Weekly Updates Issue # 621

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1. Weekly Markets Changes

[July 7, 2017]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
15,027.16 -155.0 -1.02%	2,425.18 +1.77 +0.07%	21,414.34 +64.71 +0.30%	6,153.08 +12.66 +0.21%	$0.7765 +0.53c +0.69%	$1,211.90 -29.50 -2.38%	$44.33 -2.00 -4.32%

2. Why the TSX took a dive in early trading

[July 7, 2017] The main Toronto stock index took a dive this morning, dragged down by gold and energy companies. At that time, the S&P/TSX composite index was down 129.27 points to 14,948.73, after 90 minutes of trading.

In New York, meanwhile, the Dow Jones industrial average had gained 57.01 points to 21,377.05. The S&P 500 index had climbed 7.85 points to 2,417.60 and the Nasdaq composite index had risen 38.46 points to 6,127.92

At the same time, the Canadian dollar had gained ground, following a stronger-than-expected jobs report that boosted expectations that the Bank of Canada will raise its key interest rate next week. The loonie was trading at 77.58 cents US earlier today, up from an average price of 77.24 cents US on Thursday.

Also in early trading, the August crude contract was down US$1.61 to US$43.91 per barrel and the August natural gas contract was up two cents to US$2.90 per mmBTU. The August gold contract was down US$9.00 to US$1,213.20 an ounce and the September copper contract was down two cents at US$2.64 a pound.

But at close on Friday, the S&P/TSX composite index had nearly recovered by moving up to 15,027.16 — compared to an open of 15,037.16 and one-day low of 14,915.78. The Canadian dollar, along with the S&P 500, Dow Jones and Nasdaq, retained Friday gains.

Canadian oil news

Apache Corp. says it has sold its assets in British Columbia, Alberta and Saskatchewan for close to $1 billion in a strategic exit from Canada.

The Houston-based oil and gas company said late Thursday that leaving Canada was part of its goal of streamlining its portfolio to focus on projects in the United States, United Kingdom and Egypt.

Apache said the sell-off will mean a significant reduction in asset retirement obligations and annual overhead costs, as well as improve the revenue and cash generated on the energy it produces.

It said the $125 million in spending planned for 2017 and 2018 in Canada would be redirected to other areas of its portfolio.

The company said its selling off its Canadian assets in a trio of deals worth about $927 million to Paramount Resources, Cardinal Energy Ltd., and an undisclosed privately owned company, with the Cardinal deal already closed.

Paramount said Thursday that along with buying Apache assets in Alberta and B.C. for about $460-million, it was also merging with Trilogy Energy Corp. in an all-share deal.

Central bank forecasts

In a Friday report, CIBC chief economist Avery Shenfeld says the Bank of Canada should hike next week — which would help encourage financial stability — but he cautions that BoC governor Poloz hasn't been known for having a clear communications policy. In the report, Shenfeld notes, "We caution that next week's decision is still not quite a sure thing," given Poloz has surprised markets in the past.

Nonetheless, the implied probability of a hike rose to 93% from 83% in the Overnight Index Swap market, on the back of Canada's strong employment news, reports forexlive.com. It finds other measures show an even higher probability.

Both RBC and TD — in Friday economic updates — call for a BoC hike. RBC says "the Bank of Canada might not be overly concerned about [Friday's] wage [growth] number," adding that "judging by today's report and last week's survey, we think the labour market is giving a green light for the Bank of Canada to raise rates next Wednesday."

For its part, TD says the latest employment data is "unlikely to carry much weight on [the BoC's] decision, given it continues the trend of robust job gains, and the weak wage backdrop was present ahead of the change in communication strategy last month." The bank adds, "[…] the market has already braced for this by pricing in a hike for next week."

Going forward, says Shenfeld, "A second hike in the final quarter of the year will likely see the overnight rate back to 1%. Since the Fed will also be hiking in Q4, we should be done with the lift to the Canadian dollar from the change in Bank of Canada policy. In 2018, look for only a slow crawl higher from both central banks, with a hike every six months or so."

According to CME Group's FedWatch tool, the Fed is most likely to make its next move in December 2017 or afterward.

However, in a separate report, Desjardins senior economist Francis Généreux forecasts that weak wage growth would be one hurdle to the Fed normalizing its policy — despite recent hiring strength.

3. Canada adds 45,300 jobs, nudging unemployment rate down

[July 7, 2017] The Canadian labour market beat expectations yet again, in June, by adding 45,300 positions, Statistics Canada said Friday.

The vast majority of the new jobs in June were in part-time work, although the number of full-time positions also rose. This fresh data nudged the national unemployment rate down to 6.5% from 6.6% the previous month.

A consensus of economists had expected an increase of 10,000 jobs in June and for the unemployment rate to stay at 6.6%, according to Thomson Reuters.

The June increase adds to a series of positive job-market gains over the last year and comes amid widespread speculation that the Bank of Canada will hike its benchmark interest rate of 0.5% next week. Central bank governor Stephen Poloz has made increasingly positive statements about the state of the economy in recent weeks.

