Market Update

08 April 2016

The American economy shook off concerns of a global slowdown in March and added 215,000 jobs, surpassing expectations the Department of Labor announced on April the 1st last friday. Before Friday's results, some economists had been worried about a "March jinx" and a new setback in the steady month on month growth of the labor market. However collapsing oil prices and worries that a slowdown in China will impact global trade do not appear to have impacted hiring so far. The unemployment rate rose slightly to 5%, driven up by a larger number of people looking for work. In January the unemployment rate dropped below 5% for the first time since 2008 and had remained there for the first two months of the year.

The news is unlikely to bolster the Federal Reserve's case for further interest rate rises, although the Federal Reserve chairwoman, Janet Yellen, said this week that the central bank is likely to slow the pace of rate hikes this year. The sustained robust pace of job creation and accelerating wage growth should in theory bolster the Fed Reserves commitment to normalizing policy.

Overall, economists had expected the American economy to grow by 205,000 jobs and the unemployment rate to remain unchanged at 4.9%. The American economy had created on average 209,000 jobs over January, February and March. A slightly higher unemployment rate is not necessarily all bad news. Some economists would like to see the unemployment rate to go up slightly, signalling that Americans who had previously given up looking for jobs were now becoming more optimistic and

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attempting to re-enter the labor market.

While the unemployment rate has been holding steady, a slight rise in coming months could actually be a positive move. If driven by rising labor force participation, meaning that potential workers see hope for themselves and have started to look for jobs.

In March, labor force participation inched up to 63%, up 0.6% since September of last year. The slight increase is an indication that workers are feeling optimistic and are beginning to come off the bench and looking for jobs.

Earlier this week, while speaking at the Economics Club of New York, Fed Chairwoman Ms. Yellen stated that she believed the labor market is not performing as well as it seems. She pointed out that the labor participation rate, the percentage of people working or actively looking for work, has remained near the historic low of 62.9%, and the 6 million Americans who want to work full time but have only been able to find part-time work.

The Friday's job report show American hourly wages have risen by just 2.3% in the past 12 months.

The dovish tone of Janet Yellen is all focused on monitoring inflations. The American economy and Americans overall are in an economically sounder stage of the growth curve. However the move from quantity to quality must happen soon. Wage inflation is underway but at such a weak level it will not give the Federal Reserve the green light it needs to raise interest rates just yet.

Hiring in America is now at a slow and steady pace. American corporations and their ability to generate profits and capture global market share is very bright. Corporate America is leading the pack with an average global return on investment of 16%. Additionally both post tax profits and post tax free cash flow are above 2001. The numbers go beyond averages as data shows that the top four American firms have more that 40% of the IT, telecom and media sector along with manufacturing, transportation and logistics, retail trade, insurance and finance. The all sectors average is just over 30%. We have moved away from a truly global economy to preferred partnerships and economic alliances. As a trade pact, NAFTA leads the way with the EU struggling to keep its foot hold. Both China and Russsia's "EurAsian" pact look to be a flop. On the other hand Iran is rapidly positioning itself as the bridge between the far east which leaves Turkey in a very vulnerable spot along with many of the middle eastern nations.

Until the election process in America is over, the Federal Reserve will not do anything to disrupt the economic mood in anyway. I expect to see the Federal Reserve to hold and keep a dovish tone till then. The one comment I would like to add about the election process is that if you think that Trump's thrashing by the media and other republicans is over. This is just the beginning of the end for Trump. In politics, image and perception matter. Mr. Trump has transitioned from a strong and outspoken business leader to a want-a-be strongman hungry for more power and influence.

The EU and Europe as a whole are not easy structures to analyze as politics will quite frequently mute economic growth. Germany, the Uber power of the old continent, has been taking a more passive approach to Russian policy. The loss of Crimea has put a darkened cloud on Europe's rosy expansion. Chancellor Angela Merkel is quickly losing her grip on making things happen in Germany and Europe. The refugee crisis only detracts from dealing with the true geopolitical and economic issues which face them. Sweden, Norway and Switzerland not part of the EU have made massive steps to reform both fiscally and monetarily. All of which are transitioning their economies . The desire for Britian to leave the EU trading zone only worsen the matter. Germany's economic engine can not carry the entire EU indefinitely. Deeper change beyond the ECB must develop relatively quickly.

