Weekly Updates Issue # 605

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1. Weekly Markets Changes

[March 10, 2017]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
15,506.68 -101.8 -0.65%	2,372.60 -10.52 -0.44%	20,902.98 -102.7 -0.49%	5,861.73 -9.03 -0.15%	$0.7424 -0.50¢ -0.67%	$1,204.50 -30.50 -2.47%	$48.39 -4.81 -9.04%

2. Canada's jobless rate drops to 6.6%, lowest in two years

[March 10, 2017] Canada's unemployment rate dropped to 6.6% last month, its lowest level in more than two years, as fewer people were looking for work, Statistics Canada said Friday.

The decline of 0.2 percentage points from the previous month brought the rate down to a number not seen since January 2015.

The agency's February employment survey indicated the national labour market added 15,300 jobs overall last month, higher than analyst expectations. Economists had projected a gain of 2,500 jobs and the unemployment rate to stay at 6.8%, according to Thomson Reuters.

"This continues the string of improving Canadian economic data and suggests that the underlying economy continues to gain steam," said BMO senior economist Benjamin Reitzes in a note. "One more piece of evidence that the Canadian economy has turned the corner."

The Statistics Canada report found most of the February job gains came from full-time work, offset by a decline in the number of people working part-time. It said an estimated 105,000 more people found full-time employment last month while part-time positions dropped by 90,000. That was in contrast to the January labour market survey, which showed a surge in part-time work.

In the 12 months to February, Canada saw a net gain of 288,000 jobs with most of the increase coming in the last six months of 2016.

Much of the increased job activity was seen in the West with British Columbia, Saskatchewan and Manitoba all seeing gains. In contrast, fewer people were working in Nova Scotia and Newfoundland and Labrador while employment was little changed in the other five provinces.

Women in the 25-to-54 age bracket saw more work, marking the third monthly increase in that category. Men in the same age range saw employment holding steady in February after a notable increase the previous month.

Employment among youth aged 15 to 24 was little changed both in February and on a year-over-year basis. But with fewer young people seeking jobs, their unemployment rated declined by 0.9 percentage points to 12.4%.

3. Fed hike all but sure after U.S. job growth of 235K

[March 10, 2017] U.S. employers added a robust 235,000 jobs in February and raised pay at a healthy pace, making it all but certain that the Federal Reserve will raise short-term interest rates next week.

Friday’s jobs report from the government made clear that the economy remains on solid footing nearly eight years after the Great Recession ended.

The unemployment rate dipped to a low 4.7% from 4.8%, the Labor Department said. More people began looking for jobs in February, a sign of confidence that raised the proportion of Americans working or seeking work to the highest level in nearly a year.

Fed fund futures on Friday morning indicated a 93% probability the central bank would hike its benchmark target rate at the meeting on March 15.

The gains in hiring and pay, along with higher consumer and business confidence since the November election, could lift spending and investment in coming months and accelerate economic growth. Americans are buying homes at a solid pace, and manufacturing is rebounding, in part because of improving economies overseas.

The February jobs data likely provides the final piece of evidence the Fed needs to feel confident enough to resume raising rates. A rate increase next week would mark its third hike in 15 months, a reflection of how far the economy has come since the recession ended.

Average hourly pay rose 2.8% year over year in February, a decent gain though slightly below historical averages. In a healthy economy, wages typically rise at a roughly 3.5% annual pace.

Last month’s hiring was boosted by 58,000 additional construction jobs, the most in nearly a decade. That figure was likely enhanced by unseasonably warm weather in much of the nation.

An array of evidence suggests that the U.S. job market is fundamentally healthy, or nearly so. Hiring over the past two months has averaged 237,000, up from last year's monthly average of 187,000.

The number of people seeking first-time unemployment benefits — a rough proxy for the pace of layoffs — reached a 44-year low two weeks ago.

Business confidence has risen since the presidential election, with many business executives saying they expect faster economic growth to result from Donald Trump's promised tax cuts, deregulation and infrastructure spending.

The U.S. economy is also benefiting from steadier economies overseas. Growth is picking up or stabilizing in most European countries as well as in China and Japan.

The 19-nation alliance that uses the euro currency expanded 1.7% in 2016, an improvement from years of recession and anemic growth. Germany's unemployment rate has fallen to 3.9%, although in crisis-stricken Greece, unemployment remains a painful 23 per cent.

