Weekly Updates Issue # 735

1. Weekly Markets Changes

[October 11, 2019]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,415.16 -34.19 -0.21%	2,970.27 +18.26 +0.62%	26,816.59 +242.87 +0.91%	8,057.04 +74.57 +0.93%	$0.7548 +0.29c +0.38%	$1,512.90 -23.89 -1.58%	$54.70 +1.89 +3.58%

2. Gains in full-time work lower unemployment rate in Canada

[October 11, 2019] The national statistics office says Canada’s unemployment rate nudged down to 5.5% in September as the economy added 54,000 net new jobs, driven by gains in full-time work.

Statistics Canada says the jobs growth was largely concentrated in the health-care sector, and notes gains in the number of public-sector and self-employed workers.

The report says 70,000 of the new jobs were full-time, as the number of part-time workers declined.

The agency’s latest labour force survey says the country saw a rush last month of 49,400 new positions in services industries, but a drop of 21,000 jobs in the private sector.

Young workers aged 15 to 24 years old saw drops in the ranks of full- and part-time workers, inching their unemployment rate to 11.9% — not all that dissimilar from the same time one year ago.

Compared with a year earlier, the numbers show Canada added 456,000 jobs, for an increase of 2.4%.

3. Entrepreneurs unsatisfied with federal government policy

[October 11, 2019] Two-thirds of Canadian business owners believe federal policies have not helped to grow their enterprises, a new survey suggests.

The Angus Reid poll found that 66% of entrepreneurs disagreed with the statement, “Federal government policies have helped businesses grow in the past 12-18 months.”

Roughly half of owners polled plan to invest in their businesses in the next 18 months, the survey found. Of those opting not to put more cash into their company, only one-quarter attributed the decision primarily to poor conditions created by the government.

One-quarter cited impending retirement, and another 25% said they “don’t need resources to grow their business further,” Angus Reid spokesman Demetre Eliopoulos said in an email.

The survey, commissioned by cloud management company Sage, found that six in 10 business owners are simply unaware of any government-provided services and programs to help their companies expand.

“For Canada’s economy to thrive, we have to keep business owners’ confidence high,” Paul Struthers, Sage Canada’s managing director, said in a news release.

“Our government should hear their concerns and support their growth so that we can all work towards a promising future.”

Despite the escalating tariff war between China and the U.S., about two-thirds of business owners said they have not felt the impact of global trade tensions, which “have little impact on their reality,” the Sage release states.

The Liberal government cut the small business tax rate to 9% from 11%. That move, which applies to the first $500,000 of active corporate income, saves businesses up to $7,500 a year, the party says.

Last November, the Liberal government unveiled a plan that would allow businesses to immediately write off the full cost of some types of equipment and machinery, as well as enable companies of all sizes across all sectors to expense a larger share of new assets.

Conservative Leader Andrew Scheer has promised to reverse a decision by the Liberals that increased the tax rate on small business investments and made it harder for companies to pay dividends to family members.

The first loophole allowed small businesses to keep income from sources not related to their work inside their corporations — where it was taxed at a lower rate than it would have been had they counted it toward their personal bottom line.

Meanwhile, Prime Minister Justin Trudeau has said his move to reduce "income sprinkling," which prompted a backlash among entrepreneurs and self-employed professionals in 2017, rectified rules that allowed high-earning self-employed professionals to avoid paying a higher tax rate by dividing up their income among family.

The Angus Reid online survey was conducted between Aug. 22 and Aug. 26 and garnered responses from 626 business owners with one or more employees as well as 1,604 working Canadians. According to the polling industry's generally accepted standards, online surveys cannot be assigned a margin of error because they do not randomly sample the population.

4. The Fed's $4 trillion experiment is growing

[October 11, 2019] The Federal Reserve is once again buying vast amounts of bonds to calm stress in financial markets. But this isn't a return to crisis-era efforts to save the economy. At least not yet.

