Weekly Updates Issue # 670

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1. Weekly Markets Changes

[June 29, 2018]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,277.73 -172.41 -1.05%	2,718.37 -36.51 -1.33%	24,271.41 -309.48 -1.26%	7,510.30 -182.52 -2.37%	$0.7594 +0.80c +1.06%	$1,252.60 -17.96 -1.41%	$74.15 +4.87 +7.03%

2. Feds unveil final list of retaliatory tariffs

[June 29, 2018] The federal Liberal government is taking its cross-border trade dispute with the United States up a notch, unveiling an extensive final list of $16.6-billion worth of American imports that will be hit with retaliatory tariffs this weekend.

Ottawa also released details Friday of a financial aid package for industries caught in the crossfire—and it includes up to $2 billion in fresh funding and support for workers in Canada's steel, aluminum and manufacturing sectors.

Foreign Affairs Minister Chrystia Freeland unveiled the details, including a finished list of U.S. products on Canada's hit list, which takes effect Sunday, during a news conference at a steel factory in Hamilton.

Aside from reciprocal tariffs on steel and aluminum imports from the U.S., the items to be subject to 10% duties come from a wide range of sectors—from ketchup, to lawn mowers, to playing cards.

It's all part of Ottawa's plan to strike back at the U.S. in response to hefty tariffs on steel and aluminum, 25% and 10% respectively, imposed last month by President Donald Trump.

Freeland billed Canada's response as dollar-for-dollar countermeasures that are part of a perfectly reciprocal retaliation to what she called the "illegal" and "absurd" tariffs imposed by the Trump administration.

“We are perfectly within our rights to respond—I’d also like to point out that Canada has quite intentionally been measured and restrained in its response,” said Freeland, who was joined at the announcement by Trudeau cabinet colleagues Patty Hajdu and Navdeep Bains.
There are fears, however, that Canadian tariffs, some of which target businesses in states that are important to Trump and his supporters, could lead to fresh trade action from the U.S.
Trump himself has already threatened to slap tariffs on the automotive sector, which could prove far worse for the Canadian economy than the steel and aluminum duties.
Freeland, asked whether she feared the U.S. would escalate matters, recalled a public comment she made right before the start of NAFTA negotiations—another tough Canada-U.S. trade file—in which she told Canadians the federal government expected “moments of drama in this process.”
“I think that prediction has been borne out,” she said. “I think all of us, at this point, fully anticipate there will be some moments of drama in the future.”
The Trudeau government’s decision to stand up to Trump with retaliatory measures has attracted wide support in Canada. But domestic businesses, particularly those in the steel sector, have expressed deep concerns about any escalation in the trade battle.
More broadly, the effects of the trade fight are expected to hurt both economies, which includes putting jobs at risk and potentially raising consumer prices on both sides of the border.
The federal support package includes similar measures to those offered by Ottawa last year in response U.S. duties on softwood lumber products from Canada.
For the latest dispute, the government intends to help affected workers by doubling the duration of work-sharing agreements under the employment insurance program to 76 weeks from 38 weeks. The aim is to help businesses retain skilled workers and avoid layoffs during any rough patches ahead.
Ottawa is also promising to boost funding for the provinces and territories to increase job and training programs.
“In terms of job losses, my message is clear: we stand with Canadian workers and we’re prepared to support Canadian workers if and when that happens,” said Hajdu, the federal labour minister.
For companies, Ottawa is promising up to $1.7 billion worth of financing and services for steel and aluminum industries through Business Development Bank of Canada and Export Development Canada.
Through its strategic innovation fund, Ottawa is also offering up to $250 million in support in an effort to reinforce the competitiveness of Canadian

manufacturers and strengthen the integration of Canada's steel and aluminum supply chain.
Bains, the economic development minister, said the support is aimed at helping firms adjust to the difficult circumstances while enabling them to continue to innovate along the way.
The government also plans to invest $50 million over five years to help firms take full advantage of recent trade agreements, including Canada's deal with the European Union and its membership in the Trans-Pacific Partnership.
The ministers reiterated Friday that Canada has taken steps and introduced safeguards to address concerns about diversion and dumping of products into the Canadian market.
Last week, U.S. Commerce Secretary Wilbur Ross expressed concerns about the world's overproduction and overcapacity of steel, saying the U.S. tariffs against Canada and other allies are designed to force them into action.
Freeland has long insisted that Canada introduced stronger safeguards on steel well before the U.S. imposed the tariffs.
She said the measures were put in place not only to ensure Canada is a good trading partner, but primarily to protect Canada's own national interest by keeping Chinese steel and aluminum from being dumped into the market.

