AUGUST 2015

RBC WEALTH MANAGEMENT

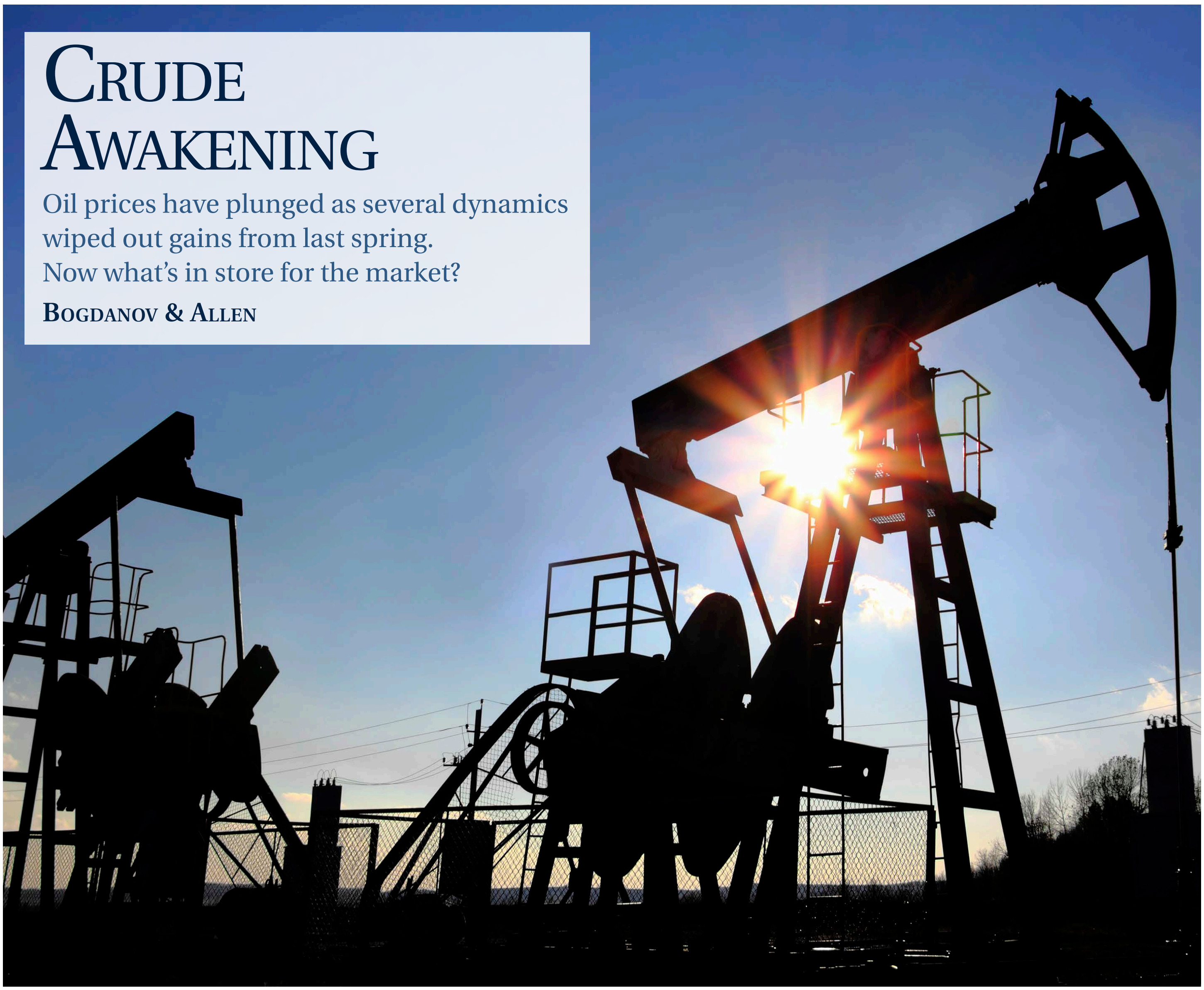
GLOBAL INSIGHT

FOCUS ARTICLE

Crude Awakening

Oil prices have plunged as several dynamics wiped out gains from last spring. Now what's in store for the market?

Bogdanov & Allen



For Important and Required Non-U.S. Analyst Disclosures, see page 6.

