Weekly Updates Issue # 755

1. Weekly Markets Changes

[March 13, 2020]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
13,716.33 -2,458.7 -15.2%	2,711.02 -261.4 -8.79%	23,185.62 -2,679.2 -10.36%	7,874.88 -700.7 -8.17%	$0.7194 -2.57c -3.45%	$1,529.83 -144.0 -8.6%	$31.73 -9.55 -23.1%

2. Bank of Canada responds to pandemic, oil prices with another rate cut

[March 13, 2020] The Bank of Canada is cutting its overnight rate target **by half a percentage point to 0.75%** in response to Covid-19.

The central bank said Friday the unscheduled rate decision was due to the pandemic and its impact on the economy, adding that lower oil prices, even since its last scheduled rate decision last week, will also weigh on the economy.

Darcy Briggs, senior vice-president and portfolio manager, Franklin Templeton Canada, said that while the timing of the announcement was somewhat of a surprise, the cut itself wasn't.

"After seeing the worst down day in equity markets since 1940 on the TSX, that was a wakeup call that something needed to be addressed — and be addressed fairly rapidly," Briggs said in an interview.

Briggs added that the Canadian economy was looking vulnerable before the Covid-19 scare.

"Canada wasn't going into this particular shock from a position of strength. If you go back to Q4 2019, we had growth of 0.3% — that's not a strong quarter," Briggs said.

And the cuts are expected to continue.

“The market is priced for most central banks to take rates to zero,” Briggs said. “In April, you’re probably going to see another 50-beeper. That’s effectively zero — anything further would probably be splitting hairs.”

The cut follows a decision last week by the Bank of Canada to cut its key interest rate by half a percentage point.

The central bank made the rate announcement as part of a package of measures announced by the federal government.

Finance Minister Bill Morneau says the government is making $10 billion available to businesses through a credit facility program.

He says it was an effective tool during the 2008 financial crisis and will be again now.

Morneau says he’s also been in touch with CEOs of the major banks, who told him they will “support businesses and individuals” with fairness and compassion.

By cuttings its overnight rate target, the central bank hopes to boost the economy by prompting the large banks and financial institutions to cut their prime lending rates.

The central bank says it will provide a full update of its outlook for the Canadian and global economies on April 15.

The rate cut comes as private-sector economists have warned that Canada is heading into a recession later this year because of the economic shock of Covid-19 and a sharp downturn in oil prices.

Prime Minister Justin Trudeau earlier Friday that Ottawa was looking at ways to get money directly into the pockets of Canadians so they can cover their bills should their lives be upended by Covid-19.

He said help would be targeted to vulnerable Canadians, as well as help to small businesses and workers who see disruptions in their earnings.

Trudeau said the government’s focus is on ensuring that Canadians have the resources and money they need to not have to stress about rent and groceries if they can’t go to work.

The Liberals had promised to deliver a budget on March 30, but the House of Commons has now agreed not to sit until late April to prevent the spread of the novel coronavirus disease.

Canada has recorded more than 150 Covid-19 cases and one death in a pandemic that has swept much of the world.

3. OSFI slashes banks’ required capital buffer

[March 13, 2020] Federal banking regulators are calling on the major banks to deploy their capital buffers, and are freezing dividends and suspending plans to adjust the mortgage stress test in an effort to bolster the stability of the financial system amid the Covid-19 outbreak.

The Office of the Superintendent of Financial Institutions (OSFI) announced that it's slashing the capital buffer required for domestic systemically important banks (D-SIBs) from 2.25% of risk-weighted assets to 1%, which will support an estimated $300 billion in added lending capacity.

The buffers, established by global regulators in the wake of the financial crisis, are designed to push the banks to accumulate capital during good times, which they can then draw on when conditions become tougher.

OSFI said the decision to lower the buffer "is being taken in order to support D-SIBs' ability to supply credit to the economy during an expected period of disruption related to Covid-19 and market conditions."

The regulator said that the banks are encouraged to use the freed up capital and their liquidity buffers, if necessary.

