Energy in a Less-Energetic Global Economy

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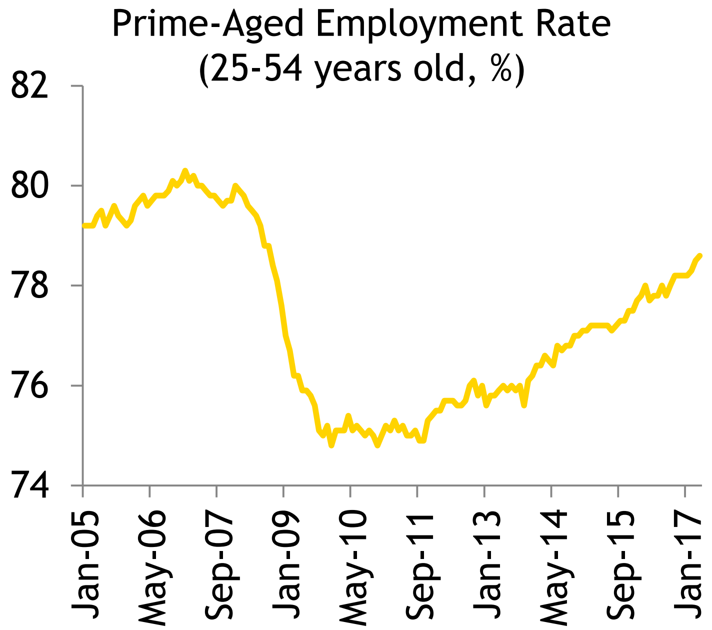
CIBC

Growth Outlook: Not "Great Again", But Good Enough

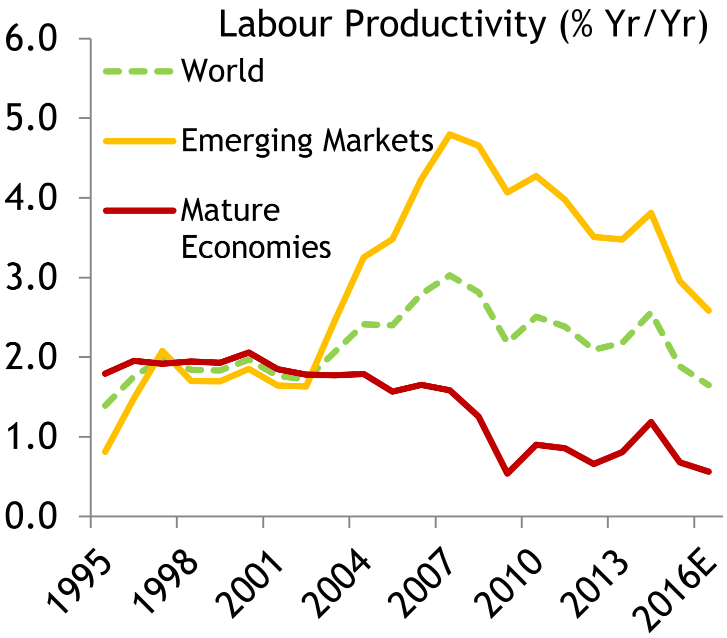
	5 yrs before recession, avg	2014A	2015A	2016A	2017F	2018F	2019F
World*	4.8	3.4	3.2	3.0	3.4	3.1	3.0
US	2.9	2.6	2.9	1.5	2.1	2.1	1.9
Canada	2.6	2.6	0.9	1.5	2.9	2.1	1.6
Euroland	2.2	1.3	1.9	1.7	2.0	1.7	1.4
UK	3.3	3.1	2.2	1.8	1.5	1.3	1.4
Japan	1.8	0.2	1.1	1.0	1.3	1.1	0.8
Brazil	4.0	0.5	-3.8	-3.6	0.2	1.6	2.5
Russia	7.5	0.7	-2.8	-0.2	1.2	1.5	2.0
India	8.9	6.4	7.5	8.0	7.5	7.2	7.2
China	11.6	7.3	6.9	6.7	6.7	6.5	6.2

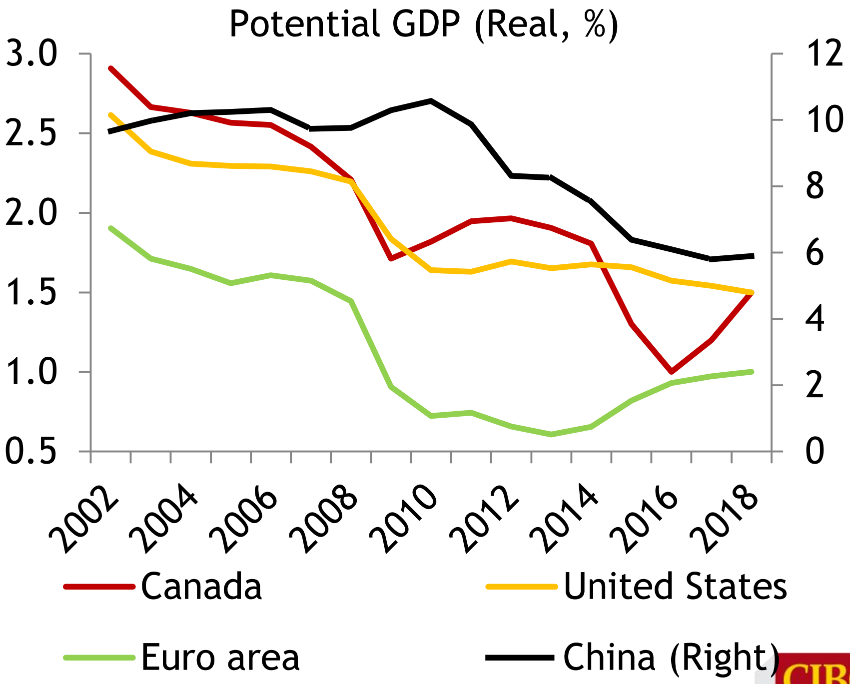
** at Purchasing Power Parity*

US Prime-Age Employment Rates (L), Job Vacancies (R) Both Near Previous Cycle Peaks



