Canada the 2017 Outlook

The Canadian dollar futures - Share Market - Real Estate Overview

Armstrong Economics

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Contents

Canada the 2017 Outlook

By Martin Armstrong

The Canadian government is no different than any other. They do their best to try to lie and hide the truth from the people to perpetuate their existence like all governments. The problem we face on a global scale is rather significant and that is the collapse of socialism. All the promises made for decades are coming due and the system is simply not capable of surviving as is without major restructural reform

The election of Trump may now put pressure on Canada and NAFTA as a whole. Trump's view of trade is not really correct, as he fails to understand the simple fact that the accounting system established postwar measures only dollar flows rather than goods and services. Consequently, wild swings in the currency have a direct impact upon trade figures and will, as always, lead to trade disputes and government interventions.

A shocking new report was released by the Canadian federal government which admits that the finances might just collapse completely in the coming decades if politicians don't make responsible choices. This report was very quietly issued just two days before Christmas. Governments, not just in Canada, always release things at this point in time because the press is occupied with parties. The finance department released this report hoping the public does not catch wind of its contents. It provides a candid update on long-term economic and fiscal projections for Canada illustrating that indeed socialism is collapsing exactly for the same reasons Communism collapsed in 1989. It appears that by the time we reach 2020/2021, the game is up.

This secret report warns economic growth will be much lower than expected and that government expenditures to fund all the promises, ***"would be sufficient to put at risk the fiscal sustainability of the federal government."*** There you have it. I am not known as a supporter of conspiracy theories. I try to stay with just the facts and the trend. I do not believe in spouting hype to try to sell something and painting the future as the coming end of the world. So these are the words directly from the government because quite frankly, a two-year old with a pocket calculator can figure out this is not going to work.

The higher the government raises taxes to reduce the deficits driven by spending to fund these promises, the lower the economic growth. The more you reduce disposable income, the less people have to spend to fuel the economy. Hello!

Canadians should certainly be worried about the future. It was Pierre Elliott Trudeau (1968–1979) who first took Canada into deficits, albeit they were tiny compared to today. This move was strategic because it opened the door to deficits which thereby enabled politicians to avoid having to be responsible and enable them to begin to promise everything to get elected.

This new report warns that the Canadian budget won't be balanced until 2055 and projects that the deficit will peak at C$38.8 billion in 2035. Of course, during the 2015 election, Justin Trudeau, who is the eldest son of former Prime Minister and the 23rd Prime Minister of Canada, pledged to balance the budget before the next election, in 2019. Then Trudeau has pushed that target back projecting deficits until 2021 and beyond. There is no way this will end nicely.

This finance department report essentially calls all of the Liberal government's numbers into question. Justin Trudeau also promised to reduced the debt–to–GDP ratio to 27% by 2019. There is no possible way for that to unfold for it is around 31% currently. This cannot be accomplished by raising taxes – only by currenting social spending.

Furthermore, Canada will exceed the $1 trillion mark in debt faster than this report projects in 2031. While the immediate debt is currently $635 billion, the projection fails to take into account the rise in interest rates. When governments are more likely to get in trouble because they lowered interest rates, they will find buyers of their debt begin to run for the hills. Trudeau's policy is just tax–and–spend – the typical Marxist view of the world. Full–time employment continues to decline to avoid pensions costs and higher taxes. Trudeau has brought nothing new to Canada. This formula has historically always failed throughout history in all governments.

Canada also faces the same crisis with an aging population looking for retirement. In a few years, Canada will undergo a demographic revolution, which is being called the **"crossover",** defined as the day when there are more seniors than children within the economy. This will have a tremendous impact upon the country's economic growth, productivity, innovation, pensions, and of course health care costs.

This demographic transformation has been under way for several decades. Historically, as all societies become more affluent, the birthrate declines as large families are no longer required for support in old age. As society becomes more affluent, women typically become more educated and then chose to delay or avoid child–bearing altogether. We have historical evidence that this has appeared in every society throughout time. The Roman Emperor Augustus (27BC–14AD) introduced family laws requiring men to get married and not remain bachelors. Historically, this trend resulting in a lower birthrate can be seen in Japan and even Russia, where the government offered to pay women to have children. This decline in the birthrate then replicates itself and becomes impossible to reverse once it is set in motion. With the collapse in the birthrate, fewer children today means there will be fewer women of childbearing age 20 years from now. This becomes a cycle that historically is unstoppable.

Looking at history as our guide, effective policies can counter falling birth rates, but this involves allowing immigrants in, changing the culture and even the language of a country. The huge influx of Muslims in Europe warn that Christianity will tend to become the minority religion 20 years from now in Europe as the birthrate declines among natives and increases among immigrants. An official list of the most popular baby names in England and Wales has sparked fresh debate over whether Mohamed – with all its spelling variations – is the most common boys' name from 2015 onward. This is changing the culture and future of Britain and it is far worse in continental Europe.

Philip I (244-249AD)

While the Roman Emperor Claudius (41–54AD) was the first Emperor to be born outside of Italy, his parents were of the Julio-Claudian family born in Italy. It was Trajan (98–117 AD) who was the first to be born outside of Italy of parents who were a non-patrician family of Italian and Spanish origin. The Roman Emperor Philip I (244–249AD) was born in Syria and was known as Philip the Arab. The idea that an Emperor of Rome was actually of Latin heritage faded over time with the expansion of the empire.

Canada's birth rate actually grew slightly in the past decade from 1.6 to 1.7, as the children of the oldest boomers began having families. However, the birthrate is still well below the replacement level which would need to rise to 2.1. The birthrate has increased primarily due to immigration from Asia. The birthrate in Germany rose recently due to the immigration of Muslim refugees.

Canada's ageing population is changing the financial outlook combined with the collapse in the birthrate. Over the coming decades, an increasing number of baby boomers will move into retirement while relying on fewer workers in younger cohorts to bankroll government services. This presents the crisis that will lead to the collapse of socialism.

The C$ was domestically justified in its bounce from the January 2016 low at first given the recent growth figures (Q3 at 3.5%) seen as the best in over two years. Earlier releases of economic growth were disappointing, but were later revised higher by between 0.2 and 0.3%. Higher and strong energy exports were a key component to the recent data but also worthy of consideration was the new property tax on foreign buyers introduced July 2016. This, as expected, cooled the property boom but also tends to have a dampening effect upon the economy. Often the largest investment most people make is when they buy their house. This is usually the last investment class to rise yet it is often the first to turn down. Other recent supporting data has been job growth where the December number was extremely encouraging.

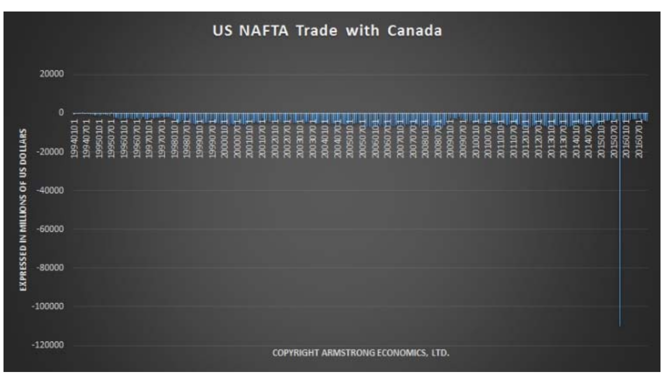
However, the past couple of years have taken their toll on confidence with the declining price of commodities. The decline in oil prices was offset to some extent by the rising US dollar. The low in oil was US$26.05 yet it was C$33.80. Many are also hoping the infrastructure spending plans, announced in early 2016, will make a greater contribution to 2017's growth. This all sounds encouraging but when you consider the currency's decline you should also remember that this makes everything even cheaper for international investors, so you can expect even more Chinese money finding its way on-shore – maybe less so into the property sector directly.

