Weekly Updates Issue # 748

1. Weekly Markets Changes

[January 24, 2020]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
17,565.34 +6.32 +0.04%	3,295.47 -34.15 -1.03%	28,989.73 -358.4 -1.22%	9,314.91 -74.03 -0.79%	$0.7610 -0.46c -0.60%	$1,571.53 +14.29 +0.92%	$54.19 -4.35 -7.43%

2. Davos ends with disagreement on climate and Greta Thunberg on the march

[January 24, 2020] The annual meeting of business and political leaders in Davos wrapped up Friday with two of the world's most powerful people disagreeing over how to address the climate crisis and youth activists excoriating the international elite for not doing enough to prevent global warming.

After a week of discussions at the World Economic Forum that were dominated by how to tackle the biggest problem the planet faces, the last big event of the conference produced a tense exchange between US Treasury Secretary Steven Mnuchin and Christine Lagarde, the president of the European Central Bank.

Mnuchin, who earlier this week questioned the credentials of climate activist Greta Thunberg, told panelists that long-term planning is futile when it comes to analyzing and containing climate change.

Lagarde disagreed. It was crucial to assess the risk that climate change poses to financial markets and the economy, she said, so it can be "anticipated, measured" and "hopefully mitigated."

Mnuchin rushed to respond. "Christine, I think you can have a lot of people look at this and model it," he said. "I just don't want to kid ourselves. I think there's no way we can possibly model what these risks are over the next 30 years with a level of certainty."

The exchange highlighted the continuing divide between the United States and Europe over the climate crisis despite powerful calls for radical action from Prince Charles, among others.

Sustainability was the topic of scores of panels, meetings and cocktail conversations in Davos, where attendees and the media discussed the implications of recent announcements such as Microsoft's plan to go "carbon negative" by 2030 and Blackrock's commitment to put the issue at the heart of its investment strategy.

The summit broke up with most delegates agreeing there's a big problem but little consensus on what should happen next. It was perhaps the inevitable conclusion to an event that featured both Thunberg and US President Donald Trump, who bashed climate activists during a keynote address as "perennial prophets of doom."

Thunberg, who was billed as a conference headliner, slammed Davos attendees on Friday for talking too much while taking no action. She had spent the week calling for an immediate end to subsidies for fossil fuels and complete divestment from the energy sources.

"Of course, those demands have been completely ignored, but we expected nothing less," she said at a press conference with four other youth activists. "As long as the situation is not being treated as a crisis, then world and business leaders can of course continue to ignore the situation."

Fellow activist Louis Neubauer said the group planned to track the promises made by speakers and hold them to account.

"Here at the WEF we see and hear a lot of nice words and a lot of big speeches, and we expect throughout the next days and weeks and months every single one of those to be turned into action," Neubauer said.

Some commitments from the conference could come to light in coming days. World Economic Forum founder Klaus Schwab kicked off the week with a letter asking that companies in attendance commit to net zero greenhouse gas emissions by 2050. The conference has not yet disclosed how many firms signed on.

Following their press conference, Thunberg and her fellow activists marched in protest down one of the alpine town's main streets. It was just one sign of the pressure building on business and government leaders to produce tangible results.

"It is key that we do something now," said German finance minister Olaf Scholz, who also participated in the panel with Mnuchin and Lagarde. "Waiting for the others is a possibly very dangerous strategy."

3. Europe's negative rates under scrutiny as bankers call for change

[January 23, 2020] Under growing pressure over record low interest rates, the European Central Bank has decided it's time to give its unconventional policies another look.

The central bank on Thursday launched a review of its strategy, the first since 2003. The ECB is expected to spend the next year evaluating the tools it uses to maintain stable prices, including interest rates and bond purchases. It will also examine how it can take climate change into account.

"We have to look comprehensively at the effectiveness of our monetary policy," President Christine Lagarde told reporters at a press conference in Frankfurt.

The ECB first introduced negative interest rates for the 19 countries that use the euro in 2014 in a bid to boost inflation and economic activity following the region's debt crisis. But it has faced increased calls to put an end to a policy that's dragged on for longer than initially expected.