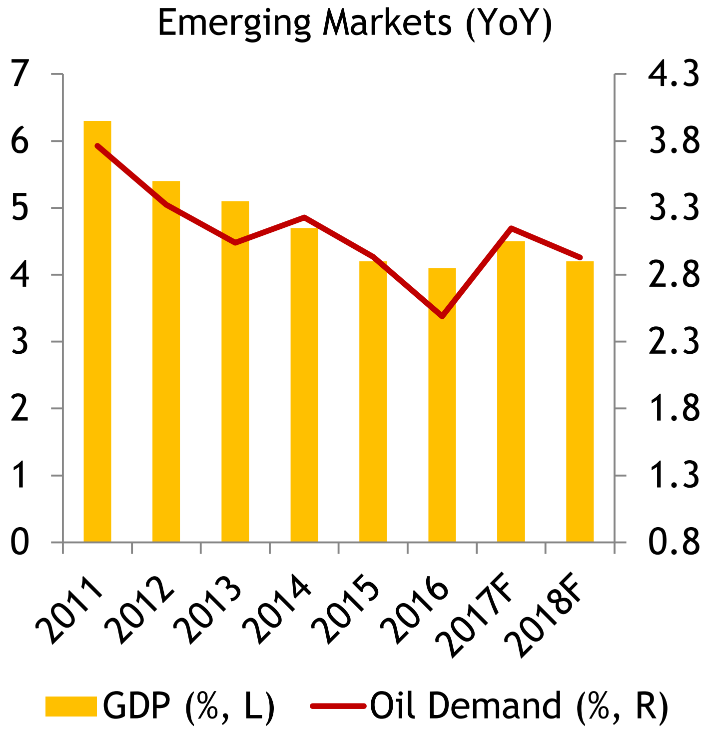
Weaker Productivity (L), Slowing/Aging Population Mean Softer Speed Limits (R), Even for Emerging Markets

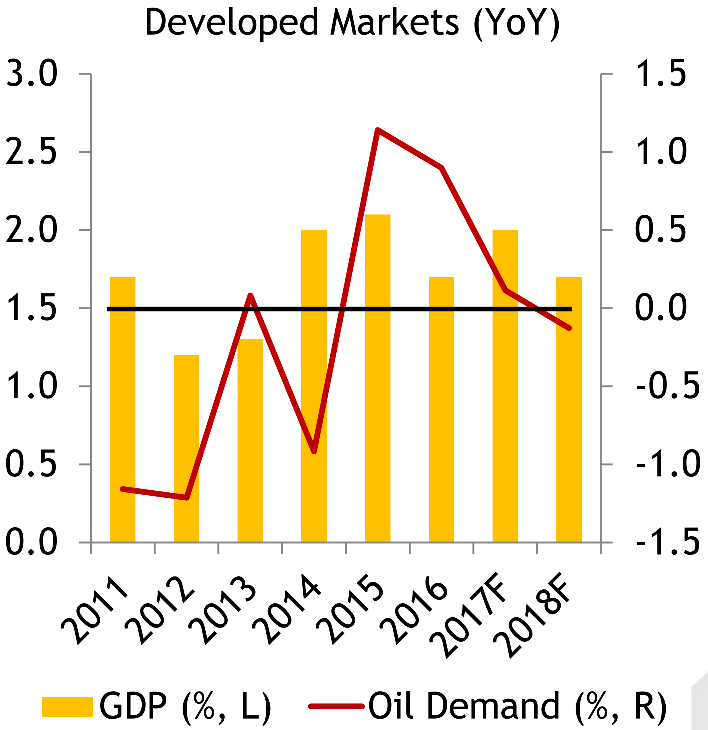




Source: CIBC, IMF, UN

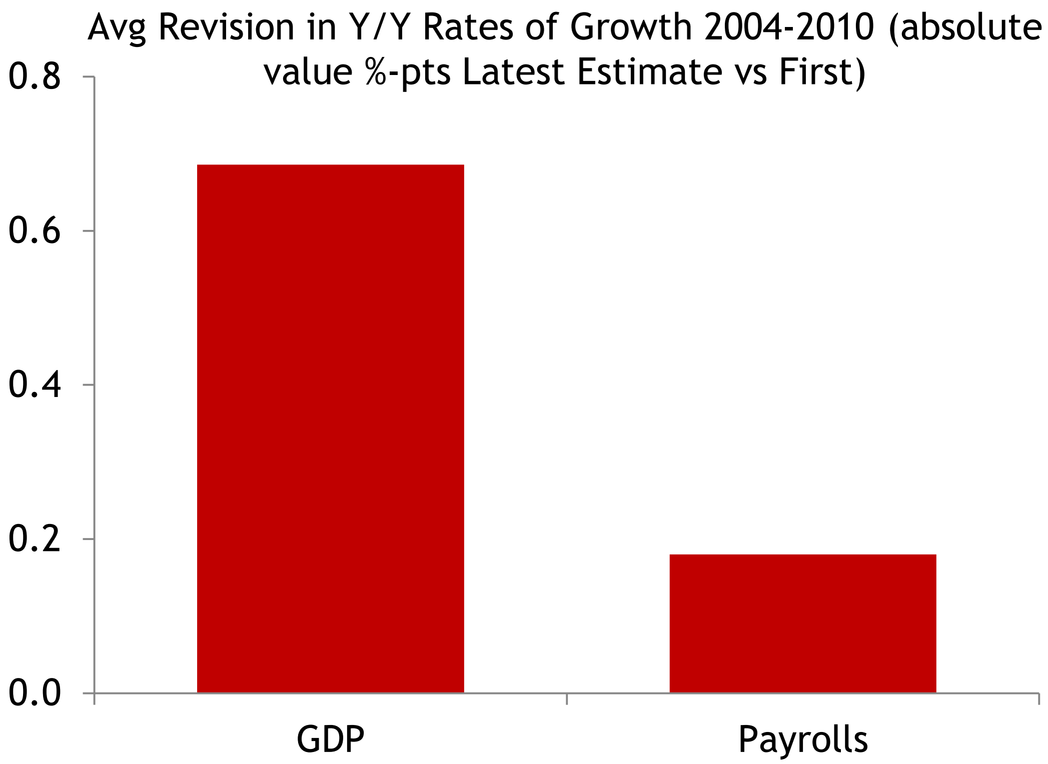
Emerging Markets Drive All of Total Oil Demand Growth





