

ECONOMIC MONITOR

September 9, 2016

Prepared by:

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Chantelle Schieven

Financial Markets Overview

The Canadian economy contracted in 2016-Q2, which ensured that the Bank of Canada would not change its policy rates on September 7. (No one expected a change, to be sure!) We expect the Canadian economy to post more positive numbers for 2016-H2, as exports will contribute once again to growth (see the discussion on the Canadian economy starting on page 4).

The Federal Reserve continues to be confounded by the stream of recent US economic data, at least sufficiently so to make a call on just when it should raise the FF's target range by another 25 basis points very uncertain. FOMC participants, including Vice Chair Fischer, have all hinted that the time has come to hike again, so we have (despite our misgivings) moved the hike to December 2016 from March 2017. We continue to feel that there is no compelling economic argument for a hike, but the Fed is increasingly anxious to move the policy rate as far away from the ZLB (zero lower bound) as possible before ... the next downturn.

The charts on the US economy, starting on page 20, are not strongly suggestive a rate hike is needed. But the headwinds of a potential Brexit crisis have passed for the moment, and the US dollar, though still a formidable headwind, has not risen significantly in recent weeks. The latest Fed of New York "Nowcast" of GDP in 2016-Q3 is 2.8% and the Fed of Atlanta's "GDPNow" projection is 3.5%, meaning there are expectations that growth will have picked up in 2016-H2 (though we are not convinced growth will be that robust).

The US election will come into full swing this month (yes, all before was only preamble). We have noted that a Trump Administration would be negative for the US dollar (hence good for all

things priced in dollars – including gold), because we believe his administration will want to devalue the dollar (directly or by way of import tariffs). Protectionism is on the rise, and one reason thereof can be found on page 5 under the title of "Global Imbalances ...". One of our scenarios has foreign currencies rising sharply against the dollar in 2017.

The IMF will downgrade the global economy again in its next Economic Outlook, which is why "*the IMF is calling on central banks to keep the cheap cash machine running, including telling the Fed to consider overshooting its inflation target and holding off near-term rate increases and urging the European Central Bank to beef up its monetary policy efforts*" (WSJ, 09/01). Something to think about! (We think about more fiscal stimulus coming down the pipe and more infrastructure investment!)

The baseline forecasts this month call for:

1. ► The **FED** to hike in December;
2. ► The **BANK OF CANADA** to stand pat on interest rates this year and probably next;
3. ► **BOND YIELDS** in the US and Canada to increase very modestly on the back of more fiscal expansion in the US after the November election (and in Canada), along with a moderate increase in the rate of headline inflation. Yields will be held in check by very low yields abroad however;
4. ► The **CANADIAN DOLLAR** to continue trending broadly sideways;
5. ► The **US DOLLAR** to trend broadly sideways until after November, when a new administration will encourage the currency to decline.

Updated Forecast - Base Scenario

	Actual				Projected						
	15-IV	16-I	16-II	7-Sep	Oct	Nov	Dec	17-I	17-II	17-III	17-IV
Scenario B: Modest US Growth - China/UK/EU Struggle - Commodities Flat (except gold)											
CURRENCIES											
US Dollar Index*	98.49	98.73	93.61	92.64	93.12	93.58	94.06	94.67	94.51	94.35	93.87
Can. Dollar: CDN/US	1.335	1.374	1.288	1.289	1.295	1.305	1.320	1.335	1.330	1.325	1.310
Can. Dollar: US/CDN	74.93	72.78	77.64	77.61	77.22	76.63	75.76	74.91	75.19	75.47	76.34
Japanese Yen	121.5	115.5	108.2	101.7	101.0	101.0	101.0	101.0	101.0	101.0	101.0
British Pound	151.8	143.1	143.5	133.4	130.4	129.8	129.8	129.3	129.3	129.3	129.3
Euro	1.095	1.102	1.129	1.124	1.110	1.105	1.105	1.100	1.100	1.100	1.100
Australian Dollar	72.02	72.14	74.60	76.38	76.45	75.86	75.00	74.16	74.44	74.72	75.57
Chinese Yuan/Rmb	6.389	6.542	6.534	6.662	6.680	6.700	6.720	6.760	6.820	6.880	6.960
Indian Rupee	65.92	67.61	67.11	66.49	66.90	67.20	67.40	67.80	68.00	68.00	68.00

* Index based on CDN\$, Euro, Pound, Yen

Scenario B: Fed Hikes in December - Bank of Canada Stands Pat											
INTEREST RATES											
Canada											
Treasury Bill (91-day)	0.47	0.46	0.52	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Government Bond (10-yr)	1.49	1.20	1.33	1.00	1.05	1.10	1.15	1.20	1.30	1.35	1.40
Prime	2.70	2.70	2.70	2.70	2.70	2.70	2.70	2.70	2.70	2.70	2.70
Target Overnight Rate	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Spread: 10-yr - T Bills	1.02	0.74	0.81	0.50	0.55	0.60	0.65	0.70	0.80	0.85	0.90
United States											
Treasury Bill (90-day)	0.12	0.29	0.26	0.35	0.38	0.40	0.57	0.60	0.60	0.60	0.60
Treasury Bond (10-yr)	2.19	1.92	1.75	1.54	1.60	1.65	1.70	1.80	1.95	2.05	2.10
Prime	3.29	3.50	3.50	3.50	3.50	3.50	3.75	3.75	3.75	3.75	3.75
Fed Funds Rate	0.16	0.36	0.37	0.41	0.44	0.46	0.63	0.63	0.63	0.63	0.63
Spread: 10-yr - T Bills	2.07	1.63	1.49	1.19	1.22	1.25	1.13	1.20	1.35	1.45	1.50
Interest Rate Differential (Canada-US)											
Treasury Bill	0.35	0.17	0.26	0.15	0.12	0.10	-0.07	-0.10	-0.10	-0.10	-0.10
Bonds-10yr	-0.70	-0.72	-0.42	-0.54	-0.55	-0.55	-0.55	-0.60	-0.65	-0.70	-0.70

Source: Wall Street Journal, Federal Reserve, Dundee Economics

This is our “baseline” scenario for the next four quarters. It is updated monthly. See pages 42-43 for our alternative scenarios.

The Canadian Economy in 2016-H1

Martin Murenbeeld

Last month we reviewed the US economy on these pages; this month, on account of Canadian GDP data being released one month later, we review the Canadian economy.

First, just to remind readers, GDP is the sum of four components, see Chart 1: personal consumption - C, investment - I, government spending/investment - G, and net exports – X-M. Chart 2 highlights GDP (quarterly growth seasonally adjusted at annual rates) going back to 2000. The reader will note that the economy contracted in 2015-H1 in response to the plunging oil price in 2014-H2. The last 12 quarters of growth, in more detail, are displayed in Chart 3, where the specific quarterly growth rate (s.a.a.r.) is provided in blue at the top of the chart. Whereas GDP expanded 2.5% in 2016-Q1, it contracted 1.5% in 2016-Q2; Q2 was clearly not a good quarter for Canada!

The problems in 2016-Q2 are readily apparent from Chart 3: the contribution of net exports to GDP was -5.8%! If the reader jumps to Chart 7 he/she will note that exports subtracted 5.6% from GDP in Q2 and imports subtracted .2% (hence net exports subtracted 5.8%). Drilling down further, Chart 8, we find that energy exports declined by 7.5% (of which, according to Statistics Canada, crude bitumen exports declined 9.6% and refined petroleum exports by 19.6%). These developments are directly attributable to the wildfires in Fort McMurray that started on May 1. (The Alberta government declared a state of emergency on May 4.)

In the four quarters prior to 2016-Q2, the contribution of net exports to GDP averaged just over 2%; this makes the downturn in Q2 particularly noteworthy. Once “Ft. Mac” is back up, we expect exports to make positive contributions to GDP.

Household consumption in 2016-Q2, see Chart 4, contributed 1.4% to GDP; this is in line with recent trends. The consumption of services has been a key driver in recent quarters; durable goods consumption subtracted from GDP in Q2.

On the investment side, see Chart 5, nonresidential investment was again a drag on

Chart 1

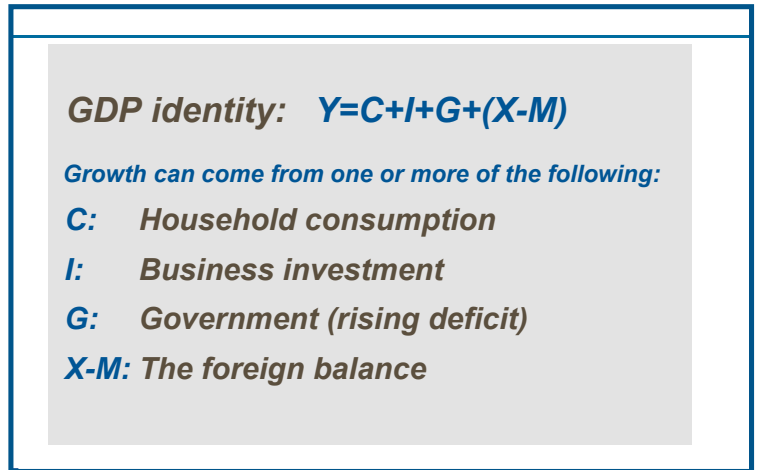


Chart 2

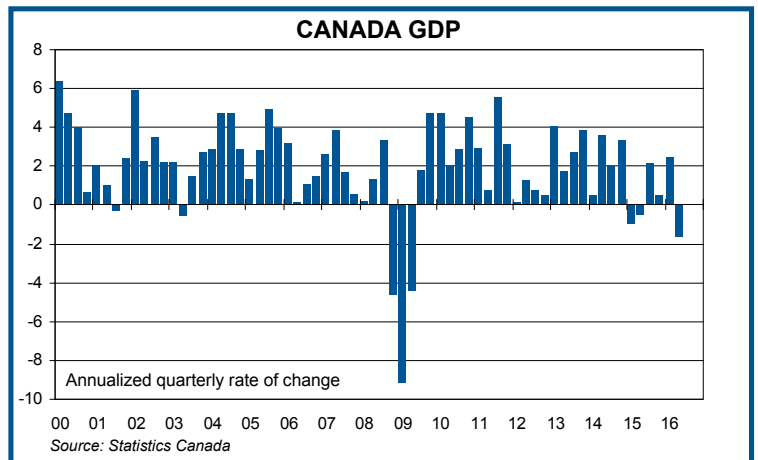
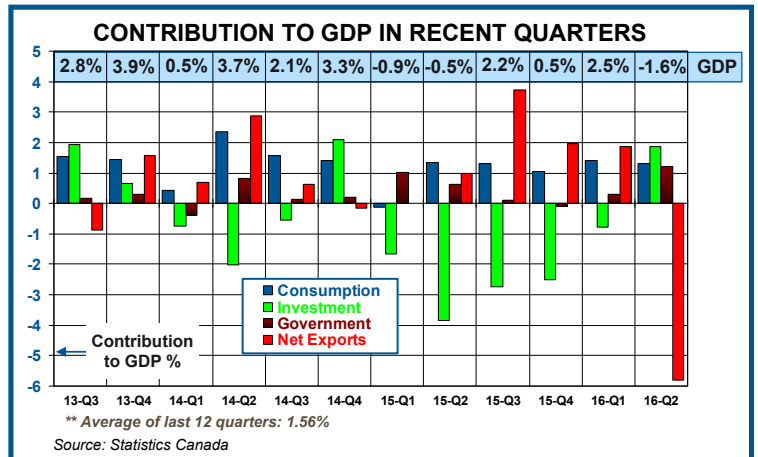


Chart 3



GDP in 2016-Q, but the drag is diminishing rapidly - which is good news. I have to think that a more competitive dollar will have a progressively more positive impact on nonresidential investment going forward; the dollar is down about 17% since June 2014, and 25% since December 2012! Once the energy industry has fully adjusted to the new world of low oil prices one might expect non-residential investment in the energy sector to also improve.

The big contribution to investment (and hence GDP) in Q2 came from inventories. Inventories swing wildly from plus to negative, and are difficult to predict; in Q2 inventory accumulation added 1.96% to GDP. The chances that inventories will subtract from growth in Q3 are high, but one can't be sure.

The Trudeau government, having benefitted from the relatively good budget position of the previous government, has room for fiscal expansion. Chart 6 suggests that the government's contribution to GDP was substantial in Q1 and Q2 - and will rise in coming quarters!? To be sure, one always worries that government spending is primarily "fluff" spending, and will subtract from future growth by reducing incentives to work and invest. Time will tell, but we are not positive in this regard. Regardless, we suspect "G" will make a positive contribution to GDP in 2017-18.

Bottom line: We see no recession on the horizon, notwithstanding negative growth in Q2. Other than net exports, the other components of GDP were OK in Q2. Investment will not continue at the torrid pace of Q2 on account of inventories, but net exports will pick up. We expect growth in 2016 to average less than 1%, which is below the 1.3% projected by the Bank of Canada in its July *Monetary Policy Report*.

Chart 4

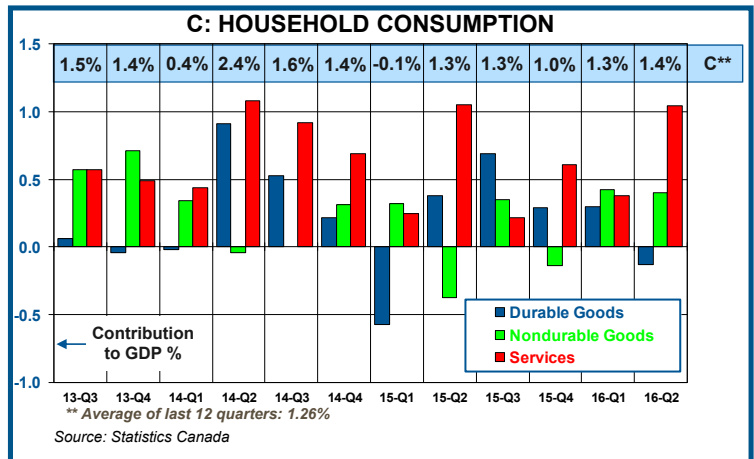


Chart 5

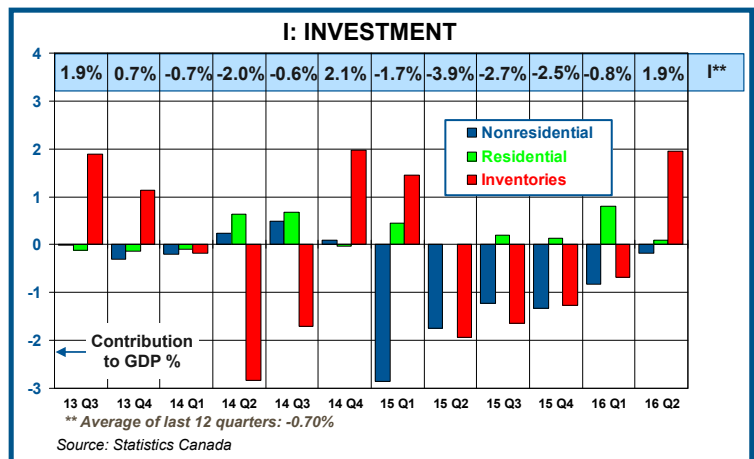
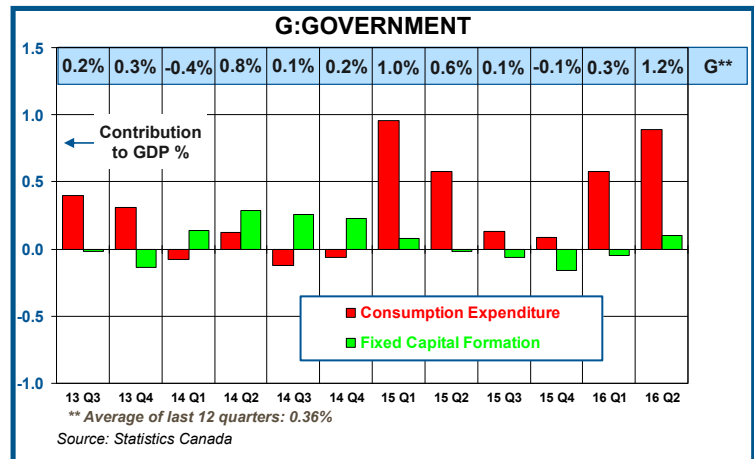


Chart 6



Summary Table of Canadian GDP

AVERAGE	GDP	C	I	G	X-M
SINCE LAST RECESSION	2.16	1.35	0.62	0.29	-0.12
LAST 12 QUARTERS	1.54	1.24	-0.70	0.35	0.62
LAST FOUR QUARTERS	0.89	1.23	-1.05	0.36	0.43

Chart 7

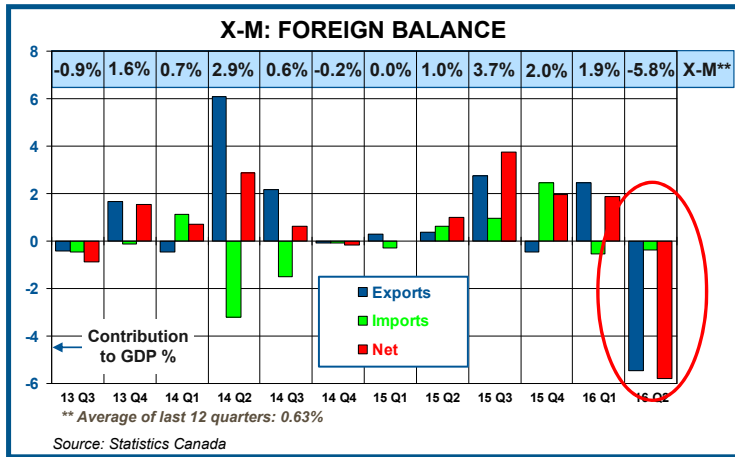
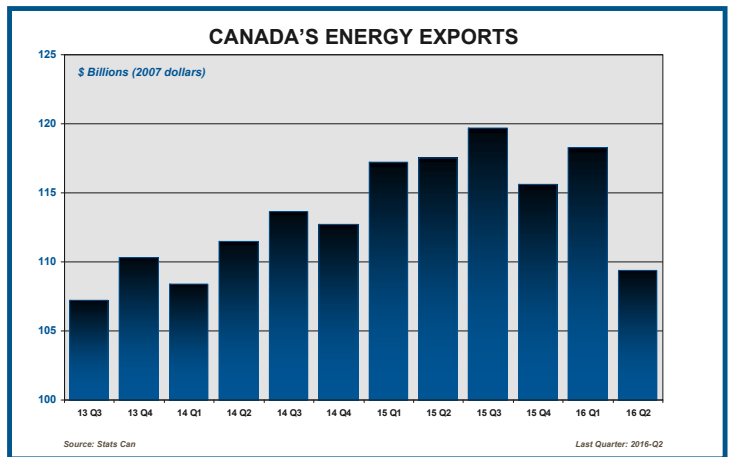


Chart 8



Global Trade Imbalances – Canada, the US, and China

We admit to some surprise upon reading the following headline in the August 29th National Post: “Twenty-five years of courting China has Canada shouldering a \$46 billion trade deficit”. The size of the deficit with China was much bigger than we thought! We generally track Canadian trade data on a balance of payments basis; on this basis the deficit with China, though rising, has not yet reached \$20 billion. But Statistics Canada also tabulates trade on a customs basis (which we were informed tracks goods right back to country of origin); on a customs basis the deficit is indeed \$46 billion – see Chart 1!