Donald Trump
45th Prtesident of United States

Justin Trudeau
Canadian Prime Minister

Donald Trump means what he says, which is a different type of politician altogether. Trump has vowed to begin plans for talks with the leaders of Canada and Mexico to begin renegotiating the North American Free Trade Agreement. Trump made it clear: ***"We are going to start renegotiating on NAFTA, on immigration and on security at the border."***

Trump pledged during his presidential campaign that if elected he would renegotiate the NAFTA trade pact to provide more favorable terms to the United States. NAFTA, which took effect in 1994 and the US trade deficit with Canada became a steady fact of life from 12995 onward. NAFTA became the target of voter anger in the U.S. industrial heartland states that swept Trump to power this month. However, looking closely at the trade with Canada warns that we are not talking about wholesale American jobs migrating to Canada. Taxes are very high in Canada. The trade deficit has been primarily raw commodities. Imposing tariffs on commodity imports would



backfire and drive the cost of US manufacture much higher and defeat the entire proposition that Trump is trying to achieve.

While claimed trade experts, academics, and government officials all say that Canada and Mexico will also seek tougher concessions, they are clearly out of touch with reality. Canada is the 11th largest export economy in the world and the 23rd most complex economy according to the Economic Complexity Index (ECI). Trade negotiations would not take years as it does with a normal politician. Trump has a mandate and that will not be pushed aside.

In 2014, Canada exported $448B and imported $440B, resulting in a positive trade balance of $7.49B. In 2014 the GDP of Canada was $1.79T and its GDP per capita was $45.1k. The top exports of Canada are Crude Petroleum ($87B), Cars ($45.2B), Petroleum Gas ($15.8B), Refined Petroleum ($14.9B) and Vehicle Parts ($11B), using the 1992 revision of the HS (Harmonized System) classification. Its top imports are Cars ($26.9B), Crude Petroleum ($21B), Vehicle Parts ($20.4B), Refined Petroleum ($17.9B) and Delivery Trucks ($12.7B).

The top export destinations of Canada are the United States ($331B), China ($18B), the United Kingdom ($10.6B), Japan ($10.2B) and Mexico ($7.81B). The top import origins are the United States ($241B), China ($50.6B), Mexico ($24.5B), Germany ($13.5B) and Japan ($11.7B).

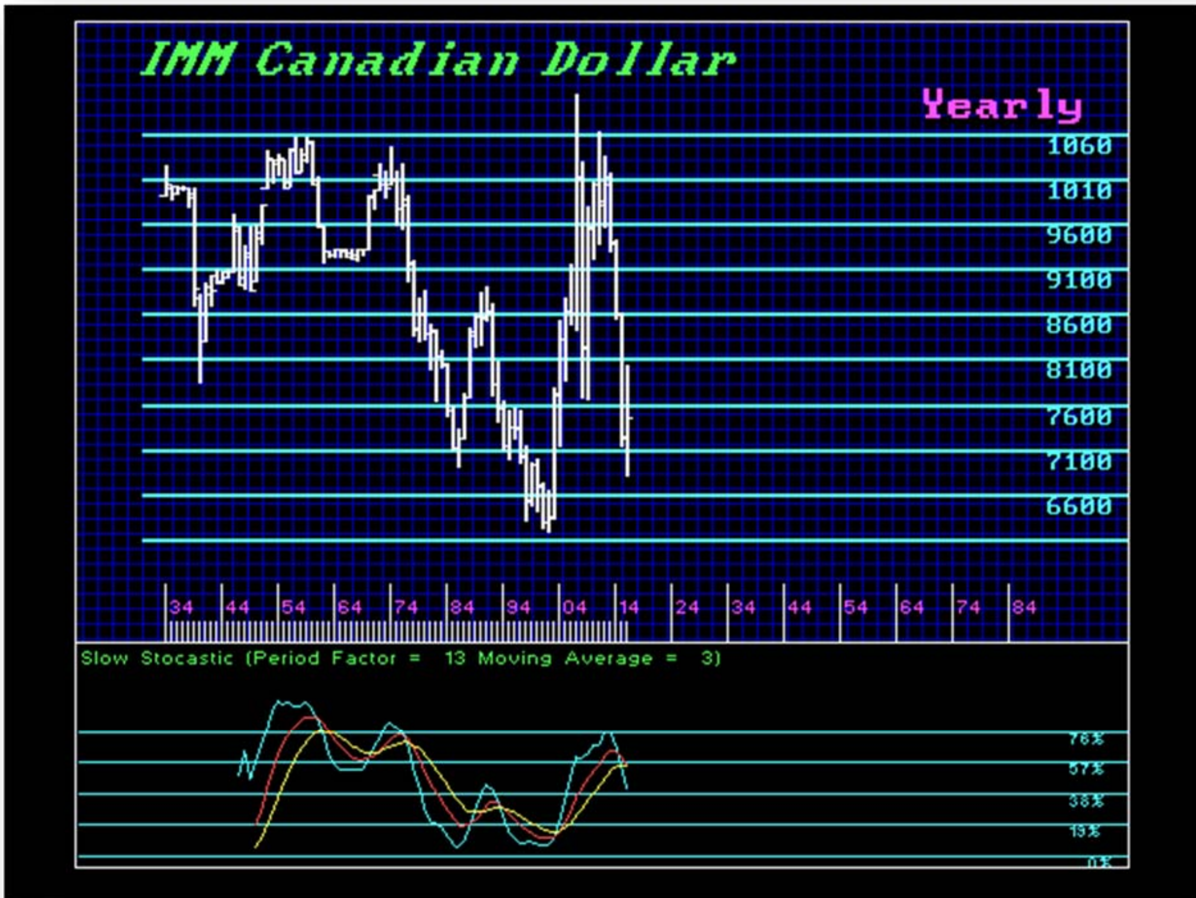
Trump has said little about what improvements he wants, apart from halting the migration of U.S. factories and jobs to Mexico. That has been the primary focus, which does not impact Canada as significant as it would Mexico.

Trump has singled out and threatened to impose tariffs on U.S. companies that move any production to Mexico. He has also intends to build a wall along the US/Mexican border to deter illegal immigration and insisted that Mexico will pay for it. He is not building a wall between the USA and Canada.

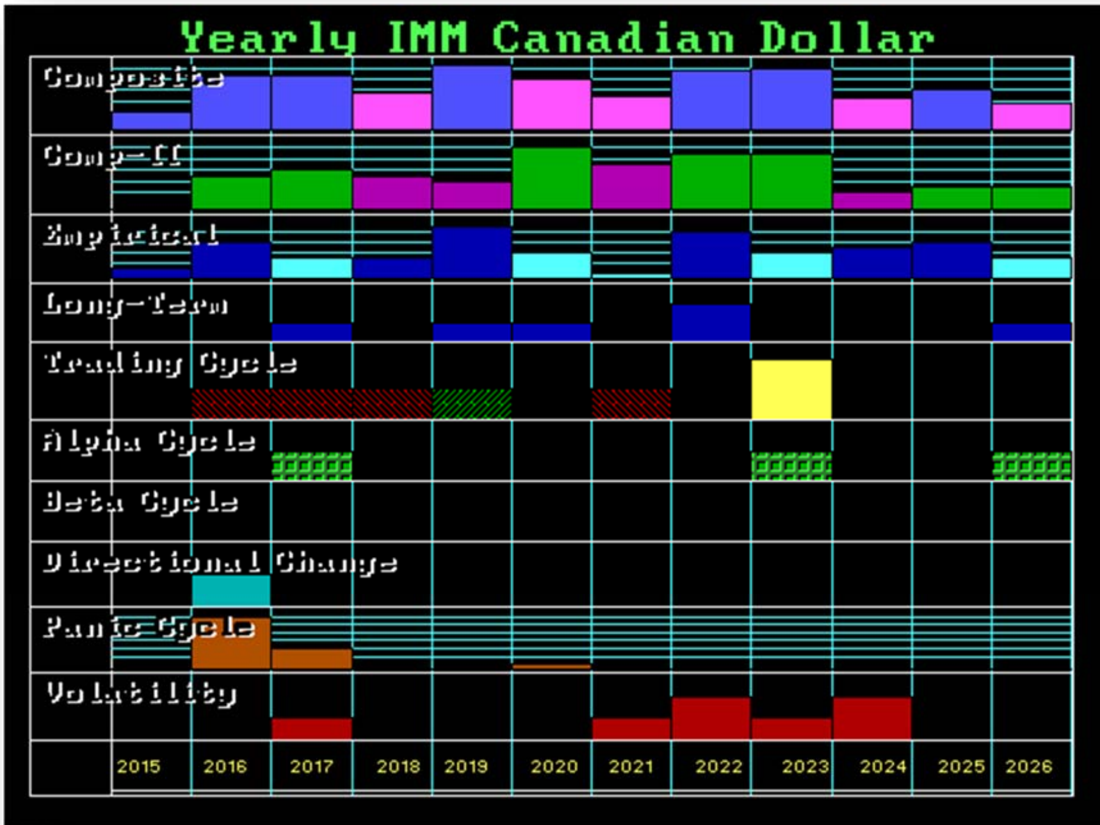
The deciding factor for the Canadian economy will probably not even be their own choice! Chances are the US under Donald Trump will be an even greater attraction than the safe-haven title the USD already holds. The repatriating US Dollars will hit most currencies along with the C$ and unless oil manages to maintain its currency strength, the outlook for the Looney does not look good. The big problem many countries will face in 2017 is not just the rising strength of the USD but the speed at which US rates could rise.

