Weekly Updates Issue # 624

1. Weekly Markets Changes
2. Energy sector powered domestic growth in May
3. The central bank pivot: how far and fast rates could move
4. Estate planning for digital assets
5. Fed to start balance sheet unwinding ‘relatively soon’
6. Canada to lead G7 in 2017: IMF
7. Lower growth for 5 provinces: DBRS

1. Weekly Markets Changes

[July 28, 2017]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
15,128.65 -54.48 -0.36%	2,472.10 -0.44 -0.02%	21,830.31 +250.2 +1.16%	6,374.68 -13.08 -0.20%	$0.8041 +0.67c +0.84%	$1,269.00 +14.00 +1.12%	$49.79 +4.19 +9.19%

2. Energy sector powered domestic growth in May

[July 28, 2017] Economic growth in the country blew past expectations in May, powered by the energy sector. Statistics Canada says real gross domestic product grew by 0.6% for the month.

Economists had expected an increase of 0.2%, according to Thomson Reuters.

Goods-producing industries rose 1.6%, driven by a 4.6% increase in the mining, quarrying, and oil and gas extraction sector.

The oil and gas extraction subsector grew 7.6%, with non-conventional oil extraction rising 13% due to a rebound in activity after a fire at the Syncrude Mildred Lake upgrader in mid-March that curtailed production.

Conventional oil and gas extraction gained 3.2%.

Service-producing industries increased 0.2%, led by finance and insurance services.

In a research note, TD Economics says, “The Canadian economy notched up its seventh straight monthly expansion in May, growing an impressive 0.6% month-on-month.”

But, while “there appears to be no holding back the Canadian economy, at least for now,” TD also predicts “a return to a more cautious communication strategy and pace of interest rate increases is expected in light of the headwinds facing Canada.” One reason, the bank notes, is “recent economic strength may not translate as meaningfully into inflationary pressures relative to historic experience.”

3. The central bank pivot: how far and fast rates could move

[July 27, 2017] Led by the Federal Reserve, many developed-nation central banks are starting to pivot away from the emergency rates spurred by the 2008 crisis, the oil price crash and geopolitical shocks like the Brexit vote.

But how far and how fast will central banks raise rates? As they move up from emergency levels, most don't even know.

"Part of the central bank journey is one of experimentation, ultimately probing for the right level of interest rates that will not compromise economic growth that is already challenged by aging demographics," TD says in an economics note on Thursday.

It adds, "For the U.S., we believe [the Fed] has comfortably moved from the lift-off phase to the probing phase. Following four rate hikes and soon-to-be execution of balance sheet run-off, the Fed has far less runway in its rate-adjustment cycle than other countries."

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One risk for central banks is whether inflation targets can be met amid structural factors weighing on price growth. Aging demographics and online shopping, for instance, have emerged as structural drags on prices.

Advanced economies have not been able to sustain inflation near their targets since the financial crisis, TD says, noting that even central banks admit that post-crisis inflation dynamics are not entirely understood.

But central banks in developed nations are pursuing a pivot toward higher rates — and there's room to go.

The BoC's 25 basis-point hike in July was seen as "an abrupt U-turn from the Bank's previously cautious communications focused around weak inflation and trade threats," the TD note says, while, in Europe, the ECB "has also taken a few steps back from prior dovish sentiment to do ‘whatever it takes’ to support economic activity.”

The BoE is also considering a hike, just one year after the Brexit process started, say the TD economists.

While the Fed has moved from liftoff to economic probing, the BoC, the BoE and ECB “are just starting or are preparing for lift-off,” TD says. In other words, many central banks have some distance to go before they get into the economic probing zone, so be ready for more surprises from the BoC and central banks other than the Fed.

In the U.K. and Europe, for instance, expect “forward guidance of less monetary easing later this year and potentially hikes in 2018,” says TD. In Canada, be ready for more rate hikes this year and next, the TD economists say.

“Outside the U.S.,” they add, “the lift-off stage has quite some time left to run as there is significant space between real policy rates and the level of real rates that would start to choke off growth.”

4. Estate planning for digital assets

[July 26, 2017] Digital assets are becoming increasingly important to Canadians, who have, on average, digital assets worth $1,000 to $2,000, reveals a Deloitte report. By 2020, the average Canadian will accumulate, over a lifetime, digital assets valued at more than $10,000. Yet, digital assets are rarely addressed in wills. Of Canadians aged 45 and older who say digital assets are important, 57% don’t have provisions for digital assets in their estate plans, finds BMO Wealth Institute.

Digital assets and accounts defined

In a report on digital assets, Kimberly Whaley, principal at Whaley Estate Litigation, defines a digital asset as a file over which a person claims ownership. It can take many forms, including a photo, spreadsheet, Word document, tweet, or blog post.