Noteworthy, this is a significantly higher deficit (using the ratio of 1/10) than the US deficit with China, see Chart 2, which is around \$350 billion on a similar basis of tabulation.

Why is this of interest to us? Well, trade deficits often indicate whether there are currency misalignments in the international financial system that may need to be corrected. The International Monetary Fund once said that temporary trade imbalances should not need currency realignment. Because of the temporary nature these can be “financed” with credit from the Fund’s resources. (Indeed, a key function of the IMF in its early years was helping countries “finance” their temporary deficits. Currencies were generally “fixed”,

and it was understood there would accordingly be temporary surpluses and deficits among IMF member nations.)

Chronic trade imbalances were something different; the IMF was generally clear that chronic imbalances called for monetary and fiscal policy changes (in both deficit and surplus countries), augmented with currency realignments – devaluations and revaluations. (This all went badly off track over the years. Because temporary imbalances, by definition, always precede chronic imbalances, when exactly should a currency realignment finally be triggered? Should it always be only after George Soros has bet heavily

Chart 1

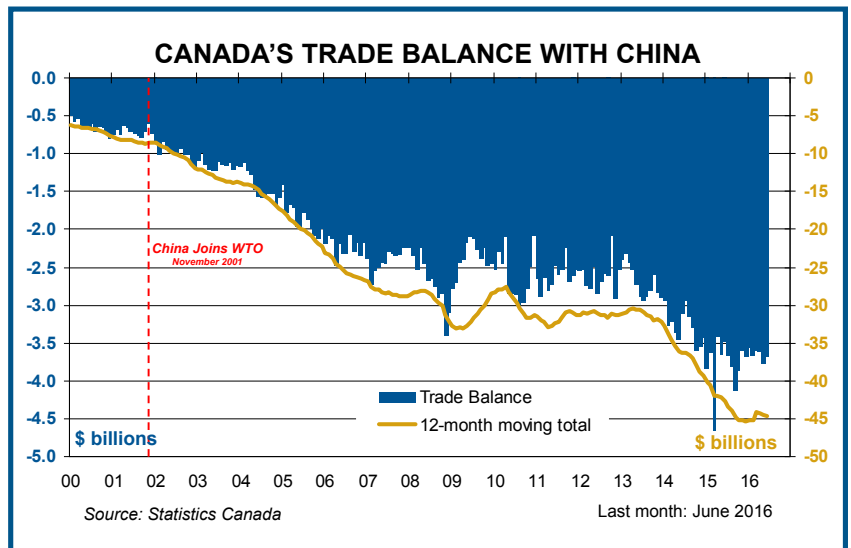
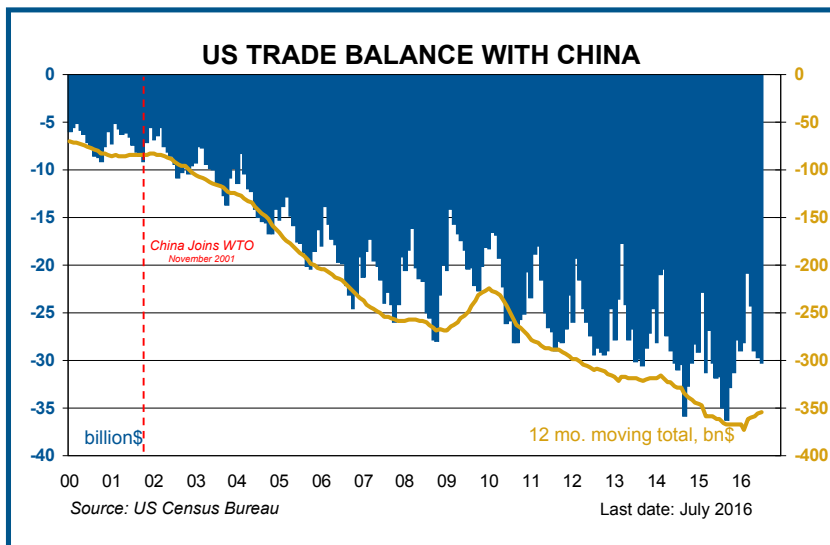


Chart 2



on a realignment, as he did before the pound devaluation on September 16, 1992 when it was pulled out of the European Exchange Rate Mechanism)?

The world has moved to more flexible exchange rates – or so I’m told. This flexibility is supposed to mitigate chronic trade imbalances. But chronic imbalances obviously persist between the North and South Eurozone (although there is no currency flexibility in the Eurozone), between Asia and North America, and between North America and Europe.

But let’s stick to the Asia and North America imbalance. It is often said that the US can’t control its consumption (low savings, low investment, and high capital inflows), and this is the reason China sells the US more goods/services than the US sells to China. And China, being the humanitarian trade partner it is, “finances” US consumption by lending it money (invested in Treasuries and such), lest US consumers go without.

But then what is said about Canada? Canada’s trade deficit with China is even larger than the US deficit with China (per capita adjusted)! Canada, which doesn’t typically affront China with exports of high-end machinery (threatening to take market share away from

local suppliers), surely has enough raw stuff to sell China to keep its trade deficit with China off the front pages of the National Post? Well, apparently not! Are Canadians, too, rabid consumers who require massive international loans to keep their appetites satiated?

No, Canadians are not! And the Canadian dollar floats; it has gone down against the Chinese RMB, whereas the US dollar has gone up. If anything, Canada’s deficit with China should be small and declining – not large and rising.

In the words of the IMF from another day, US and Canadian trade deficits with China are “chronic”, and require a currency realignment. They also require adjustments to monetary and fiscal policy in North America and China of course (i.e. Canada can’t seem to get its energy to tide water!), and a significant opening up of the Chinese market to foreign goods and investment. But the bottom line is that both dollars are seriously overvalued relative to the RMB.

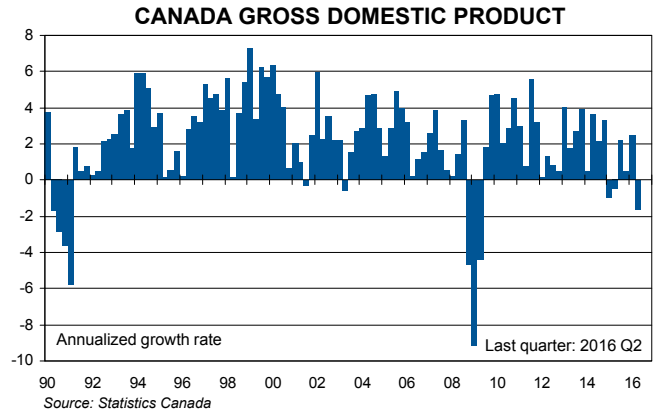
The word is that China would like to see the RMB decline further against the US dollar (and hence also the Canadian dollar). Domestic capital flight and the draining of excess investment has already devalued the RMB somewhat in recent quarters, and China doesn’t want to intervene excessively to stop the RMB from declining further. But this is the road to more protectionism; North American deficits are already too large, inflation is already too low, and import-competing producers are fed up.

All this helps explain Trump’s popularity; policymakers (including those in a Clinton Administration) will respond in 2017 – regardless of G-20 promises to the contrary.

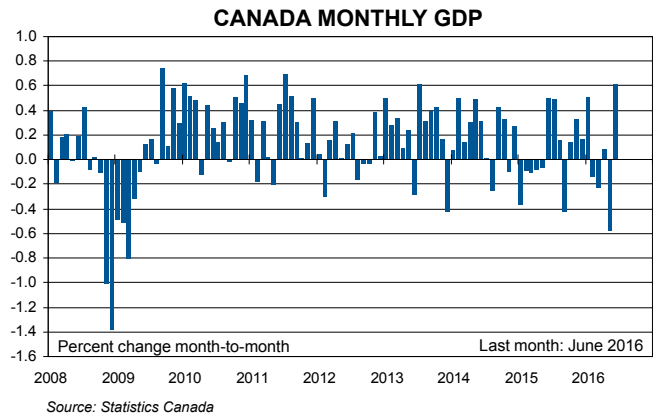
Indeed, twenty five years of courting China and Canada may have the world’s largest per capita trade deficit with China. Something to ponder ... !

MONTHLY REVIEW ►
CANADA – ECONOMIC GROWTH

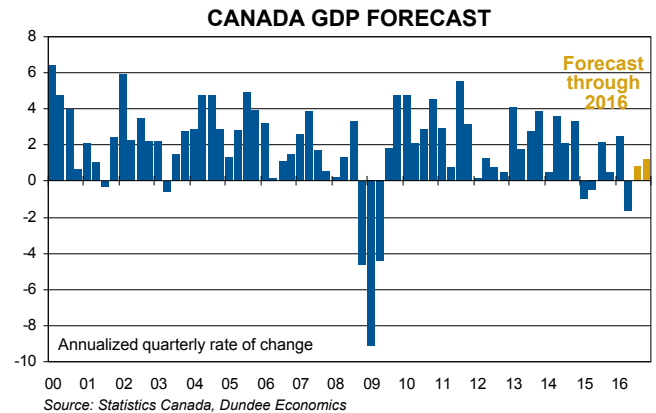
The Canadian economy declined -1.6% (annualized) in 2016-Q2; the decline was due to a sharp decline in exports as a result of the massive wildfires ...



... though monthly GDP increased .6% in June after declining in May.

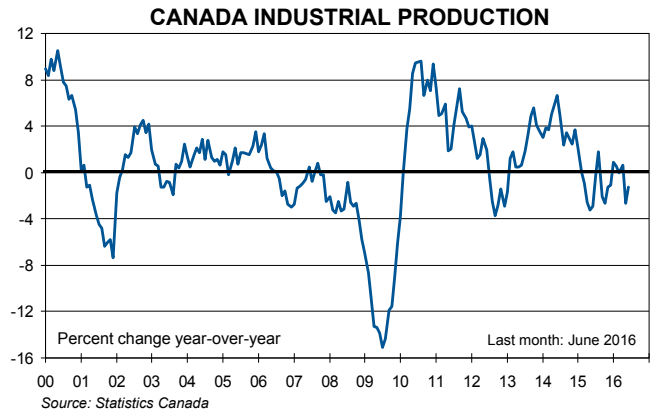


Growth for all of 2016 is shaping up to be less than 1.0%.

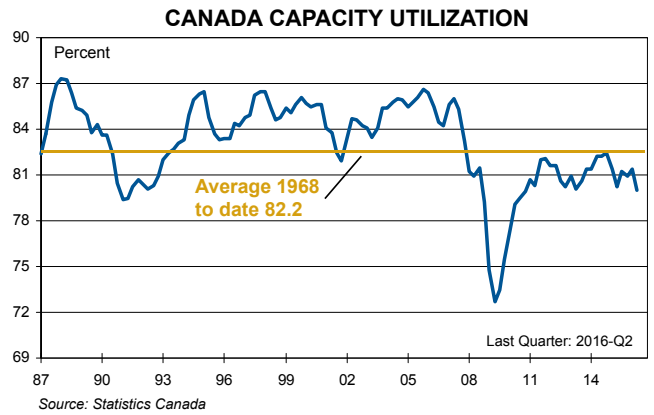


MONTHLY REVIEW ► CANADA – ECONOMIC GROWTH

Industrial production remains negative ...



... and capacity utilization is trending sideways/down.



Retail sales growth has declined in recent months.



MONTHLY REVIEW ► CANADA – ECONOMIC GROWTH

Manufacturing shipments
continue to disappoint ...



... though new orders are
holding in positive territory ...

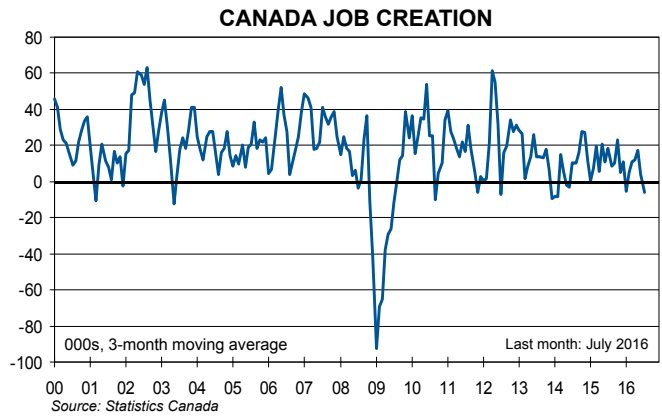


... and the inventory ratio
continues to trend sideways.

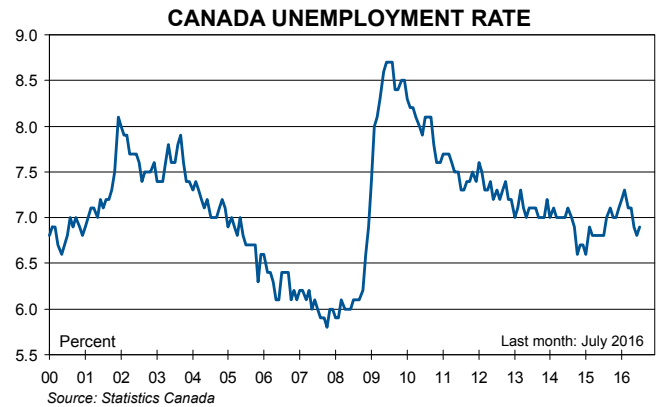


MONTHLY REVIEW ► CANADA – LABOUR MARKET

Labour market data are weak;
July saw significant job losses ...



... the unemployment
rate rose to 6.9% ...



... and the participation
rate declined further!



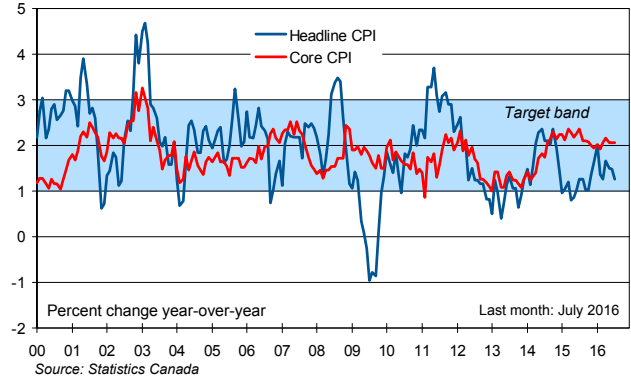
MONTHLY REVIEW ►
CANADA – INFLATION

Headline CPI declined to 1.3% in July from 1.5% in June. Core CPI is trending sideways.

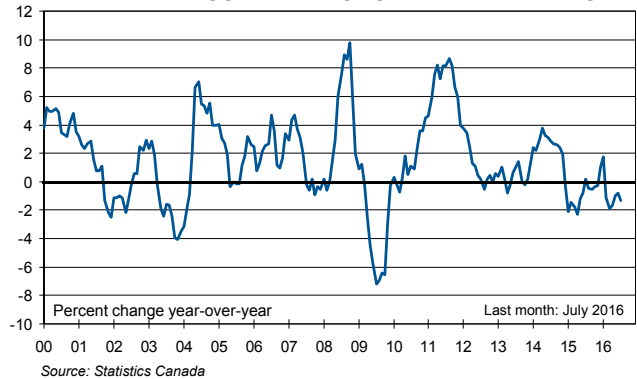
Industrial product price inflation has been negative for the last six months and inflation expectations have declined, along with wages.

We do not expect inflation to be an issue for the Bank of Canada in 2016/2017.

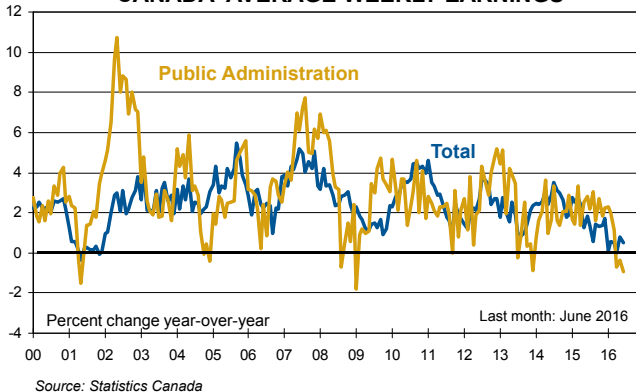
CANADA CONSUMER PRICE INFLATION



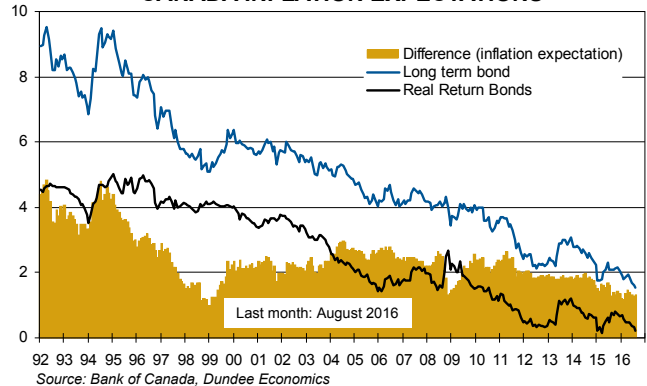
CANADA INDUSTRIAL PRODUCT PRICE INFLATION



CANADA AVERAGE WEEKLY EARNINGS



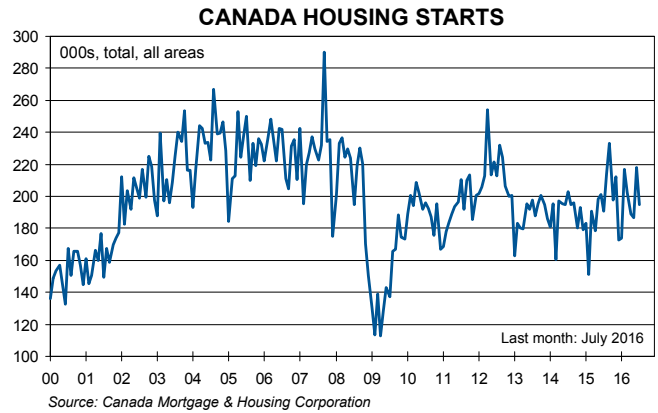
CANADA INFLATION EXPECTATIONS



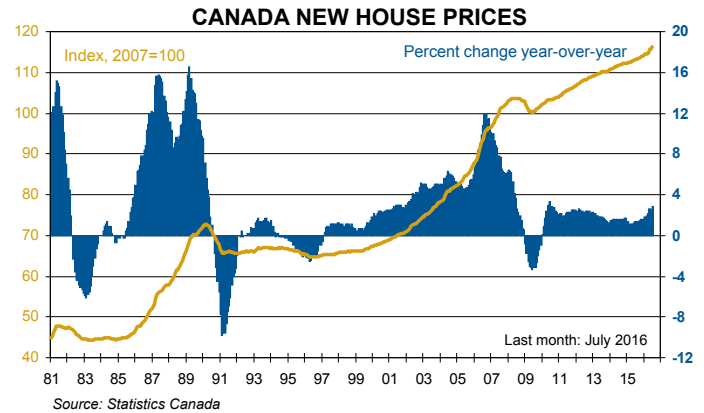
MONTHLY REVIEW ► CANADA – HOUSING MARKET

Housing market data remain mixed from region to region, but official concern over rapid increases in Vancouver and Toronto house prices has been rising (with Vancouver now levying foreign nationals with a property transfer tax).

