Weekly Updates Issue # 718

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1. Weekly Markets Changes

[June 14, 2019]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,301.91 +70.95 +0.44%	2,886.98 +13.64 +0.47%	26,089.61 +105.67 +0.41%	7,796.66 +54.56 +0.70%	$0.7471 +0.78c +1.06%	$1,341.70 -3.20 -0.24%	$52.51 -1.53 -2.83%

2. Canadian home sales to rise 1.2% this year: CREA

[June 14, 2019] The Canadian Real Estate Association is upgrading its forecast for 2019 home sales, which are now expected to show a slight improvement compared with last year.

The association said home sales are projected to edge up 1.2% from last year to 463,000 units in 2019 compared with its previous forecast of a decline of 1.6% this year.

The updated outlook came as CREA reported home sales in May were up 6.7% compared with a year ago, the largest year-over-year increase since 2016.

On a month-over-month basis, sales in May through the Multiple Listing Service were up 1.9%.

“Defying the gloom-and-doomers, the Canadian housing market is gradually regaining strength, powered by falling long-term interest rates and the fastest population gains in a generation,” Bank of Montreal chief economist Doug Porter wrote in a report.

The improvement in sales was driven by the Greater Toronto Area, which accounted for close to half of the overall increase.

“That rebound in sales has brought the GTA market back into better balance, and has helped lift prices at a moderate pace,” Porter wrote.

The national average price for a home sold in May was close to $508,000, up 1.8% from a year ago. Excluding the Greater Vancouver and Greater Toronto Area, two of the country's most expensive markets, the average price was just under $397,000.

Home sales softened last year in the wake of new mortgage stress test rules and a rise in mortgage rates.

However, sales have improved in recent months as mortgage rates have trended lower and the economy shows signs of rebounding after the weakness at the end of 2018 and the start of 2019.

TD Bank economist Rishi Sondhi said that markets have also had additional time to adjust to federal and provincial policy measures, which weighed significantly on activity last year.

"Moving forward, we look for sales to trend higher, lifted by a rising population, a more stable rate environment and supportive federal measures," Sondhi wrote in a report.

CREA also pointed to several changes in the federal budget this year to help potential buyers.

The spring budget raised the maximum individual RRSP withdrawal limit under the home buyers' plan and announced plans for a new shared equity program to help first time buyers.

However, CREA said the overall level of home sales is expected to remain below where it was in recent years and noted that the outlook for 2019 is below the 10-year average and well short of the record set in 2016, when almost 540,000 homes were sold.

Regionally, the association said New Brunswick is expected to see sales rise 10.6% this year, while Quebec is forecast to climb 7.7%. Ontario is expected to gain 3.9%.

Home sales in British Columbia are expected to drop 13.3% this year, while Alberta is forecast to fall 0.9%.

The national average price is forecast to edge down 0.6% to around $485,000 this year following a 4.1% drop in 2018.

In 2020, CREA predicted home sales will rise 4.4% to 483,200, while the national average price is forecast to edge up by 0.9% to around $490,000 next year.

3. NASA estimates it will need $20 billion to $30 billion for moon landing, administrator says

[June 14, 2019] NASA has touted its bold plan to return American astronauts to the moon by 2024 for months. Now we're starting to get an idea of how much it will cost.

The space agency will need an estimated $20 billion to $30 billion over the next five years for its moon project, NASA Administrator Jim Bridenstine told CNN Business on Thursday. That would mean adding another $4 billion to $6 billion per year, on average, to the agency's budget, which is already expected to be about $20 billion annually.

Bridenstine's remarks are the first time that NASA has shared a total cost estimate for its moon program, which is called Artemis (after the Greek goddess of the moon) and could send people to the lunar surface for the first time in half a century. NASA wants that mission to include two astronauts: A man and the first-ever woman to walk on the moon.

The overall goal of the Artemis program is to establish a "sustainable" presence on the moon, paving the way for astronauts to return to the surface again and again. Learning to live and work on another world, Bridenstine said, will prepare them for NASA's long-term mission: to put people on Mars for the first time in human history.

The $20 to $30 billion cost estimate is less expensive than some had predicted — though they're not necessarily the final figures. Bridenstine acknowledged that spaceflight can be dangerous and unpredictable, so it's practically impossible to settle on an accurate price tag.