Wage gains

In the United States, employers have been hiring solidly for so long that in some industries, they're being compelled to raise pay. Hourly wages for the typical worker rose 3.1% in 2016, according to a report this week by the Economic Policy Institute. That's much higher than the 0.3% average annual pay gain, adjusted for inflation, since 2007, the EPI said.

Minimum wage increases last year in 17 states and Washington, D.C., helped raise pay among the lowest-paid workers, the EPI found. Pay increases for the poorest 10% of workers were more than twice as high in states where the minimum wage rose as in states where it did not.

At the start of 2017, minimum wages rose again in 19 states, a trend that might have helped raise pay last month.

U.S. builders are breaking ground on more homes, and factory production has recovered from an 18-month slump, fueling growth and hiring. In February, manufacturing expanded at the fastest pace in more than two years, according to a trade group. Businesses have stepped up their purchases of industrial equipment, steel and other metals, and computers.

And in January, Americans bought homes at the fastest pace in a decade despite higher mortgage rates. That demand has spurred a 10.5% increase in home construction in the past 12 months.

4. The Bank of Canada's unofficial lower-loonie policy

[March 9, 2017] The BoC will hold its benchmark interest rate at 0.5% through the year even as the Fed hikes rates more than once, a CIBC economist predicts.

That's because the BoC is intent on a weaker loonie to support exports, says Benjamin Tal, deputy chief economist of CIBC World Markets.

In a speech at the Canadian Hedge Fund Awards in Toronto on Wednesday, Tal says he sees the BoC remaining on hold even if Fed moves three times this year.

"The Bank of Canada has an agenda, and the agenda is a weaker Canadian dollar," he says. "Parity was an economic accident."

He told Advisor.ca following the speech: "We do need to see this rotation from energy to manufacturing. The dollar can help. I do believe that's the right approach; however, the bank will never admit that's the case."

Barry Allan, fixed income manager and founding partner of Marret Asset Management, also sees the Canadian dollar moving lower.

"No central banker can come out and say we need a weaker currency, but if you look around the world, devaluation is one of the major strategies that people with weaker economies are deploying," Allan says.

The investing environment, characterized by uncertainty, means moving clients to lower risk.

"We're moving people from more volatile funds like high yield into our enhanced tactical, which is really a cash substitute, where you can earn 4% to 5% with very low volatility," he says.

The jobs problem

No politician will admit that they can't fix the jobs problem, Tal says. It's a massive problem impacted by demographic shifts and technological change and doesn't have a clear solution.

"That's the elephant in the room that no politician will ever admit," Tal says. "I'm talking about the mismatch in the labour market. We have people without jobs and we have jobs without people."

It's one of the reasons he expects Donald Trump to be a one-term president. His protectionist policies may sound good but they're not going to solve underlying labour issues. Other reasons for a single term are that Trump will feel the job is too much work after four years, and will face significant fights with Congress, Tal suggests.

The biggest fear in China

Tal casts doubt on official statements out of China indicating the country's growth has stabilized at an annual 6.5%. He sees growth decelerating amid a credit boom that's fuelled real estate purchases and overbuilding.

The biggest fear in China, he says, is currency devaluation to make exports more competitive.

“If you go to China—I’m sure many of you have visited China—and you speak with people, they will tell you the No. 1 risk for them is a large-scale devaluation of the yuan,” Tal says.

The fears are encouraging Chinese investors and savers to move their money into assets outside the country, particularly in real estate, despite government efforts to stop outflows of money. “The link to the condo market in Toronto and Vancouver is very clear,” he says.

Bond correction?

Bond portfolios could be impacted by the Fed. Canada will see slightly higher yields from flow-through from the Fed hikes, says Raj Tandon, founding partner of fixed income manager Algonquin Capital.

“We’ve already seen some of it. Unfortunately, investors are starting to see losses in their fixed income portfolios because of that,” Tandon says, noting his firm hedges for interest rate exposure.

5. Foreign buyer tax wouldn’t work, says Toronto real estate board

[March 9, 2017] The Toronto Real Estate Board is urging the Ontario government not to implement a tax on foreign buyers, arguing that it would do little to address the problem of rising house prices in Canada’s largest city.