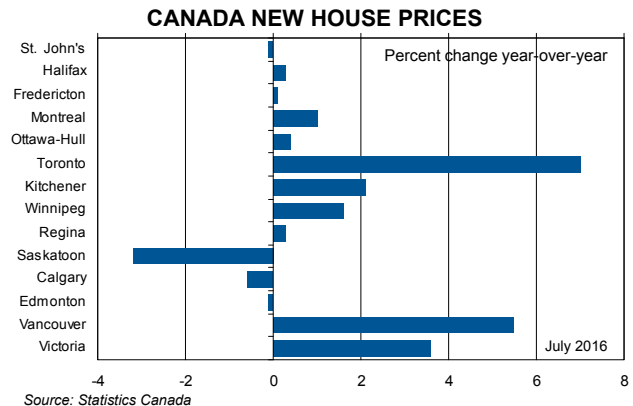
Housing starts are trending sideways.



New house prices continue to increase at a steady rate ...

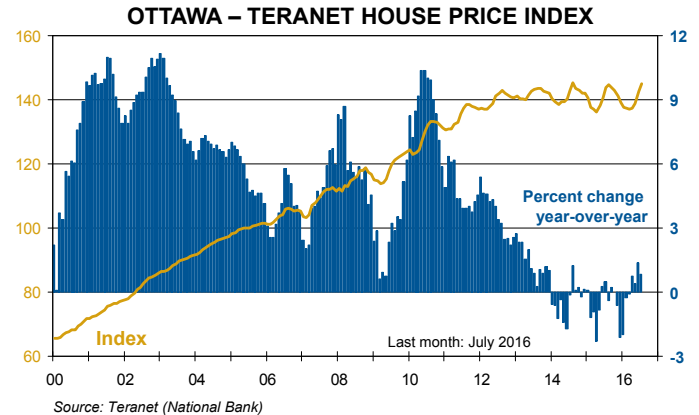
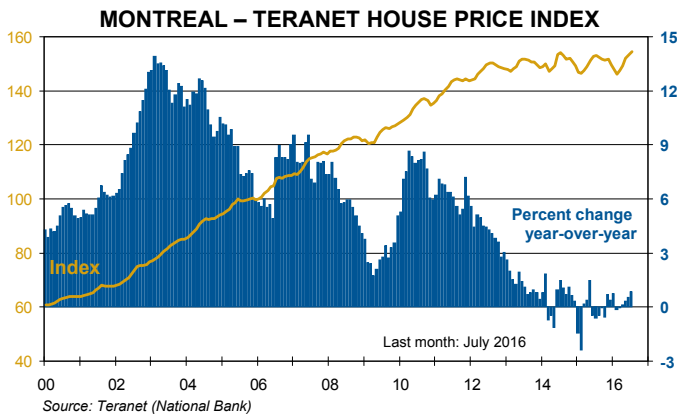
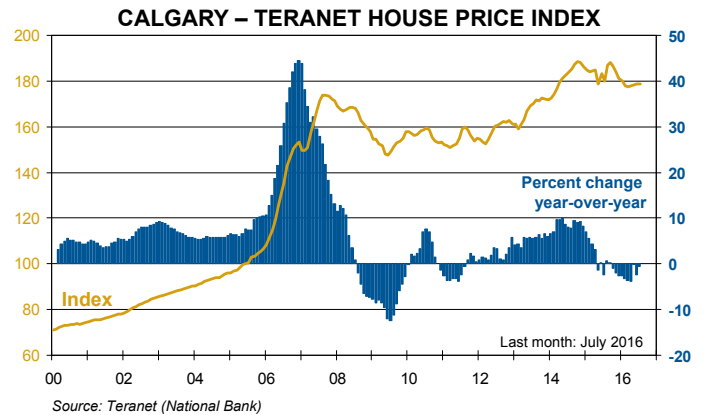
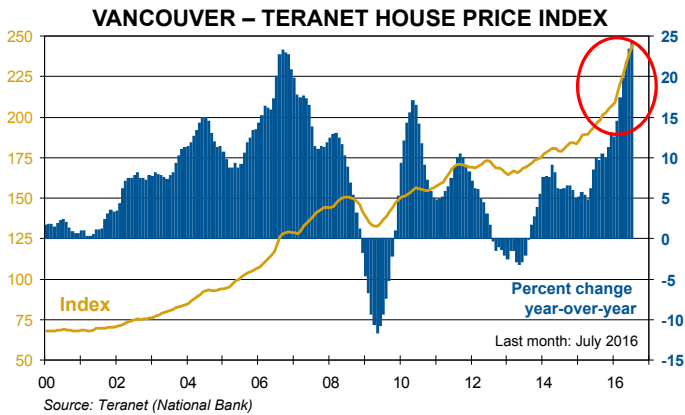
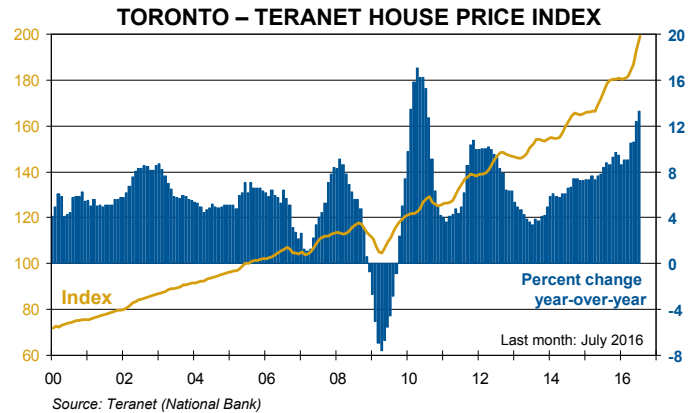
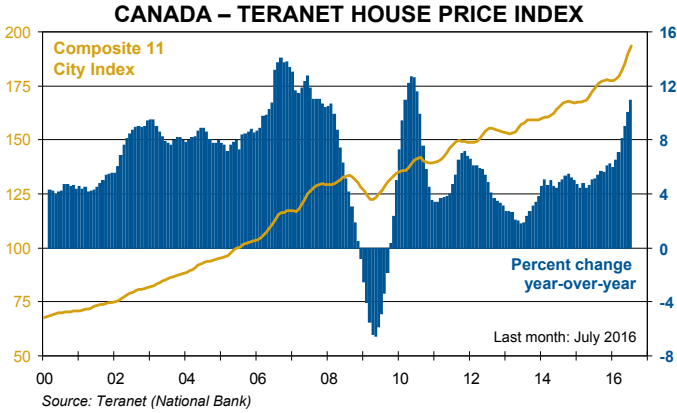


... led by higher prices in Toronto and Vancouver. (This may change in coming months!)



MONTHLY REVIEW ►
CANADA – HOUSING MARKET

According to Teranet house price indices, existing house prices (11-city composite) increased 10.9% (year-over-year) in July. Existing house prices increased by a whopping 24.3% in Vancouver and 13.3% in Toronto; elsewhere prices were more subdued or declined.



MONTHLY REVIEW ►

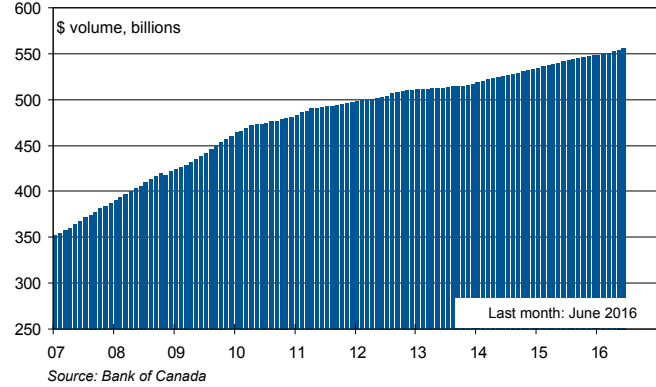
CANADA – CREDIT AND DEBT

Consumer and business credit continue to grow at a moderate pace; mortgage credit growth is expanding at about 6% year-over-year.

CANADA CONSUMER CREDIT GROWTH



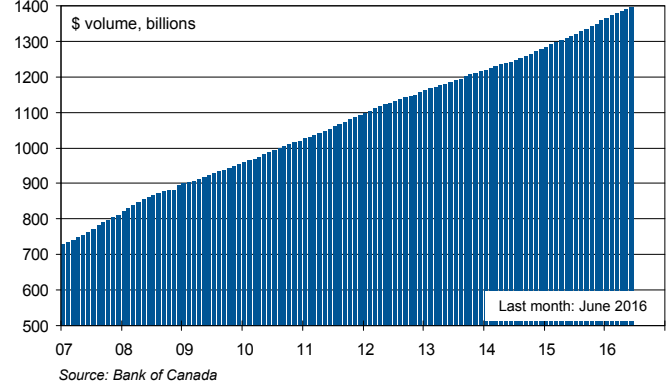
CANADA CONSUMER CREDIT



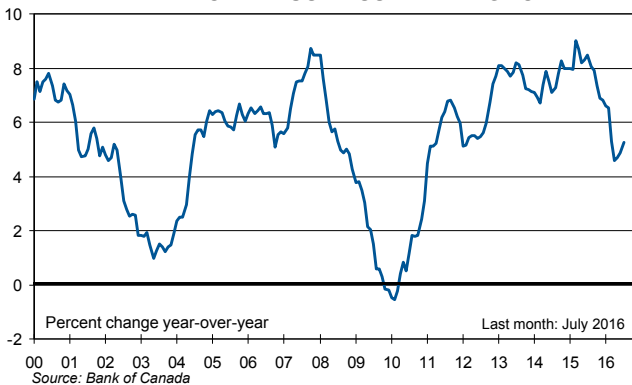
CANADA RESIDENTIAL MORTGAGE CREDIT GROWTH



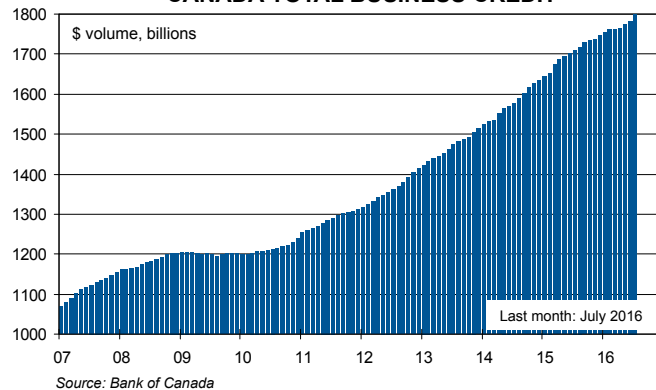
CANADA RESIDENTIAL MORTGAGE CREDIT



CANADA TOTAL BUSINESS CREDIT GROWTH

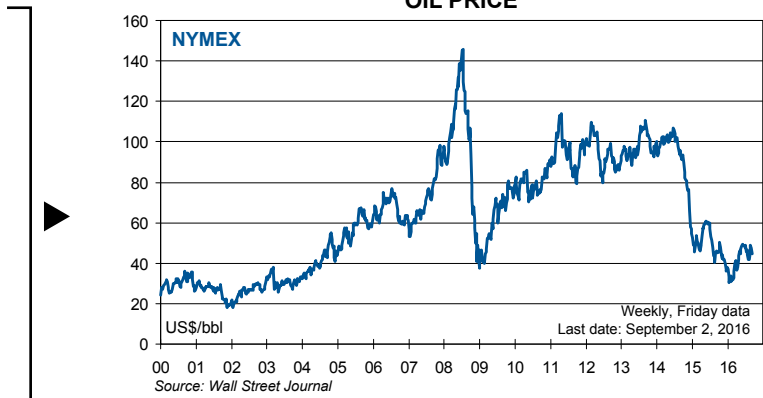


CANADA TOTAL BUSINESS CREDIT

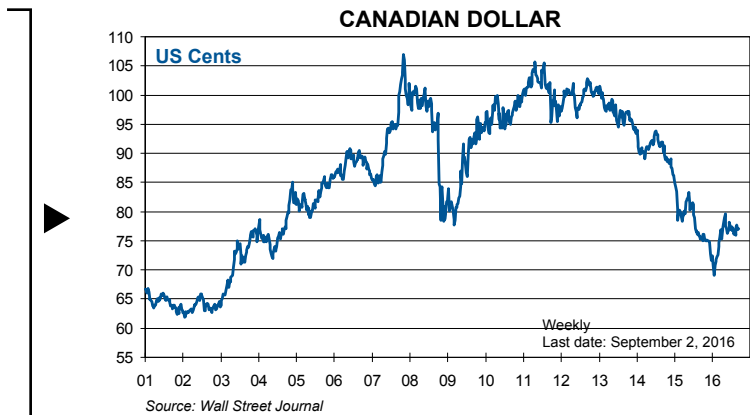


MONTHLY REVIEW ►
CANADA – ASSET PRICES

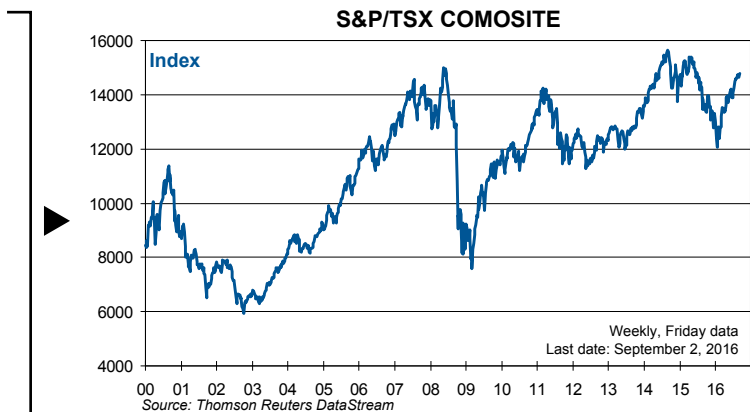
Oil prices have trended sideways in recent weeks ...



... as has the Canadian dollar ...

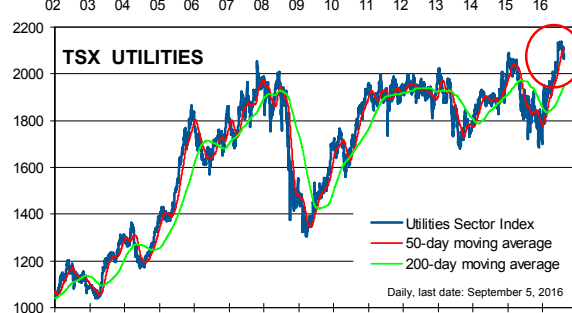
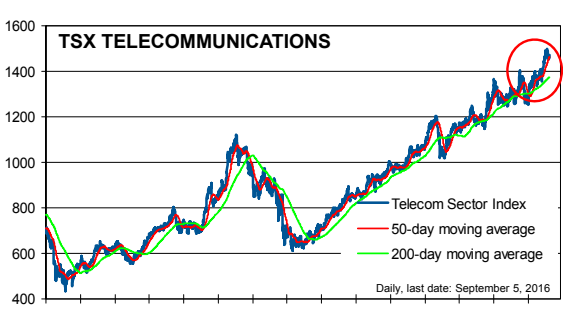
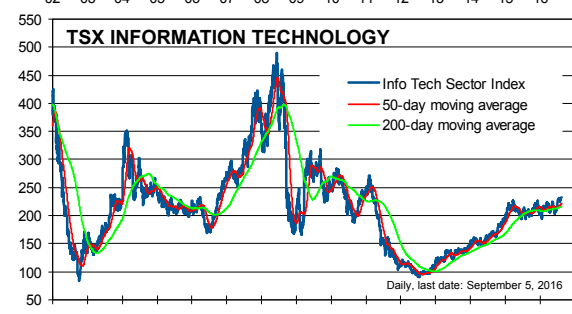
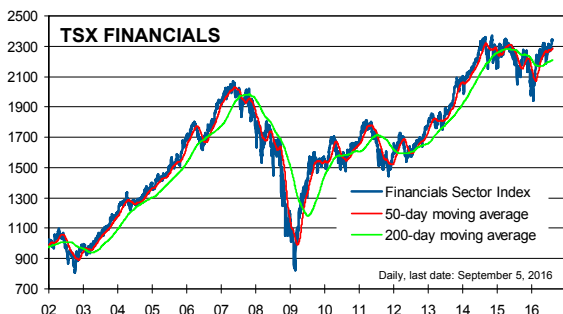
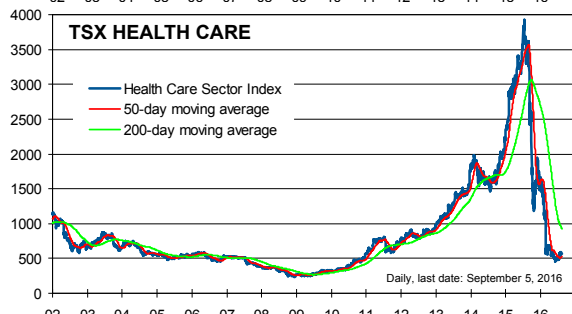
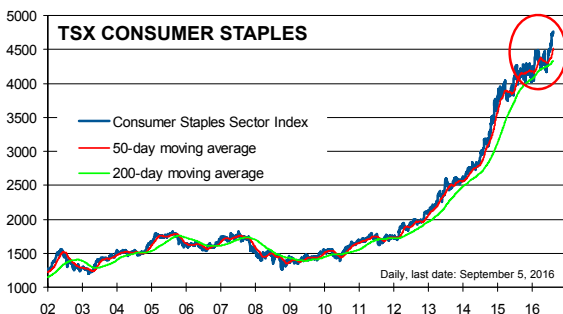
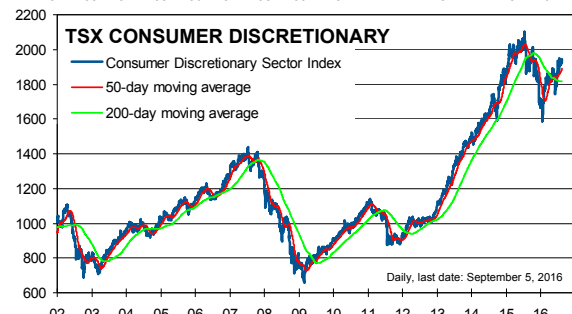
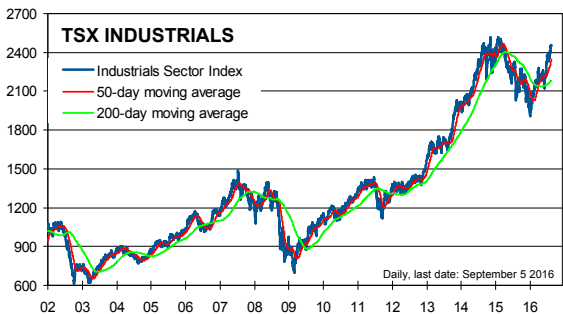
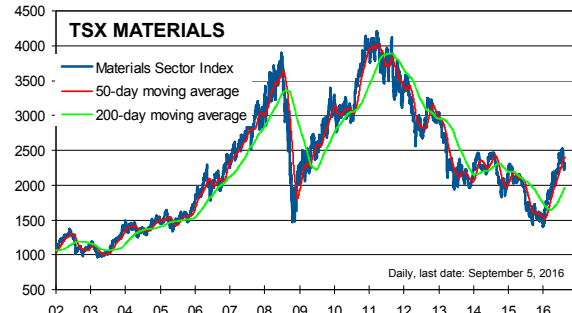
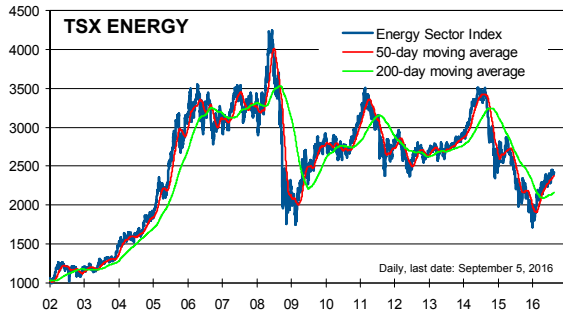


... but the TSX Composite is trending higher.