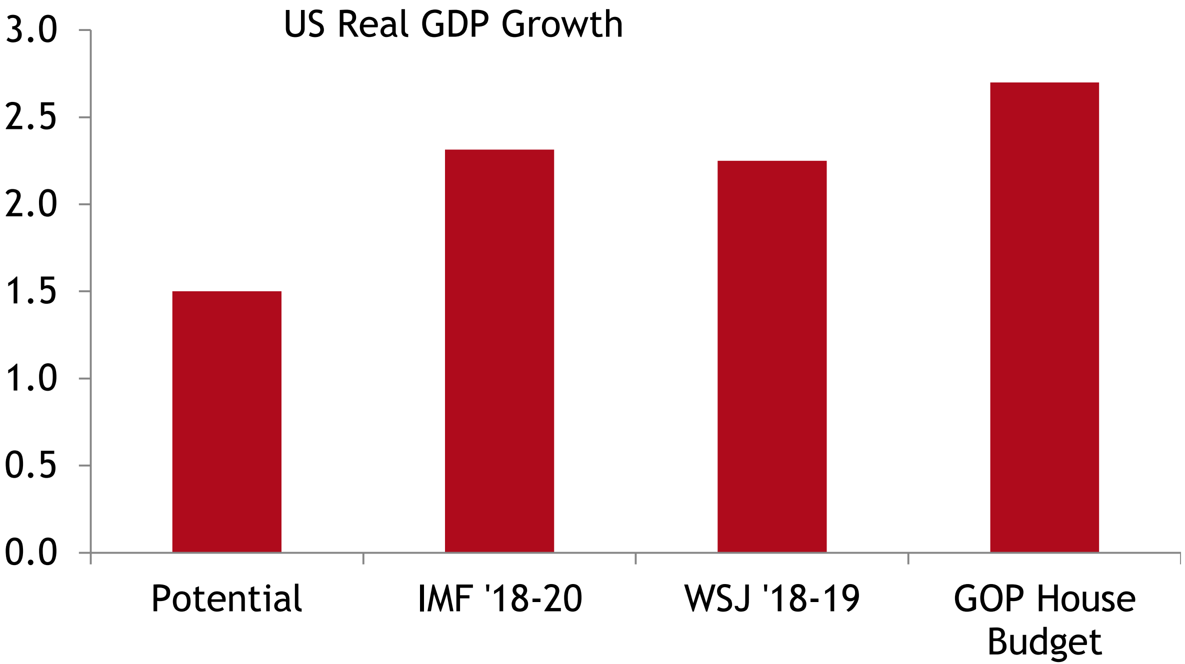
Source: IMF, BP, CIBC

Don’t Fret Over the US: Payrolls is a Better Guide than Real GDP

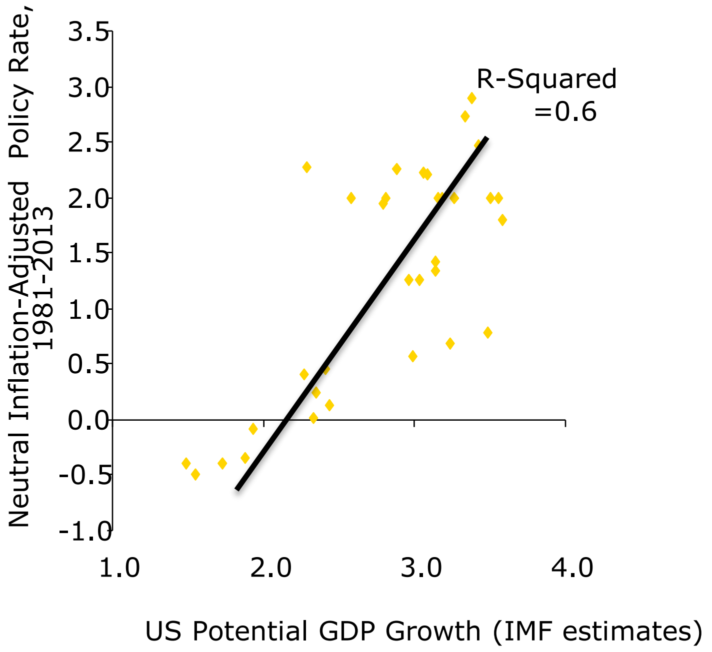


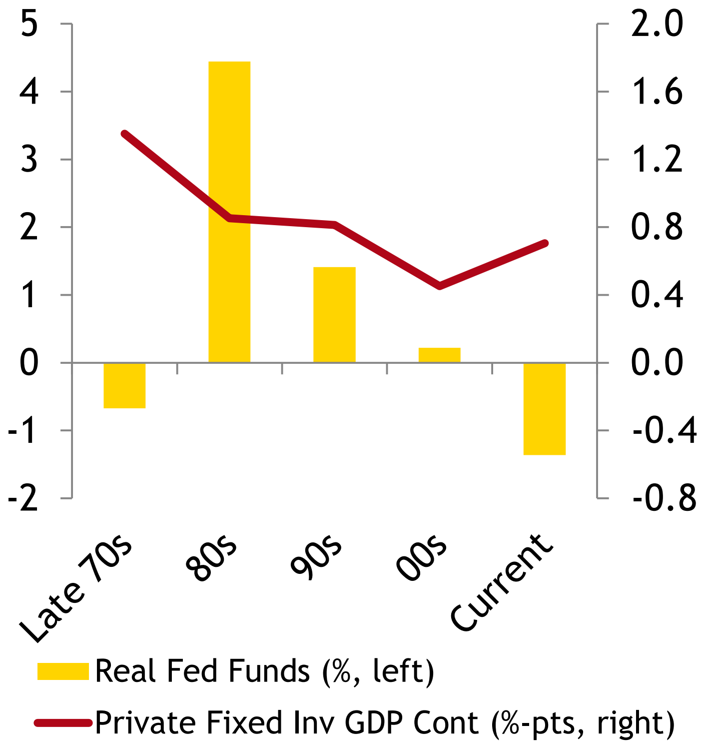
Source: BEA, BLS, CIBC

Medium Term US Growth Assumptions: A Tad Optimistic?