In the year where we have seen a modest recovery of the C$ we watched as interest rates increased along with the curve but all driven by external factors. In the second half of 2016 we have seen the 2/10 year spread move from low 60's to over 100 basis points. The yield on the 2yr note has moved out 30bp from 0.52% to 0.82%. The 10yr has traded out 65bp and is now 1.75%. The spread that will warrant observation is the spread not between 2/10 Canadian curve but the spread the Canadian 10yrs has below that of the US, currently – 72bp. The pressure has to be released somewhere and often the pressure valve is with the currency.

Canadian Dollar

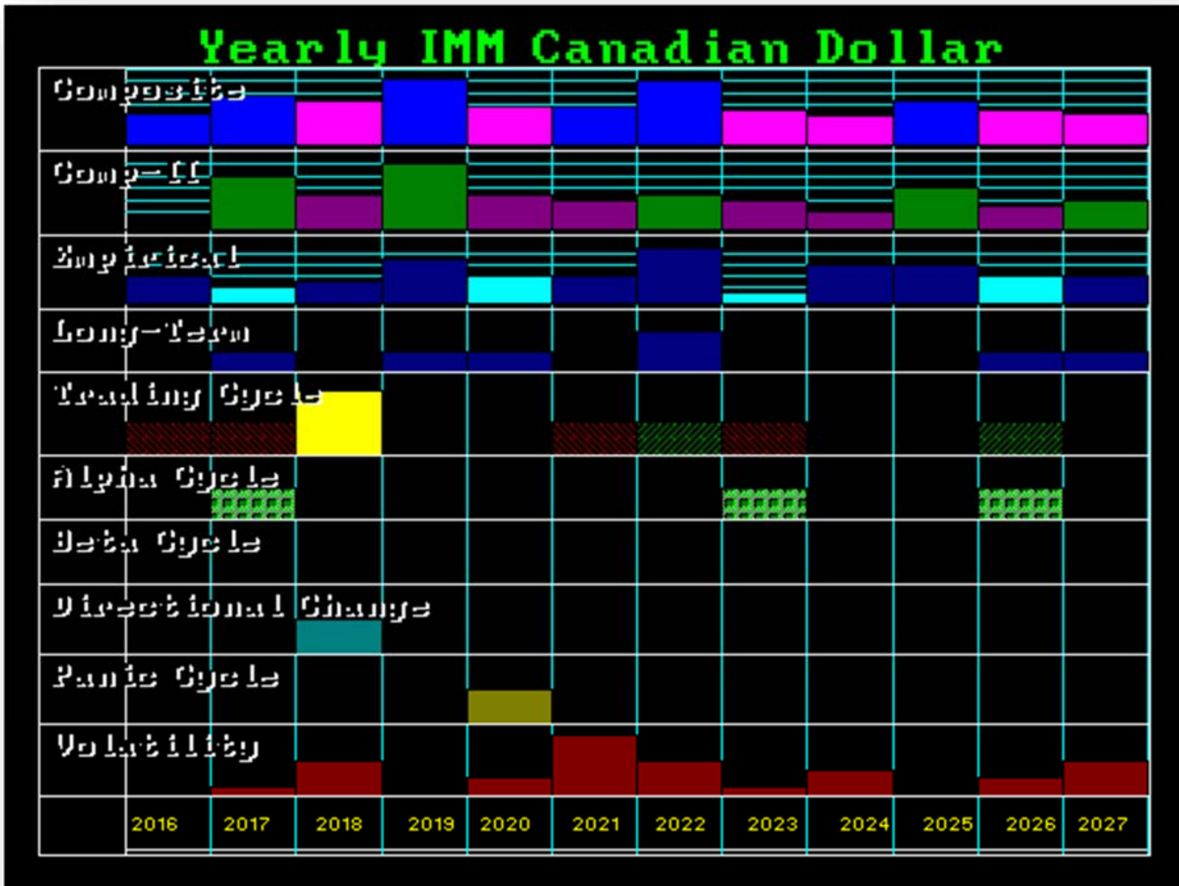


The Canadian dollar rallied against the US dollar sharply for 5 years peaking in 2007 at $1.10430 on the futures (cash at .906) against the US$ from the 2002 low against the US$ at .6170 on the futures (cash $1.6186). The actual lowest closing for the greenback against the C$ came in 2012 at 1.00370 on the futures, which was an 11 year rally for the C$ on a closing basis given the lowest annual closing was 2001 at .6276 with the intra-day low coming the following yearin 2002 at .6170. The C$ obviously peaked with the gold price in 2012 on a closing basis but intra-day the high was 2007 with the share markets.



The Annual Array in the C$ futures showed that 2016 should have been a Panic Cycle year and we did elect one Yearly Bearish from the 2007 high on the close of 2015 warning that this was most likely a major long-term high and that new lows would unfold in 2016. The next Yearly Bearish Reversal was .71350 in futures and 2015 produced the lowest annual closing at .72330 with the intraday low holding that Yearly Bearish Reversal reaching .71430. Thus, while 2016 did penetrate that level falling to .68090, it rallied back to close higher at .74415. Therefore, the C$ was entitled to a bounce, which it did in 2016 given the Panic Cycle target, which often reflects a sharp swing in both directions.

Only a monthly closing above .8836 on the futures would see the C$ rise into 2017 on any sustainable basis. Resistance in 2017 stands at .8530-.8550 with support forming at .7135. The Quarterly Bullish Reversal stands at .8605 and a Quarterly Bearish now rests at .7425. The C$ needs to close at first above .7705 to imply a further rally.



Canadian dollar futures went through a major slingshot after bottoming in 2002 at the 0.6170 level. The duration of the slingshot move was five years in total, reaching a peak in 2007 at 1.1043. Our updated Yearly Forecasting Array still has 2017 and 2019 as the targets, but we can see that 2018 is now showing up as a Directional Change. The failure of the C$ to close back above .78000 on a monthly basis will signal that there remains a risk of the C$ pressing lower. A monthly closing below .7143 will confirm a further decline into 2018/2019 target period.

If we see 2016 hold as a low with a reaction rally back up into 2017 electing that monthly level at .7800, then a Directional Change year will be coming into play in 2018. If the C$ were to make a high at that point in time, then on our timing models would be warning of a decline into 2019/2020. Note, we also have a Panic Cycle due in 2020 with rising volatility in 2021. The next major target thereafter will be 2022. That should produce the opposite trend from 2019.

A continued decline into 2017/2018 would imply a low with a potential rally into the 2019–2020–time frame. The Weekly and Monthly Bullish Reversals will determine if we rally into 2017 whereas the Bearish Weekly and Monthly Reversals point to a low unfolding in 2017. Keep in mind that the C$ has made a historical low against the **Euro** in 2003. Thereafter, the C$ rallied for 8 years into 2011 and then declined for 5 years into 2016. An annual closing for the C$ against the **Euro** above .7915 will confirm that the **Euro** is moving toward disintegration and that capital will flee Europe to North America. This will tend to alter the economic direction of Canada and most politicians will by no means understand what is taking place.