MONTHLY REVIEW ► CANADA – TSX GICS SECTORS

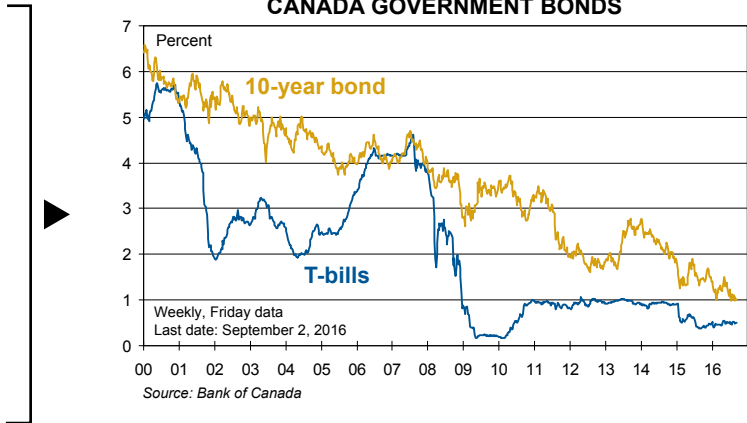
The Consumer Staples, Telecommunications and Utilities sectors have all set new highs in recent weeks, and the Financials sectors is close to a new high.



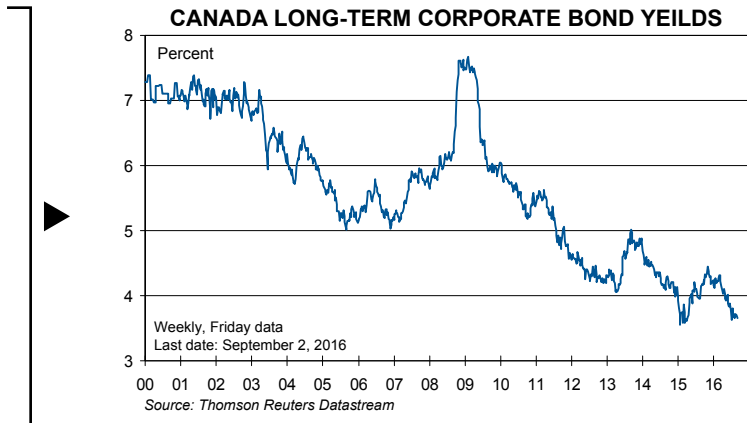
Source: Thomson Reuters Datastream

MONTHLY REVIEW ►
CANADA – INTEREST RATES

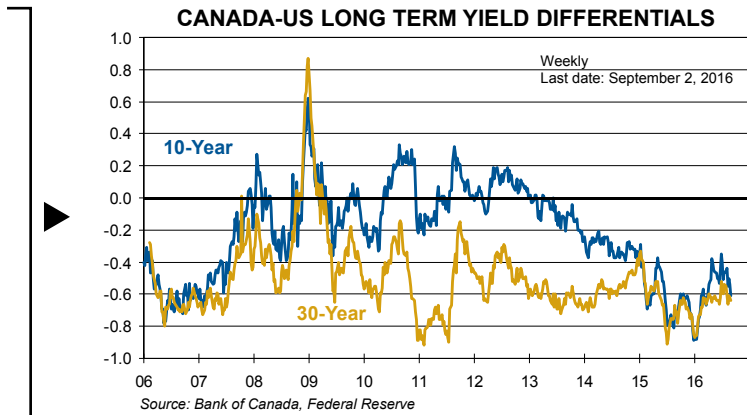
The Canadian 10-year bond yield has hovered around 1.0% in recent weeks.



Long-term corporate bond yields have declined ...

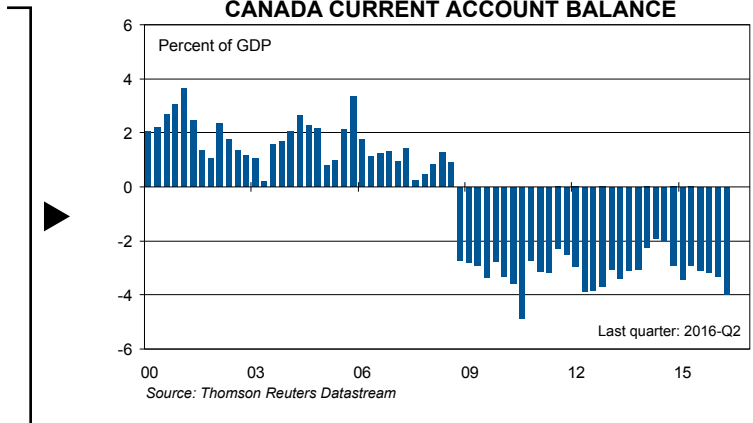


... and Canada-US long term differentials have narrowed in recent weeks.

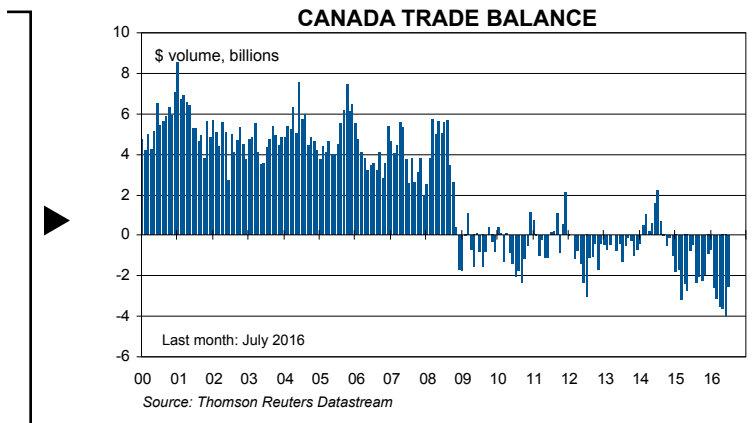


MONTHLY REVIEW ► CANADA – CURRENT ACCOUNT AND TRADE BALANCE

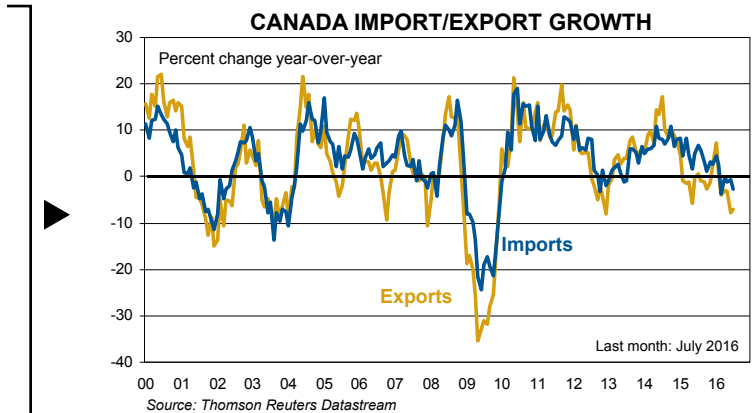
The current account deficit increased to 4.0.% of GDP in 2016-Q2 ...



... Canada's trade deficit remains elevated ...

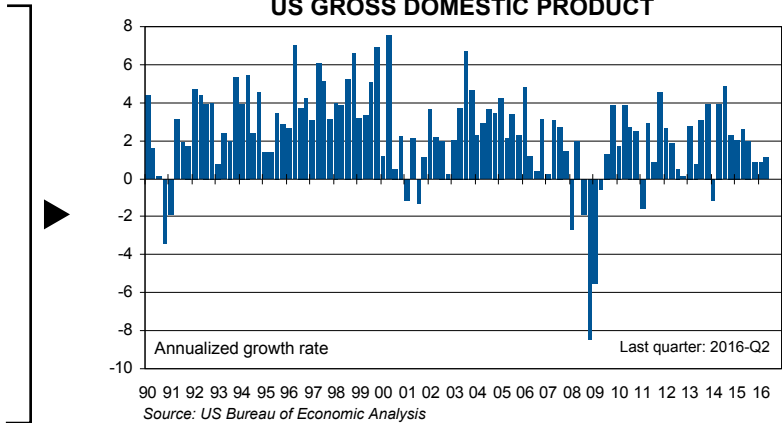


... and export growth has declined by more than 7% for the last two months!

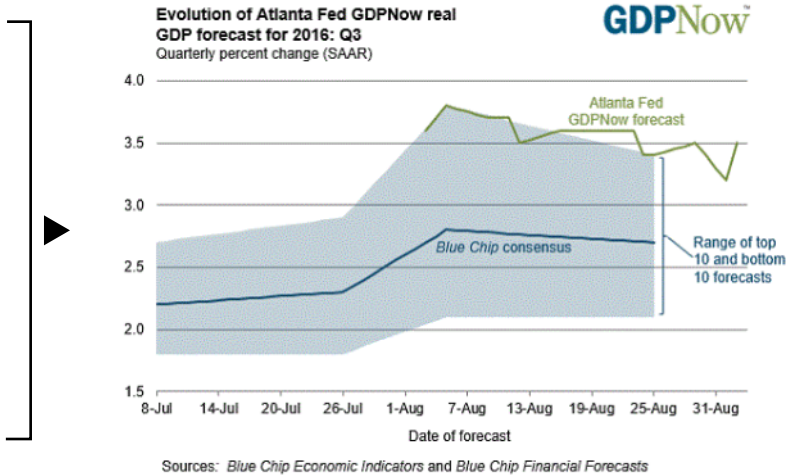


MONTHLY REVIEW ►
 UNITED STATES – ECONOMIC GROWTH

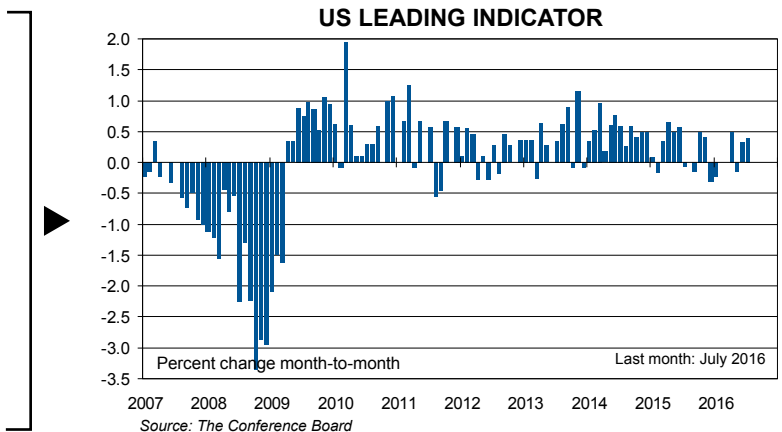
The second estimate of US GDP growth in 2016-Q2 was revised down to 1.1% from 1.2% (s.a.a.r) ...



... Atlanta Fed's *GDPNow* estimate for 2016-Q3 is 3.5%, which we think is too high. (Our forecast for all of 2016 is 1.5%-2.0%.)



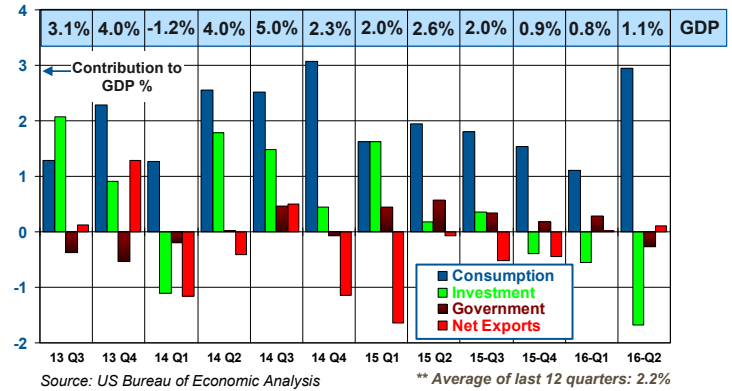
The leading indicator increased again in July, but continues to point to only moderate growth.



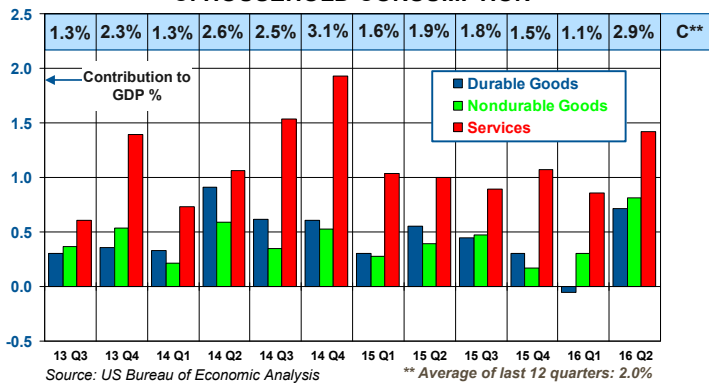
MONTHLY REVIEW ► UNITED STATES – ECONOMIC GROWTH

The largest contribution to US growth in 2016-Q2 came from Household Consumption (services). Investment was the biggest drag on GDP growth, Government expenditures also subtracted from GDP growth in the second quarter.

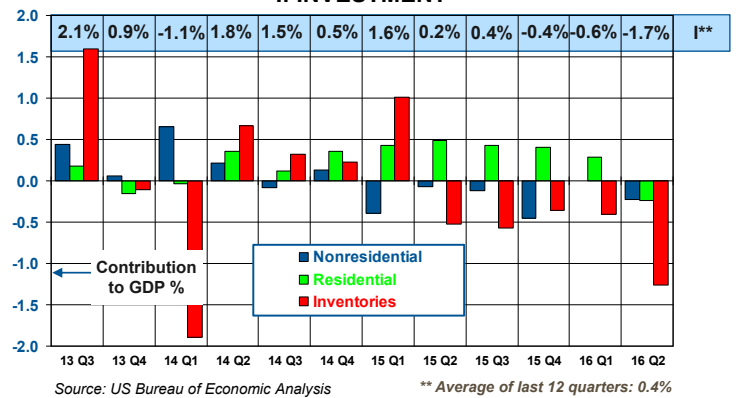
CONTRIBUTION TO GDP IN RECENT QUARTERS



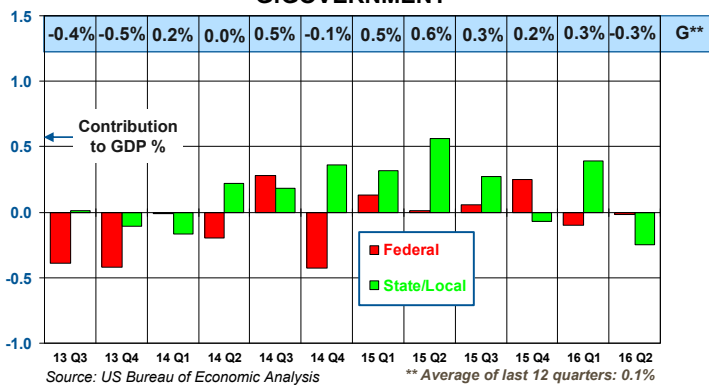
C: HOUSEHOLD CONSUMPTION



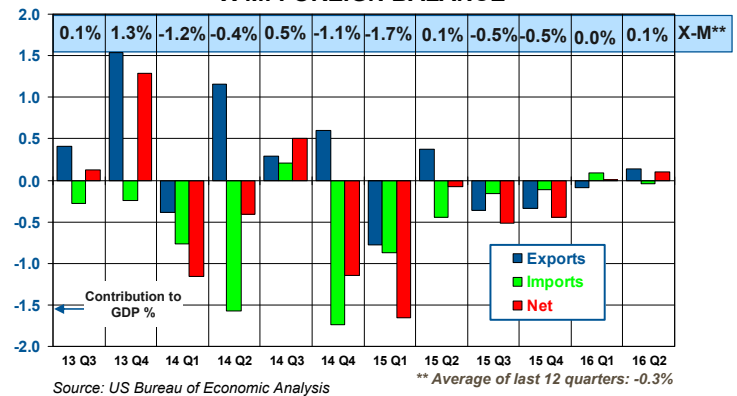
I: INVESTMENT



G: GOVERNMENT



X-M: FOREIGN BALANCE



MONTHLY REVIEW ► UNITED STATES – ECONOMIC GROWTH

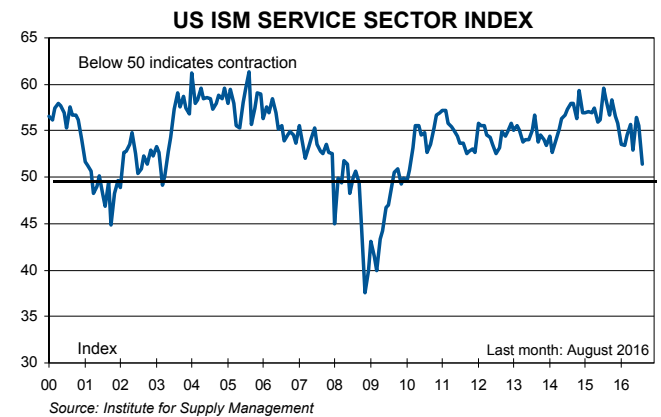
Retail sales growth is trending sideways ...



... but the ISM manufacturing index has slipped below 50 again ...

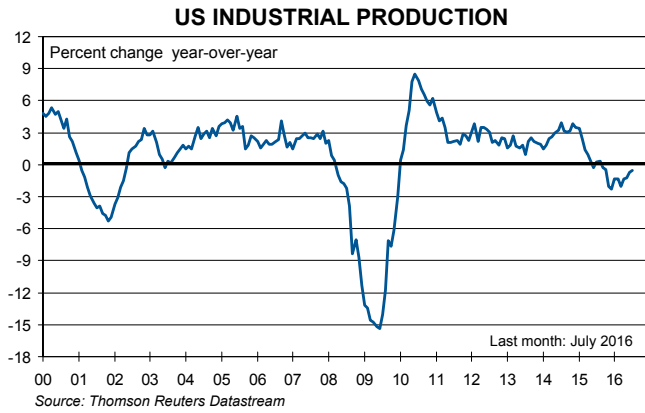


... and the ISM service index declined sharply in August!

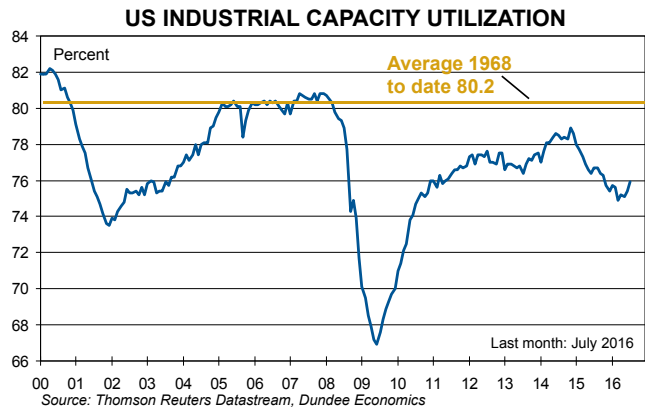


MONTHLY REVIEW ► UNITED STATES – ECONOMIC GROWTH

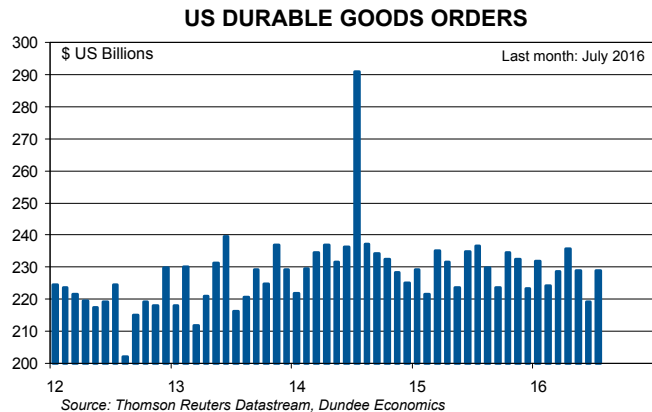
Industrial production was negative year-over-year for the eighth month in July ...



