# Weekly Updates Issue # 738

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## 1. Weekly Markets Changes

**[November 1, 2019]**

| S&P TSX | S&P 500 | Dow Jones | NASDAQ | CAD/USD | Gold | WTI Crude |
|---|---|---|---|---|---|---|
| 16,594.07<br>+189.58 +1.16% | 3,066.91<br>+44.36 +1.47% | 27,347.36<br>+389.3 +1.44% | 8,386.40<br>+143.28 +1.74% | $0.7601<br>-0.54c -0.71% | $1,511.40<br>+9.71 +0.65% | $56.20<br>-0.46 -0.81% |

## 2. Desjardins data theft was worse than originally reported

**[November 1, 2019]** The Desjardins Group data theft is much more widespread than first thought and actually hit 4.2 million members, the banking co-operative's chief executive said Friday.

Guy Cormier told a news conference the revised number — which represents the entirety of the Levis, Que.-based organization's membership — were victims.

Desjardins Group initially reported in June that 2.9 million customers had been impacted by the theft — 2.7 million individuals and 173,000 businesses in Ontario and Quebec.

The breach involved personal information — including social insurance numbers — but did not include banking information or passwords.

Quebec provincial police provided Desjardins with the news on Thursday.

"This is not a new breach, this is the same breach with the same employee who did the same pattern, but the bad news today is that the SQ (provincial police) is sure that it's for the whole group and all the 4.2 million members," Cormier said.

On Friday, Desjardins wasn't in a position to specify if more of its business clients were also affected.

Desjardins offered a subsidized subscription to an Equifax credit monitoring service after the initial announcement of the breach, and Cormier says some 40% of its customers have signed up for it.

Cormier said any members who weren't contacted at that time will be notified, beginning Nov. 4.

The co-operative said it would offer any clients who had been victims of identity theft access to lawyers and experts and reimburse them for certain expenses incurred as a result.

Cormier said that he hopes the public takes notice of the efforts taken in the past four-and-a-half months.

"I think they saw that Desjardins was really proactive on that side," Cormier said. "It's really bad that yesterday we received this information from the SQ (police), but I think compared to June 20, our members can see, and they saw Desjardins was standing up and that's what I hope they see."

Cormier noted Friday that since the theft was publicized, there have been no instances of fraud involving members accounts.

In September, Quebec provincial police questioned 17 people of interest and conducted multiple property searches as part of an investigation dubbed "Portier."

The force said it met 91 witnesses in the Quebec City, Montreal and Laval areas, but didn't making a formal arrest.

Desjardins has said a single employee — since fired — was allegedly responsible for the breach detected in December 2018.

A police spokesperson said Friday the investigation into the breach was ongoing.

In addition, the Office of the Privacy Commissioner of Canada and Quebec's access to information commission are also investigating.

## 3. U.S. sees solid jobs growth in October

**[November 1, 2019]** U.S. employers added a solid 128,000 jobs in October, a figure that was held down by a now-settled strike against General Motors that caused tens of thousands of workers to be temporarily counted as unemployed.

The unemployment rate ticked up from 3.5% to 3.6%, still near a five-decade low. And for a second straight month, average hourly wages rose a decent if less-than-robust 3% from a year ago.

The government also revised up its estimate of job growth for August and September by a combined 95,000, suggesting a healthier employment market than many had thought.

All told, Friday's October employment report from the government pointed to a still-sturdy job market that remains a vital source of strength for a U.S. economy that's been weakened by trade wars and a global slowdown. The healthy level of hiring also makes it less likely that the Federal Reserve, which cut short-term interest rates this week for a third time this year, will do so again anytime soon.

"This was an unambiguously strong report," said Kathy Bostjancic, chief US financial economist at Oxford Economics. "I think the ongoing strength of the labour market helps explain and support the Fed's leaning in to pause the rate cut cycle for now."

The solid jobs data put stock investors in a buying mood. The Dow Jones Industrial Average was up about 240 points by late morning.

Friday's jobs report suggested that further job gains may be coming. Last month, the GM strike contributed to the temporary loss of 41,600 auto factory and likely other related jobs. But the settlement seems sure to lead to a return of those jobs in the coming months.

And the labour force participation rate _ a measure of how many people have jobs or are seeking work _ ticked up to 63.3%, the best since August 2013. That suggests that a rising number of people think it's still a good time to find a job.