U.S. states that will be hardest hit

Here's a list of some of the states set to be hit hardest by Canada's tariffs and by how much, based on how much of the targeted consumer products they shipped north in 2017.

Ohio: $1.15 billion
New York: $1.12 billion
Wisconsin: $820 million
Illinois: $780 million
Pennsylvania: $646 million
Washington: $629 million
California: $529 million
Tennessee: $453 million
Michigan: $432 million

Also, here's a look at the value of 2017 imports from the U.S., for some of the products targeted by Canada's preliminary tariffs.

Herbicides: $1.13 billion
Motorboats, rowboats, canoes and other pleasure boats: $646 million
Coffee, roasted: $525 million
Mayonnaise, salad dressing, mixed condiments: $522 million
Fungicides: $418 million
Ketchup and other tomato sauces: $264 million

Organic facewash: $229 million
Soups and broths: $204 million
Whiskey: $62 million
Maple sugar and maple syrup: $17 million
Ballpoint pens: $3.5 million

3. At 0.1%, real GDP edges above expectations for April

[June 29, 2018] Statistics Canada says real gross domestic product edged up 0.1% in April over the previous month.

Economists had expected no change, according to Thomson Reuters Eikon.

The increase came as output of goods-producing industries rose 0.2%.

Gains in the manufacturing and utilities sectors more than offset declines in construction and in mining, quarrying, and oil and gas extraction.

Activity in the manufacturing sector rose 0.8% in April as the output of both durable and non-durable manufacturing grew.

Services-producing industries were essentially unchanged overall for the month.

This data "comes on the heels of two solid months, and sets up Q2 to be a roughly 2.5% [for the] quarter, good enough to keep the Bank of Canada on target for our forecast July hike," says Avery Shenfeld, managing director, economics, for CIBC World Markets, in a Friday statement.

He's bearish on fixed income and bullish on the loonie, which also supports his expectations for the rate hike.

Derek Holt, vice-president and head of Capital Markets Economics for Scotiabank, says, "The market moved to price in about 85% odds of a BoC hike on July 11th […]," in his Friday note. "The figures were not expected to influence the BoC's […] decision but they certainly don't hurt either, especially given StatsCan guidance on weather disruptions that held back broad forms of economic activity in April," he adds.

Holt points out that StatsCan is "fairly aggressively blaming weather distortions that cut both ways, " largely "as an explanation for why growth was not stronger yet."

4. Look beyond optimistic tone of BoC biz survey

[June 29, 2018] The Bank of Canada's quarterly business outlook survey signalled widespread business optimism with sales outlooks remaining robust, supported by strong foreign and domestic demand.

The business outlook survey indicator rose to its highest level since the second quarter of 2011. Responses to most survey questions were above their historical averages, the central bank said Friday.
However, the Bank of Canada said almost all of the interviews with firms for the survey were done before the U.S. announcement on tariffs on steel and aluminum imports from Canada.
Escalating trade tensions between Canada and the U.S. since then, including the threats of additional tariffs on the auto sector, have raised concerns for the economy.
Also, protectionist risk has been rising since May, Eric Lascelles, chief economist at RBC Asset Management in Toronto, told Advisor.ca in mid-June. That said, he explained it's difficult to find an economic model that illustrates protectionism results and that current protectionist measures would need to increase significantly to reach trade war status.
Concerns for U.S. businesses are also rising. As a June 28 report from Moody's Analytics says, the good news of a rise in operating profits south of the border is being "marred by considerable uncertainty."
John Lonski, chief economist of Moody's Capital Markets Research, writes, "What may degenerate into an extended trade war of attrition could preserve financial market volatility indefinitely."
Further, he says, "Given the global complexities of modern supply-chain management, a surprisingly large number of U.S.-based businesses may delay capital spending and staffing plans until trade-related uncertainties are sufficiently resolved."
In particular, Lonski says, "To the degree tariffs increase the costs of materials and inventories, businesses will tighten their control of other costs; the most prominent being employee compensation."
Meanwhile, for Canada, the BoC's survey of about 100 firms found the balance of opinion on future sales growth was marginally positive as domestically-oriented firms, including those tied to housing in some regions, expected a moderation in growth.
Firms that were optimistic about their sales prospects often expected benefit from sustained foreign or domestic demand, improving commodity prices or new products or initiatives to increase market share.
"In particular, firms serving foreign customers reported that orders have improved compared with 12 months ago, and they expect export sales to increase at a greater rate over the next year," the report said.
Based on this data, it seems, "Firms were generally upbeat about the economy in May and early June," says National Bank's Krishen Rangasamy in a June

