Weekly Updates Issue # 632

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1. Weekly Markets Changes

[September 22, 2017]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
15,454.23 +281.2 +1.85%	2,502.22 +1.99 +0.08%	22,268.34 +81.25 +0.36%	6,448.47 -21.55 -0.33%	$0.8104 -0.94c -1.15%	$1,297.50 -22.68 -1.72%	$50.66 +0.77 +1.54%

2. Inflation inches closer to BoC target in August

[September 22, 2017] The country's annual inflation rate continued to accelerate last month with a boost from higher costs for gasoline, hotels and airline tickets.

Statistics Canada said Friday inflation hit 1.4% in August — up from 1.2% in July and a two-year low of just 1% in June.

The upward forces driving inflation were led by year-over-year price increases last month of 8.6% at the gas pump, 6.3% for traveller accommodation and 6.2% for air transportation.

The August reading brought inflation closer to the Bank of Canada's ideal target of 2% and supported the bank's predictions that recent softness was mostly temporary.

Two of the central bank's three measures of underlying inflation, which seek to look through the noise of more-volatile items like gasoline, also saw increases in August.

Motivated by a stronger-than-expected economy, the inflation-targeting bank has raised its benchmark interest rate twice since July and many analysts expect it to continue along its hiking path over the next year.

Consumer prices rose at a faster pace in nine of the 10 provinces in August, while the pace of inflation held steady in Manitoba, the federal statistical agency said.

The pace of inflation in Saskatchewan saw the biggest acceleration of any province — climbing to 1.7% in August from 0.8 in July — in large part due to the application of the provincial sales tax in new areas. Higher prices in Prince Edward Island last month were partly linked to sales tax increases.
The biggest contributors to the downward pressures were cheaper year-over-year prices for electricity, computers and digital devices as well as household appliances.

Retail sales

On Friday, Statistics Canada also released retail trade numbers for July that showed total sales reached $49.1 billion after rising 0.4%, compared with the previous month.
In July, stronger auto sales as well as purchases at grocery, liquor and corner stores made the biggest contributions to the growth.
Retail e-commerce sales climbed 46.8% in July compared with a year earlier on an unadjusted basis, while total retail sales expanded by 6.7%.
E-commerce still made up just 2.3% of overall retail trade in July. But it took a larger portion of all sales compared with a year earlier when its share was just under 1.7%.

3. S&P made 'wrong decision', says China, on back of rating cut

[September 22, 2017] Standard & Poor's rating agency cut China's credit rating on Thursday, and the nation's Finance Ministry isn't happy.
The ministry said on Friday that the rating agency made the "wrong decision" and that the cut doesn't reflect the country's economic strength.
Earlier this week, S&P cited rising debt in China that's increasing financial risk. The move to cut the nation's credit rating came after warnings that China's debt burden might drag on economic growth or threaten the financial system. It also followed a similar downgrade by Moody's Investors Service in May.
Nonetheless, the timing is awkward for the ruling Communist Party, which wants to project an image of stability ahead of a twice-a-decade congress next month at which President Xi Jinping is due to be named to a second five-year term as leader.
S&P followed its China downgrade a day later by cutting its credit rating for Hong Kong, citing risks posed by their close ties. The agency said Friday it was reducing its long-term rating on Hong Kong by one notch, to AA+ from AAA, reflecting potential spillover risks.

It said Hong Kong has a good economic outlook, sizeable fiscal reserves and credible monetary policy, but that China's downgrade is "exerting a negative impact" on Hong Kong because of "strong institutional and political ties" between them.
Still, China's Finance Ministry has complained S&P ignored China's stable economic growth and reform efforts. It noted official data showed the economy grew by 6.9% in the first half of 2017 over a year earlier and government revenue rose by nearly 10%.
"The Standard & Poor's downgrade of China's sovereign credit rating is a wrong decision," the ministry said on its website. "This misreading neglects China's good fundamentals and development potential."
Total Chinese nongovernment debt rose last year to the equivalent of 257% of annual economic output, according to the Bank for International Settlements. That is unusually high for a developing country and up from 143% in 2008.
Communist leaders have cited reducing financial risk as a priority this year. They have launched initiatives to reduce debts owed by state companies, including by allowing banks to accept stock as repayment on loans. But private sector analysts say they are moving too slowly.
S&P lowered its rating on China's sovereign debt by one notch from AA- to A+, still among its highest ratings.
"A prolonged period of strong credit growth has increased China's economic and financial risks," said S&P in a statement. That has supported economic growth but "also diminished financial stability to some extent."
The downgrade could raise Beijing's borrowing costs slightly but is more significant for its impact on investor sentiment.
"The new rating is still squarely investment grade — there is no real concern about the possibility of default," said Mark Williams of Capital Economics in a report.
"However, credit continues to expand at a faster pace than output, which points to significant ongoing misallocation of resources," said Williams. "State sector reforms have continued to disappoint and so the hidden risks on bank balance sheets have continued to build."
Chinese economic growth fell from 14.2% in 2007 to 6.7% last year, though that still was among the world's strongest.
The government is trying to make the economy more productive by giving market forces a bigger role. It is trying to shrink bloated industries such as steel and cement in which supply exceeds demand, which has depressed prices and led to financial losses.

