Weekly Updates Issue # 767

1. Weekly Markets Changes

[June 5, 2020]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
15,854.07 +661.2 +4.35%	3,193.93 +149.6 +4.91%	27,110.98 +1,727.9 +6.81%	9,814.08 +324.2 +3.42%	$0.7447 +1.94c +2.67%	$1,685.06 -45.21 -2.6%	$39.55 +4.23 +11.0%

2. Economy adds jobs, but unemployment rises to record level

[June 5, 2020] Statistics Canada reports a record-high unemployment rate as the economy added 289,600 jobs in May, with businesses reopening amid easing public health restrictions.

The unemployment rate rose to 13.7%, topping the previous high of 13.1% set in December 1982 in more than four decades of comparable data.

The increase in the unemployment rate came as more people started looking for work.

The average economist estimate was for a loss of 500,000 jobs in May and for the unemployment rate to rise to 15.0%, according to financial markets data firm Refinitiv.

The increase in the number of jobs comes after three million jobs were lost over March and April, and about 2.5 million more had their hours slashed.

Statistics Canada says the number of people who worked less than half their usual hours fell by 292,000 in May.

Combined with the increase in jobs, Statistics Canada says the country recovered 10.6% of employment losses and absences related to the Covid-19 pandemic.
The total number of unemployed Canadians doubled from February to April, a surge driven by temporary layoffs that the vast majority of workers expected to last less than six months.
At the same time, there was a spike in the number of people who wanted to work but weren't actively looking for a job, likely because the economic shutdown has limited job opportunities.
People not actively seeking work aren't counted in unemployment figures.
The unemployment rate for May would have been 19.6% had the report counted among the unemployed those who stopped looking for work — largely unchanged since April.

3. Unrest threatens governments' finances: Moody's

[June 5, 2020] Outbreaks of social unrest pose challenges to both economic growth and government finances, according to Moody's Investors Service.
Following a week of widespread protests across the U.S., the rating agency said that the explosion of social tensions revealed long-standing social risks for governments, particularly states and governments of major cities.
"Anger about police brutality and institutional racism has led to protests, in some cases accompanied by looting, in as many as 140 cities," it noted.
These disruptions come as state and local governments are facing the effects of a sharp economic downturn, a spike in unemployment and "a fast and severe decline" in tax revenue, coupled with increased health costs, Moody's said.
"With governments facing weak overall economic conditions and austere budget realities for at least the next two years because of the negative effects of coronavirus, underlying inequality and other social weaknesses represent an additional source of credit risk," it said.
Moody's also warned that if these factors are not addressed, "these weaknesses will hamper economic growth" and strain government budgets.
"The immediate credit effects of the unrest are an increase in public safety spending and further loss of tax revenue caused by disruptions in economic activity and the destruction of property," it noted.
"Longer-term credit effects will depend on whether the unrest is isolated or similar disruptions become a recurring problem," Moody's said, "and whether governments adopt policy solutions to address and improve the underlying social trends."

Moody's added that solutions will likely take years to implement, and could be expensive.

4. Pandemic weighs on mental, physical health, StatsCan says

[June 4, 2020] Canadians are largely adhering to physical distancing requirements to prevent the spread of Covid-19, but the measures are accompanied by significant anxiety, along with increased consumption of alcohol and junk food, according to a new study from Statistics Canada.

StatsCan reported that the pandemic, which has seen many Canadian workers lose their jobs or their primary sources of income, "is creating anxiety and worry," particularly among women and younger Canadians.

According to the results of an online survey conducted between May 4 and 10, most Canadians (approximately 9 in 10) are following physical distancing guidelines, particularly when out in public; 95% report that they are washing their hands more frequently; and most are not having social interactions outside of their households.

However, the survey also found that almost 20% of respondents report having moderate or severe anxiety.

Women reported higher incidences of anxiety (21%) than men (15%). Those aged 15 to 24 were more affected (27%), followed by middle-aged adults (19%) and seniors (10%), StatsCan found.

Alongside these results, StatsCan said its research also showed that 19% of respondents reported their consumption of alcohol has increased during the pandemic, up from about 14% a month earlier.

It also said that 35% have increased their consumption of junk food, up from 27% a month ago.