... industrial capacity utilization, although up from recent lows, remains very low ...

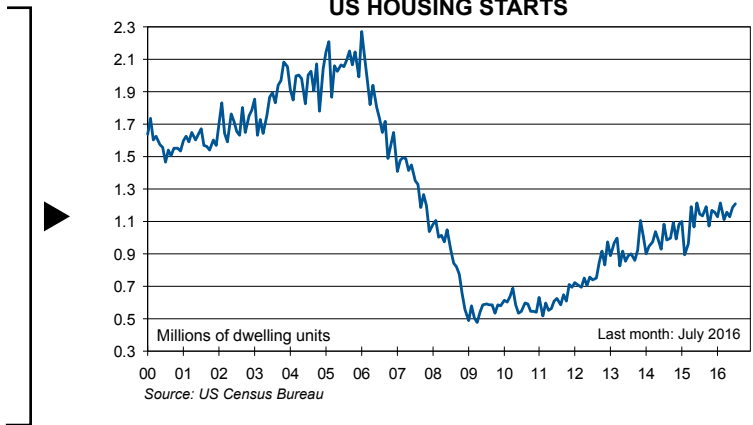


... and durable goods orders are trending sideways.

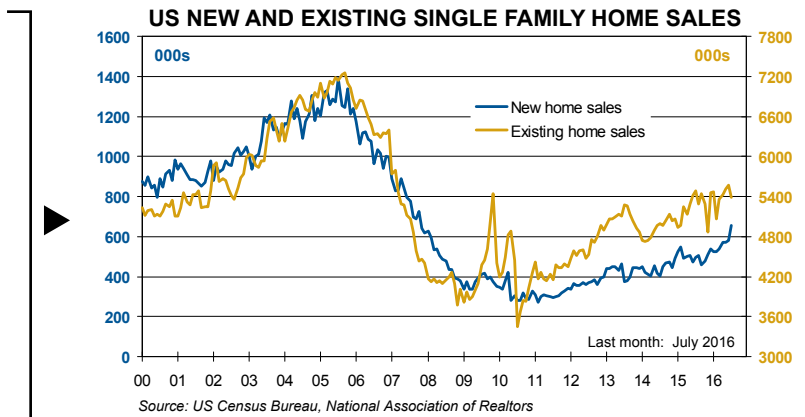


MONTHLY REVIEW ►
 UNITED STATES – HOUSING MARKET

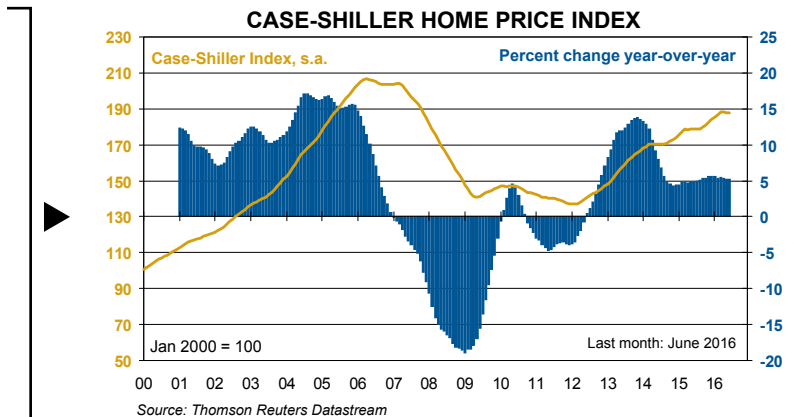
Housing starts have leveled off at just over 1.1 million units ...



... new home prices are trending modestly higher, while existing home sales appear to be leveling ...

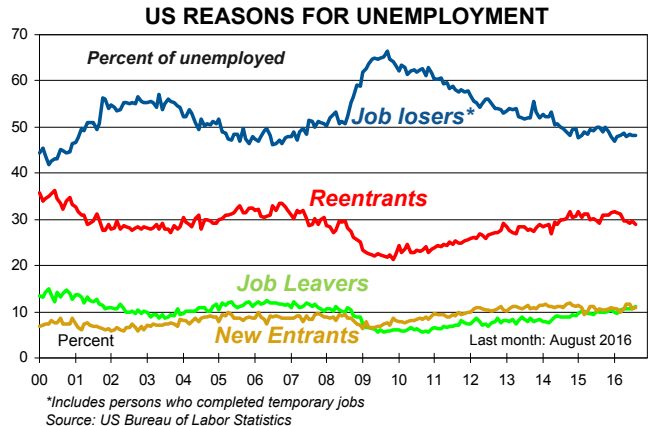
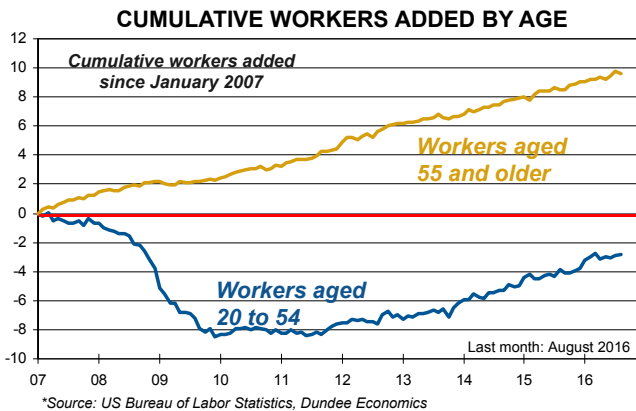
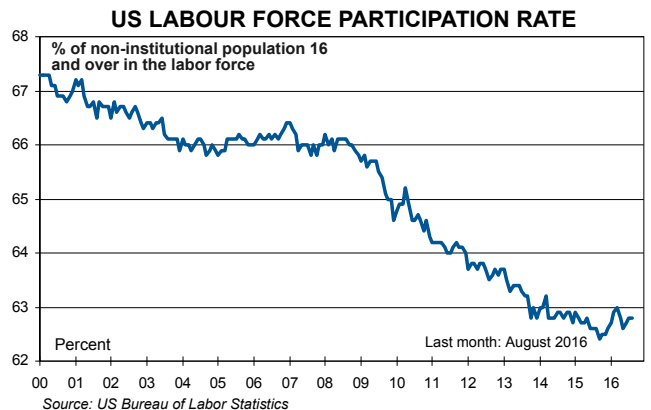
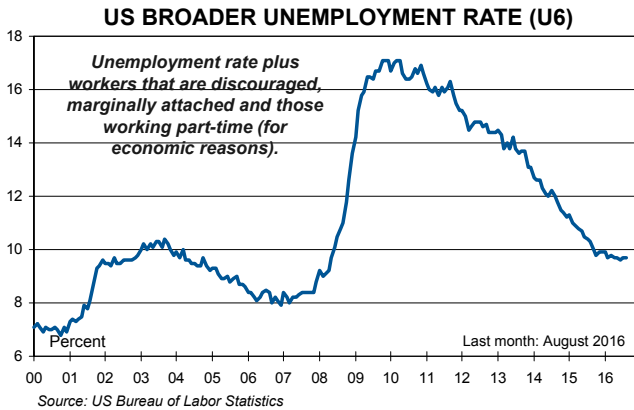


... and the Case-Shiller Home Price Index continues to advance around 5% year-over-year.



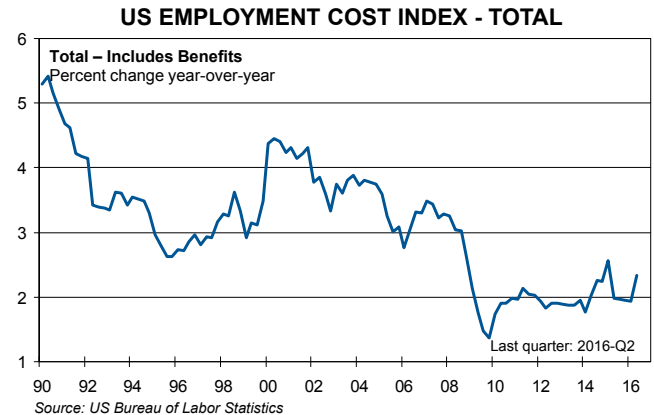
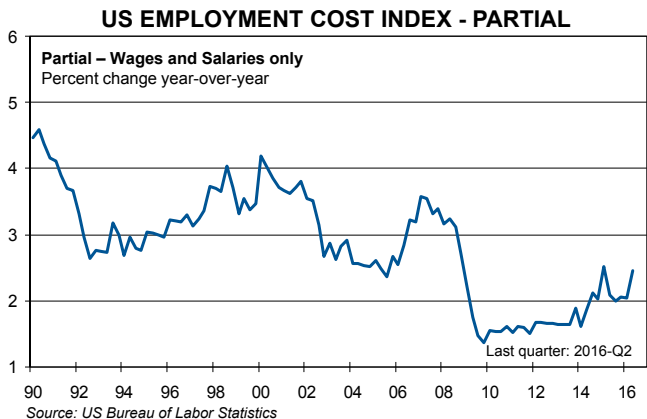
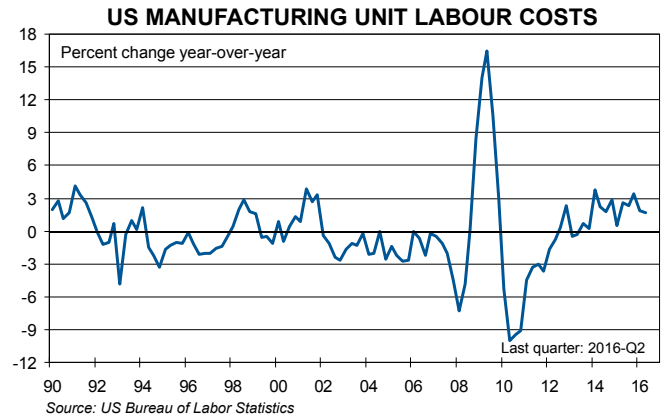
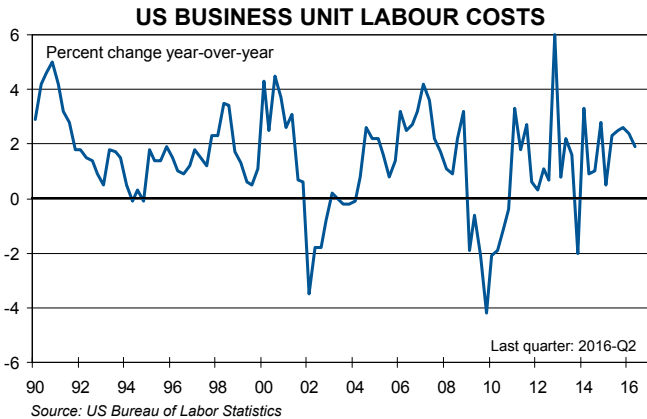
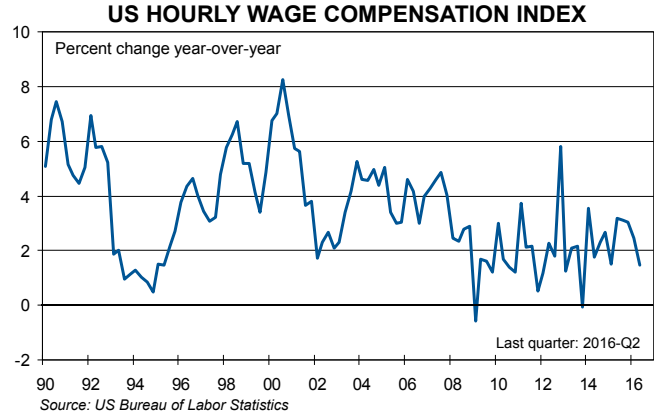
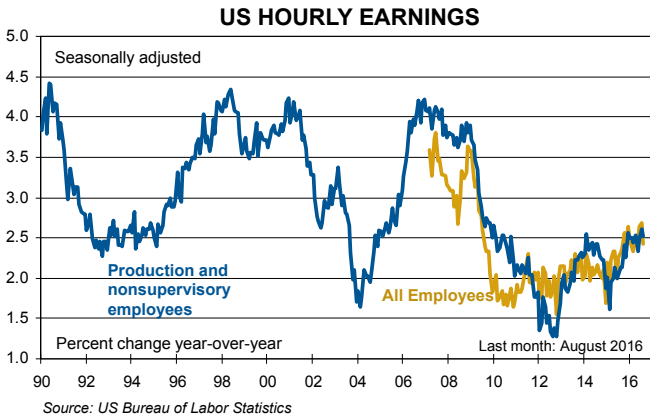
MONTHLY REVIEW ► UNITED STATES – LABOUR MARKET

US labour market data remains mixed; 151 thousand jobs were created in August, which brought the 3-month moving average up to 232 thousand. The unemployment rate held steady at 4.9%, but the labour force participation rate remains low, and the underemployed and those losing jobs remains elevated.



MONTHLY REVIEW ►
UNITED STATES – WAGE INFLATION

US wage inflation is trending sideways. Although hourly earnings have increased, overall labour cost declined in 2016-Q2 both for businesses and manufacturing.



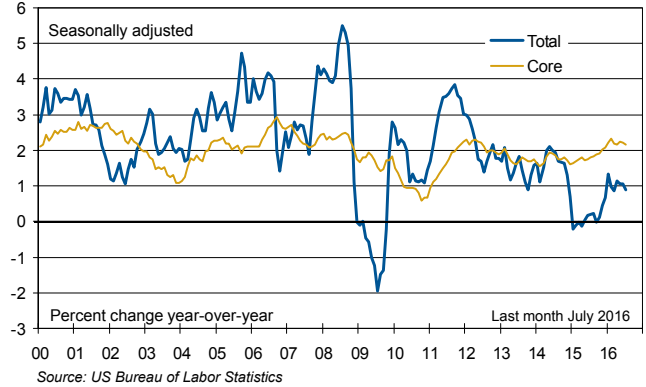
MONTHLY REVIEW ► UNITED STATES – INFLATION

Both headline and core inflation rates are trending sideways and likely to remain low ...

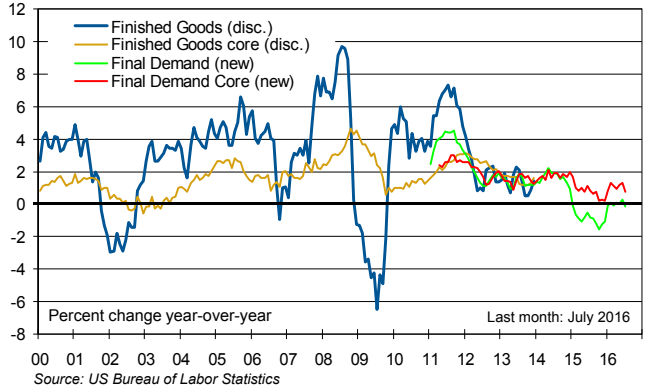
... PCE inflation remains well below the Fed's target ...

... and inflation expectations are also stable/low.

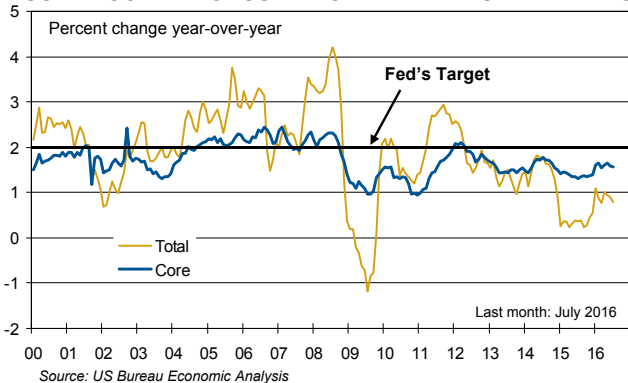
US CONSUMER PRICE INFLATION



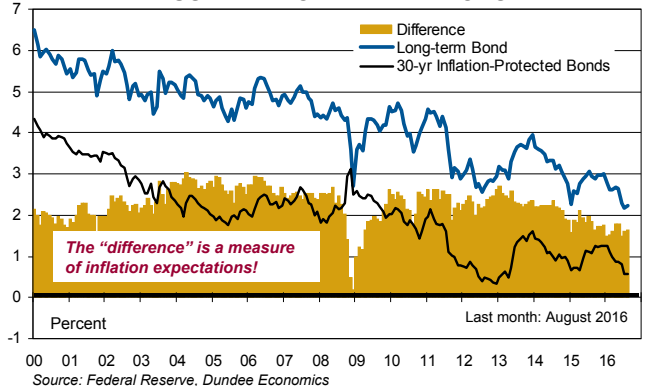
US PRODUCER PRICE INFLATION



US PERSONAL CONSUMPTION EXPENDITURE INFLATION

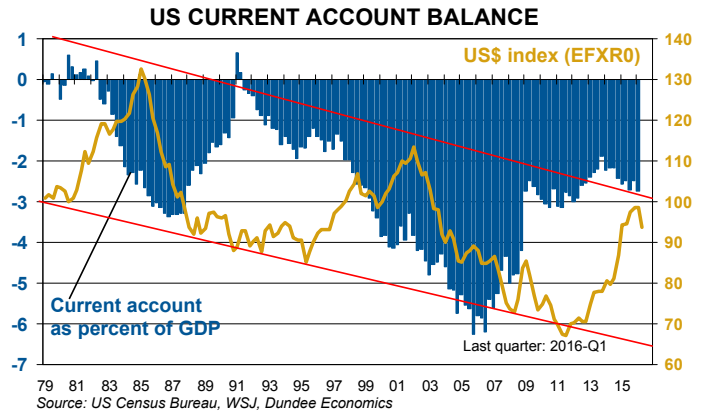


US INFLATION EXPECTATIONS

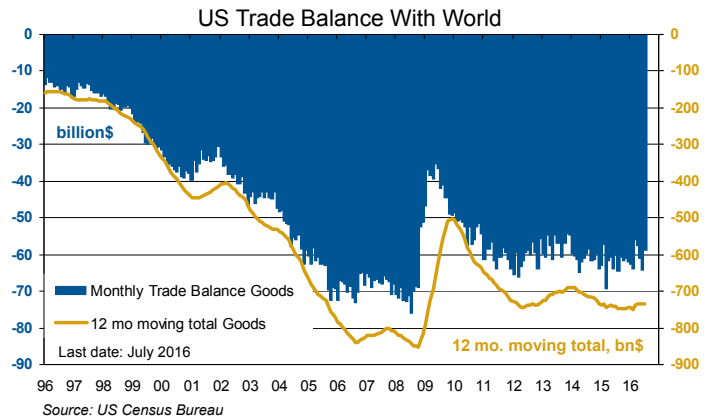


MONTHLY REVIEW ►
 UNITED STATES – CURRENT ACCOUNT AND TRADE BALANCE

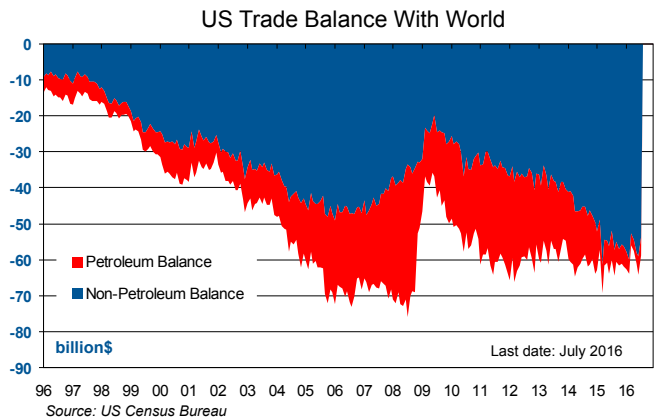
The US current account deficit is rising again, which is one reason we expected the US dollar to decline in 2017-2018.



