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Your weekly market update

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## Market Update

09 September 2016

In America, the August jobs report came in soft. July was better than expected for job gains results that seemed to open the door for the Federal Reserve to hike interest rates in September. The economy added 151,000 jobs last month, compared to consensus expectation of 175,000 and a revised July figure of 275,000. The likely hood of an interest rate increase is slim. Market forces are not showing major concern for an interest rate hike at the next Federal Reserve meeting. The Fed's rate setting committee will be meeting from September 20 to 21. Janet Yellen's August 26 address in Jackson Hole, made clear that the case for a rate hike had strengthened in recent months.

Yellen's comments followed a week of mostly-hawkish Fed chatter from regional presidents such as the San Francisco Fed's John Williams and Atlanta's Dennis Lockhart.

Economic data in America continues to point to progressive acceleration and growth. So why does the Federal Reserve repeatedly make statements about hiking rates with little follow through? Well for one, America is in an election year, an even if it looks that Hillary Clinton's administration will win according to current market sentiment. A rate hike just before a presidential election would put markets in an uproar and flood news wire with negative sentiment. The current political election cycle has already



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proven to be capable tearing and destroying the social fabric that binds Americans. Adding economic uncertainty will only a fuel to fire that need not burn. A much more crucial factor in why the Fed has not pushed hard to raise interest rates is global markets and the economic state of most countries.

The EU just experienced a history making union breakdown between Britain and the remaining EU states for which the economic pain has only started. Britain has embarked on a massive new quantitative easing plan in devaluing the British pound and asset buying. The ECB will be also be engaging in lowering the Euro dollar and will push hard for EU leader to match monetary stimulus with fiscal policy. So the EU must embark on massive infrastructure redevelopment programs.

When it comes to Asia, the simple truth is the entire region is headed into economic recession. China has not been able to correct the negative trajectory of their economies. On a daily basis state owned firms are going bankrupt as governments lenders refused to extend and/or renew loans. China must accept the fact that for its nation to move forward it has to inject new funds to pay off all the bad loans and allow the economy to reset via recession. Refusing to acknowledge the catastrophic situation created (by the unregulated lending of government banks to fund state owned business enterprise) will only worsen matters. I can not see how China will be able to right size these bad debts as the boss of these state run corporations are on a tidal wave scale removing assets and hiding them abroad. We as Canadians know all to well what that does to real estate and asset prices.

In my opinion, the goings on in China resemble those of Russia during the failed days of President Boris Yeltsin. All the wealth was removed from Russia to foreign banks and the countries new regime was run by a few wealth families. During the great recession China's propaganda machine deeply cited America as being reckless in financial management and deploying exploitive capitalism. Chinese leadership asserted that state run banks and

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corporations are the only way to function in the new world. America's bail out of nearly \$1trillion during the great recession of 2009 will look like peanuts. China has a few trillion and counting in bad loans to right off.

Even Japan which looked to have come to an end on monetary stimulus just announced this week that even with in the current framework, there is ample room for further monetary easing in either of three directions quantity, quality and interest rate not excluding other new ideas.

Lastly, not to mention growing geopolitical instability around the world along with oil prices that just won't fully rebound.

What we will see going forward is governments moving to a monetary tool called helicopter money. It's called helicopter money because of the illusion of dumping currency from the sky to people who will rapidly spend it, thereby creating demand, jobs and economic growth. Central banks can raise and lower interest rates and buy and sell securities, but that's it. They can thereby make credit cheap and readily available, yet they can't force banks to lend and consumers and businesses to borrow, spend and invest. That undermines the effectiveness of QE; as the proverb says, you can lead a horse to water, but you can't make it drink. Globally, economic conditions exist for helicopter money deployment such as lingering economic growth and near zero interest rates.

During 2009, the Fed wrote a big cheque and distributed it to the banks to ensure proper deployments via commercial loans and mortgages. What the banks did is keep the cheap money for themselves and create vast amounts of wealth by speculating on securities. Direct deployment of capital "helicopter money" is how you remove banks from the equation.

In Canada we see first hand the use of direct deployment money by federal and provincial bodies to fund infrastructure programs with more to come. I expect to see America follow suit after the

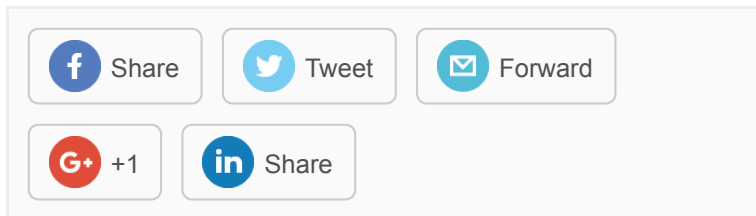
Federal election regardless of who wins the leadership with Japan, Britain, EU and Australia all doing the very same.

Canada's economy added 26,000 new jobs in August, but the jobless rate inched up to seven per cent, because more people entered the labour force looking for work.

Statistics Canada reported Friday that employment rose in Quebec and in Newfoundland and Labrador, while it declined in New Brunswick. There was little change in the other provinces. According to the data, there were more than 52,000 new full time jobs created during the month, more than enough to offset a loss of 26,000 part-time jobs. Despite the surge of new jobs, the jobless rate ticked up from 6.9 per cent in July to 7.0% because of an influx of new job seekers.

Canadian real estate prices are a hot topic of discussion and a sizzling hot commodity. Sales activity peaked in April with overall residential average prices, total inventory supply and active listings falling. For the first time in July, new listings also declined from a year ago. Are we seeing the top of the market form in housing or are buyers taking a pause to reorganize their financial affairs? It is too early to tell yet. However, even for developers and home builds the capital cost outlays to finance projects have become near unattainable. As land development costs reach nose bleed highs, risk skyrockets to the point projects become fewer and fewer. It is important to note the desire for people to want to list their homes is declining as inventory in established neighbourhoods are hard to come by. Additionally, the biggest price increases are not in the first time buyers segments but in the single detached homes. It is this crowd that looks to buy their dream home with in a specific location in mind who will find it difficult. Teardown lots are ranging from \$1.5 million to \$2.5 million in key GTA neighborhoods. At prices well over \$3 million, in order for a family to qualify and afford a finished home, household income must be \$400,000 a year and home equity of \$750,000 plus closing costs. Considering average house hold incomes in the GTA are well below, overall buying

power is reaching maximum capacity. For an uninterrupted cycle of price appreciation in real estate to continue the jobs must be available to fund such purchases along with a constant stream of inventory. Once prices reach record territory, home owners will start listing at a quicker rate than available qualified buyers. This is without considering that we are at historically low interest rates which will move upwards. For the present home owner, a 0.25% jump in interest rate would see some home owners forced out as most are highly leveraged. Lastly, Canada's trade mission to China was deemed a big success. At this point in time, I don't think Canada will want to jeopardize Sino Canadian relations by protecting the Canadian based assets of Chinese citizens for which Chinese leadership has these individuals on their most wanted list back on the mainland. Chinese state run banks have already filed to have Canadian assets seize of wanted bosses.



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