It also said that banks are not to deploy the capital to increase distributions to shareholders or engage in share buybacks.

"OSFI has today set the expectation for all federally regulated financial institutions that dividend increases and share buybacks should be halted for the time being," it said.

OSFI also said it will continue to monitor the buffer.

"There remains capacity to respond to further stresses," it said, adding that it won't increase the buffer again for at least 18 months.

Additionally, the regulator said that, until markets stabilize, it's "suspending all of its consultations and policy development on new or revised guidance," including the proposed changes to the stress test for uninsured mortgages.

"As a result, the benchmark rate as currently published by the Bank of Canada will remain in force until further notice," it said.

4. RBC forecasts recession amid coronavirus and plunge in oil prices

[March 13, 2020] Royal Bank is predicting Canada will fall into a recession later this year as the economy is weighed down by the impact of Covid-19 and the plunge in oil prices.

The bank is predicting Canada's economy will grow at an annualized pace of 0.8% in the first quarter, but then contract in the second and third quarters of the year.

RBC is forecasting an annualized decline of 2.5% in the second quarter and 0.8% in the third quarter.

Its forecast is based on an assumption that the impact of the virus will run its course by the end of the first half of the year, but an economic recovery will be prevented by persistent low oil prices.

RBC expects the economy will pick up in the fourth quarter.

The Bank of Canada cut its key interest target by half a percentage point last week in response to the Covid-19 outbreak.

5. Federal budget delayed as House of Commons shuts down for five weeks

[March 13, 2020] The House of Commons decided to shut down Friday for five weeks to help ensure MPs do not contribute to the spread of Covid-19.

All parties agreed to the measure, which means MPs will miss two sitting weeks, as they had previously planned to be away next week and two weeks in April.

The agreement among MPs hastened passage of the new trade deal among Canada, the United States and Mexico. The House unanimously passed a bill on the trade deal and a handful of others on spending measures. The Senate then quickly gave its approval to the bills.

Deputy Prime Minister Chrystia Freeland called passage of the trade bill a great example of all-party co-operation. “We work together as Team Canada, and that is also what we are doing in rising to meet the challenge posed by the coronavirus pandemic.”

However, the federal budget, slated for March 30, won’t be delivered that day. It’s postponed to a time yet to be chosen.

The House is scheduled to next meet Monday, April 20.

Government House leader Pablo Rodriguez says the Commons could come back sooner if an emergency requires a meeting.

“We will face this together, and we will get through this together,” he said.

Concerns about COVID-19 have prompted cancellation of many large gatherings and sporting events.

Conservative House leader Mark Strahl said the official Opposition would still work to hold the government to account during the unfolding health crisis.

6. Household debt remains elevated, service ratio rises: StatsCan

[March 13, 2020] New data from Statistics Canada shows that household debt remains elevated, but as policymakers grapple with Covid-19 fallout, concerns about household finances are being pushed to the background.

StatsCan released new data showing that the household debt service ratio reached a record high in the fourth quarter, and the debt-to-income ratio is still near record highs.

Household debt as a proportion of disposable income ticked down from 176.6% in the third quarter to 176.3% in Q4, the agency reported.

At the same time, the household debt service ratio — which represents payments of principal and interest as a proportion of household disposable income — rose to 14.98%, StatsCan said. Debt payments grew by 6.9% in 2019, while disposable income rose by 4.9%.

Of course, conditions have changed significantly since these readings were taken.

"With Covid-19 rapidly changing the economic outlook, concerns about consumers' borrowing binge have been set aside for now," said BMO Economics in a report.

As interest rates fall in response to the Covid-19 outbreak, pressure on household finances may be set to ease, BMO suggested.

"Disposable income will likely slow as overall activity takes a big hit in the near term, raising the debt ratio. But, with the [Bank of Canada] already lowering rates (and poised to cut further), the debt service burden should ease, providing some relief to households," it said.

StatsCan data also showed that national net worth rose by $182.7 billion in the fourth quarter to $12.7 trillion, powered by stronger stock markets.