Finance Minister Charles Sousa said Thursday that he’s considering implementing such a tax as a possible option to cool Toronto’s red-hot housing market.

Last year, Sousa said Ontario would not be following the lead of British Columbia, which implemented a 15% tax on foreign nationals buying homes in the Vancouver area.

But house prices have continued to soar, with February data from TREB showing that the price of a detached, single-family home rose 29.8% from a year ago.

TREB says that a foreign buyer tax would not address the supply shortage that has been driving home prices higher.

The real estate board also argues that concerns about the impact of foreign buyers on the real estate market in the Greater Toronto Area are “widely overblown.”

“The fact that most foreign buyers are looking to purchase a home for their family, for personal use, or to provide a tight rental market with much needed supply is something to be encouraged, as these actions are essential to

Ontario's economic success," TREB president Larry Cerqua said Friday in a statement.
"Imposing a tax on foreign buyers will not have the desired effect of cooling the housing market and could create adverse effects on the national, provincial and GTA economies."

6. Currency winners and losers for 2017

[March 7, 2017] When the OPEC countries struck a deal to cut oil supply last year, that created a positive environment for the Canadian dollar.
As a result, the loonie has held on better than expected, says Vincent Lépine, vice-president of Global Economic Strategy (Asset Allocation and Currency Management) at CIBC Asset Management.
But that may not last. Says Lépine, "This is a very fragile equilibrium because [the] OPEC [countries] are cutting production and have been doing what they said they would be doing, but they're no longer the big player in the market."
That big player is now the U.S., he says, meaning "it's important to look at what U.S. producers are doing; as OPEC is cutting production, U.S. producers are increasing production. Because of this, oil prices are likely to be lower rather than higher and, for the Canadian dollar, that means it will be weaker as we move into 2017."
That makes it tough to make currency calls. "In the background, we've got U.S. dollar strength that's been in place for the last three years, and that's likely to continue," says Lépine. And, "you've got specific cases like the U.K., where we still don't know how Brexit is going to unfold." He predicts the pound will be the weakest among its peers in 2017.
For the euro, Lépine predicts uncertainty will be an issue. "We've got a lot of geopolitical events happening in the eurozone, and investors generally don't like that. […] We've got the French election [and elections in] the Netherlands, Italy and Germany, so the whole political landscape could change radically as we move into 2017. So, the euro is likely to be weaker than the U.S. dollar."
Throughout the year, he adds, "investors are going to be looking for safety and they'll be flying to the safe havens. One candidate is the yen, so it's likely to get stronger in 2017."

Currency comparison

Here are current currency valuations versus the U.S. dollar:
Loonie: US$0.75 (as of March 3)
British pound: US$1.23 (as of March 3)

Euro: US$1.06 (as of March 3)
Yen: US$0.0088 (as of March 6)

7. Is Europe next for election shock?

[March 6, 2017] With the Netherlands holding elections next week, followed by France, Germany and Italy soon after, Europe could be the next region in line post-election market shocks.

But political risks are probably overstated, says Richard Turnill, global chief investment strategist at BlackRock, in a weekly commentary. For instance, he points to polls suggesting a wide-margin loss for Marine Le Pen, the populist candidate in France.

He's more worried about Italy's shaky political outlook, where populist support is strong and majorities in parliament can be factious and fragile. It's an outlook that should keep Italian bond spreads wider ahead of a late 2017 or early 2018 election.

For now, he sees upside for European stocks — but with volatility — as global reflation and stronger growth boost corporate earnings and ease some of the political jitters.

Turnill says he's "neutral on European government bonds, as elections pose short-term downside risks, and we are growing more cautious on European credit. An easing of European political risk should result in higher yields globally, supporting our cautious stance on U.S. Treasuries."

Global equities

Current economic data reinforce evidence of a global reflationary trend, he says, with the U.S. ISM manufacturing PMI hitting a two-year high and China's factory activity surveys beating expectations.

In addition to Europe, he likes Asia, emerging markets and Japan.

Financial sector reform and rising account surpluses are boons for China. "China's economic transition is ongoing," he says, "but we believe lower growth rates are priced in." He adds: "We like India and selected Southeast Asian markets."

For Japan, he cites a weaker yen, improving global growth and more shareholder-friendly corporate behaviour. For emerging markets, support includes improving corporate fundamentals and reasonable valuations.

Have a nice and fruitful week!