The wild swing we have seen in the Canadian dollar futures in US$ reflects the turbulence within the global economy overall. Confidence has eroded tremendously and this accounts for the wild price volatility. Our critical resistance to watch for the close of 2016 was 0.7773, which we closed below settling at .74415. We previously warned that it required a closing for 2016 above that level to suggest a rally into 2017. We also warned that a closing below 0.7135 would imply a resumption of the decline into 2017. So, we did not close below that level leaving the C$ in a neutral position. The support now in 2017 lies at .6720 and the resistance at .7653–.7775.

We must keep in mind that we are indeed all connected. Capital will flow to North America as chaos unfolds in Europe. When we look at the C$ against the British pound, we can see that clearly Britain is in trouble longer-term. The C$ has rallied and formed a double top against the pound warning that it will eventually move to new highs as well. We have a Yearly Bullish Reversal at 6.38. An annual closing above that level will warn that the C$ will breakout to the upside against the pound.

Despite the fact that Canada has tried to discourage the capital influx from China, we can see that the capital inflow continued even though the C$ declined for 8-years against the Chinese yuan. Nevertheless, the low was perfectly within technical projected support. A break above 5.59 will signal that the C$ will rally. This also will warn of political turmoil outside of North America.

When we look at the monthly level in the C$/Yuan cross-rate, the C$ has already elected two monthly buy signals. Now, a monthly closing above 5.485 will warn that the C$ is starting to take off and caution is warranted. This may lead to a greater capital influx, although China is doing its best to stop the flight of capital from its economy.

When we look at the C$ against the Swiss franc, we can easily see the rally between 2008 into 2011, which was driven by the commodity rally, particularly that in gold. The question then becomes, when will the C$ move based upon a flight of capital from Europe rather than merely a commodity play?

Turning to the Yearly Outlook in US$

Last year we warned that our ***"opening support number for 2016 was 0.6361. This suggested that an opening above that level would first imply a bounce in a counter-trend reaction to the upside."*** Indeed, we opened 2016 at 0.7216 so there should have been an immediate pause in the decline and the C$ rallied to reach .8025 intraday in 2016. Our opening support for 2017 was .6547 and we opened the year at .7442 maintaining a neutral position. Therefore, a move above .77 will signal that the C$ is still holding on to some strength and this is most likely unfolding due to capital flight internationally. <u>Obviously, investments in Europe or Asia may suffer currency losses at this time for C$ based investors.</u>

When we look at this market on the yearly level of our model, it appears to be in a neutral position at this time as long as we hold above 0.6315. However, we warned last year that "our model also indicated that a closing for 2016 <u>**BELOW**</u> 0.8245 would warn that any rally should still be negative and a resumption of the decline is likely thereafter. Our Yearly Energy Models are starting to turn back up, warning that further follow-through to the downside is limited…" The major technical resistance for 2017 stands well above the market at .9980. We would need an annual break above that to look bullish on a yearly level – not likely right now. Additional technical resistance stands at .9445. Support for 2017 technically lies at .6725-.6850 followed by .6480.

Yearly

Date	Open	High	Low	Close	CP	ENVEL	P1	P2	ENVEL	M	T	LT	CS	S1	S2	S3	COMMENT
2012/01/01	98480	103590	95680	100370	+	65333	86966	101910	104363	+	*	+	+	76	70	62	Turning BACK DOWN **15456 1**
2013/01/01	101240	101750	92930	93920	-	66940	90188	103371	106930	*	*	+	+	75	72	64	Waterfall In Motion **14883 -1**
2014/01/01	93850	94280	85470	85970	-	68314	91976	101064	109126	-	*	+	+	68	73	66	Waterfall In Motion **12250 -1**
2015/01/01	86030	86030	71430	72330	-	68854	87836	98643	109988	-	-	+	-	54	65	65	Warning Still Finishing Waterfall to Downside **61210 -1**
2016/01/01	72160	80250	68090	74415	+	68705	82720	96110	109749	-	-	*	-	38	53	61	**Possible Important Low** **104 -1**
2017/01/01	74420	76855	74350	76185	+	68287	78454	92705	109083	-	-	*	-	26	39	55	Short Covering **17100 -1**

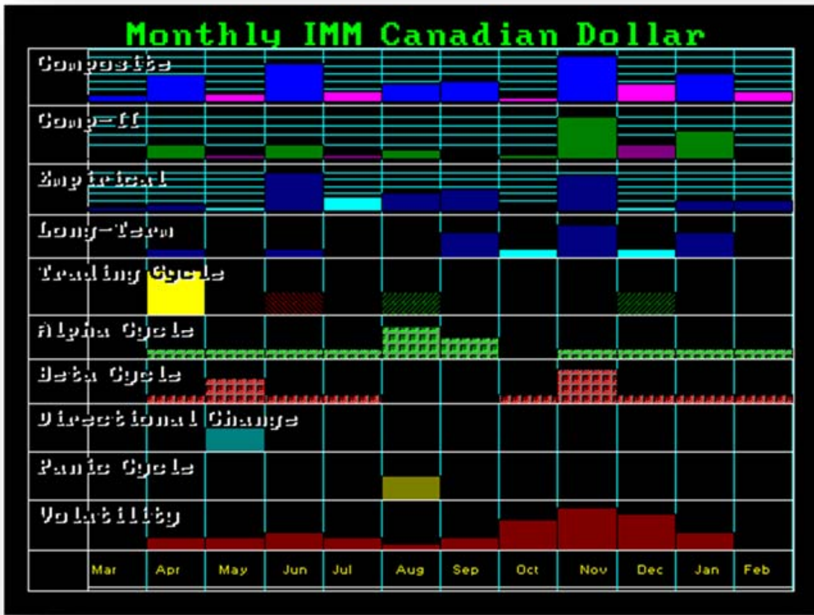
Our pattern recognition models have pinpointed 2016 as a "Possible Important Low" at this time and 2017 it is classifying as "short covering" so far. We need a Quarterly closing above .8605 to signal a breakout. Clearly, a move above .7800 will signal that we are more likely moving into a high initially.

The key Yearly Bearish Reversal to watch remains at 0.7135, which is really critical. If the C$ were to exceed the 2016 high of .8025 here in 2017, then our What-If

Models warn that the Yearly Bearish Reversal will rise to .8545. That means a year-end closing below .8545 would signal we have a knee-jerk reaction high and the C$ will turn back down.

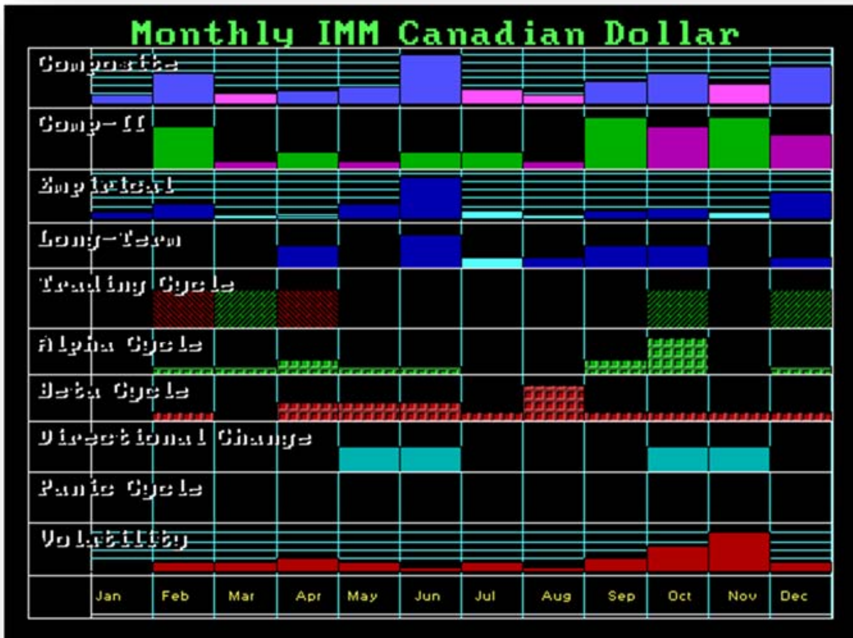
There remains the risk that the C$ could undergo an extreme collapse. When we look at target support for a final low in the C$ against the Greenback, this is showing 0.5760 followed by 0.4943 looking into 2017. Looking beyond that time frame into the end of this business cycle, we see support at that time by 2020 down at 0.5705 and 0.3723. Keep in mind that a strong Greenback is necessary to break the back of the U.S. economy, and this would likely inspire a move to a new monetary system at the earliest by 2018, but perhaps more likely looking into 2019-2020.

