

FINMETRIX

MARKET COMMENTARY

ANALYSIS OF THE MONTH

FINANCIAL RISK MANAGEMENT



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GOOD DAY

INTRODUCTION

The announcement of 25% tariffs soon to be imposed on Canadian products by the future US President Donald Trump is a real cold shower for the Canadian economy. On the other side of the border, Trump's economic and financial promises are a source of great concern: most analysts expect them to result in a sharp rise in inflation in the United States. In Europe, the economy is already considered "fragile" and promises to be further weakened by the geopolitical uncertainty that Trump's return to the White House promises to unleash. The UK fears falling into recession, if a trade war with were to break out with the US. As for China, S&P Global believes that its economic growth is set to shrink in the coming years due to existing and future trade tensions with the United States.

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CAD



ZOOM ON ▼ THE CANADIAN DOLLAR

MORE DETAILS

In November, the USDCAD currency pair saw its value fall from 1.3820 to 1.4124. The Canadian dollar suffered against the US dollar following the election of Republican Donald Trump, falling to its lowest level in four years.

According to analysts at investment bank Jefferies, the loonie is already suffering from the measures promised by the 47th US president, who will take office in January 2025. "The imposition of new customs taxes - of the order of 25% for Canada, Trump asserted after his election - or the tax cuts for American companies, are all headwinds for the Canadian economy. These measures are likely to exacerbate Canada's current weaknesses (anemic growth, a slowdown in immigration, an amorphous labor market, etc.)", they note in a study which emphasizes that "the trend will not be reversed any time soon".

Inflation picked up again, rising from 1.6% in September to 2% in October, according to Statistics Canada. This jump is mainly driven by a smaller decline in gasoline prices (-4.0%) and an acceleration in the prices of groceries (+2.7%). However, it should not discourage the Bank of Canada from lowering its key rate on December 11. "Given the weak momentum of the Canadian economy, we expect the key rate to be cut by 50 basis points in December", say Royal Bank of Canada (RBC) economists Nathan Janzen and Abbey Xu, noting that the downside of this support for the Canadian economy is the "risk of further weakening the loonie against the greenback".

As a result, Canadian companies can expect tough times ahead, not least because their costs are set to rise considerably. A study by the Business Development Bank of Canada (BdC) shows that 75% of Canadian SMEs say they are suffering from the latest cost increases, with the Industrial Product Price Index (IPPI) jumping by 35% between 2020 and 2022. What's more, 71% of them believe that the trend will worsen over the coming quarters and years. The issue lies not with input costs, which may slightly decrease, but rather with energy costs: "Extreme weather events and other geopolitical crises are set to intensify, and this will have a significant impact on energy prices", say BoC analysts.



USD



ZOOM ON ▼
THE AMERICAN DOLLAR

MORE DETAILS

The DXY index jumped in November from 103.37 to 108.07. This was largely explained by the election of the 47th President of the United States, whose economic promises seem a priori to be beneficial to American companies (new customs duties, lower taxes for businesses, boost to industrial employment, etc.).

Donald Trump and his economic advisors claim that we will see a "tremendous recovery" of the American economy as soon as he takes office in January.

However, most analysts are skeptical. Before the election, 82.5% of experts believed that the Federal Reserve (Fed) would cut its key rates by 25 basis points (bps) in December; just after, this percentage fell to 52%, according to CME's FedWatch tool. This is because they are convinced that Trump's economic policy will bring inflation back.

Most U.S. economists warned that new across-the-board tariffs could raise prices on a considerable number of goods. They added that the mass expulsion of immigrants could prompt companies hit by sudden labor shortages to compensate for the slowdown in business by raising prices.

All of this would drive up inflation and hamper economic growth. The result would be a real risk of "sinking into stagflation [stagnation of activity, price inflation]", says Jamie Dimon, CEO of JPMorgan.

Tom Barkin, President of the Richmond Fed, himself recognized the danger on the horizon. "We are now more vulnerable to inflationary shocks than we have been in recent years", he told the Financial Times. "Trump's promises on tariffs and immigration are a reasonable cause for concern for businesses, as they may force them to raise prices, and thus revive inflation".

