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Market Update

9 March 2018

Gary Cohn, President Trump's most trusted chief economic advisor resigned. Cohn is a free trade advocate, a former President at Goldman Sachs and well liked by Wall Street. We are witnessing one of the immediate implications of slapping tariffs. It is my belief and understanding that President Trump is using tariff threats to speed along stalled NAFTA talks and look to find ways to increase tax revenue. Wall Street views tariffs as a major damper to economic growth. The EU, China, Canada and most nations that trade with America have made it clear that they will not take tariffs quietly and look to aggressively slap tariffs on American goods. If trade wars is want you want, then an economic trade war you will get. The greater concern is that tariffs act as an artificial means to induce significant inflation beyond the usual tools that central bankers use to control inflation. If the largest goods-producing nations slapped tariffs on each other inflation would become out of control. Does anyone recall the trade war between Japan and America back in the 1980s? Looking for historical patterns and analysis, shows that the trade conflict between Japan and America started back in the 1930 when increasing Japanese textile exports led to accusations of unfair competition, later evolving into Japanese markets not being open to American producers. A boiling point was reached when inflation rates were out of control and central bankers around the globe with American Federal Reserve looked to tame inflation by rapidly raising interest rates with mortgage rates topping out at 18.45% in October 1981. While Fed chairman Jerome Powell looks to cool the economy, President Trump has both feet on the accelerator. The Fed may

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Not a client, SUBSCRIBE HERE for a complimentary 30-day access to our news service have to hike interest aggressively to offset the coming storm triggered by the Trump tariff wars. Economically, America is on a roll with new jobs exceeding expectations as corporations added 234,000 more jobs in February, higher than the expected 200000 gains. Unemployment rates are at 17 year low of 4.1% and hovering just above a 50 year low. Low unemployment rates point to a tightening labour markets which would put pressure on wages to rise in a modest controlled fashion.

The EU will release a list of tariffs in retaliation to President Trump's prosed penalties on aluminum and steel imports as reported by the EU trade Commissioner Cecillia Malmstroem. The trade commissioner confirmed counter measures will include tariffs on American Steel, agricultural products, peanut butter, cranberries and oranges. Let's not forget bourbon whiskey, Harley's, and Levi jeans. Oh, it does not get more American than that.

As Prime Minister May's trouble over Brexit deepens, she looks to the Middle East to create greater economic ties with Saudi Arabia and become an integral part of the modernization. Under the leadership of Crown Prince Mohammad bin Salman.

Political winds in Italy point to the fact that the populist movement is alive and well in Europe as voters flocked to vote in anti-establishment leaders, eurosceptic parties. No parties received a clear mandate to lead which means a hung parliament. EU commission chief Jean Claude Juncker described the vote results as the worst case scenario for the EU and Europe as a whole.

Oil prices look to be put in a holding pattern as the International Energy Agency (IEA) reported that Canada, America, Brazil and Norway together cover the growth in global demand over the next five years putting OPEC production cuts as a means to stop the slide in oil prices effectively useless. Additionally reports from Nigeria, an OPEC member show that Nigerian Petroleum Corporation can produce oil at a price of $15 a barrel as reported by the National Director Maikanti Baru. Given the improved production efficiencies Nigerian leadership have every benefit to pump more oil which brings greater revenue. At present Nigeria pumps out 1.8 million barrels daily with plans to see production rise to 2.5 million barrels a day. As energy producers apply better

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methods of extraction we will see the volume capacity to extract energy rise and extraction costs fall.

The Chinese economy will surpass the Euro zone in gross domestic production by $1.4 trillion in 2018 putting China at $13.2 trillion compared to the EU at $12.8 Trillion. Japan and India are on the fast track to economic growth along with Indonesia and the Philippines.

Here at home, the Bank of Canada decided not to raise interest rates due to a trade uncertainty with America. Our economy grew by 3% GDP last year putting growth at two times higher than 2016. The next scheduled announcement for rate hikes will be April. Real estate prices in the GTA and surrounding cities has dropped by 30% since last April's high watermark. Areas like Richmond Hill have seen a whopping 43% drop from peak pricing which would put most homeowners that either upgraded or bought for the first time in the last two years into negative equity home ownership. So much for the promise of a soft landing for the real estate market. The question is will the market crash or do a hard landing? Home prices have declined by 35% from February 2017. Holding off on further interest rate raises by the Bank of Canada has more to do with managing our Loonie and avoiding a crash in the real estate prices than the uncertainty of tariffs and NAFTA negotiations. America erased trade agreements that have taken 100 years to cement between Canada.

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