

# MARKET INSIGHTS



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*I hope that this November issue of Markets Insights provides you with clarity on the challenges we are currently facing in Canada.*

## Market Review

In general, Canada continues to face headwinds even after a majority government was put into place. The Canadian Loonie continues to skate along a 12 year low, much like the Calgary Flames' position in the Western Conference of the NHL. The mood is likely to remain subdued as the economic news is not conducive to a major breakout to the upside. In fact, should the Fed raise rates in December it could very well eliminate the chances of a delightful Santa Claus rally. A rate increase would likely result in a retest of the August and September low points.

	December 31, 2014	October 30, 2015	Year to date Performance
<b>TSX</b>	14,632	13,529	-7.54%
<b>TSX Venture</b>	695	542	-22.01%
<b>Copper</b>	\$2.92	\$2.29	-21.58%
<b>Gold</b>	\$1,184	\$1,141	-3.63%
<b>Silver</b>	\$15.59	\$15.56	-0.19%
<b>Nat Gas</b>	\$2.91	\$2.30	-20.96%
<b>Oil (WTI)</b>	\$53.27	\$46.59	-12.54%

Table 1

Source: Dataphile

## Current investment climate

October turned out to be a month filled with volatility and provided little in terms of market direction. Despite the TSX rising 5%, the positive action in Canadian markets did little for investor confidence. The US dollar index continues to rise putting further pressure on the Canadian dollar, and other currencies throughout the world also experienced a decrease. The flight into the US dollar is attributable to the impending US FED rate increase and the global growth uncertainty as opined by Christine Lagarde, Managing Director of the International Monetary Fund (IMF). The negative effect the strong US dollar has had on commodity oriented countries therefore continues. The majority of the commodities continues to experience significant pricing pressure. In sharp contrast, however, is the supply demand side which continues to improve. The argument for investment in the commodity complex, therefore, becomes more and more compelling as time passes. Energy, specifically, has had a tremendously negative impact on Canadians in general as oil continues to be politicized and as such is still at unsustainably low levels. Certainly the positive benefits of lower gasoline prices at the pump to date have been a fallacy. I still pay \$1.30 for gasoline; last year with oil at \$90, the price at the pump was \$1.40 per litre. Where is the benefit to the average consumer?

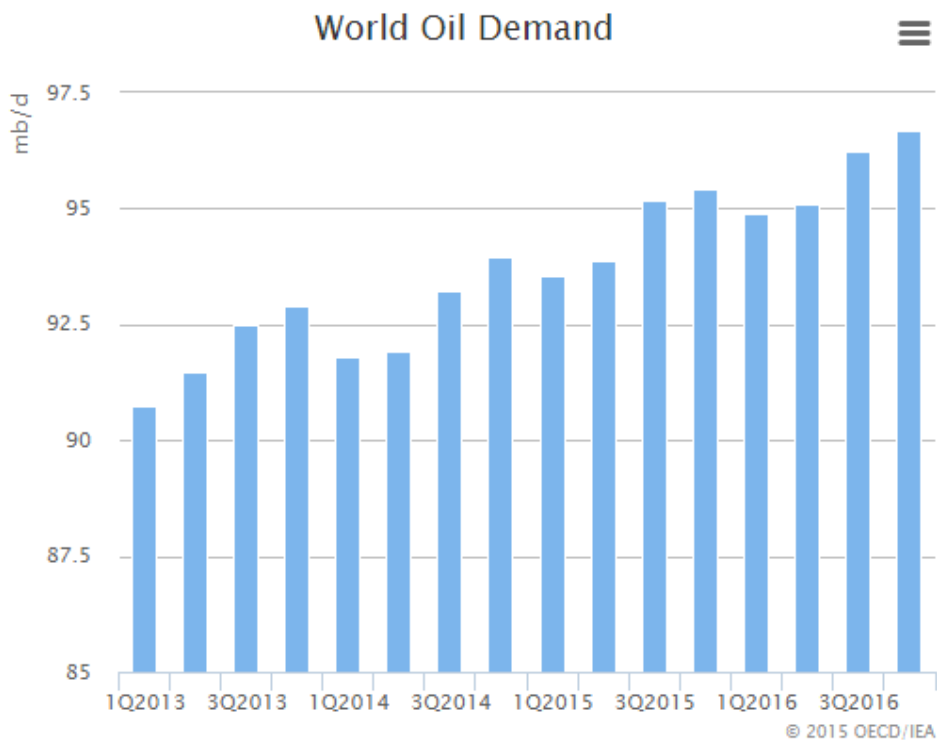
Change is afoot, and the first signs can be found in certain articles on the subject. There are three possible catalysts for a more normalized oil price:

1) Global demand is set to approach 98 million barrels per day (Chart 1) and will likely exceed supply by several million barrels during the last quarter of 2016.

