Weekly Updates Issue # 589

1. Weekly Markets Changes

[November 4, 2016]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
14,509.25 -276.0 -1.87%	2,085.18 -41.23 -1.94%	17,888.28 -272.9 -1.50%	5,036.37 -143.7 -2.77%	$0.7460 -0.02¢ -0.03%	$1,305.20 +29.20 +2.29%	$44.13 -4.53 -9.31%

2. Economy packs in 44,000 part-time jobs in October

[November 4, 2016] The economy gained 44,000 net new jobs in October but the gains were entirely in part-time employment, Statistics Canada said Friday.

The overall increase was driven by 67,000 additional part-time jobs for the month, while the number of full-time jobs fell by 23,000.

The unemployment rate held steady at 7% as more people entered the labour market.

Economists had expected a loss of 10,000 jobs overall and the unemployment rate to remain unchanged, according to Thomson Reuters.

"While the report isn't bad all things considered, it likely won't stop the BoC from still leaning toward the dovish side in upcoming communications," says CIBC World Markets economist Andrew Grantham.

TD economist Michael Dolega agreed, adding in a note: "while wage pressures accelerated somewhat, inflationary pressures still appear well contained, with the [BoC's] bias to remain on the sidelines for some time well supported."

The increase in October follows a gain of some 67,000 jobs in September that saw gains in both part-time and full-time work.

Compared with a year ago, there were 140,000 more jobs in October including a gain of nearly 16,000 full-time jobs and 124,000 part-time positions.

For October, the goods-producing sector gained nearly 21,000 jobs, boosted by a gain of 24,000 in the construction industry. The natural resources sector also gained 10,000 jobs, its first notable increase since March 2015.

The services-producing sector added more than 23,000 jobs as wholesale and retail trade jobs climbed 19,000 and the "other services category" increased by 18,000. The educational services group climbed by 16,000.

Ontario gained 25,000 jobs in October, while British Columbia increased 15,000. The number of jobs in Newfoundland and Labrador fell by 5,600.

However, the transition from full-time to part-time jobs means that "total hours worked were actually down 0.2% on the month," Grantham notes.

Dolega, of TD, added that job growth remains concentrated in central Canada and B.C., which are benefitting from a low Canadian dollar and strong housing markets. Weakness in the commodity producing provinces remained, he said, with Newfoundland and Labrador and Saskatchewan seeing job losses and higher unemployment. Conditions in Alberta, Dolega added, appear to be stabilizing, with October marking the third consecutive gain.

Statistics Canada also reported that Canada's trade deficit hit a record $4.1 billion in September due to the import of a component for the Hebron offshore oil project in Newfoundland and Labrador. Economists had expected a deficit of $1.7 billion for September.

Imports rose 4.7% to a record $47.6 billion in the month as import prices gained 2.4% and volumes increased 2.3 per cent.

Exports climbed 0.1% to $43.5 billion as a 0.9% increase in prices was offset by a 0.8% decrease in volumes.

3. Great-West Lifeco reports net earnings down in Q3

[November 3, 2016] For the third quarter, Great-West Lifeco Inc. reports net earnings attributable to common shareholders of $674 million or $0.682 per common share, compared to $720 million or $0.724 per common share for Q3 2015.

Net earnings are $1,965 million, compared to $2,079 million for Q3 2015. This represents $1.982 per common share, compared to $2.086 per common share for Q3 2015.

Consolidated assets under administration are over $1.2 trillion, an increase of $16.0 billion from December 31, 2015.

