Weekly Updates Issue # 576

1. Weekly Markets Changes

[August 5, 2016]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
14,648.77 +66.03 +0.45%	2,182.87 +9.27 +0.43%	18,543.53 +111.3 +0.60%	5,221.12 +58.99 +1.14%	$0.7676 -0.83¢ -1.08%	$1,341.40 -16.50 -1.22%	$41.98 +0.60 +1.45%

2. Unemployment rate rises on dip in full-time workers

[August 5, 2016] After three months of little change, employment declined by 31,000 (-0.2%) positions in July, raising the unemployment rate 0.1 percentage points to 6.9%, Statistics Canada data showed on Friday.

The drop was far short of a consensus forecast for growth of 10,000 jobs in the month. Full-time employment fell by 71,000 from June to July, while part-time work was up by 40,000.

On the upside, compared with 12 months earlier, total employment increased by 71,000 or 0.4%, with all of the growth in part-time work. Over the same period, the total number of hours worked rose by 0.4%.

Fewer youths working

In July, employment declined by 28,000 among those aged 15 to 24 years old, with all of the losses in part-time work. The youth unemployment rate was 13.3%. Compared with 12 months earlier, employment for this age group was down by 66,000 (-2.7%), while its population fell by 45,000 (-1.0%).

Among people aged 25 to 54, employment was little changed in July. However, for women in this age group, there were decreases in full-time employment (-39,000), which were mostly offset by gains in part-time employment (+38,000). The unemployment rate for those aged 25 to 54 was 5.9%. On a year-over-year basis, employment was little changed.

Employment for July was also little changed for men and women aged 55 and older. Compared with the same month a year earlier, employment rose by 105,000 (+6.6%) for women and 37,000 (+1.8%) for men. Employment gains for this age group were driven by population growth.

Regional statistics

Employment in Ontario decreased by 36,000 in July, the first notable decline since September 2015. The unemployment rate in the province was unchanged at 6.4%, as fewer people participated in the labour market.

Further, employment declined by 5,000 in Newfoundland and Labrador, and the unemployment rate increased 0.8 percentage points to 12.8%. In the 12 months to July, employment in the province fell 4,300 (-1.8%).

In British Columbia, employment actually rose by 12,000 in July, extending an upward trend that began in the spring of 2015. The unemployment rate in the province declined 0.3 percentage points to 5.6%, the lowest rate in the country. In the 12 months to July, employment gains in British Columbia totaled 85,000 or 3.7%, the fastest growth rate among the provinces.

Employment in New Brunswick also increased, by 5,000 in July, and the unemployment rate fell 0.6 percentage points to 9.7%. Compared with 12 months earlier, employment in the province grew by 6,700 (+1.9%).

In Quebec, employment was little changed, and the unemployment rate held steady at 7.0%. Employment levels in the province have been relatively stable since the summer of 2015.

For a second consecutive month, employment in Alberta was essentially unchanged. However, with more people searching for work, the unemployment rate in the province rose 0.7 percentage points to 8.6%, the highest rate since September 1994. In the 12 months to July, employment in Alberta fell by 49,000 (-2.1%), with losses in full-time employment totaling 104,000 (-5.4%). Over the same period, the unemployment rate was up 2.4 percentage points.

Industry perspective

Employment in public administration decreased by 24,000 in July, with most of the declines at the local, municipal and regional level. On a year-over-year basis, employment in public administration was unchanged.

There were 28,000 more people employed in health care and social assistance in July, bringing year-over-year gains to 64,000 (+2.8%). The monthly increase occurred primarily in Quebec and British Columbia.

Public sector employment fell by 42,000 in July, while there was little change among private sector employees and self-employed workers. The public sector includes all employees in public administration, most employees in utilities, and some employees in education, health care and social assistance, transportation and warehousing, and other industries.

Compared with 12 months earlier, public sector employment edged down 40,000 (-1.1%), while the number of private sector employees increased by 103,000 (+0.9%). Over the same period, the number of self-employed workers was little changed.