5. ECB almost doubles pandemic emergency support program

[June 3, 2020] The European Central Bank has boosted its pandemic emergency support program by an unexpectedly large 600 billion euros to 1.35 trillion euros ($1.5 trillion) in an effort to keep affordable credit flowing to the economy during the steep downturn caused by the virus outbreak.

The new stimulus comes on top of added spending by European governments and similar stimulus efforts by the U.S. Federal Reserve, the Bank of England, the Bank of Japan and other central banks around the globe as the world tries to cope with a sharp, simultaneous blow to both developing and rich economies.

The central bank for the 19 countries that use the euro also extended its monetary stimulus program to at least the end of June next year, from the end of 2020 currently.

The bank said it expects the eurozone economy to shrink by a painful 8.7% this year and to recover by a more modest 5.2% in 2021. ECB President Christine Lagarde warned that "the speed and scale of the rebound are highly uncertain."

The ECB's moves in many ways reflect similar concerns to those motivating the Fed, which has slashed short-term interest rates to near zero and started buying $2 trillion in Treasury securities and mortgage-backed bonds to keep credit markets functioning.

Under the pandemic support program, the ECB buys corporate and government bonds and other financial assets from banks, paying with newly created money. That helps lower longer-term interest rates, keeping the pandemic from drying up needed funding for borrowers.

The large size of the intended purchases also sends a signal to financial markets that the ECB is determined to ensure interest rates remain low throughout the eurozone and prevent borrowing costs from rising for indebted governments such as Italy.

While the ECB says its purchases are not targeted at supporting Italy, the program so far bought a larger share of Italian bonds than for other countries and is credited with keeping market pressure off a nation that has been among the hardest hit by the pandemic.

Italy's lockdown will cost it lost tax revenues and additional spending to support the economy. That means added borrowing that will boost its already large debt pile of 135% of annual economic output. Any investor doubts about Italy's ability to pay could lead to a spiral of higher borrowing costs and trigger a financial crisis similar to the one that led to Greece and four other member governments needing international bailouts in 2010-2015.

The support from the ECB comes on top of up to 540 billion euros in financial aid from eurozone governments that includes credit lines from the euro bailout fund, as well as a longer-term EU recovery fund of 750 billion euros that is still being worked out. Germany, the largest member economy, on Wednesday proposed an additional 130 billion euros of stimulus including tax breaks and subsidies for buying electric cars.

The different support packages aim to cushion what the European Union's executive commission says will be a steep fall of 7.75% in economic output this year and to support a recovery in coming years.

The central bank left its key interest rate benchmarks unchanged at record lows on Thursday. The rate at which the ECB lends to banks is zero. Its rate on deposits left overnight by commercial banks is now minus 0.5%, a penalty aimed at pushing banks to lend the excess cash. The bank has also set up long-term offers of credit to banks at even lower rates if they show they are lending to companies. Banks are key to the entire eurozone economy because most companies get their operating funds from them rather than borrowing on financial markets as is more the case in the U.S.

The bank said it would continue an earlier bond-purchase program started before the pandemic. Those purchases will continue to run at 20 billion euros per month, providing still more monetary stimulus.

6. Analyzing currencies in a pandemic

[June 3, 2020] Investing in currencies isn't easy in today's global environment. "We've had a significant impact on the currency complex as a result of the Covid-19 pandemic," said Richard Lawrence, senior vice-president of global fixed income at Brandywine Global Investment Management in Philadelphia, Pa., during a May 18 interview.

The year began in a "fairly quiet fashion," with only modest appreciation of the U.S. dollar in January and February, he said.

But then, as the pandemic worsened, "all hell broke loose and there was about a two-week period in the middle of March where, if you didn't own the U.S. dollar, whatever you did own went down and went down fast — in particular emerging market currencies."

Lawrence also pointed to commodity-influenced currencies, such as the Colombian peso, the Russian ruble and the Norwegian krone, which took a hit in part due to a lack of dollar liquidity.

The U.S. Dollar Index, which tracks the strength of the greenback compared with other currencies, has risen roughly 1% year to date. In contrast, MSCI's International Emerging Market Currencies Index has fallen.

Normally, Lawrence said, discounted currencies create opportunities to find value, but the pandemic is complicating matters.

"When a currency goes down, it makes the export side of a country's economy more competitive. It brings more tourists," he said.

"But in this Covid-19-influenced world, those economic feedback cycle mechanisms aren't working."

