Your weekly market update

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Market Update

11 August 2016

The profound nastiness of this specific American pre election cycle continually breaks new barriers. My concern as always is the economic direction needed for the American economy to prosper. America is the world's superpower and has the mightiest economic machine. Any slow down would have profound effects globally. Given the lack of bipartisanship during the Obama administration, economic recovery in America is a protracted affair. America needs a leadership team which can bring all extreme political factions to the table and focus on lasting economic growth. Other wise, as in the last 8 years, the job of executing economic growth will be squarely in the hands of the American Federal Reserve.

Regardless of whom wins, American fiscal policy which is in the hands of political leaders should centre around two key areas:

- Repatriation of foreign investment capital back to American shores
- Infrastructure building

Both president Ronald Regan and Bill Clinton championed capital repatriation with grand success. American multinationals are sitting on trillions of dollars in offshore accounts. By moving dormant capital to active American investments, a new wave of economic growth would wash over.

As for infrastructure, nearly half of voters think American infrastructure has deteriorated in the last five years. A national poll released on Tuesday found Republicans taking the dimmer view.

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While the poll showed that a bipartisan majority believes more infrastructure funding would positively affect the economy, those surveyed held different views on the nation's recent infrastructure changes. Forty one percent of Democrats said infrastructure has gotten worse over the last five years, while 53 percent of Republicans took that view. Republican voters tend to be older and male, and Democratic voters younger and more diverse. The poll surveyed 1,975 registered voters between June 17-20. Concern for infrastructure, however, varies among generations. Seventy-three percent of those 65 and older rated U.S. roads poor to fair, compared with 55 percent of 18-34 year-olds, it said.

Between 80 and 90 percent of those surveyed said roads, bridges and energy grids are in some or extreme need of repairs. More than 70 percent of respondents thought federal, local and state governments should be doing additional work to improve infrastructure across the nation.

Roads are "top-of-mind" to registered voters regardless of political affiliation. Voters also believe bridges, railways, dams and water pipelines also require repairs. The ASCE also estimated that while the nation needs to spend $3.32 trillion to keep its ports, highways, bridges, trains, water and electric facilities up to date, it has funded only $1.88 trillion of that.

On the top of winning the American election, given that Trump is not a politico, market speculators will leverage his unproven skill a political leadership by shake markets aggressively, specifically the American dollar. Gold acts as a proxy for confidence in fiat currency. It may well be that speculators are currently forecasting a democratic win on the horizon.

On March 10th, head of the ECB did the expected and gave the EU a shot of capital injection, lowering the Euro dollar and interest rates into negative territory. June 24th the American Federal Reserve came to the rescue of the Bank of England after Brexit and injected even more funds into British markets. Just recently, the Bank of England did the very same. The British pound hit all time 32 year lows and interest rates are near zero. What does all this quantitative easing do? It creates a flight to equities out of fixed income and bonds. Additionally, such activity suppresses long term

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government bond rates and bank prime lending rates. The alternative to bonds would be dividend paying blue chip and or higher risk corporate high yield bonds.

House prices growth dropped to a three-year low in July 2016 as UK's vote to leave the EU continued to weigh on the market, according to a leading survey. The amount of new buyers inquiries and the number of agreed sales continued to fall as the Brexit vote undermined United Kingdom consumers confidence and increased uncertainty about their finances and property values. House prices and sales expected to fall sharply because of Brexit. Just 5 per cent more of those surveyed recorded an increase in house prices rather than a fall, down from 15 per cent in June and the lowest reading since 2013, according to the Royal Institution of Chartered Surveyors.

