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1. Weekly Markets Changes

[August 30, 2019]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,442.07 +404.49 +2.52%	2,926.46 +79.35 +2.79%	26,403.28 +774.38 +3.02%	7,962.88 +211.1 +2.72%	$0.7522 +0.09c +0.12%	$1,526.96 -6.58 -0.43%	$55.10 +0.93 +1.72%

2. Canada's Q2 growth strongest since 2017

[August 30, 2019] The economy blew past projections by expanding at an annualized pace of 3.7% in the second quarter, giving Canada its strongest three-month stretch of growth in two years.

Statistics Canada's reading for real gross domestic product showed an unexpectedly solid turnaround for an economy that was coming off its weakest back-to-back quarters of growth since 2015.

The economy rode a powerful, broad-based rebound in goods exports in the second quarter, the agency said Friday in a new report.

Energy products grew 5.9% after posting a 3% decline in the first quarter, while farm and fishing products expanded 15.2% following a 8.4% contraction and non-metallic minerals rose 19% for their strongest quarter in almost three years.

Housing investment expanded 1.4% following five-consecutive quarters of declines.

The headline GDP number was also supported by a 1% drop in import volumes, compared with a 2.1% increase in the first quarter.

The report showed business investment declined 4.3% after a posting 3.4% increase in the first three months of 2019, while household spending slowed to 0.1%, down from 0.7% growth in the previous quarter.

Overall, the second quarter gave Canada its fastest pace of growth since it posted 4.4% in the second quarter of 2017.

Statistics Canada also revised its first-quarter growth number to 0.5%, up slightly from the initial reading of 0.4%.

On a month-to-month basis, the report said the economy expanded 0.2% — Canada's fourth-straight month of growth.

Experts had been predicting a more modest second quarter rebound after a sudden deceleration in growth over the winter that nearly saw the economy grind to a halt. The slowdown at the turn of the year was caused in large part by a sharp decrease in oil prices.

Economists had expected growth at an annualized rate of 3% for the second quarter, according to the financial markets data firm Refinitiv.

The Bank of Canada had predicted the weakness would be temporary and had projected a second-quarter turnaround of 2.3%.

Encouraging numbers about the health of Canada's domestic economy have been arriving as global economic conditions become more uncertain.

There has been mounting evidence of a slowing global economy — mostly a consequence of the deepening U.S.-China trade war.

The Bank of Canada will be forced to consider the external and trade-related risks next Wednesday when it delivers its latest interest-rate announcement.

The global environment has dimmed since the central bank's most recent public comments in early July. At the time, it underlined the resilience of the domestic economy and appeared to be in no hurry to adjust its policy, even as other central banks were poised to lower rates to respond to the already darkening international outlook.

3. Small biz sentiment recovers in July

[August 30, 2019] Despite global trade tensions and expectations for slower growth, Canadian business sentiment has turned more positive.

Business sentiment improved slightly in August for small and medium enterprises (SMEs) after dropping in July, says the business barometer index published monthly by the Canadian Federation of Independent Business (CFIB).

The index gained almost three points in August to reach 60.6. It's only the second time this year that the index crossed the 60-point mark.

While the business sentiment survey was conducted during the recent escalation in U.S.-China trade tensions, results are likely skewed "somewhat" positively by relatively strong domestic conditions, said a report from Scotiabank Economics. Only about 4% of all Canadian SMEs sell their output abroad, it said.

And for those who do sell abroad, most output goes to the U.S., where consumer demand is solid.

Scotiabank also noted that business activity and sentiment reflected in August's index is an important bellwether for the Canadian economy: SMEs account for about 99% of Canadian businesses and produce about half of total business output.

Further, SMEs employ over two-thirds of private-sector workers and have dominated Canada's strong job gains during 2019, the Scotiabank report said.

The index showed that improved sentiment was widespread, with eight of the 10 provinces posting higher results in August. However, the industry picture was mixed.

The biggest improvements in business sentiment came from professional service sectors and parts of Eastern Canada; transportation and Alberta exhibited the biggest sentiment declines.

"Transportation gave up its gains from May-June amidst a substantial pullback in hiring intentions, still-firm fuel prices and rising trade doubts," the Scotiabank report said.

It also noted that in Alberta, as well as in Saskatchewan and Newfoundland and Labrador, weak domestic demand was cited as a stronger limitation on sales or production growth than was shortages of skilled labour.

"This reflects the relatively poor outlook for growth in Alberta and Saskatchewan in 2019, and the dominance of large projects in the growth rebound happening this year in Newfoundland and Labrador," Scotiabank said.

Overall, 43% of SMEs cited the shortage of skilled labour as a reason for the inability to increase sales or production.