Beijing is trying to steer the economy to slower, more sustainable growth based on domestic consumption instead of investment and exports. But growth has dipped faster than planners wanted, raising the risk of politically dangerous job losses. Beijing has responded by flooding the economy with credit.

Official efforts to rein in debt “could stabilize the trend of financial risk,” S&P said. “However, we foresee that credit growth in the next two to three years will remain at levels that will increase financial risks gradually.”

4. Why the TTC is suing Manulife Financial

[September 22, 2017] The Toronto Transit Commission is suing Manulife Financial for alleged negligence in connection with a benefits fraud scheme that first came to light three years ago.

To date, 170 TTC employees have been dismissed, retired or have resigned to avoid dismissal, and 10 former employees are facing criminal charges for their part in the alleged fraud.

In a statement of claim — filed in the Ontario Superior Court of Justice — the TTC alleges Manulife Financial did not have appropriate fraud management controls in place nor were there systems in place to detect and analyze unusual trends or patterns that might indicate fraud or abuse.

It maintains that Manulife breached its duties of care, which contributed to losses suffered by the TTC. The TTC says it is seeking up to $5 million in reimbursement and damages.

The allegations in the statement of claim have not been proven in court.

Manulife spokesman Sean Pasternak said Thursday that the company does not comment on active litigation, but added it “takes fraudulent insurance claims seriously.”

“Manulife works with policyholders, law enforcement and others in order to detect and prevent fraudulent activity for the benefit of our customers,” Pasternak said in an email.

The TTC began an investigation in 2014 following a tip to its “integrity line.”

The tip alleged receipts were being provided to employees by Healthy Fit, a health care products and service provider, where claim reimbursements were being made, but where no product or service (such as orthotics, compression stockings and sleeves) was obtained or where receipt amounts were inflated.

It was also alleged that Healthy Fit and the employee making improper claims would then share the money paid out by Manulife Financial.

Adam Smith, the proprietor of Healthy Fit, pleaded guilty this week to two counts of fraud over $5,000 and was sentenced to two years in prison.

The TTC said Thursday that investigators continue to interview employees as part of its own internal investigation.
In 2016, the TTC saw a reduction in benefit claim costs of almost $5 million over 2015, which the transit agency says reflects its continued success in bringing an end to improper benefits claims.
The statement of claim alleges the TTC has suffered losses due to “negligence and breach of contract” by Manulife.
The TTC alleges Manulife stated it had comprehensive systems and procedures in place to detect and prevent fraudulent benefits claims.
“Manulife employed incompetent managers, employees and contractors in connection with administration and operation of the systems and procedures so that such systems and procedures were inadequate in all of the circumstances for the purpose of preventing and detecting fraud,” the claim alleges.

5. Surging stock market powers U.S. wealth to $96.2 trillion

[September 21, 2017] A healthy gain in the stock market and steadily increasing home prices boosted Americans’ household wealth this spring, a trend that likely adds to the nation’s inequality.
The Federal Reserve says Americans’ net worth rose 1.8% to $96.2 trillion in the April-June quarter. Stock portfolios and mutual funds jumped $1.1 trillion. Home values climbed $600 billion.
The solid gain in wealth could make many Americans more confident about spending, which typically fuels economic growth. But the increases in wealth aren’t widely shared. Roughly 10% of Americans own 80% of the nation’s stock market value.
Housing is the main wealth accumulation vehicle for the middle class. While home prices have climbed sharply since 2012, in much of the country they still trail pre-recession levels.