Slower Growth Implies Lower Real Neutral Interest Rate (L) As Does Weaker Capital Spending at Any Given Interest Rate (R)

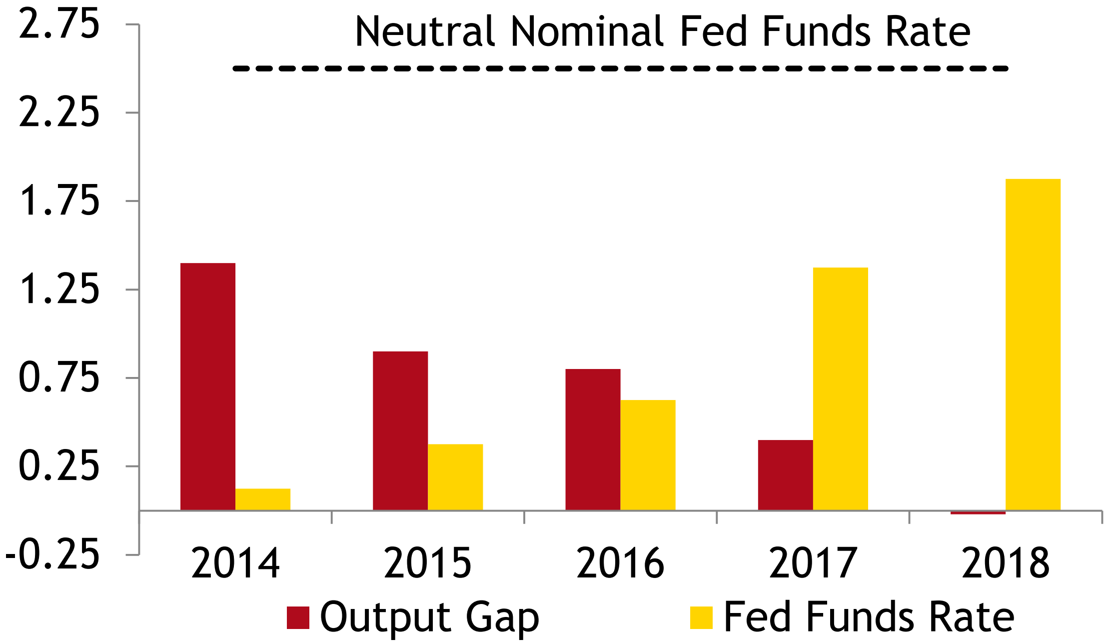




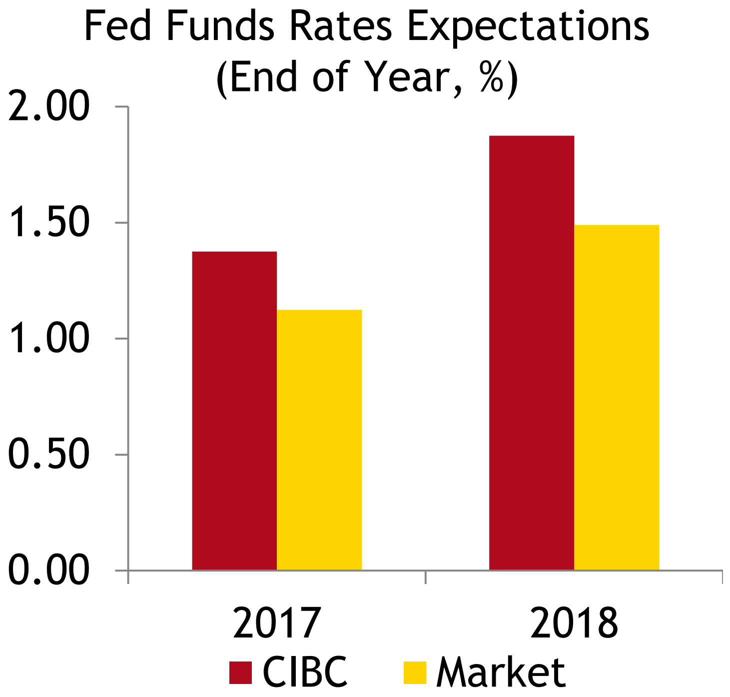
Excludes Recession Quarters

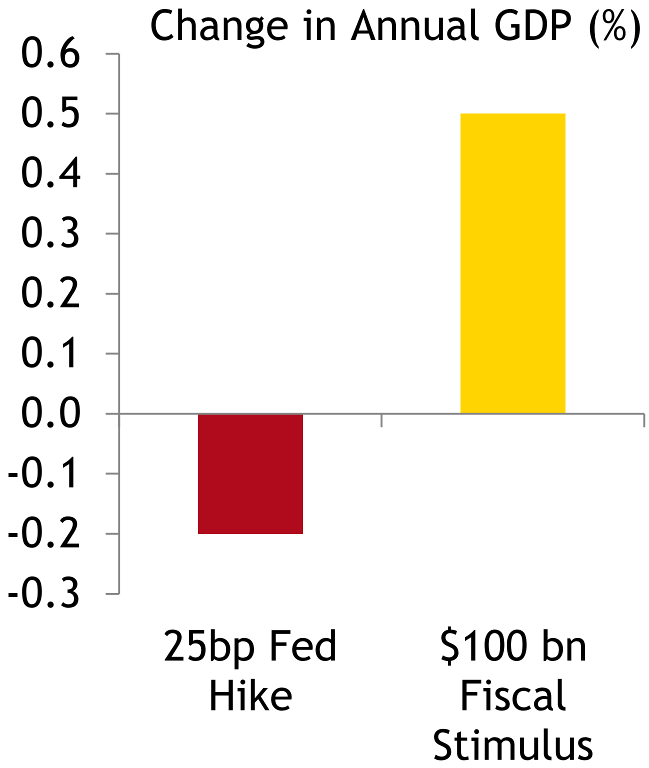
Nearly at Neutral by End of 2018 as US Approaches Full Employment

Estimate of the Output Gap and Fed Funds Rate(%)

