Weekly Updates Issue # 740

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1. Weekly Markets Changes

[November 15, 2019]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
17,028.47 +151.05 +0.89%	3,120.46 +27.38 +0.89%	28,004.89 +323.7 +1.17%	8,540.83 +65.52 +0.77%	$0.7558 -0.05c -0.07%	$1,462.90 +5.30 +0.36%	$57.72 +0.48 +0.84%

2. Foreign investors flocked to Canadian corporates in Q3

[November 15, 2019] Foreign investors snapped up Canadian securities, while domestic investors trimmed their foreign holdings — driving positive portfolio flows to close the third quarter — according to data from Statistics Canada.

In September, foreign investors added $4.8 billion worth of Canadian securities on net, powered by the acquisition of $6.0 billion in Canadian bonds, StatsCan reports.

Foreign buying of corporate bonds was even stronger, with investors adding $10.4 billion worth of Canadian corporate bonds during the month.

This was offset by investors selling $2.8 billion in government bonds.

For the third quarter, foreign investors bought $18.8 billion in Canadian corporate bonds, StatsCan reported.

Additionally, foreign investors added $1.1 billion in Canadian equities in September, and sold $2.4 billion worth of short-term Canadian money market investments.

During the month, Canadian investors also sold $2.4 billion in foreign securities, primarily U.S. securities.

“The decrease in holdings of U.S. securities in September reflected sales of shares and Treasury bonds, partially offset by acquisitions of corporate bonds,” StatsCan said.

With foreign investors adding Canadian securities and Canadian investors selling foreign investments, the Canadian economy enjoyed a $7.2-billion net portfolio inflow in September.

3. Canadian home sales rose 12.9% year over year in October: CREA

[November 15, 2019] The Canadian Real Estate Association says the number of home sales was up 12.9% nationally in October compared with the same month last year.

It says sales activity last month was almost the same as for September, but up almost 20% from a six-year low reached in February. Home sales are still about 7% below the heights reached in 2016 and 2017.

CREA says sales activity was mixed across the country as growing sales in Greater Vancouver, the B.C. Fraser Valley and Ottawa was offset by a monthly decline in the Greater Toronto Area and Hamilton-Burlington.

Greater Vancouver’s composite index price was down 6.4% from a year ago to $994,900, while in the GTA, the index price was up 5.6% to $814,400. Ottawa recorded the highest price gains of major cities with a 10.25% climb to $436,300.

Nationally, the composite index price was up 1.77% to $633,600 despite declines in parts of B.C. as well as in major cities in Alberta and Saskatchewan.

The number of new residential home listings was down by 5.8% in October compared with last year, and down 1.8% from September.

4. OSFI rejects proposed global capital standard for insurers

[November 14, 2019] Canada’s federal financial regulator has rejected proposed global capital requirements for insurers, declaring that they are too high for the Canadian market.

In a statement issued Thursday, the Office of the Superintendent of Financial Institutions (OSFI) said it doesn’t support adopting the proposed global capital standard, known as the Insurance Capital Standard (ICS), for the Canadian industry.

Specifically, OSFI says the standard would impose capital requirements for long-term products that are "too high to be compatible with OSFI's mandate of allowing Canadian insurers to compete and take reasonable risks."

OSFI's rejection of the proposed global standard comes in the wake of an announcement from the International Association of Insurance Supervisors (IAIS) that it will launch a five-year monitoring period for the ICS starting in January 2020.

Data collected during the monitoring period will be used to craft the final capital requirements.

The IAIS said the proposed standard was developed through six quantitative field testing exercises from 2014 to 2019, coupled with consultation and discussion among regulators and other stakeholders.

OSFI said that it's broadly supportive of the goals of developing global standards. During the IAIS monitoring period OSFI "will continue its work in trying to achieve an international capital standard for insurance companies that works for all jurisdictions," it said.

In the meantime, Canadian insurers will continue to be subject to OSFI's existing capital rules for federally regulated insurance companies.

Alongside its announcement on capital standards, the IAIS also said it has adopted a set of reforms to enable effective cross-border supervision in the sector and will implement a new framework for assessing and mitigating systemic risk in the insurance sector, starting in 2020.

In response to the planned introduction of the systemic risk framework, the Financial Stability Board (FSB) said it's suspending the effort to identify global systemically important insurers (G-SIIs). It plans to revisit the concept of identifying G-SIIs in November 2022.

5. Sweden snubs Canadian bonds, citing climate risk

[November 14, 2019] Citing the risk of climate change, Sweden's central bank has dumped its holdings of bonds issued by Alberta.

In a speech, the Riksbank's deputy governor, Martin Flodén, announced that the bank has been selling government bonds due to concerns about climate risk, specifically Canadian and Australian bonds.

Flodén said that, while it's up to the government to formulate climate policy, the central bank can assess how certain foreign bond issuers are working toward climate sustainability and to "reject issuers with a large climate impact."

The Riksbank is now starting to factor sustainability into its risk and investment policy.

“We will not invest in assets issued by issuers with a large climate footprint,” Flodén said.

