Weekly Updates Issue # 562

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1. Weekly Markets Changes

[April 29, 2016]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
13,951.45 +77.45 +0.56%	2,065.30 -26.28 -1.26%	17,773.64 -230.1 -1.28%	4,775.36 -130.9 -2.67	$0.7893 +0.74¢ +0.94%	$1,294.90 +61.20 +4.96%	$45.99 +2.24 +5.12%

2. Canadian economy shrank in February

[April 29, 2016] The Canadian economy dipped in February, and that marked its first contraction since September.

Despite a strong start to 2016, real gross domestic product edged down 0.1% in February, says Statistics Canada. That compares to growth of 0.6% in January.

The decline followed four consecutive months of growth, but matched the expectations of economists, according to Thomson Reuters. “While a decline in monthly GDP is never great news, this [dip] was largely expected and doesn’t fully detract from the pleasant surprise in growth around the turn of the year,” says Bank of Montreal chief economist Doug Porter.

“With oil prices well off lows and with fiscal stimulus hurtling down the pike, we are looking at GDP growth of 1.8% for all of 2016,” he adds.

Further, the Bank of Canada recently raised its forecast for growth this year to 1.7%, due to the planned spending boost by the federal government announced in the budget. This spending is expected to offset some of the damage done by the drop in oil prices.

Statistics Canada found the following.

- The output of goods-producing industries fell in February, while the service sector was essentially unchanged. Goods-producing industries contracted 0.6% in the month, due to lower results in manufacturing and mining, quarrying, and oil and gas extraction.

- Manufacturing output fell 0.8% after rising for three months as durable goods fell 1.8% and non-durable goods rose 0.4%. And, the service side of the economy saw a drop in wholesale sales offset by gains in retail sales as well as the public sector and accommodation and food services.
- Wholesale trade contracted 1.8% due to weakness in wholesalers of machinery, equipment and supplies, followed by the motor vehicles and parts and building material and supplies subsectors.
- But, retail trade grew by 1.4%.

3. Nationalized Royal Bank of Scotland sees loss widen

[April 29, 2016] Royal Bank of Scotland says its net loss widened in the first quarter as the taxpayer-owned bank made its final 1.2 billion-pound ($1.7 billion) payment to the U.K. Treasury as part of a deal to give the government first crack at any profits.

The bank, which is 73% taxpayer-owned, on Friday reported a net loss of 968 million pounds, compared with 459 million pounds in the first quarter of 2015. Excluding the payment to the government, RBS posted a profit of 225 million pounds.

Operating profit increased more than 10-fold to 421 million pounds as the bank cut operating expenses and reduced restructuring costs.

“Today’s results show the strength and resilience of the bank we are fast becoming,” CEO Ross McEwan said. “This bank has great brands and great market positions and, piece by piece, we are building a solidly performing, profitable bank doing great things for customers and returning value for shareholders.”

Once the world’s largest bank, RBS was bailed out during the 2008 financial crisis and has been posting annual losses ever since.

The report comes a day after RBS warned of a greater-than-expected cost from plans to spin-off its Williams & Glyn arm. The bank also revealed it may not meet its deadline to separate the 316-branch Williams & Glyn business by the end of 2017.

The disposal is mandated by EU rules on state aid that governed the bailout, but it is proving more complex than previously thought.

“The process which has been described as akin to unscrambling an omelette is proving to be a significant distraction at a time when banks are cutting costs and closing branches on an ongoing basis,” said Michael Hewson, the chief market analyst at CMC Markets. “Aside from splitting out the branches, how do you decide what customers and business to push under the Williams and Glyn's brand and which ones not to?"

4. Financially savvy families more likely to start RESPs: study

[April 29, 2016] The number of low-income families with RESPs is on the rise, with 400,000 of these families contributing as of 2012, finds a government review of the Canada Education Savings Program (CESP).

However, RESP take-up rates still vary significantly based on family income, ranging from 25.2% for families with income below $25,000, to 70.1% for families with income over $125,000 in 2012.

The review finds RESP take-up rates are also influenced by parents' general savings habits and whether they encourage their kids to attend post-secondary. Families are more likely to start RESPs if they have "good financial knowledge and awareness of the benefits," says the review.

Of families who hadn't started RESPs, as of 2013, only 38.6% saved for post-secondary using other means, the review adds. Some of the most common reasons for saving outside of RESPs are:

- diversification (21%);
- easy access to funds (17%);
- for families with RESPs, the fact that they've already maximized annual CESG received or the lifetime RESP maximum of $50,000 (7%); and
- for families who don't have RESPs, a lack of awareness (11%).

Additional findings

Breaking down the data further, the review finds the RESP take-up rate quadrupled for low-income families between 1999 and 2012.