"We're negotiating within the administration," he said. "We're talking to [the federal Office of Management and Budget]; we're talking to the National Space Council." (The National Space Council is a recently revived policy development group headed by Vice President Mike Pence.)

"Once we come to a determination within the administration," Bridenstine said, "we will of course take that over to the Hill and make sure that our members of Congress are interested and willing to support that effort."

Will NASA get its money?

Winning over lawmakers, however, will likely be the most difficult part.

Pence announced in March that the Trump administration wanted to speed up NASA's moon ambitions, and launch the first crewed mission in 2024 instead of 2028, the agency's earlier timeline. That's just five years away. And all the hardware that NASA needs is either delayed, way over budget or doesn't yet exist.

So far, NASA has formally requested only an additional $1.6 billion for Artemis, which Bridenstine has described as a small "down payment" for the overall program.

Meanwhile, members of Congress have been after the administration for a total cost estimate and a detailed plan on how it will spend the money. Bridenstine will also have to win over Democrats who are already skeptical.

Critics also point out that NASA has poured billions of dollars into deep-space programs over the past 15 years, though humans still have not been back to the lunar surface since the final Apollo mission in 1972.

The Apollo program also happened in a very different political environment. It was during a bitter Cold War standoff with the Soviet Union, and the United States was in a mad dash to beat its enemy to the lunar surface. All told, the United States spent about $25 billion on the Apollo program, or nearly $150 billion in today's dollars.

Some fear that NASA will end up diverting funds from its other programs, which include robotic exploration missions, Earth science and climate studies and other important scientific research.

"I will tell you my goal — and I've been very clear about this — is to make sure that we're not cannibalizing parts of NASA to fund the Artemis program," Bridenstine said.

And, he said he's confident that NASA will convince Congress to get on board: "I think there is a strong desire. It's bipartisan to explore, to learn, to understand the science and the history of our own solar system."

Breaking down the budget

NASA and US taxpayers have already invested heavily in the rocket and spacecraft that will be used for the trip. But those projects have been routinely criticized. They're years behind schedule and way over budget.

Space Launch System, or SLS, is the name of a gargantuan new rocket that promises to out-power any launch vehicle ever built and be capable of flinging people toward the moon or Mars.

SLS was once expected to cost about $9.7 billion and start flying in 2017. But NASA has already spent at least $12 billion, according to a recent Office of the Inspector General report, and it's not expected to fly until next year at the earliest.

Similarly, Orion, the name of the spacecraft that will launch on top of SLS and carry astronauts out to the moon, is hundreds of millions of dollars over budget, according to the Government Accountability Office.

Other hardware NASA needs that doesn't exist yet: A small space station that will orbit the moon and serve as an outpost for astronauts, called the Lunar Gateway, along with a lander that's capable of taking people from the station down to the moon's surface.

These are not cheap projects.

Still, NASA's expenses have been a drop in the bucket compared to many other departments. The annual Defense Department budget, for example, has reached $1.3 trillion per year. Health and Human services gets about $90 billion per year. And Homeland Security annually receives about $50 billion.

What it means for business

NASA isn't the only organization talking about going back to the moon. The United States has a booming commercial space industry, and SpaceX, the rainmaker of the industry, has its own plans to build a giant rocket and fly tourists around the moon.

And NASA is paying attention: A significant chunk of research and development for the Artemis program will come from the private sector. It's part of NASA and Bridenstine's plan to lower costs and make space an entrepreneur-friendly environment.

"We're going back to the moon, but we're doing it entirely different than we did in the 1960s," Bridenstine told CNN Business. "The reason we need commercial operators is because they can drive innovation if they're competing on cost and innovation."

NASA has long worked with corporate contractors. Boeing, for example, helped build the Saturn V rocket that powered the Apollo program. And these days, Lockheed Martin and Boeing are primary contractors for Orion and SLS.

But NASA's commercial partnerships are different: The space agency wants private-sector companies to design, test and build technologies and then compete for lucrative government contracts. Essentially, Bridenstine says, NASA will become just another customer for companies in the business of space travel.