The Fed announced on Friday it will launch a new program next week that will gobble up $60 billion of Treasury bills per month. The purchases will further boost the size of its already-massive $4 trillion balance sheet.

Given the slowing American economy, the actions are reminiscent of the bond buying programs known as quantitative easing. The Fed resorted to QE, and eventually QE2 and QE3, to keep borrowing costs ultra-cheap once it ran out of room to cut interest rates in 2008.

Yet central bank officials and economists stress today's moves have an entirely different purpose. Rather than boosting sluggish growth, the Fed is buying bonds to fix significant problems that have emerged in the plumbing of the capital markets.

"This is not QE to induce animal spirits and pull people into risk-taking and borrowing," said Danielle DiMartino Booth, a former Fed official who is now CEO of Quill Intelligence.

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The Fed even put out a Frequently Asked Questions page on Friday that sought to draw a bright line between the moves and what happened during the crisis.

"These operations have no material implications for the stance of monetary policy," the statement said, adding that there should be "little if any effect" on household and business spending nor the overall level of economic activity.

Instead, the Fed just wants to make sure there is enough cash sloshing around the system -- because lately there hasn't been.

'Plumbing' problems emerge

Overnight lending rates spiked suddenly last month. The episode revealed a sudden cash crunch. Now the Fed is responding by pumping in more cash to get the plumbing flowing again.

"This is not about changing the stance of monetary policy. This is about making sure markets are functioning," Neel Kashkari, president of the Minneapolis Federal Reserve, said on Thursday at the Yahoo Finance All Markets Summit. "This is kind of just a plumbing issue."

But as many homeowners know, even plumbing problems can turn into bigger ones.

The Fed needs to fix the cash crunch before it erodes confidence or spills over into the real economy, which has already started to show serious cracks because of the US-China trade war and weak global growth.

"You don't want to have funding shocks add to the worsening outlook. We don't need this problem on top of our other problems," said Ralph Axel, senior US rates strategist at Bank of America Merrill Lynch.

The Fed revealed on Friday that officials met by videoconference on October 4 to discuss the recent pressure in overnight lending markets. Final plans for the Treasury bill purchases were approved on Friday.

'Intense volatility'

Normally, the overnight lending markets get very little attention. But that's not because they aren't important. These markets are critical. They allow banks, hedge funds and other financial institutions to quickly and cheaply borrow money for short periods of times.

Many were surprised when the rate on overnight repurchase, or repo, agreements surged in mid-September well above the target range for short-term borrowing set by the Fed.

Even Fed chief Jerome Powell acknowledged that these markets experienced "unexpectedly intense volatility."

The Fed blamed the stress on two one-off factors: The withdrawal of cash by US companies to make quarterly tax payments to the Treasury Department and the settlement of a large amount of Treasury purchases.

Sustained pressure could lead investors to fear the Fed is no longer in control of short-term borrowing rates. That would be a problem because that's precisely how the Fed influences the economy.

"This volatility can impede the effective implementation of monetary policy, and we are addressing it," Powell said.

The initial response, led by the New York Fed, featured a series of emergency "overnight repo operations." These cash injections, which are promptly repaid, were aimed at getting borrowing costs back in line. The moves worked, driving rates back down.

However, the NY Fed's repo operations drew very strong demand, suggesting it couldn't just walk away.

The fact that there is still a clamor for cash signals there still isn't enough cash in the system. These aren't one-off events driven by tax payments or Treasury auctions.

'Winging it'

The Fed started to shrink its balance sheet in October 2017 because the economy was improving. Economists say the Fed underestimated how much cash the financial system needed to keep operating smoothly. The Fed seems to have sucked out too much cash when it reversed QE.

"It was a bridge too far," said DiMartino Booth.

There was always a risk that would happen. No one, not even the Fed, knows how much cash needs to be kept in the post-crisis system.

"They are winging it, absolutely," said Bank of America's Axel.

Powell signaled this week that the Fed will soon increase the size of its balance sheet. It's a return to what the Fed did prior to 2007, when the central bank's balance sheet regularly grew prior to the crisis in line with the growth of currency.