A year ago, China rattled markets from Mexico City to Mumbai as a tweak to its currency policy sent the Yuan tumbling. One year later, the Renminbi, as the currency is also known, appears set to slide, but markets aren't taking fright. On August 11, 2015, China shifted the market mechanism for setting the Yuan's daily fix against the dollar, saying it would set the spot rate based on the previous day's close, theoretically allowing market forces to play a greater role in its direction. China's policy makers allow the Yuan to move within a 2 percent band around the daily fix and fixings in the past had been a bit more arbitrary. The central bank also set the reference rate 1.9 percent below the previous day's fix, marking the steepest one-day decline in at least 20 years. The move revived concerns over the health of China's economy, the world's second largest, and sparked fears of a currency war. Chinese equities, which had already tumbled amid excessive margin buying, plummeted further and dragged most other risky assets along with them. China suffered almost $700 billion worth of capital flight in 2015, according to the Institute of International Finance. Beijing logged $100 billion per month in average currency outflow during November, December and January but the pace of outflows had tapered off in more recent months, with net foreign exchange sales by commercial banks at $23.7 billion in April, down from $36.4 billion in March. China's down turn is not over yet. Both the United Kingdom and the EU have jointly agreed at the end of July to slap hefty anti dumping tariffs on Chinese rolled steel at a 22.5% charge. This looks to be a door opener for more to come for Chinese product. The big question is will America take similar action after the November presidential election? Both Trump and Clinton have stated they favour such actions. In turn, it would prompt Chinese Politburo leader to weaken the Yuan to keep the export machine humming.

Oil prices rose about 1 percent on Thursday after the International Energy Agency forecast crude markets would rebalance in the next few months following several years of heavy overproduction. The IEA, which advises large developed economies on energy policy, predicted oil stocks would draw in the third quarter of this year for the first time in more than two years. Oil's drop has put the “glut” back into the headlines even though our balances show essentially no oversupply during the second half of the year," the Paris-based IEA said in its monthly report. "Our crude oil balance indicates a hefty draw in the third quarter after a lengthy stretch of uninterrupted builds.

Global demand growth is expected to decline from 1.4 million bpd in 2016 to 1.2 million bpd in 2017, the IEA said, after a revision to the global economic outlook. Still, the overall takeaway from the IEA's report has been more bullish than bearish. While higher utilization rate of global refiners has pushed up commercial inventory, especially oil products, further refinery run cuts are expected in the next few months and product inventory draws will therefore follow. Oil prices fell sharply on Wednesday after data from the U.S. Energy Information Administration, EIA, showed crude inventories rose 1.1 million barrels in the week ended August 5th. World oil output has been well above consumption over the last two years, pushing up stocks across the globe at a time when sluggish economic growth has kept a lid on fuel demand. Production by the Organization of the Petroleum Exporting Countries has been boosted by producers such as Saudi Arabia, Iraq and Iran. Saudi Arabia has said it pumped a record 10.67 million barrels per day of crude oil in July. OPEC expects demand for its crude in 2017 to average 33.01 million bpd, suggesting a supply surplus of 100,000 bpd if the producer group keeps output steady.

The Canadian job vacancy rate declined in the first quarter of 2016 compared to the year before, with the largest decreases coming from the oil hit provinces of Alberta and Saskatchewan as data from Statistics Canada showed. The job vacancy rate, which is the share of jobs that are unfilled out of all jobs available, fell to 2.1 per cent in the first quarter from 2.6 per cent in the first quarter of 2015. Overall, there were 328,100 unfilled jobs in Canada in the first quarter, a decrease of 17.9 per cent from a year earlier. The vacancy rate declined in nine of the country's 10 provinces. In Alberta, home to the country's vast oil sands, the vacancy rate slid to 1.9 per cent from 3.5 per cent as overall employment declined in the province. Similarly, the vacancy rate in Saskatchewan fell to 2.0 per cent from 3.0 per cent. Nationally, job vacancies were highest in the arts, entertainment and recreation sector, which had a 3.9 per cent vacancy rate, followed by a 3.8 per cent rate in the agriculture and forestry industry. The mining, quarrying and oil and gas extraction sector had one of the lowest job vacancy rates at 0.7 per cent.

On a whole other note, Canada manages to fair well globally on both fiscal policy and economic performance. One area of catastrophic failure is inter provincial trade. The fathers of confederation are rolling in their graves. The economic buriers were to be removed with the unification of all the provinces. However, the premiers of each province have only ensured the cementing of such habits as a way of protecting regional interests. Canadian provinces are less integrated federally on trade than EU member states with in the Union. In a recent report by the economist it is estimated that $100 billion a year in trade is lost due to arcane fiefdom type mindsets. How can a nation so progressive in many areas be so backwards in such a key area? We pride ourselves as one big nation but we trade as little clichés preferring to do business with other. Our policy makers must step forward with a remedy.

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