29 report. The BoC survey's "aggregate indicator rose near an all-time high in Q2," he adds.
However, it's likely that business optimism "took a subsequent dive, especially after the disastrous G7 meeting of June 8th/9th when Canada-U.S. trade relations took a turn for the worse," he cautions.
What's more, the survey also said the number of firms that would have significant difficulty meeting an unanticipated increase in demand has increased to levels not seen since before the 2008-09 recession.
"Reports of labour shortages are most prevalent in British Columbia, but are also common in Central Canada," the report said.
The Bank of Canada survey came as Statistics Canada also reported Friday that real GDP edged up 0.1% in April over the previous month. Economists had expected no change for the month.
Gains in the manufacturing and utilities sectors more than offset declines in construction and in mining, quarrying, and oil and gas extraction to help the output of goods-producing industries rise 0.2%.
Activity in the manufacturing sector rose 0.8% in April as the output of both durable and non-durable manufacturing grew.
Services-producing industries were essentially unchanged overall for the month.
Both the business outlook survey and the latest reading on GDP will be scrutinized by the central bank ahead of its interest rate decision next month.
The Bank of Canada kept its key interest rate target on hold at its last rate announcement, but the central bank's accompanying statement was interpreted by many economists as suggesting that rates could head higher later this year.
However, the Trump administration announced tariffs on steel and aluminum imports a day after the last rate announcement and has since made threats of additional tariffs on other goods including automobiles. Canada has responded with its own plans for tariffs on U.S. steel and aluminum imports, as well as duties on a wide range of other goods.
Bank of Canada governor Stephen Poloz said earlier this week the escalating cross-border trade fight and new mortgage rules will "figure prominently" in the central bank's upcoming interest-rate decision.
The governor added the central bank will continue to focus on economic data it can model rather than trying to follow political rhetoric.
The Bank of Canada has raised its key interest rate target three times since last summer–moves that have prompted Canada's big banks to raise their prime lending rates. The central bank's target for the overnight rate sits at 1.25%.

The business outlook survey was conducted from May 3 to June 5.

5. Credit delinquency rates forecasted to rise: Equifax

[June 28, 2018] Credit delinquency rates for Canadians fell in Q1 2018, but slowing credit growth and interest rate hikes are likely to stop that trend, says Equifax Canada.

Still, for the first quarter, the company's national consumer credit trends report finds consumer debt, including mortgages, was $1.8 trillion in Q1—a rise of 5.7% year-over-year. Loans and mortgages account for most of that growth, Equifax says in a release, but auto loans and bank loans also rose for the same period (8.3% and 10.6%, respectively).

The report also finds:

- mortgage lending rose by 2.9% year-over-year;
- non-mortgage debt increased by 2.9% in the last year, to $22,775; and
- average mortgage holding was $204,850, a rise of 4% in the last year.

Also, the greater than 90-day delinquency rate dropped to 1.08% in Q1, from 1.15% in 2017, the release says. This rate was the lowest for the quarter since 2009, and only Saskatchewan and Newfoundland reported higher rates.

Further, all age groups and product types reported lower delinquency rates compared to post-2008 recession lows.