But Powell stressed that this "should in no way be confused" with the QE program launched after the financial crisis.

And to emphasize that point, the Fed is purchasing short-term government debt known as Treasury bills, or T-Bills. The Fed said these purchases "should have little if any effect" on long-term interest rates.

That's a major difference from QE, when the Fed gobbled up longer-duration Treasuries in a bid to keep borrowing costs cheap.

"They are specifically targeting T-Bills to try to help the messaging, which is difficult because of the simultaneous happenings of the slowdown and the Fed cuts," said Axel.

QE4 to fight the next recession

The Fed has already cut interest rates twice in response to the loss of momentum in the US economy. Those rate cuts, down to a range of 1.75% to 2%, have eroded the Fed's limited firepower to fight the next recession.

UBS has warned that US GDP growth will tumble to near-zero next year, forcing the Fed to slash interest rates by another percentage point between now and the first half of 2020.

"We've got a pretty massive slowdown in our forecasts," said Rob Martin, US economist at UBS.

Although UBS isn't calling for GDP growth to go negative, Martin said he's "not at all" confident the United States will avert a recession.
And Fed officials have already said that they would be comfortable relaunching QE if they have no room to cut rates in the next recession.
"When history is written, this will be looked at as the second step in the Fed's easing campaign headed into the coming downturn," said DiMartino Booth. "First we had rate cuts. Now we have relief in the overnight lending market. The third step is quantitative easing."

5. Securities class action against Barrick Gold to proceed

[October 10, 2019] An Ontario court has given the go-ahead for a pension fund's proposed $3-billion securities class action against Barrick Gold Corp.
The Ontario Superior Court of Justice granted a motion brought by the trustees of the Drywall Acoustic Lathing and Insulation Local 675 pension fund seeking leave to bring a class action against Barrick for alleged misrepresentations in the company's financial disclosure involving a massive mining project that ultimately failed.
The allegations, which have not been proven, involve secondary market misrepresentations regarding the construction of the multi-billion-dollar Pascua Lama gold mining project in Chile and Argentina.
According to the court ruling, the pension trustees are suing the company over various disclosures it made about the project, which was ultimately abandoned, resulting in billions worth of shareholder losses.
The court granted the plaintiffs' motion for leave concerning an alleged environmental misrepresentation that appeared in the company's MD&A in its second quarter 2012 report.
"The proposed class action is confined to this single representation," the court ruled, noting that the plaintiffs established a "reasonable possibility" of success at trial on that count.
However, it denied leave for various other alleged misrepresentations in the company's financial disclosure.
The court also limited the claim to buyers of Barrick common shares, not all securities, stating, "the plaintiff has presented no evidence of materiality in relation to Barrick's debt securities."
The ruling also notes that a U.S. class action has been settled.

6. Financial literacy "alarmingly low" among retail investors: report

[October 10, 2019] Many investors have little financial knowledge and are ill-prepared to manage their own finances, let alone make complex investment decisions, finds new research from the investor education arm of the U.S. Financial Industry Regulatory Authority (FINRA).

The FINRA Investor Education Foundation (FINRA Foundation) has reported that its research — which was conducted along with the Global Financial Literacy Excellence Center (GFLEC) at the George Washington University School of Business — found that financial knowledge is "alarmingly low" among retail investors.

In particular, the FINRA Foundation found that the 15,000 investors they surveyed "had significant difficulty" answering questions about the concepts of asset pricing and risk diversification.

The research also noted that investors who only have accounts set up at their employer have notably weaker knowledge than investors who also invest on their own through private investment accounts.

For instance, only 32% of workplace-only investors could answer questions about basic financial concepts (numeracy, inflation and diversification) correctly, compared to 44% of more-active investors.

"Many investors, and especially those who are exposed to investment decisions solely through participation in an employer-sponsored retirement plan, lack financial literacy," Annamaria Lusardi, academic director of GFLEC, said in a statement.