Declining to speculate on the outcome of the mid-December meeting, Tom Barkin nevertheless indicated that the Fed should not pre-emptively adjust its monetary policy in response to anticipated changes in government policy. "We shouldn't try to solve the problem before it happens", he said.



EUR



ZOOM ON ▼
THE EURO

MORE DETAILS

The EURUSD pair saw its value fall from 1.0930 to 1.0392 in November. The euro plummeted to its lowest level in nearly two years against the greenback following the election of Donald Trump as US President.

Trump has promised to raise tariffs as soon as he takes office in January, and the blow promises to be harsh for Europe: The United States is the world's leading destination for European exports, with a share of 18.6%, according to Eurostat.

The euro's plunge is also partly explained by the fact that the European economy continues to disappoint. In November, the composite purchasing managers' index for the eurozone, compiled by S&P Global, reached a 10-month low of 48.1. (A score below 50 indicates a contraction in activity).

"European economic underperformance is no longer a surprise but has been the norm for seven consecutive years", lament the experts at investment bank JPMorgan. They have become so pessimistic about Europe's future that they predict parity for the EURUSD "by the first quarter of 2025".

Experts at the European Central Bank (ECB) seem to be on the same wavelength. In their latest Financial Stability Review, they hammer home the point that the eurozone economy is not only "fragile", but also "buffeted by geopolitical uncertainty", due among other things to heightened political and trade tensions with the USA and China. They fear that SMEs and low-income households will soon face financial difficulties that will have a direct impact on the real estate sector.

To conclude: "If real estate were to show signs of failure, particularly commercial real estate, many banks and investment funds could be put at risk," they warn. "The vulnerability of the eurozone's financial stability is now high".



GBP



ZOOM ON ▼
THE POUND

MORE DETAILS

Last month, the GBPUSD recorded a major fall, dropping from 1.3047 to 1.2487. Contrary to the expectations of most analysts, the British economy contracted by 0.1% in September, according to the Office for National Statistics (ONS). The third quarter saw growth of just 0.1%, down from 0.5% in the second quarter.

This is the first setback for Finance Minister Rachel Reeves, who had promised that Labour's arrival in power would immediately translate into economic recovery. "Improving economic growth is at the heart of everything I'm trying to achieve, which is why I'm not satisfied with these figures", she admitted.

The truth is, growth in the UK has become anemic. Gross domestic product (GDP) has grown by just 3% since the end of 2019, and GDP per capita has not increased in annual terms since 2022. Only Germany, hard hit by soaring energy costs following Russia's invasion of Ukraine, has done worse among the largest advanced economies.

According to Sanjay Raja, Chief UK Economist at Deutsche Bank, the road ahead promises to be "bumpy" for the UK in the quarters ahead. He believes that the business tax hike announced in Mrs. Reeves' budget could affect investment and hiring in the private sector "from early 2025" and trigger a contraction in the country's economy.

Add to this the fact that the future occupant of the White House is likely to create such tensions with the UK that "the specter of a trade war is already looming on the horizon", says Sanjay Raja. In the event of such a scenario occurring, the Centre for Economics and Business Research (CEBR) has warned that UK GDP could fall by as much as 0.9%, dragging the country into recession.



CNH



ZOOM ON ▼
THE RENMINBI

MORE DETAILS

The USDCNH currency pair rallied in November from 7.0855 to 7.2578. Factory activity remains sluggish in China: the manufacturing PMI index barely returned to positive territory in October, at 50.1, according to the National Bureau of Statistics (NBS); it had been below 50 since last May. (A score below 50 indicates a contraction in activity, and above 50 an expansion).

China's industrial value added - the difference between total revenues and the total cost of inputs (labor, materials, etc...) - rose by just 5.3% year-on-year in October, compared with 5.4% the previous month. The mining industry, for its part, saw an increase of only 4.6%. "This is a clear sign that the Chinese economy is not in top form", says Wang Zhe, an analyst with the Chinese media group Caixin.

Worse still, one economic indicator seems to bode ill for the months ahead: imports fell by an outright 2.3% in October, to USD 213.8 billion. According to Wang Zhe, this pronounced drop may be a sign that Chinese companies are anticipating "a forthcoming slowdown" in their activity, and therefore a "worsening" of their financial situation.