Now, however, the proportion of consumers paying their credit card balances in full is dropping, and there are indicators that credit performance is slipping from healthy levels, says Regina Malina, senior director of decision insights at Equifax Canada, in the release. "As unemployment holds at current levels and interest rates are likely to rise, we suspect delinquency rates to move modestly higher by year-end."

6. 5% of Ontarians own cryptoassets, most people don't understand them: OSC

[June 28, 2018] A study by the Ontario Securities Commission suggests 5% of Ontarians own what the regulator calls "cryptoassets" such as Bitcoin or Ether and awareness is increasing, but knowledge is lacking.

The online survey conducted in March also showed that 1.5% of respondents say they have participated in an initial coin offering, in which investors usually buy digital tokens that can be kept, sold or traded.

However, when the 2,500 Ontarians surveyed were asked to identify true statements about these digital assets, just 34% were able to do so, according to the OSC.

“We did find there is a lot of awareness of the sector, and people are increasingly participating or being approached, but that understanding and knowledge and comprehension of the sector is lagging,” said Tyler Fleming, the director of the regulator’s investor office.

The survey comes about a month after the provincial regulator joined forces with its peers in the U.S. and Canada to warn investors about cryptocurrency-related investment schemes.

Dubbed Operation Cryptosweep, the project has resulted in dozens of inquiries and investigations, and pending or completed enforcement actions related to initial coin offerings or cryptocurrencies since the beginning of May, according to the North American Securities Administrators Association.

The OSC also said in April it was gathering information on several cryptocurrency trading platforms after it received a number of complaints.

The B.C. Securities Commission and the Bank of Canada have also issued warnings about investing in cryptocurrencies. In December, central bank governor Stephen Poloz sounded the alarm on Bitcoin, calling the purchase of the cryptocurrency “closer to gambling than investing.”

Some of Canada’s biggest banks earlier this year halted the purchase of cryptocurrencies using their credit cards as well.

Meanwhile, the price of Bitcoin has plummeted since the beginning of the year, from roughly US$13,440 on Jan. 1 to US$6,100 on Thursday, according to Bitstamp.net.

The OSC’s survey suggests that on top of the 5% who currently own a cryptoasset, an additional 4% of Ontarians say they used to own one.

Men aged 18 to 34 were more likely to report owning a cryptoasset, at 14%.

Most people aren’t spending huge amounts of money on cryptocurrencies and other digital assets, with just over half saying they spent less than $1,000 or no money at all to acquire them.

The survey suggested that roughly 5% of cryptoasset owners did spend between $10,000 and $19,999, and another 4% spent more than $20,000.

Most cryptoasset owners made their purchases using cash savings, at 55%, but 26% said they used their credit card. Fourteen percent received them for free.

Of the purchases, 37% were made within the past year, but nearly as many were made during the past three months, at 35%.

As well, the study showed that 12% of Ontarians had been approached about or sought information themselves about an ICO. Most were approached via social media, at 39%, followed by friends or family at 33%.

“It’s clear that interest in this sector is not going to disappear any time soon,” said Fleming.

"So as time goes by, as people become more familiar with the product, we would certainly expect people to be doing more research, understanding the different types of products and risks out there."

The polling industry's professional body, the Marketing Research and Intelligence Association, says online surveys cannot be assigned a margin of error as they are not a random sample and therefore are not necessarily representative of the whole population.

7. Where oil prices are headed, and why

[June 27, 2018] Positive news for oil investors came out of the June 22 Organization of Petroleum Exporting Countries (OPEC) meetings, says Brian See, vice-president of equities at CIBC Asset Management.

OPEC nations announced a commitment to 100% compliance with its 1.8-million-barrels-per-day production cut originally agreed upon in late 2016.

Over the last year and a half, production cuts actually reached 150%, says See (June 23 meeting notes from OPEC say participating countries "exceeded the required level of conformity that had reached 147% in May 2018."). "So, instead of 1.8 million barrels of a production cut into the market, there was actually [a cut of] 2.7 million barrels," he says.

Complying with original cuts will amount to a roughly one-million-barrel-per-day production increase, beginning July 1.

