WEEKLY MARKET UPDATE #853

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- Technical comments on the markets and seasonal timing opportunities, from Don Vialoux, a retired RBCDS analyst

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- Canadian and international news as well as business news and articles. Helps you keep up to date with events during the day.

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The big story today is the massive fire in Fort McMurray, Alberta which I will touch on later.

Wednesday's Indiana primaries confirmed what was largely expected: the November U.S. presidential election will feature a matchup between Donald Trump and Hillary Clinton. The Donald secured 52% of the votes in Indiana, boosting his delegate count to 1,047, well within reach of the 1,237 needed to win the Republican nomination. Unable to resuscitate his campaign, Texas Senator Ted Cruz who took 37% of votes, announced that he was bowing out of the race, as did Governor Kasich on Thursday. On the Democratic side, Vermont Senator Bernie Sanders surprised Clinton by winning 53% of votes over Clinton's 47%. While the unexpected triumph will help to keep his campaign alive for a bit longer, it seems too little, too late, given Clinton's delegate lead is almost unbeatable. Clinton has amassed 2,202 delegates, a commanding lead over Sander's 1,400 and within a stone's throw of the 2,383 needed to secure the Democratic nomination. In effect the Republicans will be represented by a man openly supportive of trade protectionism and opposed to immigration. A man who made fun of Viet Nam vet who served years tortured in a

Vietnamese prison as a 'loser', and a man who spent most of his time name calling his opponents and making fun of them, while threatening to close borders with Mexico and heavily restrict borders with Canada: this on top of renegotiating previous trade agreements with his neighbors and partners. He even promised to bring jobs back to America from Mexico and China, likely an impossible task and certainly very low wage jobs. So, unless something significant happens, it is almost certain that the Presidential election will be between Hillary Clinton and 'the Donald'. I can only imagine the dirt that will get slung as we move into the fall and the election campaigning. I guess this is a matter of the old saying 'be careful what you wish for….you might just get it…good and hard!'

Markit's final composite PMI for the euro area was left unrevised from the flash reading of 53, in line with expectations and just below March's 53.1. The economies of the "big four" Eurozone members – France, Germany, Italy and Spain – all expanded in April, with the overall reading indicating the region continues to grow at a stable if unspectacular annual pace of around 1-1.5% at the start of the second quarter. Tempering the enthusiasm to some extent, were the disappointing retail sales numbers, as data released earlier this this week showed Eurozone retail sales volumes were 0.5% in March compared to the previous month, the first decline in five months.

The perverse world of negative-yielding bonds keeps on expanding with no end in sight. Data compiled by Fitch Ratings show that the sum of government bonds around that world that bear negative yields has risen to $9.9 trillion as of April 25. Unorthodox policies adopted by central banks, including quantitative easing and negative interest rates, have put significant downward pressure on bond yields. At present, most of the negative-yielding bonds are issued by Japan and Eurozone governments, whose central banks have been early adopters of negative rate policies. Fitch notes that, as investors continue in their search for assets with positive returns, the consequences have been "more risk-taking and rising demand for higher-yielding U.S. government bonds."

In a speech Sunday night, Puerto Rican Governor Alejandro Padilla confirmed that the Government Development Bank (GDB) does not plan to make most of a US$422mm debt payment due today. The island nation and U.S. commonwealth had already begun defaulting on obligations in August, but there had yet to be a default from the GDB, which provides liquidity to the country's government agencies. The missed payment is the largest yet for the country and could presage missing larger looming payments in the future with nearly US$2bn due on July 1. Puerto Rico owes roughly US$70bn in total while negotiations in Washington continue to craft a plan to tackle the country's debt crisis through a restructuring. Some fear that the mounting crisis and missed payments could negatively impact the US$3.7tn U.S. municipal bond market.

The Wall Street Journal reports that the Federal Reserve is set to propose a new measure aimed at facilitating the stabilization of bankrupt financial firms and preventing taxpayer bailouts. The draft regulation would impose changes on derivatives that would see asset management firms waive certain rights that currently allow them to pursue immediate payment on derivative contracts in the event of a bankruptcy filing without having to join a queue alongside other creditors. The big banks have already agreed to a similar waiver, but the proposed regulation is somewhat unique in extending the Fed's influence beyond its direct authority over banks and further into the world of investment management. The measures would impose something akin to a 48-hour "cooling off" period whereby regulators could shape a more organized unwinding of financial contracts, utilize other bailout prevention measures such as the forced conversion of debt to equity and prevent the sort of destabilizing chaos that coincided with the bankruptcy of Lehman Brothers in 2008.

WTI and Brent futures are rocketed more than 2.5% earlier this week amid concerns over a short-term supply shortage from Canada and Libya. The massive wildfire near Fort McMurray, Canada's oil sands hub, has forced the evacuation of more than 88,000 residents and workers and the temporary shutdown of up to 800,000 barrels a day (b/d) of production, or ~18% of the overall Canadian crude output. Another threat to near-term crude output is Libya, where escalating tensions between rival regimes, a member of the oil cartel OPEC, are hampering the loading of tankers for exports. In other news, *Reuters* reports that the number of bankruptcies in the U.S. energy sector has risen to 59 after this week's filings for creditor protection by Ultra Petroleum and Midstates Petroleum, closing in on the 68 fillings seen during the telecom bust in 2002-03.

The situation in Fort McMurray is desperate. Events change minute by minute but with exceptionally high temperatures, as high as 32C, very low humidity, around 13% and extremely dry forests, the situation exploded earlier this week in a massive fire, near Fort Mac. Suddenly, late Tuesday and early Wednesday the fire swiftly and unexpectedly turned towards Fort McMurray and began burning the town down, forcing almost everyone in town to leave. Some went north and some went south. Those who went north are now trapped at various oil extraction sites as everyone waits' to see where the fire, almost 100 km. square, will spread to next. So far at least 1,600+ homes and structures have burned to the ground in the city, with fire continuing to rage. More than $100 billion in facilities lie within 80 km. of Fort McMurray. This may well be the largest disaster in Canadian history and it is entirely possible we are only seeing the beginning of the damage that will eventually be done. Firefighters are being sent from across Canada to help.

Our thoughts and prayers are with the people of Alberta and especially Fort McMurray! Have a great weekend.

P.S. Please do not hesitate to forward this newsletter to anyone you feel would enjoy reading it and refer them to our web site as well.

P.P.S. Don't forget to ask us about a TAX FREE SAVINGS ACCOUNT – Everyone should have one!!!

Weekly Humour

My wife sat down on the couch next to me as I was flipping channels. She asked, "What's on TV?"

I said, "Dust."

And then the fight started.....

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It's often a challenge to explain to strangers exactly what I do in the aerospace industry. At one gathering, I didn't even try, I just said "I'm a defense contractor."

One of the older gentlemen at the gathering was intrigued. "So, what do you put up mainly, chain-link?"

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