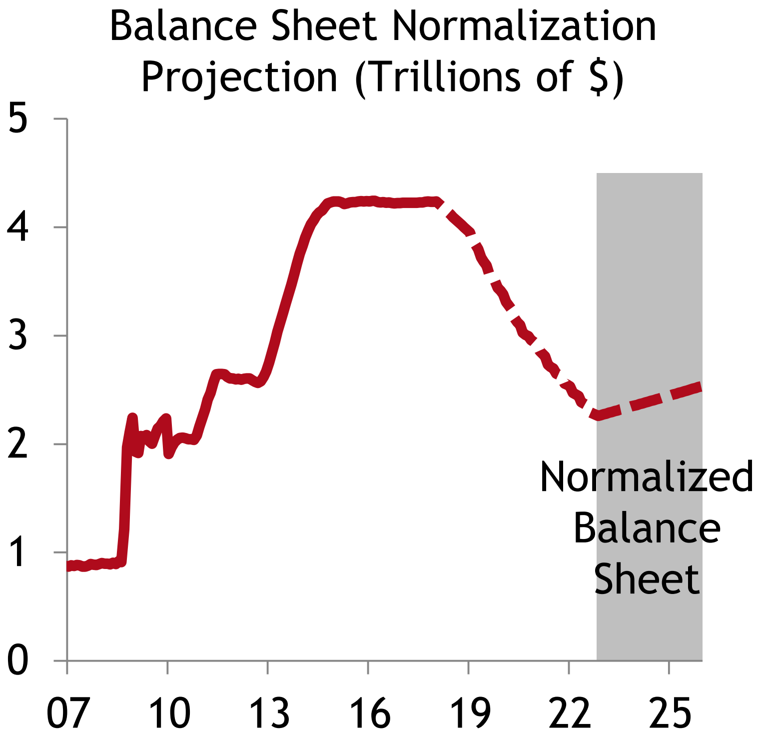


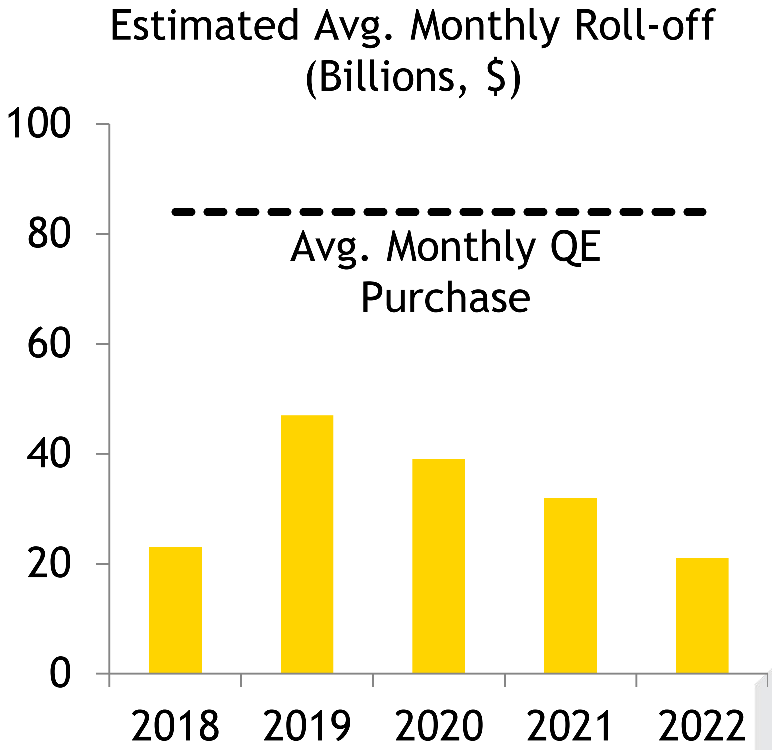
Markets are Slightly Underpriced for Fed Hikes (L), Fiscal Stimulus Would Add to Hikes in 2018 (R) but Looking Less Likely





Don't Get Too Wound Up Over Fed Unwinding: A Higher "Normal"(L), Monthly Roll-off Pales vs QE Purchases (R)





Commodities: A Shallow Recovery, Not Just in Oil/Gas

		3-Aug	2014	2015	2016	2017 (f)	2018 (f)	2019 (f)
Oil (WTI)	$/bbl	49	93	49	43	49	53	55
Natural Gas (Henry)	$/Mn Btu	2.78	4.35	2.61	2.49	2.95	2.80	2.90
Gold*	$/troy oz	1270	1184	1061	1148	1200	1250	1225
Silver*	$/troy oz	16.67	15.7	13.8	15.9	16.9	18.1	18.0
Iron Ore (62% Fe)	$/mt	73	97	56	58	72	69	67
Copper	$/lb	2.87	3.12	2.50	2.21	2.61	2.69	2.50
Aluminum	$/lb	0.86	0.85	0.76	0.73	0.85	0.86	0.79
Nickel	$/lb	4.68	7.68	6.38	4.37	4.55	4.75	4.58
Zinc	$/lb	1.27	0.98	0.95	0.95	1.27	1.16	1.13
Lumber**	$/'000 bd ft	384	338	268	300	365	370	370
Potash	$/tonne	218	297	304	246	220	230	230