The space agency has already made it clear it wants to turn to the private sector to take care of lunar landers. Three small companies that build robotic landers were awarded tens of millions of dollars from NASA to drop cargo off at the moon. And startups such as Jeff Bezos' Blue Origin, which is building a crew-worthy lander called Blue Moon, are gunning for space agency contracts.

4. Why rivals Microsoft and Oracle are teaming up to take on Amazon

[June 13, 2019] Amazon Web Services has dominated the growing cloud computing business, but a new partnership between industry rivals aims to unseat it.

Microsoft and Oracle, formerly competitors in the cloud business, announced a deal last week to link their cloud computing services. Microsoft Azure and

Oracle Cloud will now be connected over a high-speed, direct network, allowing clients to upload and store data on both clouds and run business operations software programs on whichever cloud best supports them.

Amazon Web Services is the clear leader in the global cloud business, controlling more than 30% of the market, according to Synergy Research Group. Microsoft Azure has the second-largest share of the market — around 15% — with IBM Cloud and Google Cloud rounding out the four leading companies. Smaller cloud providers like Oracle have grown at a slower pace recently as the top four strengthen their hold on the market.

Oracle and Microsoft say their new partnership will improve the experience for customers and take advantage of a growing desire by organizations to use multiple cloud platforms at once. That could better position the companies to take on Amazon Web Services for key big business and government clients.

"With Oracle's enterprise expertise, this alliance is a natural choice for us as we help our joint customers accelerate the migration of enterprise applications and databases to the public cloud," Scott Guthrie, executive vice president of Microsoft's Cloud and AI division, said in a statement.

More broadly, the move is yet another sign, along with the recent acquisitions of data analytics firm Looker by Google Cloud and data visualization company Tableau by Salesforce, that investment in cloud services and big data has become somewhat of a Holy Grail for software companies.

The battle for cloud supremacy

The cloud brings several advantages to companies, allowing businesses to outsource expensive hosting, security and storage costs.

And for market leaders like Amazon and Microsoft, the cloud's subscription model has become incredibly profitable.

Microsoft's commercial cloud services, which includes Azure as well as Microsoft Office 365 Commercial and several other commercial cloud properties, brought in $9.6 billion in revenue in the first quarter of 2019, up 41% from the same period in the prior year.

During the same quarter, Amazon Web Services generated $7.7 billion in sales, a 41% increase from the prior year. AWS made up 13% of the company's total sales, but the high margins for the business meant it made up an even greater slice of Amazon's total operating income.

And the market for cloud services continues to expand, too. Synergy estimates the market totaled $70 billion in sales in 2018, with a growth rate of around 50%.

This profitability has led to fierce competition between cloud providers. Some, including Oracle, market their ability to process large quantities of data on their platforms. Others highlight the fact that their exclusive software can be used on their cloud platforms. Amazon has been helped by the fact that it was the pioneer of cloud computing.

The fight for lucrative government clients has become particularly cutthroat.

Microsoft Azure and Amazon Web Services are the two finalists vying for a $10 billion contract to provide cloud computing services to the US Defense Department. IBM and Oracle have both challenged Amazon's bid for the contract, and Oracle filed a federal lawsuit earlier this month with conflict of interest allegations against Amazon.

Why Microsoft and Oracle are joining forces

Microsoft and Oracle say their partnership will give customers a "best-of-both-clouds experience."

The deal will allow customers to move data from their own on-site servers to both Microsoft Azure and Oracle clouds. It will now be possible to operate one company's software on the other's cloud platform — for example running Oracle's business operations software on Azure — or to run programs that work together on both clouds at once.

"With this partnership, our joint customers can migrate their entire set of existing applications to the cloud without having to re-architect anything, preserving the large investments they have already made," Don Johnson, executive vice president of Oracle Cloud Infrastructure, said in a statement.

The deal also includes some other perks for big business clients like a single sign-on for services from both companies, and tech support from either company.

Giving customers access to the top selling points of both cloud platforms at once will be a plus for both companies, Moness Crespi Hardt analyst Brian White said in a note this week.

"Microsoft's Azure is the #2 public cloud vendor in the world and Oracle is the clear #1 database vendor with a strong #2 position in enterprise applications," White said. "We believe the two clouds complement each other well."