Jobless claims fall

In other U.S. economic news, the number of Americans seeking unemployment benefits dropped by last week 23,000 to 259,000, as the economic impact of Hurricane Harvey began to fade.
Almost 12,000 of that decline was attributable to fewer initial claimants being reported in the state of Texas, which was hit by Hurricane Harvey at the end of August, explains Royce Mendes of CIBC World Markets Inc.
“While the Labor Department is reporting that claims in Texas are still being affected by Hurricane Harvey, and claims in Florida and Puerto Rico by

hurricane Irma, it does appear that the worst may be in the past for this indicator," he writes. "Initial jobless claims are still roughly 25,000 higher than they were trending prior to the weather disruptions, suggesting some, albeit a modest, impact on the upcoming September payroll reading."
He adds, "But the Federal Reserve already stated earlier this week that it will be looking through the effects of the hurricanes as it believes that they won't materially alter underlying economic momentum."

6. Canada-EU trade enters new era as CETA comes into force

[September 21, 2017] Canadian companies have much greater access to one of the world's largest markets starting today, as a major trade deal between Canada and the EU comes into effect.
Known as the Comprehensive Economic and Trade Agreement, or CETA, the deal clears barriers to trade for Canada's largest trading partner after the U.S.
As of Thursday, about 98% of Canadian goods will be able to enter the EU without tariffs, compared with only 25% a day earlier, which the federal government says will improve export opportunities for a range of Canadian producers, processors and manufacturers.
Todd Evans, a principal at Export Development Canada Economics, says the agreement gives Canadian companies access to a $20 trillion market at a time when there is a lot of doubt on where trade relations with the U.S. are headed.
"It's very, very important for Canadian companies, especially nowadays when a lot of companies are really thinking of diversifying their export business given the uncertainty they're seeing south of the border."
The deal not only clears the way for goods, which Canada exported $42 billion worth of last year, but also codifies access to services, which Canadian companies sold an additional $18 billion worth in 2016, says Evans.
"A lot of people, when they talk about trade, they tend to focus on just the merchandise goods trade. That's still the bulk of our trade but services are growing quickly."
The deal will also mean Canadian companies can bid for work at all levels of the EU government procurement market, which the federal government says is worth an estimated $3.3 trillion annually.
The agreement is a two-way street though, with EU companies also gaining access and creating more competition in the Canadian market.
The federal government has been making investments to help prepare companies, including $350 million in funding announced last year to help the dairy sector get ready for the increased competition.

Overall, the trade agreement could increase bilateral trade by 20% annually and boost Canada's income by $12 billion annually, according to a joint Canada-EU study.
The study suggests the economic benefit of the agreement would be equivalent to creating almost 80,000 new jobs or increasing the average Canadian household's annual income by $1,000.
The first round of negotiations was held in Ottawa in October 2009 and an agreement in principle was announced four years later. After fine-tuning some contentious clauses, a final legal text was released in February 2016.
Adoption of the deal in Europe was nearly scuttled by Wallonia, a Belgian region of 3.6 million people. A final round of negotiation saved the agreement from a Wallonia veto that would have ended seven tough years of talks.

7. Canadians say adult children are a financial strain

[September 19, 2017] More than half (51%) of Canadians with adult children say those children are still financially dependent on them, while 45% say their kids are a financial strain, finds the Children and Financial Dependence survey by the FPSC.
"These results raise some fascinating questions about children, financial dependence and suggest potential sources of marital conflict," says personal finance educator and FPSC's consumer advocate, Kelley Keehn. "Perhaps the biggest question is how to help your children without jeopardizing your own financial well-being."
The survey posed a series of scenarios to parents regarding their children's post-secondary education, home buying and financial independence. According to the results, assisting their kids with post-secondary costs will postpone the retirement of 45% of respondents, and prevent 46% from paying off debt.
When it comes to home purchases, it looks like centennials (people under age 18) may be the first to lose out on mom and dad's support. While 65% of parents with children over 18 either will or already have assisted their kids with their first home purchase, only 43% of those with centennials intend to do so.
The survey also found that men (44%) are significantly more likely than women (32%) to assist their children of all ages with their first home purchase. That gender divide also extends to delaying retirement—with 22% of men (vs 12% of women) willing to postpone retirement to assist kids with their first home purchase.