"Of course, that's in the rear-view mirror now," BMO noted.

Household net worth grew by $186.5 billion to $11.7 trillion, StatsCan reported.

"The value of financial assets grew $153.8 billion, benefitting from $98.6 billion in upward revaluations in equity and investment fund shares, as both foreign and domestic equity prices increased," it said.

StatsCan also reported that household borrowing rose to $95.1 billion in 2019, up from $85.3 billion in 2018.

Yet, borrowing remained below the $100 billion mark, which had been topped in each of the previous three years.

7. Bank of Canada injects $7 billion to support banking system

[March 13, 2020] The Bank of Canada prepared to increase the cash it pumps into the financial system and Finance Minister Bill Morneau stressed the need for fiscal measures to manage the impact of Covid-19 as official Ottawa responded to another market plunge.

Thursday saw sharp drops on North American stock markets: 12.34% on the S&P/TSX composite index, and a 9.99% drop on the Dow Jones industrial average — its worst day since 1987.

The Bank of Canada responded with a $7-billion promise to the country's banking system and an expansion of its bond buy-back program, making moves it hasn't used since the financial crisis and downturn just over a decade ago.

Earlier Thursday, the U.S. Federal Reserve pumped vastly more money, US$1.5 trillion, into American financial markets, which did little to stop the bleeding on North American stock markets.

Canada's central bank said in a release that its own two measures are aimed at supporting "the continuous functioning of financial markets," and foreshadowed that more tools could be pulled out.

Just last week the bank slashed its trend-setting interest rate by half a percentage point, lowering the cost of borrowing to encourage spending and stimulate the economy.

At the time, governor Stephen Poloz left the door open to lowering the key rate target from 1.25%, the lowest it has been since early 2018, depending on how deep Covid-19 cuts into the domestic economy.

Likewise, Morneau looked to calm markets during a hastily called media availability Thursday evening outside the House of Commons.

He said the government was focusing on funding the country's healthcare system, which would also help with the economic challenges Canada faces. And he talked about the need for Parliament to help put the necessary measures in place to deal with whatever may come.

"That's important and we are working towards ensuring in all ways that we're prepared for a changing and volatile situation," Morneau said.

After he spoke, the government put a hefty supply bill — money to keep the government running — on the House of Commons' order paper. If passed, it could allow federal operations to continue throughout an extended shutdown of Parliament.

The finance minister said he has asked a cabal of private-sector economists to provide their estimates of economic growth, but multiple forecasts have downgraded economic growth projections to under 1%.

A $1-billion federal package Trudeau announced Thursday includes measures to ease access to federal benefits for workers who must be isolated or reduce hours to avoid layoffs at affected companies. It also promises an increase in lending through Crown corporations to help companies access credit, and flexible payment schedules with the Canada Revenue Agency.

Economists warned the spending is too little to avoid a recession in this country.

Scotiabank chief economist Jean-Francois Perrault said an immediate stimulus package valued at about 1% of GDP is required — meaning in the $15 billion to $20 billion range.

"An underwhelming policy response, as we have seen to date, carries with it the very real possibility of a vicious feedback loop in which fear continues to feed upon itself," he wrote in a research note on Wednesday.

"This is to be avoided at all costs."

8. Nova Scotia bans life insurance trafficking

[March 11, 2020] The government of Nova Scotia has amended its insurance act to prohibit trafficking in life insurance policies — a move that protects consumers, especially vulnerable seniors, from potential exploitation.

Bill 238 received royal assent yesterday, amending the act and clarifying the definition of premium for life insurance, which reinforces the separation of insurance and banking.

The Canadian Life and Health Insurance Association (CLHIA) applauded the new law. "Insurers have been urging governments to take these steps to protect policyholders from exploitation," the CLHIA said in a release.

Life insurance trafficking, also known as life settlements, occurs when life insurance policies are bought by third parties from terminally ill policyholders — often seniors.

The life settlements can result in seniors "losing the full value of their insurance policies to unregulated third parties" who offer cash payments at rates below the policies' face values, the CLHIA said in the release.