Other Q3 highlights:

- Lifeco premiums and deposits of $29.3 billion are comparable to Q3 2015.
- Canada premiums and deposits are $6.1 billion, up 7%, primarily due to strong individual insurance and single premium group annuity sales.
- Europe premiums and deposits are $8.3 billion, down 16%, primarily due to a $3.5-billion sale to an institutional client in Q3 2015. Excluding this impact, premiums and deposits increased $2.0 billion, primarily due to an increase in premiums from reinsurance agreements, higher fund management sales in Ireland and higher payout annuity sales in the U.K.
- Great-West Financial premiums and deposits are US$2.7 billion, up 3%, primarily as a result of higher premiums due to sales from the executive benefits line of business.
- Empower retirement sales are down compared to Q3 2015, driven by lower very large plan sales.
- Putnam gross sales are US$8.7 billion, up 11% overall. Institutional sales increased 36% as the pipeline continues to remain strong, while mutual fund sales decreased 11%, reflective of the decline in industry segments where Putnam operates.
- Lifeco's capital position remains strong, with a minimum continuing capital surplus requirements (MCCSR) ratio of 227%.
- ROE is 13.8%.
- A quarterly common dividend of $0.3460 per common share is payable December 30, 2016.
- Lifeco completed its previously announced Irish health insurance acquisitions and will operate its new business under the Irish Life Health brand. The Company has set annual cost savings targets of €16 million pre-tax, to be achieved through operating efficiencies from the combination of the businesses. Integration activities, with an expected cost of €16 million pre-tax, are anticipated to be completed in the next 18 to 24 months.

4. Positive third-quarter results for Industrial Alliance

[November 3, 2016] Industrial Alliance Insurance and Financial Services Inc. reports positive third-quarter results over last year:

- Net income attributed to common shareholders increased to $144.4 million (+28%).
- Diluted earnings per share (EPS) increased to $1.40 (+$0.29).
- Annualized return on equity (ROE) increased to 14.7% (+240 bps).

Further profitability highlights:

- The new-business strain ratio is 12% of sales, which beats guidance by 3%.
- Retail insurance sales in Canada and the U.S. maintain strong growth (+18% in total sales).
- Net fund sales in retail wealth management are positive, after six negative quarters.
- The solvency ratio of 218%, compared with 199% at the end of Q2 2016.

In a release, Yvon Charest, president and CEO, says, "Top-line growth has been robust in virtually all lines of business, profit from employee plans has been solid and fund flows from our mutual fund business continue to improve."

5. Feds hold off on rate hike before U.S. vote

[November 2, 2016] The Federal Reserve left interest rates unchanged Wednesday, six days before Americans choose a new president, but hinted again that it would likely raise rates soon.

The Fed said that the case for rate hike has "continued to strengthen" but that it had decided to wait for further evidence of progress toward its objectives. Most analysts and investors expect a rate hike at the Fed's next meeting in mid-December.

"There is little doubt that the Fed has clearly communicated its intentions of raising rates at its next meeting in December," writes Michael Dolega, senior economist at TD Economics.

The statement the Fed issued closely tracked its statement after its September meeting, noting that the job market has continued to strengthen and that economic activity has picked up. The Fed had been widely expected to leave rates alone Wednesday, in part to avoid any perception of affecting next week's vote.

Analysts also noted that whether the Fed raised rates this week or not until mid-December would make little economic difference. With inflation still running below the Fed's 2% target, some Fed officials have said they think they have room to continue pursuing an extremely gradual approach to rate increases.

From job growth to home purchases, the U.S. economy has been demonstrating its resilience seven-plus years after it began recovering from the Great Recession. The economy grew at a respectable 2.9% annual pace in the July-September quarter, the government estimated last week.

