Weekly Updates Issue # 776

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1. Weekly Markets Changes

[August 7, 2020]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,544.48 +375.28 +2.3%	3,351.28 +80.2 +2.45%	27,433.48 +1,005.2 +3.8%	11,010.98 +265.7 +2.47%	$0.7476 +0.16c +0.21%	$2,035.55 +59.69 +3.02%	$41.22 +0.79 +1.95%

2. Canada gains 419,000 jobs in July: Stats Can

[August 7, 2020] Statistics Canada says the country's labour market gained 419,000 jobs last month as more parts of the economy were allowed to reopen. The agency says the national unemployment rate was 10.9 per cent in July, down from the 12.3 per cent recorded in June.

The figures beat market expectations, with the average economist estimate from financial markets data firm Refinitiv was for a gain of 400,000 jobs in July and an unemployment rate of 11 per cent.

Combined with the 953,000 jobs gained in June and the 290,000 in May, the country was within 1.3 million jobs from pre-pandemic levels.

About 266,0000 more people were looking for work in July, rising for the third consecutive month, but still down almost 300,000 from where it was in February.

The agency says the unemployment rate would have been 13.8 per cent in July if it had included in calculations those who wanted to work but didn't look for a job.

3. US economy added 1.8 million jobs in July but still down nearly 13 million jobs during the pandemic

[August 7, 2020] he US economy added another 1.8 million jobs in July, a sharp slowdown from June and a small step for an economy that's still down 12.9 million jobs during the pandemic.

It was the third-straight month of improvement after the spring lockdown that decimated the labor market, and the July job gain exceeded economists' expectations. Even so, it was far fewer than the 4.8 million jobs added in June.

The unemployment rate fell to 10.2%, the Bureau of Labor Statistics reported Friday, but remains above the Great Recession high of 10% that was reached in October 2009.

Friday's report had good and bad parts, and economists are still trying to come to grips with how the labor market is behaving in this unparalleled situation.

For example, the number of people working part-time rose by 803,000 to 24 million in total in July. The government defines part-time work as anything under 35 hours per week.

"We added more jobs than most people expected, but the gains really were disproportionately part-time workers," said Kate Bahn, economist and director of labor market policy at the Washington Center for Equitable Growth. "To me that means even if workers are coming back it's to jobs that pay less, and families will be worse off."

Meanwhile, the unemployment rate fell in all demographic groups. The rate remains by far the highest for Black workers at 14.6%, which is concerning, Bahn said.

"Research from previous downturns suggests that Black workers are the most likely to be displaced," she added.

Then there are seasonal adjustments, which are based on historical trends in the job market -- but because the pandemic is unlike any other moment in history, they're distorting the data at the moment. Without seasonal adjustments, only 591,000 jobs were added in July.

That said, one positive sign in this jobs report is the number of permanent job losses: it was more or less flat from June at 2.9 million. This might not sound exciting, but it would have been very bad news for the recovery had the number gone up.

"Granted still more than double from before the crisis, but we'll take the one-month reprieve," said Daniel Zhao, senior economist at Glassdoor.

Since the pandemic hit, the government has struggled to count the enormous number of people who are out of work. That's in part because it has been increasingly difficult for workers themselves to discern whether they have been temporarily laid off or employed but not at work.

The share of misclassified responses was smaller in June and July than in the months before, the BLS said. Including the misclassified workers, the July unemployment rate would have been about one percentage point higher than reported.

The reopening of the economy and a resurgence in Covid-19 infections in some states, paired with business and individuals running out of federal aid, has created a unique set of conditions for the jobs market.

A survey from Cornell University showed that 31% of workers who were recently rehired have lost their jobs for a second time during the pandemic. Another 26% have been told that they might get laid off again.

Meanwhile, the Federal Reserve Bank of St. Louis said states with more Covid cases since June also registered the weakest employment recovery. This was most notably true for Arizona, Florida and Texas.