Besides GM, a temporary drag on hiring last month was the U.S. Census. The government let go of 20,000 short-term workers who had been helping prepare for the 2020 survey.

Job growth so far this year has averaged just 167,000 a month, down from an average of 223,000 in 2018, according to Labor Department figures. Even so, hiring remains high enough to keep the unemployment rate from rising despite the tepid pace of economic growth. On Wednesday, the government estimated that the economy grew in the July-October quarter at a modest 1.9% annual rate.

The economy has been expanding for more than a decade, the longest period of growth on record. But the bump from the 2018 tax cuts are fading and an aging population and other demographic forces are holding back potential growth.

That slowdown could be worrisome for President Donald Trump, who is seeking re-election next year. The economy appears unable to achieve the lasting growth of more than 3% annually that he had promised. Within 30 minutes of the jobs report's release, though, Trump celebrated the figures on Twitter as a "blowout," adding that "USA ROCKS."

Consumers, who drive about 70% of U.S. economic activity, have provided much of the fuel for growth. In September, they modestly stepped up their spending, and their incomes grew fast enough to let them save more, too. A rising saving rate is encouraging because it suggests that households have leeway to keep spending.

Last month, much of the hiring was driven by restaurants, which added 47,500 jobs. But even as consumers help boost growth, business investment has been a drag on the economy in recent months. Collectively, they have slashed their spending on industrial machinery and other equipment, mostly because the U.S.-China trade war has made them reluctant to commit to big purchases. The tariffs between the U.S. and China, the world's two largest economies, have also reduced U.S. exports.

The jobs report hinted at a mixed picture for the start of the holiday shopping season. Retailers added 6,100 jobs last month. But the rise of e-commerce and increasing concentration of wealth in large U.S. metros have corresponded with the loss of more than 20,000 jobs at retailers over the past 12 months.

A slowdown in pay growth is another source of concern. Hourly average earnings had been rising at a 3.4% annual rate back in February, significantly above the 3% pace in October.

But reduced wage growth might be somewhat misleading. Employers are giving more opportunities to workers who usually start at lower wage levels, and that might have cut into the overall pay gains, said Julia Pollak, a labour economist at ZipRecuriter, an online job marketplace.

"Given the number of women, the number of Hispanics, the number of blacks, the number of young people entering the workforce," she said, "it's quite possible that the influx of all these workers are dragging that average down."

## 4. Canadian economy grew by 0.1% in August, StatsCan says

**[October 31, 2019]** Statistics Canada says real gross domestic product grew 0.1% in August, following no change in July.

Economists on average had expected growth of 0.2% for the month, according to financial markets data firm Refinitiv.

Statistics Canada says 14 out of 20 industrial sectors posted gains.

A rebound in manufacturing helped goods-producing industries rise 0.2% after two months of declines.

The manufacturing sector grew 0.5% as durable manufacturing rose 1.0%, while non-durable manufacturing fell 0.2%.

Services-producing industries edged up 0.1%.

## 5. Bitcoin fund approved by OSC

**[October 30, 2019]** The Ontario Securities Commission (OSC) has approved a proposed investment fund based on the cryptocurrency Bitcoin.

An OSC hearing panel issued its decision Wednesday regarding Toronto-based fund manager 3iQ Corp.'s Bitcoin Fund, which was originally rejected in a decision by the regulator's staff.

The panel ordered that decision set aside and that the commission will receipt the proposed fund's prospectus.

In its decision, the panel said that the OSC staff didn't prove its concerns about liquidity, valuation and security of the fund's assets were enough to deny it prospectus approval.

"Bitcoin is a novel asset in an emerging and evolving market" the hearing panel said in its decision. Calling Bitcoin a "risky asset," the panel continued: "Some novel asset classes and securities products fail. They become tulip bulbs or dot-coms. Others succeed and become gold or the next great technology. Securities regulators are not mandated to try to pick winners and losers."

The panel also ruled that it was not proven that Bitcoin is uniquely illiquid, and that it can't comply with the requirements for valuing illiquid assets held by an investment fund.

"I find that [3iQ] have taken reasonable steps to mitigate the risks associated with the fund and the Bitcoin markets through the structure of the fund and the use of professional and qualified third-party service providers," the commission said in its decision. It declined to impose any conditions on the fund.

