Weekly Updates Issue # 756

1. Weekly Markets Changes

[March 20, 2020]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
11,851.81 -1,864.5 -13.6%	2,304.92 -406.1 -15.0%	19,173.98 -4,011.6 -17.30%	6,879.52 -995.4 -12.64%	$0.6977 -2.17c -3.02%	$1,498.65 -31.18 -2.04%	$22.43 -9.30 -29.3%

2. Prior to virus outbreak, retail sales rose in January

[March 20, 2020] Statistics Canada says retail sales rose 0.4% to $52.0 billion in January, prior to the economic impact of unprecedented efforts to deal with the Covid-19 virus.

Sales at motor vehicle and parts dealers rose 1.8% in January as sales at new car dealers rose 1.5% to $11.3 billion, the second-highest level of sales on record.

Sales at gasoline stations in January were up 1.5%.

Excluding motor vehicle and parts dealers and gasoline stations, retail sales in January were down 0.3% for the month.

Statistics Canada cautioned that the impact of Covid-19 on the retail sector is yet to be measured, but comments it has received for its February note indicate business activities have been affected.

Stores across the country have been shutting down in recent days as people stay at home and try to distance themselves from others in an effort to slow the spread of the novel coronavirus.

3. DBRS downgrades Alberta

[March 20,2020] As the global economy reels and oil prices plunge, DBRS Inc. says that the credit ratings of Canada's key energy-producing provinces will suffer.

The rating agency has downgraded Alberta and put its ratings for Saskatchewan and Newfoundland and Labrador under review with negative implications.

"The rating actions stem from the deteriorating global economic conditions and the sharp decline in global oil prices caused by the outbreak of [Covid-19] and measures taken by Saudi Arabia and Russia to recapture market share," DBRS said.

"If sustained, DBRS Morningstar believes that these factors will have a material impact on the provincial economic activity and public finances of Canada's main oil and gas-producing provinces," it added.

DBRS downgraded Alberta's issuer rating and its long-term debt rating to AA (low) from AA. It also reduced its short-term debt rating to R-1 (middle) from R-1 (high) and changed the trend on Alberta's short-term debt to stable from negative.

"DBRS Morningstar believes that Alberta's credit profile is no longer consistent with a AA rating and that risks remain firmly tilted toward the downside," the rating agency said.

For Newfoundland, DBRS said that it expects the decline in oil prices to "significantly and adversely affect the oil & gas activity and government revenue, prompting a deterioration in budgetary results and further debt growth."

However, the rating agency said that it has not yet determined whether rating action is necessary, as "the full extent of the deterioration is not clear at this time."

DBRS also said that "Saskatchewan's economy and government finances will be adversely affected by the downturn in oil prices, but the extent to which its credit profile will deteriorate is less clear than for Alberta and Newfoundland and Labrador."

"In contrast with the other two provinces, Saskatchewan's budget was balanced before the economic shock, its O&G industry is relatively less important to its economy, and O&G royalties account for a smaller share of its revenue," DBRS said.

DBRS aims to resolve the review on Saskatchewan's and Newfoundland's ratings in the next three months.

4. Phishing and other cyberattacks are on the rise: MFDA

[March 19, 2020] A global pandemic, tumultuous markets and a sudden shift to remote working is a perfect storm for cybercriminals, warns the Mutual Fund Dealers Association of Canada (MFDA).

In a bulletin to fund dealers, the MFDA said the Covid-19 outbreak, coupled with the immediate need to work from home and service clients remotely, has boosted cybersecurity risk.

"The confusion and evolving circumstances surrounding Covid-19 has created an environment ripe for exploitation by cybercriminals," it said, adding that the frequency of cyber incidents is rising.

"Members have reported an increase in phishing attempts, including attempts that use the names of the MFDA and other regulators or government agencies," it said.

The self-regulatory organization also noted that the "cybersecurity community is seeing an increased number of cyberattacks exploiting the Covid-19 outbreak at a time when people around the world are looking for answers and information to protect themselves."

These attacks include malicious emails promoting maps of the outbreak, along with sales pitches for fake vaccinations and protective gear.