** end of period, **1st CME Futures*

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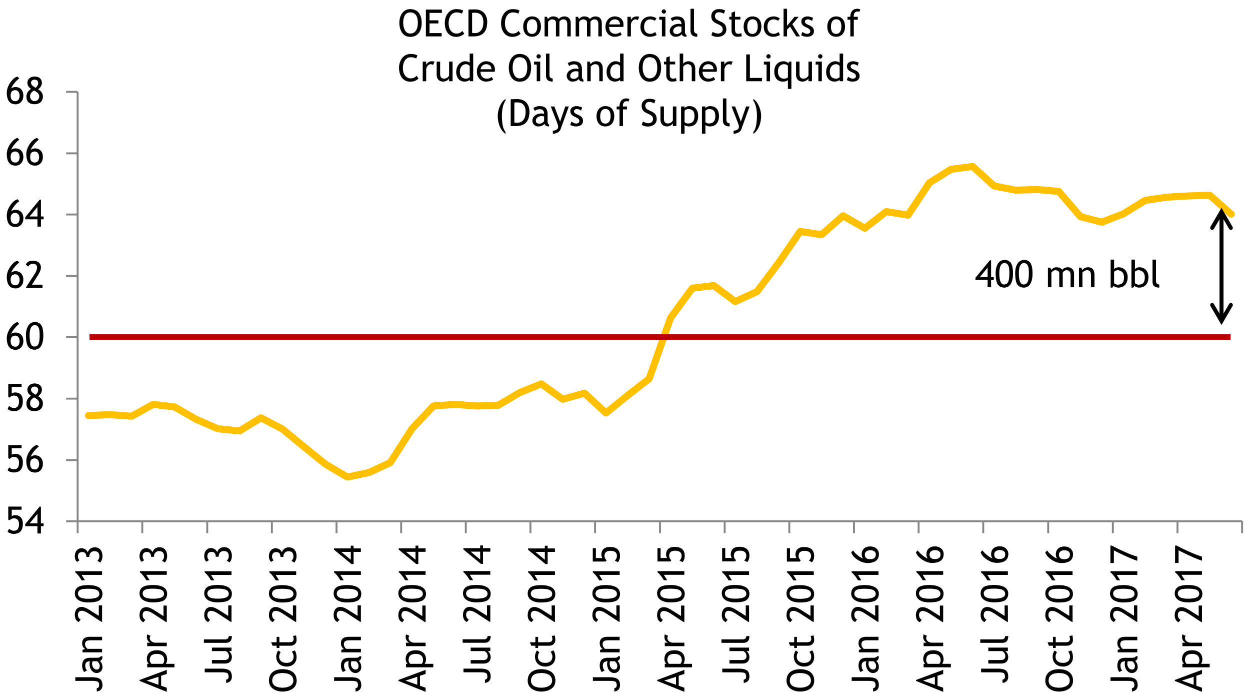
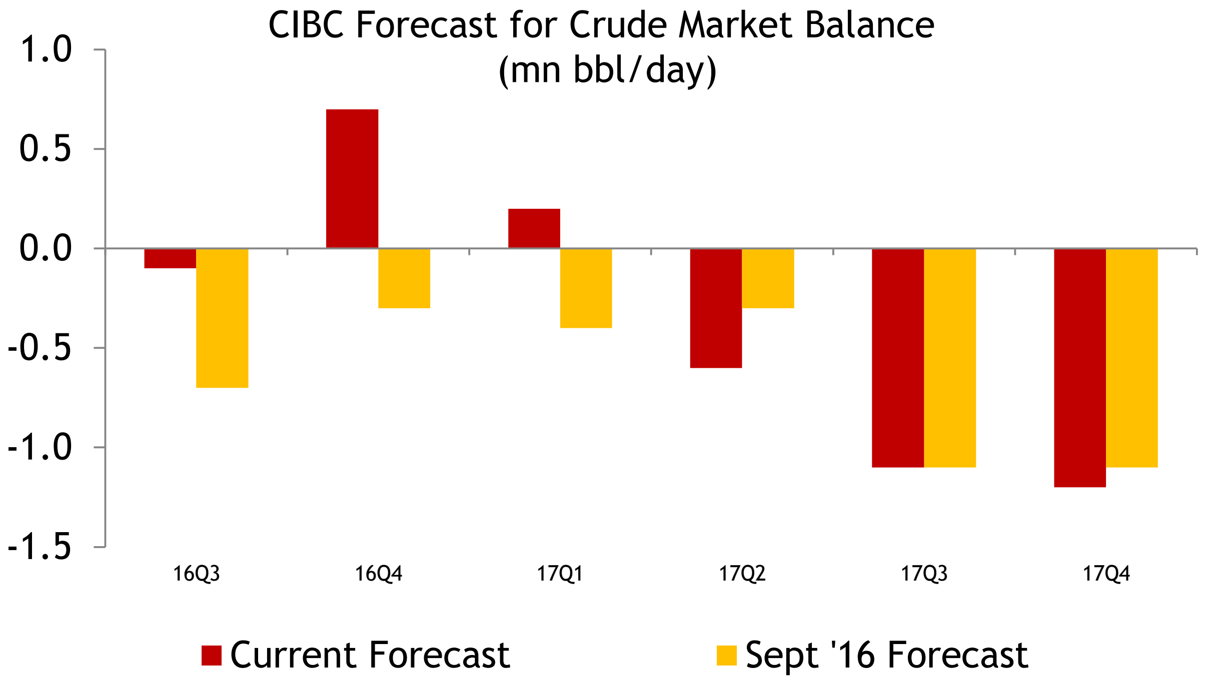
Oil Has Been Vulnerable to Dips on Inventory Overhang

