RBC Dominion Securities Inc.

Westside Viewpoints

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ACCUMULATE PRESERVE TRANSFER

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What's Up with Oil?

Below are some excerpts from a recent article written by Eric Lascelles, Chief Economist, RBC Global Asset Management.

Oil prices have fallen from above US$100 per barrel to below US$50/bbl recently. This research piece summarizes why oil prices declined, where they are expected to go from here, and the implications on the economy and market of lower oil prices.

Why Did Oil Prices Decline?

While the speed of the decline is surprising, the direction and ultimate level is less so:

- On the demand side, emerging market economies (the marginal consumer of resources) have been slowing for several years
- On the supply side, producers have naturally responded to a decade of extremely high prices by producing more
- Contrary to its customary practice, OPEC did not adjust its production in response to the resulting supply-demand mismatch

Where Could Oil Prices Go From Here?

- A further near-term decline is not impossible given the momentum the market has recently demonstrated, but we believe oil prices are unsustainably low relative to production costs.
- U.S. shale production has already begun to drop, on its way to restoring some balance to the market.
- Fortunately, the magnitude of the required adjustment is relatively small. Various estimates put the mismatch between oil supply and demand at a mere 1-2 % of the total supply. Canadian production in Alberta requires prices in the $75+/bbl range to attract traditional oil sands production (although much depends on the currency). U.S. shale requires prices in the $65-80/bbl range to experience unabated production.
- The last collapse in oil prices occurred in mid-2008, when oil prices fell from almost $145/bbl to $31/bbl in the span of a few months. At that time, oil prices were driven up by market speculation and were significantly above fair value, whereas today the starting point was much less extreme.
- Global demand was collapsing in the run-up to the 2008/2009 great recession. Despite that, the decline in oil prices could not be sustained and within six months they rebounded to the $70+ range.

Why Didn't OPEC Cut Production?

There are several theories as to why OPEC decided against cutting production:

- One notion is that OPEC is the low-cost producer and can stomach lower oil prices better than the rest. However, the cost of production is not the relevant metric. The countries that make up OPEC require very high oil prices to meet their budgetary needs. For example, Iran requires $136/bbl, Venezuela $121/bbl, Nigeria $119/bbl, Russia $102/bbl, and Saudi Arabia $93/bbl.
- Another theory is that OPEC is acting to hurt Russia. However, this makes no sense, as several OPEC nations are aligned with Russia and none would willingly accept such a large economic hit.
- A third theory is that OPEC wants to hurt U.S. shale producers. This is conceivable, as there is no question that shale oil is displacing OPEC production. But shale oil is highly entrepreneurial, meaning that producers can stop production abruptly and then begin again as soon as prices reach sustainable levels. A temporary bout of unprofitable prices would not permanently kill shale oil – in other words, the genie is out of the bottle.
- Finally, and in our view most credibly, OPEC knows it should cut production but simply wasn't able to act. Some members are so desperate for revenue that they aren't willing to consider cutting production. Others recognize the end, but prefer that Saudi Arabia absorbs the entirety of the decline, as they often do. However, Saudi Arabia is fed up with doing this alone, particularly since they already have idle capacity.

In the end it makes the most sense for OPEC to curtail production. Cutting 1 million barrels per day of production – around 3% of what OPEC produces – should theoretically raise prices by $20 to $30/bbl, back to equilibrium levels or around $80/bbl.

The imbalance between supply and demand is actually fairly small – between 0.5 million and 2 million barrels per day out of a global market of 93 million barrels per day. It will not take much to restore equilibrium and producers are highly incented to make this adjustment. We continue to believe that a price somewhere around $80/bbl is a reasonable long-term target.

What Are the Implications of Lower Oil Prices?

The global economy benefits from lower oil prices due to increased money in the pockets of households and businesses. More generally, the combination of lower oil, lower yields and weaker exchange rates should provide a boost of between 20-70 basis points to most major economies over the next year.

The implications for Canada are varied. Alberta and Newfoundland are hurt badly by lower oil prices. Weakness means lower profits and revenues to the government, and fewer new investments.

For the rest of Canada, the implications are mainly positive – the decline in the Canadian dollar is good for manufacturers and exporters, and lower oil prices help the auto industry.

2015 Handy Financial Planning Facts

The following is a summary of some common financial planning-related information that you can use as a handy reference. Any values noted below are for 2015.

