Weekly Updates Issue # 574

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1. Weekly Markets Changes

[July 22, 2016]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
14,600.66 +118.2 +0.82%	2,175.03 +13.29 +0.61%	18,570.85 +54.30 +0.29%	5,100.16 +70.57 +1.40%	$0.7619 -0.91¢ -1.18%	$1,322.10 -15.60 -1.17%	$44.26 -2.83 -6.01%

2. BoC 'firmly on hold' as inflation rate holds steady, retail sales rise

[July 22, 2016] Canada's annual inflation rate held at a relatively tame 1.5 per cent in June, Statistics Canada said on Friday, which analysts said would reinforce the likelihood the Bank of Canada keeps interest rates on hold.

The central bank – which cut rates twice last year to counter the effect of low oil prices – has a 2.0 per cent target for overall inflation, a level last seen in January this year.

"I would say the Bank is firmly on hold. They would need a shocking set of numbers to really get them off the sidelines and I wouldn't say this is shocking," said BMO Capital Markets Chief Economist Doug Porter.

A Reuters poll on July 7 found markets expected the bank to keep rates unchanged for at least another year. Its next scheduled rate announcement is on Sept 7.

Analysts polled by Reuters had expected the annual inflation rate to slip to 1.4 per cent.

Separately, Statscan said Canadian retail sales rose by 0.2 per cent in May from April to hit a record $44.28-billion ($33.80-billion), largely because of increases for food, drink and gasoline.

The Canadian dollar strengthened after the reports, hitting $1.3065 to the U.S. dollar, or 76.54 U.S. cents. It closed at 76.42 U.S. cents on Thursday.

The inflation data showed prices rose in all major components in the 12 months to June, with the shelter index posting a 1.6 per cent gain and food prices rising by 1.3 per cent.
The core inflation rate, which strips out the prices of some volatile items and is closely watched by the central bank, remained at 2.1 per cent.
The bank said on July 13 that total inflation was on track to return to 2 per cent in 2017.
The retail sales gain, the fourth in five months, contrasted with a forecast of no growth in a Reuters poll. The previous record was the revised $44.21-billion reported for April.
Sales dropped by 0.4 per cent in Alberta on declines at new car dealers, the main retail store type affected by a major wildfire that forced the evacuation of the oil sands hub of Fort McMurray.
David Tulk, chief Canada macro strategist at TD Securities, said the Bank of Canada would most likely be comforted by the retail numbers. The fact overall sales rose despite the fire "shows that there was probably more resilience in other parts of the country to make up for that fact."

3. Yahoo sale nears end, Verizon reportedly in the lead

[July 22, 2016] Yahoo's days as an independent company may be nearing an end.
After a much publicized sale process that dragged on for months and drew interest from parties as diverse as Warren Buffett and The Daily Mail, Yahoo) may finally have found a match: Verizon.
Verizon, long viewed as the frontrunner in the bidding, is said to be closing in on a deal to buy Yahoo, according to reports Friday from Bloomberg and CNBC. Bloomberg puts the price tag at $5 billion. The deal is said to include Yahoo's Internet properties and patents, but not necessarily its real estate holdings.
"In order to preserve the integrity of the process, we're not going to comment on the issue until we've finalized an agreement," Rebecca Neufield, a spokeswoman for Yahoo, said in a statement provided to CNNMoney.
Bob Varettoni, a spokesman for Verizon, also declined to comment on the report.
Verizon, AT&T and an investing group backed by Buffett and Quicken Loans founder Dan Gilbert were all said to be serious bidders.
A deal, which could be announced as soon as next week, would put an end to Yahoo's 21-year history as an independent company. It would also potentially

end the tenure of CEO Marissa Mayer after four years of trying and failing to stage a turnaround.

Tim Armstrong, the CEO of Verizon-owned AOL, is widely expected to take over Yahoo if it becomes part of Verizon.

Mayer, like Armstrong, previously worked at Google before taking over the top spot at Yahoo in 2012. She invested heavily in improving Yahoo's mobile products, expanding its audience through the acquisition of Tumblr and doubling down on premium media content. But Mayer struggled to slow Yahoo's overall ad sales decline.

On a conference call with shareholders this week after reporting earnings, Mayer made what may have been her final case to investors and the public that she worked to "create a better Yahoo."

"We set forth a plan to return this iconic company to growth over multiple years, one that would create long-term sustainable growth for Yahoo and deliver value to our users, advertisers, employees and shareholders," Mayer said. "As we work to conclude the strategic alternatives process, this groundwork will serve as a solid foundation for Yahoo!'s next chapter."

For Verizon, the deal is about more than just nostalgia. The telecom company has invested in digital content and advertising in recent years, buying AOL and The Huffington Post.

Yahoo, synonymous with the Internet itself in the late '90s, remains a popular destination that attracts more than one billion monthly active users on desktop and mobile.

Soon Yahoo and AOL may be owned by the same company, proving that the dream of the '90s Internet is alive in Verizon.

4. Growth outlook downgraded to 1.4%: Conference Board

[July 21, 2016] A new Conference Board of Canada report has downgraded its projections for economic growth in 2016 to 1.4%, despite a strong start to the year.