Crude Awakening

Oil headed back down to depressed levels in July as robust production data as well as uncertainties about the Iran nuclear deal and Chinese demand hit the market. While China fears may be overstated, we believe OPEC and U.S. production have the potential to overshoot.

Kelly Bogdanov
San Francisco, United States
kelly.bogdanov@rbc.com

Mark Allen
Toronto, Canada
mark.d.allen@rbc.com

OPEC Shows No Signs of Pulling Back

We continue to believe crude oil prices remain highly dependent on OPEC and U.S. production levels. Demand is a factor, but supply matters more this cycle. In our view, there is greater risk supplies could overshoot market expectations than undershoot, particularly as OPEC vies for a bigger piece of the Asian market.

Even as crude oil prices have dropped, OPEC has persistently produced above its target (see chart). Saudi Arabia hiked production in June to a record level, up about 600,000 barrels per day (bbl/d) year over year.

Overlooked Nigeria has had a big impact on prices. Largely shut out of the U.S. due to reduced demand for oil imports, Nigeria needs to unload a glut of light, sweet crude and has slashed prices to gain share in India and other Asian markets. Nigerian supplies currently have the greatest influence on Brent and WTI benchmarks, according to RBC Capital Markets, and could continue to weigh on near-term prices.

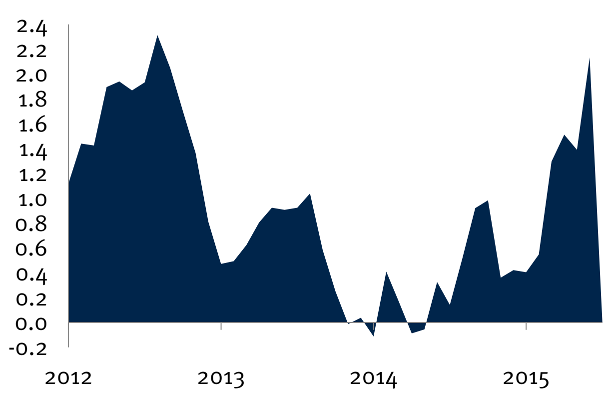
Iraq, OPEC's second-largest producer, has delivered significant supply growth as it works toward its ambitious target of 6 million bbl/d by 2020. Iraq has increased production by about 33% in one year to just over 4 million bbl/d, with more likely to come in 2016.

Iran Important, but Not Decisive

The nuclear accord between Iran and world powers, if fully approved, could add more OPEC supply to a roughly 93 million bbl/d global market, which is already oversupplied by about 1.5 million bbl/d.

OPEC Deviation From Oil Production Target

(in millions of barrels per day)



Source - RBC Capital Markets, Bloomberg; monthly data through 7/31/15

OPEC has consistently overproduced regardless of whether oil prices were strong or weak.

The International Atomic Energy Agency has until December 15 to provide its assessment of Iran's compliance with the accord's terms. We highly doubt the U.S. Congress will be able to block the deal considering that would require a two-thirds majority in both chambers.

Iranian exports could take three to five years to reach the pre-sanctions level.

If the accord is approved, we expect Iranian exports could take three to five years to reach the pre-sanctions level because significant infrastructure development is needed to restart major oil fields.

RBC Capital Markets believes Iran will bring an additional 375,000–500,000 bbl/d by late Q2 2016. It would likely target China, where it previously held 15%–18% market share compared to only 8% currently. This should not disrupt oil prices, all other supply/demand factors being equal. But if Iran achieves its stated, more-aggressive production goal of 1 million bbl/d, it would likely weigh on prices. An additional wild card is Iran's 40–50 million barrels of floating crude oil storage, equivalent to 1.3–1.7 times the country's current monthly production.

Non-OPEC Supply Growth to Slow

Despite a massive 50% reduction in exploration and development activity since autumn 2014, total U.S. oil production has continued to advance throughout much of this correction, with a leveling off appearing to take shape over the last five to six weeks.

RBC Capital Markets forecasts U.S. oil production will continue to rise, but at a slower rate compared to previous years. It expects growth of 450,000–650,000 bbl/d in 2015 and 500,000–700,000 bbl/d in 2016, down markedly from 1.1 million and 1.6 million bbl/d in 2013 and 2014, respectively. This would substantially cool a key driver of global supply growth. However, we believe there are risks U.S. production could overshoot, particularly if the industry cost profile declines further.