Head-butting in Washington

Friday's jobs report comes during tense times in Washington, as Republicans and Democrats are butting heads over the next stimulus bill. One point of contention is the government's boost of unemployment benefits. The CARES act provided a weekly boost of $600 to regular jobless aid. But this provision ran out on July 31.

Now Congress is arguing about how to proceed: Democrats want to keep the $600 weekly supplement for the rest of the year, while Republicans want to cut it to $400 a week.

For millions of Americans, the benefit expansion contributes a large portion of their income at the moment -- so cutting it could hamper the recovery. At the same time, some economists believe that too much unemployment aid actually keeps people from returning to work. The question is what is too much aid during an economic crisis of unprecedented proportions.

"The primary reasoning behind the reducing those benefits it that it would push more Americans back into the labor force. But there doesn't seem to be a lot of evidence for the need to push people back, because the jobs aren't' there," said Zhao, the Glassdoor economist.

This could mean workers who are forced back to work by the lower benefits may have to take part-time or riskier jobs than they would otherwise choose.

4. Future market shocks a potential risk to bond funds

[August 6, 2020] Bond funds weathered the initial financial market disruption caused by Covid-19 much better than expected, but they may be at more risk to future shocks unless they rebuild their liquidity, suggests new research from the Bank of Canada.

A paper from researchers at the central bank examines the response of bond funds to the real-life stress test of a severe pandemic, and it finds that fund redemptions were not nearly as big as predicted by the turmoil in markets.

While bond funds saw a monthly record of $14 billion in net redemptions in March — about 4.5% of assets under management (AUM) — the paper said that this was still much less than predicted by central bank models.

"The historical relationships between fund performance and redemptions suggest that the portfolio losses observed in March should have led to redemptions amounting to 9.5% ($30.7 billion)," the paper noted.

In that scenario, more than two-thirds of bond funds (70%) would have exhausted their cash buffers to meet redemptions, the paper said.

Instead, the much lower than expected redemption levels meant only 9% of funds had to use up their cash buffers entirely in March, it reported.

The paper pointed to several explanations for the better-than-expected redemptions performance — including efforts by the central bank to calm financial markets, the move by securities regulators to ease funds' borrowing limits, and the efforts of fund managers themselves to prevent redemptions.

"Overall, the combined actions of fund managers and authorities helped prevent funds from selling bonds in a market undergoing severe liquidity strains, which would have amplified the adverse conditions of market liquidity," the paper said.

In particular, the paper suggested that the Bank of Canada's expanded liquidity and asset purchase facilities "helped calm markets and limit investor redemptions." Further, it noted that the bulk of bond fund redemptions occurred before the Bank took steps to ease market stresses.

At the same time, securities regulators "gave fund managers additional flexibility to use borrowing to manage demand for redemptions," the paper said.

Fund managers also took steps to limit redemptions, by both seeking to calm investors directly, and by charging higher redemptions fees to reflect the increased cost of liquidity in stressed markets.

"Discussions with market participants indicate that intent to redeem shares was initially higher than the value of actual redemptions observed in March. This suggests that relationship management efforts were effective in containing redemptions," the paper said.

Still, the paper found that most fund managers met the heightened demand for redemptions with cash and other liquid assets, rather than selling off other

holdings. As a result, funds' cash positions declined, which may leave them more susceptible to future stresses, the paper warned.
Based on the Bank's research, it seems funds' current cash holdings would be enough to cover the monthly redemptions that were experienced at the height of financial crisis in October 2008, but not enough to meet the levels of March 2020.
"If bond funds face another wave of large redemptions, they may be more vulnerable because they have already used part of their cash buffers. By rapidly rebuilding those buffers, bond funds can help avoid future forced sales of assets that are less liquid," the paper said.

