Weekly Updates Issue # 676

1. Weekly Markets Changes
2. Unemployment rate drops to four-decade low in July
3. U.S. consumer prices climbed 2.9% in July
4. U.S. on track for biggest annual deficit in 6 years
5. How a currency meltdown in Turkey threatens Europe
6. Saudi Arabia reportedly directing selloff of Canadian assets

1. Weekly Markets Changes

[August 10, 2018]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,326.51 -93.73 -0.57%	2,833.28 -7.07 -0.25%	25,313.14 -149.44 -0.59%	7,839.11 +27.1 +0.35%	$0.7626 -0.76c -0.99%	$1,210.57 -4.33 -0.36%	$67.63 -0.86 -1.26%

2. Unemployment rate drops to four-decade low in July

[August 10, 2018] A rush of new part-time jobs offset a drop in full-time work last month to help the economy post a net gain of 54,100 positions and drop the unemployment rate to a four-decade low.

The July jobless rate was 5.8%, down from 6% the previous month, Statistics Canada said Friday in its latest labour force survey.

However, the details of the report revealed weaker data underneath the bigger-picture improvements.

The country gained 82,000 less desirable, part-time positions last month—and it lost 28,000 full-time jobs.

A closer look at the numbers also showed the public sector made the biggest contribution to the July increase with 49,600 new jobs, while the private sector added 5,200 positions.

The agency said average hourly wage growth, which is closely monitored by the Bank of Canada, continued its gradual slide last month to 3.2% after expanding 3.6% in June and 3.9% in May.

The total number of hours worked in July expanded 1.3%, a slightly slower pace than the June reading of 1.4%.

“In the wacky world of Canada’s monthly employment numbers, July came up with another head scratcher, with some big headlines but some disappointments in the fine print,” CIBC chief economist Avery Shenfeld wrote Friday in a research note to clients.

Shenfeld added that there are “lots of reasons to question just how good the data really are here.”

Brian DePratto, senior economist at TD, said the results "could have been better, [but] could have been worse," in his Friday commentary. "A solid headline number masked less than optimal details: all part-time hiring, and by and large public sector, driven by universities. On the plus side, the number of unemployed fell and more Canadians were drawn to the labour force – both signs of a healthy economy," he wrote.

On the Bank of Canada, he said, "We're still away from the next Bank of Canada rate decision, but with this first glimpse of third quarter activity kicking things off more or less on the right foot, the conditions remain right for further rate increases."

For Shenfeld, the report contained a "good" set of numbers that will keep markets guessing whether the BoC will introduce its next interest rate hike in September or October. CIBC predicts the next rate increase will land in October.

This matches Shenfeld's call in late July, when data showed the economy grew 0.5% in May. He also forecast that the loonie would be weaker toward year-end.

Compared with a year earlier, overall employment was up 1.3% following the addition of 245,900 jobs for an increase driven by 210,500 new full-time positions.

By industry, the services sector saw the biggest gains last month with a combined net increase of 90,500 jobs, which was led by 36,500 new positions in education and 30,700 in health care and social assistance.

Overall, the goods-producing sector lost 36,500 jobs in July, with a notable loss of 18,400 positions in manufacturing and a drop of 12,300 in construction.

Provincial stats

Across the provinces, Ontario gained 60,600 jobs—all in part-time work—and the unemployment rate dropped 0.5 percentage points to 5.4% for its lowest reading since July 2000.

Looked at together, both the labour force survey and Survey of Employment, Payrolls and Hours suggest "employment in the country's largest province is rising at the fastest pace in years," said National Bank's Krishen Rangasamy in a Friday report.

"Ontario's share of paid employment in Canada [is] at roughly 39% in 2018, an increase compared to last year. Employers seem reluctant to part with their now more expensive workers perhaps due to reported labour shortages, although the persistence of strong sales and profits could also explain the resilience of employment," he wrote.

Employment also rose in British Columbia and Newfoundland and Labrador, while Saskatchewan and Manitoba lost jobs last month.
More women between the ages of 25 and 54 years old were working in July as the category saw a gain of 30,300 jobs.
The youth unemployment rate—representing workers aged 15 to 24 years old—fell to 11.1%, down from 11.7% in June. The report said the main cause of the drop was due to the fact fewer young people were looking for work.