The think tank says Canada’s economic growth advanced at a solid annual pace of 2.4% in Q1, driven by robust household spending, a surge in exports and a double-digit increase in residential construction.

But that momentum has largely dissipated after GDP contracted in February and March, followed by wildfires in the Fort McMurray, Alta., region in May and June that shut down many oilsands operations.

The board estimates that the temporary shutdowns will have reduced oil production by 57 million barrels this year, costing oil and gas firms $3.5 billion in lost revenues.

Its report says the largest source of weakness in the economy remains the steep deterioration in business investment due to the collapse in energy spending, and there's still no sign of a long-awaited recovery in non-energy investment.

The board says weaker global economic growth prospects — factors that hurt Canada's trade sector — are also dampening the country's outlook.

5. Facebook worth $1 trillion? Not so crazy

[July 21, 2016] These are all legitimate concerns for investors ... and hot topics of discussion on Facebook. So maybe that's why Facebook is doing so well. There's a lot to talk about.

Facebook shares hit an all-time high on Wednesday. The company is now worth about $350 billion. Cue Justin Timberlake as Sean Parker telling Mark Zuckerberg in a sequel to "The Social Network" that a trillion-dollar market valuation is cool?

Actually, it's not out of the question that Facebook could someday be worth $1 trillion.

It won't happen overnight, of course. But Facebook shares are up more than 200% from their 2012 initial offering price of $38.

There's a lot to like about Facebook. The company recently announced that its Messenger platform crossed the 1 billion monthly active user mark, joining the core Facebook service, WhatsApp and Groups at this nine zeroes milestone.

Instagram is -- to quote Bon Jovi -- halfway there (but not livin' on a prayer.) The popular photo sharing site has 500 million monthly active users.

There are also high hopes for Facebook's new Facebook Live streaming service (CNN is a partner) and virtual reality subsidiary Oculus. It will be interesting to see if Facebook/Oculus tries to do more in augmented reality given the success of Pokemon Go.

But enough about Facebook's future. The present looks pretty good, too.

Facebook will report its second quarter earnings on July 27 and analysts are predicting another quarter of blockbuster growth. Wall Street is expecting a nearly 50% jump in sales from a year ago and a more than 60% increase in earnings per share.

To get to a trillion-dollar valuation, Facebook would have to go up another 185% -- putting its stock price at about $345. It is currently trading at about $121.

For what it's worth, Wall Street's consensus price target for the next twelve months is $144. That's about 20% higher than current levels and would place a $420 billion value on the company.

Another thing in Facebook's favor? The stock doesn't have a crazy valuation like many tech giants did in 1999 and early 2000. It's trading at 26 times earnings estimates for next year.

Sure, that's not cheap. But it may be reasonable given its earnings growth potential -- and it's a much better bargain than Amazon, which trades at 75 times profit forecasts. It's also not that much more expensive than Google owner Alphabet and Microsoft.

Facebook is now worth about as much as Amazon. The two tech giants trail only Warren Buffett's Berkshire Hathaway, Exxon Mobil, Microsoft, Alphabet and Apple.

6. Toronto condo builders take conservative path to adding supply

[July 19, 2016] Most builders of condominiums in Toronto wait until at least 70% of their units are sold before beginning construction, mitigating the risk of speculation, Canada Mortgage and Housing Corp. says in a report released Tuesday.

The CMHC found that 79% of condominium projects start construction after reaching that sales threshold, suggesting builders have been conservative about bringing more condo projects onto the local market.

CMHC adds 94% of the condo units under construction or completed had been sold at the end of last year, leaving about 6% of units in the Greater Toronto Area unsold.

The federal agency undertook the study amid concerns that there could be a repeat of the overbuilding that occurred in the 1980s. The report follows others by CMHC on foreign ownership of condominiums in cities including Toronto and Vancouver.

A study issued in April found that 7% of Toronto condos built after 2010 are foreign-owned. The comparable figure for Vancouver was 6%.

However, including older condos, the rate of foreign condo ownership was 3.3% in the Toronto area and 3.5% in the Vancouver area.

The issue of foreign ownership has been a key issue raised in Vancouver and Toronto where money coming from outside the country has been cited as a factor in driving up real estate prices in those cities.

The federal budget earmarked $500,000 over the next year for Statistics Canada to develop a method for measuring the level of foreign investment in Canadian real estate.

7. Financial watchdog warns Ontario's debt will grow to $350B in 4 years

[July 19, 2016] Ontario's financial watchdog warns the province's net debt will grow by another $50 billion to $350 billion in the next four years, and predicts a return to deficit budgets even if the books are balanced next year.

The Financial Accountability Office says Tuesday that the net debt will keep growing largely because of the Liberal government's $160-billion, 12-year plan to invest in infrastructure and public transit projects.

The FAO says the debt will also grow because it predicts a return to annual budget deficits in 2018 to 2019, even though the Liberals promise to eliminate a $5.7-billion shortfall next year.

