Weekly Updates Issue # 565

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1. Weekly Markets Changes

[May 20, 2016]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
13,919.58 +171.0 +1.24%	2,052.32 +5.71 +0.28%	17,500.94 -34.38 -0.20%	4,769.56 +51.88 +1.10	$0.7625 -1.05¢ -1.36%	$1,252.90 -21.40 -1.68%	$48.48 +2.11 +4.55%

2. Inflation up 1.7%

[May 20, 2016] The annual pace of inflation picked up in April as the impact of lower energy prices moderated.

Statistics Canada said Friday that its consumer price index climbed 1.7% in April compared with a year ago. That was in line with economist estimates and compared with a 1.3% jump in March.

Energy prices in April were down 3.2% compared with a year ago, but the drop was much smaller than the 7.8% decline in March.

Gasoline in April was down 5.8% compared with a year ago, while natural gas fell 12.8% and fuel oil plunged 19.3%. The moves compared with drops of 13.6%, 17.4% and 25.8% respectively for March.

Meanwhile, fresh vegetables were up 11.7% year-over-year in April, food from restaurants was up 2.7% and passenger vehicles gained 4.6%. Electricity costs were up 6.5%.

Overall food prices were up 3.2% in April, while the transportation index was up 0.9% compared with a year ago as a higher cost of passenger vehicles weighed against lower gasoline prices.

Prices were up in seven of the eight major components compared with a year ago.

The clothing and footwear group was the only one of eight major index components to see a drop compared with last year. It moved down 0.2%. Women's clothing slipped 0.5%, while men's clothing was unchanged.
Prices were up in nine of 10 provinces compared with a year ago. Alberta held steady.
The Bank of Canada's core index, which excludes some of the most volatile items, was up 2.2% in April compared with a year ago. The reading was up from the 2.1% mark set in March. The rate was higher than the 2.0% that economists had expected.
In addition to the inflation report, Statistics Canada also reported that retail sales in March fell 1.0% to $43.8 billion after posting gains in January and February.
Economists had expected a drop of 0.6%, according to Thomson Reuters.
Sales were down in six of 11 of the subsectors tracked with the largest drop in dollar terms coming at motor vehicle and parts dealers which saw a 2.9% drop. The move was due in large part to a 3.0% drop at new car dealers, while other motor vehicle dealers fell 5.3% and used car dealers slipped 3.7%.
Retail sales in March were down in nine provinces. Prince Edward Island was the only province to show an increase as it gained 0.8%.

3. Alberta's credit rating continues to slide

[May 20, 2016] Alberta's credit rating has been downgraded again.
In December, Standard & Poor's downgraded the province's rating from AAA to AA-plus. And now, the agency has changed the province's rating from AA-plus to AA. The company says the downgrade reflects what it calls "Alberta's very weak budgetary performance and high, increasing debt burden."
Standard & Poor's also cites uncertainty about the province's willingness to take measures to improve its budget shortfalls within the next two years.
Last month, Moody's Investor Service and DBRS both downgraded Alberta's credit rating due to concerns about the province's debt after the NDP government introduced its budget—Alberta's budget includes a $10.4-billion deficit this year.
In a report, Standard & Poor's says, "The one-notch downgrade reflects the impact of depressed oil prices on Alberta's important resource revenues, and the province's fiscal response that, so far, has not meaningfully counterbalanced this external shock."

It adds, “Based on the province’s latest budget released last month, we now expect the depth and duration of the province’s after-capital deficits and related run-up in tax-support debt to be much greater than what we foresaw in our last review in December 2015, leading us to conclude that Alberta’s credit profile is no longer consistent with the AA+ rating.”

4. CPPIB return drops to 3.4%, lowest since 2009

[May 19, 2016] The Canada Pension Plan Investment Board saw its net investment return for the fiscal year ended March 31, 2016 drop to 3.4 per cent, a decline of nearly 15 percentage points since last year’s return of 18.3 per cent, and the lowest return since 2009’s -18.6 per cent.

However, Canada’s largest pension fund ended the fiscal year with net assets of $278.9 billion, compared to $264.6 billion at March 31, 2015. The $14.3 billion increase in assets consisted of $9.1 billion in net investment income after all CPPIB costs and $5.2 billion in net CPP contributions.

