Market Insights

CHRISTIAAN TER KEURS
B.Comm., CIM
Financial Advisor
christiaan.terkeurs@raymondjames.ca

Raymond James Ltd.
Suite 1450 – 333 Seymour St.
Vancouver, V6B 5A6
604-663-4220

Market Review

The TSX closed the month of June in the red for the year-to-date. As seen in the table below, Copper has experienced the biggest decline, but oil on the other hand has been the best performing commodity.

	December 31, 2014	June 30, 2015	Year to date Performance
TSX	14,632	14,553	-0.54%
TSX Venture	695	671	-3.45%
Copper	$2.92	$2.62	-10.27%
Gold	$1,184	$1,171	-1.10%
Silver	$15.59	$15.58	-0.06%
Nat Gas	$2.91	$2.82	-3.09%
Oil (WTI)	$53.27	$59.47	11.64%

Table 1

Current investment climate

The S&P/TSX was down three percentage points during a lackluster June. The correction in the markets, in general, is largely attributable to uncertainty stemming from the European Union (EU). The economic data from North America has been in-line with expectations and continues on a positive upward trajectory. As such I do not believe Canadian or U.S. economic data has contributed to the large swings up or down in the North American markets. The single most important factor contributing to the increased volatility in recent months has hinged on the possibility for a "Grexit" from the EU. The spectacle around this subject reached an important crisis point in late June forcing the leftist Greek government to call for a referendum on the fifth of July. During the referendum, the Greeks showed overwhelming support for Prime Minister Tsipras and his endeavor to deal with the EU. One could argue Tsipras had no choice with respect to the referendum, as discussion with Europe had soured considerably and in fact had reached a stalemate. The referendum served another purpose other than buying him time. Tsipras desperately needed time as the country has defaulted on a debt payment due at the end of June. He also needed to reinforce to the Greek people that he was elected to forge a better deal, not to take Greece out of the EU. Tsipras could only have achieved this important political clarification with a fresh mandate from the Greek people as to what is at stake.

> *"The mandate you gave me is not the mandate of a rupture with Europe, but a mandate to strengthen our negotiating position to seek a viable solution."* --The Guardian

Tsipras now faces the task of striking a deal that will be palatable to everyone. As I write this Yanis Varoufakis has resigned as Finance Minister and Euclid Tsakalotos will be appointed as the Greece's new Finance Minister. The chance of reaching an agreement in the coming days, in my opinion, is almost a certainty. There are a number of significant pressures on both Tsipras and the EU to reach such an agreement in this week. The most significant immediate pressure will be from the Greek banks

themselves as they will likely run out of cash to distribute through its ATM network by the end of the week. Social unrest might take on a more desperate form in the coming days. Escalating unrest will put additional domestic pressure on Tsipras to reach an accord with Europe.

Another reason for a deal is that Greeks will soon realize European leaders have grown weary of the unrealistic demands made by them. The Greek drama has now been ongoing for the better part of five years. European leaders have had ample to implement financial safeguards to protect the remainder of the EU and its financial system. The European leaders in anticipating of a Greek "event" had already commenced a trillion euro quantitative easing program in March. The chance of any real danger to the European financial system has been mitigated with the commencement of the QE program.

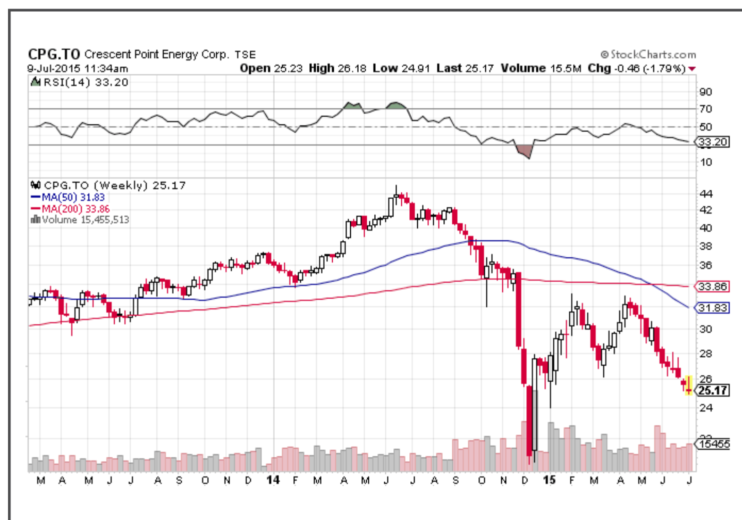
In my last **Market Insights**, the factors influencing oil supply and demand were featured. In this missive, I'll focus on the Weekly U.S. Field Production of Crude Oil (EIA) and the drilling rig activity. The questions at the moment are: 1) When will the impact of lower drilling activity show up in oil production numbers?; and 2) To what degree will oil production be impacted as a result of the dramatic drop in drilling activity?