A cheaper Mexican peso isn't going to draw U.S. tourists, for example, and Mexican exports are constrained by the slowdown in the American economy, he said.

“That’s a story that’s playing out all over the world,” said Lawrence, whose firm manages the Renaissance Global Bond Private Pool and the Renaissance Global Bond Fund.

The Thai baht is another currency that’s been under pressure due to the pandemic’s impact on the tourism industry. When Covid-19 hit China at the start of the year, Lawrence said he put a short position on the baht in a few portfolios.

As emerging market currencies start to improve, Lawrence called the Brazilian real the “one real laggard.”

“We’ve got a little bit of a political crisis unfolding in Brazil that has created some idiosyncratic risk there,” he said.

Lawrence is starting to look ahead and anticipate which countries will see their export activity pick up, creating potential bargains on discounted currencies.

“We’ve started to focus a little bit more on export-oriented manufacturing economies,” he said, including Korea, Hungary, the Czech Republic and Poland.

Central bank support

In the middle of March, the U.S. Federal Reserve responded “aggressively” to the lack of liquidity in U.S. dollars by expanding swap line arrangements to more countries, Lawrence said.

“There was just simply too much demand for the U.S. dollar and not enough supply,” he said.

While the Fed typically focuses on larger, advanced nations, it started dealing with emerging market central banks in Korea, Brazil and Mexico as well as those in New Zealand, Australia and the Scandinavian countries, Lawrence said.

The Fed also allowed central banks to repo their Treasury securities to gain dollar liquidity, he said.

“Since the Fed stepped in to provide these incremental liquidity measures, we have seen things definitely calm down in the currency markets,” he said.

As the “liquidity squeeze” passed, Lawrence said underperforming markets tied to oil, such as the Norwegian krone and the Colombian peso, started to turn around. Some cyclical currencies in emerging markets, as well as the Australian dollar, have also bounced back, he said.

A Desjardins report this week noted the greenback has depreciated against many currencies since May, citing “the rise in optimism on the financial markets and the drop in demand for safe havens” as key drivers.

But the report also cautioned against making calls too early. It forecast a weakening U.S. dollar moving into 2021, with the loonie appreciating.

7. Covid-19 fiscal stimulus dwarfs response to global financial crisis

[June 3, 2020] Governments are delivering unprecedented fiscal and monetary stimulus to combat the economic effects of the Covid-19 outbreak, Fitch Ratings reports.

The rating agency reported that, so far, governments have provided direct fiscal stimulus of US$5 trillion, which represents about 7% of GDP, in the 20 major economies (both developed and emerging markets) covered by its economics review.

Canada's fiscal efforts are near the top of the range, amounting to 10.2% of GDP; although the U.S. has gone further, with direct fiscal stimulus totalling 11.5% of GDP.

These efforts are well in excess of what governments provided during the global financial crisis, Fitch noted.

"The scale of fiscal easing announced to date, which could increase further, is significantly larger than the fiscal response seen after the global financial crisis, when the advanced economies saw a fiscal easing of around 3%-4% of GDP," said Marina Stefani, director at Fitch.

Monetary easing has been similarly impressive, Fitch said.

The rating agency reported that new quantitative easing (QE) asset purchases average 8.2% of GDP for the Fitch 20, led by the U.S., at 20.1%.

Canada and the U.K. are expected to reach around 9% of their GDP in QE purchases, Fitch noted.

Additionally, central banks have introduced a wide array of new credit facilities to support both the real economy and the financial sector.

Fitch said that these efforts range from 5% of GDP in Australia to about 10% in Japan and the U.S., and almost 13% in Canada.

"The speed and size of macro policy easing will influence both the intensity of the immediate coronavirus-related macro shock and the pace of the post-crisis economic recovery," Fitch said.

In emerging markets, the policy response has generally been more restrained than in most developed countries, although countries such as Brazil, Poland and South Africa have launched large fiscal packages in response to the pandemic.

8. Insolvency filings plummet in April

[June 3, 2020] The insolvency business took a big hit in April along with the rest of the economy, according to the latest statistics from the Office of the Superintendent of Bankruptcy Canada (OSB).

The OSB reported that the total number of insolvency filings (including both bankruptcies and consumer proposals) plunged by 38.7% in April compared to the previous month. Bankruptcies fell by 41.5% and proposals declined by 37.2%.