Banks have complained about the damage negative rates have done to their earnings, and savers have been penalized by a policy that encourages people to borrow and spend.

At the World Economic Forum in Davos, Switzerland, bankers made clear they've had enough.

"I personally think we missed the exit, because at some point in time you need to leave this path of negative interest rates," Deutsche Bank CEO Christian Sewing said Thursday on a panel. "We are now at a point where monetary policy is coming to its limits."

Negative interest rates have made it harder for lenders like Deutsche Bank to generate profit on loans and mortgages. Payments on excess reserves that need to be stored with the central bank have also caused pain.

The policy has been hard on insurers and pension funds, too. Interest rate expectations have pushed yields on bonds from countries such as Germany into negative territory, forcing such investors to chase returns elsewhere.

Lagarde defended very low and negative interest rates on Thursday as essential given the economic circumstances.

"Because of that monetary policy, millions of jobs were created throughout the euro area," she said. "Growth was higher because of that. That's a very, very strong argument to explain why monetary policy had to be what it is."

But, she said, the ECB will analyze the impact and consequences of all its tools as part of the central bank's review.

"I would much rather have much higher growth, higher rates — this would be a really nice problem to have to deal with," Lagarde said. "But this is not the situation we have at the moment."
As expected, the ECB said Thursday it would keep interest rates on hold, while pledging to continue purchases of €20 billion ($22.2 billion) in financial assets per month for "as long as necessary."
In December, Sweden's Riksbank became the first central bank to hike its key interest rate back up to zero after going negative. Lagarde warned against assuming that the ECB would follow suit.

4. Chief economist at Scotiabank downplays recession risk

[January 22, 2020] The Bank of Nova Scotia's senior vice president and chief economist is downplaying the likelihood of a recession but expects interest rates to dip.
Speaking at the bank's investor day in Santiago, Chile, Jean Francois Perrault says he feels the odds of a Canadian recession are being exaggerated.
He estimates there is only a 25% chance the country will see a recession and a 20% chance the U.S. will experience one.
The chief economist also expects interest rates to fall, but not by much and not enough to enter negative rate territory.
Perrault anticipates an easing of 50 basis points in Canada by the end of the summer, as downward pressures on inflation are stronger than they were six months ago.
He says the U.S. will see an easing of 25 basis points because inflation is still below some objectives.

5. Inflation holds steady at 2.2% in December

[January 22, 2020] The annual pace of inflation held steady in December as higher energy prices were offset in part by slower growth in the price of fresh vegetables.
Statistics Canada said Wednesday the consumer price index in December was up 2.2% compared with a year ago, matching the year-over-year increase in November.
Energy prices in December were up 5.5% compared with a year ago, while gasoline prices were up 7.4% compared with December 2018 when crude oil prices fell amid a global oversupply.
Excluding gasoline, the consumer price index was up 2.0%, the smallest increase since November 2018.

The year-over-year growth in fresh vegetable prices slowed to 1.5% in December compared with an increase of 7.1% in November.
Statistics Canada said lettuce prices were down 5.0% compared with a year ago when prices rose due to an E. coli outbreak, which required the stock of romaine lettuce in the U.S. to be disposed of, limiting the supply and driving up prices for other kinds of lettuce.
Prices for passenger vehicles in December also rose at a slower pace, rising 1.4% compared with a year ago, compared with a 2.9% increase in November.
The average of Canada's three measures for core inflation, which are considered better gauges of underlying price pressures, was 2.10% compared with a revised figure of 2.13% for November.
The inflation report comes ahead of the Bank of Canada's interest rate decision. The central bank is expected to keep its key interest rate target on hold at 1.75%.
Statistics Canada also reported Wednesday that wholesale sales in Canada fell 1.2% to $63.2 billion in November, as five of the seven subsectors tracked moved lower.
The motor vehicle and motor vehicle parts and accessories subsector posted the largest decrease in dollar terms as it fell 3.3% to $10.7 billion, the fourth consecutive monthly decline.