The US trade deficit has been flat in recent months on the back of weaker domestic growth ...

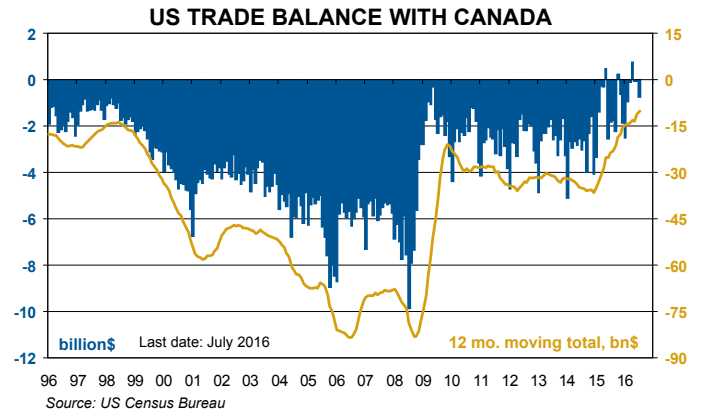
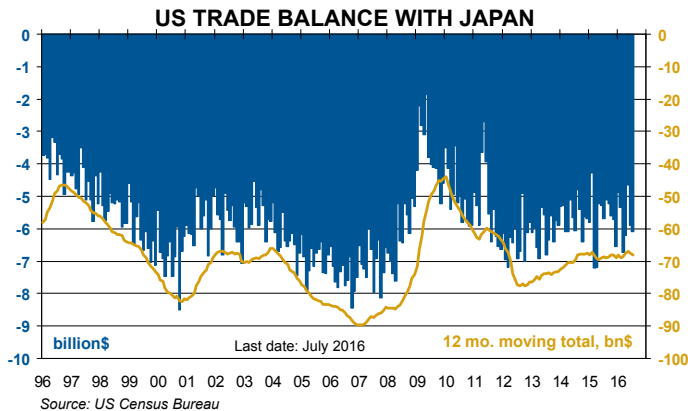
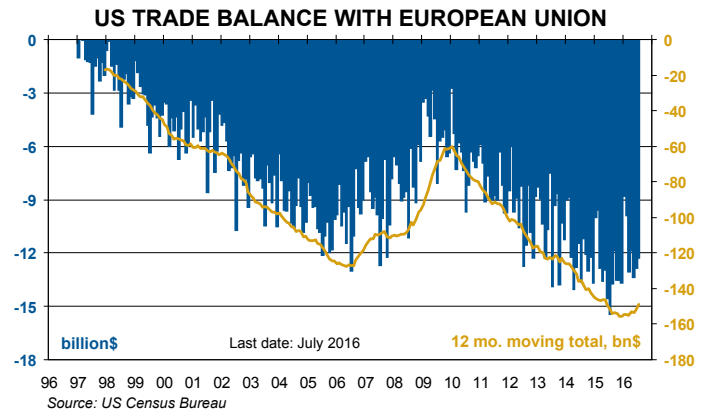
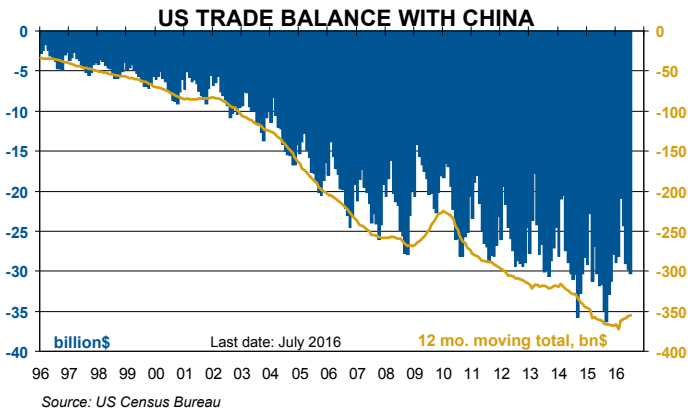
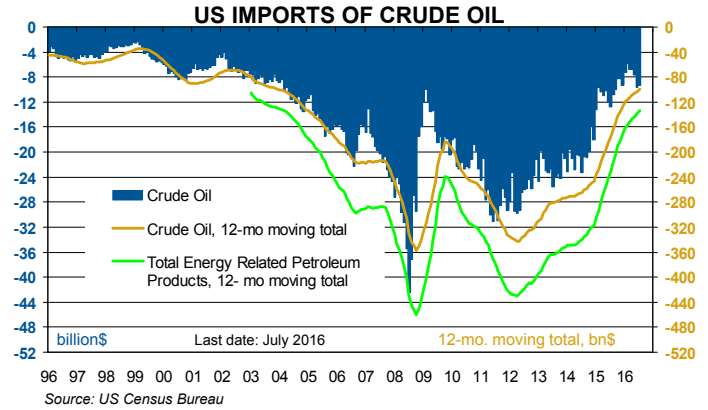


... and the sharp contraction in the petroleum deficit!



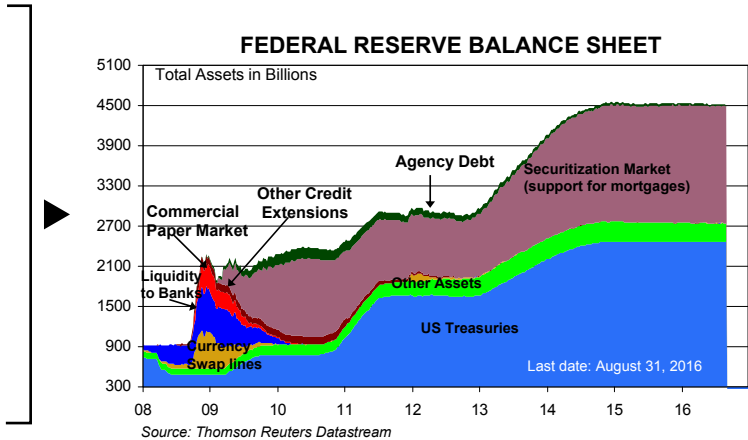
MONTHLY REVIEW ► UNITED STATES – TRADE BALANCE

The US continues to post very large trade deficits with China, the EU, and Japan.

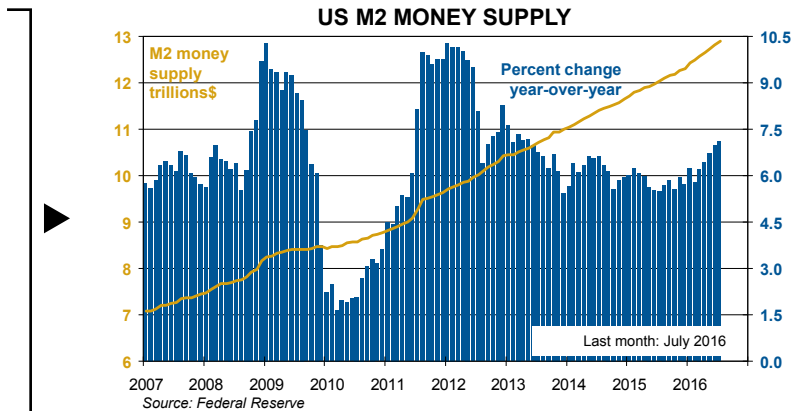


MONTHLY REVIEW ►
 UNITED STATES – MONETARY POLICY

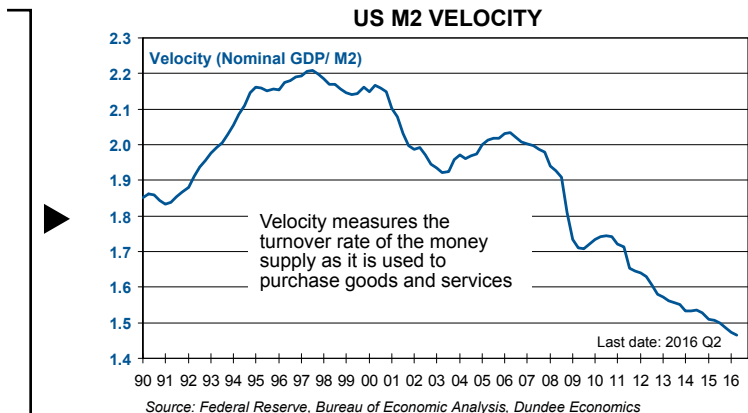
Since QE3 ended in 2014, the Fed's balance sheet has stabilized at just over \$4.5 trillion. Even as the Fed slowly increases short-term interest rates the balance sheet will remain elevated for the foreseeable future.



The M2 money supply increased at 7.1% year-over-year in July ...



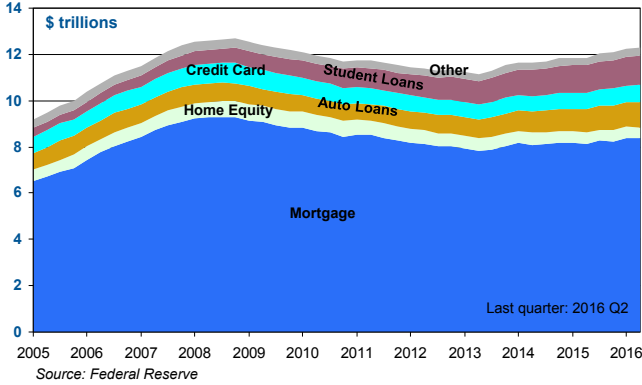
... but M2-velocity continues to plunge!



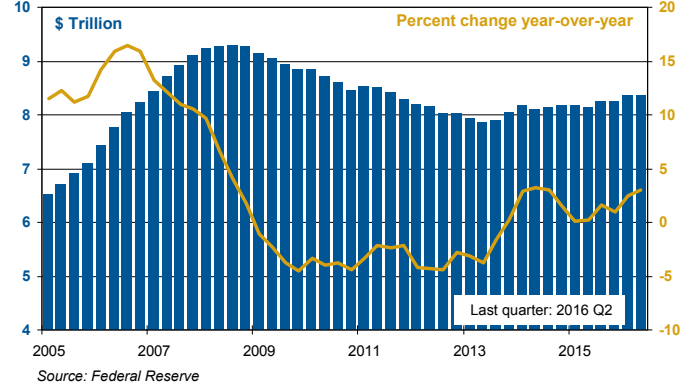
MONTHLY REVIEW ► UNITED STATES – HOUSEHOLD DEBT

Total US household debt, at \$12.3 trillion, increased only slightly in 2016-Q2. Mortgage debt, the largest component of household debt, is not increasing significantly, but auto loan and student loan debt are. Home equity revolving debt continues to decline.

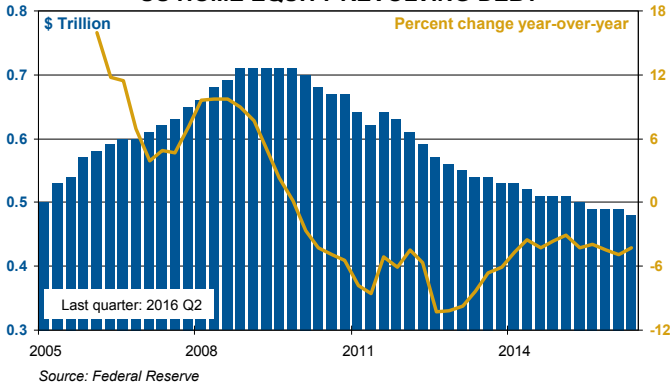
US TOTAL HOUSEHOLD DEBT



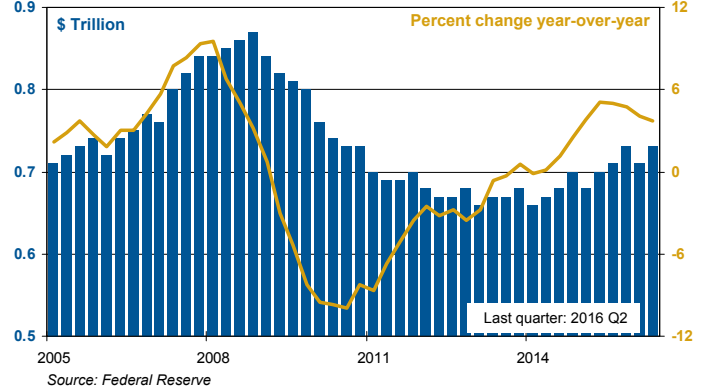
US MORTGAGE DEBT



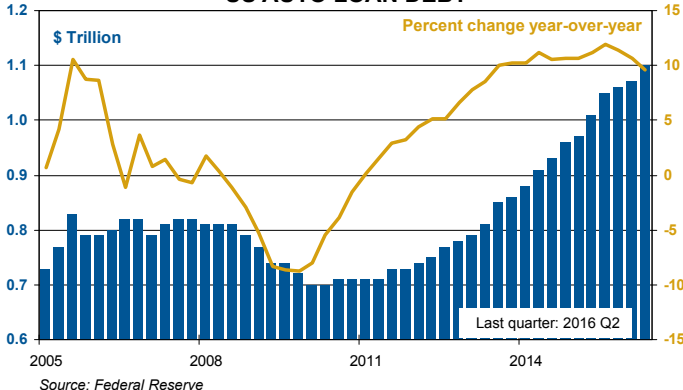
US HOME EQUITY REVOLVING DEBT



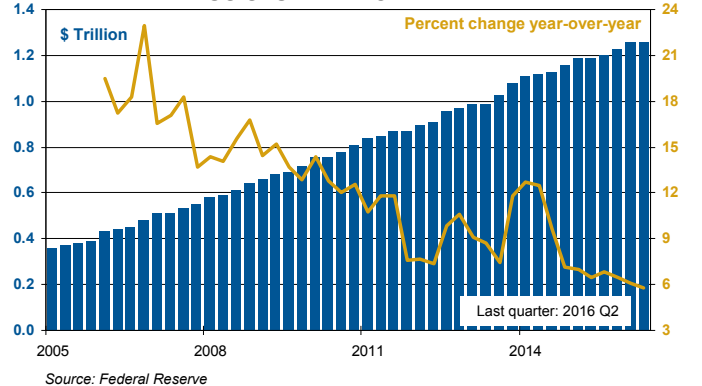
US CREDIT CARD DEBT



US AUTO LOAN DEBT

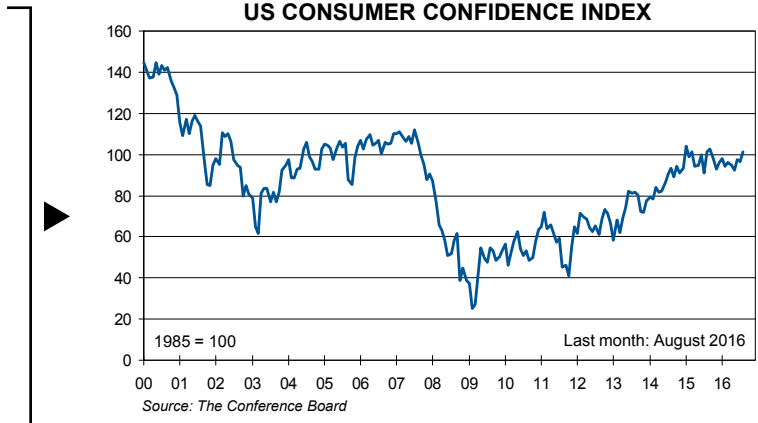


US STUDENT LOAN DEBT

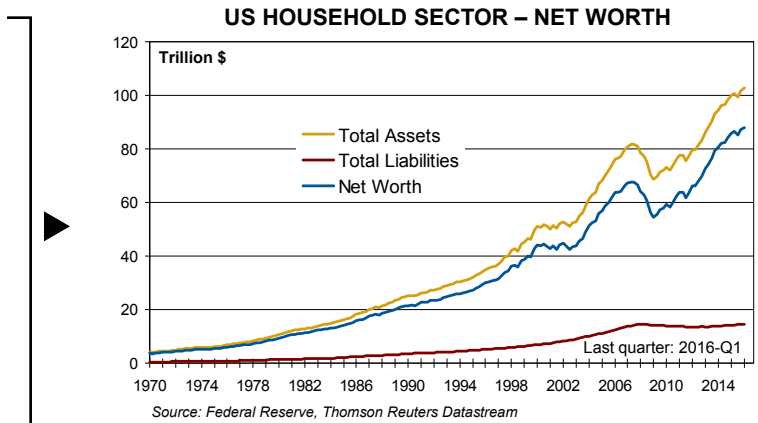


MONTHLY REVIEW ►
 UNITED STATES – WEALTH CREATION

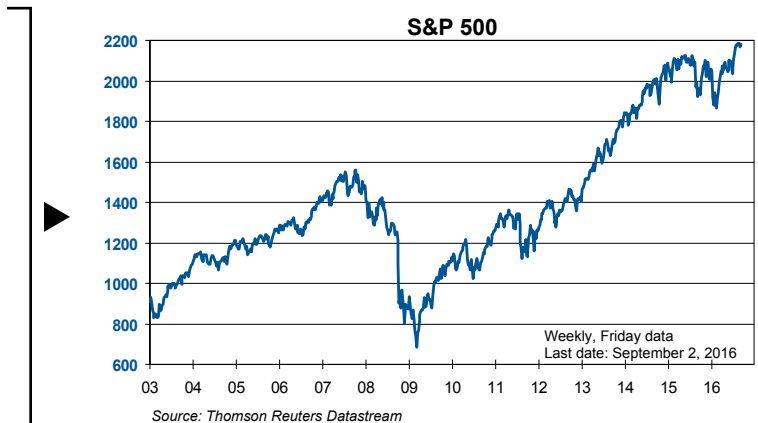
Consumer confidence increased in August ...



... total household assets (and net-worth) set new highs in 2016-Q1 ...