3. U.S. consumer prices climbed 2.9% in July

[August 10, 2018] Consumer prices climbed 2.9% in July from a year earlier, a rate of inflation that suggests Americans are earning less than a year ago despite an otherwise solid economy.
The Labor Department said Friday that the consumer price index ticked up 0.2% in July. Annual inflation matched the 2.9% pace from June, which had been the highest level since February 2012. Core prices, which exclude the volatile food and energy categories, rose 0.2% in June and 2.4% from a year earlier. Core prices have risen at the fastest annual pace since September 2008.
"For Americans to benefit more from the expansion, real wage growth needs to be positive as it usually is in this phase of an expansion," said Robert Frick, a corporate economist with Navy Federal Credit Union.
Most of July's increase in consumer prices came from higher housing costs. Prices for energy, medical care and apparel slipped in July, while food expenses rose slightly.
Adjusted for inflation, average weekly earnings have fallen 0.1% in the past 12 months.
During the past year, higher prices for oil, gasoline and transportation have caused the inflation rate to jump after it had hovered at relatively low levels for the previous six years. The sudden increase in prices has not only wiped out average growth, but it also creates pressure for the Federal Reserve to hike short-term interest rates so that inflation stays close to the U.S. central bank's 2% target.
The Fed has already raised rates twice this year and another two rate hikes are expected before the start of 2019. By making it more expensive to borrow, the Fed would likely tamp down on inflation as well as economic growth, making it more difficult for President Donald Trump to achieve the sustained 3% gains in gross domestic product that he has promised voters.
The path for interest rates won't change immediately, says Andrew Grantham, senior economist for CIBC Capital Markets, but the July data "will reassure

policymakers that inflation is still perking up after recent data on wages and producer costs disappointed expectations."

He forecasts that headline inflation has likely peaked, with "oil prices having come off their recent highs, although the annual pace is unlikely to decelerate much until early in 2019."

Indeed, rising gasoline costs have complicated the inflation picture. Gas costs have surged 25.4% in the past year, but they tumbled 0.6% in July, which could mean that prices at the pump may be stabilizing.

4. U.S. on track for biggest annual deficit in 6 years

[August 10, 2018] The federal government racked up a US$76.9 billion deficit in July, with increase government spending and tax cuts keeping the country on track to record its biggest annual deficit in six years. (All figures below in U.S. dollars.)

The Treasury Department reported Friday that in the first 10 months of this budget year, the deficit totalled $684 billion, up 20.8% from the same period last year.

Revenues are up only 1% this year, the increase held back by a big drop in corporate tax payments. Spending is up 4.4%, reflecting a big boost Congress approved earlier this year for domestic and military programs and the rising costs of financing the debt.

The Trump administration last month sharply revised upward its deficit estimates, projecting annual deficits will once again top $1 trillion next year.

For the current budget year, which ends Sept. 30, the administration is now projecting a deficit of $890 billion. That would be up 33.7% from last year's deficit of $665.8 billion.

The administration's July estimates project that the deficit will top $1 trillion in 2019, climbing to $1.1 trillion that year, and remaining above $1 trillion for three years.

The only other period when the federal government ran deficits above $1 trillion was for four years from 2009 through 2011. That's when the Obama administration was using tax cuts and increased spending, along with support for the banking system, to combat the 2008 financial crisis and Great Recession, the worst economic downturn since the Great Depression of the 1930s.

President Donald Trump succeeded in getting Congress in December to pass a tax cut of $1.5 trillion over the next decade, fulfilling a long-time Republican goal of cutting the corporate tax rate. It reduced the rate from 35% to 21%

although most corporations had used various methods to reduce the actual rate they paid under the previous law to below the 35% figure.
Friday's monthly budget report showed that over the past 10 months, corporate taxes are down 20%—$55 billion—from the same period a year ago.
The December tax legislation also cut individual taxes, although Democrats have said most of that benefit will be seen by the wealthiest taxpayers. So far this year, individual tax receipts are up 2% as a result of more people working as unemployment continues to fall.
Through the first 10 months of this year, revenues have totalled $2.77 trillion while spending has totalled $3.45 trillion, both record amounts for the first 10 months of a budget year.
The increases in spending for the 10-month period included $36 billion more for Social Security and $26 billion more for Medicare, the government's two biggest benefit programs, reflecting rising costs as the baby boomer generation retires. Defence spending was up $27 billion.
Interest on the national debt was up $50 billion. Half that amount went to the higher payments Treasury is making on securities that guard against increases in inflation, and the other half reflecting rising interest rates and a growing amount of debt that must be financed.
The $76.9 billion deficit for the month of July compared to a deficit of $42.9 billion in July 2017. The government has run a deficit in July in 62 of the past 64 years.

