

Weekly Updates Issue # 620

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1. Weekly Markets Changes

[June 30, 2017]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
15,182.19	2,423.41	21,349.63	6,140.42	\$0.7712	\$1,241.40	\$46.33
-137.4 -0.90%	-14.89 -0.61%	-45.13 -0.21%	-124.8 -1.99%	+1.45c +1.92%	-16.40 -1.30%	+3.16 +7.32%

2. Canada's GDP and biz sentiment provide a reason to celebrate

[June 30, 2017] As you head into the Canada 150 long weekend, here's some good news - the Canadian economy had another month of solid growth in April, building on strength seen in the first quarter.

This also supports expectations that the Bank of Canada will soon begin increasing interest rates. Statistics Canada said Friday the economy grew 0.2% in April compared with an increase of 0.5% in March.

The result matched the expectations of economists, according to Thomson Reuters.

"While the April GDP report is no big surprise, it maintains a now lengthy run of Canadian data matching or topping expectations, and forecasts for 2017 growth just keep climbing," Bank of Montreal chief economist Doug Porter wrote in a report.

"In a word, there's nothing here to dissuade the Bank of Canada from looking to start removing some of the stimulus, likely starting just next month."

The Bank of Canada's key interest rate target sits at 0.5%. An increase in the rate will likely prompt Canada's big banks to raise their prime rates, a move that will drive up the costs of variable-rate mortgages and other borrowing tied to the benchmark rate.

Expectations that the Bank of Canada could raise rates sooner rather than later have ramped up in recent days following comments by Stephen Poloz that

interest rate cuts made in 2015 have done their job. Poloz noted that the economy enjoyed surprisingly strong growth in the first quarter.

Statistics Canada said the growth in April came as service-producing industries increased 0.3%, helped by widespread gains.

The arts, entertainment and recreation sector climbed 2.8% for the month, helped by the five Canadian teams in the first round of the NHL playoffs and strong professional basketball and baseball attendance.

Meanwhile, Statistics Canada says goods-producing industries were essentially unchanged for the month as an improvement by mining, quarrying, and oil and gas extraction was largely offset by a drop in manufacturing.

Mining, quarrying, and oil and gas extraction gained 1.2% despite a 0.8% drop in oil and gas extraction due to the impact of the Syncrude Mildred Lake oilsands upgrader fire in March.

The manufacturing sector fell 0.9% in April.

In a research note, RBC economist Josh Nye Canada's momentum in Q2 so far "fits with our forecast for 2.7% growth in the quarter. [...] There was also further evidence of recovery in the energy sector, supporting the Bank [of Canada]'s contention that adjustment to lower oil prices is largely complete. He adds, "April's GDP, if matched by an upbeat Business Outlook Survey later this morning, should reinforce market expectations."

In a separate note, TD Bank's Brian DePratto says the economy kicked the second quarter off on a decent footing, posting its sixth straight monthly expansion. And, "With Canada Day tomorrow, it's perhaps worth noting that at least part of the gain can be attributed to five Canadian teams making the NHL playoffs this year — a welcome departure from the 2016 performance. "Beyond the impact of hockey, however, was a still solid economy that continues to see growth across a wide swath of industries, and which looks set to meet our expectations of 2.9% growth (q/q SAAR) for Q2."

While TD still calls for a BoC rate hike in October, DePratto adds, "[...] a July hike can easily be justified given the forward-looking nature of monetary policy," especially if other measures are positive.

BoC business survey

It seems Nye and Depratto won't be disappointed: improving business sentiment has hit a high not seen since 2011, according to the Bank of Canada's latest business survey.

The Bank of Canada says its new survey of about 100 Canadian companies provides evidence of a generalized improvement in business sentiment. The survey found business hiring intentions for the next 12 months had accelerated since April to reach its highest level on record.

The poll also shows companies expect sales growth to continue improving over the coming year, while business investment intentions for the next 12 months also remain elevated.

Overall, the Bank says the positive business outlook has been spreading across industries and regions. Canada has been enjoying a stronger-than-expected run of economic data since the start of the year in key areas such as growth, trade and the labour market.

3. Most Canadians fail basic financial literacy test

[June 29, 2017] Canadians appear to be less financially literate than they think they are. IPSOS conducted the poll for LowestRates.ca, surveying 1,001 Canadians aged 18 and over from May 18 to May 23 2017. The results are considered accurate within a margin of error of plus or minus 3.5 percentage points - 19 times out of 20.