It also reported that a phishing campaign has circulated that uses an email disguised as an announcement from the World Health Organization about the outbreak.

Cyberattackers have also used software trojans to distribute ransomware, to steal data, and attempt extortion or operational disruptions.

"It is imperative that [fund dealers] continue to protect themselves against cybersecurity threats and consider the unique threats that the current environment has created," the bulletin said.

5. Bank of England cuts main rate to lowest level ever

[March 19, 2020] The Bank of England slashed its main interest rate to 0.1%, the lowest level since its founding in 1694, and reactivated a bond-buying stimulus program to cushion against the economic shock of the coronavirus pandemic.

The bank's nine-member Monetary Policy Committee said in a statement Thursday that the moves were designed "to meet the needs of U.K. businesses and households in dealing with the associated economic disruption."
The interest rate cut comes just about a week after the central bank cut its rate from 0.75% to 0.25% at another emergency meeting.
The bank's new governor, Andrew Bailey, told reporters that further actions were necessary in light of the fact that financial market conditions over the past week were if "not disorderly, bordering on disorderly," especially after rumours Wednesday that the markets would close if London was put into lockdown. On Thursday, the government insisted there was "zero prospect" of travel restrictions being enacted.
The fresh moves were also necessary, he said, given "the increase in the pace and severity of impact" of the outbreak.
"The public demands fast action and they'll get it from us," he said. "We can't wait for the hard economic data before we act."
He said it would be "foolhardy to take anything off the table"in the weeks to come though he voiced his philosophical opposition to negative interest rates.
Over the past week, investors sold off U.K. financial assets sharply, and not just stocks. The pound has taken a battering and is now around $1.16, its lowest since 1985. Following the bank's measures Thursday, the FTSE 100 stock index closed up 1.4% while the pound stabilized.
On top of the rate cut, the bank said it was relaunching its monetary stimulus program that it had first used during the global financial crisis over a decade ago. It will buy an extra 200 billion pounds ($230 billion) in government and corporate bonds. There is no schedule for the purchases, Bailey said, giving the bank maximum flexibility.
The program pumps new money into the economy to help it cope with the huge disruption of the coronavirus outbreak, which has seen the government impose increasingly stringent restrictions on economic activity.
"The spread of Covid-19 and the measures being taken to contain the virus will result in an economic shock that could be sharp and large, but should be temporary," the bank's policy committee said in a statement.
The decision to relaunch its bond-buying program comes less than a day after the European Central Bank ramped up its own such program in the hope of keeping a lid on the borrowing rates of the 19 countries that use the euro, particularly of highly indebted Italy and Greece.
Bailey, who only replaced Mark Carney as governor at the start of this week, said he was in close contact with other central bank governors daily about the crisis.

Many economists think the outbreak will cause an economic slump of a depth unseen since the 1930s.

"It is now clear that the prolonged impact of a shut-down to the economy, coupled with the large fall in demand and related uncertainty, will most likely lead to a severe downturn unless we see more drastic and decisive policy actions," said Dr Ivan Petrella, associate professor of economics at Warwick Business School.

The government, which has already announced a 350 billion-pound package of mainly loans to businesses and expanded sick-pay provision, is expected to announce more measures to support the economy, notably to shore up the income of workers.

"This is most likely the area where the government will have to intervene in the coming weeks if it aims to prevent a wave of lay-offs," said Petrella.

6. Fitch says Covid-19 is 'crushing' economic growth

[March 19, 2020] As fallout from the Covid-19 outbreak spreads around the world, the global economy is facing a recession, says Fitch Ratings.

In a new report, the rating agency said that the crisis is "crushing" global GDP growth. Fitch said it has slashed its global growth forecast for 2020 from 2.5% to 1.3%. It also cut its oil price forecast from US$62 per barrel to US$41.

"The level of world GDP is falling. For all intents and purposes we are in global recession territory," said Brian Coulton, chief economist at Fitch Ratings.

Fitch said that its forecast revision sees global GDP for 2020 coming in US$850 billion lower than in its previous forecast.