Nonetheless, we are looking at most likely a 37 year low in commodities forming at this time in 2017/2018, but we are also most likely looking at the collapse of government debt market going into 2020/2021. We are facing a major crisis as we head into the end of the 8.6-year wave in the Economic Confidence Model come 2020.



MONTHLY TIMING ANALYSIS

Last year's report we stated: ***"Looking at timing, May is a target for a Directional Change. Our turning points ahead appear to be April…"*** We added: ***"Focusing an important timing model, the Directional Change Model target is May. This model often picks the high or low, but can also elect a breakout to a new higher trading zone or a breakdown to a new lower trading level."*** Indeed, April in 2016 provided the highest monthly closing and May made just the intraday high and then crashed. We warned that November was showing a turning point and high volatility. That lined up with the US Presidential election and proved to be correct as the market then fell back reaching a reaction low in November at .73605.

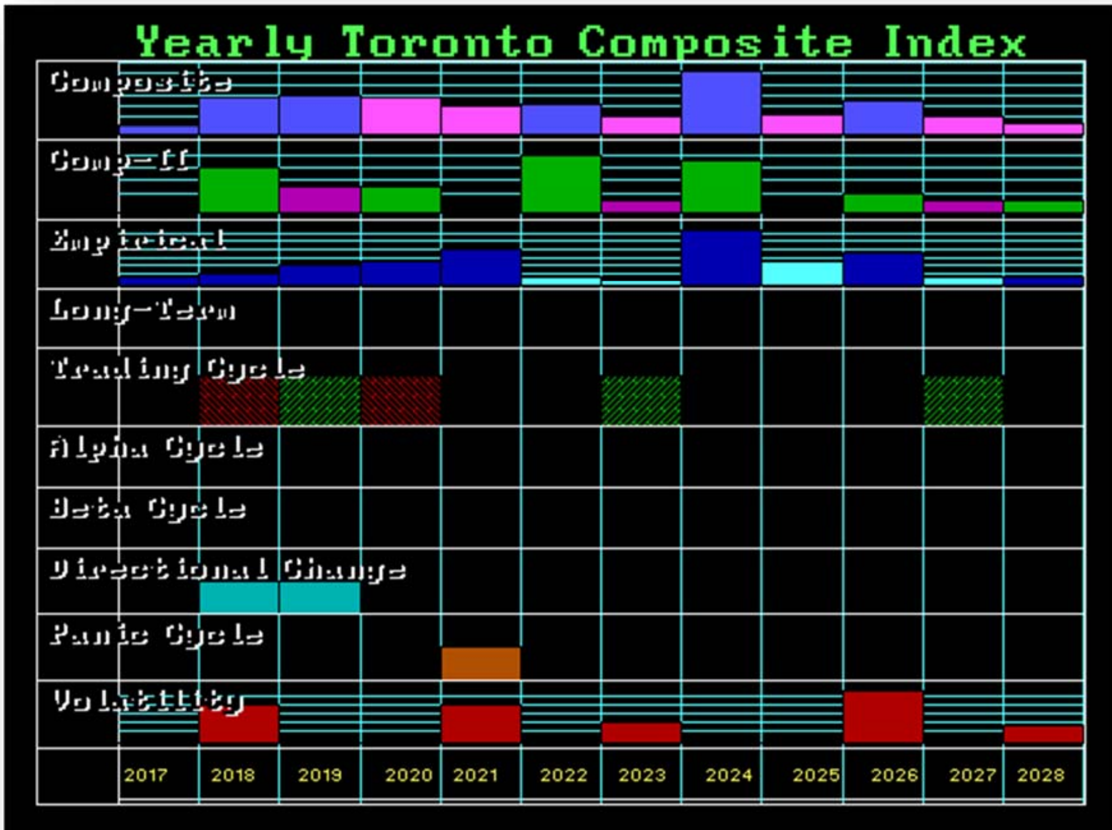


This year's Forecasting Array for the C$ during 2017 shows four Directional Changes warning about choppy trading patterns ahead. We have May/June and then October/November targeted here in 2017. The main turning points appear to be February, June and October, with June appearing to be the most important turning point in 2017.

We can see looking at the weekly chart that there is some overhead resistance. There is no confirmation of a breakout, but the four Weekly Bullish from the 2016 low were all elected. If we do not have new highs above 2016 by the end of June, we may then turn down once again into 2018.

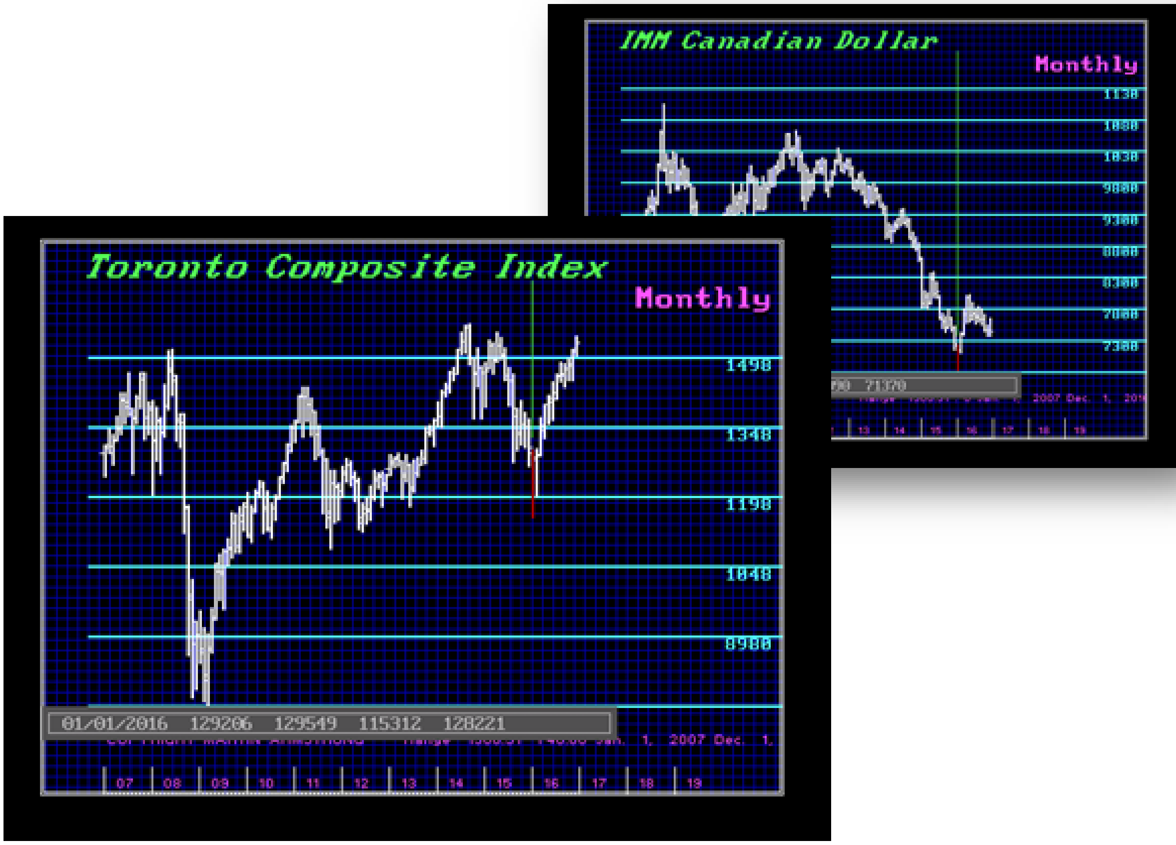
Canadian Share Market

Toronto Composite Index (TSX) Cash closed 2016 at a new historic high settling at 15287.6. This market established a major high during September 2014 at 15685.1 intraday which was marginally above the 2008 high of 15154.8. Canada remains impacted by the deflation in commodities that has engulfed the world after the rising boom in China. Most cling to the idea that China will come back. That is not likely until after 2020, and even then, the consumption of commodities it once represented will not reappear in the future to that extent. What has helped the TSX is the decline in the Canadian dollar since all things have an international value. The technical pattern that now exists on the yearly level remains bullish for the broader-term and that means we will see new highs in the future. Our primary target resistance stands in the 21000 level.