The Microsoft-Oracle agreement may help Oracle in particular to improve its standing against Amazon, according to Piper Jaffray's Zukin. Zukin said Oracle, which has had a smaller stake in the cloud market and has historically been resistant to partnerships, may have realized the necessity of an ally in the fight against bigger players in the industry.

Microsoft clearly doesn't need Oracle to pose strong competition for Amazon, Zukin said, but the deal may help Microsoft grow Azure Premium Services, its higher-margin cloud product business.

"This is another great channel to sell Azure Premium Services to the Oracle customer base," Zukin said.

The agreement bears similarities to partnerships beyond the tech world where longtime competitors are linking up to take on industry disruptors. This is especially evident in the auto industry.

For example, Honda announced a $2.75 billion investment in General Motors' self-driving car unit in October, a partnership that would help the pair take on competition from Silicon Valley companies like Uber and Google that have been developing their own autonomous vehicle technology. In January, BMW and Daimler inked a $1 billion deal in February to develop driverless vehicles and pay-per-use cars together. Ford and Volkswagen have long been rumored to sign a similar partnership.

The multi-cloud model

The cloud has become so crucial to corporations' business strategies that cloud customers are beginning to build redundancy into their networks.

This "multi-cloud" strategy reduces reliance on a single cloud provider, according to Piper Jaffray's Zukin. Redundancy helps keep a business operational if one provider goes down, as Google's cloud did for a few hours earlier this month. It also allows companies to take advantage of the specific benefits provided by multiple cloud platforms.

With their partnership, Microsoft and Oracle have codified this strategy into a formally connected system for their mutual clients, including Albertsons and Gap.

"One of the biggest trends we've seen this year is the emergence of mutli-cloud businesses wanting to be able to choose which programs they want to deploy on which cloud environment," Zukin said.

Microsoft and Oracle's partnership is set to launch in the eastern United States, with plans to expand in the future.

5. CRA demystifies graduated rate estates

[June 13, 2019] Since the Department of Finance Canada introduced the concept of the graduated rate estate (GRE) three years ago, trust and estate practitioners have been working hard at better understanding the ins and outs of this relatively new type of trust.

On June 7, officials with the Canada Revenue Agency (CRA) answered a trio of questions related to fact scenarios involving GREs during the CRA roundtable session at the annual national conference of the Canadian arm of the Society of Trust and Estate Practitioners (STEP Canada) in Toronto. CRA officials noted that their comments were conversational in nature, and that full written responses to questions would be submitted to STEP in late summer.

A GRE is an estate that arises upon the death of an individual on or after Dec. 31, 2015, and no more than 36 months after that individual's death. Following the 36-month period, the GRE becomes an ordinary testamentary trust, which is subject to taxation at the highest marginal rates.

The primary benefit of a GRE is that income earned in the trust is taxed at the same graduated tax rates as individual taxpayers are, providing an opportunity for significant tax savings relative to the way most other trusts are taxed. A GRE designation provides access to other tax and estate-planning benefits, including greater flexibility in the way donation tax credits can be claimed.

In order to be considered a GRE, an estate must designate itself a GRE in its first year's tax return and must use the deceased's social insurance number (SIN) on each tax return filed during the period at which the estate is a GRE. Only one estate of an individual can be designated a GRE.

The following questions were posed to the CRA regarding GREs:

Can a GRE become a qualified disability trust?

A qualified disability trust (QDT) is a testamentary trust that arises on the death of an individual who jointly elects, with a beneficiary under the trust, to be a QDT. Income earned in a QDT is taxed at graduated rates, just as a GRE is taxed. The beneficiary of the trust must be eligible for the disability tax credit (DTC) in order for the trust to be a QDT.

At the roundtable event, the CRA was presented with a fact scenario in which a beneficiary of a GRE becomes disabled during the period in which the estate is a GRE. Could the estate elect to be a QDT and thereby continue to access graduated rates beyond 36 months, the CRA was asked.

A CRA official indicated that it was possible for a GRE to become a QDT, as long as the estate met all other conditions for being considered a QDT.

"The fact that the estate made a GRE designation in [its] earlier years doesn't have any impact on this whatsoever," said roundtable panellist Steve Fron, manager in the trusts section of income tax rulings directorate of the CRA.