The central bank had invested about 8% of its foreign exchange reserves in Australian and Canadian government bonds, “as they give relatively high yield and a good diversification of risk,” Flodén said. “But Australia and Canada are countries that are not known for good climate work.”

Flodén noted that greenhouse gas emissions per capita in Canada and Australia “are among the highest in the world, but vary considerably between the different states. For instance, greenhouse gas intensity is more than three times higher in production in Alberta than in Ontario and Quebec.”

As a result, he said, the bank sold its holdings of bonds issued by Alberta this past spring and recently sold bonds issued by the Australian states of Queensland and Western Australia.

Looking ahead, he said, the bank needs to enhance its analysis of issuers’ climate footprint.

6. BoC to help firms facing exceptional liquidity stresses

[November 13, 2019] To bolster the resilience of the financial system, the Bank of Canada is planning to introduce a new liquidity backstop for financial institutions that face unusual stress due to an event such as a crippling cyberattack or natural disaster.

On Wednesday, the central bank announced the launch of the Standing Term Liquidity Facility (STLF), which would provide loans to a financial firm facing exceptional liquidity stress.

That stress could be brought on by a major cyber breach, a systems failure, a natural disaster or other events that induce a liquidity shock for a particular firm.

The new facility would be used to prevent liquidity stress from spreading throughout the financial system, causing a much bigger problem.

“The STLF is intended to provide greater confidence that, where the Bank of Canada has no concerns about its soundness, a financial institution facing an idiosyncratic liquidity stress will have access to central bank liquidity on terms that are known in advance,” the central bank said.

The provision of the STLF will be disclosed in the central bank’s periodic reporting, but it will not identify firms that utilize the facility.

In the weeks ahead, the Bank of Canada says that it will conduct targeted consultations on the proposed design of the new liquidity facility. It aims to complete those consultations by the end of the year, and to publish its formal policy in the first half of 2020.

"While the bank's current framework has been effective in achieving the bank's objectives, the addition of the STLF will further strengthen the overall framework in response to ongoing changes in the financial system," the central bank said.

7. FSRA eyes 'risky' syndicated mortgages

[November 12, 2019] The Financial Services Regulatory Authority of Ontario (FSRA), the new regulator launched in June to replace the Financial Services Commission of Ontario and the Deposit Insurance Corp. of Ontario, is pledging to beef up oversight of "high risk" syndicated mortgage investments.

The regulator announced Tuesday that it is adopting a new supervisory approach for such investments, along with new retail investor disclosure requirements.

The FSRA proposed both sets of measures in August.

The FSRA said on Tuesday that its proposals were well received and that it will be adopting them, as it is "committed to strengthening" investor protection for high-risk syndicated mortgages.

The supervisory approach, which is set out in new guidance, applies to mortgage brokerages engaged in high-risk transactions. It sets out three risk factors that would deem transactions as risky, including high loan-to-value ratios, the subordination provisions and conflicts of interest.

The FSRA said its approach "facilitates real-time data collection, which enables us to identify when high-risk [investments] are being marketed to retail investors. FSRA can then take immediate action to investigate these transactions, which could lead to suspension or revocation of a mortgage brokerage's licence and/or enforcement proceedings."

Additionally, the regulator is mandating added disclosure for retail investors in risky syndicated mortgages that includes a risk warning, details the specific risks of high-leverage mortgage securities, discloses any conflicts and sets out the fees involved.

The FSRA says that the new disclosure requirements are intended to ensure that investors "will be better informed of the risk and able to make a more informed investment decision according their risk tolerance and investment sophistication."

At the same time, the regulator said it will announce plans for reducing the regulatory burden on "lower risk" syndicated mortgage transactions.

8. Housing affordability improves thanks to lower rates, higher incomes

[November 12, 2019] Canadian housing affordability improved for a third consecutive quarter in Q3, according to National Bank of Canada.

In its latest Housing Affordability Monitor, the bank said the mortgage payment on a representative home as a percentage of income (MPPI) dropped 2.2 percentage points in the third quarter, following a decline of 3.5 points in Q2 — the largest decline since 2009 — and 0.7 points in Q1.

"The most significant factor to this development was the decline in mortgage rates," the report stated, noting that the "free-fall in financing costs" over the past nine months — during which time rates have fallen by 87 basis points (bps) — has been the most substantial since 2012.

The benchmark mortgage rate fell by 36 bps in Q3, while median household income grew by 1.1%. (Income has grown by a "whopping" 5.1% in the first three quarters of 2019, the report noted.) Home prices were relatively stable in Q3, rising by 0.1%.

Toronto, Hamilton, Vancouver and Victoria posted the biggest improvements in affordability, while Winnipeg and Montreal saw modest improvements. No markets showed a deterioration in affordability.

In Toronto, the affordability of both condo and non-condo units continued to improve (with MPPI falling by 1.5% and 2.6% quarter over quarter, respectively) but the MPPI for both remained higher than historical averages. Home prices were up 2.9% on an annual basis.

Vancouver is now at its most affordable level since 2016, according to the report. Condo affordability was back to its historical average, with the MPPI dropping 4 points to 41.6%. Affordability of non-condos also improved, with the MPPI falling 9.1 points to 83.9%. Home prices were down 7.4% year over year.