"But we could very easily see an outright decline in global GDP this year if more pervasive lockdown measures have to be rolled out across all the G7 economies," the rating agency said.

"While there is huge uncertainty, quarterly declines in GDP of 3% to 5% (not annualized) in a full lockdown scenario look feasible," Fitch said.

"The risk is that we shortly see these abrupt interruptions happening simultaneously across all major economies as the global pandemic spreads," Fitch noted.

Fitch said that the shock to the Chinese economy has already been "very severe," with GDP likely falling by more than 5% in the first quarter.

"Falling GDP in China is virtually unprecedented and, in the near term at least, these numbers look worse than most previous hypothetical 'hard-landing' scenarios," Fitch said.

However, the fact that the number of new Covid-19 cases in China has fallen sharply “should pave the way for a marked economic recovery” in the second quarter, Fitch said.

Fitch said it expects China’s GDP growth to drop to 3.7% in 2020 from 6.1% in 2019.

However, in a gloomier scenario, Fitch said that global GDP could fall, with Europe down by more than 1.5%, the U.S. dropping 1% and Chinese growth sliding to just over 2%.

“The high risk of escalating lockdown responses across the major economies means that the chances of a weaker outcome are very substantial,” Fitch said.

Looking further out, Fitch said that the emergency policy measures designed to limit the effects of the crisis should set the stage for a robust rebound — assuming that the health crisis eases.

“Rapid and large-scale macro policy responses are all about damage limitation in the near-term, but policy easing should help GDP normalize and recover quickly in the second half of the year on the assumption that the health crisis subsides,” Coulton said.

“However, the uncertainties here are huge and we are really only at the beginning of the process of trying to understand the full impact of the crisis on the world economy,” Coulton added.

7. Home prices grew by double their usual rate in February

[March 18, 2020] Prior to the Covid-19 outbreak, resale home prices were on the rise, according to the latest Teranet-National Bank Composite House Price Index (HPI), released on Wednesday.

The average house price increased by 0.4% in February — doubling the February average for the previous 10 years.

Seven out of the 11 markets covered saw an increase in prices in February, including Montreal (1.1%), Vancouver (0.8%), Halifax (0.8%), Toronto (0.4%), Victoria (0.2%), Ottawa-Gatineau (0.1%) and Winnipeg (0.1%).

Prices fell in Edmonton (-1.3%), Calgary (-0.9%), Quebec City (-0.4%) and Hamilton (-0.3%).

Prices were up 2.9% year over year, led by strong increases in Ottawa-Gatineau (8.7%), Hamilton (8.0%), Montreal (7.5%), Halifax (7.0%) and Toronto (5.1%).

According to the report, the outbreak of Covid-19 and its impact on oil prices and disruptions in the supply chain will likely change this upward trend in home prices.

"The unprecedented sanitary measures imposed by the authorities to tackle the pandemic will severely impact business activity and jobs over the coming months," the report said. "In that situation, the home resale market should be heavily curtailed for the coming months."

8. Banks facing mounting pressures, Fitch says

[March 18, 2020] The negative effects of the Covid-19 outbreak on the Canadian banks are building, says Fitch Ratings.

In a new report, the rating agency said that in the banks' last quarterly results, they reported negligible direct exposure exposure to geographies or sectors affected by the outbreak.

Since then, however, the global effects of the outbreak have intensified, strengthening the headwinds to banks' loan growth, net interest income, credit quality and capital markets operations, Fitch said.

"Canadian bank loan growth was already on a downward trajectory, and with volatile swings in financial and commodity markets, we expect potentially significant adjustments in economic and performance outlooks, depending on the severity and duration of the outbreak," Mark Narron, director at Fitch Ratings, said in a statement.

The significant rate cuts in Canada and the U.S. in response to the outbreak will pressure banks' net interest margins (NIMs), Fitch said.

Additionally, the sharp decline in oil prices "raises concerns on credit quality in commercial oil and gas portfolios as well as indirect retail exposures to energy-reliant local economies."

"As of [Q1], large banks' asset quality indicators remained strong," Fitch said. "However, impairments in the oil and gas sector have trended upwards at most large banks."