The unemployment rate is 5%, typical of a healthy economy, down from 10 per cent in 2009. The housing market, whose meltdown triggered the 2008 financial crisis and the recession, has largely recovered.
A rate hike next month would mark a resumption of the increases the Fed began in December, after having left its benchmark rate at a record low near zero for seven years.
The Fed’s decision at its previous meeting in September not to raise rates drew an unusually high three dissents from members of its policy committee. The three dissenters wanted to act immediately to raise rates. This time around, two dissenters wanted to raise rates now.
“There was a slightly hawkish tilt to the announcement,” notes CIBC World Markets economist Royce Mendes. He speculates that Boston Fed head Eric Rosengren, who dropped his dissent this time around, may have been motivated by the election timing, and the lack of opportunity to explain a rate change after this meeting.
Next month’s Fed meeting will include a news conference by Chair Janet Yellen, which would provide a platform for her to explain any action the Fed takes then and perhaps provide guidance on how many further rate increases are probable in 2017.
The Fed’s years of record-low short-term rates were credited by many analysts with rejuvenating the economy after the Great Recession. When the Fed finally raised rates modestly in December last year, most economists and the central bank itself foresaw multiple rate increases in 2016. But economic weakness and market turmoil in China and Europe and a slowdown in U.S. growth kept the Fed on the sidelines.
“Even if the Fed did act to raise the fed funds target later this year, policymakers have made clear that the pace of rate hikes will be gradual,” write RBC deputy chief economist Dawn Desjardins in a note to analysts.
Fed watchers believe Yellen’s go-slow approach to rate increases may mean one move this year and then one, or at most two, increases in 2017.

6. TransCanada sells U.S. assets to help pay for pipeline

[November 2, 2016] TransCanada unveiled a series of multibillion-dollar moves as it revised and nailed down its strategy to absorb a major U.S. pipeline company it bought for $10.3 billion in July.
It announced it would realize US$3.7 billion from the sale of its U.S. Northeast power business, put on the market to help repay a bridge loan used to buy the Columbia Pipeline Group.

Meanwhile, it said it had abandoned a plan to sell stakes in its Mexican natural gas pipelines. And it confirmed a deal to buy out units in a limited partnership that owns part of Columbia's assets.

"We believe the actions announced today will contribute to both short- and long-term shareholder value," said president and chief executive Russ Girling on a conference call.

The U.S. power plant assets will go to two buyers. An affiliate of LS Power Equity Advisors is to buy the Ravenswood, Ironwood, Ocean State Power and Kibby Wind operations for US$2.2 billion, while an affiliate of ArcLight Capital Partners is to buy the TC Hydro operation for US$1.07 billion.

The remaining roughly $435 million is expected to be realized in a future sale of the associated marketing business.

TransCanada said it no longer plans to sell a minority interest in six natural gas pipelines in Mexico to help pay for the Columbia deal. Instead, it said it would raise $3.2-billion by selling shares through a bank consortium which will have the option to increase the issue by 10 per cent if demand warrants.

The Calgary-based pipeline company said it had struck a deal to pay US$915 million or $17 per unit to buy Columbia Pipeline Partners LP. In September, it said it had offered $15.75, a deal that was then reviewed by a committee.

"Maintaining our full interest in growing Mexican natural gas pipelines and instead accessing the capital markets is expected to be accretive to earnings per share," said Girling.

"And the acquisition of Columbia Pipeline Partners LP increases our ownership in Columbia's principal assets to 100 per cent and further simplifies our corporate structure."

TransCanada said it expects to take a $1.1-billion net loss on the U.S. power deal — including a $656-million after-tax goodwill impairment in the third quarter and an $863-million after-tax net loss to be recorded in the fourth quarter on the thermal and wind package. The deal is expected to be offset somewhat by a $443-million after-tax gain from the hydro business.

The impairment helped lead TransCanada to a net loss of $135 million or 17 cents per share for the quarter ended Sept. 30, compared with net earnings of $402 million or 57 cents for the same quarter last year.

Excluding that non-cash charge and certain other items, earnings would have been $622 million, compared to $440 million or $0.62 per share for the same period in 2015, it said.

7. Trudeau has no plans to balance the budget

[November 1, 2016] This afternoon, Finance Minister Bill Morneau presented the government's fall fiscal and economic update.

He announced the deficit for 2016-17 is expected to be $25.1 billion, but that does not include a rainy day fund. In last spring's budget, the government projected a $29.4-billion deficit, but that number included a $6-billion reserve. Further, there's no projection to balance the budget. The deficit is gradually expected to shrink over the coming five years to $14.6-billion in 2021-2022, but that doesn't include any provisions set aside for a rainy day.