5. July a record-breaking month for GTA home sales

[August 6, 2020] July was a record-breaking month for Toronto real estate sales, as a nearly 17% price spike did not stop homebuyers from making offers.
"Sales activity was extremely strong for the first full month of summer. Normally we would see sales dip in July relative to June as more households take vacation, especially with children out of school," said Lisa Patel, president of the Toronto Regional Real Estate Board.
The board said 11,081 existing homes changed hands during July, 29.5% more sales than July 2019 and a new record high for the month.
Average home prices are also up 16.9% from a year ago, at $943,710, the board said.
Patel said there is evidence the home market is tightening _ with buyers competing as homes are being sold faster than new listings are added to the market.
"Competition between buyers continued to increase in many segments of the GTA ownership housing market in July, which fuelled a further acceleration in year-over-year price growth in July compared to June," said the board's chief market analyst, Jason Mercer.
Patel suggested that homebuyers and sellers have put off summer travel and are playing catch-up on their housing plans, after the City of Toronto entered Stage 3 of reopening from COVID-19 restrictions.
Davelle Morrison, broker at Bosley Real Estate Ltd., agreed that months in lockdown have given buyers time to think about exactly what they want in a home. Research done, buyers are coming to the market ready to sign on the dotted line, she said.
"People have had three months to sit and observe what they want for their living space," said Morrison. "People are starting to recognize that the

Toronto real estate market holds value. They thought there would be a crash, and they were waiting for one. The time period to get a deal was March and April, and it is over […] so people aren't on the sidelines anymore."

Nasma Ali, founder of One Group Toronto Real Estate, said sellers often spend winter months prepping their house to sell in spring, when the greenery will improve their curb appeal. The listings that usually crowd the market in March and April came all at once this year _ in June.

Last summer, buyers would have been fatigued by the stressful process of making offers. Listings that hit the market in spring usually pile up a bit more by summer, she added.

But this year, that process has sped up, she said.

"Spring never came, and when June came […] I could feel the difference in demand. The demand was just on fire," said Ali.

That raises the question of how long the pent-up demand will fuel the market, Ali says.

"People are always waiting for a crash, and now people are waiting for a crash in fall," Ali says. "[Unlike in June], houses are not selling with 10 to 20 offers. August is historically slow, people want to enjoy the last few weeks of summer and look again after Labour Day. "

Morrison said that even among pessimists, she's seeing a strong urge to move, with one client looking for a backyard in case schools close again in the future.

"People are saying, `We realized we won't be able to travel for the next couple of years, we need a getaway that's local,"' says Morrison.

But both Ali and Morrison noted that the market for detached houses is different from the condo or rental markets.

TRREB said low-rise homes, especially outside the downtown core, led the upward trend, with overall prices jumping most in Durham, Orangeville and South Simcoe county. The bulk of sales for July were detached homes (5,633 sold) and condo apartments (2,423 sold).

"Condo sales downtown are slower and there are so many factors. The obvious factor is Airbnbs, which have flooded the rental market as more of those investors chose a one-year rental rather than selling," said Ali.

"A lot of people are saying they are done with condo living. There is no immigration and that was a huge driving force of urban living."

Morrison also said landlords are having a harder time filling rental spaces amid a greater supply of condos for rent, alongside unemployment among tenants. While mortgage deferral programs will end in the autumn, Morrison said she's not sure how many houses will hit the market as a result.

As prices rose again in July, TRREB said it supports housing affordability measures that increase the supply of housing.

The real estate board reiterated support for building more “missing middle” housing, such as low-rise apartments and townhouses, as well as a provincial push for transit-oriented communities.
On the other hand, the board did decry any policy suggestion that capital gains tax should be applied to the sale of a principal residence, saying a tax would not help bridge the wealth-creation gap between renters and owners.
“The long-term solution to housing affordability in Canada, for both ownership and rental, is to ensure that there are adequate and appropriate types and tenures of housing available in the market,” said TRREB chief executive John DiMichele.