6. BoC holds rate, trims growth expectations

[January 22, 2020] The Bank of Canada is keeping its key interest rate target on hold at 1.75% and forecasting a slower-than-expected start for the Canadian economy in 2020.
In its latest forecast, the central bank predicted the Canadian economy will grow by 1.6% this year, down 0.1 of a percentage point from its projection in October.
While some of the slowdown late last year is being chalked up to a strike at CN Rail and an outage at the Keystone pipeline, the central bank says the weaker figures could also signal that global uncertainty is affecting Canada more than previously predicted.
Bank of Canada governor Stephen Poloz said indicators of the Canadian economy have turned decidedly mixed.
"Much of governing council's deliberations focused on how persistent this recent slowdown in the domestic economy might be," he said.
Poloz noted that vehicle sales, retail sales more generally, consumer confidence and job growth all softened at the end of last year, however he said third-quarter investment spending was surprisingly strong.

The Bank of Canada’s outlook is for a rebound in growth to about 1.3% in the first quarter and a pickup to about 2% after that.
In making its rate decision, Poloz said the bank weighed the risk that inflation could fall short of target against the risk that a lower interest rates would lead to higher financial vulnerabilities.
“Governing council will be watching closely to see if the recent slowdown in growth is more persistent than forecast. In assessing incoming data, the bank will be paying particular attention to developments in consumer spending, the housing market and business investment,” Poloz said.
The picture the bank painted in its report Wednesday was in sharp contrast from its last look at the economy, when a degree of domestic resilience remained in spite of weaker data points outside Canada’s borders.
There is “considerable uncertainty” about how long household spending may stay soft, the report said, as households are expected to be more cautious with their spending decisions and save more in the face of high levels of debt — all this despite a federal tax cut that kicked in on Jan. 1 and growth in wages.
The bank suggested weakness in the manufacturing sector and a tightening of provincial purse strings may have a dampening effect on the economy.
Bank of Montreal chief economist Doug Porter called it a “dovish surprise” from the Bank of Canada which he said had sounded generally sanguine in its outlook for the economy in recent weeks.
“While we can all debate the merits of that view, there is no debating that the bank has an easing bias, and further significant disappointments on jobs and/or spending could prompt them to act on that bias,” Porter wrote in a report.
However, Porter said he believes that growth will bounce back more than the central bank is expecting.
The Bank of Canada said ratification of the new North American free trade deal — a top priority for the Trudeau Liberals now that the U.S. and Mexico have completed their processes — and a partial trade detente between the United States and China should help stoke economic fires in Canada.
Growth for 2021 is forecast at 2%, up from the bank’s October forecast of 1.8%.
The outlook for the economy could change if the Trump administration follows through on threats to slap tariffs on France, Brazil and Argentina.
The report also cites as a risk ongoing tensions between the United States and Iran, which has already led to the tragic downing of a Ukrainian passenger jet with Canadians onboard. An escalation could roil the Middle East and likely increase the price of oil, leading to higher gas prices across the country.

7. Benefits of longer-term mortgages warrant legislative amendments

[January 21, 2020] In Canada, a residential mortgage typically has a maturity date of five years or fewer, but the country's central bank has noted that a longer date to maturity would benefit consumers and support the financial system.

As such, regulatory changes and incentives are needed to help longer-term mortgages develop into a significant part of the mortgage market, says a new report from the C.D. Howe Institute published on Tuesday.

Last year, the Bank of Canada (BoC) said longer-term mortgages would enhance consumer choice and financial stability, the report noted. For example, borrowers with longer-term mortgages would face the risk of renewing at high rates less often, the BoC said. Longer terms would also allow borrowers to build up more equity in their homes, giving borrowers greater renewal options. Systemically, longer mortgages would mean fewer borrowers in the economy renewing in the same year.

Yet, only 2% of Canadian mortgages issued in 2018 were fixed-rate loans with terms longer than five years, the BoC said.

The C.D. Howe report explained that longer-term mortgages are rare in Canada because legislation supports a five-year term. A parliamentary statute provides that a borrower has the option to prepay a mortgage at any time after five years, with a penalty of no more than three months' interest. That puts lenders at a disadvantage.