"Nova Scotia's legislation will protect vulnerable consumers while ensuring that life insurance continues to fulfil its purpose of providing financial protection to individuals and their loved ones," said Stephen Frank, CLHIA's president and CEO, in the release.

With the amendments, Nova Scotia joins seven other provinces that already have anti-trafficking provisions for life insurance.

The province also joins New Brunswick in clarifying the definition of premiums for life insurance. Alberta has also introduced legislation.

"It's becoming increasingly clear that legislators across the country are committed to protecting Canada's longstanding public policy, which differentiates insurance contracts from deposit-taking accounts," Frank said. "We will continue to work jointly with all remaining provinces to help them clarify their rules where necessary to enshrine this important principle."

9. OSC permanently bans Global RESP owner

[March 10. 2020] The Ontario Securities Commission (OSC) has permanently banned Issam El-Bouji (a.k.a. Sam Bouji), founder and owner of scholarship plan dealer Global RESP Corp., and its related investment fund manager Global Growth Assets Inc. (GGAI), from the capital markets.

Global RESP will also surrender its registration as a scholarship plan dealer.

A hearing panel of the OSC on Tuesday accepted the terms of a joint settlement agreement between Bouji, Global RESP and GGAI, and the OSC.

GGAI will continue as a registrant but will operate under several terms and conditions that will limit its growth and ensure its independence, according to the agreement. GGAI will continue to serve existing unitholders in plans sold through Global RESP.

The agreement is designed to facilitate Global RESP's exit from the capital markets, preserve the assets in existing scholarship plans and cause "the least amount of disruption to the subscribers and beneficiaries," the agreement says.

In the agreement, Bouji admitted to acting as a de facto officer of Global RESP in the period between 2015 and 2017, breaching an order imposed in 2014 banning him from performing the duties of a director or officer for a period of nine years. The 2014 order was imposed in response to various disclosure, registration and supervisory failures.

Global RESP and GGAI admitted to various compliance failures, as well as breaches of Ontario securities rules and regulations.

Under the agreement, Bouji has also been ordered to pay $190,000 toward OSC costs (which he has already paid).

On a joint and several basis, Global RESP and GGAI will compensate underpaid eligible beneficiaries, who have not received a full reimbursement of enrolment fees, owing in the amount of at least $900,000, the settlement agreement states. GGAI is expected "to make all reasonable efforts to do so within nine months" from today.

The agreement states that GGAI is not permitted to act as investment fund manager for any investment fund other than the Global scholarship plans and the Global Iman Fund, and is prohibited from distributing new units except to existing subscribers. GGAI will also retain the services of a third-party consultant, already hired in 2019, to examine GGAI's operation and compliance procedures and policies. Finally, GGAI's board will consist entirely of independent members.

After an interim period, Bouji will place GGAI, of which he is a sole shareholder, into an irrevocable blind trust. Neither Bouji nor any Bouji family member may provide services to GGAI, or participate in its operation or management.

"Persistent and serious regulatory violations put investors at risk," said Jeff Kehoe, director of enforcement at the OSC in a press release announcing the approval of the settlement agreement. "This settlement holds Mr. Bouji and the firms accountable for their misconduct and supports parents who save for their children's education."

Counsel for Bouji had not provided a comment about the agreement by press time.

The directors and management of Global RESP and GGAI stated in a press release that they are pleased to reach a settlement with the OSC and are committed to meeting the terms of the agreement.

"[GGAI] subscribers' investments will continue to be professionally managed," the release stated, "and the company remains committed to ensuring that families across Canada continue to receive the quality of service the companies have been providing for years. [GGAI] is committed to living up to its obligations to its subscribers and to fully complying with the OSC rules."

In a May 2018 statement of allegations against Bouji, the staff of the OSC's enforcement branch alleged that Bouji had been in breach of a 2014 order. In addition, the 2014 order had required him to pay a fine of just under $2 million and permanently suspended him from his position as ultimate designated person of Global RESP and GGAI. Bouji stepped down as an officer in his companies and paid the required penalties.