From a timing perspective, 2016 was a Panic Cycle and indeed the TSX made a low in 2016 and then rallied back to score the highest annual closing in history. It appears that we are looking at higher volatility moving into 2018 and the next critical turning point appears to be 2019. We also have two yearly Directional Changes in 2018 and 2019. The next Panic Cycle will be due in 2021, and we must respect that this is also 10 years from the 2011 turning point in gold, which often reflects the collapse in confidence in government. We also see 2021 as a critical empirical target for a turning point. That is a Transverse Wave meaning it is fixed in time and does not expand and contract.

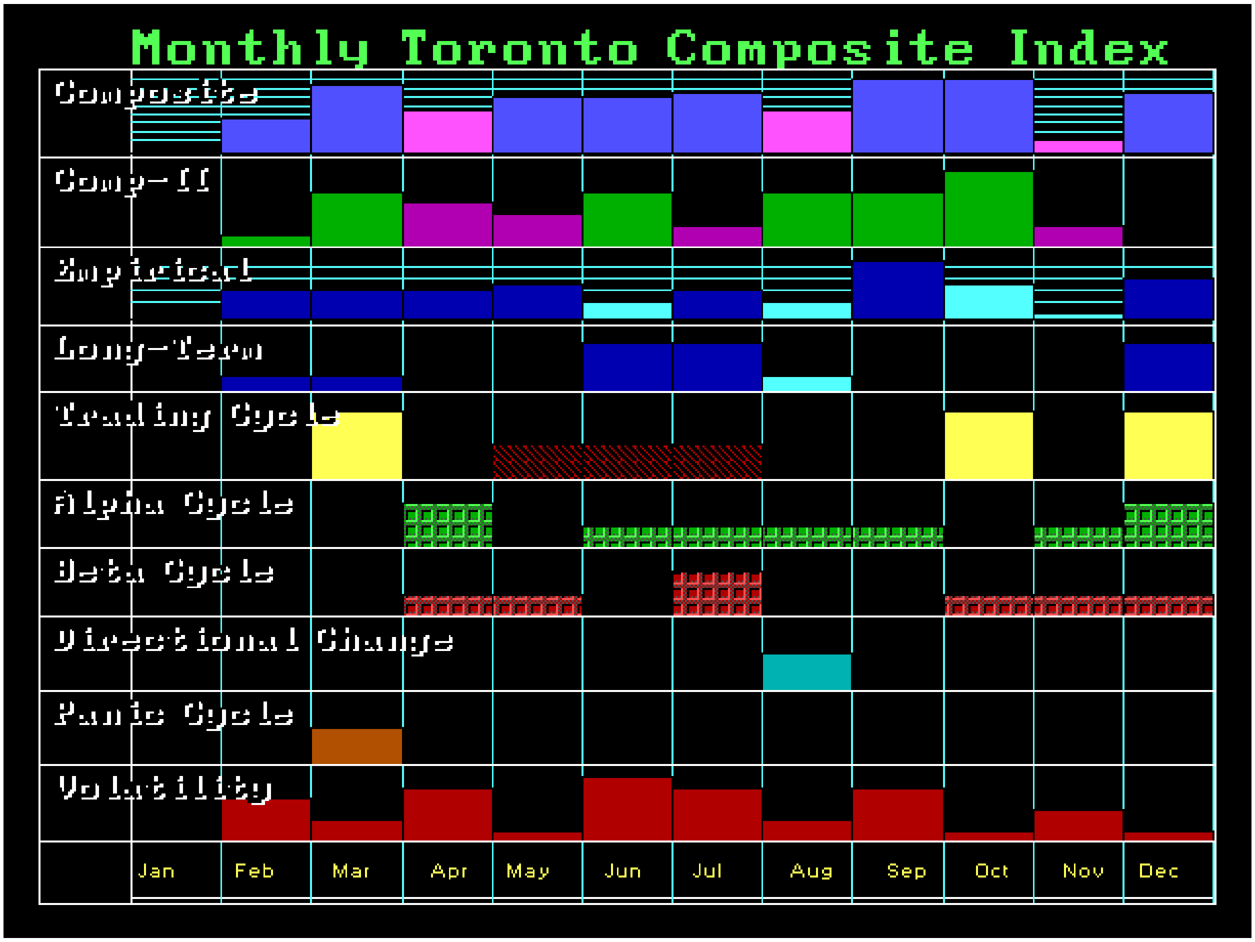
Clearly, 2016 was a steady year for the Canadian TSX as month after month followed better and better returns following the January 2016 low. By April 2016, the TSX had elected a Monthly Bullish Reversal signaling the uptrend was in motion. Initially, these gains were depleted (for the international investor) as the Canadian Dollar declined forming a low also in January 2016. The C$ then made a three-month reaction rally reaching the highest monthly closing in April at the same time we elected the first Monthly Bullish in the TSX. The C$ elected a Monthly Bearish Reversal there at the close of April 2016 when it settled at .7974 on the futures.



From April on, the TSX rallied reflecting the lower C$ value, which attracts foreign capital. Domestic assets always rise in proportion to the decline in a currency **WHEN THERE REMAINS** confidence within the economy and that government in general. When there are worries about the government, then a decline in the currency reflects a collapse in confidence in that country and domestic assets will not rise, but decline lacking foreign investment.

The TSX is clearly in a position to move higher in 2017. The critical resistance stands at 157775-159500 followed by 174800 during 2017. The 2014 high was

156851. A sharp rally becomes possible once the TSX breaks through the 160000 level. A Phase Transition becomes possible once we exceed 175000. Then the potential high target would become 269000-270000.



<u>MONTHLY LEVEL</u>

The strongest target near-term in the Monthly Forecasting Array is March/April for a turning point ahead. After that we see July/August as the next turning point followed by September/October. Our Quarterly Forecasting Array targets the 1st quarter in 2017 but the main target will be the 3rd quarter. Looking beyond 2017, the strongest target appears to be the 2nd quarter 2018 for a potential high. We could see the 199900-200000 level by that time if 2017 closes above 159609.

Turning back to the near–term, a high in March can result in an April low and then a swing back up into July as long as we hold 150000 on a monthly closing basis after March. Our maximum target resistance for March would stand at the 174000–177315 level. Reaching that area by March would tend to warn that we may see the 200000 area by the second quarter of 2018. Keep in mind that February could produce the highest monthly closing and March could make a new high and then take a swan–dive into an April low. Therefore, watch the 160000 level. That is the signal where a breakout begins.

Last year we warned that "resistance for 2016 stands at 13645. We have not elected any yearly sell signals, suggesting a more profound change in trend. We would need a closing for 2016 beneath 10845 to imply such an event. As long as that holds for the year–end closing, then we are dealing with only a reaction within a broader bull market movement. Our long–term models hint that the major high is probably not due until 2023/2024, which will be the peak in the next business cycle. More reasonably, we are looking for the next major high to come in during 2020. Focusing on 2020, a projection for a high at that point in time would be 20785 for a minimum target and the maximum being 27000. Keep in mind that the latter target would probably reflect a change in the monetary system. Either way, we should exceed the 2014 high of 15685 by at least 25%."

Indeed, we reached that first resistance level at 13645 by March 2016 breaking it slightly at 136855. Thereafter, the TSX rallied nicely and we are still on track for exceeding the 2014 high of 15685, which we just exceeded on January 25 slightly reaching 156743. When 2016 closed higher than any previous year, this too confirmed we should be moving upwards.

We previously warned that the "key Yearly Bearish Reversal to watch remains at 10840.0." We also warned in our last report that an "annual closing back above 14340.0 is necessary to potentially reverse the immediate declining trend." We still have Monthly Bullish Reversals at 154168 and 155250 and a closing above the 2014 high of 156534 will also confirm the breakout to the upside.