"If the lender could not re-invest the prepaid amount to earn a rate of return equal to the interest rate of the prepaid mortgage, it would bear all of the forgone earnings opportunity," the report said.

Lenders avoid the re-investment risk associated with prepayments by offering mortgages and renewals with terms no longer than five years.

For longer-term mortgages to gain a larger proportion of the Canadian mortgage market, the report suggested that the legislation be amended so that a mortgage borrower is given a short-term prepayment right at least every five years, instead of the prepayment right remaining open indefinitely after the first five years of the mortgage.

The report's other recommendations included loosening the stress test for longer-term mortgages and increasing banks' covered bond limits to the extent that longer-term mortgages are used as collateral.

8. Home-price increases 'larger than usual' in December

[January 20, 2020] House prices continued their upward trend in December, according to the latest Teranet-National Bank Composite National House Price Index (HPI), released on Monday.

The HPI advanced 0.2% last month, as it did in November. While recent gains in the HPI might seem modest, the report noted that they are actually "larger than usual for this time of the year," when resale activity is typically low.

"For instance, the 0.2% increase in December compares to an average of 0.1% for this month over the last 11 years," the report said. "Indeed, after seasonal adjustment, the national HPI ended the year with a 5-month string of gains, including a strong 0.7% rise in December."

Prices rose in six of the 11 markets covered, including Halifax (0.7%), Montreal (0.4%), Toronto (0.4%), Hamilton (0.4%), Ottawa-Gatineau (0.3%) and Quebec City (0.2%).

Prices fell in the largest cities in the Prairies, namely, Calgary (-0.6%), Edmonton (-0.2%) and Winnipeg (-0.1%).

Vancouver and Victoria remained flat.

"For 2020, expect home prices to accelerate in all these regions except the Prairies," the report said.

9. IMF predicts global economic growth over the next two years

[January 20, 2020] Low interest rates and reduced trade tensions will likely buoy the global economy over the next two years and help nurture steady if modest growth.

That's the view of the International Monetary Fund, which foresees world economic growth accelerating from 2.9% last year to 3.3% in 2020 and 3.4% in 2021. The international economy is receiving a significant boost — 0.5 percentage point of growth last year and this year — from central banks' low-rate policies, the lending organization says in a global outlook report out Monday. The U.S. Federal Reserve, for instance, cut rates three times last year and expects to keep rates low for the foreseeable future.

And an interim trade deal signed last week by the United States and China — the world's two biggest economies — is expected to add 0.2 percentage point to global growth this year by lowering tariffs and improving business confidence. The global economy is rebounding from some temporary stumbles, including a lull in the launch of new technology products and new emissions standards that disrupted car production.

Still, the IMF warns that the global economy continues to face an array of risks, including the possibility that trade tensions will escalate again. And many countries aren't benefiting from the modest upswing in growth.

Even in the United States, the IMF foresees growth slowing from 2.3% in 2019 to 2% this year and 1.7% in 2021, partly because the boost that the economy received from President Donald Trump's 2017 tax cuts has been fading.

Economic growth in Canada is forecast to be 1.8% in 2020 and 2021, unchanged from projections made in October, according to the report.

China's economy will continue to decelerate, the IMF predicts — from 6.1% last year to 6% in 2020 and 5.8% next year. Though China's economy will likely benefit from the truce with the United States, Beijing continues to manage a difficult transition away from speedy economic growth based on often-wasteful and debt-fuelled investments to slower but steadier growth built on spending by the country's growing middle class.

Likewise, Japan's economic growth, hobbled by an aging workforce, is expected to decelerate from 1% last year to 0.7% this year to 0.5% next year.

Collective growth in the 19 countries that use the euro currency is expected to gradually pick up: 1.2% in 2019, 1.3% in 2020 and 1.4% in 2021.

The IMF's global forecast is slightly bleaker than the previous one it issued in October, mainly because of an expected sharp slowdown in India: The world's seventh-biggest economy is expected to grow 5.8% this year, down from the seven% the IMF had expected in October, and 6.5% in 2021, down from a previously forecast 7.4%. In addition, problems in the financial sector have reduced credit, crimping consumer spending in India.

Have a nice and fruitful week!