That update also shows the Trudeau Liberals are swinging open the doors to the federal treasury to push some $32 billion more out the door in the coming decade for infrastructure projects. That includes $15 billion in cash for a new infrastructure bank designed to lend out private and public cash to cities and provinces for large transit project, energy grid improvements and trade corridor projects like ports, bridges and roads.

On top of that, the government aims to add extra billions in seed capital for the new bank, money which would come in the form of equity or debt and would not affect the government's bottom line.

In all, the federal government is expecting to spend $81 billion over the coming 11 years on an infrastructure program that the Liberals see as a cornerstone of their economic agenda.

Morneau said the extra cash and new infrastructure bank are part of the government's way of facing up to a challenging economic situation.

"This plan is about how we can make a real difference for the middle class and Canadian families over the long-term," he said. "It's about knowing that one, two, and three decades from now we can have a more productive economy. We're going to get this going in the near-term so we can create good jobs."

Highlights from today's economic statement

- Over five years, the government will add a total of $31.8-billion more to deficits than was expected in the last budget, mostly because of changes to expectations for the economy.
- The debt burden–the size of the federal debt as a percentage of gross domestic product–will slowly slide to 30.4 per cent in 2021-22 from 31.8 per cent in 2016-17.
- The government will set up a Canada Infrastructure Bank with seed capital of $35-billion. Of that, $15-billion will be taken from the $60-billion in existing funds set aside for infrastructure and another $20-billion will be financed and booked as equity or debt so as not to affect the government's bottom line.

- The government will adopt a global skills strategy that will speed up work permits and visas for foreign workers.
- The government will create a new Invest in Canada Hub to attract foreign investment. It will also relax foreign investment restrictions somewhat, revising national security rules and moving the threshold for reviewing foreign takeovers to $1-billion starting in 2017–two years ahead of schedule.
- The parliamentary budget officer will become accountable only to Parliament, with all the privileges that entails, rather than the Library of Parliament.
- The chief statistician will be granted more independence.

More details

The Liberals vowed in last year's election to spend $60 billion in new infrastructure money over the coming decade on projects ranging from new roads, bridges, seniors' homes, social housing, as well as water and waste water projects.

The first tranche of money in this year's budget, about $11.9 billion, was aimed at getting money out the door quickly to refurbish and renovate aging and crumbling infrastructure across the country. Provinces and cities were asked to submit projects that were shovel ready or could be done in the next two years.

So far, some 760 projects have been approved for funding with about two-thirds either started or completed.

The remaining funds, about $48 billion, are to flow to provinces and cities to build what the government calls transformative projects, such as large-scale transit projects designed to alleviate congestion on clogged highways.

The specifics of how the expanded plan will work are to be outlined in next year's federal budget.

Tuesday's expansion of the infrastructure plan extends the spending time frame by two years to 2028, adds two new funding streams for rural communities and trade projects, and creates the infrastructure bank.

The bulk of the new money is forecasted to be spent in 2027 and 2028, by which time the country will have gone through three more federal elections.

Morneau's economic advisers recommended the government create an infrastructure bank to attract private sector dollars for major projects, possibly generating $4 to $5 in private funding for every $1 of federal money.

The government plans to infuse the arm's-length bank with $15 billion in cash, taken from the extra money outlined in the economic statement, to pay for projects that may not turn a profit.

The government also plans to provide $20 billion in capital that the bank would provide in loans, with the repayments preventing a hit to the government's bottom line. Federal capital, backed with private investments, would target projects that generate profits like water and hydro rates, and road tolls.

Government officials hope the new bank, which Morneau said would be up and running next year, will prod cities and provinces to look for a private sector partner for projects that are on the cusp of being commercially viable, such as mass transit projects.

Morneau said the government will begin work immediately to create a pipeline of projects for the bank to fund. The bank will formally come into creation after budget legislation is passed, Morneau said.