China is suffering greatly from weak domestic demand. From January to October, total retail sales amounted to USD 5.46 billion, up just 3.5% year-on-year, according to the BNS. Above all, China is struggling to revive its exports, which rose by just 2.4% in September. Only one country is currently keen on Chinese goods: Russia, which has turned its back on Western countries since its invasion of Ukraine: in October alone, Chinese exports to Russia jumped 27%, according to CNBC calculations based on official data.

In early 2025, the Chinese economy will face a predicted storm. Donald Trump has promised to impose a tariff of "up to 60%" on all goods imported from China. The shock promises to be devastating: the financial analysis firm S&P Global now expects China's gross domestic product (GDP) to grow by just 4.1% in 2025 and 3.8% in 2026, respectively 0.2 and 0.7 percentage points less than its September projections. "We are convinced that Donald Trump's trade policy will seriously blur the economic landscape in the Asia-Pacific region, primarily affecting China", explain S&P Global's experts.



COMMO



ZOOM ON ▼
Natural Gas

MORE DETAILS

At the end of the year, the price of natural gas reached a one-year high, with the December contract closing at 3,409 USD per million British thermal units (mmBtu). This represents an increase of almost 14% over twelve months.

The rise is largely due to the arrival of cold weather in the United States, particularly in the West, after an exceptionally mild autumn. The expected drop in temperatures, coupled with an anticipated cold snap in the Midwest, should boost demand for gas for heating.

In Europe, the Dutch TTF futures contract, the benchmark for the continent, has jumped by over 35% since the start of the year, reaching 48,303 euros per megawatt-hour (MWh). Although partly linked to the onset of winter, this increase is mainly attributed to geopolitical factors, such as the recent escalation of the war in Ukraine. Prices have become so high in Europe that more and more European countries are sourcing American gas. To meet rising export demand, many US gas producers stated in their third-quarter results that they intend to increase production in the fourth quarter and throughout 2025.

This declaration is all the more likely to materialize as Donald Trump, the future President of the United States, has promised to declare a state of energy emergency on his first day in office. He is expected to lift his predecessor Joe Biden's pause on new liquefied natural gas (LNG) export permits, approving them without delay. He would also speed up drilling permits on federal lands and quickly reopen five-year drilling plans off the US coast to include more lease sales. Among the projects delayed by Biden out of environmental concern are Venture Global's CP2, as well as Commonwealth LNG and Energy Transfer's Lake Charles complex, all in Louisiana.

The result? U.S. LNG exports are set to rise from 13 billion cubic feet per day (Bcf/d) in 2024 to 17 Bcf/d in 2025, according to analysts at the London Stock Exchange (LSEG). And experts at the Energy Information Agency (EIA), part of the U.S. Department of Energy, estimate that the predicted rise in exports will lead to "a more than 40% increase in natural gas prices by 2025".





The "salmon mafia" is rampant in Chile

In Chile, the judicial police recently arrested 11 members of a local criminal organization who had developed a whole new specialty: the theft and trafficking of salmon. The criminals, armed with firearms, had attacked a refrigerated warehouse and threatened its employees in the port city of San Antonio, before fleeing in three trucks carrying a total of 76 pallets of salmon fillets with an estimated value of 655,190 USD.

The thieves resold the stolen salmon, mainly abroad. Salmon theft costs Chile some 80 million USD every year, so the Chilean government is working to establish tougher penalties for this crime.

Source: The Economist

Link: [HERE](#)

Bad times for tourism in the United States

U.S. tour operators, from Marriott International to Booking Holdings, are slashing their budgets and staffing levels in preparation for next year. Hotel operator Marriott, for example, has announced that it will slash annual costs by USD 80 to 90 million and lay off more than 800 employees in the first quarter of 2025.

The budget cuts affect the entire American tourism sector, from hotels to resorts to travel booking agencies. The main reason is that demand for leisure travel from low- and moderate-income travellers is plummeting.

Source : Yahoo! Finance

Link: [HERE](#)

” THE BEST
STRATEGY IS
TO HAVE ONE