This year's provincial budget forecast Ontario's net debt would hit $326.8 billion in 2018 to 2019, which was as far out as its projections went, so the FAO's prediction of a $350 billion debt by 2020 to 2021 is not a big stretch.

The Opposition says the FAO's report is proof that "the Liberals' mismanagement and reckless spending" is causing Ontario's debt to spiral out of control.

"This morning, the Financial Accountability Officer confirmed … that Ontario will continue to be the largest sub-national borrower in the world," says Progressive Conservative finance critic Vic Fedeli. "He also confirmed what we've been saying for months, that the government is using one-time money from asset sales, contingency funds and tax increases to artificially balance the budget in an election year."

The New Democrats say the reason Ontario's net debt is increasing is because Premier Kathleen Wynne's choices are more about politics than about what's best for Ontarians.

"The FAO reported that Kathleen Wynne's decision to sell Hydro One doesn't pay for infrastructure, but will actually increase the debt," says NDP finance critic Catherine Fife. "Instead of asking profitable businesses to pay their fair share, the Liberals have cut Ontario's corporate tax rate so it's lower than Alabama's."

The FAO report says Ontario's net debt "increased significantly" during the 2008 to 2009 recession, and grew by $139 billion between then and 2015 to 2016.

Finance Minister Charles Sousa says the Liberals made a deliberate decision during the recession to stimulate economic growth, which he insists meant the downturn was not as deep or as long as it might otherwise have been. The government is making capital investments to promote long-term growth, he adds.

"We know that investing in infrastructure spurs economic growth and increases GDP, which is why we've decided to make a historic $160-billion investments in roads, bridges, schools and hospitals across Ontario," Sousa says. "Through prudent debt management, we have consistently kept interest on debt costs below budget projections."

Interest on Ontario's debt is expected to be $11.75 billion this year and $12.45 billion in 2017 to 2018, both lower than forecast in the 2015 budget.

On Monday, Ontario announced first quarter results showing 0.8% growth, or 3% on an annualized basis, the strongest among all G7 countries.

"Ontario remains firmly committed to eliminating the deficit by 2017 to 2018, and will do so in a way that is fair, equitable and protects the valuable programs and services that Ontarians rely on," Sousa says.

8. Bank of America profits fall 20%

[July 18, 2016] Bank of America's earnings fell 20% in the second quarter, the bank said Monday, as historically low interest rates make it less profitable to make loans.

The Charlotte, North Carolina-based banking giant earned $3.87 billion, or 36 cents per share, before dividends to preferred shareholders. That's down from $4.8 billion, or 43 cents per share, in the same period a year earlier.

But the results beat analysts' expectations. Analysts polled by FactSet expected the bank to earn 33 cents per share. Revenue fell to $20.4 billion from $21.96 billion.

"We had another solid quarter in a challenging environment," CEO Brian Moynihan said in prepared remarks.

BofA, like Wells Fargo and JPMorgan Chase, continued to struggle in the face of low interest rates. The bank's profit margin on loans fell to 2.03% from 2.37% from a year earlier.

The ultra-low interest rates led the bank to take a charge of $1 billion in anticipation of more customers refinancing their mortgages at lower rates, which will mean lower earnings for the bank in the future.

BofA's consumer banking division, by far its largest business by revenue and profit, earned $1.72 billion, up from $1.66 billion a year earlier. Loans and deposits increased. BofA said it had the largest number of U.S.-issued credit card accounts since 2008.

Like its competitors, Bank of America saw a spike in trading revenue following the vote by Britain to leave the European Union. Revenue in BofA's global markets division rose 12% to $3.7 billion. Fixed income, currency and commodity revenue jumped 22%.

As it has done for several years, BofA cut expenses sharply in the quarter by closing branches and reducing head count. The bank had 210,516 employees as of the end of the quarter, down roughly 6,000 from a year ago. The number of branches fell to 4,681 from 4,789.

Bank of America's stock edged up 0.5% in pre-market trading.

9. Manitoba's provincial credit rating downgraded

[July 18, 2016] S&P Global Ratings has downgraded Manitoba's credit rating, citing its rising debt burden. The agency bumped the province's credit rating to AA-minus from AA.

In a release, the agency says the downgrade reflects the expectation that Manitoba will have a sustained debt burden for several years higher than that of its peers.

It adds the negative outlook reflects the view that the province faces significant challenges bringing itself back into fiscal balance.

The agency says there is a one-in-three chance that the province's financial targets will not be met.

Finance Minister Cameron Friesen notes the Conservative government is wrestling with a $1-billion deficit and likely won't balance the books until 2024.

In a statement, Friesen also called the downgrade disappointing. "Our government is committed to improving [its] challenging fiscal position, [which is] a result of the overspending and missed targets witnessed under the previous administration."

"Our government recognizes the importance of credit ratings and the impact that changes to our credit rating and outlook may have on our province's bottom line."

Friesen adds the government is committed to finding savings and keeping annual spending growth below 3%.

S&P recently downgraded Saskatchewan to AA-plus from AAA due to low natural resource prices.

And, this spring, two other rating agencies downgraded Alberta's rating to AA from AAA due to government debt levels and low oil prices.

Have a nice and fruitful week!