Canadian Real Estate

The Canadian housing slowdown was largely attributed to activity in Vancouver, where sales peaked earlier in 2016 before seeing dramatic drops in subsequent months in anticipation of the British Columbia slapping a 15% property transfer tax on foreign buyers. While most were looking for a Vancouver home price to fall off about 10%, the market fell exceeding those expectations, dropping nearly twice that much by nearly 20%. The assumption has been that a further decline into 2017 will probably see another 15% drop as China attempts to stem the outflow of capital. China's clampdown on Bitcoin, where 98% of the activity has been from China with capital trying to get out, it may be more of the actions taken by China to prevent capital flight more than anything else that will have its impact in the Vancouver market.

The capital flight from China, which has benefited the Canadian real estate market particularly in Vancouver, has been fascilitated greatly by Bitcoin. The rally in Bitcoin boom has come out of China, which has accounted for 98% of Bitcoin trading in the past six months. China is also home to about two-thirds of the world's Bitcoin mining power. The sharp rally in the price of Bitcoin is very alarming, for it flies right in the face of government attempts to eliminate currency. The Chinese have been buying Bitcoin onshore, selling it offshore for another currency, and then moving the money to a bank account. This is how the Chinese individuals can take cash out of the country, circumventing all regulation.

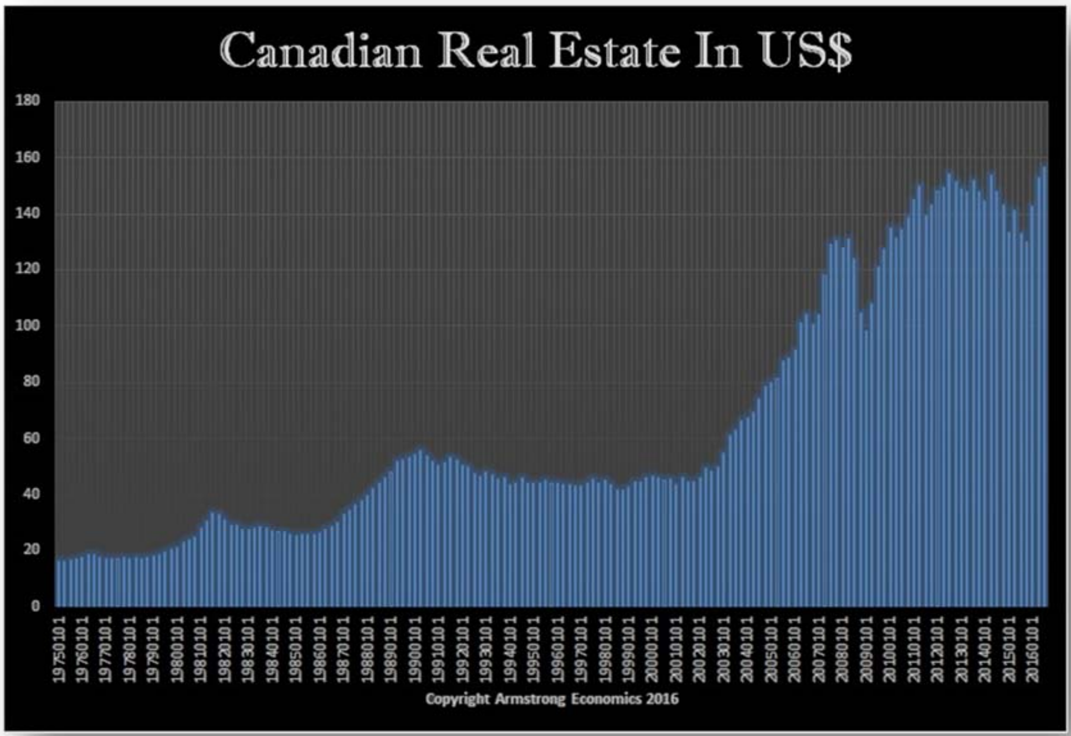
With Trump coming into office, China fears that lower values for the yuan will become a trade war even if the government is not actively trying to depreciate the yuan for trade. Conversions of yuan are already subject to a quota or currency controls in an effort to curb capital outflows. This is why Bitcoin has been the means to escape regulation for capital fleeing China. However, the Chinese government will have absolutely **NO CHOICE** but to come in and regulate Bitcoin as its citizens now account for 98% of all trading. From a regulatory perspective, the days of passive treatment of Bitcoin may come to an end.

China's major Bitcoin exchanges halted or otherwise updated their Bitcoin trading services. The changes to Bitcoin are being made in response to interactions with the People's Bank of China. The People's Bank of China delivered **"informal guidance"** that is beginning to take notice of the capital flight through Bitcoin exchanges. The central bank called in the big exchanges for a discussion, but they are not being shut down.

BTCC is the only exchange to explain the changes in a message posted to its website: "BTCC will [suspend loans and borrowing services] from 12th January, 2017."

Effectively, loan-based trading services were no longer available using Bitcoin. The news spread quickly about the changes on social media. Margin trading services had always been in the grey area given the longstanding lack of legal clarity that allowed the exchanged to blossom. The additional liquidity for bitcoin that came from China will begin to decline. There is little doubt that the Chinese Bitcoin market will see a new engagement with regulators moving forward.

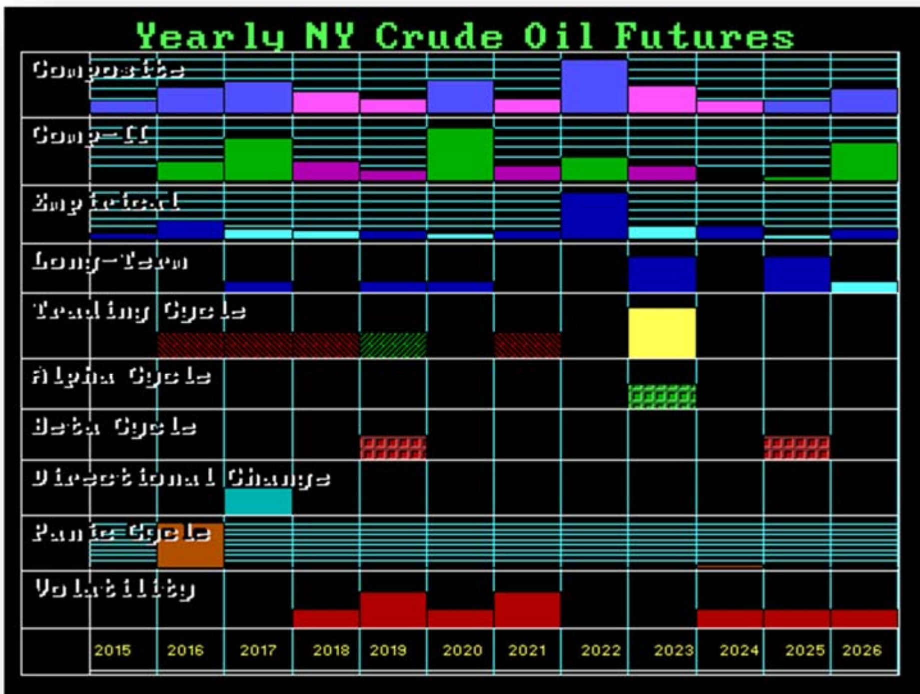
The Canadian dollar had rallied from .6809 on the Futures peaking at .8025 during May 2016, and it began to fall rather steadily thereafter. British Columbia introduced a new 15% property transfer tax on foreign real estate buyers in Vancouver in July 2016 taking effect on August 2nd. The new measures were intended to increase the affordability in the city's red-hot housing market for Canadians while driving up costs for foreign investors, mostly from mainland China. Of course, whenever the government intervenes to help one group, they hurt many others.



The story of Canadian real estate has typically been one of shifting economic fortunes and changing real estate trends intermixed with the decline in the currency value. Here we can see the Canadian property market expressed in US dollars rather than Canadian. This reflects the true value of property in Canada on an international basis.

The economic power thus shifted back to the east as commodities in general declined. Property prices appear to have reached a frothy peak in Toronto and a near-term decline in the 5–10% area in home prices should be expected in real terms. The Toronto market has been driven more from Europe than Asia, and here the trend we must watch closely because the crisis in Europe continues to manifest. In fact, the Euro is in disintegration mode and is still likely to collapse but probably during 2018. We must look at real estate in terms of Euro and dollars to get a sense of what foreign capital will do.

