THE CALM BEFORE THE STORM

After a gangbuster start to June (see last week's commentary), **"The Powell Put #2"**, it was perhaps no surprise equity markets overall took a breather this week. Not that there wasn't a lot going on to give concerns – more on that in a bit.

All the major indices were positive, but virtually all gains hovered around ½% or less. The TSX was up 0.44%, Dow Jones +0.41%, Euro Stoxx 600 +0.35%, and so on. Gold held on to its recent gains having moved higher 12 of the last 13 trading days. This was despite the current de facto "safe haven", <u>the US dollar moving strongly higher against most major currencies</u>. (The Loonie dropped over 1%). Previously strong US dollar up moves sent gold lower, but recently not so, which was a welcome change for gold bugs.

However, behind the scenes **global growth worries continue** after China reported May's growth rate for industrial production was the slowest in 17 years. Major chip maker Broadcom cut its annual sales outlook, saying it would make $2B less than it expected following the U.S. ban on exports to Chinese telecom giant Huawei. It led the stock to slump some 5.5% in trading on Friday, dragging many peers down with it, <u>as it became one of the first big chipmakers to quantify the financial impact of the Trump administration's escalating trade dispute.</u>

<u>Chip stocks are viewed by many as a leading indicator where global economies are heading.</u>

Attacks on two oil tankers off the coast of Iran early Thursday sparked a sudden turnaround in oil prices, with WTI and Brent crude both jumping as much as 4%. One month earlier four tankers were sabotaged in the Gulf of Oman. Iran is the main suspect, although the country vehemently denies any role. <u>Notably though the attack comes days after the Iranian Foreign Minister told his German counterpart</u> <u>that the countries that wage economic war "cannot expect to remain safe."</u> **Escalation will likely be the order of the day** as long as the United States continues its **"maximum pressure"** policy and insists that Iran completely abandon its revolutionary agenda in order to receive economic relief.

The Hang Seng Index slid nearly 2% on Wednesday **as protests against Hong Kong's controversial extradition law shut down key parts of the city**. Hong Kong Chief Executive, Carrie Lam, said the legislation is necessary to close a legal loophole that makes the city a refuge to criminals, but opponents say its approval would tear down the legal wall intended to keep Hong Kong's justice system separate from China's. On Saturday, Beijing-backed Lam indefinitely delayed the bill, expressing "deep sorrow and regret" although she stopped short of apologizing. <u>Somehow I doubt whether this story is over</u>.

Closer to home, **the U.S. government racked up a deficit of $208B in May.** That means for the first time in U.S. history, the federal government spent more than $3T in the first eight months of the fiscal year. The deficit's rise follows the 2017 GOP tax act, which was projected would add some $1.9T to the debt over a decade, as well as bipartisan plans to increase spending on both the defense and domestic sides of the ledger. Still so far the U.S. economy still looks to be in relatively good shape, as May retail sales rose 0.5% after increasing by an upwardly revised 0.3% (from -0.2%) in April.

And at home, **the Canadian Association of Petroleum Producers cut by more than 50% their estimate of our oil production over the next decade**. Canada has the world's 3rd largest crude reserves, but constraints of no new pipelines, inefficient regulation and political discord are all having their toil. No wonder Alberta's Premier was recently on the "campaign trail" in Quebec. Jason Kenney took his oil-for-unity roadshow to Montreal yesterday, telling Quebecers it would be better for Canada and the planet if their oil came from Alberta rather than abroad.

The Federal Reserve Board meets this week – I personally do not think a rate cut is likely, but everyone will be keenly awaiting their comments on the state of the economic world.

Either way, with the above worries expect more volatility as we wend our way through the summer.

This week's **Global Insight** delves into the ability of central banks to keep stimulating economies when rates are already at record lows and in European cases even negative!!