Issue 41 Friday October 16th, 2015

This week has been relatively quiet data wise. We welcomed the overall stability we have seen in the equity, fixed income and commodity markets; following what was a whip-saw week last week with virtually every market doing the risk-on / risk-off two step. This week we will provide a general comment on energy, as oil is a key long term driver of our economy. As well we provide some commentary on the upcoming federal election.

Global oil fundamentals point to a balanced market in Q4. Spot and forward crude oil prices have declined sharply in recent months on the back of growth fears around China, the Iran deal and the autumn refinery maintenance season. Yet, even if the cyclical outlook for emerging markets remains soft, global oil demand growth in 2015 is increasing at the second strongest pace in more than a decade. Moreover, supply has continued to creep lower in recent months due to capex cuts, with US output deviating enormously from seasonal trends.

Looking forward, we see global supply exceeding demand by only 0.5 million b/d and thus forecast a 225 million barrel inventory build over the next 5 quarters. With enough storage capacity still available, containment and hence oil supercontango (a state in which the future price of oil is higher than the current price to a greater extent than can be explained by the interest and storage costs) is very unlikely unless global demand completely falters. Since we see forward oil prices floored at $50-60/bbl. on production costs, we believe some of the highly publicized predictions of a price collapse to $20/bbl over the next 12 months are very low. With Chinese oil demand remaining firm driven by services and other non-commodity exporting EMs like India also experiencing robust oil consumption growth, we would expect to see strong demand growth through 2016.

With global energy markets coming more in balance next year we project a much healthier environment for Canada's energy companies over the coming year. Considering that the energy sector and related services account for nearly 1/3 of our national GDP and substantially more than that in Western Canada, this would be very welcome news.

The Canadian federal election takes place on Monday, October 19th. A recent CBC poll indicates the Liberals have 35% support and will win 136 seats, the Conservatives have 31% of the votes and will win 118 seats, while support for the New Democratic Party continues to slip at 23%, implying 80 seats. Given that 170 seats are required to secure a majority, if the current trend persists, a Liberal minority government seems the most likely outcome. A minority government will not have enough MPs to pass laws without opposition support. But whatever the ultimate outcome, it is important to look at each party's platform to gauge the potential impact on securities.

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The key differentiator between the Conservatives and the current opposition is the Conservative Party's focus on a balanced budget. In general, a balanced budget would probably prove relatively beneficial for the Canadian dollar and Canadian Treasury bonds. Conversely, deficits could mean further Canadian dollar depreciation and higher bond yields as the wide spread with US Treasury bond yields tightens up. The Liberals are willing to incur three years of small budget deficits before balancing their books later in their mandate. Planned budget surpluses in 2019-2020, through a mix of higher revenues and tight spending controls, are expected to finance the initial deficit years. With Canada already dealing with a sizeable current account deficit, the Liberal party's room to maneuver is thin. The risk is that projected deficits become structural. Moreover, Canadian GDP growth is expected to average 2.4% from 2016 to 2020. Any economic setback over this horizon could lead to revenue shortfalls and structural deficits. Ultimately, the Canadian dollar and the bond market will judge how well Canadian politicians perform relative to expectations.

Overall, we view the Conservatives as friendly to businesses, especially resource producers, due to lower tax prospects and the Conservatives' stance on the environment. On the other hand, the Liberals promise the most stimuli to the economy and consumers through a large budget devoted to infrastructure spending along with tax cuts for the middle class. Finally, the NDP would likely benefit poor and middle-class household spending, but could also prove detrimental to several equity sectors owing to higher corporate taxes and environmental regulation prospects.

We never forget that working for our clients is an expression of your trust, and we promise to always uphold that trust. Thank you.

As always, we welcome your feedback.

Have a great weekend and **Go Jays Go**!

The Dekker Hewett Group

TODAY'S STOCK WATCH

S&P/ TSX Composite	13,892
Dow Jones Indus. Avg.	17,179
S&P 500	2,029
Canadian/US Dollar	$0.7744
US/Canadian Dollar	$1.2907
Euro / Canadian	$1.4685
Gold	$1182.2
Silver	$16.09
Copper	$2.403
Oil	$47.36
Natural Gas	$2.80

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