"This is a problem that cannot be overlooked. Our findings signal a great need for targeted financial education programs that raise financial knowledge, particularly in the workplace. Workplace education could help prepare employees for the sort of financial decision making that they are required to make," she added.

"Fewer workers today have defined benefit pension plans and the rise of defined contribution plans… require an understanding of financial markets and basic personal finance that many investors lack," said Gerri Walsh, president of the FINRA Foundation.

7. Conservatives promise increased adoption tax credit

[October 10, 2019] Adoptive parents would be entitled to paid leave through employment insurance (EI) as well as an increased tax credit under a plan unveiled by the Conservatives on Thursday.

The party said it would introduce 15 weeks of EI adoption leave benefits for parents who adopt children under the age of 18 and boost the adoption tax

credit from $15,905 to $20,000. The increased credit, which was proposed by the Tories in 2015, would be fully refundable.
In a release, the party said the maximum tax savings an adoptive family would receive through the enhanced credit, which would continue to be indexed to inflation, would increase from $2,482 to $3,000 in the 2020 tax year.
A cost estimate from the parliamentary budget officer (PBO) predicted the paid leave, which would be implemented on April 1, 2020, would cost $12 million in the 2020 tax year. The enhanced tax credit would carry negligible costs, the PBO said.
“Adoption is one of the most selfless things a Canadian can do,” David Sweet, the Conservative candidate for Flamborough-Glanbrook, said in a statement. “At the same time, it can also involve significant investments of time and money.”
The Liberal platform also includes a promise to introduce a 15-week leave for adoptive parents.
The Liberals have also proposed making maternity and parental benefits tax-exempt at source, in addition to boosting the Canada Child Benefit and creating guaranteed paid family leave, which would provide a guaranteed income through the first year of a child’s life.

8. Greece was broke four years ago. Now investors are paying to lend it money

[October 10, 2019] Just four years ago, Greece was on the verge of crashing out of the euro because it was broke and reluctant to accept the terms of a bailout to plug the gaping hole in its finances. Now, investors are effectively paying the country for the privilege of lending it money.
Europe's most indebted country is the latest to sell government debt with a negative yield — meaning that if investors hold those bonds until they mature in three months, they get back less than they invested. It's one of the strongest signals yet that ultra-low interest rates are here to stay.
Greece sold €487.5 million ($537 million) of bonds with a yield of minus 0.02% on Wednesday. Earlier this week, it sold 10-year bonds at a yield of just 1.5%. In 2012, yields on similar bonds were closer to 24%.
It's a dramatic turn of events for a country that required the largest bailout in history and saw its government debt peak at above 180% of GDP.
Greece has received €204 billion ($225 billion) from European governments and the International Monetary Fund over the past eight years, according to the Euro Stability Mechanism, an intergovernmental organization.

As a condition of the loans, Greece's government slashed spending, reducing the number of civil servants by 25% and cutting public sector wages by 30%. Consumer spending plummeted and unemployment spiked. The economy lost about one quarter of its size.

When interest rates go negative

Now it seems the reforms are paying off, helped by negative interest rates in Europe and bond-buying by the European Central Bank that has stimulated economic growth.

Greece joins the likes of Germany, Spain, Italy and smaller economies such as the Czech Republic in issuing debt at negative yields.

Some analysts say that negative yields in Greece do not signal increased demand from foreign investors. Instead, most bonds with negative yields have been purchased by local banks for use as collateral.

Yet they do reflect a trend seen in other developed economies following the financial crisis.

Some of the world's most powerful central banks have pushed interest rates into negative territory in order to spur growth. Last month, the European Central Bank pushed its benchmark rate further below zero, to minus 0.5%.

According to Fitch Ratings, some $15 trillion worth of government debt with negative yields has been sold. In Germany, even the yield on 30-year bonds is negative.

"There's a massive move globally towards lower yields, particularly in Europe following what the [ECB] did," said Athanasios Vamvakidis, global head of G10 foreign exchange strategy at Bank of America Merrill Lynch.