A digital account is used to access a digital asset. Essentially, a digital account is to a digital asset what an email account is to an email. Whaley notes there are three types of digital accounts:

- accounts with currency information that translates to real money, such as PayPal, loyalty program accounts and credit card accounts with cash back;
- accounts containing information of personal or commercial interest, such as email and social media accounts; and

- accounts containing virtual property, such as Kindle and iTunes accounts, wherein users have a licence to use digital assets like a song or book but don't own them.

It's important to distinguish between a digital asset and a digital account because a digital account may prevent access to a digital asset as per its provider's terms of service. More on that in a bit.

Don't dismiss digital assets

With more people owning more digital property, it's vital clients account for such property in their estate plans to avoid losing monetary and sentimental value.

For example, personal blogs and websites can generate income, and many online games create rewards that can be traded for real money. Bitcoin, an application used to electronically generate and transfer money, is a perfect example of a digital asset that contains monetary value. Bitcoin's monetary base is currently more than US$40 billion. Without explicit instructions in a will, digital assets might be left unclaimed and become vulnerable to hacking.

Even a more mundane asset, like an email address, is important to deal with. Often, a small business owner's personal email account is used for commercial transactions or to communicate with suppliers. The owner's death can thus affect day-to-day business operations, so it's imperative the will address ownership of the email account.

When it comes to sentimental value, digital assets such as emails, photos and messages are replacing physical property. For example, tweets are the 21st century's version of a personal journal or diary, an iTunes library is the modern-day record collection, and Facebook pictures are a virtual photo album.

Further, without a plan in place, the estate trustee might experience unnecessary legal headaches when administering the deceased's digital assets and accounts.

Legal obstacles

Due to lack of legislation for digital assets, the estate trustee might be constrained by service terms outlined by digital account providers. A terms of service agreement is a contract between an account holder and account provider. Without explicit instructions in a will, companies assume the deceased had no intention of transferring or sharing digital information.

Different providers apply different rules. Gmail, for example, provides user content if the fiduciary sends a copy of the death certificate, a copy of the email that authorizes the fiduciary, and a court order. Facebook, however, won't transfer accounts to a fiduciary, but a Facebook account can be deleted with written request from the deceased's next of kin.

Consider a case from Wisconsin, Stassen v Facebook. In 2012, the Stassens' 21-year-old son committed suicide. The devastated parents wanted access to their child's Facebook and Gmail accounts to try to understand why he killed himself. Facebook, concerned with breaching the client's ownership rights, refused to release information. Even after the parents obtained a court order claiming they were heirs to their son's estate, Facebook refused to disclose the son's personal account information.

Often, digital accounts reserve the right to restrict access to non-account holders out of fear of breaching Canadian privacy laws, which are designed to protect a person's right to privacy both before and after death.

How to plan for digital assets in a will

There's little legislation to assist an estate trustee with digital assets, so the best way to protect your client's digital assets is to provide the following items in the estate plan:

1. an inventory of all digital assets;
2. an appointed trustee specifically authorized to manage the client's digital accounts (this can be the client's executor or a separate trustee who's solely responsible for managing the client's digital assets);
3. a password-protected list of digital assets is accessible by the trustee (some frequently used services for storing passwords are AssetLock, PasswordBox and SecureSafe); and
4. detailed instructions in the estate plan of how the client wants assets to be distributed among heirs.

Lastly, ensure any provincial legislation is considered when the estate plan is drafted. Digital assets are governed by provincial law, and the rules may differ in each province.

5. Fed to start balance sheet unwinding 'relatively soon'

[July 26, 2017] The Federal Reserve held its benchmark interest rate on Wednesday as it indicated plans to start unwinding its massive balance sheet "relatively soon."

"The Committee expects to begin implementing its balance sheet normalization program relatively soon, provided that the economy evolves broadly as anticipated," the Fed said in a policy statement in which it held the benchmark rate at 1% to 1.25%.

Fed watchers have been waiting for the central bank to announce when it will start gradually paring its enormous US$4.5 trillion in holdings of Treasury and mortgage bonds, which it accumulated after the financial crisis in a drive to ease long-term borrowing rates. Economists see the Fed starting to