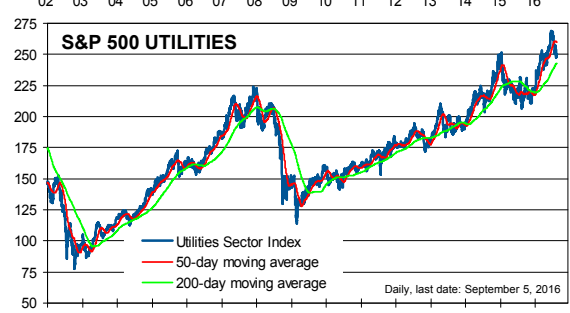
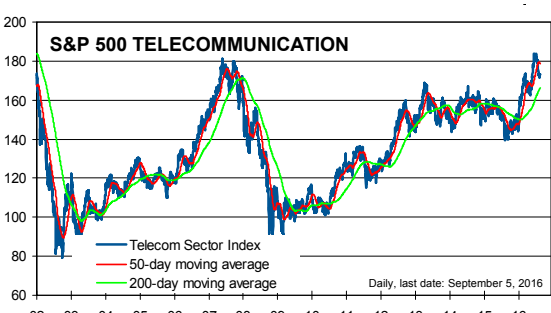
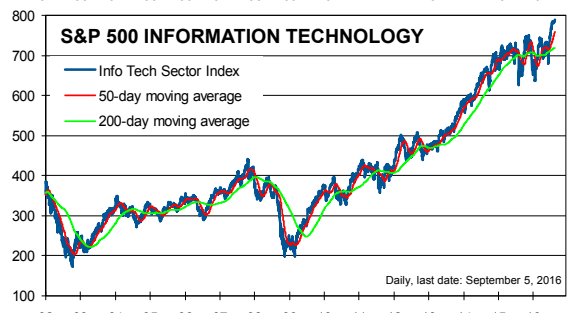
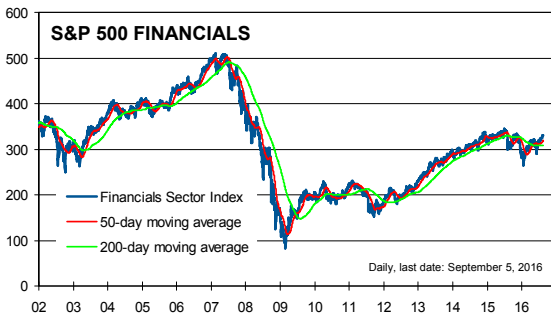
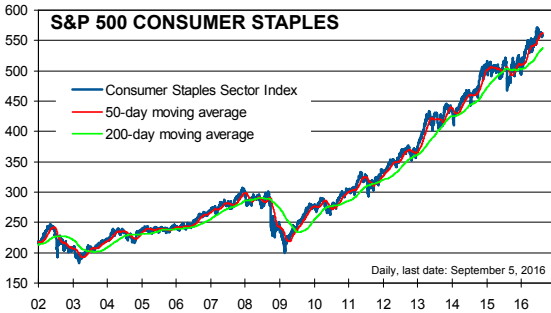
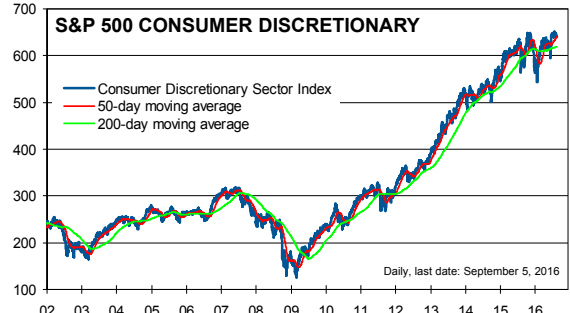
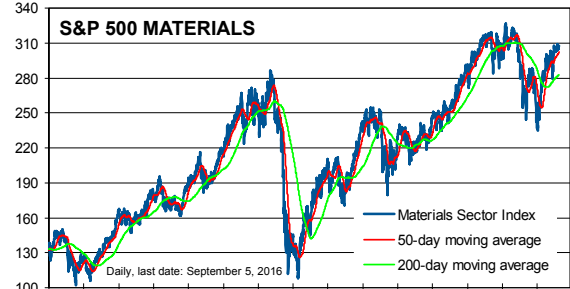
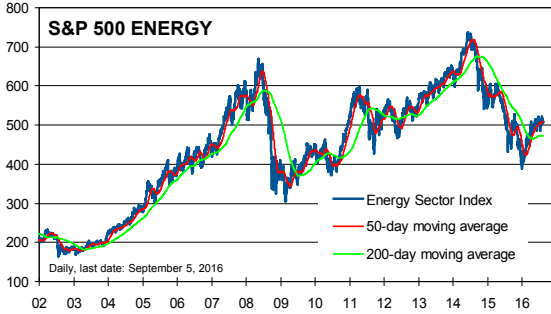
... and US equity markets are at all-time highs.



MONTHLY REVIEW ►

UNITED STATES – S&P500 GICS SECTORS

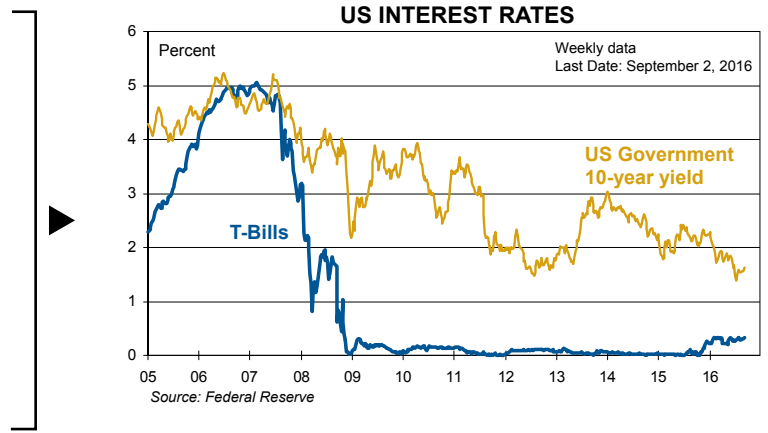
The Energy, Financials, and (to a lesser extent) Materials sectors have lagged the S&P500 index.



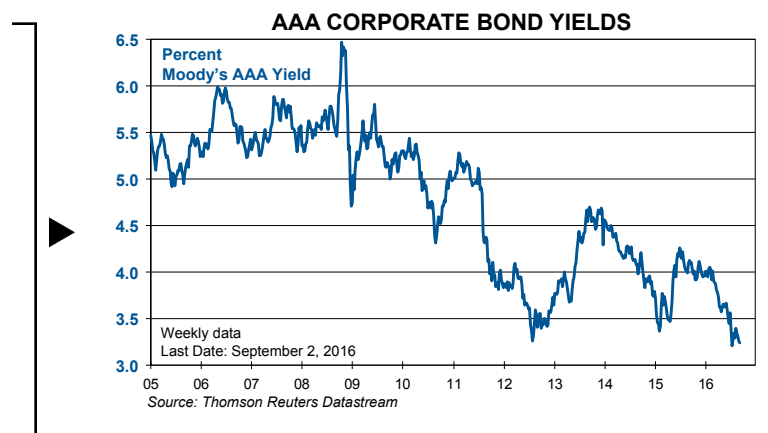
Source: Thomson Reuters Datastream

MONTHLY REVIEW ►
 UNITED STATES – INTEREST RATES

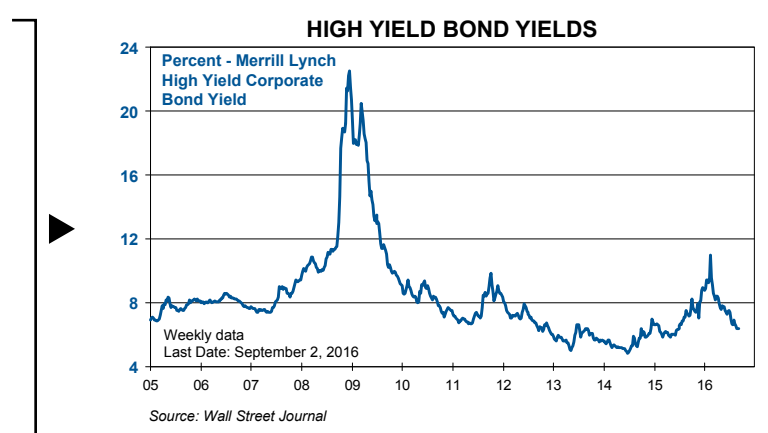
The yield on 10-year Treasuries have increased slightly from recent lows.



The yield on AAA corporate bonds remains very low ...



... and the yield on high-yield bonds have declined.

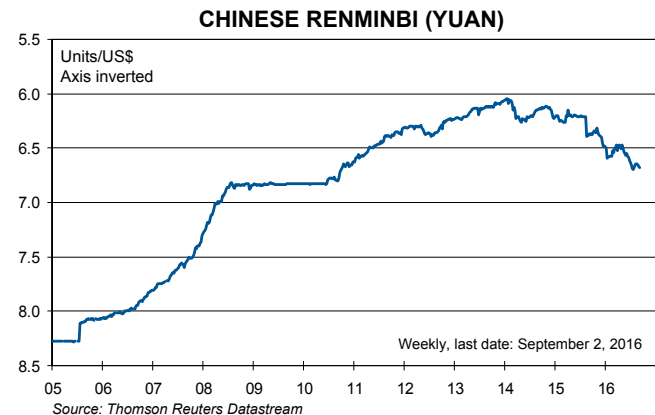
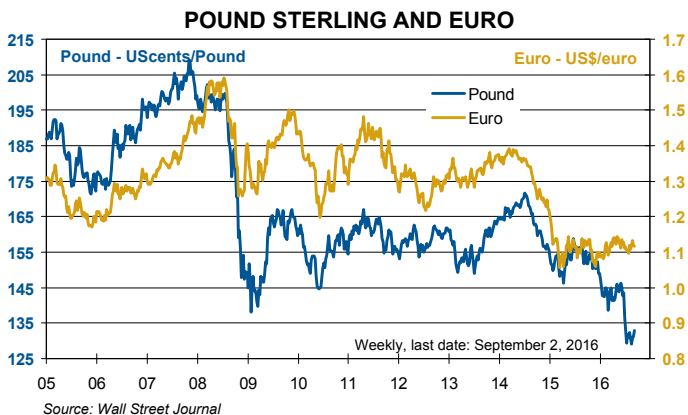
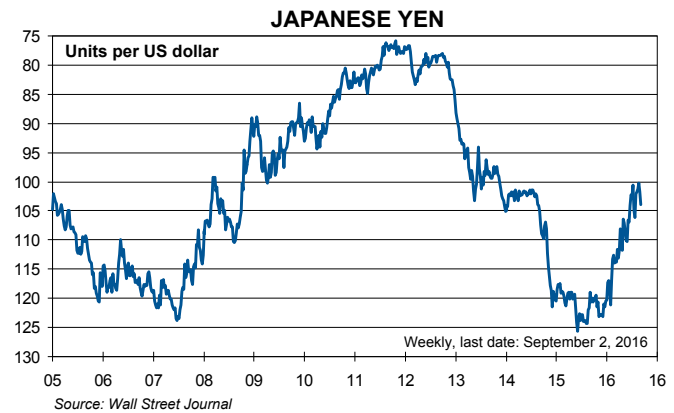
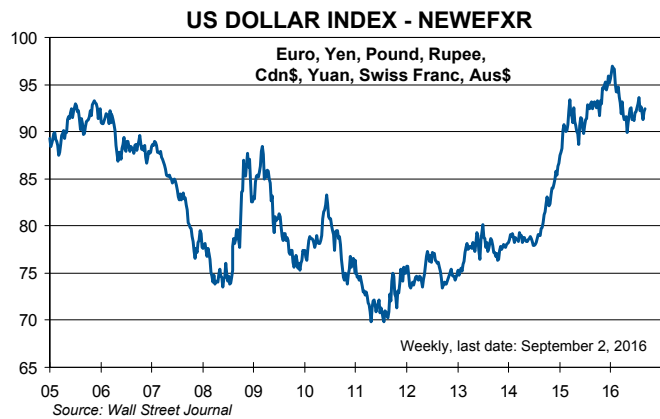


MONTHLY REVIEW ► INTERNATIONAL – EXCHANGE RATES

The US dollar has trended sideways in recent weeks.

We think the dollar has peaked for this cycle ...

... but its decline will be slow and hesitant.



MONTHLY REVIEW ►
INTERNATIONAL – BOND YIELDS

Government bond yields are very low and, although off recent lows, remain below zero in Japan and Germany.

US Treasuries are now “high yield” government bonds!

US 10-YEAR BOND YIELD



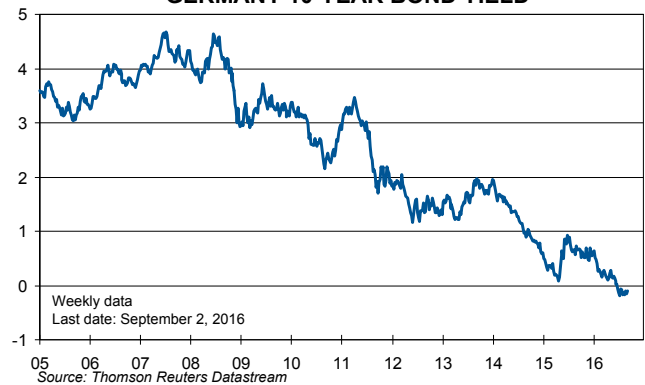
UK 10-YEAR BOND YIELD



JAPAN 10-YEAR BOND YIELD

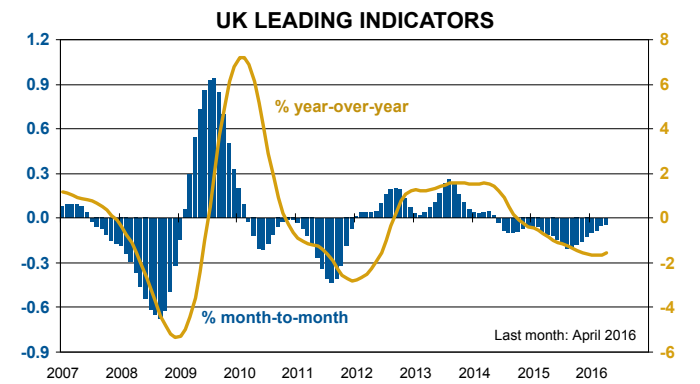
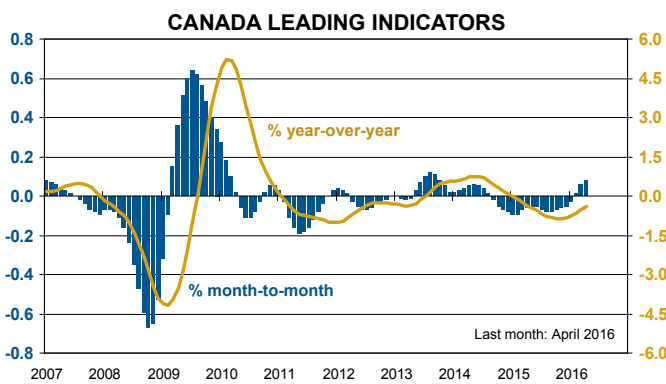
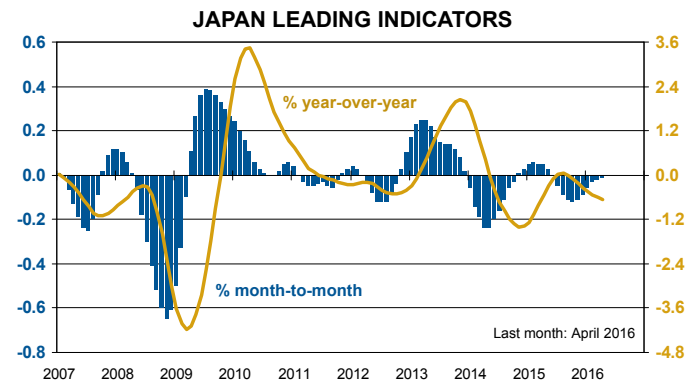
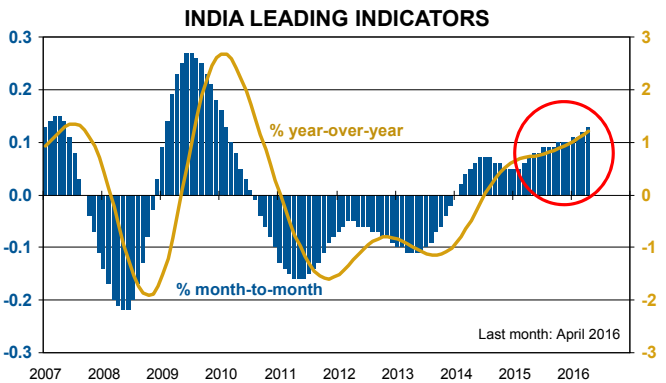
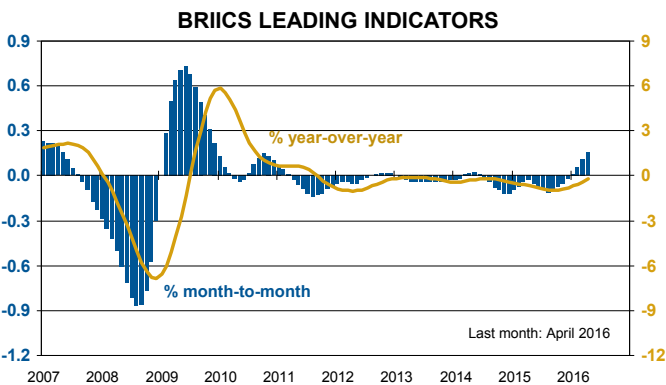
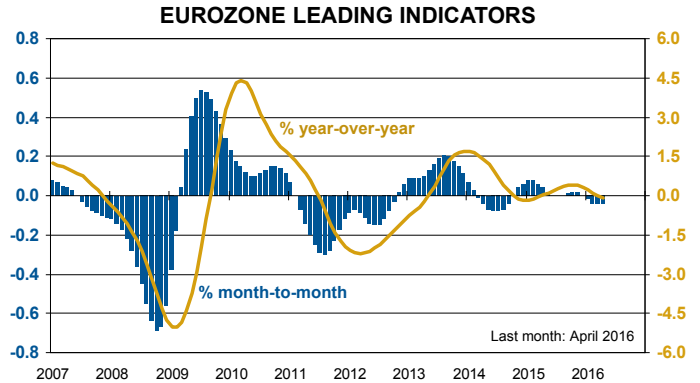
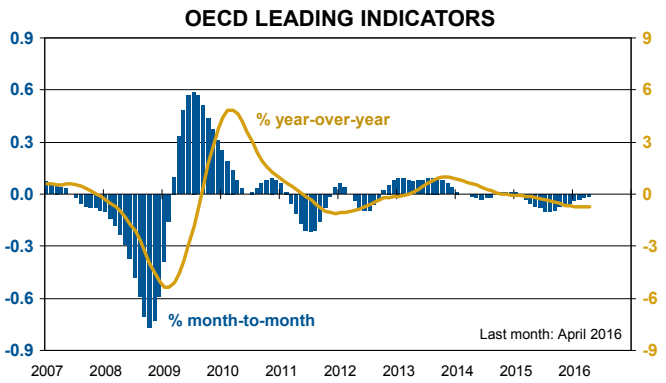


GERMANY 10-YEAR BOND YIELD



MONTHLY REVIEW ► INTERNATIONAL – LEADING INDICATORS

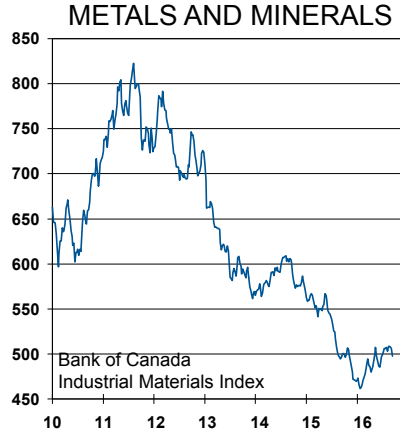
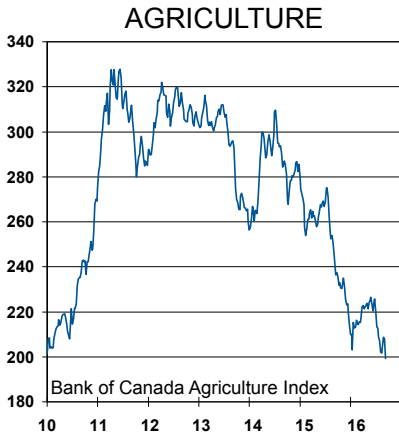
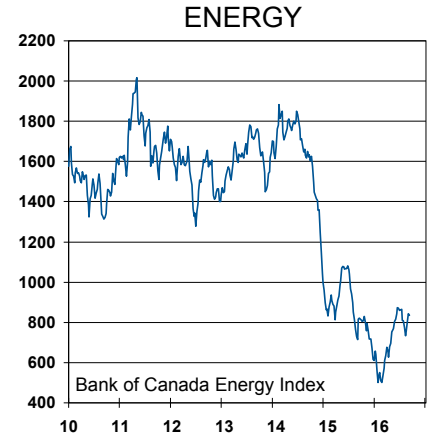
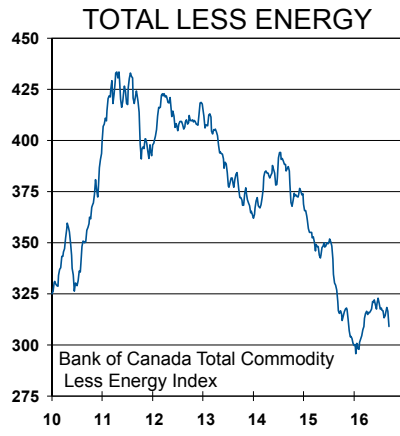
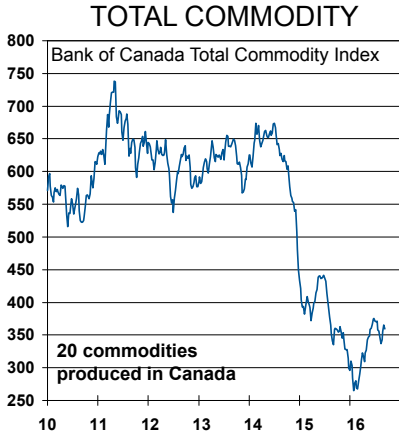
The OECD's leading indicators point to subdued growth, with the exception of India's LI.