RETIREMENT	AMOUNT(S)
Max CPP at age 65	$1065 per month
Max CPP at age 60	$694.38 per month
Max CPP at age 70	$1512.30 per month
YMPE – Yearly Max. Pensionable Earnings	$53,600
Max OAS benefit for Q1	$563.74 per month
OAS Clawback rate	$0.15 for every dollar of net income above $72,809; the full OAS is eliminated at a net income of $117,909 or higher
RRSP – Max annual deduction limit	$24,270 for 2014 $24,930 for 2015
RRSP – Withholding tax on withdrawals	10% for amounts up to $5000 20% for amounts $5000 – $15,000 30% for amounts over $15,000
RRSP contribution deadline	Monday, March 2, 2015
TFSA contribution room	$5000 each year 2009-2012 $5500 each year 2013-2015
EDUCATION	
Max annual RESP contribution	Unlimited annual up to lifetime max of $50,000 per beneficiary
TAX	
EI – max annual premium	$930.60
EI – insured earnings	$49,500
Basic personal tax exemption	$11,327 (base) $1699 (credit)
Federal tax brackets and rates	**Taxable income** Up to $44,701 15% $44,701 to $89,401 22% $89,401 to $138,586 26% Over $138,586 29%
Eligible dividends	Gross up is 38%, taxable amount is 138% Federal tax credit is 15.0198% of taxable amount
Lifetime Capital Gains Exemption	$800,000 for 2014 $813,000 for 2015
GOVERNMENT LINKS	**RESOURCES**
CRA Website	www.cra-arc.gc.ca/menu-e.html
CRA General Help Line	1-800-959-8281
CPP/OAS queries	1-800-277-9914

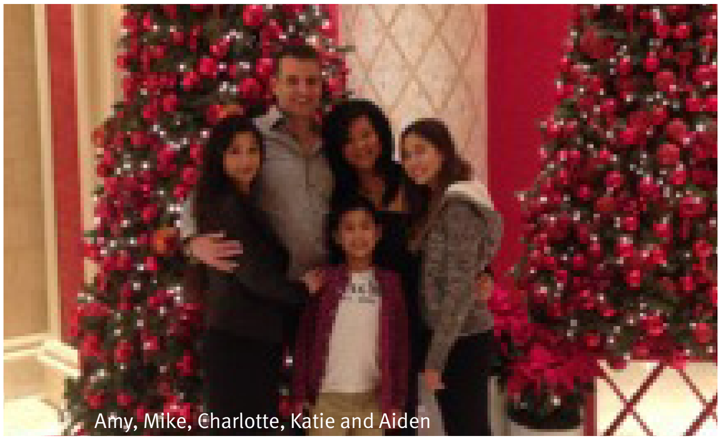
What's New on Our Team?

We are sad to report that the Weekly Recommended Reading List is no longer available. This highly acclaimed collection of weekly economic and political news articles was made available by our Portfolio Advisory Group. An analysis of the click-through rate concluded that the effort required to compile the list each week was not producing enough traffic.

As an alternative, we refer you to our website: **www.westsidewealthmanagement.ca**. Here you will find Daily Commentaries and periodic articles of interest.

Here are some other useful websites for current economic and political news:
Bloomberg: www.bloomberg.com/news
Reuters: http://uk.reuters.com
Wall Street Journal: http://blogs.wsj.com
Huffington Post: www.huffingtonpost.ca
Globe and Mail: www.theglobeandmail.com

Carly, Kate, Paul and Sam in Mexico



Amy, Mike, Charlotte, Katie and Aiden

Getting Ready for Beach Season

With winter in full force for most of us, beachside resorts around the globe are in high demand.

Did you know that 75 to 90 percent of natural sand beaches around the world are disappearing due to rising sea levels and the increasing frequency of storms, as well as erosion due to human development? The majority of these beaches need to be replenished each year by trucks filled with sand mined inland. According to the *Wall Street Journal*, in the United States, the market for mined sand has become a billion-dollar annual business, growing at 10 percent a year since 2008. The latest development in the sand industry is a global beach-quality sand shortage. Sand is also a vital resource in manufacturing of glass, plastics, microchips and even toothpaste. And more recently, sand has been used in the process of hydraulic fracturing. Growing demand from all these sources has produced a "sand rush," giving a whole new perspective on getting ready for beach season.

Newsletter Editor: Kate Wolfe. If you like what we're doing please tell a friend, if you don't please tell us. **kate.wolfe@rbc.com**