Lastly, wage and price plans remained stable, near the 2% mark, which appears to point toward a moderation in overall inflation, the Scotiabank report said.

For full details, read the CFIB business barometer index and the Scotiabank Economics report.

The CFIB business barometer index for August is based on 661 responses collected from a stratified random sample of CFIB members. Responses were received through Aug. 19.

4. Breaking down the penalties for TD and RBC

[August 30, 2019] Settlements with two of Canada's biggest banks, TD Bank and Royal Bank of Canada, highlight the value of cooperating with regulators — which, in this case, saved each bank a couple million.

On Friday, an Ontario Securities Commission (OSC) hearing panel approved a pair of settlement agreements with the two big banks concerning allegations that their foreign exchange (FX) traders inappropriately shared confidential client information with other traders in online chatrooms.

Under the settlements, TD is making a voluntary payment of $9.3 million, and RBC is making a voluntary payment of $13.55 million.

The difference between the two amounts partially reflects RBC's higher revenues from FX trading. But TD Bank received a 30% discount on its penalty due to its cooperation with the regulators, whereas RBC's penalty was discounted only by 12% for its cooperation.

The settlement agreements set out how the regulators arrived at the calculation of these payments.

In both cases, there's no specific violation of securities law alleged, and the settlements note that it's not possible to try to quantify the benefit that the banks received from their misconduct, so no disgorgement was ordered.

The payments were then calculated as 10% of the revenue that the banks earned during the period that the misconduct was ongoing (from 2011 to 2013).

In RBC's case, that amounted to $12.4 million, based on $124 million in revenue for the period. For TD, it was $10.3 million.

In both cases, as a general deterrent, the regulator added $1 million per year for each year that the misconduct took place. That brought RBC's total to $15.4 million, and TD's to $13.3 million.

The OSC then applied discounts from those amounts.

In RBC's case, the settlement said that OSC "Staff consider that the early settlement during this investigation by the respondent merits a 12% discount," which brought the bank's payment to $13.55 million.

For TD, the OSC granted a 30% discount, citing "exemplary cooperation during this investigation as well as the early settlement" as warranting a "significant discount," which brought the bank's payment down to $9.3 million.

Had TD received only a 12% discount, its penalty would have been about $11.7 million.

Conversely, a 30% discount for RBC would have brought its payment down to about $10.7 million.

5. Pot sector too risky for big banks: report

[August 29, 2019] The risks of working with the fledgling cannabis industry still outweighs the potential benefits for the big Canadian banks, says Fitch Ratings in a new report.

The rating agency reported that Canadian household spending on cannabis was $1.4 billion in the first quarter, up by 14% year over year, according to Statistics Canada. It also noted that analysts are forecasting that the industry will have a retail value of $6.8 billion by 2020, which would be almost as big as the wine industry.

Yet, the big banks have largely stayed on the sidelines as the Canadian cannabis industry has flourished, the report noted.

“To date, banks have mainly provided investment banking services such as advisory and capital raising, not directly putting themselves at compliance risk,” it said.

Instead, primarily smaller banks and credit unions have been providing traditional banking services to the industry, Fitch said.

The rating agency said it expects the big banks will remain cautious about getting more deeply involved with the sector “until the legal and regulatory standards are more established for cannabis on both sides of the border.”

The heightened risks of dealing with the cannabis industry were highlighted by the discovery of alleged unlicensed growing by CannTrust, Fitch noted.

Additionally, it said that the sector faces a series of “outsize compliance issues” including marketing restrictions on cannabis firms, “consumer-safety concerns, exposure to legal liability, and history of cash-based transacting, coupled with high tax burdens.”

Cross-border anti-money laundering (AML) concerns are also curbing the Canadian banks’ willingness to provide banking services to cannabis businesses, Fitch said.

“Canadian banks with a significant U.S. presence such as BMO and TD have indicated they will avoid the cannabis industry in the U.S. until federal laws are changed, notwithstanding legalization by various states,” it said.

Fitch said that it views this cautious approach as a credit positive.

“Substantial risks in the cannabis industry, including increased compliance considerations and cross-border money laundering (AML) concerns, will continue to outweigh lending and advisory opportunities for banks in Canada and in the U.S. over the medium term,” it said.

6. Brexit is back, and investors should buckle up

[August 29, 2019] UK Prime Minister Boris Johnson's latest maneuver to push through Brexit has been described by opponents as a "coup" and a "constitutional outrage." For investors, it's a warning sign: Ignore Brexit at your risk.