8. BoC rate cut unlikely after August GDP bump

[November 1, 2016] Statistics Canada says the economy grew by 0.2% in August, helped by the resource sector. The reading showed a third consecutive month of growth and matched Thomson Reuters' consensus expectations of economists.

The report on August's growth came as the July figure was revised lower to show an increase of 0.4% compared with an initial reading of 0.5% for the month.

Goods-producing industries grew 0.7% in August, boosted by the mining, quarrying and oil and gas extraction sector which gained 1.4%.

The utilities sector rose 2.4% driven by demand for electricity, particularly in Ontario, due to August heatwaves.

Service-producing industries were essentially unchanged for the month.

Industry reaction

In a research note, CIBC economist Avery Shenfeld says August GDP provides "more evidence that Canada was en route to a hefty third quarter." But, he adds, "let's not forget that this came after a drop in Q2 that still leaves the year tracking at a mediocre 1.3% 12-month pace."

But, says Shenfeld, "[this] leaves the quarter tracking a bit over 3% growth and therefore right in line with the Bank of Canada's latest forecast. […] The one surprise was a drop in financial services."

Brian DePratto, TD economist, is toeing the same line when it comes to Bank of Canada predictions. He says in a note, "We expect no action from the BoC in the foreseeable future, and today's GDP report reinforces this view. The bar to any move remains high, and it will likely take a string of negative [or positive] surprises to stir any policy interest rate move from the Bank."

He’s also positive on future growth, saying, “The August data […] provide[s] a preview of sorts of what is likely in store […]: a modest pace of activity consistent with only gradual absorption of economic slack. Perhaps unexciting, this would be a welcome change from the slow and fairly uneven pace of growth that has been typical of the past 18 months.”

Nonetheless, any negative surprises could push the BoC, says RBC in an economic update release. The bank says, “Recent comments by BoC Governor Poloz make clear that any downward surprises on growth could prompt a central bank response, including the potential for a cut in the overnight rate.”

On October 19, the BoC stood pat on rates while also downgrading its outlook for growth. The Bank’s next rate announcement will be made on December 7th, a week before the Fed’s final 2016 annoucement on December 14th, during which a rate hike is expected.

9. Why to relinquish U.S. citizenship rather than renounce

[November 1, 2016] Taxes, and dealing with the IRS, are the most common reasons people want to ditch their U.S. citizenship. But amid a highly polarized American electorate, and Donald Trump’s odds of becoming the next president, the United States may be looking at even more citizens renouncing.

After the Foreign Account Tax Compliance Act (FATCA) became law in 2010, U.S. citizens abroad started facing a requirement to annually report their financial accounts and foreign banks have had to disclose American’s foreign assets. Another, related impact? U.S. citizens have been renouncing their nationality at a faster rate.

CNN has reported that the number of Americans renouncing has consistently hit new highs in recent years, reaching a record 4,279 in 2015, up from 742 in 2009. But renouncing your U.S. citizenship isn’t as simple as signing forms.

Before your dual-citizen client makes an appointment at a consulate to renounce, ensure they have legal representation, says Henry Chang, partner with Blaney McMurtry in Toronto and a U.S.-licensed lawyer, because there can be legal pitfalls and significant tax obligations. (See, for instance, information about a so-called “exit tax” if your net worth is over US$2 million).

Relinquish

While renouncing nationality may be the easiest route, you may be better off arguing you intentionally relinquished citizenship many years ago. It could be significantly lighter on your tax bill—perhaps 20 tax years lighter if you can prove relinquishment that long ago.

The initial process for relinquishing is largely the same as renouncing, starting with an appointment through the consulate. Instead of renouncing, however, you're aiming for a Certificate of Loss of Nationality applied retroactively.

"At the time of appointment, instead of claiming you want to do an oath of renunciation, what you're really doing is saying, 'I believe I've already lost it. I'd like you to make a decision and issue me a loss of nationality certificate,'" Chang says.

