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FALLING OIL, GOLD PRICES HIT CANADIAN ECONOMY HARD

Different dynamics at play behind drop in oil and gold prices

There's no way to sugarcoat it: tanking oil and gold prices – two key commodities for the Canadian economy – are bad news times two, according to analysts.

Crude oil prices are at a three-year low, gold at a 4.5-year low (but for very different reasons). The resource-heavy Toronto stock market and TSX Venture exchanges are being pulled down as a result, and the Canadian dollar last week fell below US$0.88.

Crude oil prices spiked briefly to US$106 per barrel in June, after the Islamic State invaded Iraq, but fell below US$80 last week.

That might be good for consumers, who will pay less for gas at the pumps, but low commodity prices are generally bad for a resource-dependent economy, analysts say, although a low Canadian dollar could help offset those low prices for exporters.

"Canada is a very oil-dominant economy, with 25% of our net exports of all commodities from Canada being crude oil and refined petroleum products," said Scotiabank commodities market specialist Patricia Mohr.

"So a small decline in prices is a net benefit, but if the price goes down significantly, I would say the Canadian economy is disadvantaged."

She added that the low prices are unlikely to delay plans to build new pipelines from Alberta to B.C.

Oil prices have been dropping due to lower demand from a weak global economy and new sources of shale oil in the U.S., which might normally be offset by Saudi Arabia cutting production – something it has not done. Analysts believe the Saudis' strategy is to keep oil prices so low that it will stall the U.S. shale oil boom.

Peter Tertzakian, chief energy economist with ARC Financial, recently wrote that Alberta oilsands producers are "battle-hardened" to withstand low oil prices.

They have sold oil for as low as US$70 per barrel while other producers were netting US$120 per barrel, he writes – this at a time when

the Canadian dollar was strong (a negative for exports). According to Tertzakian, Canadian oil production grew in both the oilsands and light oil patch, despite the price discounts and stronger loonie.

"As a consequence of adapting to local circumstances, our oil output is likely on track to grow by another million barrels a day by 2020, regardless of this recent price drop," he wrote.

One bit of good news for Canada was last week's sweep of Congress by Republicans in the U.S., who are likely to approve the Keystone XL pipeline, which would give Alberta producers increased access to American refineries.

While Canada as a whole is affected by oil prices, B.C. is more directly affected by dropping gold prices because so many mining companies are headquartered here, and even non-gold producers are suffering from gold's drag on mining stocks.

Mining in general has been in a bear market, the likes of which has not been seen for years, and the recent drop in gold prices – from an all-time high of US$1,920 per ounce in September 2011 to US$1,143.76 November 5 – adds weight to sinking mining stocks.

"Vancouver is one of the three or four worldwide hubs for mining finance, and in my 25-year career, this is by far the worst capital market that I've seen for junior exploration companies," said Rob McLeod, CEO of IDM Mining Ltd. (TSX:IDM), which is proceeding with plans to develop a new underground gold mine project near Stewart, despite the current gold prices.

He said the break-even point for many operating gold mines is US$1,180 per ounce.

"As gold has broken down below it, you're probably going to see some gold mines close around the world."

Because IDM's Red Mountain project is a high-grade deposit with low capital costs ($76 million), McLeod said the project can still be built at current prices.

"If gold dipped below US$1,000 per ounce, that's probably when we'd have to put the development aspect on the shelf," McLeod said.

Gold's slide is largely a currency issue, analysts say. Gold is traded in U.S. dollars – both of which are safe-haven investments – and when the dollar is weak, gold is strong.

Quantitative easing in the U.S. devalued the greenback and increased gold's value. But the U.S. plans to end that Federal Reserve economic stimulation policy this month, which will bolster the greenback's value and lower gold's.

The TSX Venture Exchange (TSX-V) is an accurate gauge of how the mining sector is doing, said mining analyst Mickey Fulp, who publishes the MercenaryGeologist.com. The S&P/TSX Venture index fell below 750 on November 5.

"That is approaching the all-time low for the Toronto venture exchange, which was set late in 2008 during the global economic crisis."

Fulp added that 80% to 90% of the juniors on the TSX-V are companies with poor projects or management – "companies that are doomed to failure."

He fears a continued drop in gold prices could hurt even the better companies, because they would be either operating at a loss or be unable to raise capital for new mining projects.