The overcompliance was mainly due to countries like Venezuela seeing supply "falling off at a larger pace than anticipated, and also a lack of reinvestment among other countries, causing their oil fields to decline," See says.

The cumulative effect of that was "oil inventories [fell] from historical highs to below five-year averages. We also saw [more] consumption of gasoline and distillates from the end consumer, and this led to oil prices rallying from the low US$30s all the way up to US$75, and even touching US$80," he explains.

As of June 26, WTI was trading above US$70 while Brent crude was trading above US$75.

Ahead of the OPEC meeting, markets had called for an increase of around 600,000 to 700,000 barrels per day to be brought on, so the resulting announcement came as a surprise, See says. "This was because, if you look at the one million barrels per day, certain countries can't even bring on that capacity. They don't have the spare capacity."

More details are expected in September, when OPEC and non-OPEC nations will meet to further discuss quota and output levels, and review production levels.

While a rise in prices and consumption was needed in terms of balancing the market in 2016, higher prices can also lead to "to possible demand destruction in the case of end consumers," See says. "We have started to see this coming out from customers in China, India and even the U.S."

An increase of production from OPEC nations is welcomed because it "will ultimately lead to more of a balanced oil market on a go-forward basis," he says. In particular, See points to Saudi Arabia as being the primary contributor to the increased production.

That country plans to ramp up crude oil production for July to record levels. As Bloomberg reports, sources familiar with Saudi Arabia's output policy suggest the country's aiming for its "biggest-ever export surge" to help cool oil prices. State oil company Saudi Aramco will lead the charge, Bloomberg adds, at about 10.8 million barrels a day, surpassing previous highs.

It's really the "only the major player that could have brought on that production," See says.

He'll continue to monitor the situation, he says, but finds OPEC's moves are, overall, "a positive development for oil markets."

Geopolitical pressure

One geopolitical issue to watch is the Iranian nuclear deal, See says. The U.S. backing out could "lead to pressure from the European nations to purchase their crude elsewhere, outside of Iran. It will be interesting to see which OPEC nations pick up the slack from decreasing Iranian volumes," he says.

On June 26, CNBC reported the U.S. could turn to Russia, despite "thorny" relations, "as the U.S. attempts to cut off Iran from the world oil market."

Another issue to monitor is Venezuela's continued production decline due to the "economic and political chaos," See says. "We'd expect production to keep falling there."

Other political hot spots include Libya and Nigeria, which saw their production ramp up during this time of cuts. "They've been facing a steady stream of rebel attacks, which could lead to production falling offline on a quick basis; that's something to monitor," See cautions.

Mexico and the U.S. are also top of mind. For the former, production has fallen and a general election is coming up on July 1.

In the U.S., shale production is a major market concern. "U.S. oil production is at more than 10 million barrels per day and continues to grow," See says. Now, the market "is facing constraints due to pipeline capacity issues in the Permian Basin [located in Texas and New Mexico] and in Cushing [located in Oklahoma]."

However, "we think these constraints will be alleviated in the second half of 2019, and the U.S. will continue to grow," See predicts.

So, where's oil headed?

See's expectation for oil prices is they'll remain within the US$60-US$70 range, "and that's the update we gave last time. We see that continuing in the foreseeable future."

Also, WTI oil will keep trading at a discount to Brent, he adds, "just because of pipeline constraints in North America, specifically out of Canada, the Permian Basin and Cushing." In an effort to get landlocked Alberta oil to market, the Canadian government agreed to buy Kinder Morgan's Trans Mountain pipeline and related infrastructure for $4.5 billion.

In the CIBC Energy Fund he manages, See says, "We favour [exploration and production] as a subsector to go to, just because [today's] price levels allow these companies to execute their business plans and offer competitive rates of return. In addition, these companies are also doing shareholder-friendly actions such as debt reduction, share buybacks and dividend increases."

This can lead to outperformance, he says, noting two examples of names he's watching are EOG Resources and Anadarko Petroleum, both based in Texas.

On energy as a whole, he's positive. "We think energy should continue to do well, post this OPEC deal."

8. Why investors should keep a close eye on the loonie

[June 27, 2018] As trade uncertainty continues, the loonie is losing ground—a development to which investors should consider paying heed.