In the May 2018 statement of allegations, OSC staff alleged that Bouji had been acting as a de facto vice president of sales of Global RESP for a three-year period, in "disregard" of the order. These activities included recruiting, hiring, firing, and setting compensation for sales staff — functions the OSC said are normally performed by officers.

During the nearly two-year proceedings, Bouji, through counsel, brought forward several motions before the commission, including a motion in 2019 claiming the OSC did not have jurisdiction to hear the allegations against him. That motion was ultimately dismissed.

In February 2020, OSC vice chair Grant Vingoe, who had been serving on a three-person panel adjudicating the proceedings against Bouji, stepped down from the panel. That development followed the news, announced in mid-

January, that Vingoe would be taking over as acting chair of the OSC in April, replacing outgoing chair Maureen Jensen. The panel said it made the decision to avoid the appearance of bias had Vingoe remained on the panel. The proceedings continued with a two-person panel.
The Global Financial Group also includes mutual fund dealer Global Maxfin Investments Inc. and Global Insurance Solutions Inc. Last year, Global Financial sold its IIROC-regulated platform Global Maxfin Capital Inc., which included $280 million of assets and 12 advisors, to Integral Wealth Securities of Toronto.

10. Why Russia is waging an oil war with America

[March 10,2020] Russia shocked the world last week by blowing up its shaky alliance with OPEC. Moscow's refusal to join with the cartel is aimed in part at drowning US shale oil companies that rely on higher prices in a sea of cheap crude.
Putin's goal is to wrest market share back from American frackers, whose debt-fueled growth caused Russia to lose its title in 2018 as the world's largest oil producer.
"This is a response to try to cripple the US shale industry," said Matt Smith, director of commodity research at energy research firm ClipperData.
Oil prices crashed Monday after Saudi Arabia said it would slash oil prices, launching a ferocious response against Russia's move. US crude plummeted 26%, its worst day since 1991, to a four-year low of $31.13 a barrel.
Crude is now so cheap that many US shale companies will be forced to cut production. Bankruptcy fears are already rippling through the oil patch, sending the SPDR S&P Oil & Gas ETF to its lowest price on record going back to 2006.
Shares of major oil companies like Exxon Mobil and Chevron, whose business models were built to withstand cheap crude, each plunged 12%. Exploration and production companies got clobbered, with Pioneer Natural Resources down 37% and debt-ridden Occidental Petroleum losing 52%.
The energy meltdown threatens to cause a repeat of the 2014-2016 oil crash that bankrupted dozens of American oil and gas companies and caused hundreds of thousands of layoffs. Although the industry survived, the experience proved to be very painful.
"Russia sees US shale as particularly vulnerable at the moment," said Ryan Fitzmaurice, energy strategist at Rabobank. "It is our view that Russia was targeting debt-laden US shale producers."

'Caught in the crossfire'

Saudi Arabia retaliated to Russia's gambit by launching a price war over the weekend. The kingdom slashed its April official selling prices by $6 to $8 and pledged to dramatically ramp up production, exactly the opposite of what's needed.

Saudi Aramco vowed Tuesday to pump 12.3 million barrels per day in April. Not only is that 27% above recent levels, but it would exceed the company's maximum capacity by 300,000 barrels. In other words, Aramco is going all-out.

"There is a staring contest between the Russia and Saudis, and everybody else is getting caught in the crossfire," said Michael Tran, director of global energy strategy at RBC Capital Markets.

It's no secret that Russia and its oil companies have grown impatient with OPEC's efforts to rebalance the oil market. For years, Russia has joined OPEC in cutting production to put a floor beneath oil prices. Yet each production cut forced Russia to cede market share to America's booming energy industry -- much to the ire of Russian oil executives.

Rosneft, Russia's state-owned oil company, called the OPEC alliance "masochism" that allowed US shale oil to thrive.

"By yielding our own markets, we remove cheap Arab and Russian oil to clear a place for expensive US shale oil and ensure the effectiveness of its production," a spokesperson for Rosneft said on Sunday, according to state media.