Oil prices jumped 6 percent this Friday, heading for the largest weekly gain in a month, as draw downs in American crude stockpiles fuels hopes that a punishing global oversupply may be nearing tipping point. American oil and diesel prices rallied along with crude, rising more than 5 percent each. Gasoline has been one of the strongest pillars of support for American crude this year. Ultra low sulphur diesel, also known as heating oil, has rebounded this week on seasonally cold weather forecasts through late April. We are starting to draw crude inventories in the America. Rig count and inventories are falling. This is very different from what was expected. The market perceives that these draws may continue as the Keystone outage will increase the likelihood. American crude stockpiles fell by nearly 5 million barrels last week versus analysts forecasts for a build of 3.2 million barrels, government data showed. The shutdown of the Keystone crude pipeline that delivers oil to Cushing also contributed to a drop of more than 480,000 barrels at the Oklahoma delivery point for American crude futures in the five days to Tuesday.

The number of oil rigs operating in American oil fields fell by 8 to a total of 354 in the previous week, oilfield services firm Baker Hughes reported this Friday. At this time last year, drillers had 760 oil rigs online. There is speculation expecting American oil production to come down fairly rapidly now.

However don’t expect too much from oil prices. Volatility will remain very high. Iran being just relieved from crippling the international sanctions in January cut its crude exports to little more than 1 million bpd. Officially, the Iranian government has said it would only participate in a production freeze once it had regained its pre-sanctions levels of 4 million bpd. Any hopes that the ballooning oversupply of oil can be reined in soon had cold water poured all over it. So the value of the meeting in Doha to freeze production looks to have little to no impact. The jump in oil prices is a result of two key points. America is starting to draw down inventories while at the same time the world largest economy is gaining momentum.

China’s problems regarding economic reform are becoming clear. Over capacity and not spare capacity is the down draw. Excess capacity is everywhere in manufacturing. Specifically in the Chinese steel industry. Zombie enterprises with redundant capacity are abundant. Banks in China are barred from lending to zombie corporations making it impossible for these enterprises to function and maneuver. Over capacity is a serious economic burden and could drag the world’s second largest economy into a deeper hole. So far the Politburo has been effective in killing over capacity in steel by 90 million tones cutting iron ore and steel assets by 13%. A further reduction in steel production is needed of 100 - 150 million tones of steel. Product dumping and sudden deflation will be the near term till China can rid itself of surpluses and excess capacity. Talk about one massive garage sale.

The forces at work in keeping Canada's economic engine going and growing are succeeding. The country's labor market received a surge in full-time and private-sector work last month that helped to drive down the national unemployment rate to 7.1 per cent as reported by Statistics Canada said this Friday. Stats Can's latest report revealed Canada generated 40,600 net new jobs in March, pushing down the national unemployment rate from 7.3 per cent in February. It was the largest month-over-month increase since 43,100 jobs were added in October. The data also showed that 35,300 of March's net new jobs were full time, 65,100 jobs were created in the private sector, public-sector positions fell by 2,600, and 74,700 net new positions were in the services sector.

In the hard hit region of Alberta, the provincial unemployment rate fell to 7.1 per cent in March compared to 7.9 per cent in February, thanks to more retail and wholesale trade positions. This change came despite the fact the jobless rate rose in both Calgary and Edmonton. Calgary's unemployment rate rose to 8.6 per cent from 8.4 per cent in February reaching its highest mark in at least 20 years. In Edmonton, the rate crept up to 6.9 per cent from 6.8 per cent.

Here's a quick look at March unemployment across Canada (previous month in brackets):

- Unemployment rate: 7.1 per cent (7.3)
- Employment rate: 61.2 per cent (61.1)
- Labour force participation rate: 65.9 per cent (65.9)
- Number unemployed: 1,384,900 (1,410,400)
- Number working: 18,043,500 (18,002,900)
- Youth (15-24 years) unemployment rate: 13.4 per cent (13.3)
- Men (25 plus) unemployment rate: 6.6 per cent (6.9)
- Women (25 plus) unemployment rate**:** 5.4 per cent (5.5)

Canada appears to have bounced back and re ignited Ontario and other key parts of the nation. Outside of unemployment rates no other indicator of future economic health of the consumer is clearer than the price of real estate. Home prices just seem to want to continue to climb endlessly. According to a resent report 1 in 10 condos in the GTA are owned by foreigners. The other big push is the millennial with higher than average incomes and with parents willing and able to help with the down payment. Our Loonie must find a lower altitude to fly at. Levels of above 77 cents start to squeeze Canadian manufactures. The Bank of Canada may decide to reduce the Lonnie's short term appeal before the reality of high government debt loads attracts the attention of foreign exchange traders.