But, "This four-fold increase may have been caused more by the Basic Canada Education Savings Grant (CESG), as the rate of uptake [for these families] didn't change noticeably with the introduction of the additional grant." The Canada Learning Bond, designed for families with modest incomes, was also useful.

Overall, says the review, "The proportion of children under 18 years of age who [have] received the CESG at least once in their lifetime has increased from 9.7% in 1998 to 47.1% in 2013." Of the nearly 7 million children under the age of 18 across Canada in 2013, more than 3.2 million had RESPs and had received the Basic CESG.

And, between 1997 and 2013, RESP assets climbed from $2.4 billion to $40.5 billion. In 2013 alone, $883 million in grants were disbursed though the program.

This education savings review was launched to find out whether post-secondary costs justify the need for the CESP, which includes the Basic Canada Education Savings Grant, an additional grant and the Canada Learning Bond. These benefits are available to parents saving for kids' post-secondary schooling, and the government wanted to assess whether they motivate people to save.

5. FSCO warns of mystery shopper scam

[April 29, 2016] The Financial Services Commission of Ontario is warning consumers and insurers that two companies are conducting a mystery shopper scam. Those companies are My Shop Ltd., using the email @myshopltd.org, and Mystery Global Survey Group, using the email @intshopper.org.

The companies have sent letters and cheques bearing Intact Insurance's name and logo to a number of individuals, offering large payments to those people for a mystery shopper assignment. The scam typically involves one of the two companies asking people to deposit the cheques but to also wire a sum of the money to another person's account. The cheques don't clear but the individuals can't recover any sums already transferred.

These are fraudulent cheques that aren't authorized by Intact, nor is Intact affiliated with My Shop Inc. or Mystery Global Survey Group.

The FSCO says this type of scam is referred to as an advance fee fraud. These scams always involve advance or upfront payments for goods, services or financial gains that don't materialize. If contacted by My Shop Ltd. or Mystery Global Survey Group, consumers shouldn't respond. They should forward all materials to the Canadian Anti-Fraud Centre.

6. Latin America economies to contract 0.5% in 2016

[April 28, 2016] Latin America and the Caribbean will post an overall 0.5% economic contraction in 2016, the International Monetary Fund forecast in a report issued Wednesday, capping the region's worst two-year period since the 1982 debt crisis.

But the IMF said the region is expected to rebound to 1.5% growth in 2017, avoiding the "lost decade" phenomenon that marked the 1980s.

The region will be weighed down this year by shrinking economies in Venezuela, Brazil and Argentina.

While Brazil is seen posting a 3.8% contraction this year and Argentina is on course for a 1% shrinkage, Mexico and Chile are expected to grow modestly, at 2.4% and 1.5% respectively.

The report blames "weak external demand, further declines in commodity prices, volatile financial conditions and … some important domestic imbalances and rigidities" as common factors for the region's poor performance.

The IMF predicts that Argentina should return to growth in 2017, and Brazil's economy should stop contracting by then. But Brazil's volatile political scene, including an effort to impeach President Dilma Rousseff, could play a role.

The report warns that "a further deterioration of the situation in Brazil could lead to a sudden re-pricing of regional assets, reduced demand for exports among trading partners in the region and an increase in perceived risk."

The exception is expected to be Venezuela. The report said the region's most troubled economy contracted by 3.9% in 2014, by 5.7% in 2015 and is expected to shrink by an astonishing 8% in 2016. Venezuela could trim its GDP contraction to 4.5% in 2017, but the country's economy is being punished by an energy crisis, spiraling inflation, shortages and deep political divisions.

Venezuela began imposing a four-hour daily blackout around the country this week to save power. And on Tuesday, President Nicolas Maduro announced that millions of officials will now work only Mondays and Tuesdays, taking the rest of the week off in a bid to save electricity.

Latin America and the Caribbean posted a collective 0.1% contraction in 2015.

The IMF report said that "masks the fact that many countries continue to grow, modestly but surely, whereas a small number of economies — representing about half of the region's economy — face recession largely as a result of domestic factors."

7. Deutsche Bank net profit falls 58% in turbulent markets

[April 28, 2016] Deutsche Bank saw net profit fall 58% in the first quarter from the same period a year ago as turbulent financial markets deterred client activity.

Germany's largest bank made €236 million ($335.3 million) net profit, down from €559 million in the same quarter last year. Revenues fell 22%, to €8.1 billion from €10.4 billion. The profit figure beat analyst expectations, as compiled by financial information provider FactSet, for a loss of €13 million.

The bank said Thursday that volatile markets during the quarter hurt revenues at its market-related businesses including investment banking and asset management. The bank's effort to downsize and get out of some business activities also depressed revenue.

