

Your weekly market update

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## Market Update

26 Jan 2018

**Trump's tax plan is already starting to show upside on the American economy with corporations pleading to increase dividend payout, raise employee wages and spend on capital investment programs in America.** This week treasury secretary Steve Mnuchin stepped in and added his own twist to enhancing economic performance by stating that a lower dollar would be a boost to America exports. If you read between the lines what the Trump administration is preparing for, is a trade war with China and other economies that sell produce in America. A devalued green back would simply make 'Made in America' goods more competitive and boost trade. Another driver to economic growth will be the rolling out of a massive infrastructure spending program on a federal level. The Trump administration reached an agreement on the debt ceiling and will push hard.

Many economists compare this latest attempt by America on the same level as Japan in the early 1990's, by suppressing the Yen to drive the sale of Japan's good and services around the globe. Davos Switzerland is this weeks top news maker as the World Economic Forum is taking place.

IPO (initial public offerings) are exploding which will push optimism closer to euphoria. What is driving all the fundraising activity in the world is washed with liquidity. So expect the Federal Reserve and other central banks will need to start raising interest rates and remove surplus capital from world markets.

Wages are rising in America. The job market is finally tightening



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and real inflation has arrived pushing the Federal Reserve to raise interest rates accordingly allowing inflation to run just ahead of Fed expectations. It is imperative that the Fed and other central banks get this right. Move interest rates upward too quickly and economic growth stalls with the threat of a recession near by. Move interests too slow, economic growth becomes overheated with rapid collapse.

Global growth is demonstrating synchronized expansion with the EU coming out of a protracted recovery from the global great recession. Margio Draghi (head of the ECB) has signalled that the EU will also move forward with monetary tightening as inflations appears in the economy. The Eu has seen strong performance hitting new lows on the jobless rate with 155,000 less people filing for unemployment benefits in the month of November. The largest decrease in Greece at 23.2% drop in unemployment claims and Spain posting a drop by 16.7%. GDP has risen to 2.60% annualized with inflation still stubbornly low at 1.7% annualized.

WTI oil prices briefly touched \$65 per barrel after the EIA reported a surprise drawdown in inventories. The drive in prices has been due to hedge fund managers and speculators taking long positions on the oil futures market. As money ploughs into one side of the bet, it leaves little room for further upside in oil prices. Another deflating force against the current rally is a recent decline in the American dollar. Since oil is denominated in green back dollars, a weaker dollar can put undue pressure on crude prices as crude becomes less expensive for other countries to buy. Once one of these massive speculative bets in oil unwinds so will the artificial propping up of oil prices. If we look at new production and oil rig count we see that since December of 2017 rig count has increased by 12 internationally and 49 in Canada. So more oil supply is coming fast. A price above \$60 a barrel energy producers will have all the incentive they need to pump oil at new record levels.

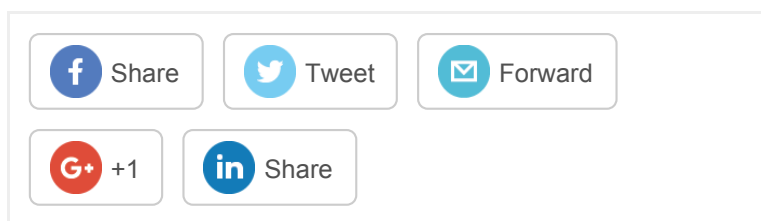
China is investing aggressively at a rapid pace to build out their service sector as the bloom falls off manufacturing. Production costs are rising faster than corporations can put in efficiencies. So far the service sector has offset the dip in manufacturing. The expanding service sector is a driving force of growth. Economic development is shifting away from foreign direct investment and

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exports. At present, target growth for the service sector is it will represent 50% of the overall economy.

December saw homebuyers rush into homeownership before the new lending rules hit January 2nd of this year. The beginning of the year saw a dramatic reversal. There was a 21% year-over-year drop in condo sales in the first two weeks of January. While detached home sales fell by 20%. It remains to be seen if other Canadian markets will follow a similar trajectory, but many economists are predicting just that.



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