Also, Quebec parents are less likely (12%) than the rest of the country (21%) to help their children purchase their first home.

8. No to tax on insurance products: poll

[September 18, 2017] Most Saskatchewan voters — 73% — oppose the government's decision to add PST to a range of insurance products, reveals a poll conducted by Maple Leaf Strategies on behalf of Advocis.

Further, 77% say taxing insurance is "unfair," and 73% say the tax will cause people to reduce or cancel insurance coverage.

"Opposition to taxing insurance crosses every demographic and political category," says pollster Dimitri Pantazopoulos, in a release.

Also in a release, Dean Owen, Saskatchewan-based Advocis member, says "Aside from the unpopularity of this tax, it could lead to serious problems for the government if people start reducing or cancelling their insurance. If those people have an accident and are not covered for risks, they will ultimately end up at the government's door — meaning higher costs in the end for taxpayers."

Advocis president and CEO, Greg Pollock, says in a release, "People use insurance as a way to protect their family's financial future in the event of an accident, illness or loss of life. They also use insurance as a way to save. Taxing savings makes no sense. It puts the financial future of families at risk."

About the poll: The telephone poll was conducted from August 3, 2017, to August 6, 2017 on behalf of Advocis. The sample size was 600 and margin of error is +/- 4%.

9. Foreign purchase of Canadian bonds hits all-time high

[September 18, 2017] Statistics Canada says foreign investment in Canadian securities totalled $24.0 billion in July, led by a record acquisition of Canadian bonds.

The total for the month reversed the sale of $858 million in Canadian securities by foreign investors in June.

Statistics Canada says non-resident investment in Canadian bonds totalled $23.8 billion in July, boosted by new issues of private corporate bonds in foreign markets ($11.4 billion). Nearly half of these new bonds were issued by Canadian banks.

Foreign investors also bought $8.0 billion of federal government bonds and $2.9 billion of provincial government bonds.

Canadian long-term interest rates were up by 35 basis points in July. The Bank of Canada raised its benchmark overnight interest rate by 25 basis points in July, the first increase since 2010. Meanwhile, the Canadian dollar appreciated against its U.S. counterpart by three U.S. cents.

So far in 2017, "[U.S.] dollar bulls have had a rough ride," says Andrew Grantham, CIBC senior economist, and Royce Mendes, CIBC director, in a weekly economics report. But the dollar's depreciation in the year has been softened by Asian central bank purchases, as those banks look to combat the dollar's weakness by increasing their foreign reserve accumulations.

"The intervention shows how significant a headwind currency strength is to exports in those countries," says the report. "It also supports our view that further U.S. dollar depreciation against Asian currencies will be gradual, especially if a Fed rate hike occurs before year-end."

Non-resident investors sold $1.5 billion in Canadian money market instruments. "Foreign acquisitions of corporate paper were more than offset by a divestment in government paper," says StatsCan. "Canadian short-term interest rates increased by eight basis points in July."

Foreign investment in Canadian equities amounted to $1.6 billion in July.

"Issuance of new Canadian shares to non-resident portfolio investors, resulting from cross-border mergers and acquisitions, led the activity during the month," says StatsCan, and further notes that Canadian stock prices edged down in July.

Canadian investors reduce foreign equities

Meanwhile, Canadian investors sold $1.8 billion in foreign securities in July as they reduced their holdings in foreign equities by $2.9 billion in July — both in U.S. and non-U.S. foreign shares.

Nevertheless, Canadian investors have acquired $31.3 billion in foreign equities in 2017, in contrast to a divestment of $243 million over the same period in 2016. U.S. stock prices were up by 1.9% in the month and 10.4% since December 2016.

Canadians acquired $1.1 billion in foreign debt securities in July, mainly U.S. Treasurys. U.S. long-term interest rates were up by 13 basis points, while short-term rates were up by 9 basis points in the month.

Net result of investment

Overall, Canada's international transactions in securities generated a net inflow of funds into the Canadian economy of $25.8 billion in July.

Foreign investment in Canadian securities has exceeded Canadian investment in foreign securities by $86.2 billion since the beginning of 2017, led by foreign acquisitions of Canadian private corporate instruments.

Have a nice and fruitful week!