When asked about their financial literacy Canadians give the following answers:

- 78% believe they're financially literate;
- 64% rate their financial literacy as "Good";
- 14% rate their financial literacy as "Excellent".

The test results though show that 57% of respondents failed the test, and of those who passed, most attained a C or D grade.

The results analysed by different generations show that:

- 52% of Baby Boomers passed the test;
- 45% of Gen X passed the test, and only
- 31% of Millennials managed to pass the test!

Millennials were the most likely of all age groups to rate their financial literacy as "Excellent" (18%), and yet, they failed the quiz more than any other generational cohort (69%).

Here are the actual test results. Please feel free to contact me if you are not certain about the reason behind the answer of a specific question.

Financial Literacy Quiz Results (correct answers are bolded)				
	True	False	Don't Know	Total Wrong Answer
A mortgage term refers to the length of time you need to pay off your mortgage	51%	30%	18%	70%
You must pay for government insurance on mortgages where you put down less than 20% of a down payment - unless the home is worth \$1 million or more	33%	14%	53%	67%
A car that is more expensive always costs more to insure than a cheaper car	50%	33%	16%	67%
You never have to report interest and profits gained in your TFSA when filing taxes	36%	35%	28%	65%
You can have multiple TFSA accounts with different banks at the same time	42%	19%	39%	58%
Your auto insurance automatically goes down when you turn 25	34%	44%	23%	56%
Applying for a credit card can negatively affect your credit score	46%	36%	17%	54%
Home insurance can sometimes protect you if your dog bites someone in your home	46%	19%	34%	54%
Your home insurance will always cover you if a tree falls on your home	26%	48%	26%	52%
Checking your credit score has no impact on the score itself	48%	31%	21%	52%
The colour of your car affects your car insurance rate	32%	51%	17%	49%
All banks charge you money to have a chequing account	34%	52%	14%	48%
Auto insurance premiums can be cancelled mid-way through their term	53%	18%	29%	47%
You need to be licensed to buy stocks in Canada	11%	55%	34%	45%
There's no need to get travel insurance if you're travelling within Canada between provinces	27%	56%	18%	44%

4. Real estate agent rules and penalties under scrutiny

[June 28, 2017] When it comes to legislation and oversight, advisors and dealers aren't the only ones under scrutiny in Ontario.

The province is proposing banning the practice of double ending, a situation in which a real estate agent represents both a buyer and a seller in a transaction.

This move is part of the Liberal government's 16-point housing plan that was released earlier this year. The centrepiece of the plan was a 15% foreign buyer tax and expanded rent controls. But another plank was reviewing the rules for real estate agents to ensure consumers are fairly represented.

The government has now published several proposals for changes to real estate agent rules and penalties, and is seeking public consultation on them. One of the proposals is to ban — with some limited exceptions — salespeople from representing both the buyer and seller or more than one potential buyer in a trade.

The government is also considering increasing the maximum fine for salespeople and brokers who violate a code of ethics from \$25,000 to \$50,000 and \$100,000 for brokerages.

5. BOC's Poloz again says low rates have 'done their job'

[June 28, 2017] Stephen Poloz, governor of the Bank of Canada, has once again stated that it looks like low interest rates that were put in place in 2015 have "done their job." He stopped short of predicting the central bank's next move.

Poloz made these comments in Portugal, where he's participating in a forum hosted by the European Central Bank. He said in an interview broadcast on business news channel CNBC that the Canadian economy has been recovering from the global financial crisis that erupted in 2008 and the sudden decline in oil prices that began in late 2014.

These comments follow Poloz's hawkish and similar statements made to CBC on June 13. He also stressed during that interview that the 2015 rate cuts have been effective.

The BoC's next interest rate announcement is set for July 12 when it will also release an updated outlook for the economy in its monetary policy report. On the back of the central bank's latest comments, many now expect the Bank to move in the fall.

In Portugal, Poloz also said that virtually every major area of the world seems to be gaining economic momentum, with the United States "way out in front." He says the drop in oil prices set Canada's economy back, causing the Bank

of Canada to compensate by lowering interest rates, but growth has returned to a more normal pace.

6. Additional tariffs will lead to average duties of 27% on softwood lumber

[June 27, 2017] Canada's softwood lumber industry faces average duties of about 27% after the U.S. Department of Commerce slapped it with an additional 6.87% in preliminary average anti-dumping tariffs.

The new anti-dumping duty will overlap for about two months with average preliminary countervailing duties of 19.88% announced in April that are set to expire Aug. 27.

