

Your weekly market update

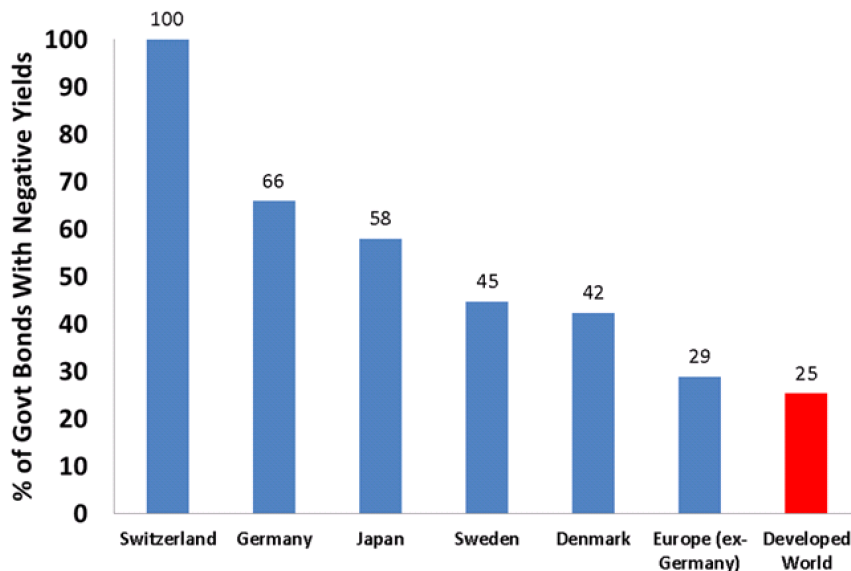
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Market Update

20 May 2016

The world of negative interest rates is fast approaching. What does this mean to the developing world and equity market? Well for you and I the days of investing in GIC and long term bonds are definitely dead and will remain so until interest rates normalise. When? Isn't that the million dollar question.

The American Federal Reserve is coming to terms that 25% of all DM (developed mature nations) government debt is negative. See chart below:



America's Federal Reserve is looking to counter the effect of interest rates dropping. Today was the most aggressive statement in the last few months. The hawkish tones stated that due to a recovering American economy as many as 4 interest rate hikes could occur this year. Such an event would be wild and very much never attempted by any central bank. It is also important to note that the Federal Reserve has kept interest rates at near zero for seven years. Emerging markets may be in collapse however North America is not. European nations are just barely surviving as seen by the percentage of their total government debt that has negative yields. The old continent is in much worse debt than Japan which experienced 30 years of lost economic performance. Based on the stats above Germany has more negative yield government debt than Japan.

So were do you run in such an economic storm? North America. The new world represents the largest consumer base in the planet along with the highest average income per person. The average person is earning more. Wage inflation has been present for more than 2 years. Investment capital is flowing inward to North America not



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outward. Lastly, everyone talks about a tired American consumer. Just not true. Real estate prices have just approached all time highs before the great recession. Why is that so important? Real estate is the largest expense consumers make. Just after buying a home most will buy new cars and spend considerably on new appliances and furniture. The economic after effects of home buying don't happen immediately but play out over 9 to 18 months.

So as America looks to raise interest rates and taper stimulus (quantitative easing), emerging economies are forced to dive deep into economic reform just to stay alive.

As foreign currencies come under attack, gold will be the safe haven stand buy for true cash which does not require a monthly yield. However, the closer it looks that the American Federal Reserve will actually raise interest rates the more attractive the American dollar will become and gold will lose some of its luster.

Let's focus on oil. Brent crude oil spot prices increased by \$3/b in April to a monthly average of \$42/b, which was the highest monthly average for Brent so far this year. This was the third consecutive increase in the monthly average Brent price, the longest such stretch since April-June 2014. Several factors put upward pressure on crude oil prices in April: improving economic data and related indications that global oil demand growth is accelerating; ongoing declines in the U.S. rig count and crude oil production; and growing oil supply outages.

Despite the recent increase in prices, EIA (Energy Information Agency) expects global oil inventory builds to average 0.9 million b/d in the second and third quarters of 2016, limiting upward price pressures in the coming months. Brent prices are expected to average \$42/b in the second and third quarters of 2016, before rising to \$44/b in the fourth quarter as a result of slowing global oil inventory growth.

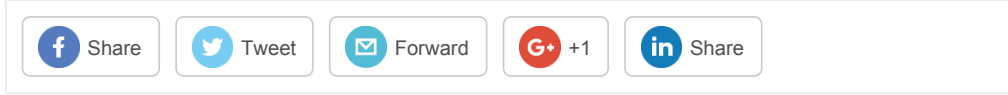
EIA expects global oil inventory draws to begin in the third quarter of 2017. The expected inventory draws contribute to forecast rising prices in the first half of 2017, with price increases expected to accelerate later in 2017. Brent prices are forecast to average \$51/b in 2017, \$10/b higher forecast than last month's short term forecast. Brent prices should reach an average of \$57/b in the fourth quarter of 2017, reflecting the potential for more significant inventory draws beyond the forecast period.

Due to geopolitical disruption and American energy producers reducing total oil rig drilling, the global glut in oil is slowly being absorbed by demand.

The rosy future of the new Liberal government has been clouded by "elbow gate". Twitter and the media are just a buzz with the event. So much so was all the upheaval that the Prime Minister had to apologize for his behaviour improper to the House speaker and parliamentarians. The Liberal government can not afford to lose momentum.

Canadian real estate seems to be on everyone's mind. Are we in a bubble? How much higher can we go? The more often I travel the clearer it becomes what we have in Canadian is not the norm across the globe. What we are now witnessing is that the rest of the world is realising that what exists in Canada is unique and want in. What better way to do so than buying real estate. Toronto is a true cosmopolitan centre. However, it does not come at the cosmopolitan price. Couple this with safety, security, and some of the best schools in the world and you have a near ideal place to live. Also let's not forget our Loonie is down and looking to stay below 78 cents. The reality of chaos in emerging economies is all too real. People will happily spend wealth for safety and security especially for their family and children. We as Canadians have chosen to live in Canada whether it is at a conscious or sub conscious act. Now the rest of the world is waking up to the Canadian dream and realising that naked capitalism does not live up to the hype. Hey even the Chinese tried their version of all out guns a blazing capitalism to only fail.

America is the ultimate money making machine in the world hands down both as a government and enterprise. However security comes at a price. Hand gun sales keep soaring. If this is not a cry out for security then I don't know what is.



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