September 2014 marked the peak in drilling activity at 1,931 active drill rigs. Since then the active rig count has fallen to 862 as of the second of July, a decrease in drilling activity of 55%. The impact on oil production attributed to such a large drop in drilling activity will undoubtedly translate into a meaningful drop in production numbers. The U.S. Energy Information Administration's weekly production numbers has been flat to down for eight consecutive weeks. Though the time period is a short eight weeks it is nonetheless significant as any eight week period for many years previous had production increases of up to 400,000 barrels per day. One could start to paint a picture that U.S. oil production seems to have peaked just shy of 10 million barrels per day.

The second question could be answered by analyzing historic data. The data most fitting of such comparison is with what was oil production over a normalized period of activity, when there were around 650 active oil rigs. The most recent period in time when there were around 650 active oil drilling rigs was in September of 2010. Corresponding EIA reported oil production data in September of 2010 was in the 5.5 million barrel/day range. The speed at which U.S. production increased since 2010 has been nothing short of astonishing, increasing 70%. Equally astonishing is the production decline rate of those basins from which the oil is derived. With a structural decline rate of up to 60-80% an equally material drop in oil production can be expected with the current peak in oil production now seemingly in place.

Companies I am Watching

This month we look at one Canadian oil company and an automotive company.



Crescent Point Energy ($25.63, June 30, 2015) produces around 146,000 barrels per day. Crescent Point has been consistently paying a dividend since 2003. The dividend currently stands at $0.23 per month, which has been unchanged since 2009. There are two main points to take way from this track record. The first being Crescent Point did not cut their dividend during the oil crash of 2008/9 when it dipped to levels much lower than the current bottom of USD$42. The second take away is that the company at current prices has a divided yield of nearly 11%. Supporting the continuation of the dividend is an excellent hedge book allowing Crescent Point to realize much higher prices for their product then what the spot oil market would pay. Raymond James Ltd. has a target of $35.00 on Crescent Point.

Avigilon Corp ($16.84, June 30, 2030) provides high definition surveillance products. Avigilon recently acquired VideoIQ, a data analytics company. This acquisition enables Avigilon use sophisticated data analysis to enhance its product offering. Raymond James has a target price on Avigilon of $24. From the current price our price target would be close to a 50% return.

This newsletter has been prepared by Christiaan ter Keurs and expresses the opinions of the authors and not necessarily those of Raymond James Ltd. (RJL). Statistics, factual data and other information are from sources RJL believes to be reliable but their accuracy cannot be guaranteed. This newsletter is furnished on the basis and understanding that RJL is to be under no liability whatsoever in respect thereof. It is for information purposes only and is not to be construed as an offer or solicitation for the sale or purchase of securities. RJL and its officers, directors, employees and their families may from time to time invest in the securities discussed in this newsletter. This newsletter is intended for distribution only in those jurisdictions where RJL is registered as a dealer in securities. Any distribution or dissemination of this newsletter in any other jurisdiction is strictly prohibited. Securities-related products and services are offered through Raymond James Ltd. Member-Canadian Investor Protection Fund. Insurance products and services are offered through Raymond James Financial Planning Ltd., which is not a Member-Canadian Investor Protection Fund. This email newsletter may provide links to other Internet sites for the convenience of users. Raymond James Ltd. is not responsible for the availability or content of these external sites, nor does Raymond James Ltd endorse, warrant or guarantee the products, services or information described or offered at these other Internet sites. Users cannot assume that the external sites will abide by the same Privacy Policy which Raymond James Ltd adheres to. Within the last 12 months, Raymond James Ltd. has undertaken an underwriting liability or has provided advice for a fee with respect to the securities of Crescent Point Energy Corp.