

Your weekly market update

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Market Update

07 April 2017

A grand spectacular unwinding of a central bank's balance sheet is unfolding at the American Federal Reserve which no doubt set the tone for other central banks to follow. Chair Janet Yellen announced an unwinding of \$4.5 Trillion dollars on the Fed balance sheet. The very fact that the Federal Reserve is no longer actively suppressing interest rates by buying treasuries will cause interest rates to rise. Janet Yellen's statement did have an effect on 30 year treasury notes by rising higher to 3.005%. While 10 year treasure notes were declined to 2.352%.

All eyes are on the Trump and Xi meeting. Relations between China and America have soured since President Trump taking office. It is clear that both nations do not see eye to eye on many issues. The lack of agreement is not the pivoting factor however a greater risk is an out right lack of willingness to engage in deep strategic planning on how to smooth out tensions. Given Trump style and China's stead fast approach to economic recovery at all costs we could see protectionism cement on both sides of the Pacific. The Winter White House (Mar-a-lago Resort) seems to be the hottest spot for political dignitaries to meet.

Let's now turn our focus on the first 100 days of Trump's presidency which has been plagued by delays and internal conflict. Senate Republicans had to use the "nuclear option" rule to advance the confirmation of president Trump's Supreme court nominee Neil Gorsuch. Institutional investors are losing confidence in Trump's ability to materialize fiscal policy stimulus.



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America's economic engine continues to turn out jobs as individuals claiming unemployment benefits hit it biggest decline in nearly two years at seasonally adjusted number of 234,000 for the week ending April 1st, 2017. Unemployment claims below 300,000 is a threshold pointing to healthy labor markets holding below the threshold for the last 109 straight weeks.

For markets to push forward in North America fiscal policy stimulus must unfold to avoid an economic stall or even recession. Trade wars would signal and economic down turn.

A hard Brexit is definitely the worst possible deal for Britain. A combination of toxic politics and the economic dislocation of Britain from other key economies would be a deadly blow. A bad deal for Britain would trigger a continent wide recession. The EU may be a German Franco construction having endured 60 years as the fore fathers signed the Treaty of Rome. However Rome and Italy itself is in bad economic shape acting as cement shoes to a water treading Union. Italy's debt is 133% of GDP. Italy's economy is 7.5 times bigger than Greece making it hard to bail out and even harder to allow them to fail. Weathering the economic storm would see the EU pay a substantial price in addition to Brexit economic fall out.

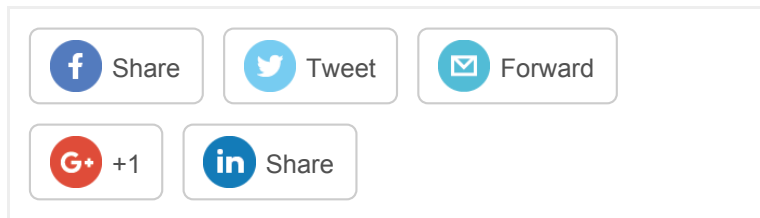
News wires are abuzz about China regarding the meeting with President Trump and Chinese leader Xi Jinping at the Winter White House. This meeting is critical in avoiding both sides going into protectionism mode. Neither side wants this as global economic is fragile with emerging economies prone to any contagion coming from the fall out.

Crude oil prices have been rebounding in the last two weeks from previous declines. Part of the blip in prices is a temporary shut down of sync crude of 350,000 barrels a week from Northern Alberta. Additionally, oil refineries ramp up gasoline production in anticipation of the American summer driving season. The America Energy Information Administration reported a surprise increase of 1.57 million barrels in crude bring total American stock piles to a record 535.5 million barrels. Oil production in America rose by 52,000 barrels a day to 9.2 million. American oil producers are exporting 1.1 million barrels a day with orders going to Asian as

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OPEC nations cut back production.

Housing prices in Ontario and British Columbia have no end in sight and have drawn the political attention of finance minister Bill Morneau. Bank CEO's are also chiming in about a potential collapse in housing prices. Canada's economy continues to perform with the TSX out performing the DOW. Prime minister Trudeau with his cabinet have based Canada's economic growth on spending which is a very high risk strategy. If economic growth does not advance at a greater rate than the cost to service the new debt loads, we the people along with Canadian firms will bare the brunt of leadership errors. Concerns from currency traders have seen the Canadian dollar hit new lows at mid 74 cents.



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