However, it would be unlikely, in practice, that an estate could benefit from access to graduated tax rates indefinitely, Fron said. That's because, in most cases, the process of estate administration — the collection of assets, the payment of debts, the distribution of residue to beneficiaries, etc. — would eventually come to an end.

"Estate administration typically doesn't include the ongoing management of assets that have been bequeathed to a particular individual," Fron said.

Given the fact scenario presented at the roundtable, there was nothing to suggest that the executor would be prevented from paying out the residue of the estate, Fron said.

“To the extent that the particular facts and law [of a fact scenario] suggest that the estate administration is complete and beneficial ownership has passed to the residual beneficiaries who are entitled to the property, there wouldn’t be any income earned in the estate,” Fron said. “Alternatively, to the extent that the particular facts and law suggest that the beneficiary is able to enforce payment of the income earned within the estate, there would be no income taxable in the estate, as it would all be considered to be payable to the beneficiary.”

Can an estate that immigrates to Canada be a GRE?

The panel was presented with a fact scenario in which a non-resident individual dies in June 2016, with the estate arising from the individual’s death also being non-resident. On Jan. 1, 2018, the non-resident trustee of the estate resigns, and is replaced by a trustee who is a Canadian tax resident, resulting in the estate becoming a tax resident, and a new taxation year for the estate commencing. Can the estate designate itself a GRE when it files its first tax return?

Panellist Marina Panaourgias, an industry sector specialist in the trust section of the income tax ruling directorate of the CRA, indicated that the estate, under the given fact scenario, could be a GRE, as long as it made a designation to be a GRE at the end of its first tax year.

“Assuming that there would be no facts that suggest that the estate would have been required to file a return before the 2018 tax year, and assuming all the requirements are met for the estate to actually be a GRE, then the estate could in that situation designate itself to be the GRE of the individual when it files its Canadian tax return [for] 2018,” Panaourgias said.

If the non-resident individual had not been assigned a SIN before death, the estate could use either a temporary tax number or an individual tax number (ITN), which could be obtained by filing CRA Form T1261, the application to obtain a Canadian ITN for non-residents.

Can a non-resident estate be a GRE?

The panel was presented with a fact scenario in which a non-resident (in this example, a U.S. citizen) dies owning Canadian real estate. The trustee of the estate is also non-resident, and the estate itself is non-resident. As the Canadian real estate is taxable Canadian property, and as there’s a deemed disposition of the property on death, the executor files a Canadian tax return for the deceased, reporting a capital gain. The estate is also anticipated to realize a gain. Can the non-resident trust be a GRE, and what should the executor do regarding the requirement for a SIN?

Panaourgias confirmed that a non-resident estate can be a GRE: “The criteria for an estate to be a GRE that are outlined in the definition [in the Income Tax

Act] don't require an estate to be resident in Canada, and don't require the deceased individual to have been resident in Canada before they died."
Also, as noted earlier, the executor could obtain either a temporary tax number or an ITN in respect to the deceased non-resident in lieu of a SIN, Panaourgias said: "What that does is basically allow the CRA to ensure that only one GRE designation is made for the deceased individual."

6. Household debt and income grew at similar rates in Q1

[June 13, 2019] Statistics Canada says the amount Canadians owe relative to their income held steady in the first quarter as debt and income grew at similar rates.
The agency says on a seasonally adjusted basis household credit market debt as a proportion of household disposable income remained at **177.6%.**
In other words, there was roughly $1.78 in credit market debt, which included consumer credit, and mortgage and non-mortgage loans, for every dollar of household disposable income.
On a seasonally adjusted basis, total credit market borrowing in the quarter edged down to $20.2 billion from $20.6 billion in the previous quarter. Canadians borrowed $7.0 billion in consumer credit and non-mortgage loans, while mortgage borrowing reached $13.2 billion.
Credit market debt totalled **$2.23 trillion** in the first quarter including **$1.45 trillion in mortgage debt** and **$776.4 billion in consumer credit and non-mortgage loans.**
The household debt service ratio, measured as total obligated payments of principal and interest on credit market debt as a proportion of household disposable income, was 14.9% in the first quarter.

