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The Bigger Picture

A weekly snapshot of the markets

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Key Take-Aways:

• **Crude Oil:** We look at some of the key questions facing crude oil traders ahead of OPEC's production meeting on November 27

Crude Oil:

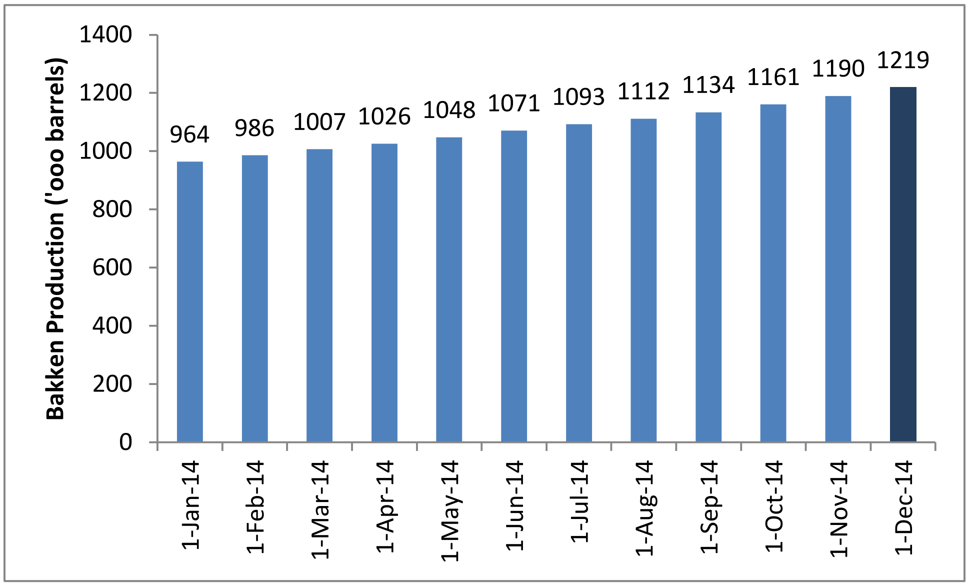
Crude oil markets have had a tumultuous ride over the last three months with the North American benchmark commodity down some 20%. Oil equities have not fared much better with **iShares S&P/TSX Capped Energy ETF (TSX: XEG)** shares down 17%, **Horizon's Energy Income ETF (TSX: HEE)** down 16% and **SPDR Energy Select (NYSE: XLE)** down 11%. The selloff reflects sentiment among traders that the market is oversupplied, in part, thanks to unprecedented production levels from the United States in recent years Exacerbating matters further is the emerging view that despite the recent fall in oil, OPEC may resist cutting production levels and not provide price support at its next meeting on November 27th – a date that could serve as a catalyst for a rebound or confirmation for another leg lower in crude. In trying to navigate the crude oil market, we looked at a few key questions facing energy traders.

Are We Over-Supplied?:

While the prevailing theme in oil markets at the moment is one of over-supply, the data we looked at shows mixed results:

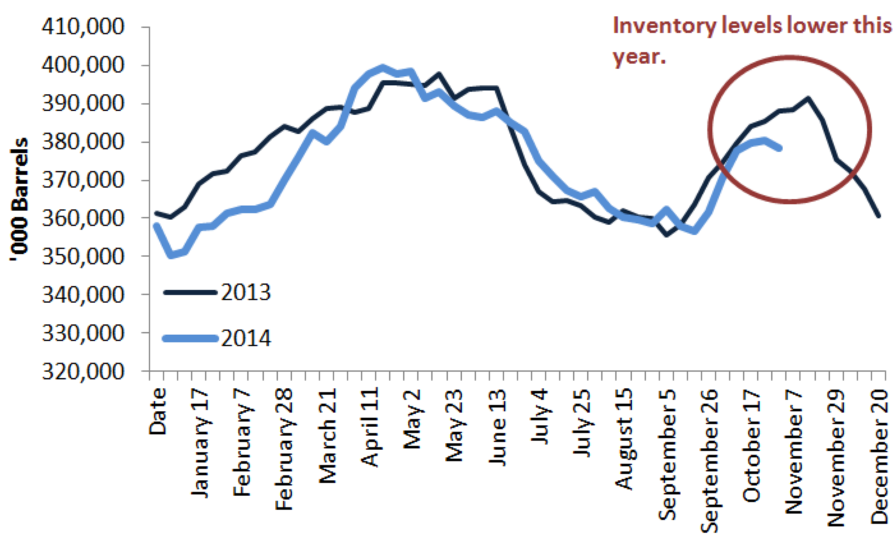
- Despite much publicized declines in crude prices, US oil producers are showing no immediate signs of slowing production. The Bakken region (which has been at the centre of the modern US oil boom), is expected to see rising production levels into the end of the year. We view this as a potentially bearish catalyst for crude prices near term given that we are in a market perceived to be in over-supply.