"We had held on to our October forecast for a Bank of Canada rate hike, but concede that's likely to end up off the mark, as today's jobs numbers cement the case for the central bankers to raise rates in the coming week," said Avery Shenfeld of CIBC Economics in a note to clients.

"In sum, the jobs market is tightening, and not that far from what historically has been judged as full employment. Over to you, governor Poloz."

Months of stronger-than-expected employment numbers have helped fuel rising expectations the central bank is on the verge of lifting rates.

In recent weeks, a shift by senior Bank of Canada officials towards more hawkish public remarks has also suggested the bank is moving closer to its first rate increase in nearly seven years.

Last month, Poloz said his two 2015 rate cuts had done their jobs of helping the economy counteract the effects of the oil-price slump, which began in late 2014. He also said the reductions helped accelerate the economy's adjustment.

The Bank of Canada's rate announcement is set for next Wednesday.

Compared to a year earlier, Statistics Canada said Friday that 350,800 more people were employed last month and that 248,200 of those new jobs were full-time positions.

Quebec and British Columbia saw the biggest employment gains among the provinces in June. Quebec gained 28,300 jobs and its unemployment rate held at 6%–its lowest level on record since 1976.

Alberta, which has been hit hard by the collapse in oil prices, added 7,500 positions last month and its jobless rate dropped to 7.4% from 7.8% the previous month.

Across the country, both the goods-producing and services sectors saw employment gains. The goods sector added 16,000 jobs, mostly in agriculture, while the services sector added 29,200 positions, thanks to a large employment boost in professional, scientific and technical services.

Hourly wages for all employees grew 1.3% year-over-year in June, matching the same increase reported for May, the agency said. The number of hours worked last month increased 1.4%, up from a 0.7% gain in May, it added.

4. Imports and exports hit record highs ahead of BoC decision

[July 6, 2017] Canada's imports and exports both reached record highs in May, Statistics Canada said Thursday, the latest sign of strength in the economy ahead of expectations that the central bank may be days away from raising its interest rate target.

The trade deficit doubled to $1.1 billion in May from a $552-million deficit the month before, though that was fuelled by the import of five new airliners.

Economists had expected a deficit for May of $530 million, according to Thomson Reuters.

"There is a lot of noise to filter through in today's trade report but we think the message on exports is ultimately positive," Royal Bank economist Josh Nye wrote in a report.

Imports rose 2.4% to $49.8 billion in May, led by a 45.9% increase in the aircraft and other transportation equipment and parts category due to the new airliners.

Exports climbed 1.3% to $48.7 billion, buoyed by shipments of unwrought gold to the United Kingdom.

Exports of energy products including crude oil fell 9.0% to $8.0 billion as both prices and volumes declined. Excluding energy products, exports rose 3.6%.

Nye called it a "solid increase" in non-energy exports for May and noted that they are now up relative to a year ago.
"A price-related decline in oil exports belies what has been a fairly strong increase in energy export volumes year-to-date," Nye said.
"That supports the Bank of Canada's view that adjustment to lower oil prices is now largely complete."
Speculation that the Bank of Canada could raise its key interest rate next week has mounted in recent days. Governor Stephen Poloz recently said that interest rate cuts made in 2015 appeared to have "done their job," noting that the economy enjoyed surprisingly strong growth in the first quarter of this year.
The trade figures came as Statistics Canada also reported that Canadian municipalities issued $7.7 billion worth of building permits in May, up 8.9% from April.
Bank of Montreal chief economist Doug Porter said the overall trade figure was moderately disappointing, but the details in the report were decent.
"Most importantly, trade still looks to make a small positive contribution to second quarter growth and exports hit record highs in both nominal and volume terms in the month," Porter wrote in a research note.
"While it may not be exactly what the doctor ordered, it's likely enough to keep the Bank's expected rate hike on track, especially paired with a whopping 8.9% spike in building permits in the month."

5. GTA annual home price growth slows to 6.3%

[July 6, 2017] Annual home price gains in the GTA slowed significantly in June as the number of homes sold plunged 37.3% compared with a year ago, the city's real estate board said Thursday.
The Toronto Real Estate Board said 7,974 homes changed hands in June while the number of new properties on the market climbed 15.9% year-over-year to 19,614.
The average price for all properties was $793,915, up 6.3% from the same month last year. The price increase slowed from May, when the average price for all homes was up 14.9% from a year earlier.
The data comes after the Ontario government implemented rules intended to dampen Toronto's heated real estate market, where escalating prices have concerned policy-makers at the municipal, provincial and federal levels.
Ontario's measures, which were retroactive to April 21, include a 15% tax on foreign buyers in the Greater Golden Horseshoe region, expanded rent controls and legislation allowing Toronto and other cities to tax vacant homes.

“We are in a period of flux that often follows major government policy announcements pointed at the housing market,” Tim Syrianos, president of the Toronto Real Estate Board, said in a statement.