Co-CEO John Cryan said that "our results reflect these challenging conditions."

Global stock markets started the year with sharp drops amid fears about the impact of low oil prices and doubts about economic growth in emerging markets, then rebounded.

Deutsche Bank's results were still an improvement on its €6.7-billion loss from all of last year, when the bank took writedowns for the fallen value of businesses and paid billions in litigation and restructuring expenses.

The bank is in the midst of a wrenching transition as it tries to meet tougher regulatory requirements, cut costs and put behind it multiple legal investigations.

Cryan said that the bank was making progress in disposing of non-core businesses, closing operations in a number of countries, and in spinning off its Postbank retail banking business. He said that "2016 will be the peak year for our restructuring efforts."

8. CRA prepares next phase of tax crackdown

[April 29, 2016] As it cracks down on offshore tax evasion, CRA's past enforcement measures have been paying off.

The agency collected $1.57 billion in additional revenue in 2014-2015 by following through on enforcement measures announced in the 2013 budget, reports The Globe and Mail. CRA had initially estimated that the work would bring in $550 million a year.

In the wake of the Panama Papers leak of offshore tax companies, the CRA is now contacting hundreds of taxpayers who have links to the Isle of Man.

The tax agency will be reaching out to about 350 people, and 400 businesses that have done financial transactions involving the British Crown dependency – a small island between England and Ireland with its own tax laws.

Already, CRA is conducting 60 related audits.

Over a 12-month period, $860 million was transferred between the Isle of Man and Canada, says CRA. The agency stresses that just because someone is linked to the Isle of Man doesn't mean he or she is shirking their tax obligations.

"In May 2016, the CRA will expand its analysis to other jurisdictions of concern as well as financial institutions of concern," CRA spokesperson Jelica Zdero told Advisor in an email.

In April, Minister of Revenue Diane Lebouthillier highlighted the Isle of Man and three other jurisdictions where Canadian taxpayers could be hiding money from tax authorities. CRA is not naming the other places because they don't want to tip off potential tax dodgers.

She also announced a set of measures, including a program that will stop groups who promote tax evasion and avoidance schemes.

In the 2016 budget, the government had already committed $444 million over five years to hiring 100 more auditors and other measures. It estimates that ramping up these efforts will help it collect more than $2.6 billion in unpaid taxes.

CRA is also creating an independent advisory committee on offshore tax evasion and aggressive tax planning. Seven independent experts with significant legal, judicial and tax administration experience will advise the tax agency on additional administrative strategies for offshore compliance.

The independent committee will meet this spring about:

- Strategies to help alleviate and discourage offshore non-compliance;
- Administrative policies being used by other tax
- Advice on measuring of tax gap;
- Additional strategies and practices related to promoters of tax schemes; and
- Potential ways to improve CRA's criminal investigation functions.

The tax gap is the difference between what a government is owed in taxes, and what it actually collects. CRA has been criticized for not calculating the gap in the past.

CRA's work comes as it faces allegations that it's too cozy with the industry it regulates. The New Democratic Party is calling for a conflict of interest investigation into a series of CPA Canada social events attended by agency bureaucrats and accountants in 2014 and 2015.

That was during the time KPMG and the revenue department were at odds over the company's refusal to release the names of clients who were reportedly transferring money to the Isle of Man in order to avoid taxes.

9. Fed holds on rates

[April 27, 2016] As most expected, the Federal Reserve is maintaining the target range for the federal funds rate at 0.25% to 0.5%.

The Federal Open Market Committee (FOMC) statement notes “inflation has continued to run below the Committee’s 2 percent longer-run objective, partly reflecting earlier declines in energy prices and falling prices of non-energy imports.”

The statement provides nothing in the way of hints as to timing of future hikes. “[T]he Fed […] didn’t point a finger at the June meeting in terms of timing the next hike,” says Avery Shenfeld, chief economist at CIBC Capital Markets. “While there was still one hawkish dissent, there were no code words that indicated a move was coming soon, with no reference to a balance of risks, nor, as we saw last October, a direct reference to [the] next meeting.”

Additional observations from Prab Sagoo, associate director at Nasdaq Advisory Services:

- The Fed reaffirmed its very gradual approach and reiterated that it is not in any particular hurry, providing further reassurance to a skittish market.
- International concerns from the committee appear to have eased somewhat, though they remain wary of low inflation.
- TSX has climbed ~30 points, led by a rebound in oil prices which jumped to session highs on the announcement. This helped propel a number of sectors higher including energy and financials. Materials lost some ground as investors rotated out of the safety of gold stocks. Canadian Treasury yields dropped, while the Canadian dollar made slight gains against the U.S. dollar following the announcement.

Have a nice and fruitful week!