THE MONTHLY MORTGAGE COMMENTARY

Debt & Structured Finance | Canada Research

JANUARY 2020

FRAGILE TRUCE TO THE TRADE WAR

A month into the new decade and the world has already endured a year's worth of major global headlines. The devastating wildfires in Australia, an escalation in Middle East tensions, the outbreak of the coronavirus and constitutional legal proceedings in the U.S. all represent plenty of downside risks to navigate within an anemic economic cycle. Safe haven assets are popular once again, with Canada and U.S. bond yields plunging to their lowest levels since early October. The value of negative-yielding debt also spiked by its largest weekly increase since 2016 by US$1.16 trillion.

While the month also saw some positive events, many remained unconvinced at their long-term benefits. The U.S. made progress in resolving its largely self-inflicted trade woes through its ratification of the USMCA and signing a Phase 1 trade deal with China. However, a recent survey of over 100 economists by Reuters found that not a single respondent expects a significant boost to the U.S. economy from the Phase 1 trade deal. In fact, the survey found that recession expectations had mostly remained unchanged with results prior to the trade deal, demonstrating the fragility of the agreement and persistent risks to business confidence.

Against the global backdrop of slowing growth and repeated forecast downgrades, the Bank of Canada continued to hold interest rates steady. However, the central bank did express concerns that global conditions may have impacted the economy more than expected. Worried that the slowdown in the second half of 2019 might not have been as temporary as originally thought, the Bank of Canada also disclosed that an interest rate cut is a possible consideration to spur growth.

While this tactic worked in 2019, where the combined number of global policy rate cuts was the largest since the global financial crisis, the IMF warns that further cuts are no longer the answer so late in the economic cycle. Over the medium term outlook, the IMF is particularly concerned about the rise in financial vulnerabilities from ballooning asset valuations, increased debt levels and large capital flows into emerging markets.

Fortunately for the Canadian outlook, as we compete with the U.S. to lead G7 growth in 2020, there are encouraging macroeconomic factors. Namely, the economy is being driven by an immigration boom, unlike in the U.S., that has contributed to growth across multiple industries including the prominent tech sector.

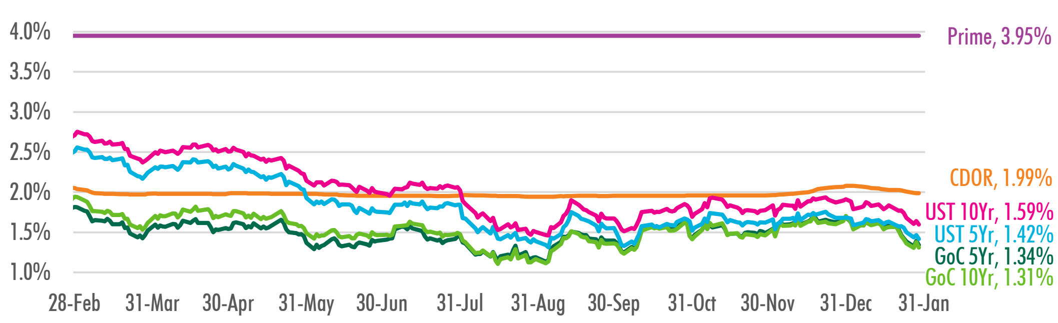
Key Indicator	Current	30 Days
5Yr Mortgage Spread	1.55-2.05%	
10Yr Mortgage Spread	1.65-2.30%	
5Yr Canada Housing Trust Spread	30 bps	0 bps
10Yr Canada Housing Trust Spread	39 bps	1 bps
USD/CAD	$0.7576	-0.99%
WTI Crude	US$53.33	-13.54%
S&P/TSX REIT Index	203.34	4.66%

Source: Thomson Reuters, January 29, 2020.

Economic Highlights:

- Employment growth rebounded in December 2019 with 35,200 new jobs created and the unemployment rate compressed to 5.6%.
- Retail sales rose by 0.9% in November 2019, the largest monthly increase since March.
- Inflation held steady in December 2019 at 2.2%.

Benchmark Yields



Source: Thomson Reuters, January 29, 2020.

ViewPoints:

- U.S. economy to coast, no big boost expected from trade deal: Reuters poll
- Bank of Canada Opens Door to Rate Cut on Persistent Slowdown
- A Call for Vigilance After a Strong Year for Risky Assets
- Immigration Could Help Canada Top U.S. in Economic Growth This Year

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