"The good companies have not exactly prospered, but they have maintained, and they have been able to raise money for good projects," he said. "The fear that I have now is that will change and the baby will get thrown out with the bath water."

INVESTMENTS IN ALBERTA OILSANDS PROJECTS TO EXCEED $514 BILLION BY 2038, CERI STUDY SAYS

Alberta still stands to be the major beneficiary of oilsands industry growth over the next 25 years but other provinces will pocket twice as much as estimated in a study four years ago, according to the Canadian Energy Research Institute.

Statistics Canada previously lumped oilsands economic statistics in with mining and other heavy industries, said Peter Howard, CERI president and chief executive. When it decided to show the numbers separately, it made a big difference in numbers shown in a CERI report released in early 2011.

The think-tank released an updated study on Monday.

"The impacts to provinces other than Alberta have actually doubled between the two models," Howard said. "Now there is 11.3 per cent of the impacts that are non-Alberta whereas prior to this it was 5.4 per cent."

The study shows that Alberta's gross domestic product related to oilsands will be $3.43 trillion from a Canadian total of $3.87 trillion between 2014 and 2038. That leaves about $440 billion for the rest of Canada.

Howard said the other major change is that CERI lowered its assumption for long-term oil prices to a more conservative $85 US per barrel from $100, conceding even the lower number looks high given recent events.

The study shows that the Alberta government stands to gain a total of $302 billion in taxes and another $600 billion in royalties from the oilsands in the next 25 years. It forecasts that oilsands royalties in Alberta will grow from 2013's annual level of $4.4 billion to $18.2 billion per year by 2023.

Greg Stringham, vice-president of oilsands for the Canadian Association of Petroleum Producers, pointed out that heavy oil prices have not suffered as much as light oil prices. Canadian producers have also had the benefit of a lower Canadian dollar, suggesting little change in medium-term plans for heavy oil companies, especially for oilsands producers.

"The key point for me is that (the CERI study) points out how the benefits of developing this resource are actually being spread out across the country," he said.

"It's impacting places that normally wouldn't be aware of the benefits that are coming, through jobs, through businesses sending their products to us and through government revenues from taxes and other things." In June, CAPP predicted oilsands production would hit 4.8 million barrels per day by 2030, down from 5.2 million bpd in a year-earlier forecast, because of rising costs and capital constraints.

The CAPP forecast was released two weeks after French oil company Total SA announced it would delay its $11-billion Joslyn North oilsands mining project. Joslyn was expected to be in production by 2020.

CERI estimates that bitumen production will grow to 3.7 million bpd by 2020 and 5.2 million bpd by 2030. The study assumes that all announced projects will be built and that those barrels will find their way to market despite delays in pipeline projects.

"If you believe the pipes will be there then you can believe this because it is a realistic view as far as the pace of development," said Howard.

CERI figures that total investment in new Alberta oilsands projects, plus sustaining capital in existing projects, will exceed $514 billion in the 2014-38 period. Revenue from all existing and new projects will exceed $2.5 trillion.

Workers will benefit, it said, as total direct, indirect and induced jobs in the oilsands grow from 514,000 in 2014 to a peak of 802,000 jobs in 2028. In Alberta, that number will grow from 146,000 jobs now to a peak of 256,000 jobs in 2024.

The federal government is to count $574 billion in oilsands-related taxes in the next 25 years.

CERI's study notes that overall Canadian oil equivalent production averaged 3.5 million bpd in 2013.

Oilsands accounted for 56 per cent of the total or 1.98 million bpd — 51 per cent was raw bitumen and 49 per cent was upgraded to synthetic crude oil.

Canada exported an average of 2.6 million boe/d with 97 per cent going to the United States.

NEXT CHALLENGE TO CANADIAN OIL IN THE UNITED STATES: MORE LAWSUITS

There are new threats of lawsuits against Canadian oil pipeline projects in the United States, suggesting that the election of an oil-friendly, Republican-dominated Congress won't end the industry's battles here.

The most famous of those projects is Keystone XL—but it's not the only one.

A coalition of groups will also hold a news conference Wednesday to discuss a lawsuit in U.S. federal court against expansion plans for another network into the American Midwest, Enbridge Inc.'s Alberta Clipper.

Such legal threats offer a cautionary note in a symphony of speculation since last week's U.S. midterms that the results might be a boon for bitumen.

