

Your weekly market update

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Market Update

12 May 2017

Inflation numbers are stepping up in America as April saw the largest jump in 3 months driven by rising food and energy prices. The Labor Department stated that the producer price index which measures inflation rates before it hits consumer pricing, rose by 0.5%. March saw the index fall to 0.1%. Such a jump in the cost of goods was dramatic. Overall inflation at the wholesale level was up 2.5% over the past 12 months, the largest 12 month gain in 5 years. Chair Janet Yellen will be watching the producer price index closely as this will be one of the key triggers to push interest rates higher.

Unemployment benefit claims fell hitting 28 year lows. According to a statement from the Labor Department, total claims for the week of May the 6th fell by 2,000 bringing the weekly average to 236,000. Claims of 300,000 and lower indicate healthy labour markets, which we have held for 114 straight weeks and have not seen since 1970. The labor market is close to full employment, with unemployment rates hitting 4.4%.

President Trump's presidency is plagued with extreme action and dramatic about face. Your fired! This is reflective of celebrity Trump. First in line was the attorney general and now the director of the FBI. Being in charge of the world's largest super power is not a really show focused on increasing viewership. Firing the very person in charge of investigating Russian meddling in the American election will hurt Trump's credibility. President Trump's administration recovered from his stunning defeat in tackling



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Obama Care. A repetitive pattern of extreme acts has been a thread throughout the start of the administration. Applying much needed tax reforms will be a hard fought battle as both the House and the Senate are up in arms on both sides of the political divide. Republican Senator John McCain has decided to let loose on the President by asking that special adviser to the president Carl Ichan be investigated. Another black eye for the administration.

Tax reform is the next major reform needed to advance forward fiscal policy. Without the implementation of a corporate tax cut and capital repatriation of trillions of dollars held outside America by multinationals, a recession becomes a higher probability.

The European Union just avoided a threat with the electoral win of Emmanuel Macon for the French presidency. News wires are a buzz of the launching of the sixth republic. President Macron's win has humiliated the established political elite. Macron La Republic en Marche has trounced both the centre left socialist party and the centre right republicans. Is this good news for France and the European Union? Absolutely, Macron's campaign relied heavily on the pro EU voters.

The next big threat is Germany's up and coming election in August. Just as in France anti-EU sentiment is high, along with a deep desire to set in motion protectionist policies. The EU equity markets had a nice rebound since the France election but will see greater turbulence as the German election marches closer. Prime minister Theresa May's desire to see the UK leave the Union will only add uncertainty and market volatility.

In recent weeks, oil prices have dropped more than 10%. Well staged announcements of further cuts by OPEC in oil output in cooperation with Russia have caused prices to rebound. However, American shale oil producers continue to ramp up production. Add into the mix a presidential order to expand pipelines across North America in order to deliver oil at a reduced cost of transportation. Keystone, Dakota Access pipeline, Sagawea pipeline and Trans Mountain pipeline are all under way. These vast networks of pipe lines will unlock a bottleneck in the volume of oil to be transported and ultimately sold to markets beyond the North American continent. By reducing the cost of transporting oil and driving

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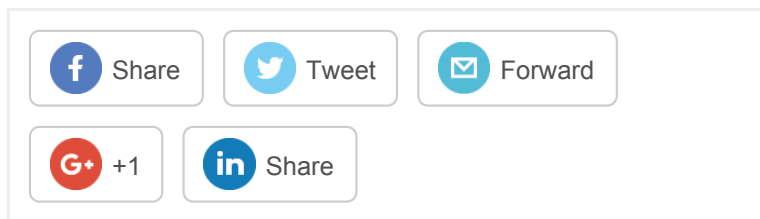
volumes dramatically higher, it will only enhance the ability of American shale producers to be aggressive in pricing. The geopolitical factor in oil pricing has been finally removed from North America.

The correlation of iron ore and copper prices is a bellwether gauge to the actual economic health of China and is vital in examining data beyond the heavily manicured reports of the Politburo. Iron ore prices have collapsed. Copper prices have rebounded temporally from bottom due to a major global mine in Indonesia being shut down for 12 weeks due to government pressures. Similar circumstance has hit the largest copper producer in South America which also has resumed mining. Recovery in China as within other emerging economies will be drawn out. Protectionism by developed nations and the influx out of investment capital out of emerging economies into North America and Europe will further pull down an economic rebound. Even though President Trump's meeting with China's leader Xi Jinping last month did alleviate fears of an outright open trade war between the world's two largest economies, it will not erase the need for the economic rebalancing. First quarter reports suggest transition towards sustainable levels has not improved.

Moody's rating agency has down graded the big six Canadian banks due to rising debt levels in consumer debt and a weakening in asset quality of private sector companies. Using housing prices will only drive debt levels higher as consumers need to take on more debt. Additionally, employees of 5 of the big banks have been speaking out about the sales practices deployed on bank customers. Quick and easy mortgage lending by banks since 2010 through till October 2016 could play out with a similar collapse of mortgage lenders as is playing out with Home Capital.

Canada's investment climate has been resilient since 2010 by providing healthy returns year after year with continuation into 2017. Canada's debt levels have been soaring with no end in sight. Failure of infrastructure to ignite sustainable growth will see our economy slump. The Bank of Canada has finally stepped up by stating growing concern of debt levels with consumers, the private sector and government.

Real estate prices are seeing no let up. On average prices in Ontario have risen by 29.5% from March 2016 to March 2017. Toronto home prices over the same duration appreciated 33.2%. Changes made by British Columbia has seen prices cool with year over year appreciation for March 2017 decline to 8.2%. Even though Ontario has introduced similar changes to curb foreign buyers and speculators alike, prices will remain strong as the lack of inventory supply of new and existing homes are the real culprit of high prices. Ontario's decision to encourage municipalities to close land for new development must end which should see prices come down. What we are seeing is a simple supply and demand equation with demand outstripping supply. Demand is not just riding high in home purchases but also in demand for rental units as home ownership becomes out of reach for many. We all need a place to live.



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