3. U.S. trade deficit widens, dragging on growth

[August 5, 2016] The U.S. trade deficit increased to the highest point in 10 months, driven up by a big rise in imports of oil and Chinese-made computers, cellphones and clothing.

The deficit rose to US$44.5 billion in June, 8.7% higher than a revised May deficit of US$41 billion, the Commerce Department reported Friday. It was the biggest gap between what America sells abroad and what the country imports since a US$44.6 billion deficit last August.

Exports, which have struggled this year because of the strong dollar and global weakness, edged up 0.3% to $183.2 billion. Imports rose a faster 1.9% to US$227.7 billion, led by a 19.4% jump in petroleum imports.

The politically sensitive deficit with China increased to US$29.8 billion, the highest in seven months.

A wider U.S. trade deficit acts as a drag on growth because it means the nation is earning less on overseas sales of U.S. exports while spending more on imported products.

America's deficit with China was up 2.5% to the highest level since a deficit of US$31.3 billion last November. Through the first six months of this year, the deficit with China, the largest with any country, is running 6.5% above the same period in 2015, putting it on track to set another annual record.

Republican presidential nominee Donald Trump, seeking to tap into the economic anxiety of Americans who have seen jobs disappear in an increasingly global economy, has accused the Obama administration of failing to protect U.S. workers from unfair trade practices in China and other countries.

Trump has said he would exit from the North American Free Trade Agreement with Canada and Mexico if it were not renegotiated, as well as kill the pending Trans-Pacific Partnership trade agreement and take a more aggressive approach with China–including charging the country as a currency manipulator.

The U.S. Chamber of Commerce, normally an ally of Republicans on trade, contends that Trump's approach would cost 3.5 million U.S. jobs and result in higher prices for American consumers and a weaker economy.
Through the first six months of this year, the deficit is 2.3% below the same period in 2015, a year in which America's deficit in goods and services trade rose 2.1% to US$500.4 billion. The lower deficit so far this year reflects the fact that while U.S. exports are down, the value of imports is down by a larger amount, reflecting in large part lower oil prices.

4. How to profit from market fear?!

[August 5, 2016] For some investments, the sound of crashing stock prices and panic in the market is actually the sweetest melody.
These investments tie themselves to the VIX index, a measure that traders call the stock market's fear gauge, and they've been in higher demand as markets have become bumpier. Investors poured more than $2 billion into volatility funds during the first half of the year, triple the amount they did 12 months earlier, according to Morningstar.
But before joining the tide, you should know that these kinds of funds aren't for everyone, and they're certainly not holdings that you can buy and hold.
"Unfortunately, most of those are not well suited to retail traders," says Randy Frederick, managing director of trading and derivatives at Charles Schwab. "I see a lot of people wasting their money buying volatility-related products to try to catch that next big spike in volatility."
Frederick says many investors enter these kinds of funds with the wrong expectations, and the wrong idea about how to use them. For one, don't expect a VIX fund to move just like the VIX. And don't expect to be rewarded for buying one and patiently holding it.
The VIX is called the fear index because it shows how much traders are worrying about big swings hitting the S&P 500 in the next month. It does that by looking at how much traders are paying for options on the S&P 500, which they use to shield themselves if they're anticipating more volatility.
The VIX tends to surge when stocks drop sharply, something that's been occurring more frequently due to the weak global economy and a long list of other concerns. The S&P 500 has dropped 2% in a day nine times over the last 12 months. It had just two such days in the 12 months before that.
On June 24, for example, the VIX spiked nearly 50% after stocks tumbled on the United Kingdom's vote to leave the European Union. So, wouldn't it be great to own something that rises with the VIX, if not to profit from schadenfreude then to help offset losses in the stock portion of a portfolio?

But volatility funds don't track the VIX, which is not an investable index. Instead, they're often investing in the VIX futures market, where traders bet on where the VIX will be in coming months.

That means volatility funds often don't move as much as the VIX itself. The ProShares VIX Short-Term Futures exchange-traded fund, for example, rose on June 24, but by only about half as much as the VIX.

To get closer to the VIX's performance, some funds use leverage to boost their returns. ProShares' Ultra VIX Short-Term Futures ETF, for example, tries to give double the daily change of its underlying index, and it jumped 44% on June 24.