An activist who led the fight against Keystone XL remains hopeful President Barack Obama would veto any pipeline bill that reached his desk. Should he sign it, she said, there will be another date in court.

Jane Kleeb said the grounds for such a suit would be constitutional, and revolve around whether Congress actually has the right to approve infrastructure that crosses international boundaries.

She said it would be like the ongoing case before the Nebraska courts, in which her side has argued that the state government used an unconstitutional process to approve the route.

"You would see groups and landowners suing ... over the bill just like we did in Nebraska with the argument they took executive powers away from the president," said Kleeb, director of Bold Nebraska and early opponent of the Keystone project.

"Remember, the Nebraska case is not about is the pipeline good or bad, it is about who has constitutional authority over siting and eminent domain."

That authority does not belong to the U.S. Congress, says the lawyer fighting the pipeline in Nebraska.

Attorney Dave Domina expects a decision in the current state case within a couple of months. But he says a congressional power-play in Washington could be grounds for a fresh lawsuit.

"What is the effect of Congress passing a law that says to the president, 'You have to approve it'? I think that answer to that is, 'None,'" Domina said in an interview.

"I think that the president has constitutional authority to decide on border-crossing permits, and Congress doesn't really have any role in here except to try to be political with it.

“People need to understand that anything Congress tries to do here, to meddle with that presidential power, is political theatre… The Congress can’t push it to the president, get the president to agree with political power, and think it’s over. The people might say, ‘Wait a minute. You’ve both violated the Constitution now.’”

He said it makes no difference if the president signs the law. Cross-border pipelines must be approved by government’s executive branch, following a proper review process, not the legislative branch, he noted.

The debate over congressional-versus-presidential power is as old as America itself.

The U.S. Constitution is generally vague on what the president does. It mentions a few aspects of foreign affairs that fall under his purview — the ability to appoint ambassadors, run the Navy, and negotiate international treaties, all with some level of congressional oversight.

But court decisions over time have entrenched White House power over cross-border infrastructure. In fact, some of the jurisprudence specifically involves Canadian oil.

—A South Dakota aboriginal tribe attempted to overturn an administration permit for the first Keystone pipeline and was rebuffed in a 2009 decision, which declared cross-border infrastructure decisions belong to the commander-in-chief.

—In a 2010 case on the original Alberta Clipper — Sierra Club vs. (then-Secretary of State Hillary) Clinton — the court cited ample precedent for letting the administration make its own choices on cross-border infrastructure with, including a history of presidential permits and “congressional silence” in such cases.

The Sierra Club now plans to fight the expansion of the Alberta Clipper, and will hold a news conference Wednesday to discuss a suit filed in federal court in Minnesota.

A coalition of aboriginal and environmental groups are arguing that the State Department has to conduct a full review of the plan to nearly double the network’s capacity, and was wrong to forgo such a review on the basis that the larger network will be based on existing infrastructure.

The State Department is in charge of reviewing cross-border pipelines, with the president having the final say, according to different executive orders including the most recent one issued in 2004 by George W. Bush.

The new, oil-friendly Congress appears set to try wresting that power away for Keystone.

After years of delay in the project, the Republicans have said they’ll use their new law-making clout to push a bill to the president’s desk. That strategy has the enthusiastic blessing from the leaders in both congressional chambers — both of whom top the list of campaign-cash recipients from the oil industry.

RUSSIA-CHINA GAS ACCORD LEAVES CANADA’S LNG PROJECTS ‘MOST VULNERABLE’

Russia’s move to broaden its energy ties to China is clouding the outlook for natural gas export projects on the drawing board in the U.S., Canada and Australia.

Companies looking to approve liquefied natural gas plants in the next couple of years and start shipments at the end of the decade will probably experience delays, according to energy consultants Tri-Zen International Inc.

Gas-supply agreements between Russia, the world’s largest energy exporter, and China, the biggest consumer, are adding to pressure on projects that are already facing increasing competition, rising costs and the prospect of lower prices.

“It’s just bad news generally” for LNG around the world, said Peter Howard, president of the Canadian Energy Research Institute. “It’s going to get really crowded.”

China and Russia signed an initial gas accord two days ago, after a $400 billion deal earlier this year.