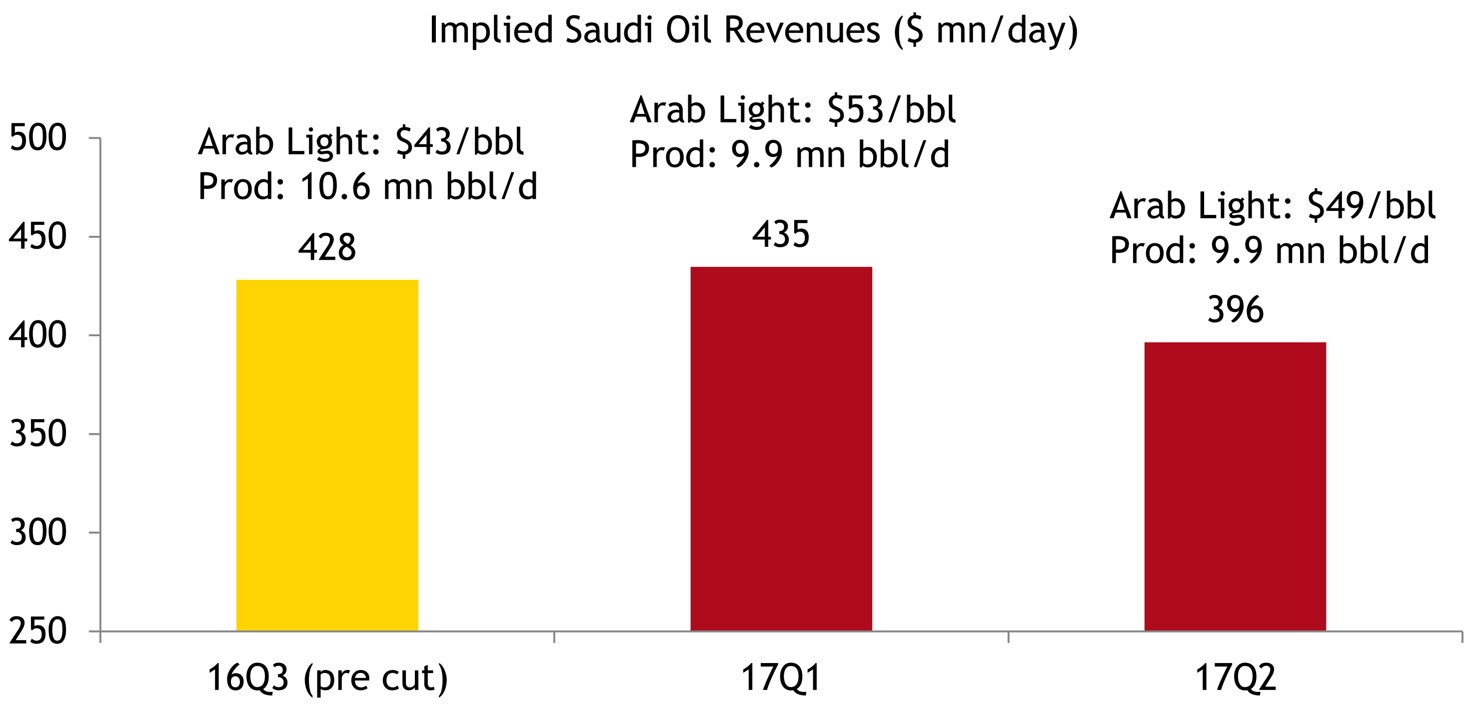


Draining the Swamp: Inventories to Ease, If a Bit Later than We Expected



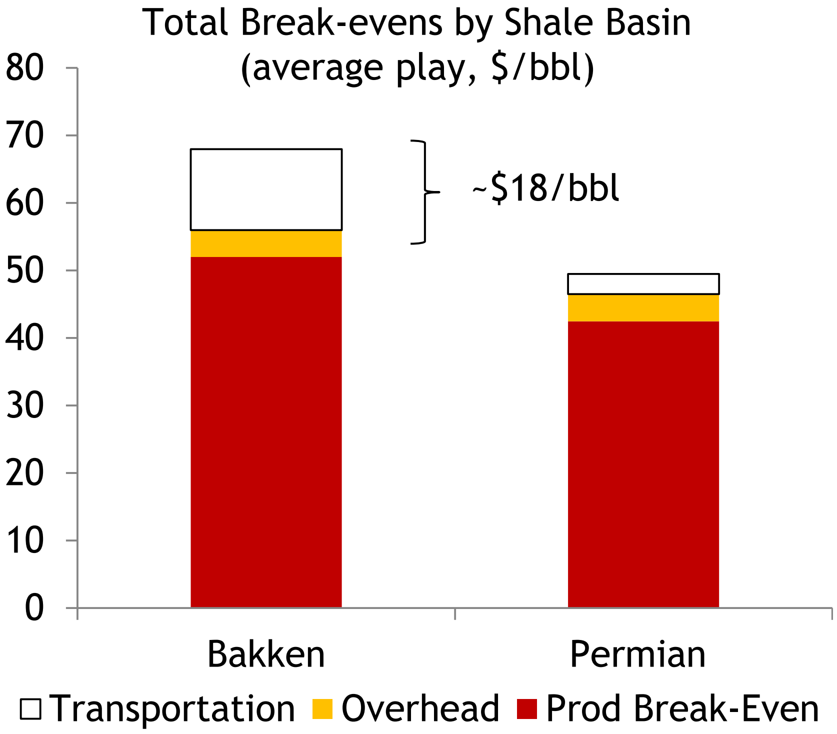
Source: CIBC, EIA, Bloomberg

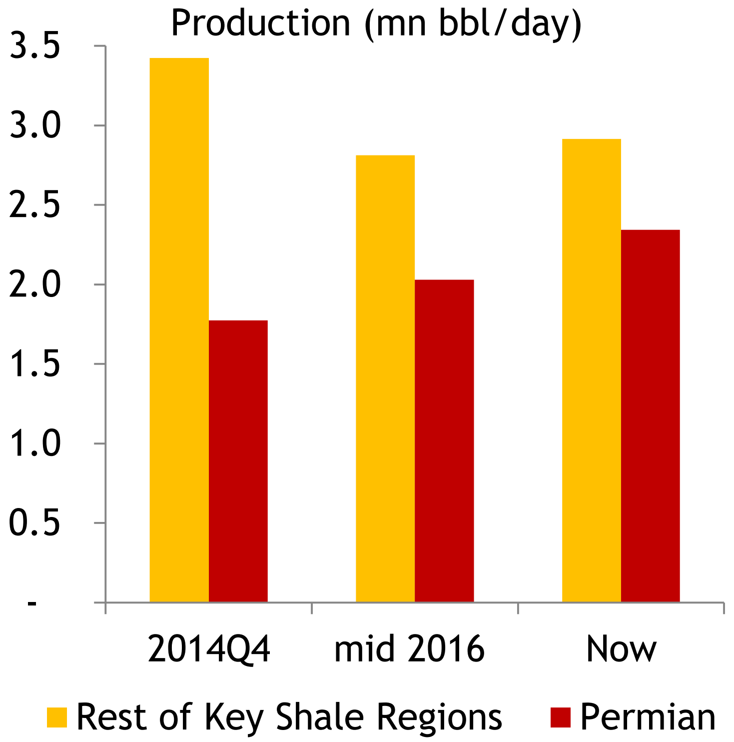
OPEC Discipline Is a Near Term Risk: Production Cuts Helped Saudi in Q1, But Not in Q2



Source: OPEC, Bloomberg, CIBC

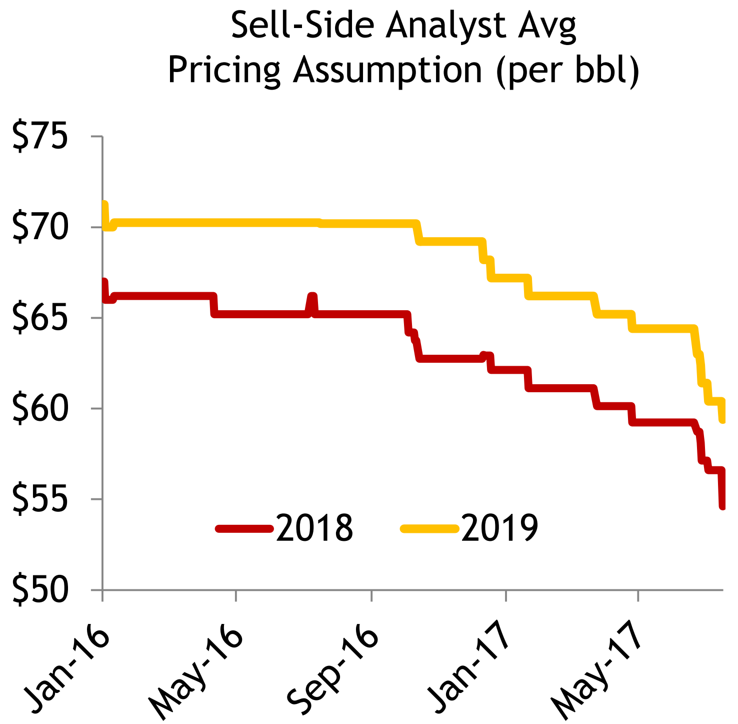
$50/bbl Is Enough for the Permian, Not Enough For Broader Expansion

