Ahmet Jakupi
FINANCIAL SOLUTIONS

25 January 2015

The collapse in oil prices slowed Canadian inflation in December as falling pump prices helped decelerate the annual rate to 1.5 per cent; a drop from its two per cent perch the month before. On Friday, Statistics Canada's latest consumern price index found gasoline prices in December fell 16.6 per cent compared with the year before, following November's year-over-year decline of 5.9 per cent. The broad transportation category, which includes gasoline, stood as the lone decliner as cheaper gas weighed against rising prices in seven of the report's eight major categories compared with a year earlier. The data represented the latest example of how the rapid decline of oil prices has made an impact on Canada.

The Bank of Canada stunned the country Wednesday by unexpectedly cutting its trend-setting interest rate by a quarter percentage point to 0.75 per cent. It based its decision as a response to the weakening effect of low crude prices on inflation. Due to the oil-price plunge, the central bank also slashed its projections for the inflation rate in 2015. It predicted inflation to temporarily dip below one per cent in 2015 — under the bank's target range — before climbing back up to two per cent in the second half of the year.

Canada's main stock index advanced to its highest in nearly 2 months on Friday as investors welcomed moves by the Bank of Canada and the European Central Bank earlier this week. The Canadian central bank unexpectedly cut interest rates on Wednesday, while the ECB announced a massive stimulus plan on Thursday to try to boost a sagging euro zone economy. Financials, the index's most heavily weighted sector, climbed nearly 1 percent. Shares of energy producers rose 1.4 percent, reflecting higher oil prices.

Bank of Canada Governor Stephen Poloz's shock rate cut on Wednesday sent a clear message to financial markets: Don't expect me to hold your hand. Since taking control of the central bank in 2013, Poloz has opted for a combination of folksiness - comparing the economy to bubbling spaghetti sauce and the currency to a dog on a leash - with traditional central bank ambiguity. Some market participants say the rationale for the cut is understandable given oil's steep descent. Poloz made clear in October he wasn't in favor of providing explicit guidance to markets, when he abandoned a policy of indicating where rates were headed.

Why the interest rate? The Swiss Central Bank was the trigger of the rapid implementation of much delayed monetary action by central banks around the world. The decision by the Swiss Central Bank to no longer cap their currency from appreciating hit global markets hard and unexpectedly. The move in Canada to drop interest rates is intended to be multi-pronged. The first, avoid a sudden and unexpected appreciation of the Canadian dollar which would further delay expansion in manufacturing. Second, deal with the deflationary pressure of oil prices falling by nearly 60% globally which along with has put our booming oils industry in difficult times. Lastly, it will allow so many Canadians to reorganize their household debt at record low interest rate.

Home prices in Canada do not seem to subside as most expect the price of an entry level single family home in Toronto to hit the $1 million. The recent increase by Immigration Canada on the total annual new works allowed to come to Canada has increase from about 250,000 to 300,000. This will only add to the demand for homes as the current new comers to Canada have capital to invest and are being paid in six figure incomes.

In America, President Obama is living out his last days as a leader of the most powerful nation by executing on his last wishes such as bringing Cuba closer to America. How much success this will have is anybodies' guess, as opposition to working with the Castro regime is high.

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Economically, America's stars are lining up for a stellar year. Capital inflows both to the American dollar and investment spending are on the rise. Home sales for December rose pointing to growing consumer confidence. So where to now? The republicans have re-established their presence both in the senate and congress. All indicators are that Jeb Bush will likely be a Republican presidential candidate as are all indications that Hillary Clinton will be for the Democratic Party a presidential candidate. Will the Bush and Clinton dynasties face off to see who will lead the most powerful nation on earth?

Either way, the economic fundamentals are set for the American economy to break free from the snails pace growth of the last 5 years. Deflation will only serve as an accelerator to grow and may be just be the thing needed to set the economy ablaze as quantitative easying and stimulus spending have run their course.