Of course, the drop in filings came at a time when much of the economy was in lockdown, lenders were granting forbearance to troubled borrowers and governments were providing emergency assistance to struggling households and businesses and pushing back tax deadlines.

Notwithstanding the huge falloff in insolvency filing activity in April, the OSB reported that the total number of insolvencies in the 12-month period ended April 30 increased by 3.5% compared with the same period a year ago. Consumer insolvencies were up 3.9% for the year ended April 30, led by a 12.7% increase in consumer proposals. Business insolvencies were down by 8.0% over the same period.

In April, five companies filed for bankruptcy protection under the Companies' Creditors Arrangement Act (CCAA), the OSB noted.

That activity picked up in May, with 10 companies filing for CCAA protection, including major retailers Reitmans (Canada) Ltd. and Aldo Group Inc., and cannabis company Green Growth Brands Inc.

9. BoC keeps key interest rate target on hold

[June 3, 2020] The Bank of Canada kept its key interest rate target on hold as it said it believes the economy has avoided its worst-case scenario due to the pandemic.

The central bank said Wednesday its target for the overnight rate will remain at 0.25%.

It said the impact of the pandemic on the global economy appears to have peaked, although uncertainty about how the recovery will unfold remains high.

The bank said it believes Canada has avoided the most severe economic scenario that it painted in April, updating its GDP figures for the second quarter of the year.

The central bank now expects GDP to decline between 10% and 20% compared with the fourth quarter of 2019, down from the 15% to 30% decline forecasted in April.

In a statement announcing the rate decision, the central bank said it still expects the economy to resume growth in the third quarter.

"Decisive and targeted fiscal actions, combined with lower interest rates, are buffering the impact of the shutdown on disposable income and helping to lay the foundation for economic recovery," the statement said.

The announcement comes on the first day of Tiff Macklem's tenure as governor, taking over from Stephen Poloz whose seven-year term ended Tuesday.

Macklem participated as an observer during deliberations by the bank's governing council over the past few days, the statement says, adding that the new governor "endorses the rate decision and measures announced."

The bank also announced it was reducing the frequency of its term repo operations and purchases of bankers' acceptances citing improvements in short-term funding conditions.

Other programs to purchase federal, provincial and corporate debt will continue unchanged, the bank says, but adds it could change tactics in response to economic conditions.

"As market function improves and containment restrictions ease, the Bank's focus will shift to supporting the resumption of growth in output and employment," the statement says. "The Bank maintains its commitment to continue large-scale asset purchases until the economic recovery is well underway."

Economic reports continue this week with Statistics Canada's look at the May jobs market scheduled for release Friday.

10. May home sales in Vancouver, Toronto down significantly from a year ago

[June 3, 2020] Home sales in the Greater Vancouver area continued their steep year-over-year drop last month amid confinement measures and physical distancing requirements related to the Covid-19 pandemic.

The Real Estate Board of Greater Vancouver said Tuesday home sales totalled 1,485 in May, a nearly 44% decrease from May 2019 and 54% below the 10-year average for the month.

However, the figures marked a notable increase from 1,109 home sales in April, the lowest total for the month since 1982.

Board chairwoman Colette Gerber said buyers and sellers are becoming more comfortable navigating physical distancing hurdles, with virtual interactions more prominent than ever.

“Home sale and listing activity is down compared to typical, long-term levels and up compared to the activity we saw in April 2020,” Gerber said in a statement.
“Home buyers and sellers are adapting today, becoming more comfortable operating with the physical distancing requirements that are in place in the market.”
Home prices in the Greater Vancouver area have remained steady despite the recession triggered by the pandemic.
The real estate board said the MLS home price index composite benchmark price for all residential properties in Metro Vancouver was $1.03 million, virtually unchanged from April and up 2.9% compared with May 2019.
There were 3,684 detached, attached and apartment properties newly listed for sale on the Multiple Listing Service in Metro Vancouver in May, down 37.1% compared with May 2019, but up 59.3% compared with April 2020.
In its outlook last week, Canada Mortgage and Housing Corp. said it expects the housing sector will see a retreat in prices, sales and building in the months ahead and likely won’t see a return to pre-pandemic levels until at least the end of 2022.
The federal housing agency said average housing prices could fall anywhere from nine to 18% in its forecast, and as much as 25% in oil-producing regions.
In the faster recovery scenario, prices could start to recover by mid-2021, while in a slower recovery prices might not be back to pre-Covid-19 levels at the end of 2022.
The Toronto Regional Real Estate Board says home sales in the region improved in May compared with April, but remained less than half of what they were a year ago due to the pandemic.
The board says there were 4,606 sales in the Greater Toronto Area through its MLS system in May, down 53.7% compared with a year earlier.
However, sales in May were up 55.2% compared with April.
The average selling price was $863,599, up 3% compared to May 2019.
The number of new listings totalled 9,104, down 53.1% compared with year ago, but up 47.5% on a month-over-month basis.
Board president Michael Collins says that if the gradual re-opening of the economy continues, it is possible that home sales will continue to improve in the coming months.