Bakken Monthly Production ('000 barrels)



- On the flip side, while domestic US crude production is notably higher, so is refinery utilization (think of utilization as refinery "uptime") which has actually lead to lower stockpiles of crude compared to the same time last year. A similar situation can be observed for the end products like gasoline. Lower levels of inventory for us are a bullish signal and somewhat weaken the over-supply argument.

Weekly US Oil Inventories ('000 barrels)

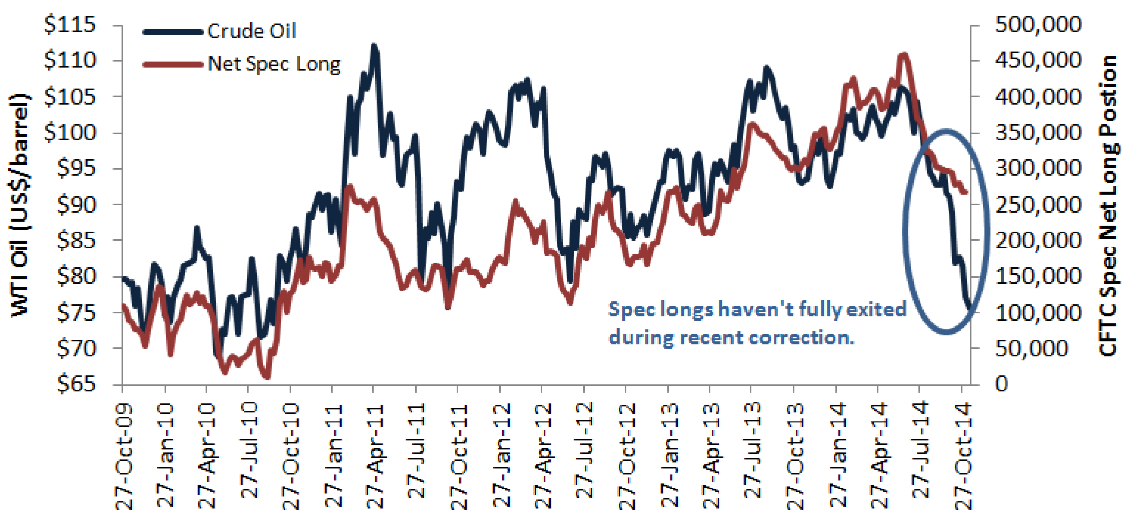


Source: Bloomberg, Global Securities.

Are We Oversold?:

With WTI having corrected some 30% since its most recent peak in June, the question on traders' minds is whether we are approaching oversold levels. Given CFTC positioning, we don't think so. While net spec long positions have come off somewhat, they have not come off nearly as much as crude has (and have rebounded some 8% as of this morning's CFTC report), indicating to us that there are still lots of longs holding out. The long side of the trade is likely betting that OPEC will come under internal pressure to cut production from countries like Venezuela, Libya and Ecuador who require higher oil prices to balance their budgets.