Johnson shook Britain out of its summer lull on Wednesday when he asked the Queen to suspend Parliament just days after it returns from its summer recess next week, and only weeks before the Brexit deadline on October 31.
Why it's important: The move gives lawmakers less time to block a messy no-deal departure from the European Union. Johnson has said he will take the United Kingdom out of the bloc on October 31 with or without a deal to protect trade.
The pound fell as much as 1.1% against the dollar on the news. It's trading lower again on Thursday and remains below the $1.22 mark.
Johnson's move sets the stage for a tumultuous fall that could mean more market volatility.
"It goes without saying ... that the next few weeks are heading into uncharted territory, " said ING's James Smith and Petr Krpata. "For the pound, all of this means further weakness to come."
Remember: Analysts expect the pound to grind lower between now and October 31. Morgan Stanley has predicted that the currency could fall to between $1.00 and $1.10 if Britain leaves the European Union without a deal in place. Sterling was at nearly $1.50 before the 2016 Brexit vote.
The UK economy is also in a fragile state. In the second quarter, it shrunk for the first time in nearly seven years. Brexit has the potential to send the country into a recession.
See here: UK car production fell 10.6% in July, the 14th consecutive month of decline, the Society of Motor Manufacturers and Traders said Thursday.
Investor insight: A Brexit shock wouldn't just send Britain reeling. Germany, Europe's largest economy, is also on the brink of recession, and concerns about global economic growth are rising. The last thing investors need is a jolt from the United Kingdom.

7. Robot staff member arrives at HSBC Bank Canada

[August 28, 2019] The downtown Toronto branch of Vancouver-based HSBC Bank Canada added a new staff member this week — one that can not only help clients with their banking needs, but also dance, make jokes and pose for selfies as people wait to be served.
That new addition is Pepper, a social humanoid robot designed in partnership with SoftBank Robotics America. While not the first of its kind — seven of the robots are currently working in U.S.-based HSBC branches, something that began in June 2018 — the robot is the first to enter Canada’s retail banking industry.

The robot serves as a physical symbol of HSBC Canada's recent technological investments, which also include the funding of a global data lab that opened in Toronto this spring and the launches of the bank's digital-focused Mortgage Centre and Wealth Compass online investing platform in 2018.

Yet, for the bank's executives, Pepper signifies much more.

One of the goals of Larry Tomei, HSBC Canada's executive vice president and head of retail banking and wealth management, is to boost the client experience through technology. "Our strategy is built on where our clients want to take [the banking industry]," Tomei said.

As a client experience ambassador, one of Pepper's main duties is fielding customer questions. Pepper is programmed to explain the various tools available to the bank's clients, such as TFSAs. There's a touchscreen on Pepper's chest for those who'd prefer not to speak with a robot, and Pepper can also call on human employees when needed.

"People want great advice, but they also want that fun aspect," Tomei said. "We don't want banking to be what people typically see as very dry. It should be [about building] a relationship, and how you do that — via online, on the phone or in-person — that's up to the customer."

Of course, Canada's Big Six banks and other wealth management firms are also actively investing in technology. Throughout 2019, firms such as Quebec City-based Industrial Alliance Insurance and Financial Services Inc. and Vancouver-based Canaccord Genuity Group Inc. have launched or invested in AI-powered tools and partners.

But the introduction of Pepper and other digital tools doesn't signify the end of traditional advice, Tomei said.

The bank is "in the middle of launching 35 new branches, and three have already opened," he said, adding that its client base and domestic market share are both growing. Tomei adds, "We've grown our advisor base [since 2017], in particular on the mass-affluent and high net-worth side."

According to the bank's second quarter earnings, released in early August, HSBC Bank Canada's profit decreased during the quarter by 32% from the same period a year ago. However, there was growth for the bank's domestic retail banking, wealth management and commercial banking businesses.

Jeremy Balkin, head of innovation at New York-based HSBC Bank USA and a member of the team who helped launched Pepper south of the border, sees the robot as "one piece of a broader sweep of enhancements to retail banking."

Balkin, an Australian who moved to New York seven years ago, appreciates Pepper's ability to understand different accents. "It was very frustrating coming to America […] and having to repeat myself multiple times. When I first spoke to this social humanoid robot, she understood me the first go. I was so blown away."

Based on that experience, he thinks Pepper can help the bank "from a language barrier perspective. Financial services are complex in itself, so there's an even higher barrier from an exclusion perspective."

Alongside helping customers on the frontline, Pepper's ability to collect data could help the bank. While the robot doesn't collect any personal information due to privacy concerns, it can collect data on customer trends, which both Tomei and Balkin said would be leveraged by HSBC.

Balkin said the bank gets "anonymous aggregate data from Pepper at the end of each week." The data can show how much clients asked about certain services, where more education is needed and on which topics branch managers can coach their teams.

Throughout the remainder of this year and 2020, HSBC plans to continue growing its robot fleet within North America and up to four more countries, Balkin said.

Have a nice and fruitful week!

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