5. How a currency meltdown in Turkey threatens Europe

[August 10, 2018] Worries over a fragile Turkish economy and the risk of contagion in Europe unnerved investors on Friday and sent the lira to a record low against the US dollar.
The Turkish currency plummeted as much as 17% against the dollar, reflecting a range of concerns, including tensions with the United States and the unwillingness of Turkish authorities to raise interest rates.
President Donald Trump, who imposed sanctions on senior Turkish officials earlier this month for their role in the detention of an American pastor, upped the stakes on Friday with a promise to increase metals tariffs on Turkey.
Turkish President Recep Tayyip Erdogan was defiant.
"Don't forget this: if they have dollars, we have our people, justice and God," he said. "We will come out of the economic war successfully."
The rhetoric did little to calm markets. The lira, which has dropped almost 40% against the dollar this year, resumed its slide as Erdogan spoke.

Rodrigo Catril, a senior currency strategist at National Australia Bank in Sydney, said investors are increasingly worried about rising inflation and the ability of the country's central bank — whose independence has been questioned by investors — to do anything about it.

The central bank has been under pressure from Erdogan, who was re-elected in June, to keep interest rates low despite inflation that topped 15% in July.

It went against market expectations and left policy unchanged at its more recent meeting. That may have pleased Erdogan, but economists say the central bank is now likely to be forced to take emergency action.

"There are reasons to think that emergency interest rate hikes during the current currency crisis might only provide fleeting relief," said William Jackson, chief emerging markets economist at Capital Economics.

"It's not clear that Turkey will be able to step back from the brink this time around," he added.

The government has already slashed its growth forecast for this year to 4% from 5.5%, but economists warn the slump will be much worse if confidence is not restored quickly.

"A recession and a debt crisis that would force Turkey to implement capital controls and ask for an [International Monetary Fund] bailout cannot be ruled out anymore," said Carsten Hesse, European economist at Berenberg.

Erdogan appears determined to fight. On Friday, he urged the Turkish people to exchange dollars and euros for lira in order to defend the currency.

Yet other forces were working against the lira. Trump said in a tweet on Friday that he would hike taxes on metal from Turkey.

"I have just authorized a doubling of Tariffs on Steel and Aluminum with respect to Turkey as their currency, the Turkish Lira, slides rapidly downward against our very strong Dollar! Aluminum will now be 20% and Steel 50%. Our relations with Turkey are not good at this time!" he said.

It was not immediately clear when the tariff hikes would be imposed.

It's not just Turkey's problem

Investors concerns have turned in recent days to the health of Turkish banks.

The Financial Times reported that the European Central Bank is concerned about eurozone banks' exposure to Turkey because of the tanking lira. The ECB declined to comment.

Data from the Bank for International Settlements show eurozone banks have loans worth over $150 billion in Turkey. Spanish, French and Italian banks are the most exposed.

Shares in some of Europe's biggest banks were hard hit on Friday. Italy's UniCredit shed 5.6% and Spanish lender BBVA dropped 5.5%. France's BNP Paribas was off by 4.3% and Deutsche Bank fell 5.3%.

The euro was trading 0.9% lower against the dollar on Friday.
The Turkish economy has expanded rapidly this year compared with 2017. But its growth in recent years has been fueled by construction financed largely by foreign investors.
The Turkish economy has expanded rapidly this year compared with 2017. But its growth in recent years has been fueled by construction financed largely by foreign investors.
Investors worry about the country's ability to bring in money during tough times to pay off its debts.
"The decline in the Turkish Lira and rising borrowing costs cause a big headache for many Turkish companies, as they have borrowed in foreign currency despite receiving revenues in local currency," Hesse said.

6. Saudi Arabia reportedly directing selloff of Canadian assets

[August 8, 2018] Saudi Arabia has directed its asset managers to sell off Canadian equities as part of an escalating response to criticism from Canada, according to a report by Financial Times.
The Saudi central bank and state pension funds have sent instructions to overseas asset managers to dispose of Canadian equities, bond, and cash holdings at any cost, the newspaper said, citing unnamed sources.
The report comes a day after the Toronto stock market saw a major selloff from an unknown international dealer, in contrast to gains in other global markets.
The equities selloff comes after Canada's Global Affairs Ministry expressed concern about the arrest and detention of a female blogger and activist in Saudi Arabia, prompting the kingdom to respond forcefully.
Saudi Arabia has declared a freeze on new trade with Canada and recalled thousands of students attending Canadian universities following the tweet last week from Foreign Affairs Minister Chrystia Freeland.
The Saudi foreign ministry has also ordered Canada's ambassador, Dennis Horak, to leave the country. Saudia Airlines has also announced it will suspend flights to and from Canada starting Aug. 13.

Have a nice and fruitful week!

To Unsubscribe Click Here