It's these kinds of short-term pops that investors should be looking for. Investors in the fund, which trades under the symbol UVXY, are holding it for a week or less, on average, says Joanne Hill, head of institutional investment strategy at ProShares. They aren't planning to hold UVXY for the long term: The fund is down 99.999% over the last five years.

"When people decide to use these, they're not looking at this five-year chart of how they've performed," Hill says. "They're looking at the fact that last August, when the VIX moved up 135%, UVXY moved up" 159%.

One reason for the poor long-term performance is the way prices work in the VIX futures market. Contracts for far-off months are generally more expensive than for close-in months. And the fund is regularly selling close-in contracts and replacing them with farther-off contracts.

Hill says dollars tend to pour into funds like UVXY when the market is calm, an indication that traders are trying to buy low in anticipation of an uptick in volatility. She says selling is highest when volatility does strike.

"The appeal of getting volatility exposure is the same reason we buy insurance for our house," Hill says.

Volatility funds piqued the curiosity of Brian Jacobsen, who is chief portfolio strategist at Wells Fargo Funds Management, a couple of years ago. He bought one of the more complex ones he could find, "just to see what it was like."

"I rode [the fund] for about a week [but] I threw in the towel because it was doing nothing like what I was expecting," he says.

5. Active managers in poorest quarter since 1999

[August 4, 2016] Only 17% of active large-cap equity managers beat the benchmark S&P/TSX Composite Index in Q2, marking their poorest performance since the data was first collected in Q3 1999, Russell Investments says.

The S&P/TSX climbed 5.1% in Q2, its biggest gain in two years, yet the median large-cap manager return was lower, at 3.4%. Fewer active large-cap equity managers beat the index compared to the previous quarter, when 41% of managers performed better than the index, Russell Investments says in a release Thursday.

All data is gross of fees.

Kathleen Wylie, head of Canadian equity research at Russell Investments, says in a statement that strength in the energy sector and gold stocks made for a challenging first six months for Canadian large-cap managers who were underweight in the equities.

Gold stocks surged by a record 41% in Q2 as large-cap managers were, on average, about 3% underweight. Four of the fastest-rising gold stocks in Q2 accounted for more than 25% of the index's gain, Russell says.

"With the strength in gold stocks in the first two quarters of the year, their weight in the Index has doubled since the end of 2015; and since most managers are generally underweight this sector, gold has become the latest concentration issue," Wylie says. "Still, it's not as much of an issue as it was in 2011 when the weight of gold stocks peaked at 14% in the Index and managers were underweight by 6% on average."

Large-cap equity managers were also about 3% underweight on average in the energy sector in Q2, which surged on big gains for TransCanada, Enbridge and Canadian Natural Resources, among others.

Russell says over the past five years, 61% of large cap managers have beaten the benchmark by about 50bps per quarter, on average.

Only three sectors beat the index in Q2, down from five in the previous quarter, as materials, energy and utilities outperformed the S&P/TSX. The underperformers were information technology, consumer discretionary, industrials and consumer staples.

All investing styles' median returns lagged the stock market index in Q2, Russell says, including those of dividend and growth managers.

Through July 22, Q3 looked considerably better for active managers, with the S&P/TSX up 4.0% and large cap managers "favourably positioned in eight sectors," Russell says.

The firm's report is based on a quarterly survey of 142 Canadian institutional money manager products.

6. Manulife earnings slip in Q2

[August 4, 2016] Manulife Financial Corporation's core earnings declined in Q2 amid volatile markets and movements in interest rates.

Core earnings were $833 million in the quarter that saw the U.K. vote to leave the EU. That was down from $902 million in the same period a year earlier.

"While both core earnings and net income this quarter were disappointing, having been impacted by the sharp decline in interest rates and heightened market volatility, I am pleased with how resilient our underlying businesses remained. Our key drivers of growth are continuing to perform very well," Donald Guloien, chief executive, says in a statement Thursday.