There are several ways U.S. citizens can claim the retroactive loss of citizenship provided that, at the time of committing a so-called "expatriating act," they also had the intention of losing their nationality. According to U.S. immigration law, these expatriating acts include:

- applying for and receiving naturalization in a foreign state;
- taking an oath or making a formal declaration of allegiance to a foreign state; or
- accepting employment in or serving in a foreign state government.

"You have to show you did the act voluntarily," Chang says, adding that it's up to you to prove you lost the citizenship. "But that's only half the test. The other test is, when [you] did it, did [you] do it with the express intention that [you] would lose U.S. citizenship?"

Take, for instance, someone not familiar with the law who did not believe an oath of citizenship in Canada would affect their U.S. nationality. If that was the case, they may not have had the intention of relinquishing it, he says, and wouldn't qualify, particularly if they continued to vote in the U.S. and renewed their U.S. passport.

There is also a presumption that oaths of citizenship do not in themselves express an intent to lose U.S. citizenship.

But here's a tip: Anyone who took the Canadian oath of allegiance prior to 1973 took an allegiance that included language saying that the reader was knowingly relinquishing all former citizenships, Chang says. That means anyone who took the oath before 1973 has evidence of intent. But that language was removed from the oath in 1973, so after that year you're out of luck for such evidence in the oath.

Don't be discouraged if you took a Canadian oath after this date. It's still possible to prove evidence of intent.

Perhaps you spoke to someone at the U.S. consulate who misinformed you that an oath would automatically cause a loss of American citizenship. Or, perhaps after committing an expatriating act, there's evidence of your intent through your immigration history: you never got a U.S. passport, never went to school in the U.S. as a resident, never voted there, and only ever entered the U.S. as a visitor.

Renounce

Renouncing U.S. nationality is an easier process, but it's important to be aware that you're on the hook for any tax obligations prior to the renunciation.

"What if they've never filed a U.S. tax return? That's a problem," Chang says. "If they renounce today, those obligations don't go away."

Also, be sure you have another nationality before starting a renunciation or a relinquishing process. Otherwise, you could become stateless and the application likely would not proceed.

An American citizen residing in the U.S. wishing to renounce their nationality and move to Canada would first have to qualify for Canadian residency, then live in the country for at about four years or more before becoming a citizen. Only then could they renounce.

Be sure you have a good reason to renounce U.S. citizenship—one that's not related to taxes.

"There's a ground of admissibility in the Immigration and Nationality Act that says if you're a former citizen who's renounced citizenship in order to avoid tax, then you are barred from the United States," Chang says. While no one that he's aware of has been barred under this provision, he says, there remain risks.

When Chang assists people with renunciations, he has them submit a sworn affidavit explaining all the non-tax reasons why the person is giving up their U.S. nationality. The affidavit protects you from the possibility of the U.S. government someday deciding to go after former U.S. citizens it believes renounced primarily to avoid tax.

"What if Trump becomes president and they start going after people? Or let's say they start going after people 20, 30 years from now," Chang says. "You can point to an affidavit that was provided at the same time as the renunciation, which explained under oath why you were doing it."

10. Zombie banks hurting Europe's economy

[October 31, 2016] The walking dead are gnawing at Europe's weak economy: that is, zombie banks and zombie companies.

Almost a decade after the financial crisis that ravaged the global economy, analysts and top officials are warning that too many banks in Europe are struggling financially, which is keeping them from lending to companies and fostering growth.

Calls to fix this problem have come repeatedly from the International Monetary Fund, U.S. Treasury Secretary Jacob Lew, and European Central Bank chief Mario Draghi. They say something has to be done if Europe's economy is to gain more traction and bring down unemployment.

Here's a look at Europe's slow-burning banking crisis and how it hurts the economy.

Bad Loans

Soured loans are one of the biggest problems in Europe, especially in Italy.

They create a vicious cycle: the slow economy means businesses can't repay their loans. That then leaves the banks short of cash to finance new business ventures, which holds back the economy even more.