Yet there are also concerns about the effects of negative rates. Some say they punish savers, inflate asset bubbles and benefit the wealthy. Many economists argue that increased spending by governments would be a more effective way to stimulate growth.

"Negative yields on long-dated government securities are more reflective of distorted market conditions than of stronger sovereign credit profiles," said Fitch Ratings.

Still, investors have been encouraged by Greece's new "reform-oriented government" and its "substantial" cash balances, said Vamvakidis.

This could be seen in a narrowing in the difference between yields on German bonds relative to Greek bonds, he said.

"The profile of Greece's general government debt is exceptionally favorable," Fitch Ratings said.

Greece's economy is expected to grow by 2.1% in 2019, even as other European economies slip into recession. The country recorded positive manufacturing activity in September, while Europe as a whole posted a negative reading.

9. Canada's competitiveness slips

[October 9, 2019] Canada's economic competitiveness is continuing to deteriorate, according to the World Economic Forum's (WEF) latest rankings.

National Bank Financial (NBF) reports that Canada has slipped to 14th place in the latest Global Competitiveness Index rankings, which is down two spots from last year. Canada was holding down 10th place back in 2017. Singapore ranks first in the index, pushing the U.S. down to second spot, with Hong Kong taking third place.

NBF notes that Canada's competitiveness looks weak particularly relative to its closest rival, the U.S., underperforming the U.S. in most of the categories the index measures.

In its report, the WEF notes that, "further improvements in mobile broadband infrastructure and usage, greater investments in R&D and collaboration between companies, universities and research centres would benefit Canada's competitiveness."

NBF says the list should also include increased infrastructure investment, lowering interprovincial trade barriers, recruiting more highly skilled foreign workers and reducing red tape.

"Clearly, the federal government has its work cut out," NBF states, "and we'll be hoping whoever is elected on October 21 makes it a priority to address Canada's competitiveness gap with the U.S."

10. Canadians went deeper in debt in August

[October 8, 2019] Total Canadian household credit growth accelerated in August, according to a report released by Scotiabank Economics on Monday.

The seasonally adjusted annual rate of credit growth increased by 5.1% month-over-month, the fastest pace in two years. Residential mortgage credit growth also reached a two-year high, rising by 5.4% month-over-month.

Scotiabank attributed the expansion in total household credit to easier borrowing conditions. The spike in residential mortgage credit growth followed a mid-July reduction in the mortgage qualifying rate, the first cut since 2016. Year-over-year, mortgage loan growth hit a one-year high of 4.0%.

Consumer credit growth reached a 10-month high of 4.3% month-over-month, but the long-term growth trend remained flat from July at 3.1% year-over-year.

Although the household debt-service ratio remains at an all-time high — and the debt-to-personal-income ratio remains near its record high — Scotiabank suggested the Bank of Canada would be "unlikely" to raise its key rate as it is currently focused on "preventing the Trump slowdown from spilling over into Canada."

More women filing for insolvency

As household credit continues to grow, more women are filing for insolvency, according to a study conducted by Hoyes, Michalos & Associates Inc.

The licensed insolvency trustees found that the gender gap in consumer insolvency filings has decreased to almost zero. In 2018, 49% of insolvencies were filed by women, up from 42% in 2012.

The study also found that women filed for insolvency with less debt than men.

Women had 21% less unsecured debt than men, and an unsecured debt-to-income ratio of 147% — significantly lower than the 177% for male debtors.

"Women face specific financial challenges that increase their reliance on debt yet make that same debt harder to manage," Doug Hoyes, co-founder of Hoyes, Michalos & Associates, said in a statement.

For example, 26% of the women who filed for insolvency in 2018 were single parents, compared to 8% of men who filed for insolvency. Women were also more likely than men to have student debt (22%, compared to 13%), and more likely than men to be divorced (26%, compared 20%).

On average, women filing for insolvency earned 4.5% less than men.

Have a nice and fruitful week!