The expected slowdown in Canadian economic activity will also "exacerbate a slowing trend in loan growth," Fitch said.

In particular, commercial loan growth was already slowing, which Fitch expects "could become more pronounced due to coronavirus-linked effects."

"The severity and length of the economic fallout from the global coronavirus will be the key determinants in how Canadian banks perform over the coming year," Narron said.

9. Will stimulus be enough?

[March 18, 2020] As economic recession looms, central banks, along with federal governments, are using all tools at their disposal to keep businesses and consumers flush with needed cash. Whether the measures will be adequate remains to be seen.

Nigel Green, chief executive and founder at financial consultancy deVere Group, is doubtful about the cash influx.

In a release on Wednesday, Green cited the U.K. government's US$405-billion package of loans to businesses. Despite the package representing 15% of the U.K.'s annual GDP, Green said the amount is likely insufficient, judging from the "spooked" stock markets that continue to sink.

Green also questioned whether the cash will ultimately reach individuals and companies quickly enough — or be impeded by politics.

Another issue is that the U.K.'s injection comes through bond issuance, yet the bond market responded with fear: the 10-year gilt yield was up on Wednesday morning from one day previous, Green said.

Market mechanics are also a concern. The Volcker Rule, part of the Wall Street reforms implemented after the Great Recession, aims to protect consumers by prohibiting U.S. banks from making speculative investments. Yet, the rule could impede market functioning during this unique crisis.

"The Volcker Rule post-2008 prevents banks warehousing risk, so if everyone sells and there is no-one to buy, then what happens?" Green asked. "Previously, banks' proprietary trading desks would take risks, but they are not allowed to now, meaning central banks will have to step in."

If the markets don't function as they should, credit markets would take a significant hit, which would be "a major issue as corporate America has borrowed more than ever before," Green said.

Federal Reserve actions

Central banks have aimed to get ahead of the crisis.

"It's hard to see what more [the Fed] could possibly do in the very short term," wrote Francis Généreux, senior economist at Desjardins, in a monetary policy report earlier this week.

Généreux was referring to the Fed's recently implemented measures, including slashing its benchmark interest rate to a range of 0% to 0.25% and announcing it will buy $700 billion in bonds, including Treasuries and mortgage-backed securities.

The Fed also lowered the interest rate it charges to banks that borrow from its discount window, and reinstated the commercial paper funding facility, whereby it makes short-term loans to qualifying firms.

The Fed and Bank of Canada, along with some of their global counterparts, have also joined to provide cheap U.S.-dollar credit to banks overseas.

Some further ideas to get credit floating in the medium to longer term were floated Wednesday in the Financial Times (subscribers only) by two former

U.S. Federal Reserve chairs, Ben Bernanke and Janet Yellen. These included tools such as a low-cost financing facility for banks to support lending.

In the long term, Green said he's confident that current market volatility will "highlight that we live in a time of great capabilities, opportunities and great promise."

For now, investors must consider their portfolio positioning.

"With this volatility, people should revise and perhaps rebalance their financial strategies and portfolios to create, build and protect their wealth as the economic landscape evolves," Green said.

10. Inflation cooled in February, but beats expectations

[March 18, 2020] Statistics Canada says the consumer price index in February rose 2.2% compared with a year ago.

The increase comes after a year-over-year increase of 2.4% in January.

Economists had expected a reading of 2.1% for February, according to a poll by financial markets data firm Refinitiv.

Statistics Canada says prices rose on a year-over-year basis in seven of the eight major components it tracks, with transportation and shelter prices contributing the most to the overall increase.

Prices for household operations, furnishings and equipment fell for the fifth consecutive month, largely due to lower prices for telephone services and household durable goods.

Excluding gasoline, the annual pace of inflation for February came in at 2.0%, matching the increase in December and in January.

11. Canada facing recession: TD Economics

[March 17, 2020] Canada is now facing a technical recession, says TD Economics. The success of Covid-19 containment measures will determine whether the economy suffers a more severe blow.

In a new report, TD slashed its 2020 GDP forecast from 1.6% growth this year to just 0.2%, which would represent the slowest pace of growth for the Canadian economy since 2015.