7. Measures to cool housing market are working: report

[June 12, 2019] Regulators' successful efforts to cool an overheated housing market has reduced risk to the financial system, suggests Fitch Ratings in a new report.
The rating agency said that the "sustained cooling of the Canadian housing market" due to regulatory measures — such as tougher mortgage underwriting standards and a foreign buyer tax in Vancouver and Toronto — has reduced the likelihood of a "severe shock to the financial system."
Fitch said these policy reforms have helped move housing prices into better alignment with the underlying market fundamentals.
It noted that the Canada Mortgage and Housing Corp. (CMHC) recently reduced its assessment of housing market imbalances from "high" to

“moderate,” and that the Bank of Canada’s latest Financial System Review indicated that household indebtedness is moderating too.

“The softening of Canadian housing market prices represents the turning point of an unsustainable appreciation trend,” Fitch said. “Continued modest home price stabilization and declines are expected over the next two years due to tighter credit standards and rising regulatory capital requirements.”

Indeed, banking regulators recently boosted the capital buffer required from the domestic systemically important banks (D-SIBs).

“Regulators now have increased protection from downside risk,” Fitch said, adding that by demonstrating their willingness to raise the buffer, they are “building credibility to lower the buffer in the future when the cycle changes.”

Despite the overall cooling in the housing market, Fitch said that Toronto and Vancouver remain overvalued. As a result, it said banks “remain vulnerable to a significant housing price correction,” particularly in those markets.

“Debt to income levels remain at record levels, with exposure to rising household debt amid a softening housing market a continued vulnerability for Canadian banks,” it said, adding that the banks’ exposure to uninsured household debt is “substantial.”

8. OSFI defends mortgage stress test

[June 10, 2019] Federal banking regulators say that the measures they’ve taken to curb risky mortgage lending appears to be working, and are not negatively affecting the Canadian mortgage market.

In a paper issued on Monday, the Office of the Superintendent of Financial Institutions (OSFI) said that the measures introduced in 2012, and revised in 2016 and 2018, to combat risks in the housing market amid low interest rates and high household debt levels have improved the quality of mortgage underwriting.

For instance, the regulator reported that since the latest guidance revisions were adopted, “lenders are approving fewer mortgages for the most highly indebted or over-leveraged borrowers.”

OSFI said that the proportion of new uninsured mortgages that exceed 450% of a borrower’s income has declined to 14% from a peak of 20%.

And, it said that concerns about the ability of borrowers to obtain competitive rates when they renew their mortgages have not materialized.

“Data from OSFI regulated lenders shows that following the introduction of the revised guideline, the difference between renewal and new mortgage rates for uninsured five-year fixed and variable rate mortgages has remained largely unchanged,” it said.

Finally, OSFI also found that uninsured mortgage borrowers "do not appear to be extending amortization periods to pass the stress test requirement."

"The revisions to B-20 are working; strengthening mortgage underwriting across Canada and improving the resilience of the Canadian financial system to future shocks," it concluded.

"While improvements have been made OSFI will continue to monitor lender practices, particularly in the area of income verification, and will be proactive with lenders when it identifies areas requiring attention," it added.

9. Housing starts fell below expectations in May

[June 10, 2019] Canada Mortgage and Housing Corp. says the pace of housing starts slowed in May.

The housing agency say the seasonally adjusted annual rate of housing starts slipped to 202,337 units in May, down 13.3% from 233,410 units in April.

Economists on average had expected an annual rate of 205,000, according to Thomson Reuters Eikon.

The annualized pace of urban multiple-unit projects such as condominiums, apartments and townhouses fell 18.5% to 141,851 in May while the pace of single-detached urban starts rose 1.8% to 45,095.

Ontario was hardest hit, with CMHC reporting that housing starts were down 41% in May compared to April.

Rural starts were estimated at a seasonally adjusted annual rate of 15,391 units.

The six-month moving average of the monthly seasonally adjusted annual rates was 201,983 in May compared with 205,717 in April.

In emailed commentary, CIBC World Markets senior economist Royce Mendes said the cooldown in May was to be expected.

"The slowdown isn't surprising, given that April's outsized print was simply making up for weaker prior months that had been affected by challenging weather conditions," Mendes wrote.

"Looking through all the volatility, the roughly 200K pace of starts in Canada is in line with the average of the past couple of quarters, and looks more sustainable than last month's reading," he added.

Have a nice and fruitful week!