“Over the past twelve months, despite one of the more challenging investment environments in recent years and predominately negative equity markets, the CPP Fund generated a moderate gain,” said Mark Wiseman, president and chief executive officer of CPPIB, in a news release on Wednesday.

“This outcome demonstrates the benefits of a resilient, highly diversified global portfolio. This year’s results highlight the real-time impact of short-term market volatility, reinforcing why we focus on long-term results.”

Despite volatility in quarterly results, CPPIB credits its $9.1-billion gain in net investment income to private equity assets and real estate and fixed-income holdings. And though the Canadian dollar’s currency dropped during the fiscal year, the pension fund’s diversification across currencies helped bring in returns, it said.

The fund’s portfolio is made up of 19.1 per cent of Canadian assets and 80.9 per cent of foreign assets.

CPPIB’s investment highlights for the fiscal year ended March 31, 2016 include:

Private investments

A joint acquisition of Petco with CVC Capital Partners for a total of US$4.6 billion.

A signed agreement alongside the Ontario Municipal Employees Retirement System and the Ontario Teachers’ Pension Plan to acquire Skyway Concession Company for a total of US$2.9 billion.

A $1-billion commitment for energy infrastructure acquisitions in Western Canada through a partnership with Wolf Infrastructure Inc.
A completed acquisition of Antares Capital, alongside Antares Investment Management Inc., from GE Capital, valued at US$12 billion.
Public investments
An RMB3.2-billion ($688 million) investment in the common equity of Postal Savings Bank of China.
An acquisition of 52.9 million common shares of Entertainment One Ltd. for £142.4 million.
A $756-million investment for an approximate 27.7 per cent interest in Enstar Group Ltd., a global specialty insurance company.
Real estate investments
A joint venture with Welltower Inc. to purchase a 97.5 per cent interest in a portfolio of six seniors housing properties in Florida for an aggregate price of US$555 million.
A student housing joint venture entity with GIC and The Scion Group LLC to acquire a student housing portfolio in the U.S. for a total of US$1.4 billion.
A commitment of an additional US$1 billion to the Goodman China Logistics Partnership,
established with Goodman Group in 2009 to own and develop logistics assets in Mainland China.
A strategic joint venture with Unibail-Rodamco, the second largest retail REIT in the world, to grow CPPIB's German retail real estate program. The joint venture was formed through its initial equity investment of €394 million. In addition, CPPIB has committed a further €366 million in support of Unibail-Rodamco Germany's investment strategies.
Investment partnerships
The acquisition of a stake of approximately 20 per cent in Homeplus, Tesco's South Korean business, for US$534 million, as part of a consortium led by MBK Partners.
Asset dispositions
The sale of 45 per cent interest in two Florida assets, Oakwood Plaza shopping centre and Dania Pointe development project. CPPIB received approximately US$91.3 million from the sale.
The Capital London Fund, in which CPPIB is an 80 per cent equity holder, sold an office building in London. Proceeds to CPPIB from the sale were approximately £150 million.

The sale of a 45 per cent indirect stake in a Midtown Manhattan office building. Proceeds to CPPIB from the sale were approximately US$79 million.

5. FINRA fines Raymond James US$17M

[May 18, 2016] FINRA has fined Raymond James & Associates and Raymond James Financial Services, US$17 million for widespread failures related to the firms' anti-money laundering programs.

Raymond James & Associates (RJA) was fined $8 million and Raymond James Financial Services (RJFS) was fined US$9 million for failing to establish and implement adequate AML procedures, which resulted in the firms' failure to properly prevent or detect, investigate, and report suspicious activity for several years.

RJA's former AML Compliance Officer, Linda L. Busby, was also fined $25,000 and suspended for three months.

RJA and RJFS' significant growth between 2006 and 2014 was not matched by commensurate growth in their AML compliance systems and processes. This left RJA and Busby, as RJA's AML Compliance Officer from 2002 to February 2013, and RJFS unable to establish AML programs tailored to each firm's business, and forced them instead to rely upon a patchwork of written procedures and systems across different departments to detect suspicious activity.

The end result was that certain "red flags" of potentially suspicious activity went undetected or inadequately investigated. These failures are particularly concerning given that RJFS was sanctioned in 2012 for inadequate AML procedures and, as part of that settlement, had agreed to review its program and procedures, and certify that they were reasonably designed to achieve compliance.