In a release, as the company posted its Q2 results, Manulife adds: "The decrease in core earnings reflected the absence of core investment gains in 2Q16, higher expected macro hedging costs and lower earnings on surplus assets, partially offset by the impact of foreign currency rates."

The company says the quarter finished with a strong capital position bolstered by bond offerings in Singapore and Taiwan, which is part of its strategy to diversify funding sources and expand its investor base. Manulife says it is completing a Q3 annual review of actuarial methods that could result in a post-tax charge of up to $500 million.

7. Toronto real estate hits record sales for July

[August 4, 2016] The Toronto Real Estate Board says the average resale price of a home in the Greater Toronto Area climbed to $709,825 last month, up more than 16% compared to a year ago.

The average price of a detached home soared 21% from July 2015 to $952,983.

The real estate board says there were 9,989 homes that changed hands in the Greater Toronto Area last month — the highest number ever recorded in July. That's up from 9,813 in July of last year.

The number of new listings shrank roughly 7% to 13,542 last month, reflecting what the real estate board calls a "troubling trend" as demand outpaces supply in the Toronto area.

The average condo price in the GTA rose 9.2% to $406,865.

"Housing policy is now top of mind for all levels of government," Toronto Real Estate Board president Larry Cerqua says in a statement. "Policy makers need to be focusing on solutions to the sustained lack of low-rise inventory throughout the GTA."

8. Can Obama save the TPP?

[August 2, 2016] As political quicksand threatens to swallow the 12-country Trans-Pacific Partnership trade deal, President Barack Obama says he remains determined to save it after the current U.S. election.

He expressed hope of passing it through the U.S. Congress during the two-month post-election period known as the lame-duck session, when the outgoing administration and lawmakers briefly remain in office.

In a news conference Tuesday, the president said the deal might stand a better chance of passing once the heated anti-trade rhetoric of this election season has been given time to cool down.

“Hopefully, after the election is over and the dust settled, there will be more attention to the actual facts behind the deal and it won’t just be a political symbol or a political football,” Obama says, standing with the prime minister of Singapore.

“I will sit down publicly with (lawmakers), and we will go down through the provisions. I would enjoy that, because there is a lot of misinformation. I am really confident I can make the case that this is good for American workers and the American people.

“People said we weren’t going to be able to get (fast-track authority from Congress to negotiate the deal). And somehow, we muddled through and got it done. And I intend to do the same with respect to the actual agreement.”

The deal essentially dies without U.S. ratification. To enter into force, the agreement needs to be approved by the lawmaking bodies of at least 85 per cent of the TPP region’s total economy — a mathematically impossible task without the U.S.

With the agreement’s fate suspended in the U.S., Canada’s new Liberal government has yet to confirm its own plans. Canada represents just over six per cent of the region’s economy.

The agreement would create the world’s largest trading bloc; knock down tariffs on thousands of products; bolster patent protections; and extend the dispute-settlement system where companies can sue governments before an independent tribunal.

It has become politically toxic in this U.S. campaign. Opposition to it was evident at both party conventions.

Protesters in the Democratic crowd repeatedly held up signs and heckled speakers with chants of, “Stop the TPP!” At the Republican convention, nominee Donald Trump got warm applause for promising to fight the deal.

Both presidential candidates have opposed it, with Trump the more vocal of the two.

The stated opposition of both main-party candidates has led some political observers to conclude that the lone available window for ratifying the deal in the U.S. Congress is the so-called lame-duck session between the Nov. 8 election and January.

Yet even that appears problematic.

Top lawmakers in both parties sound resistant to ramming it through. Top Senate Republican Mitch McConnell said he's sensitive to the fact that American voters will have just elected a president opposing the deal.

"I haven't made that call yet, but I'd say the chances are pretty slim that we'd be looking at (TPP) this year," McConnell says last month.

His Democratic counterpart Harry Reid is even more critical. He tells the Huffington Post a few days ago: "I have voted against more trade bills than anybody in the history of the country, and nobody will beat my record. So that's how I feel about TPP."

Obama concedes that some of his close friends disagree with him on the issue. But the president says he's ready to argue his case. He says globalization is not disappearing, because the decades-long surge in international trade is driven by new technologies that aren't going away.