6. Insolvencies rise 4.7% in June

[August 5, 2020] Insolvency numbers ticked up in June but remain far below last year’s levels, according to the latest data from the Office of the Superintendent of Bankruptcy Canada (OSB).
The agency reported that the total number of insolvencies rose by 4.7% in June compared to the month previous, as the number of bankruptcies increased by 8% and consumer proposals grew by 2.9%.
The month-over-month increase follows a sharp drop in insolvency filings since the Covid-19 pandemic hit.
The massive economic disruption caused by the pandemic prompted measures that may be temporarily preventing insolvencies, such as extensive government support programs that have propped up incomes and payment deferrals by creditors.
While the number of insolvencies rose in June, they’re down by 41.1% from the same month in 2019.
Consumer insolvencies are down by 41.8% from last year, and business insolvencies are down by 15.3%, the OSB said.
For the 12-month period ending June 30, the total number of insolvencies is down by 5.8% compared with the same period a year ago.
These sharp drops in insolvency numbers are expected to reverse as income support programs expire and creditor forbearance comes to an end, more fully exposing households and businesses to the economic fallout from the pandemic.

7. Kodak is reportedly under SEC investigation after its stock price exploded more than 2,757%

[August 5, 2020] The Securities and Exchange Commission is reportedly investigating how Eastman Kodak received a $765 million loan from the US

government to help make drug ingredients, according to the Wall Street Journal.
Last week's surprise announcement sent Kodak's shares soaring -- as much as 2,757% -- and sparked heavy trading volume for the largely forgotten company. Questions also arose about executives, including Jim Continenza, Kodak's executive chairman and CEO, receiving stock options on July 27, a day before the loan announcement.
Regulators are reportedly investigating why Kodak announced the loan on the day prior to the official announcement, which sent shares 25% higher. The Journal said a local TV station in Kodak's home of Rochester, NY, published a media advisory of the upcoming announcement.
Kodak, in a statement to CNN Business, said it didn't intend to make those details public until July 28. However, the Journal reported Kodak didn't give the TV station an embargo on the announcement.
The Journal noted the investigation is at an "early stage and might not produce allegations of wrongdoing by the company or any individuals." The SEC did not immediately respond to a request for comment.
Kodak's unusual deal with the government and the wild stock moves that followed caught Senator Elizabeth Warren's attention.
"There were several instances of unusual trading activity prior to the announcement, raising questions about whether one or more individuals may have engaged in insider trading or in the unauthorized disclosure of material, nonpublic information regarding the forthcoming $765 million loan awarded under the Defense Production Act," she wrote in an open letter to the SEC Tuesday.
Kodak claims that the timing of the options was coincidental, taking place on the day of the board's compensation committee meeting -- July 27.
"Mr. Continenza has purchased shares at nearly every available window in which he is eligible since he joined the company," Kodak said. "He has not sold a single share of stock during his time at Kodak."
In response to Warren's letter, Kodak said it intends to "fully cooperate with any potential inquiries."

8. Argentina strikes deal with major creditors to restructure $65 billion in debt

[August 4, 2020] Argentina has struck a deal with its major creditors to restructure roughly $65 billion in sovereign debt, a hopeful sign for a country that now faces a brutal coronavirus-related recession on top of longstanding economic problems.

The agreement, announced by the government, breaks an impasse between Argentina and a group of private investors, including BlackRock and Fidelity Management. Argentina has struggled for decades with its national debt, now around $323 billion, which the International Monetary Fund describes as "unsustainable." The government defaulted on its bond payments in late May, the ninth such default in the country's history.

"This agreement should help to bolster investor, business and possibly consumer confidence in Argentina in the near term," Capital Economics' Nikhil Sanghani wrote in a research note after the deal was announced.

Sanghani warned that Argentina was far from out of the woods and still faces significant challenges managing its debt level in the medium and long term.

The new deal changes the dates and terms for some of Argentina's debt repayments. In a statement, the government said it would "grant Argentina significant debt relief." Investors have until August 24 to formally accept the new terms.

In addition to its private creditors, Argentina owes $44 billion to the IMF. The Fund expects the Argentina economy to shrink nearly 10% this year, as the Covid-19 outbreak cripples the global economy. The recession will only further hinder the government's ability to pay back its debt.

Have a nice and fruitful week!