Victims Of Our Own Success

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August 2018
### 5 yrs before recession, avg

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* at Purchasing Power Parity
China is Less Export-Dependent Than a Decade Ago, But is Still More Vulnerable to a Trade War Than the US

Source: ITC, World Bank, CIBC
• US and EU agree on no auto tariffs for European vehicles, launch negotiations on existing tariff elimination

• US Trade Rep and Treasury Secretary say NAFTA deal coming “soon”

• Despite pledge to talk, tariffs with China keep on coming

• Pompeo says US will keep Russian sanctions and never accept Crimea occupation

• Putin fall visit to White House is cancelled

• BOTTOM LINE: Russia back on bad boy list with Iran and China, but the US is trying to make nice with everybody else
Trump’s “Biggest Tax Cut Ever”....Not Quite But Still a Bump in US 2018 GDP

Source: Committee for a Responsible Federal Budget, CIBC
US Fiscal Policy Boosts 18/19 Growth
But Economy Will Slow as Fiscal Policy Tightens in 2020

Change In US Federal Budget Deficit

- 2018
- 2019
- 2020

Bn of $
Fed Hikes US Short-Term Interest Rates to Nearly 3% Leaving Room to Trim Rates in 2020 If Fiscal Policy Tightens

Estimate of the Output Gap and Fed Funds Rate(%)
Central Banks Bought Trillions in Bonds Since 2010
Long Bond Yields Will Creep Higher as They Unwind That

Source: IMF, CIBC Capital Markets
New Millennium Has Seen Listless Trend in Canadian Exports

Source: CPB, Haver Analytics, CIBC
Canada Lost Its Corporate Tax Advantage (L), While US Shifts to Lighter Regulatory Burden (R)

Effective Corporate Tax Rate (%)

Pre-Reform  | Now  | Canada
---|---|---
15  | 20  | 30

New Rules Plummet Under Trump
Total proposed regulations reviewed by Office of Information and Regulatory Affairs
- Clinton
- Bush
- Obama
- Trump

Note: Data is Jan. 20 through Nov. 29 for each year. Not all proposed rules reviewed by OIRA have become final.
Source: Office of Information and Regulatory Affairs

Source: P. Bazal, J. Mintz and A. Thompson
Sign of What’s to Come? Oil Providing Less of a Boost to Canadian Dollar

Canadian Dollar & Oil Prices (Past 25 Years)

Source: Bloomberg, CIBC
Oil Demand at Risk as Global Growth Slows

Y/Y % Chg.

World Real GDP
World Oil Demand

Source: IEA, IMF, Bloomberg, CIBC
Equity Analysts Already Assuming $70 Oil World But Not Getting Overdone on 2020 Views

Sell-Side Analyst Avg Pricing Assumption (per bbl)
OPEC+ Group Tempted By Firmer Prices to Produce More, Saudi’s Living Up to Pledge to Fill In for Iran

OPEC+ supply Jul'18 vs. May'18 (b/d)

- Saudi Arabia: 392,705
- Iran: -284,173
- Venezuela: -60,000
- Other OPEC+: 580,547
- Total OPEC+: 629,079

Source: IEA, CIBC
Global Investment in New Projects Still Sluggish, But It’s Too Early to Pass Judgement

World Upstream Oil & Gas Investment (Bn. USD)

Source: IEA, CIBC
Canadian Crude Oil By Rail Already Running Atop Recent Range (L), Transport Bottlenecks a Headwind to Capital Spending (R)

Source: Statistics Canada, CIBC

Crude Exports By Rail (000s of bbl/d)

StatCan Capital Spending Survey (yr/yr % Ch)

- Oil & Gas Extraction
- Support for Mining/Oil/Gas Extraction

Source: Statistics Canada, CIBC
WCS-WTI Spread Under Greater Pressure

Spread Between WTI and WCS in US$ and as % of Selling Price

Source: Bloomberg, NEB, Statistics Canada, CIBC
Production vs Takeaway Capacity - It's Going to be Tight for a While

Source: CAPP, CIBC
Nothing Much Has Changed for Nat-Gas Pricing

Henry Hub Prices ($/mmbtu)

Source: Bloomberg, Baker Hughes, CIBC
US and global economy decelerate in 2019 and 2020
Fed has 125 bps of hikes through 2019.
Europe and Japan start to tighten monetary policy in 2019
US$ softens vs overseas majors, stable vs. Canadian dollar
10-year Treasury rates up 30 bps in the US, and corporate spreads widen.
Oil prices average just under $70 through 2019, but 2020 could be a softer year.
Longer term, need to see more cap-ex or prices will shift higher.
Nat-gas prices still range-bound... nothing new under the sun.