“On one hand, consumer survey results tell us many households are very interested in purchasing a home in the near future, but some of these would-be buyers seem to be temporarily on the sidelines waiting to see the real impact of the Ontario Fair Housing Plan. On the other hand, we have existing homeowners who are listing their home because they feel price growth may have peaked. The end result has been a better supplied market and a moderating annual pace of price growth.”

The fall in house sales mirrors what happened in Vancouver after the B.C. government introduced a 15% foreign buyers’ tax last August.

There have been growing worries that overheated prices in Vancouver and Toronto could be a problem for the broader economy, especially if there is a sudden decline in housing prices sparked by higher interest rates.

The BoC has recently signalled that time is running out for the rock bottom interest rates it put in place in 2015 to cushion the blow of a sudden decline in global oil prices.

6. Speculation grows for July rate hike

[July 4, 2017] Speculation that the Bank of Canada is preparing to raise its key interest rate continued to ramp up after governor Stephen Poloz’s latest comments to a German newspaper published Tuesday.

While talk about a possible rate hike by the Bank of Canada has increased, inflation in Canada has remained low.

However, Poloz said in the interview with Handelsblatt last week that there is a substantial lag between when the economy approaches full capacity and when that begins to translate into inflation.

He said if the central bank only watched and reacted to inflation, it would never reach its inflation target and it would always be two years behind in the reaction.

Poloz noted that he has to look at other indicators in the models that predict inflation.

Business outlook survey

One of those indicators is the Bank of Canada’s business outlook survey, released last Friday.

“This is a modest survey of 100 CEOs, but the BoC uses it as an anecdotal and fresher set of information to complement data,” says Derek Holt, vicepresident and head of capital markets economics at Scotiabank, in an economics update.

The survey's optimistic tone reinforces Scotiabank's hike expectations for July and a greater-than-priced tightening path thereafter.

For example, the survey reveals a big jump in business outlook for future sales — a 10-point jump to the highest point since the early days of commodities correcting back in Q3 of 2014.

"What this does is reinforce that the oil shock is done in the mind's of Canada's C-suite respondents," says Holt. "It's so yesterday's news."

Further, the survey indicates positive numbers for investment, hiring intentions and labour shortages.

"This is the strongest reading for hiring intentions in the two-decade history of the survey," says Holt, and that will inform the BoC's wage growth forecast. With Ontario and Alberta increasing their respective minimum wages, Holt expects wage inflation in 2018.

"That's going to be a big deal at the BoC," he says. "If [business is] hiring more and we're transitioning to seeing people paid more, then in a Phillips curve sense that would reinforce expectations for a bottoming of core inflation measures this year and some upward pressure into next year and beyond."

He also notes that after the survey was released, 2-year yields jumped by about 2 basis points.

Loonie

As the Bank moves closer to hiking rates, the loonie has been on a tear. But "this may be as good as it gets with so much already priced in for the BoC," say senior economist Andrew Grantham and director Royce Mendes, both of CIBC, in a weekly economics report.

They expect gradual tightening in part because exports, excluding energy, haven't been strong, despite a pickup in global growth.

"With that backdrop," say Grantham and Mendes, "Governor Poloz won't want to see the C$ appreciate too much more. As such, we see the loonie giving back a little of its recent strength in the next couple of quarters."

CIBC forecasts a hike in October, but also says its conviction on timing isn't strong, given "the economic impacts of small variations in timing aren't material."

The Bank of Canada's key interest rate target has been set at 0.5% since 2015. The central bank's next rate announcement is set for July 12.

7. Credit unions fight back at banks' exclusive use of industry terms

[July 4, 2017] The Office of the Superintendent of Financial Institutions (OSFI) is cracking down on who gets to use the words "bank," "banker" and "banking."

The crackdown is part of Advisory 2017-01, which OSFI issued last Friday.

The advisory states that the above terms can't be used by:

- federally regulated trust and loan companies,
- provincially regulated institutions, and
- unregulated financial service providers.

"OSFI has observed increased use of [these terms] by non-bank financial service providers," says Carolyn Rogers, assistant superintendent of the regulation sector at OSFI, in the advisory's cover note. She further explains that the advisory is meant to bring clarity to OSFI's interpretation of the applicable restrictions and exceptions.

Ultimately, the Bank Act says those who use the terms without authorization are guilty of an offence. Exceptions apply when the terms are used in a context unrelated to financial services business.

The Canadian Credit Union Association (CCUA) doesn't like the advisory one bit.

"This rule will prevent credit unions from advertising their 'business banking' services or even having an 'online banking' button on a website," says Martha Durdin, CCUA's president and CEO, in a release. "Having to create and popularize new words is an unnecessary and expensive undertaking, and will make it difficult for credit unions to compete fairly with banks."

While the advisory is in immediate effect, the following deadlines account for a transition period:

December 31, 2017	For information on websites or other electronic media
June 30, 2018	For information in print materials
June 30, 2019	For information on physical signage

CCUA is calling on the federal government to reverse the advisory.

"OSFI has taken a position that is inconsistent with its past practices and with common sense," says Durdin. "The [finance] minister has the power to fix this so that Canadians continue to have a real competitive option to the big banks."

Have a nice and fruitful week!