Source: Thomson Reuters Datastream, OECD

COMMODITY PRICES

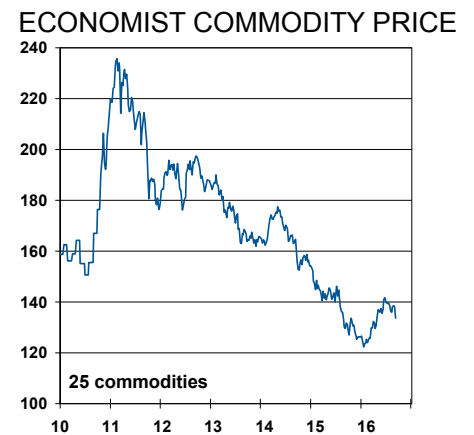
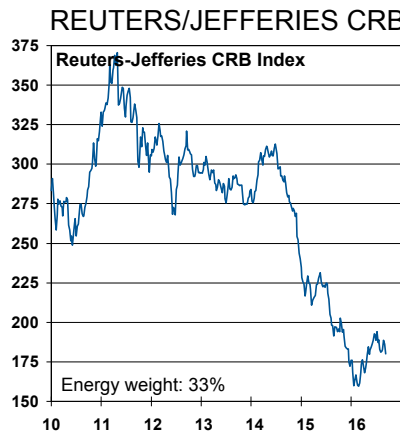
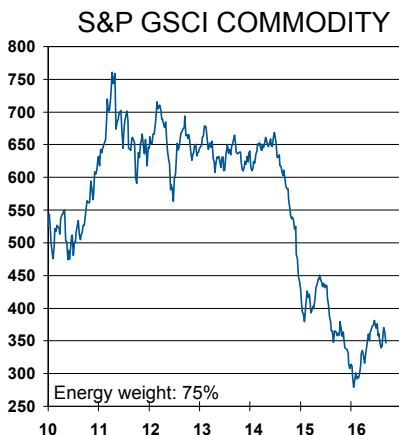
1. Bank of Canada Commodity Price Indices (Weekly data to September 2, 2016)



Commodity prices are trending sideways ...

... but if we are right on the US dollar rolling over, we'd expect improvement in commodity prices in 2017.

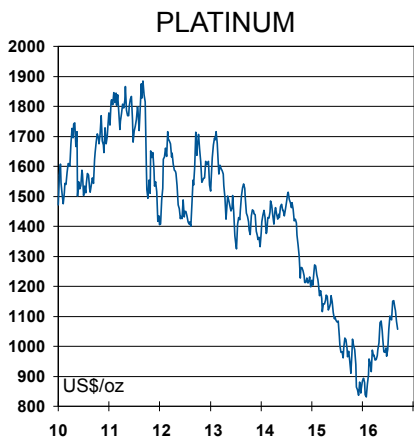
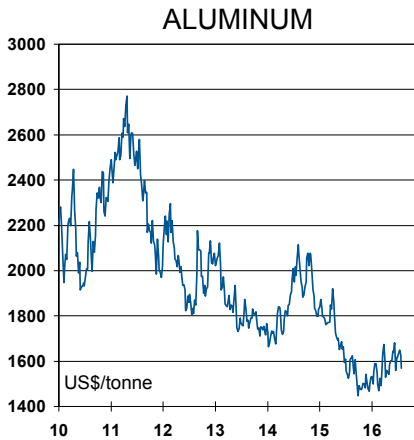
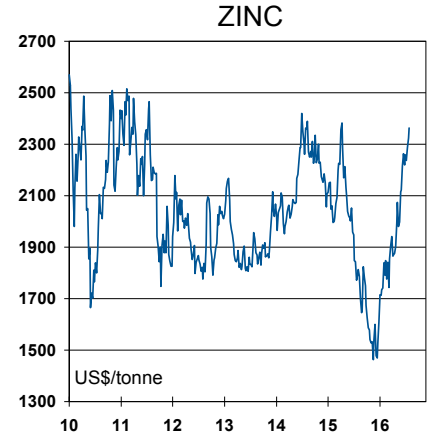
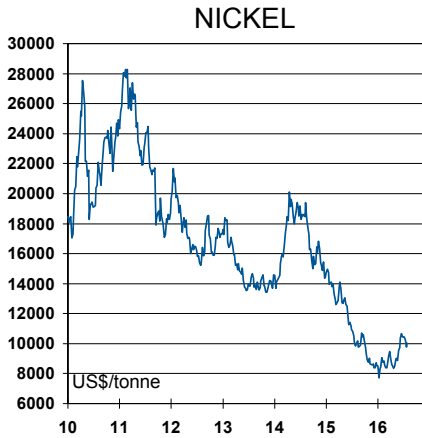
2. Other Indices (Weekly data to September 2, 2016)



Sources: Bank of Canada, Thomson Reuters Datastream, The Economist

COMMODITY PRICES

3. Metals (Weekly data to September 2, 2016)



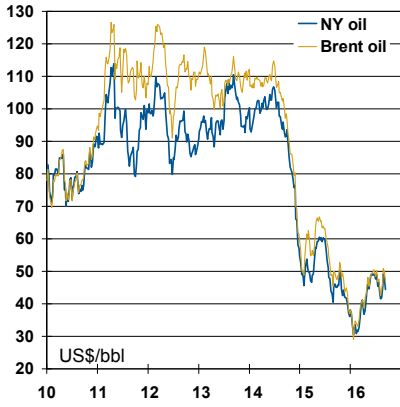
The price of metals dependent upon global growth (i.e. copper) remain subdued. Gold and silver have risen on investment demand, driven by ultra-loose monetary policies.

Sources: LME, LBMA, Wall Street Journal

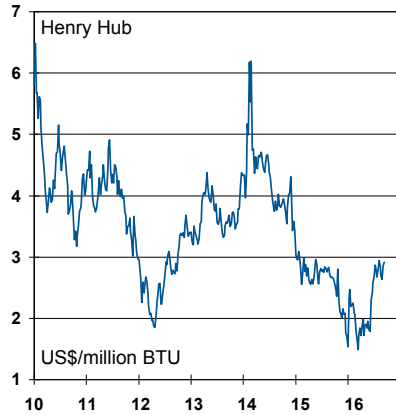
COMMODITY PRICES

4. Energy (Weekly data to September 2, 2016)

SPOT OIL PRICES



NATURAL GAS



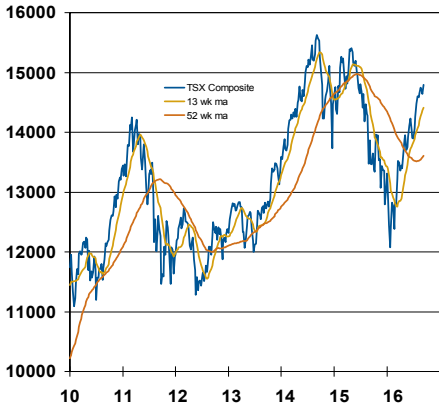
Oil prices have leveled off in the \$45-50 range.

The next OPEC meeting is scheduled for November 30.

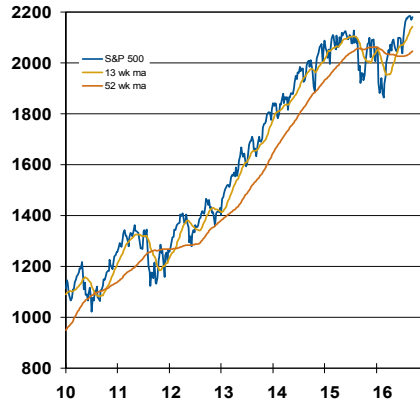
EQUITY MARKETS

5. North America (Weekly data to September 2, 2016)

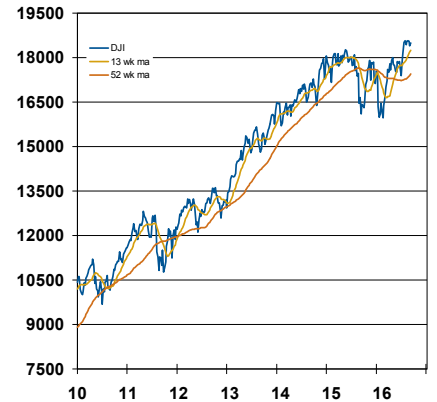
S&P/TSX INDEX



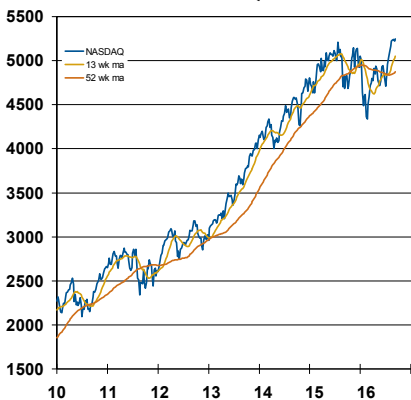
S&P500 INDEX



DOW JONES INDUSTRIALS



NASDAQ INDEX

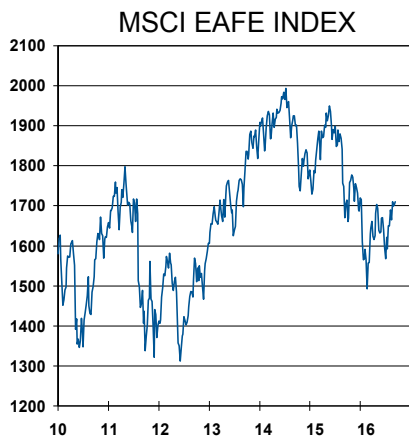
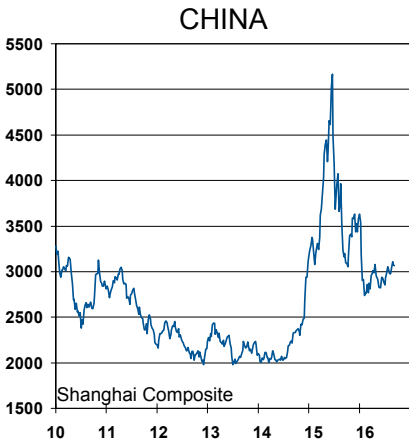
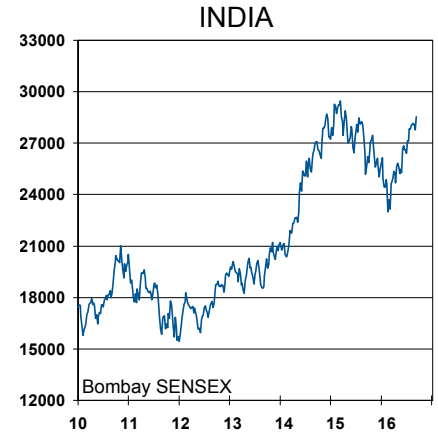


North American equity markets have rallied in recent weeks, with US equity markets setting new highs. We remain constructive on the S&P 500 and S&P/TSX, though we cannot rule out significant volatility this fall. The US political environment is very uncertain and US growth is quite subdued; investors are also more worried than normal.

Source: Thomson Reuters Datastream

EQUITY MARKETS

6. Around the world (Weekly data through September 2, 2016)



Source: Thomson Reuters Datastream

Exchange Rates - Comparison of Scenarios*

	Actual				Projected						
	15-IV	16-I	16-II	7-Sep	Oct	Nov	Dec	17-I	17-II	17-III	17-IV
US Dollar incl Cdn\$											
Scenario A					96.37	99.0	101.1	102.7	104.4	106.1	107.0
Scenario B	98.49	98.73	93.61	92.64	93.12	93.58	94.06	94.67	94.51	94.35	93.87
Scenario C					90.99	90.03	88.67	86.54	84.33	82.30	79.90
Probability-Weighted					92.87	93.16	93.23	92.98	92.40	91.87	90.89
Canadian Dollar											
Scenario A					1.330	1.360	1.375	1.385	1.400	1.420	1.435
Scenario B	1.335	1.374	1.288	1.289	1.295	1.305	1.320	1.335	1.330	1.325	1.310
Scenario C					1.275	1.270	1.260	1.250	1.230	1.220	1.210
Probability-Weighted					1.293	1.301	1.307	1.313	1.306	1.303	1.294
Japanese Yen											
Scenario A					105.0	108.0	111.0	113.5	115.0	117.0	118.0
Scenario B	121.5	115.5	108.2	101.7	101.0	101.0	101.0	101.0	101.0	101.0	101.0
Scenario C					99.0	98.0	97.0	95.0	93.0	90.00	87.50
Probability-Weighted					100.9	101.0	101.1	100.8	100.3	99.6	98.8
British Pound											
Scenario A					125.2	120.7	116.8	113.0	109.6	107.4	106.8
Scenario B	151.8	143.1	143.5	133.4	130.4	129.8	129.8	129.3	129.3	129.3	129.3
Scenario C					135.7	138.0	141.6	147.6	152.3	157.2	165.9
Probability-Weighted					131.5	131.3	132.0	133.2	134.4	135.7	138.7
Euro											
Scenario A					1.075	1.045	1.020	1.000	0.970	0.950	0.945
Scenario B	1.095	1.102	1.129	1.124	1.110	1.105	1.105	1.100	1.100	1.100	1.100
Scenario C					1.140	1.160	1.190	1.240	1.280	1.310	1.360
Probability-Weighted					1.115	1.115	1.122	1.137	1.144	1.151	1.168
Australian Dollar											
Scenario A					73.68	71.69	70.55	70.04	68.93	67.96	67.25
Scenario B	72.02	72.14	74.60	76.38	76.45	75.86	75.00	74.16	74.44	74.72	75.57
Scenario C					77.65	78.15	78.97	79.60	81.30	82.38	83.47
Probability-Weighted					76.45	76.04	75.72	75.44	76.01	76.38	77.09
Chinese Yuan/Rmb											
Scenario A					6.750	6.800	6.850	7.000	7.100	7.150	7.200
Scenario B	6.389	6.542	6.534	6.662	6.680	6.700	6.720	6.760	6.820	6.880	6.960
Scenario C					6.620	6.600	6.550	6.350	6.150	5.950	5.750
Probability-Weighted					6.670	6.680	6.680	6.653	6.628	6.595	6.573
Indian Rupee											
Scenario A					68.00	69.50	70.50	71.50	72.25	73.00	73.25
Scenario B	65.92	67.61	67.11	66.49	66.90	67.20	67.40	67.80	68.00	68.00	68.00
Scenario C					66.00	65.50	65.00	63.50	62.50	61.50	60.00
Probability-Weighted					66.75	66.95	67.03	66.85	66.71	66.48	65.99

* Scenario A: Pound/Euro/RMB Weak - US Dollar Very Strong - Non-US Growth Weakens
Scenario B: Modest US Growth - China/UK/EU Struggle - Commodities Flat (except gold)
Scenario C: US Administration Weakens Dollar - Brexit Delayed - Commodities Rally

Source: WSJ, Thomson Reuters Datastream, Dundee Economics

Interest Rates - Comparison of Scenarios

	Actual				Projected						
	15-IV	16-I	16-II	7-Sep	Oct	Nov	Dec	17-I	17-II	17-III	17-IV
Canadian Interest Rates											
T-Bills (91-day)											
Scenario A					0.50	0.50	0.58	0.75	1.00	1.20	1.30
Scenario B	0.47	0.46	0.52	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Scenario C					0.50	0.45	0.20	0.20	0.20	0.20	0.20
Probability-Weighted					0.50	0.49	0.48	0.53	0.61	0.67	0.70
10-year Bonds											
Scenario A					1.15	1.30	1.45	1.75	1.90	2.10	2.20
Scenario B	1.49	1.20	1.33	1.00	1.05	1.10	1.15	1.20	1.30	1.35	1.40
Scenario C					0.90	0.80	0.75	0.70	0.65	0.60	0.55
Probability-Weighted					1.06	1.12	1.18	1.29	1.38	1.46	1.51
Target Overnight Rate											
Scenario A					0.50	0.50	0.58	0.75	1.00	1.17	1.25
Scenario B	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Scenario C					0.50	0.50	0.25	0.25	0.25	0.25	0.25
Probability-Weighted					0.50	0.50	0.49	0.54	0.61	0.66	0.69
US Interest Rates											
T-Bills (90-day)											
Scenario A					0.55	0.55	0.55	0.73	0.90	1.08	1.08
Scenario B	0.12	0.29	0.26	0.35	0.38	0.40	0.57	0.60	0.60	0.60	0.60
Scenario C					0.35	0.32	0.30	0.20	0.10	0.08	0.05
Probability-Weighted					0.43	0.43	0.52	0.58	0.62	0.67	0.66
10-year Bonds											
Scenario A					1.65	1.80	1.95	2.20	2.35	2.50	2.60
Scenario B	2.19	1.92	1.75	1.54	1.60	1.65	1.70	1.80	1.95	2.05	2.10
Bonds - Scenario C					1.45	1.35	1.30	1.20	1.05	1.00	0.95
Probability-Weighted					1.59	1.65	1.72	1.83	1.94	2.03	2.08
Fed Funds Rate											
Scenario A					0.60	0.60	0.60	0.77	0.93	1.10	1.10
Scenario B	0.16	0.36	0.37	0.41	0.44	0.46	0.63	0.63	0.63	0.63	0.63
Scenario C					0.41	0.39	0.37	0.27	0.12	0.12	0.12
Probability-Weighted					0.48	0.49	0.58	0.62	0.64	0.69	0.69

* Scenario A: Growth/Inflation Accelerate - Three Fed hikes through June

Scenario B: Fed Hikes in December - Bank of Canada Stands Pat

Scenario C: US Growth Stalls - Fed and Bank of Canada Cut Rates

Source: WSJ, Thomson Reuters Datastream, Dundee Economics

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