Following the OSC's ruling, 3iQ said that it "expects to syndicate the offering as soon as possible" and that it is aiming to have the fund trading this quarter.

"We look forward to offering retail investors exposure to this exciting new asset class within registered and traditional investment accounts," said Howard Atkinson, chairman of 3iQ.

"We have addressed the questions of pricing, custody, audit, and public interest issues in a regulated investment fund. We intend to refile the prospectus as soon as possible as the next step in bringing this ground-breaking fund to investors," added Fred Pye, president and CEO of 3iQ.

## 6. Fed makes third consecutive cut while signalling pause

**[October 30, 2019]** The Federal Reserve cut its benchmark interest rate Wednesday for the third time this year to try to sustain the economic expansion in the face of global threats. But it hinted that it won't likely cut again this year.

The Fed's move reduces the short-term rate it controls — which influences many consumer and business loans — to a range between 1.5% and 1.75%.

A statement the Fed released after its latest policy meeting removed a key phrase that it has used since June to indicate a future rate cut is likely. This could mean that Fed officials will prefer to leave rates alone while they assess how the economy fares in the months ahead.

The economy is in its 11th year of expansion, fuelled by consumer spending and a solid if slightly weakened job market. By cutting rates, the Fed has tried to counter uncertainties heightened by President Donald Trump's trade conflicts, a weaker global economy and a decline in U.S. manufacturing.

The third rate cut of the year has partly reversed the four hikes that the Fed made last year in response to a strengthening economy. That was before rising global risks led the Fed to change course and begin easing credit. Lower rates are intended to encourage more borrowing and spending.

Chairman Jerome Powell has said that the central bank's rate reductions are intended as a kind of insurance against threats to the economy. Powell has pointed to similar rate cuts in 1995 and 1998 as precedents; in both those cases, the Fed cut rates three times. He and most other Fed officials credit their rate cuts with lowering mortgage rates, boosting home sales and generally keeping the economy on track.

The Fed is also weighing the consequences of a decline in expectations for inflation. Lower inflation expectations can be self-fulfilling. This can pose a problem for the Fed because its preferred inflation gauge has been stuck below its 2% target for most of the past seven years.

In the meantime, Trump, via Twitter, has renewed his attacks on the Fed for not lowering its benchmark rate closer to zero. The president has contrasted the Fed's actions unfavourably with central banks in Europe and Japan, which have slashed their rates into negative territory. Though Trump has argued that this puts the United States at a competitive disadvantage, most economists regard negative rates as a sign of weakness.

Some international tensions have eased since the Fed previously met in mid-September, which might suggest to some that further rate cuts are less necessary. The U.S. and China reached a temporary trade truce earlier this month and are working on a preliminary agreement that could be signed soon by Trump and President Xi Jinping. It's not clear, though, how meaningful such an agreement might be, and Trump hasn't dropped his threat to impose new tariffs on Chinese goods on Dec. 15.

Another source of global tension has been Brexit, which has also eased. The European Union has agreed to delay the deadline for Britain's exit from the trade bloc from Oct. 31 to Jan. 31. That postpones what could have been a hugely disruptive exit, right after the Fed meeting ended, that would likely have damaged the U.K. and European economies.

The U.S. economy is still growing, and hiring remains steady, though there have been signs of a slowdown in recent data. Americans cut back on spending at retailers and restaurants last month, a worrisome sign because consumer spending is the leading engine of economic growth. Still, consumer confidence remains high, and shoppers could easily rebound in the coming months.

And businesses have reduced their spending on industrial machinery and other equipment, mostly because the U.S.-China trade war has made them reluctant to commit to big purchases. The tariffs and retaliatory tariffs between the U.S. and China, the world's two largest economies, have also reduced U.S. exports.

Earlier Wednesday, the government estimated that the economy grew at a tepid but steady 1.9% annual rate during the July-September quarter.

The job market remains sturdy, with the unemployment rate at just 3.5%, the lowest in 50 years. On Friday, the government will report on employment growth for October. Steady hiring and decent wage gains should help underpin consumer spending in coming months, keeping the economy expanding. That could keep the Fed on the sidelines.

The housing market has also improved, after slumping in 2018, thanks in part to the Fed's rate cuts. Mortgage rates have fallen more than a full percentage point from a year ago, on average, for a 30-year fixed rate loan.