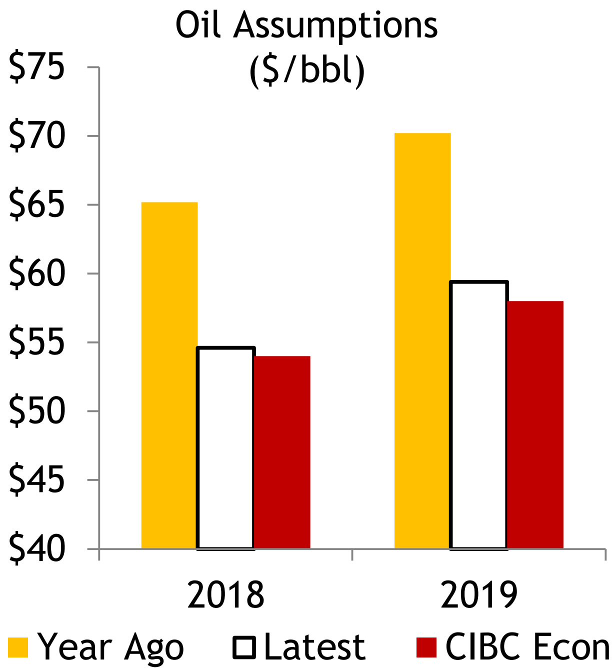




Source: Bloomberg, CIBC

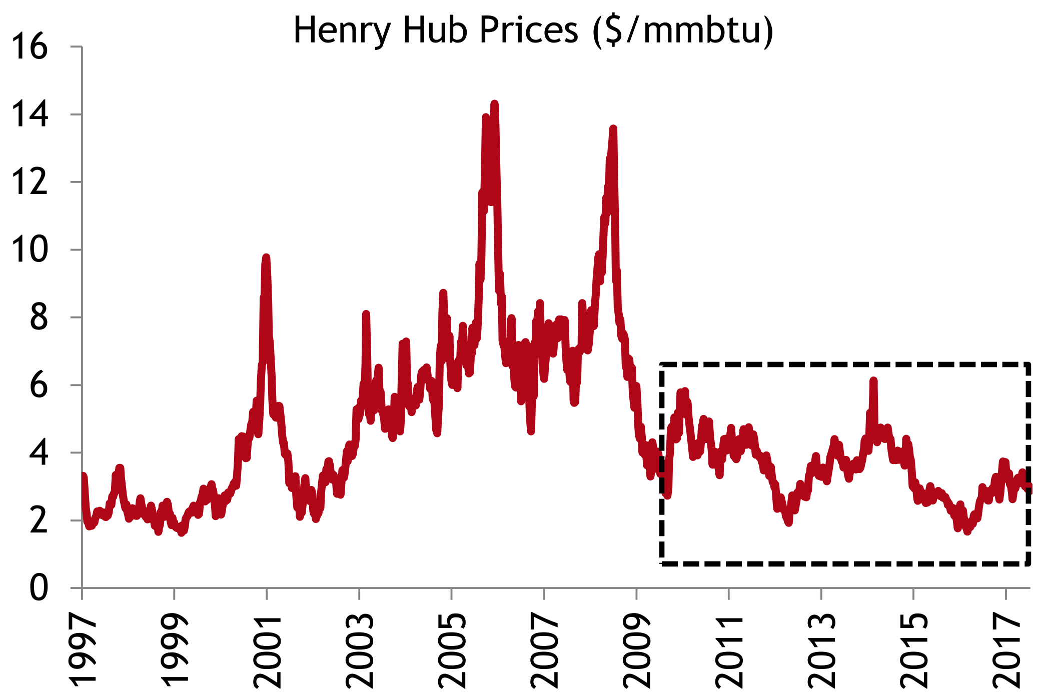
Median Forecasts from Equity Analysts: More Realistic Assumptions

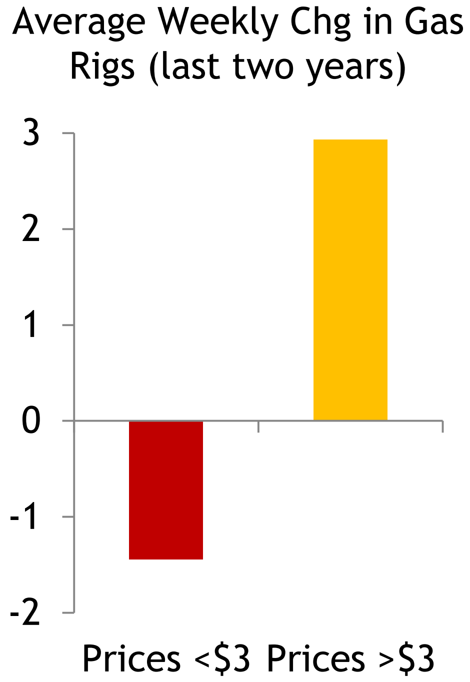




Source: CIBC

Nat Gas Stuck in a Tight Range (L), With $3 Being the Swing Point for Production (R)





Source: Bloomberg, Baker Hughes, CIBC

NAFTA: Good Cops

"We will modernize NAFTA so that it is a win-win for all our trading partners (Pence)"

"More than our entire deficit (with Canada) comes from hydrocarbons and electric energy…I don't call that blameful exports" (Ross)

NAFTA: Bad Cop?

"We can't let Canada…take advantage and do what they did to our workers and farmers… I want to just mention included in there is lumber, timber and energy"

"We lose with Canada — big-league. **Tremendous, tremendous trade deficits with Canada.**"

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A Less Energetic World: What it Means for Energy

- US decelerates to 2% growth in 2018, slower in ’19. Similar trend for Canada
- Federal Reserve outpaces market expectations, helping stabilize US$, but only 25 bps more this year, 50 bps in 2018. Monetary tightening spreads to Europe in 2018/19.
- Short rates reach 2½% in US, (2% in Canada) likely by end of 2019. Long yields also climb as inflation picks up to 2%+
- Shallow further recovery in oil matched to shallow global growth
- WTI only slightly higher in 2019 to broaden non-OPEC production growth. OPEC discipline a risk below $50 or above $60. Flat natural gas prices.
- Trade barriers unlikely to hurt Canadian producers. SAGD costs coming down, might make greenfield projects viable early next decade.
- Equity market prices have adapted to a range-bound crude market.