Foreign owners made up a bigger share of the condominium markets in Toronto and Vancouver. Clearly, foreign owners of condos comprised 3.5% of the market in Vancouver and 3.3% in Toronto, according to a report from Canada Mortgage & Housing Corp. which surveyed property managers. That had risen from 2.3% in Vancouver last year and 2.4% in Toronto. When focusing on just the core sector of the cities where foreign capital tends to concentrate, foreign buyers made up 5.4% of Vancouver condo purchases in 2015 versus 3.4% last year and 5.8% of Toronto condo purchases versus 4.3% in 2014. The declining Canadian dollar features helped to attract foreign capital fleeing China and Europe.

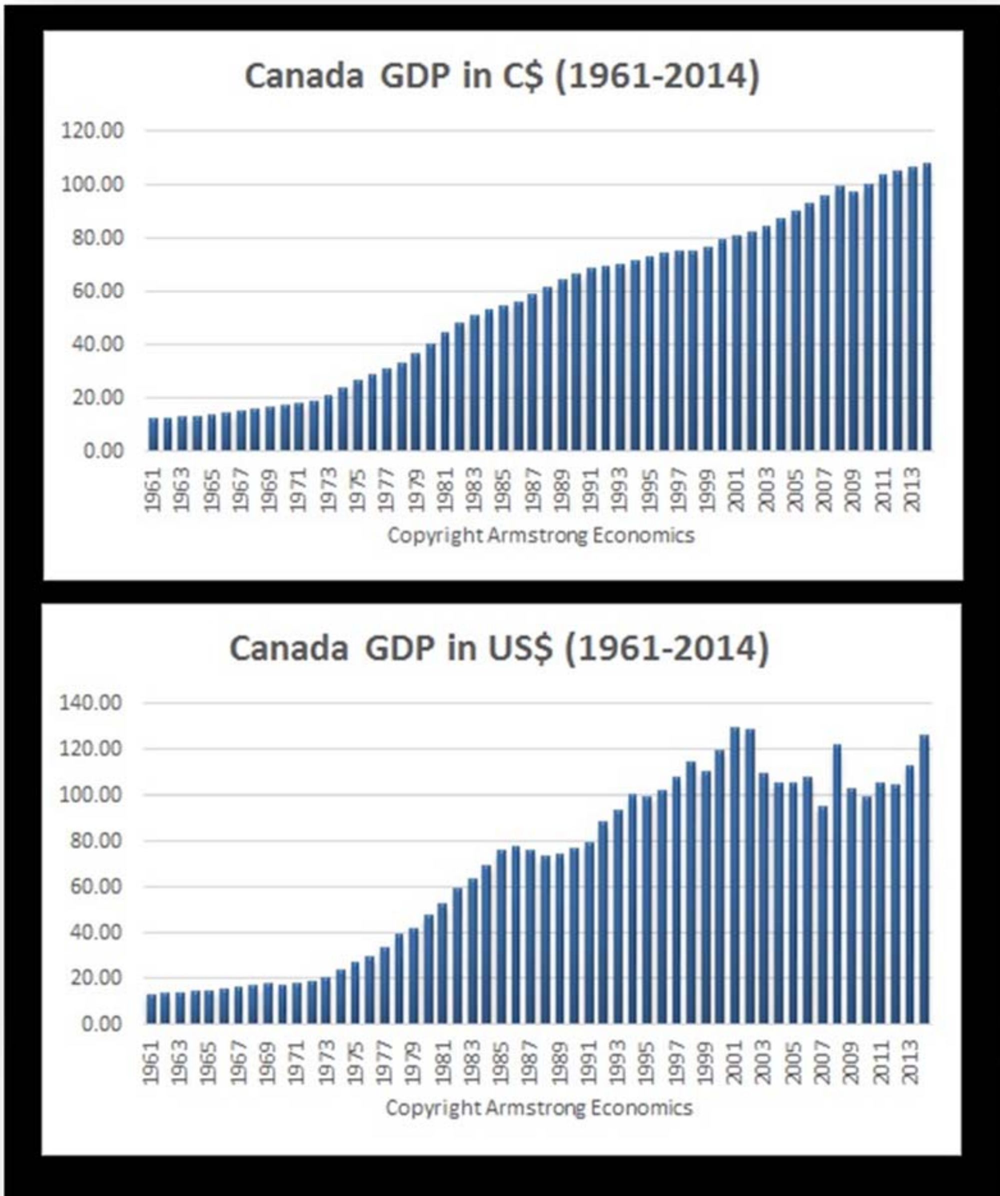


The decline in oil prices had caused a sharp slowdown in the Calgary economy, the Edmonton economy is also trending downward, and the long-term impact on the local real estate market remains negative. The low energy prices and declining commodity prices in general combined with the fall in the Canadian dollar futures had taken its toll on Canada from a foreign and domestic perspective. Yet, 2016 was a Panic Cycle Year and it did produce that impact dropping to US$26.05 intraday. We did elect a Yearly Buy signal at the end of 2016 and resistance will stand at US$69.50 and US$77.25 during 2017.

Conclusion

The Canadian economy is in for a shock as government spending rises sharply and benefits decline. We are facing the collapse of socialism exactly as communism collapsed back in 1989. The time lag was simply on schedule for 25.8 years to be precise. This is merely part of the decline of Western society as the financial capital of the world shifts from the United States to China. Even the bank bail–in strategy that has formally taken over throughout Western Society, Asia is not on board with such deflationary outcomes.

The real estate market is doomed from a domestic perspective of trying to analyze the trend based upon economic conditions. Real Estate is predominantly began driven by international currency values. Therefore, real estate remains as a tangible asset that will tend to offset the economic decline of governments.



We are entering a phase when capital tries to get off the grid with respect to government taxation and fiscal mismanagement. Canadian property offers the safe haven perspective for foreign capital trying to flee Europe and Asia. While the financial capital will shift from the United States to China, that does not take place until the fall of the West, which appears to be on schedule for 2032.

Looking even at the Canadian GDP in terms of Canadian dollars, we can see what appears to be a never-ending rising. This is offset greatly by both inflation and currency value. When we compare the Canadian GDP in US$ to C$, we can then begin to see the real economic trend for Canada. The peak took place back in 2001 and bottomed in 2007. We have witnessed a 7-year rally into 2014. From here on out, it appears that there will be a fiscal crisis in Canada whereby tax increases are likely. The greater the proportion government consumes of personal and corporate income, the lower the growth in GDP.

Keep in mind that we will see a capital flight from Europe and the European Union continues to disintegrate. This will help mitigate some aspects of the decline. Nevertheless, Justin Trudeau's tax–and–spend plan has failed and full–time jobs are disappearing as taxes and benefit costs rise. Government has no solution and their policies are simply just more of the same. Consequently, there is no escaping the trend. Add to this mess the ageing population and the financial outlook appears even more deflationary as government tries to tax its way forward rather than print. This trend has altered even consumer spending in Canada as many are not borrowing to buy a house or tangible assets, but simply to buy groceries. When consumer borrowing turns to finance consumption rather than long–term assets, we are looking at the collapse of government debt markets most likely by 2020.

With government debt in crisis on a global basis since the Quantitative Easing (QE), particularly of Europe, has utterly failed to produce a recovery or inflation, we must realize that the **Sovereign Debt Crisis** is going to wipe out Western Culture as we have known it. The European Central Bank (ECB) has been buying government debt since 2008. They now own more than 40% of **ALL** Eurozone government debt. Draghi is trapped and can never sell what he has bought. That means all the ECB can do is wait for it to mature. This introduces critical points people are overlooking, namely that is Draghi stops QE, will there be a bid for government debt at such low levels? That is totally unlikely. We are looking at government's approaching the point at which there will be no bid.

Canada will be dragged along because raising rates in the States by the Fed will send interest expenditures on new debt issued by government sharply higher. This will blow out all fiscal budgets.

Consequently, the best and **ONLY** hedge against what is coming has always been tangible assets – **NOT** exclusively gold. Even in the German Hyperinflation, it was all tangible assets that survived including real estate. In fact, the replacement currency issued in 1925 was back by real estate – not gold. Gold will rise, but we may not see the real rally until 2021 into 2024. The TSX will provide a reasonable hedge moving forward into the years ahead.