That's helped boost sales of existing homes while sales of new homes have soared. Auto purchases, another interest rate-sensitive industry, have also picked up.

## 7. BoC stands out among international peers by holding rate

**[October 30, 2019]** The Bank of Canada kept its key interest rate on hold Wednesday to position the country as an exception among advanced economies that have already started responding to a fading global economy.

Governor Stephen Poloz's team says the domestic economy has held up well in many respects and inflation has been close to target.

They warn, however, that Canada isn't immune to the negative effects of slowing global growth.

"Governing council is mindful that the resilience of Canada's economy will be increasingly tested as trade conflicts and uncertainty persist," the central bank said in a statement.

“In considering the appropriate path for monetary policy, the bank will be monitoring the extent to which the global slowdown spreads beyond manufacturing and investment.”

The Bank of Canada’s decision to hold steady makes it stand out among its international peers. It acknowledged Wednesday that dozens of policy-makers around the globe have taken steps to cushion the blow from the weakening world economy.

Since the release of its last quarterly update in July, the bank said more than 35 central banks in advanced and emerging economies have eased monetary policy to address fading growth and soft inflation pictures in their countries.

“A growing number of countries have responded with monetary and other policy measures to support their economies,” the bank said.

The U.S. Federal Reserve is widely expected to cut its borrowing rate Wednesday for a third-straight meeting, a move experts say would leave Canada with the highest rate in the industrialized world. It’s a very rare occurrence for the Bank of Canada and the Fed to make rate announcements on the same day.

The Bank of Canada’s status as an outlier will likely increase the pressure on Poloz to adjust his own policy rate in the coming months.

To guide its future decisions, the central bank said it will monitor any changes to Canada’s sources of strength, especially consumer spending and housing markets.

It also plans to watch for the roll out of expected fiscal support from the federal government and its timing. The recent election campaign featured promises of multibillion-dollar income tax cuts, which could help lift the economy.

Fiscal support would also provide breathing room for the central bank. Any move to lower borrowing rates would risk fuelling Canada’s already near-record levels of household debt.

The decision to hold the rate at 1.75% was widely expected by markets, and it left the benchmark at the same level it’s been for just over a year.

Since the summer, the bank said the global outlook has continued to deteriorate, which has held back business investment, growth and trade. The U.S.-China trade war, and its worldwide fallout, has been the key factor behind the slowdown.

In a separate report Wednesday, the bank predicted global growth in 2019 will dip to its lowest level since the financial crisis.

It also released updated domestic projections Wednesday to reflect developments since its last forecast in July.

Following Canada's unexpectedly strong second-quarter growth at an annual rate of 3.7%, the bank predicts expansion at an annual pace of just 1.3% in each of the final two quarters of 2019.

For all of 2019, the bank is projecting growth of 1.5%, up from its 1.3% prediction in July. The bank also forecasts an expansion of 1.7% in 2020, down from its earlier projection of 1.9%, and growth of 1.8% in 2021, down from its previous call of 2%.

The bank notes the domestic economy has been resilient in many areas — employment has remained strong, wages have advanced in some regions and housing activity has expanded in most markets. Over the projection horizon, the bank predicts inflation stay close to its ideal target of 2%, except for an anticipated temporary dip in 2020 due to waning effects of an earlier jump in energy prices.

## 8. Majority of non-bank mortgages uninsured

**[October 28, 2019]** More than half of Canadians' mortgages from non-bank lenders are uninsured, according to data from Statistics Canada published Monday.

Non-bank lenders include credit unions, trusts, insurers, and mortgage investment corporations.

According to StatsCan, 63.9% of non-bank mortgages are uninsured and they represent 57.4% of the total value of non-bank mortgages

$186.4 billion worth of uninsured mortgages are held at non-banks, StatsCan says, with an average value of $169,575. By comparison, the average value of insured mortgages is $222,843.

In the first quarter of 2019 (Q1 2019), non-bank lenders provided $32.8 billion worth of residential mortgages, with an average value of $263,853.

Again, uninsured mortgages represented over half (56.9%) of the total value, and 60.2% of the volume of new residential mortgages in Q1 2019.

Nearly two-thirds, or 65.1%, of the residential mortgages that were over 90 days in arrears in Q1 2019 were uninsured, the agency reports. The average value of these mortgages was $216,924.

## Have a nice and fruitful week!