He says this agreement is better than the status quo because it includes new protections for workers and the environment. For example, he credited the impending deal with spurring Vietnam to bolster its constitutional protections for unions, and for Malaysia cracking down on human trafficking.

"We are part of a global economy. We're not reversing that," Obama says. "I have not yet heard anybody make an argument that the existing trading rules are better for issues like labour rights and environmental rights than they would be if we got TPP passed. And so I'm going to continue to make this case."

9. HSBC profit falls 29% due to uncertainty in China, Britain

[August 3, 2016] HSBC said Wednesday its first-half profit declined 29% from a year earlier due to market volatility fueled by uncertainty about China's economic outlook and Britain's relationship with the European Union.

HSBC Holdings said its profit for the six months ending June 30 was US$9.7 billion (CA$12.7 billion), or 32 cents per share, down from US$13.6 billion in the same period of 2015. Revenue fell 10.5% to US$29.5 billion.

Most of the revenue decline was due to weaker market activity and "spikes of uncertainty," chairman Douglas Flint said in a statement.

"Concern over the sustainable level of economic growth in China was the most significant feature of the first quarter and, as this moderated, uncertainty over the upcoming UK referendum on membership of the European Union intensified," said Flint.

The London-based bank announced a US$2.5 billion share buyback in the second half. It said that would return to shareholders half the proceeds from the sale of HSBC's Brazil unit, which closed July 1.

Two-thirds of HSBC's profit came from Asia, up from 62% from a year earlier.

Initiatives to cut costs, expand in faster-growing Asian markets and strengthen HSBC's finances were making progress, said the group chief executive, Stuart Gulliver.

"While the economic environment remains difficult, the action we have taken has already put us in a far better position for when normal conditions return," said Gulliver in a statement. "HSBC is stronger, leaner and better connected than it was last June."

10. All you need to know about Vancouver's foreign buyer tax

[August 2, 2016] Like it or not, Vancouver's new real estate tax measures are now in effect—fewer than 10 days after they were unveiled by B.C.'s Ministry of Finance.

The government has introduced an additional 15% property transfer tax on foreign nationals, corporations and trusts that are buying in Metro Vancouver. The new tax adds $300,000 to the final purchase price of a home worth $2 million, for instance (see "Details of the new tax", below).

The province's new tax measures, which also include a potential vacancy tax for the city of Vancouver, aim to address the lack of rental supply and housing affordability – which officials attribute in part to foreign investment.

Based on data that the B.C. government started releasing in early July, officials say foreign nationals invested more than $1 billion into B.C. property between June 10 and July 14, with more than 86% of that in the Lower Mainland.

B.C. foreign investment stats

On July 7, 2016, the B.C. government released data showing that between June 10 and June 29, 2016, 3.3% of real estate transactions in the province involved foreign nationals, while 5.1% of transactions in Metro Vancouver did.

Industry reaction

It's unusual to enact tax measures in such a short time without seeking further commentary, says Michelle Connolly, vice-president of Tax, Retirement and Estate Planning at CI Investments in Toronto. "It's very fast, so there's the question of who it's going to impact. For example, you might have a person in Vancouver who entered into a sales agreement for their house six weeks ago, with an eight-week close. If it was [with] a foreign national, [that means] a $2.5-million house is now costing a lot more—that's an additional $375,000 added to the purchase price."

As a result, "They could walk away. And if the seller has already negotiated the purchase of another house, that puts them in a bind. When you look at this from that angle, it definitely is having a short-term impact. [Based on conversations with colleagues], I know viewings are being cancelled for houses on the market. But that's all limited to the Metro area."

But the bigger question, she adds, is whether the nationals who were previously looking at Vancouver will now turn to other cities like Toronto and Calgary. In that sense, she says, "Are we stopping foreign investment? Maybe not."

Connolly also points out that for large investments, such as a $25-million home, "those foreign buyers probably don't really care about the additional 15% expense."