Brad Bennett, FINRA's Executive Vice President and Chief of Enforcement, said, "Raymond James had significant systemic AML failures over an extended period of time, made even more egregious by the fact the firm was previously sanctioned in this area. The monitoring for suspicious transactions is an essential part of protecting our financial system and firms must allocate adequate resources to their AML compliance efforts. This case demonstrates that when there are broad-based failures within specific areas of responsibility, we will seek individual liability where appropriate."

During its investigation, FINRA found that the firms failed to conduct required due diligence and periodic risk reviews for foreign financial institutions, and that Busby failed to ensure that RJA's reviews were

conducted. RJFS also failed to establish and maintain an adequate Customer Identification Program.
In concluding these settlements, Raymond James & Associates, Inc., Raymond James Financial Services, Inc., and Busby neither admitted nor denied the charges, but consented to the entry of FINRA's findings.

6. Home construction slows in most of Canada

[May 18, 2016] Canada Mortgage and Housing Corp. says significant regional differences in home construction will be apparent over the coming years, with slower activity in most areas dragging down overall construction in 2016 and 2017.
The Ottawa-based agency is estimating that between 181,300 and 192,300 housing units will be started this year.
That's expected to drop to 172,600 units and 183,000 units starting in 2017. Both ranges have been lowered from CMHC's previous outlook, released late last year.
CMHC says slower activity in oil-producing provinces such as Alberta will be partly offset by increased activity in British Columbia and Ontario.
The Crown corporation also says there will be a decline in the number of previously owned homes that are resold in 2017 from this year but the average price is expected to increase over the same period to as high as $501,100 in 2017.
Citing data from the private-sector Multiple Listing Service, CMHC says it expects 2017 existing home sales will drop to between 485,500 units and 508,400 units from between 501,700 and 525,400 units in 2016.

7. Manufacturing sales fell 0.9% in March

[May 17, 2016] Statistics Canada says manufacturing sales fell 0.9% to $50.0 billion in March, due to lower sales of transportation equipment and primary metals. It was the second consecutive monthly decline.
Economists had expected a drop of 1.8%, according to Thomson Reuters.
Statistics Canada says sales were down in 16 of 21 industries. Transportation equipment sales fell 3.4% to $10.8 billion in March, while primary metal sales fell 5.6% to $3.5 billion.
In constant dollar terms, sales were up 0.1% in March, suggesting that higher volumes of manufactured goods were sold.

8. Canada could adapt to negative rates: BoC

[May 17, 2016] It's long been accepted that interest rates can't fall below zero because of the impact that negative rates can have on businesses and investors.
However, eliminating the possibility of negative rates "limits a central bank's ability to provide further stimulus to the economy through conventional decreases," says the Bank of Canada's 2016 spring review.
Further, the view that interest rates shouldn't be negative "has been contradicted by recent international experience: rates have become negative in Sweden, Denmark, Switzerland, the euro area and Japan," says the BoC.
This is why the Bank announced in December that it would consider further decreases in a crisis scenario.
The review notes, "The European experience suggests Canadian financial markets could also adapt to negative rates."
The central bank also discusses issues like why companies are reluctant to reduce employee wages, even when there's a recession. It says, "Employers often cite the impact that a cut in nominal wages could have on worker morale and productivity […] But if employers are unwilling or unable to reduce nominal wages, their only recourse is to lay off workers, leading to an increase in the number of unemployed."
Typically, says the BoC, "One way to mitigate [these] adverse effects […] is higher inflation, which can lower real wages without a corresponding reduction in the nominal wage."

9. Trudeau announces changes to EI for 3 regions

[May 16, 2016] Prime Minister Justin Trudeau has announced changes to provide extended EI benefits in three regions.
In the 2016 budget, twelve EI economic regions were listed as qualifying for extended benefits due to the downturn in the commodities sector. And now, the government of Canada has added three area areas to the list: Edmonton; Southern Interior British Columbia; and Southern Saskatchewan.
This extension means those who are eligible for EI can claim an additional five weeks of benefits for regular claimants, and a further 20 weeks of benefits for long-tenured workers. These benefits will be available for one year, beginning July 3, 2016, and will apply retroactively to anyone who started a claim on or after January 4, 2015 and is still unemployed.
This government says this completes its assessment and no further regions will be added.

