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## Market Update

08 September 2017

It is good to be back writing about the major economic events which in reality is a nice way of saying chaos.

President Trump is back at doubling down on several issues which include: Harvey, Irma, North Korea, Russian, Qatar and China. Trump made a spectacular about face by making a deal with Democrats even though the GOP controls both the house and the senate in exchange for funding relief for Harvey, which is where his biggest electoral base is located. I believe Trump did the right thing by doing the unthinkable and striking a deal with the Democrats. However odd the deal is, it is definitely a short term fix by kicking the debt ceiling issue to December, making the last month of the year a showdown with a great likelihood of spilling over into the first guarter of 2019. How will the GOP respond to the President's back stabbing move aimed at neoconservatives and tea party reformists? Given the geopolitical upheaval, destructive weather events and an uncertain debt ceiling, the Federal Reserve will not be keen to raise rates anytime soon taking pressure of the greenback dollar. The dollar dropped for a seventh day, set for its longest losing streak since 2011, amid doubts about further Federal Reserve tightening.

Weather driven destruction does cause immediate and short term disruptions. The aftermath will spur enormous economic growth as recovery and rebuilding start kicking in. In all of this, the loss of life is the most precious, with all material things being second. Our thoughts and hearts go out to all those hit by this natural disaster.



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American worker productivity was stronger than predicted in the second quarter of this year, leading to a modest increase in labor costs that could keep inflation muted in the near term. The American Labor Department stated on Thursday that non farm productivity, which measures hourly output per worker, rose at a 1.5% annualized rate. Productivity grew at a 0.1% in the first quarter bucking an expected 0.9% decline. Second quarter GDP grew to 3.0% up from a 2.6%. Despite the upward revision to productivity, the overall trend remains weak pointing to difficulty in achieving robust economic growth. President Donald Trump has vowed to boost annual growth to 3% through tax cuts, infrastructure spending and regulatory rollbacks. Compared to the second quarter of 2016, productivity increased at a 1.3% higher than the previously reported 1.2%, which was the strongest performance in two years. Wage growth has remained sluggish even as the labor market nears full employment. Productivity increased at an average annual rate of 1.2% from 2007 to 2016,

below its long term rate of 2.1% from 1947 to 2016 indicating that the economy's potential growth rate has declined. Economists blame soft productivity on a shortage of workers as well as the impact of rampant drug addiction in some parts of the country along with low capital expenditure, which they say has resulted in a sharp drop in the capital to labor ratio, is holding down productivity.

Mario Draghi, chair of the ECB, did what he has come to be known for, doing whatever it takes to see the EU economy growing. Draghi announced an interest rate hike will be coming in the near term as he cited a bubble developing in real estate and stock markets. Money is flowing back into the Euro zone after years of capital exodus. All this will push the Euro dollar higher. Brexit is not over with major pain coming under way. Prime Minister Theresa May is hoping to strike a Norway style trade agreement of give and take. EU leadership is pushing for no deal. If there is no post Brexit trade deal between the United Kingdom and the European Union, the EU will impose tariffs and other restrictions on imports from the UK.

Oil companies have become lean and the realizations that oil prices are here to stay with WTI prices floating close to \$50. Although oil has recently tried to break to the upside, it is

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increasingly apparent it will struggle to do so both in the short and long term. In the short term, it's obvious that the weakening demand factor in the America, as a result of Harvey, will more than offset the loss of supply, which is why the price of oil has levelled off. Further out, the fact there is a lot more oil in storage than previously believed, according to the IEA which means it will take a lot more time to draw down global inventories before the market starts to truly rebalance. This is a problem because American stockpiles were finally showing consistent draw downs.

The reason for the revised numbers has been the focus being primarily on OECD inventories, rather than all global stockpiles. Lack of transparency in China is a factor there. One positive for supporting oil prices has been the weakness of the greenback dollar, pushing up a number of other commodities because the market usually rewards the inverse relationship between them. Since the American dollar has been weaker, it has helped push up the price of oil.

Last but not least is the major factor in the price of oil over the next year is the lack of clarity in how OPEC and others participating in production cuts are going to exit the deal. We'll look at that first.

China's statistical bureau is finally cleaning up how it collects and records economic data by 2019. The National Statistic Bureau will be applying United Nation statistical standards. At present if you add up all 31 provinces economic growth numbers, GDP is exaggerated compared to the national number. The cause of such a gap is simple. Each region is closely watched by the National Communist party and those regions that perform are rewarded with more funds for the People Bank of China and underperforming regional leaders are replaced. Let's hope that transparency will actually become a reality.

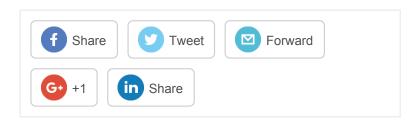
Canada's labor market has been on a tear since the second half of last year, with employment gains rising at the fastest pace in almost a decade. In turn boosting incomes and helping fuel a consumption binge that's made the country's economy the fastest growing in the Group of Seven. Average hourly wage gains are still below the average of 2.6% since 1998. Separately, Statistics Canada reported industrial production has reached 85% of

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capacity, the highest 2007.

The report was less positive than the headline number suggests. The total gain masked a sharp drop in full time work, which was down by 88,100 in August. Part-time employment was up 110,400. Self employed workers were responsible for the full increase in total employment, recording a 32,700 gain during the month. Another negative was that goods producing industries saw their five month run of employment gains end, posting a 13,700 drop which was due to an 11,100 decline for manufacturers. Over the past 12 months, gains have been driven by full time employment. Since August 2016, Canada has recorded a 374,300 gain in total employment led by a 213,400 gain in full time workers. Employees accounted for 273,500 of the total gain. Hours worked were up 2.2%, the biggest gain since August 2015.

Home prices for the GTA and the southwestern Ontario have officially entered bear territory with single detached homes down 41.6% and condos down 21.4%. Add into the mix another rate hike in December which will be a killer for affordability. Wage inflation is minimal, and with most families already stretched to the maximum. A lack of healthy wage inflation will mean less new buyers come on and those that overbought at the peak will not be able to afford their current homes as interest rates climb once more.



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