The tie-up means that only one-in-20 proposed LNG projects targeting the 2020 market will be needed, while one-in-five seeking 2025 sales will be required, according to a Macquarie Group Ltd. report.

"It's not good news for projects hoping to get to a final investment decision in the next year or two," Tony Regan, a consultant at Singapore-based Tri-Zen, said today. "Those developers will need to think about the post 2020 market."

VULNERABLE CANADIANS

The export of new supplies to Asia increases the possibility of a glut in global energy markets by early next decade. Once deliveries begin, China would supplant Germany as Russia's biggest gas market, even as relations have soured with the U.S. and Europe over the Ukraine crisis.

Multibillion-dollar projects led by companies including Royal Dutch Shell Plc, Petroliam Nasional Bhd., Chevron Corp. and Exxon Mobil Corp. are among more than 20 proposals for LNG export that Canadian regulators have approved or are considering from the nation's Pacific and Atlantic Coasts. Most Canadian projects are scheduled to begin after 2020.

"The Canadian ones are probably the most vulnerable," Regan said by phone.

Among proposed projects in Australia are Woodside Petroleum Ltd.'s Browse and Sunrise LNG ventures, with partners including Shell, and Exxon's Scarborough venture. Expansions of plants including Exxon's $19 billion project in Papua New Guinea are also being considered.

Those proposed plants would follow seven Australian projects currently under construction for about $185 billion.

WINDOW CLOSES

In Australia, "new local projects will be undercut by international competitors while existing projects will see downward pricing pressure" as Russian pipeline volumes add to supplies, according to Macquarie.

In the U.S., Cheniere Energy Inc. is set to be the first company to export gas produced from the shale boom. Dominion Resources Inc.'s Cove Point terminal in September became the fourth U.S. export project to win permission from the Federal Energy Regulatory Commission to ship LNG around the world.

Mozambique is among countries vying with the U.S., Australia and Canada to build mega-LNG projects.

Demand for Canadian LNG in China will be strong regardless of the latest deal for a gas pipeline from Russia, said Nigel Kuzemko, chief executive officer of Steelhead LNG, a proposed export project. China's appetite for gas is probably stronger than some forecasts suggest, Woodside said in May.

SECOND DEAL

The second gas-supply pact is less attractive to China, and Russia's OAO Gazprom may need to offer a "serious discount" to secure a final deal, according to Alexander Kornilov, an Alfa Bank energy analyst in Moscow.

The price in the Chinese contract earlier this year is equal to about $10 per million British thermal units, two Russian officials said in July. China pays about $16 per million British thermal units for LNG, Macquarie said.

"The more Russian gas going into China" means the less higher-cost LNG China will import from places like Canada, Reynold Tetzlaff, energy leader for Canada at PricewaterhouseCoopers LLP in Calgary, said by phone. "So we can't ignore it, that's for sure. We do need to move quickly or the window starts to close."

INDIAN OIL LNG TERMINAL TO BE READY 2017-18

Oil marketing company Indian Oil Corporation's (IOC) liquefied natural gas (LNG) terminal near here is expected to go on stream by the third quarter of 2017-18, a top company official said Wednesday.

Speaking to reporters here, IOC chairman B. Ashok said the board has approved the revised project cost for the five million tonne per annum (MTPA) LNG terminal at Rs.5,150 crore up from the earlier estimate of Rs.4,500 crore.

The company has already tied up to procure two million tonnes and is mulling strategic deals for sourcing.

Ashok said IOC has tied up with the Canadian province of British Columbia for two million tonnes.

He said IOC would look at long-term as well as spot sourcing deals for LNG.

The company is also planning a pipeline project from Paradip to Vishakapatnam.

Speaking about the Paradip refinery, Ashok said around 97 percent of the work has been completed and the first unit is expected to go on stream by next March.

He said the company is also setting up a 1,200 km pipeline to carry LNG in Tamil Nadu involving an outlay of around Rs.3,000 crore.

Ashok said IOC would increase its rural petrol outlets by 1,000 to 7,000 by next March.

13-Nov-14				
	Active	Down	Total	% Active
Western Canada				
AB	285	280	565	50%
SK	78	67	145	54%
BC	52	16	68	76%
MB	13	13	26	50%
WC Total	428	376	804	53%
Eastern Canada				
QC	-	1	1	0%
Canada	428	377	805	53%