Getting rid of these bad loans is a struggle. Italy's Monte dei Paschi is trying to offload 27.7 billion euros ($31 billion) in such loans to investors who would buy them at a deep discount. The bank has to get rid of those problem assets before it can credibly ask investors for more money–up to 5 billion euros through a share offering.

In Italy, one reason clearing bad loans can be difficult is that the courts are clogged, meaning it can take years to pursue the debtors and recover money. That makes the assets worth even less, and the lower the price, the bigger the financial hole the bank has to fill.

Zombie companies

Banks under financial pressure tend to prop up "zombie" companies by extending loans rather than pressing for repayment.

A group of economists has found that banks under stress tend to maintain credit to companies they already have a relationship with, even if those companies are struggling; yanking credit to such companies would mean recognizing the bank's own losses on the loans. That leaves both bank and companies as akin to the walking dead: technically still in business but unable to grow, and gobbling up credit that could otherwise go to stronger companies.

"Creditworthy firms in industries with a prevalence of zombie firms suffered significantly from credit misallocation, which slowed down the economic recovery," wrote four economists (Viral Acharya at New York University's Stern School of Business, Tim Eisert from Erasmus University Rotterdam, Christian Eufinger at IESE Business School in Barcelona and Christian Hirsch at the Goethe University in Frankfurt).

The economy of the 19 eurozone countries grew by a quarterly rate of 0.3% in April-June. That's not enough to bring down the 10.1% unemployment rate quickly enough.

Falling stocks

Weak share prices for banks have compounded the problems, as they make it harder for banks to raise money from investors.
As of mid-October, The STOXX Europe 600 Banks index is off 21.9% this year, compared with a milder 7% drop for the broader STOXX Europe 600. Deutsche Bank is off 52% for the year to date, while Monte dei Paschi is off 86% and Switzerland's Credit Suisse 37%.
Deutsche Bank's shares plunged after it was reportedly facing a fine of up to $14 billion dollars related to dealings in bonds backed by shaky mortgages before the financial crisis–as of October 31, 2016, the bank's common stock was sitting around US$14, half of its 52-week high.

Skimpy profits

All of this would be less of a problem if banks made enough money to build new capital reserves. But earnings have been sagging, too.
Return on banks' loans and investments has not recovered to the levels seen before the crisis. Even banks in countries that have had fewer problems, such as Austria, France, and Germany, have seen returns rebound only to around 0.8% from 1.3% before the crisis.
Deutsche Bank made a scant 20 million-euro profit in the second quarter despite 7.4 billion euros in revenue. That followed a 6.7 billion-euro loss in 2015.
If banks earned more money, they could attract investors more easily. "The answer is profitability," said Jan Pieter Krahnen, a professor of finance at Frankfurt's Goethe University. "As soon as profitability is back there will be plenty of capital, because people will be happy to invest."
Banks argue that part of the problem is that the European Central Banks has slashed the interest rate benchmark to zero, which squeezes bank's profit margins.

Too many banks?

The ECB and IMF argue that European banks should fix their underlying business models: their costs are too high and they have too many branches.
That's particularly true at a time when more banking is done online. In some countries, customers can withdraw cash at grocery stores and gas stations as they check out with the milk and broccoli, with no teller involved.
The answer may be mergers and job cuts across national boundaries.
"We have seen almost nothing in terms of restructuring the industry, which should have happened over a couple of years, and which is now even more urgent than before, not so much because of the crisis but because of technological change," Krahnen said.

No Bailouts, please

The banks' situation is further complicated by new European Union restrictions on government bailouts.
The new rules, which took effect this year, are meant to protect taxpayers from picking up the bill for rescuing banks, as happened during the financial crisis.
The restrictions raise the possibility that shareholders and junior bondholders (investors who loaned the bank money without getting collateral or a promise of priority repayment) would be required to take losses before government money could be used.
However, in some cases, such as Italy's Monte dei Paschi, those investors are mom and pop savers. So, a rescue could mean wiping out the life savings of thousands of small investors.

