble. Creditors are willing to accept lower payments because that's preferable to getting nothing. However, the U.S. government isn't a "junk bond" company.

Trump walked back his debt deal making comments when he appeared on CNN's "New Day" show Monday morning as the outrage grew.

What's important to remember is that any debt negotiation is really a deal with U.S. citizens.

For years, grandmas and grandpas gave their children and grandchildren U.S. bonds to encourage them to save and grow their money. Retirees buy bonds because they are safer than stocks and provide more stable monthly income. Investors of all ages hold U.S. bonds to make their retirement and investment portfolios less risky.

"A lot of people who own the debt are in the U.S. Why would I want to get paid less on my debt than when I bought it?" says Maya MacGuineas, an expert on government debt and budgets. She is president of the Committee for a Responsible Federal Budget.

Of the $12.9 trillion chunk of debt owned by Americans, $5.3 trillion is held by government trust funds such as Social Security, $5.1 trillion is held by individuals, pension funds and state and local governments and the remaining $2.5 trillion is held by the Federal Reserve.

Outside the U.S., China is the largest foreign holder of the debt, with $1.25 trillion. It is followed closely by Japan, which holds $1.13 trillion.

8. America has near record 5.8 million job openings

[May 10, 2016] Job openings are just about everywhere today.

America had around 5.75 million job openings in March. That's just shy of the all-time high, 5.78 million openings, set last July, according Labor Department data published Tuesday.

It's great that U.S. businesses are hiring. But these record number of openings are also a sign that business owners can't find the skilled workers qualified to fill the jobs they have.

"Employers are having a tougher time finding qualified workers," says Peter Boockvar, chief market analyst at the Lindsey Group.

Since November, the number of job openings has increased for five straight months. In 2007, before the Great Recession began, job openings averaged 4.5 million per month. Last year there were 5.3 million openings per month on average.

The job skills gap is a major reason why there are still high levels of part-time workers and underemployment in the U.S. economy today. It's why many Americans feel disgruntled about the economy.

With a historically high level of underemployment, where workers' skills don't match their jobs, their wages haven't increased much overall during the economic recovery since the recession.

U.S. officials are trying to address the jobs skills gap. President Obama pledged $175 million in grants towards apprenticeship programs last year, the highest federal commitment ever. Last week during a panel discussion at the Milken Global Conference in Los Angeles, four U.S. governors lamented how hard it is to find skilled workers.

"My number one problem in my state is workforce," Republican Gov. Scott Walker of Wisconsin said.

Small businesses are feeling this. In April, 29% of small businesses said they weren't able to fill open positions, matching the highest rate set over the last five years, according to a survey by NFIB, a small business trade group.

Bridging the skills gap is a mounting task: thousands of manufacturing and mining workers are also losing jobs, forcing them to try new skills. On top of that, many experts say that some employers' expectations of prospective job candidates have risen to levels that are too high.

"No wonder help-wanted signs are everywhere," says Chris Rupkey, chief financial economist at MUFG Union Bank.

9. Canadian housing starts stable

[May 9, 2016] The trend measure of housing starts in Canada was 195,064 units in April compared to 196,103 in March, according to the Canada Mortgage and Housing Corporation (the trend is a six-month moving average of the monthly seasonally adjusted annual rates of housing starts).
"While the trend for Canada remained stable in April, there were offsetting differences at the local level, notably in Vancouver and Montréal," says Bob Dugan, CMHC chief economist. "Condo construction is slowing down in Montréal, as builders are managing inventories by channeling demand to units that have been completed but remain unsold."
The standalone monthly SAAR for all areas in Canada was 191,512 units in April, down from 202,375 units in March. The SAAR of
urban starts decreased by 4.6% in April to 174,810 units. Multiple
urban starts decreased by 4% to 117,851 units in April and the single-detached urban starts decreased by 5.8% to 56,959 units.
In April, the seasonally adjusted annual rate of urban starts increased in the Prairies, British Columbia and Atlantic Canada, but decreased in Ontario and Québec.
Rural starts were estimated at a seasonally adjusted annual rate of 16,702 units.

Have a nice and fruitful week!