Michael Pereira, tax expert and partner at KPMG in Toronto, says to consider that "the U.K. has passed similar legislation to slow down foreign ownership and alleviate price pressure in London. But the London housing market has continued to go up." In fact, reports The Globe and Mail, Asian buyers' interest in U.K. real estate rose after the Brexit vote.

Taxes on foreign buyers across the globe

B.C. isn't the first to impose additional rules on foreign real estate buyers. Here are some examples.

- In Australia, the Foreign Investment Review Board requires international buyers to apply for permission to purchase or build new houses.
- Britain recently extended a real estate capital gains tax to include foreigners. The tax, which can be as high as 28%, applies when people sell houses that are not their full-time residence.
- In Hong Kong, foreigners must pay a 15% buyer's stamp duty on all purchases or transfers of residential property.

Copycat effect?

There have been hints that the new tax could extend to regions outside Metro Vancouver. The B.C. Ministry of Finance left the door open in a release, saying, "Government can prescribe in regulation other areas where the additional tax would apply. The Province continues to monitor data on foreign investment and foreign ownership in B.C.'s real estate market."

And many are wondering whether Ontario will also look at additional taxes. Last week, Charles Sousa, Ontario's finance minister, welcomed B.C.'s move and promised to monitor the situation.

The federal Minister of Finance is toeing the same line: when asked via email whether the new tax could apply elsewhere, a spokesperson said, "Last month, we announced the creation of a working group of officials from the Government of Canada, the Province of Ontario, the Province of British Columbia, and the cities of Vancouver and Toronto. We continue to closely monitor the situation and work collaboratively."

As of June 2016, the price for single-family detached homes in the City of Toronto was up 17.05% year-over-year, and there's lack of supply of low-rise housing in the city. In Vancouver, house prices in the area have risen 24.6% compared to this time last year, while nationwide prices grew 9.2% year-over-year, according to Royal LePage data.

What about U.S. persons?

Anyone who isn't a permanent resident of Canada is a foreign national, and thus subject to the new rule. That includes Americans.

Any U.S. persons who are Canadian residents for tax purposes won't be affected, but "there are a lot of people here on work visas who [may want] to acquire property [since they're] here for four to five years on a work assignment," says Pereira. "It seems counter-intuitive to impose this tax [on] people who are contributing to the local economy, so it seems the B.C. government needs to narrow who this law is meant for."

But the number of U.S. persons captured will be minimal, says Connolly. "If a person wants to come here, bring their family and buy, then there's going to be a purgatory period where they'll have to rent. They'll just have to […] wait. Also, the question is how many U.S. individuals are going to want to buy in the Metro Vancouver area? We're not talking Whistler or vacation properties up the Sunshine Coast. […] And you have to think about the U.S. reporting obligations on foreign property, which are pretty onerous."

Details of the new transfer tax

On July 25, 2016, the B.C. government introduced Bill 28, Miscellaneous Statutes (Housing Priority Initiatives) Amendment Act, 2016.

Mainly, the bill amended the Property Transfer Tax Act to include an additional 15% transfer tax on foreign entities buying property in Metro Vancouver. Such buyers will now pay this tax on the residential component of the foreign interest. (The tax doesn't apply within the treaty lands of the Tsawwassen First Nation.)

The B.C. government says, "Audit measures that are already in place for the property transfer tax will be extended to encompass [this] additional tax.

[More] auditors will be required." Going forward, these are the changes that apply.

1. The government has six years for audit and enforcement of the additional 15% tax.
2. The property transfer tax return form will require a Social Insurance Number from all transferees who are Canadian Citizens or permanent residents. Invalid social insurance numbers or other discrepancies will lead to an audit and investigation. "The government has [added this requirement] to help cut down on [the time it takes to] identify who's a foreign national," says Michelle Connolly of CI, but she points out CRA could use this information to "see how many times these SINs come up, and they [could] target flipping where [people are] regularly buying and selling."
3. Fines payable as a result of offences with respect to the additional tax are the amount of unpaid tax, with interest, plus up to $200,000 for corporations and $100,000 for individuals. The maximum liability for imprisonment, two years, remains unchanged.

Have a nice and fruitful week!