Growth was already weak at the end of 2019, and the economy was facing challenges from unusual weather, rail blockades and other disruptions before the pandemic hit, the TD report said.

"Now, with Covid-19 on the landscape, a disappointing start to the year will give way to back-to-back quarterly contractions," the report said.

"To make matters worse, now there's Saudi Arabia's scorched-earth approach of flooding the market with oil supply when demand is already quite weak,"

the report added. “Plummeting prices generate a significant income shock on Canada that is particularly impactful in the second quarter.”
TD now projects that growth will be disrupted throughout the first half of the year, leading to its downgraded forecast for the full year.
Yet, even this gloomier forecast assumes that the worst will be over by mid-year, and there’s little certainty of that.
“Only time will tell if virus-containment measures bleed into the third quarter to take a technical recession into a formal one,” TD said.
TD also forecasts that global GDP growth will come in at just 1.7% for 2020, down from its previous forecast of 3.0%.
However, it also expects a weak 2020 will set up for a stronger 2021.
TD now forecasts world GDP growth of 4.0% next year, up 0.6% from its previous forecast.
Similarly, Canada is now seen generating 2.1% growth next year, up from the prior forecast of 1.8%.
“However, this forecast is subject to a particularly high level of uncertainty given the nature of events and unprecedented mitigation action being taken by governments and businesses,” the TD report said.

12. Quebec gives residents an extension on filing taxes

[March 17, 2020] To ease the impact of the Covid-19 outbreak, Quebec is postponing the income tax–filing deadline, delaying required tax instalments and allowing the use of electronic signatures, among other measures.
The provincial government said that it has asked Revenu Québec to allow flexibility for both individuals and businesses in Quebec during tax filing season.
Among other things, the province is pushing back the deadline for filing income tax returns to June 1 from April 30.
For individual taxpayers that pay by instalment, the June 15 instalment is suspended until July 31. For businesses, the government said the payment of instalments and taxes “due as of today is suspended until July 31.”
“The date and terms of payment of [these amounts] will be announced shortly,” the government said.
Additionally, the deadline for applying balances due related to 2019 tax returns is being postponed to July 31.
Revenu Québec will also allow tax return preparers to use electronic signatures on certain forms that their clients must sign, the government said.
“This will limit the administrative procedures to be carried out in person,” the province noted.

For organizations that are suspending tax preparation to limit travel and contact, Revenu Québec and the Canada Revenue Agency (CRA) will accept these decisions, the province said.

"However, this situation could change in the coming weeks, considering the postponement of the income tax return filing deadline and depending on how the situation evolves," the province said.

"The flexibility measures announced today seek to afford taxpayers respite during this turbulent period during which priority must be given to compliance with the directives of the Direction de la santé publique. They are part of an array of economic measures that will be implemented in the coming days to help workers and businesses to get through this unprecedented crisis," said Eric Girard, Quebec's minister of finance.

13. Banks again lower their prime lending rate

[March 17, 2020] Several Canadian banks and financial institutions have dropped their prime lending rate by 50 basis points for the second time in two weeks, this time to 2.95%.

The moves effective Tuesday by the Royal Bank, Toronto-Dominion Bank, Scotiabank, Bank of Montreal, CIBC and the Desjardins Group match the Bank of Canada's decision last Friday to drop its key lending rate by 50 basis points to 0.75%.

The central bank says the unscheduled rate decision is a "proactive measure taken in light of the negative shocks to Canada's economy arising from the Covid-19 pandemic and the recent sharp drop in oil prices."

National Bank was cutting its rate effective Wednesday.

Desjardins also says it is cutting its U.S. prime rate by a full percentage point to 3.75% after the U.S. Federal Reserve again cut its rate on Sunday over the novel coronavirus.

The rate cuts will make mortgages and other borrowing cheaper but has also raised concerns it will further inflame already overheated housing markets.

14. Coronavirus already affecting small business sales, CFIB survey says

[March 17, 2020] A new survey suggests half of Canada's small businesses have already seen a drop in sales due to the economic effects of Covid-19.