11. China's overseas takeover spree meets resistance

[October 31, 2016] Corporate China's global shopping binge has barrelled on with more multibillion dollar deals, but Beijing is starting to discover there are limits to what its money can buy.
In recent days, German and European Union officials have moved to tighten up scrutiny or even block high-profile acquisitions–in the latest sign of growing opposition to Chinese purchases of companies in key industries due to national security or competition concerns.
Swiss chemical giant Syngenta said last week that EU regulators examining its proposed $43 billion takeover by state-owned ChemChina have "recently requested a large amount of additional information," which will drag the approval process out into the first quarter of next year.
At about the same time, the German government withdrew clearance for a Chinese company to buy semiconductor equipment maker Aixtron in a $670 million deal over unspecified security-related concerns. That decision threatens to complicate German Economy Minister Sigmar Gabriel's trade visit to China next week.
"The surge in Chinese acquisitions of high-tech companies certainly has policymakers on high alert, especially in Germany," says Bjorn Conrad, vice-president of research at the Mercator Institute for China Studies in Berlin, which tracks China's overseas investment. "That's because China is not playing by the rules."
He said some of the deals reflect a political strategy in which state-owned Chinese companies, spurred by an aggressive outbound industrial policy, unfairly exploit Europe's open markets to gobble up companies with core technologies to speed the country's technological advance.

European policymakers “are not naive when it comes to government-driven acquisitions. They will apply a much higher level of scrutiny in the future,” Conrad says.
Chinese companies have invested nearly $200 billion so far this year in overseas firms, almost double the amount for all of 2015, according to Dealogic. The transactions have included a German robot maker, a Finnish video game company and an American appliance maker.
Just last week, HNA Group paid $6.5 billion for a 25% stake in the Hilton hotel chain, after one of its units earlier this year bought Carlson Hotels, operator of the Radisson and Country Inns & Suites brands. Meanwhile, Beijing-based China Oceanwide Holdings Group agreed to buy U.S. insurer Genworth Financial for $2.7 billion.
However, about $40 billion in proposed Chinese purchases has been cancelled since the start of 2015, reflecting resistance to such deals, according to Dealogic.
In Australia, the government blocked a Chinese group from leasing a Sydney electricity grid in an unusual turnaround, citing classified national security reasons. The deal involving state-owned State Grid Corp. and Hong Kong-based Cheung Kong Infrastructure group would have earned the government more than 10 billion Australian dollars (then-$7.6 billion).
The August decision was unusual in that the government had initially invited the companies to bid and only rejected them at the last minute on general security concerns unrelated to any specific country, said Hans Hendrischke, a professor at the University of Sydney Business School who specializes in Chinese investment in Australia.
However, “overall, certainly, I think the political outcome is clearly that the perception is created as if all of these are somehow directed against Chinese acquisitions of assets in foreign countries.”
The concerns mirror those in the U.S.
Last month, 16 lawmakers wrote to the Government Accountability Office calling for a review of the Committee on Foreign Investment in the U.S., a federal inter-agency panel also known as CFIUS, saying it should be updated or expanded to keep pace with the surge of foreign acquisitions in strategically important sectors.
Specifically, the letter said the committee’s powers might need to be widened in light of Chinese conglomerate Dalian Wanda’s recent purchases of U.S. theatre chains and the Hollywood studio Legendary Entertainment, citing fears about Beijing’s censorship and propaganda efforts.
Tighter scrutiny by CFIUS or the prospect of it has already thwarted some high-tech deals.

State-owned Tsinghua Unisplendour in February scrapped a plan to buy a 15 per cent stake in disk drive maker Western Digital, which would have made it the biggest shareholder, after the committee decided to investigate the $3.8 billion investment on national security grounds. A month earlier, electronics giant Philips aborted the sale of a majority stake in its LED components and auto lighting business to Chinese investor GO Scale Capital.

Have a nice and fruitful week!