2) OPEC will meet in early December and shift its flawed market share focus to more of a price protection strategy.

3) A Saudi regime change takes place to replace a leadership whose focus has been on war and has created tremendous economic pain within Saudi Arabia.

Historically the stock markets tend to price market activity six months in advance. With the strong likelihood of a global supply shortage in Q4 2016, commodity prices should start to react to such a supply deficit towards the end of February or early March 2016. Leading up to such an increase in crude prices, television and other media sources will without question do an about face and start reporting on “possible supply shortages”. As more evidence is released demonstrating low oil price will lead to supply shortages, normalized prices will return to the energy sector.



(Chart 1)

To conclude, this brief update on the investment climate of oil might change in the coming 3 to 4 months. I encourage you to watch a short, approximately 7 minutes long, interview with Emad Mostaque released through BNN recently.

## “Metal Oil”

After a prolonged period of research into the oil complex, it has become clear that global oil consumption will continue to grow and reach around 118 million barrels by 2030. When confronted with 118,000,000 barrels of consumption per day, the structural decline rate on that production is 7-10%. In the not too distant future, the world will need to discover nearly 10,600,000 barrels every year just to tread water (or rather, oil) with respect to daily consumption levels.

Contemplating *that* required production equivalent to Russia or Saudi Arabia’s production of around 10,500,000 barrels per day, it is difficult to fathom using \$45 commodity prices and current technology.

The most important determination for the direction of future energy use is what the future “gas tank” will look like. Rather, how will we store energy? Enter “Metal Oil”. This past September I had a chance to spend a day in Reno with my retired uncle as we watched the Reno Air Races. During the visit we met up with some friends who were living there and were genuinely excited about the activity around the new Tesla Gigafactory. The conversation quickly turned to an announcement Tesla had made with a Canadian Lithium company.

In the 21st Century, the term “Metal Oil” refers to Lithium, one of the main ingredients for the batteries that will be produced at the Tesla Gigafactory. Starting in December, I will include more information that looks at opportunities in the mid to small cap space for these kinds of interesting companies.

## Companies I am adding to the Dividend Growth Portfolio

This month we look at a Canadian forestry company and an investment vehicle focussed on infrastructure both in North America as well as International.

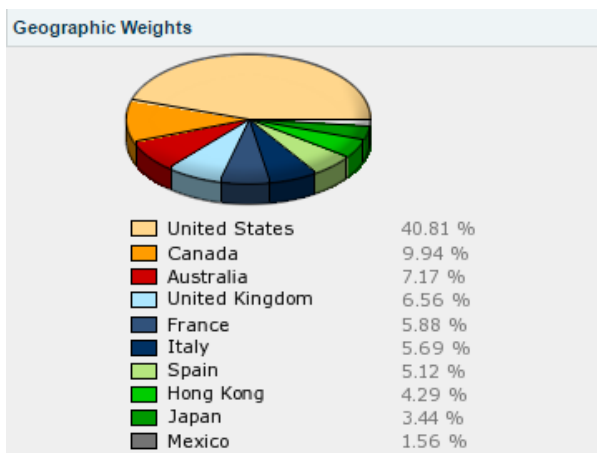
**Interfor Corp (\$12.42, October 30, 2015)** is a one of the world’s largest lumber providers, selling nearly 3 billion board feet and employing 3,000 people. Interfor has been making strategic investments in the US markets with an aim to benefit from a recovery in the US housing market. Raymond James Ltd (Canada) has a 12 month target on the company of \$17. The potential target price on Interfor should provide investors with above average returns on investment.



Chart Source:  
StockCharts.com

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Russel Global Infrastructure Fund's investment objective is to provide long-term growth of capital and current income primarily through exposure to equity and fixed-income securities issued by companies that are involved in, or indirectly benefit from, the development, maintenance, servicing or management of infrastructure.



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