gradually shrink those holdings in September or October, a move that's expected to put upward pressure on long-term borrowing rates like mortgages.
The Fed again acknowledged low inflation, which has remains persistently below the central bank's target level.
The statement noted that inflation has stayed undesirably low even though the job market keeps strengthening, with the unemployment rate just 4.4%. Normally, solid job growth drives up wages and prices. But the Fed's preferred gauge of inflation has moved further below its 2% target in recent months.
The central bank decided after ending its latest policy meeting to leave its key rate unchanged in a range of 1% to 1.25% after having raised rates twice this year in March and June.
The Fed says it still envisions further "gradual" rate hikes. But many economists say they foresee no further rate increases this year unless inflation picks up.
With the U.S. job market still solid after eight years of a grinding but durable recovery, the Fed has essentially met one of its two mandates — to maximize employment. But it's so far failed to achieve its other goal of stabilizing inflation at a favourable level.
Inflation has been edging further below the Fed's 2% target in recent months. The problem is that too-low inflation can slow the economy by causing consumers to delay purchases if they think they can buy a product or service for a lower price later.
Months ago, the Fed had signalled its readiness to raise rates three times this year on the assumption that it needed to be more aggressive to ensure that consistently low unemployment didn't contribute to high inflation later on.
But in testifying to Congress this month, Chair Janet Yellen had sounded less sure about her previous position that the slowdown in inflation this year was due to such temporary factors as a big drop in charges for cellphone plans.
Yellen conceded that Fed officials were puzzled by recent developments. Her remarks lifted financial markets as investors interpreted her words to suggest that the Fed might slow its pace of rate increases.
Over the past 12 months, the inflation gauge the Fed monitors most closely has risen just 1.4%, according to the latest data. That's down from a 1.9% year-over-year increase in January. Many economists say they think the Fed will put off any further rate hikes until inflation resumes rising toward the its 2% target.
After leaving its key rate at a record low near zero for seven years after the 2008 financial crisis, the Fed has raised it modestly four times — in December 2015, December 2016 and twice so far this year, in March and June. Even

now, the rate remains historically low and significantly below the 3% level that the Fed sees as “neutral.” That’s the point at which the Fed’s benchmark rate neither stimulates nor slows economic activity.

In her congressional testimony Yellen didn’t rule out another rate increase this year. But investors have themselves grown more uncertain, with the CME Group’s closely watched gauge foreseeing a 52% chance of another rate increase by year’s end.

Q1 GDP grew at an anemic 1.4% annual rate — well below a healthy pace and far below the consistent 3% or more annual growth that President Donald Trump’s administration has said it can achieve.

During the Q2, the economy is generally thought to have grown at an annual rate of about 2.5%. The government will offer a preliminary estimate of that figure Friday.

Voting in favour of the committee decision Wednesday were: Chair Janet L. Yellen; vice-chairman William C. Dudley; Lael Brainard; Charles L. Evans; Stanley Fischer; Patrick Harker; Robert S. Kaplan; Neel Kashkari; and Jerome H. Powell.

6. Canada to lead G7 in 2017: IMF

[July 24, 2017] It seems the Bank of Canada isn’t the only one expecting a pick up for Canada.

It was announced Monday that the International Monetary Fund expects Canada to lead the G7 for economic growth this year. The IMF raised its outlook for Canada as part of its latest world economic outlook update.

It now expects the Canadian economy to grow by 2.5% in 2017, up from its April projection of 1.9%. The IMF says it revised its 2017 outlook for Canada following strong growth in the first quarter and indications of “resilient second-quarter activity.”

However, it trimmed its outlook for Canada for 2018 to 1.9% compared with its earlier forecast for 2%. The IMF says global economic growth is expected to be 3.5% this year and 3.6% in 2018, unchanged from the April forecast.

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Wholesale sales surprise to upside

Statistics Canada says wholesale sales hit a record high in May as they climbed 0.9% to $61.6 billion. Economists had expected an increase of 0.5%, according to Thomson Reuters.

Statistics Canada says sales were up in six of the seven subsectors, representing 80% of total wholesale sales. The miscellaneous subsector had the largest gain in dollar terms as it increased 2.6% to $8 billion in May.

Motor vehicle and parts sales rose 1.4% to $11.6 billion. Wholesale sales increased 0.8% from April to May in volume terms.

7. Lower growth for 5 provinces: DBRS

[July 24, 2017] Five provinces are expected to see lower real GDP growth in 2017 than 2016, according to DBRS private sector consensus data.

Those provinces are B.C., Manitoba, New Brunswick, P.E.I. and Newfoundland, with Newfoundland seeing the largest dip from 1.9% in 2016 to -2% in 2017 — that compares to nominal GDP growth of 2.4% in 2017, which is still set to be the lowest out of the provinces. Statistics Canada data indicates the province had the highest unemployment rate, at 13.4%, in 2016.

As a result, Newfoundland and P.E.I. are the lowest-rated provinces, at R-1 (low) for short-term debt and A (low) for long-term debt. B.C. and Alberta are the highest-rated, with both boasting R-1 (high) short-term ratings and AA (high) long-term ratings.

B.C. is one of the provinces set to lead real GDP growth in 2017 at 3% annual growth. DBRS predicts Alberta will come out on top at 3.1%, while Ontario and Quebec will trail at 2.8% and 2.3%. In terms of unemployment rates for 2016, these four provinces' rates range between 6% (B.C.) and 8.1% (Alberta).

Have a nice and fruitful week!