Maybe it was the pristine snow falling on the streets of Smithers, I'm not sure what got in to me. About 20 years ago I spent an entire Friday afternoon writing a loan application on behalf of a non-existent corporation I called Kris Kringle Inc. On a quiet day in mid-December I used the resources of this big Royal blue machine to get the big jolly red-suited elf a loan to renovate the toy factory and upgrade the sled and reindeer stables. I argued that Kringle could pay us back with pixy dust, which is highly-valued in precious metals markets, and also that Kringle was of course Canadian, and thus we could take a mortgage on the North Pole facility as collateral. And to cap it off, I reminded the adjudicators that the borrower knew who was naughty and not, and that that he might want to consider that before putting his name on the application in any sort of a Grinchy manner.

The Risk Manager of the day, much to his credit, did not decline the loan, but referred it to his superiors at our Vancouver regional office, who also dared not decline it. The Vancouver guy chickened-out one-upping it to our Toronto managers, who generally hadn't heard about Christmas – I mean, other than employing a vast army of little people to stand on.

In the end, Kringle managed to thrive, and my fictitious loan application was soon thereafter sent to recycling along with goofy gift wrap and the various chocolate boxes of early January.

Fridays have always been a bit strange around here.

Borrowing heavily from an excellent piece our economics department recently prepared, we thought it would be helpful today to summarize some of the trends from 2017 that will have a bearing 2018 and beyond.

Bitcoin, Crypto-Currencies and Kryptonite:
The meteoric rise of Bitcoin has left many wondering if crypto-currencies will prove to be kryptonite for some investors. While many things can be said about cryptocurrencies – including that they are not currencies – one should separate the object from the technology underlying it which actually appears to have a promising future, but is this real money?

The Bank of Canada's Senior Deputy Governor Carolyn Wilkins recently suggested that it is not, in that the crypto-currencies do not fulfill the primary purposes of money as a medium of exchange or store of value. If crypto-currencies become more money-like, what will it mean for the sovereign role of central banks in managing the money supply, setting interest rates and controlling inflation?

Is the crypto-currency marketplace safe for consumers? Some US$300 million in value in a major cryptocurrency was accidentally lost this year due to software glitches (not me, but ouch!). Canadian securities regulators are paying attention to the types of frameworks that will be needed to manage crypto-currencies responsibly.

Inflation:
Remember this word from the 70's and 80's? Well, stranger things could happen than its ominous return. Perhaps it is looming just beneath the surface like some dark Netflix-created shadow of doom. But unlike some asset markets, consumer price inflation has been consistently surprising to the downside around the globe for years now. Global supply chains (read – China), excess labour market capacity (read – service industry) and fiercely competitive retail environments (read – Amazon) have kept inflation in check.

In financial markets, longer term interest rates were little changed through 2017, contributing to a flatter yield curve. The Bank of Canada moved overnight interest rates up twice in an effort to get in front of any inflationary pressures down the road.

Fiscal Stimulus (It might sound like some sort of electronic physiotherapy, but it means over-and-above Government spending to move the economy along):
With all the timing of an 8th grade boy asking his 7th grade crush to the 12th grade prom, the policy focus of the federal government has been to further stimulate the already steamy economy. Such policy is

nearly always conjured during an election, then distributed in typically glacial speed, only to finally hit the street at precisely the wrong time.

Every Canadian fiscal plan since the 1990s has included either an explicit or aspirational goal of returning to budget balance—until now. One concern is what this means for Canadian competitiveness. The economy is currently pressing up against capacity limits which suggests a pro-cyclical fiscal stance is neither needed nor desired as it raises inflationary risks and potentially crowds out private sector activity. The risk of such policy is that it puts additional upward pressure on interest rates. The Bank of Canada raised interest rates this year by 50 basis points which by their calculations translates into a hit to Canadian growth of about ½% -- exactly the magnitude the federal government estimates their actions added to growth. Policy-makers in Ottawa are moving in opposite directions right now. Perhaps it was designed by two boys who were accustomed to spooning sugar on their Fruit Loops growing up.

The large spending plan's underlying the deficit profile suggests the risks for Canadian taxes are to the upside in the years ahead. We have already seen the move to higher personal income taxes at the federal level which, combined with provincial changes leaves marginal tax rates above 50% in most provinces, will make it more challenging to attract the best and brightest in the global talent competition, especially when our neighbors to the south are reducing taxes simultaneously.

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