10. How Ottawa and big pensions could boost infrastructure

[May 16, 2016] The Trudeau government's newfound enthusiasm about a big Montreal transit proposal has given Canadians a glimpse at one way Ottawa could fund billions in public infrastructure (to help build roads, bridges and rail over the long haul).

In recent days, senior Liberals have been talking up an unusual funding model for the $5.5-billion light-rail plan for Montreal, calling for a partnership that includes Ottawa and a public pension fund.

The idea was put forward by Quebec's massive public pension fund manager, which recently announced its proposal to build a large electric rail network connecting Montreal to its suburbs.

The fund, the Caisse de depot et placement du Quebec, is prepared to pump $3 billion into the project. And, it wants the provincial and federal governments to kick in the rest.

A subsidiary of the Caisse would operate the rail network and gradually recoup the pension plan's investment through user fees. Eventual profits would be funneled into Quebecers' public nest egg, the Quebec Pension Plan, which is managed by the Caisse.

The idea was made public after the Liberal government signaled in its March budget that it would like to engage deep-pocketed pension funds and other "innovative sources of funding" to help raise much-needed cash for long-term infrastructure projects that are in the public's interest.

So far, this first example of a potential federal partnership with a major pension plan appears to have stoked excitement among senior Liberal cabinet ministers.

Finance Minister Bill Morneau told a business crowd late last week in Montreal that "we have the chance in Canada to count on pension funds that have developed an expertise in infrastructure that is recognized around the world."

Morneau adds Ottawa is studying the Caisse's plan with "lots of interest."

His inaugural budget followed through on a Liberal election pledge to double infrastructure spending over the next 10 years, raising the overall federal investment to $120 billion.

The Liberal party has argued boosting infrastructure spending will increase productivity, generate more long-term growth and create jobs.

But the plan comes at a cost, given infrastructure spending is expected to contribute to a string of five-straight budgetary deficits that could add more than $110 billion to Canada's public debt.

Seeking out other sources of cash for infrastructure could increase the number of new investments while helping prevent the country from sliding even deeper into the red.

The first phase of the Liberal plan calls for $11.9 billion of spending over five years. It's focused on projects such as repairing aging water and public transit infrastructure as well as providing cash for smaller projects that can be completed by 2019.

There's also money available for planning larger, more-ambitious projects that would be part of the program's second phase, the details of which have yet to be unveiled.

That's where the Caisse's light-rail plan comes in—it features a type of funding model the government could increasingly tap into.

Infrastructure Minister Amarjeet Sohi told the Senate's question period last week that the timing of the government's second phase aligns with the Montreal proposal. He added that the government is working "very closely" with the Caisse.

"This is one of the most innovative and creative projects that I have seen in my short while in this portfolio, and it will be transformative for the region of Montreal," Sohi says.

"I see this as a great opportunity for us to support innovation in delivery of infrastructure, because we do need to engage public sector pension funds, as well as private sector funds, to make sure the amount of infrastructure that we build across the country engages other stakeholders and partners."

In their remarks last week, both Sohi and Morneau complimented Caisse CEO Michael Sabia, whom Morneau has named to his economic advisory council.

The council, tasked with helping the government map out a long-term growth plan, also features another head of a powerful public pension plan: Mark Wiseman, president and CEO of the Canada Pension Plan Investment Board.

Already, large Canadian pension plans, such as the Caisse and CPPIB, have invested billions in infrastructure projects abroad. Funds like these covet access to the reliable, predictable returns that infrastructure offers through revenue streams such as user fees, like tolls.

In its budget, the Liberals also mentioned something called "asset recycling," a system that could see governments in Canada lease or sell stakes in existing major public assets such as highways, rail lines, and ports.

Wiseman has praised asset recycling as a model Canada could use to attract long-term capital as it deals with its growing infrastructure deficit.

Sabia has argued that opening the door to pension plans to make more infrastructure investments in Canada would create a win-win scenario. “Every time you take the train, every time you buy a ticket, obviously it is a contribution to your retirement fund,” Sabia said last month after he announced the Montreal rail proposal.

Have a nice and fruitful week!