Final combined duties will be applied around the end of the year when all determinations have been made.

Resolute Forest Products was assessed Monday with the lowest duties of 4.59% while Canfor gets the highest at 7.72%.

Two other mandatory respondents, West Fraser Timber and Tolko, were tagged with 6.76 and 7.53% duties, respectively.

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The rates are below the average 10% forecast by industry analysts.

West Fraser will have the highest combined duties at 30.88%, followed by Canfor at 27.98% and Tolko at 27.03%. All other producers will face combined average duties of 26.75, with the exception of Resolute at 17.41% and J.D. Irving at 9.89%.

The duties will continue to be collected until a final decision by the U.S. is issued later this summer.

Commerce Secretary Wilbur Ross announced separately that an internal investigation has determined that it was appropriate to exclude Atlantic provinces of Nova Scotia, P.E.I. and Newfoundland and Labrador from

softwood lumber duties as requested by the U.S. industry and Canadian officials.

Jerome Pelletier, chairman of the New Brunswick Lumber Producers, said the anti-dumping duty will put “significant pressure” on producers in the province.

“New Brunswick should be granted the historic 35-year Maritime exemption from any duties on softwood lumber shipments to the U.S.,” Pelletier said in a statement Monday. “We’re market-driven and have the highest Crown stumpage rates in Canada.”

He added that forest products in New Brunswick contribute more to the provincial economy than forest products in British Columbia.

“No other industry impacts as many communities in New Brunswick as forestry and forest products,” he said.

In a joint statement, Natural Resources Minister Jim Carr and Foreign Affairs Minister Chrystia Freeland said they are “deeply disappointed” with the U.S. decision to impose what they call “unfair and punitive anti-dumping duties.” The two cabinet ministers said the penalties are based on a “flawed rationale that is damaging to workers, communities and consumers in Canada and the United States” and that Canada will “vigorously defend” the forest industry through litigation.

They added that while consultations on exclusions for Nova Scotia, P.E.I. and Newfoundland and Labrador represent “significant progress” in the dispute, Canada will continue to press the U.S. to remove duties for all provinces. Carr and Freeland also said they would welcome a U.S. Department of Commerce commitment to consider an exclusion for New Brunswick.

Canada’s share of the U.S. softwood lumber market was 27% in May, down from 31% a year earlier, according to monthly Canadian government reports. That represented a \$165-million loss in exports for the month, including \$105 million in B.C. and \$18 million in Quebec.

Final duty rates have been lower than preliminary tariffs in the past. But Paul Quinn of RBC Capital Markets said that could change because the U.S. Lumber Coalition is pushing for a tough response to the Canadian government’s \$867-million financial support for the industry, mainly through loans and loan guarantees.

The U.S. Lumber Coalition applauded the announcement Monday, saying Canada has distorted the softwood lumber market with billions of dollars in support national producers.

“The 350,000 hard working men and women in the U.S. lumber industry deserve a level playing field,” spokesman Zoltan van Heyningen said in a statement Monday. “We encourage the Department to continue strongly

enforcing U.S. trade laws to respond to these unfair practices that have harmed U.S. companies and their workers.”

But, the president of the British Columbia Lumber Trade Council said the duties are being felt by American consumers in the form of significantly higher prices.

“That’s what constraining the market does,” Susan Yurkovich told a teleconference call.

“The duties are a direct result of the actions taken by the protectionist U.S. lumber lobby whose sole purpose it to create artificial constraints on Canadian lumber to drive up prices for their benefit at the expense of American consumers.”

B.C. is the largest Canadian exporter of softwood lumber to the United States at well over 50%.

This is the fifth time the U.S. has accused Canada of unfairly subsidizing its softwood industry. The government says Canada has always prevailed against the accusations before the World Trade Organization or under the North American Free Trade Agreement.

A negotiated settlement on softwood with the U.S. expired in 2015, triggering the latest round of tariffs. The previous settlement took more than four years to negotiate.

Canada can’t file an appeal of the tariffs until early next year after the final determinations from the U.S. government are issued.

The Conference Board of Canada has said U.S. softwood lumber duties paid at current export levels will cost Canadian producers \$1.7 billion a year and cut about 2,200 jobs until a softwood settlement is reached.

After the countervailing duties were announced, Resolute said it would cut shifts at seven sawmills and delay the start of forest operations that will affect 1,282 workers.

Have a nice and fruitful week!

Happy Canada Day!



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