Market Update

07 October 2016

Hurricane Matthew hits Florida Space Coast. Matthew represents the highest storm surge since Hugo. Torrential rain triggers major flooding in Florida, South Carolina and Georgia. Not only will this create loss of life and property damage but all expectations are that this will help speculators push oil prices above $55.00 a barrel. However speculators have to contend with new oil production coming on line and with Iran looking to regain its former title of producing 11 million barrels a day which is a far cry from current levels of just over 3 million. Saudi Arabia wants to introduce a bottom price of $45.00 a barrel. Since the announcement of a potential curb in production by OPEC member prices have been able to say above $50.

Donald Trumps tax loss of $916 million due to troubled ventures may cost him the election. Tax law expertise in America is weighing in and has been analyzing how Trump a struggling real estate investor turned unpaid debts into personal tax breaks. The corporate structure that Trump uses to do his real estate business allows corporate loss to flow and become personal deductions. This type of corporate structure in America is called “S” corporation. Most corporations in America fall under the entity labeled “c” corporation. Since 2002 passing through such corporate loss into personal hands has been disallowed by the IRS. However in a land mark decision, in 2001, the American Supreme Court has

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grandfather existing real estate developers under the “s” which were established prior to 2001.

Companies continue to add to payrolls in September as record openings drew more Americans into the workforce and most found jobs, indicating the labor market is settling into a pace that will support the economy. The 156,000 increase followed a 167,000 rise in August that was more than previously estimated, a Labor Department report showed Friday. While the September figures were weaker than the 172,000 median forecasts of economists, payrolls included the biggest drop in government employment in a year. The jobless rate rose to 5 percent as the labor participation rate ticked up to a six-month high. Employers face a limited pool of available and qualified workers. At the same time improving job prospects are drawing more people into the labor force. Steady progress will underpin further wage gains and consumer spending. Such a pattern and main driver of economic expansion will encourage the American Federal Reserve policy makers to follow through on their forecast for an interest rate increase by the end of 2016.

The Bank of England will run two stress tests on the country’s biggest lenders next year, an annual assessment of risks from the financial cycle and an “exploratory” scenario geared to “emerging or latent threats” to financial stability. The central bank will publish the two scenarios in the first quarter of next year. The firms participating in the exercise will be the same seven that underwent the 2016 test. Results of this year’s health check will be published before the U.K. market opens on Nov. 30 along with the latest Financial Stability Report, the Bank of England stated. The results will be decided and communicated to firms one day earlier. “The resilience of the British financial system continues to be grounded on substantial capital and liquidity, the BOE confirmed on Monday in the report of the Financial Policy Committee’s Sept. 20 meeting. The United Kingdom is pulling out all the stops to retain London as the centre of the financial world in Europe. What better way than doing a stress test that shows British banks are healthier than their

EU counterparts.

Conversely, European Central Bank Executive Board member Yves Mersch said EU banks that can't withstand temporary strains on their earnings may have bigger questions to answer about their future viability as businesses. ECB estimates show the overall impact of recent stimulus has been net positive. ECB President Mario Draghi said the financial industry must stop blaming the actions of central banks for their problems and focus on fixing their business models and risk failings. Negative interest deposit rates have been a reality since 2014. There's a risk that loss of confidence in the financial industry across the old continent could hurt lending and the broader economy. The Bloomberg Europe 500 Banks Index has fallen 24 percent this year, a four times more than the board index of the Stoxx Europe 600. A negative outlook for banks weighs on banks' share prices, thereby raising their cost of capital and ultimately decreasing the net return on lending. This may cause banks to become more conservative in their lending to Euro area companies and households.

China and Asia as a whole is now facing a crisis. Three generations of government and personal wealth are going to be spent to save their economy and stimulate growth. China will transition from a nation of surplus wealth to a nation of on going national and personal debt. It is true that the economic slow down did not start in China. As manufacturing costs rose and price effectiveness was being eroded in Chinese manufacturing and production, Western corporations shifted production elsewhere. The much anticipated burst of consumerism did not take place. With three generations of savings spent on building and developing a modern China, younger generations are not inheriting nearly as much liquid and income producing capital. By extension, if people are not upgrading their lifestyles and buying products made in China, the country's manufacturing economy will slow down. It is important to recognize that so much capital will never again be available and spent at once. For China, this means diversifying its economy from solely manufacturing, and supplementing this with service economy opportunities. The ones who will succeed in the next 30 years will be those who understand that the economic growth of the past will not be replicated in the same way again.

Here at home, our country's labour force beat expectations last month by gaining a healthy 67,200 net new jobs, with most of the increase concentrated in part-time and self employed work, Statistics Canada said Friday. Despite the surge, the latest jobs survey said the national unemployment rate didn't budge holding at 7% for the second straight month as more people entered the workforce. Of the new jobs, 44,100 of them were considered part time work, while 50,100 were self employed positions.

The more desirable categories of full-time work saw a boost of 23,000 jobs, while paid employee positions rose 17,000 last month, the report said.

The numbers also showed a huge boost in employment last month for Canadians aged 55 years and older, as 56,400 people in that demographic found work, including 37,900 additional positions for women.

On Monday, Finance Minister Bill Morneau announced several measures to restrict access to mortgage insurance and crack down on speculators, including foreigners, who flip houses without paying capital gains. He also launched talks with the country's big banks and other lenders to get them to share more of the risk of taxpayer-backed mortgage insurance. To improve tax fairness for Canadian homeowners, the Department of Finance released a Notice of Ways and Means Motion on October 3, 2016, that targets trusts and non-residents owning residential property. Specifically, the new rules:

- limit the types of trusts that can claim the principal residence exemption and provide transitional rules for trusts that hold residential property
- extend the period during which the Canada Revenue Agency

(CRA) can assess taxpayers that do not report the sale of real or immovable property

• ensure non-residents who acquire residential properties will no longer be able to claim a portion of the principal residence exemption to shelter gains on a later sale

The above statements coming out of the Department of Finance show a hardened willingness to cool real estate prices in Canada and eliminate uneven handed practices by speculators and foreign buyers. Expect to see further definition around these measures.

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