WTI vs. Net Spec Long Positioning

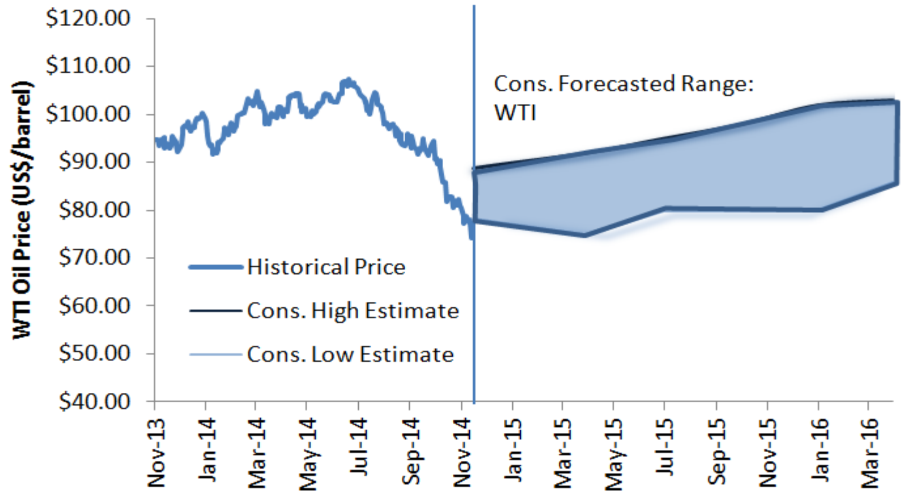


Source: Bloomberg, Global Securities.

Where Does Consensus See Prices Going From Here?:

With recent crude volatility, numerous economists have updated their estimates. We mapped out a range for the current consensus, taking into account estimates published within the last month only. Consensus sees WTI finishing the year at between $78 and $90 per barrel, but most cite the November 27 OPEC meeting as a key date in determining price direction from here.

Forward Consensus Range for WTI

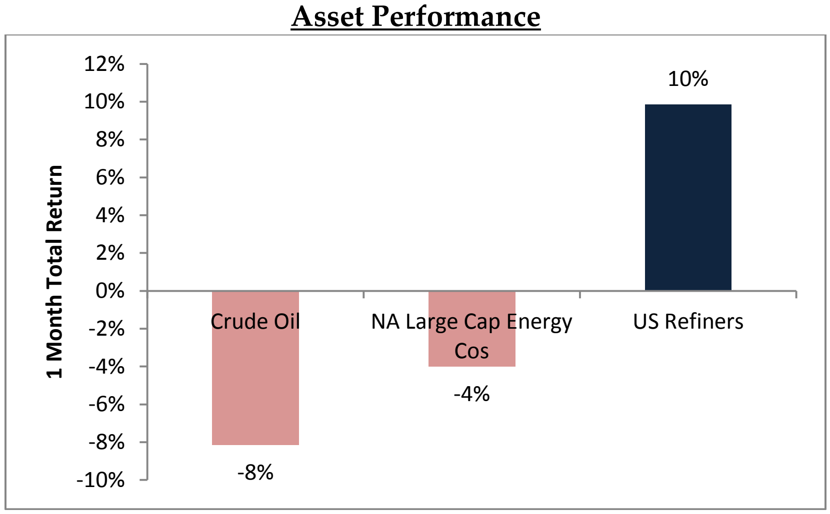


Source: Bloomberg, Global Securities.
Note: Range estimates include only data points published after October 15, 2014.

What If Oil Continues Going Lower?:

We think refiners could be well positioned in a supply-driven lower oil price environment. A lower oil price increases demand for end products like gasoline and allows refiners to maintain margins thanks to lower input costs. Over the last month, US refiners have significantly outperformed their E&P peers as well as crude oil.

Asset Performance



Market Snapshot

At 11:30 am today

S&P TSX	14931.55	+88.45	**Commodities**			**Yields (%)**	**Can.**	**US**
TSX Venture	776.46	-0.17	Canadian $ (US cents)	88.47	-0.10	90 Day T-Bill	0.88	0.01
DJIA	17649.61	+14.87	Gold (Spot)-US$	1186.57	-2.18	2-Year Bond	1.00	0.51
S&P 500	2041.94	+2.12	Oil (WTI-Dec.)	75.45	-0.37	10-Yr.Bond	2.02	2.33
NASDAQ	4674.50	-14.04	CRB Index	267.05	+0.25	30-Yr. Bond	2.58	3.06

Thought for the Day

"Finance is a gun. Politics is knowing when to pull the trigger."– Mario Puzo

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Strong Buy: Expected total returns of 20% or more over the next 6 – 12 months.
Buy: Expected total returns of 10% to 20% over the next 6 – 12 months.
Speculative Buy: Significant gains expected over the next 6 – 12 months, but entire investment may be at risk.
Hold: Expected total returns of 0% to 10% over the next 6 – 12 months.
Reduce: Expected total returns of up to -10% over the next 6 – 12 months.
Sell: Expected total returns of over -10% over the next 6 – 12 months.

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