9. Moody's has negative outlook for global sovereigns

[November 11, 2019] The outlook for global sovereign creditworthiness in 2020 is negative, according to a new report from Moody's Investors Service.

"A disruptive and unpredictable domestic political and geopolitical environment is exacerbating the gradual slowdown in trend GDP growth, aggravating longstanding structural bottlenecks and increasing the risk of economic or financial shocks," Moody's says.

Specifically, the report points to the volatile relationship between the United States and China on trade as an example of the sort of uncertainty that's weighing on its outlook for global sovereigns.

"The starkest manifestation of the impact of geopolitical tensions is the disruption to trade, mainly resulting from the standoff between the U.S. and China. The antagonistic political environment is also weakening global and national institutions, lowering the shock-absorption capacity of sovereigns with high debt burdens and low fiscal buffers," the report says.
Overall, Moody's sees the global environment becoming "less predictable" for the 142 sovereigns that it rates.
"Event risk is rising, raising the spectre of reversals in capital flows that would crystallize vulnerabilities facing the weakest sovereigns," Moody's says.

10. Why zombie debt will likely haunt more Canadian consumers

[November 11, 2019] Canadians with old debts beware: a momentary slip or lack of knowledge of your legal rights could results in past debts rising from the dead and coming back to haunt you.
Zombie debt — old accounts that may have been written off as "uncollectable" and which have passed the statute of limitations — is expected to increase due to Canada's high level of consumer indebtedness, say insolvency experts.
Canadians have taken advantage of cheap money, with total debt per consumer surging to $71,979 in the second quarter, up from about $57,000 five years earlier, according to credit monitoring service Equifax.
Delinquencies are expected to rise once interest rates eventually climb and put stress on the ability of some borrowers to make payments.
"Debt is increasing faster. So I would be concerned that there is a jump in people who are finding themselves unable to pay their debts," says Julie Kuzmic, Equifax Canada's director of consumer advocacy.
That would lead to more accounts going to collection agencies and aging even after the original creditor loses interest in collecting.
"As you get a higher consumer debt level, more and more of those — just by the sheer statistics alone — are going to be older debts," says Scott Terrio, manager of consumer insolvency at Hoyes, Michalos & Associates, a Toronto-based company specializing in insolvency.
Statute of limitations laws across the country protect consumers from lawsuits if their unsecured debt hasn't been repaid within the allotted time.
The statute of limitations is two years in Ontario, Alberta, Newfoundland and Labrador, B.C., P.E.I. and Saskatchewan. It's three years in Quebec and jumps to six years in the remaining provinces and territories. The federal limitation is six years.

The timelines mean creditors and collections agencies can't go to court after that period of time to force payment.

But that won't keep aggressive collection agencies at bay. Debt remains on a person's credit file for six years and technically doesn't ever vanish entirely.

Efforts to collect old debt can resurface after it is sold to a new collections' agency for cents on the dollar.

Successfully pressuring just a few unwitting debtors to make a payment could be enough to make the exercise profitable for them.

"If I collect from one person, I can probably cover 10 or 20 files because I've only paid five cents or something," Terrio said.

Zombie debt comes in many forms, including legitimate debts that have been forgotten or ignored, scenarios where innocent parties share the same name of a debtor, or cases of identity theft or computer error.

It involves unsecured credit from credit cards, lines of credit, phone bills and the like. It does not apply to secured debt such as mortgages and money owed to government for income tax, property tax, fines, outstanding health care premiums and student loans.

Old debt becomes zombie debt when a debtor acknowledges the money owing after the statute of limitations has lapsed, said David Gowling, senior vice-president with MNP Debt, one of Canada's largest insolvency practices.

"That can resurrect it and now you're starting your whole statute of limitations all over again."

Some cases of zombie debt border on the absurd. Collections agents hounded one person a few years ago for money owed to Eaton's, even though the department store folded 20 years ago, said Gowling.

Experts advise debtors not to acknowledge debt and if threatened with a lawsuit, tell the caller to send proof of the debt. Chances are they can't and won't bother because the statute of limitations has passed for seeking a judgment.

While some actions by debtors could get the clock ticking again on the statute of limitations, it usually requires that a person acknowledge their debt in writing, said Lee Akazaki, partner with Gilbertson Davis LLP, a Toronto-based law firm.

That could include replying to an email agreeing that the debtor owes the money.

Responding with "I don't owe money because that's an old debt" is not an acknowledgment.

"It just means you used to owe the money but you don't anymore," he said.

Laurie Campbell, CEO of Credit Canada, a non-profit debt consolidation and credit counselling agency, has never come across old debt restarting the statute of limitations countdown clock.

She worries that people afraid of being sued will unnecessarily seek a bankruptcy trustee.

“People should not be running to see a trustee outside of that two-year window because they’re going to pay fees for something that may never come about anyway,” she said in an interview.

Campbell said some people feel a moral obligation to repay debts even though they legally can’t be forced to do so.

She advises against taking a knee-jerk reaction.

“Make sure you get the right advice before you make a decision that could harm you in the long-run.”

Have a nice and fruitful week!

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