11. Ontario changes labour laws to account for temporary leave

[June 1, 2020] Ontario is temporarily amending its labour laws to help businesses avoid permanently laying off workers and paying out severance, which could send some into bankruptcy during the pandemic.

The government announced Monday that it would amend the Employment Standards Act, which requires businesses to terminate employees who have been laid off for 13 weeks. The law then requires the business to pay severance to workers.

The change will see non-unionized workers who have had their hours reduced or eliminated placed on a temporary leave that preserves their job. Workers will still be eligible for federal emergency income support programs.

The amendment to the law will expire six weeks after the province's declared state of emergency ends.

"We've heard loud and clear from employers that they don't want to be forced to terminate their employees," Labour Minister Monte McNaughton said in a statement. "We have to step in to make sure workers have jobs to return to."

Last month, Ontario's fiscal watchdog said 2.2 million people in the province have been affected by the shutdown: an estimated 1.1 million workers in the province have lost their jobs, and another 1.1 million have seen their hours sharply reduced.

According to Statistics Canada, Ontario lost 689,200 jobs in April, bringing its employment down to the lowest level since 2009. The province's unemployment rate climbed to 11.3%, the highest it has been since 1993.

Small and medium-sized businesses, and groups that advocate on their behalf, had been asking for the temporary change to the province's labour laws.

The Ontario Chamber of Commerce, Canadian Federation of Independent Business and Canadian Manufacturers and Exporters have all called for the measure.

They feared that once the terminations were triggered, the severance costs would put many businesses who were struggling to stay afloat during the pandemic, into bankruptcy.

A spokeswoman for the CFIB said the "13-week clock and the significant termination costs" had been weighing heavily on small employers.

"The new regulation will help businesses stay afloat and keep their employees as we move further into economic recovery," Julie Kwiecinski said in a statement.

A spokeswoman for second-hand retailer Value Village lauded the move, saying it would help the company and other employers retain thousand of jobs.

"As we work to safely reopen in communities across the province, Value Village is eager to continue to support our team members, non-profit partners and the environment," Sara Gaugl said in a statement.

The amendment will apply retroactively to March 1 and does not include unionized workers who are covered by collective agreements.

The province has also announced legislation to ban employers from requiring sick notes for those in self-isolation or quarantine. It will also ensure protected leave for workers who have to take unpaid leave to isolate themselves or care for others, such as children not in school.

The government has said those measures will be retroactive to Jan. 25.

12. Consumer credit declines sharply in April

[June 1, 2020] Consumer credit plummeted at near-record speed in April as Covid-19 relief efforts kicked in, according to a report from Scotiabank Economics.

The report found consumer credit contracted by a seasonally adjusted 26.3% month over month in April — “the largest single-month drop in recorded history since 1969.”

Scotiabank said consumer borrowing slowed as government relief efforts such as the Canada Emergency Response Benefit took effect and consumers became more cautious amid economic uncertainty.

“With other financial relief programs put in place such as rent and credit card payment deferral opportunities, households are able to finance essential purchases without running up debt,” the report said.

Before Covid-19 relief efforts began to kick in, more consumers were resorting to home equity lines of credit (HELOCs) to tide them over, the report found.

In March, HELOC borrowing reversed a yearlong trend of declines, accelerating by 2.5% year over year “as Canadian households found themselves reaching for built-up home equity to support essential consumption while income support programs had not yet fully taken effect,” the report said.

Mortgage borrowing grew in April — posting a seasonally adjusted monthly gain of 8.8% — although this was likely a “lagged effect” of stronger housing activity earlier in the year, the report said.

Have a nice and fruitful week!