Payback for sanctions?

Beyond the market share battle, analysts said that Russia could be retaliating for Washington's recent campaign of energy sanctions -- penalties made possible by the shale oil revolution.

For instance, just three weeks ago the Trump administration announced sanctions against a subsidiary of Rosneft in response for its support of the Maduro regime of Venezuela.

"Russia's strategy seems to be targeting not simply US shale companies -- but the coercive sanctions policy that American energy abundance has enabled," Helima Croft, head of global commodity strategy at RBC Capital Markets, wrote in a note to clients Monday.

Croft said that Igor Sechin, the CEO of Rosneft and a close Putin confidante, appears to have convinced Moscow to take on the US shale industry.

"Like Putin, Sechin hails from the Russian intelligence services and is a strong nationalist," Croft wrote. "Undercutting American energy dominance therefore most likely appeals not only to his bottom line but also to his ideological affinities."

Putin also has a big financial advantage over Saudi Arabia. Russia relies on oil revenue for only 37% of its budget, compared with 65% for the kingdom, according to Argus Global Markets. Analysts said Russia can balance its budget at just $42 a barrel oil, compared with around $80 for Saudi Arabia.

"Everybody will be hurt by this, including Russia," said Bjornar Tonhaugen, head of oil markets at Rystad Energy. "The extra benefit from this decision is that it will of course hurt others, including the US."

Officials in Washington have taken note of the chaos in the energy market.

The Energy Department said in a statement Monday evening that "state actors" are attempting to "manipulate and shock" oil markets. However, the administration expressed confidence that the United States "can and will withstand this volatility."

During a meeting on Monday with Russian ambassador Anatoly Antonov, US Treasury Secretary Steven Mnuchin "emphasized the importance of orderly energy markets."

'Horror movie' for America's oil industry

Whatever is fueling the motivation, the oil price war couldn't have come at a worse time for an industry already suffering from a bear market in crude.

Big Oil has been shunned by investors for years because of persistent supply gluts, excessive spending and rising climate change concerns. The energy sector was the biggest loser in the S&P 500 last year as well as for all of last decade. And the sector is leading the way lower during the recent market mayhem.

The coronavirus has posed an even deeper challenge to the oil industry. Countless flight cancellations, factory closures and a slowdown in commuting has seriously weakened the world's appetite for oil. Global oil demand is expected to drop this year for the first time since 2009, according to the International Energy Agency.

"The last two months have been a horror movie for energy investors," Stewart Glickman, energy analyst at CFRA Research, wrote in a note to clients Monday. "We have both a demand shock (coronavirus) and a supply shock (OPEC-Plus breakdown) happening at the same time. In other words, two boogeymen, not one."

Who will blink first?

That frightening backdrop explains why more than just oil companies are tumbling. Banks with heavy ties to the energy sector got punished Monday, too, as investors brace for an inevitable wave of loan defaults.

Dallas-based Comerica, Cullen/Frost Bankers and Texas Capital Bancshares plunged around 20% apiece.

The shale oil companies with the weakest balance sheets will have to save cash by abandoning expensive drilling projects and furloughing their workers. Some of oil companies won't survive.

"These guys were already in pain. Now we are going to start to see bankruptcies, perhaps widespread," said ClipperData's Smith.

The big question is how long oil prices remain depressed -- and how much lower they go. And the answer could lie in Riyadh and Moscow.

A source involved in the discussions between OPEC and Russia said that efforts were being made to restore dialogue after the acrimonious rift on Friday. And speaking on state channel Russia 24, Russian energy minister Alexander Novak said the "doors are not closed" to a production agreement with OPEC in the future.

If Saudi Arabia's price war forces Russia to agree to production cuts, the oil market could quickly rebound, bringing relief to teetering shale oil companies. But Putin is not known for backing down, suggesting the American oil industry should brace for more pain ahead.

"Hope remains that this battle will be short," RBC's Croft wrote, "but preparations are seemingly being made for a protracted war of attrition that could have brutal economic consequences for all involved."

Have a nice and fruitful week!