The survey conducted by the Canadian Federation of Independent Business also says four in 10 of those affected businesses are also reporting a drop of more than 25%.

The results were based on an online survey which included 8,730 responses from small business across the country between March 13 and March 16.

The CFIB survey found the sectors most negatively affected were hospitality, arts and recreation, retail and personal services.

It says 43% have reduced hours for staff and 20% have started temporary layoffs.

Thirty-eight percent say they have experienced supply chain issues.

CFIB president Dan Kelly says the early economic impacts of the novel coronavirus on Canada small and medium-sized businesses has been massive.

"Even more alarming is our finding that a full quarter of small firms would not be able to survive for more than a month with a drop in business income of more than 50%," Kelly said in a statement.

15. Coronavirus likely to spark sovereign downgrades, Fitch says

[March 17, 2020] The Covid-19 outbreak is likely to spark a spate of sovereign downgrades this year, according to Fitch Ratings.

The rating agency reported that it is expecting a higher-than-average number of sovereign ratings actions in 2020, and that these moves will have the strongest downward bias since the global financial crisis.

"Global economic policymakers face an unprecedented combination of challenges including a health crisis, economic disruption, severe financial market dislocation, changes in investor sentiment, exchange-rate volatility and a commodity price shock," Fitch said.

While traditional macroeconomic policies will have limited effects on the halt to economic activity due to health concerns, Fitch said that it can soften the impact on household and corporate income.

"Over time, fiscal policy responses will come to match those already underway on the monetary side, at least in terms of the number of countries engaged," it said.

And this expected fiscal weakening will likely be accompanied by sovereign rating downgrades.

"With the probability of a large number of supplementary fiscal measures being adopted across a wide range of [developed markets], judgments on whether such measures should affect ratings will be guided in part by sovereigns' records of fiscal consolidation during more favourable economic times," it said.

In emerging markets (EM), fiscal conditions are often more sensitive to cyclical variations, such as changes in commodity prices, exchange rates and global funding conditions.

"All of these factors are currently evident and will also be part of our ongoing sovereign rating review processes. They make EM public finances more volatile, both in terms of revenues and expenditures, and that too is expected in the period ahead," Fitch said.

16. CMHC to purchase up to $50B of insured mortgage pools

[March 16, 2020] The federal government is launching a revised purchase program of insured mortgages — a move that will provide Canada's mortgage market with liquidity.

Under the revised Insured Mortgage Purchase Program (IMPP), the government will purchase up to $50 billion of insured mortgage pools through the Canada Mortgage and Housing Corporation (CMHC), the CMHC said in a release on Monday.

The move will provide stable funding to banks and mortgage lenders to ensure continued lending to Canadian consumers and businesses, the CMHC said. The IMPP also provided lenders with liquidity during the 2008-09 financial crisis.

As insured mortgage pools in Canada already carry government of Canada backing, there's no additional risk to taxpayers, the release said. The purchased insured mortgage pools will earn a rate of return for the government that's above its borrowing cost, it said.

Details of the purchase terms will be provided to lenders later this week.

The Bank of Canada has also announced it will adjust its market liquidity operations to maintain market functioning and credit availability.

17. Covid-19 could leave many Canadians without access to paid leave

[March 16, 2020] New research says broad swaths of the Canadian workforce won't have access to paid leave from their employers or existing federal help should they be forced off the job due to Covid-19.

The research note from the Canadian Centre for Policy Alternatives says 38% of sickness leave and 23% of family leave of more than a week was covered by employers in 2019.

About three-quarters of workers in higher-paying jobs had time off covered by their employers, while just over 10% of workers in the lowest income decile received a similar benefit last year.
The report says further complicating issues is that the most unemployed workers didn’t qualify for employment insurance benefits in 2018, the most recent numbers of available.
David Macdonald, the centre’s senior economist, says most of the workers who could use financial assistance can’t easily work from home right now, meaning closed schools, self-isolation or quarantine will mean lost shifts and plummeting incomes.
He says the federal government will likely have to create an emergency benefit for workers who can’t access EI benefits as part of an economic response package Finance Minister Bill Morneau is to unveil this week.

Have a nice and fruitful week!