This week the loonie reached a new 12-month low relative to the U.S. dollar. That means the Canuck buck is trading roughly in line with where it sat last June before the Bank of Canada began tightening in July 2017, notes a weekly market insights report from Richardson GMP.

The loonie is a "victim of collateral damage," says the report, referring to two things: escalating trade uncertainty and economic weakness.

For example, increased protectionism would disproportionately hurt global and Canadian growth relative to U.S. growth, given that the U.S. is a big net importer, says the report. As a result, a growing trade war would likely continue to put upward pressure on the U.S. dollar relative to many of its peers, including the Canadian dollar.

Economic data also present adverse effects. For example, following weaker than expected inflation data last week, Canadian bond yields and the loonie fell.

"The move lower in Canadian bond yields pushed the spread between U.S. and Canadian two-year yields to an 11-year high, which leaves us wondering just how much higher [yield spreads] have to run," says Richardson GMP.

Greater divergence between the Bank of Canada (BoC) and the Fed certainly won't help the loonie. Odds of a July BoC hike are roughly 50-50, with more clarity expected as economic data is published.
In a financial markets report from early June, RBC reminds that monetary policy remains data dependent. "A number of upcoming releases will have to cooperate for rates to move higher on July 11," the date of the next rate announcement, it says.
Upcoming data include GDP numbers and the BoC's next business outlook survey (both on Friday).
"A positive signal from business on investment intentions and foreign demand—even in the face of trade uncertainty—would reinforce the BoC's tightening bias," says RBC.
Richardson GMP expects more loonie weakness ahead before levels reach "sentiment extremes." Despite speculators remaining net short the loonie, current levels are far from the extremes seen in 2015 and 2017, says the report.
"It's always risky being a contrarian, but being a contrarian in a market without extreme sentiment more often than not is just called being wrong," says the report. "We'll be keeping an eye on the derivatives market for any sudden large shifts."
The firm further recommends an underweight in Canadian equities in favour of foreign equities—unhedged, to benefit from potential future currency weakness.

9. Morneau to face heat from finance ministers over passive income

[June 26, 2018] Finance ministers from at least two provinces are planning to question their federal counterpart Bill Morneau about whether they can opt out of Ottawa's plan to implement a controversial tax change.
The country's finance ministers will gather in Ottawa today to discuss a range of issues—from the state of the economy, to federal equalization payments, to the escalating threats of U.S. protectionism.
Manitoba's Cameron Friesen and Saskatchewan's Donna Harpauer say they will also press Morneau about a tax change he first announced last year that's related to passive investment income held by incorporated individuals.
Both Friesen and Harpauer say Morneau has told them each province must choose whether to implement his tax change—and they want to know how complicated it would be if they ultimately decide not to follow Ottawa's lead.
The government has argued the tax change on passive investment income will only affect the top three per cent of the wealthiest incorporated individuals—

but critics have warned it will unfairly pile on significant costs for small business owners.

Canadian Federation of Independent Business president and CEO Dan Kelly says he's been lobbying provinces not to follow Ottawa's lead on the passive-income change because he argues it will hurt small businesses and damage economic growth.

Friesen said in an interview Monday that the Manitoba government was a "powerful critic" of the first version of Morneau's tax reform plan, which Ottawa later watered down following a backlash that included small business owners and incorporated professionals, such as doctors and lawyers.

He said Morneau has been clear that the provinces can choose whether they want to be integrated with Ottawa on the tax change.

But the issue and how to go about opting out is very complex, he added.

"We are trying to understand more what it is the federal government is permitting here," he said.

"And we're trying to understand, also, the timeline that will be necessary to undertake, to understand, what are our options."

Kelly said the passive-income tax change will require the provinces to make legislative changes of their own in order for them to follow suit with Ottawa.

The change, which will take effect in 2019, is projected to add $2.3 billion to government coffers over five years, but Ottawa has insisted the effort was not about generating more revenue.

Morneau's office has maintained it was about ensuring wealthy individuals do not have an incentive to incorporate, just so they can get a better tax rate than people in the middle class.

Have a nice and fruitful week!

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