Russia, the world's third-largest producer, is pumping oil at full throttle, and has incentives to keep the pedal to the metal. With costs in depressed rubles and revenues in appreciating U.S. dollars, Russian producers have sidestepped some of the worst effects of the oil rout. Also, the tax rate on Russian oil exports declines as crude oil prices drop. The net effect is the take-home value of oil exports has remained stable.

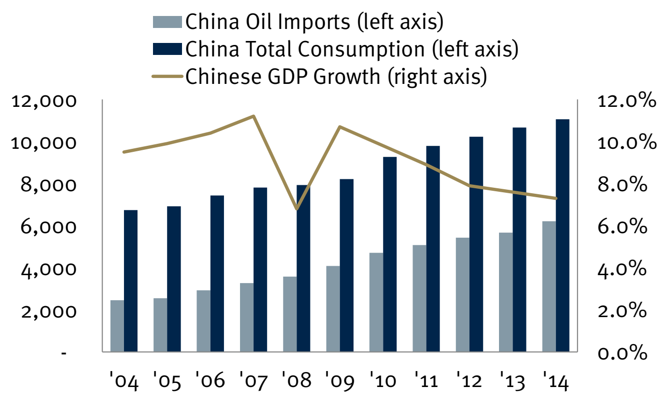
According to the estimates of RBC Capital Markets' commodity strategist, overall non-OPEC supplies should increase by 1.1 million bbl/d in 2015, slower than the 2.4 million bbl/d increase in 2014, and then decline by 500,000 bbl/d in 2016.

Demand Is Expected to Rise

As oil prices decline, global demand often rises. Demand from OECD countries has increased so far in 2015, particularly in parts of Europe, the U.S., and South Korea. This should be the first annual OECD demand gain since the Great Recession.

Emerging-market demand is the most important factor. While it has remained consistently strong, the slowing Chinese economy has weighed on oil market sentiment. We are not overly concerned at this stage. China's crude oil consumption and imports increased annually and steadily from 2010 to 2014 even as GDP growth

Consumption and Imports in Thousands of Barrels Per Day



Source - RBC Dominion Securities, BP Statistical Review of World Energy June 2015

China's oil demand and dependence on foreign oil have risen even though GDP growth slowed in recent years.

slowed meaningfully (see chart). It seems to have risen again so far this year. And Chinese oil stockpiling should remain strong as strategic storage capacity comes online in the second half of 2015.

The International Energy Agency forecasts global demand will increase by 1.4 million bbl/d this year and 1.2 million bbl/d in 2016. These expectations represent a significant jump from weak demand growth of 700,000 bbl/d in 2014, but do not seem unrealistic in light of similar annual demand increases in 2012 and 2013.

Viewpoint on Oil & Energy Equities

WTI and Brent crude oil ended July at $47.12 and $52.21/bbl, respectively. RBC Capital Markets' commodity strategy team sees WTI averaging $52 this year and $63 in 2016, with Brent at $63 and $68, respectively. These forecasts are lower than those previously published and are below consensus estimates.

Our strategists are constructive on the crude oil market over the medium and longer term. They estimate production will need to rise by 4.5–6.0 million bbl/d merely to offset normal declines that are slated to occur each year. New supplies of that order may only come at higher prices.

In the context of the industry cost profile, we think a reasonable range of $60–$80/bbl (WTI) might be expected over the long term, once the oil market rebalances. That said, the cost profile is dynamic and shifting lower as industry participants are forced to become more efficient. Therefore, there is some downside risk to this projected range.

In light of the challenging operating environment, which should persist at least into 2016, we recommend equity investors focus on companies with three characteristics:

- **Strong balance sheets**: We favor companies with debt loads that can be handled even if a low price regime persists longer than forecast. Such companies can avoid being forced to make untimely asset divestitures and may be in a position to acquire assets at distressed valuations.
- **Lower-tier cost structures**: Companies with relatively low costs and strong cash flow have the ability to sustain operations in a low oil price environment.
- **"Prospectivity"**: We prefer companies that have the potential to develop assets already on the books, even in a weak price environment, offering the prospect of growing production per share.

Research Resources

This document is produced by the Global Portfolio Advisory Committee within RBC Wealth Management's Portfolio Advisory Group. The RBC Wealth Management Portfolio Advisory Group provides support related to asset allocation and portfolio construction for the firm's Investment Advisors / Financial Advisors who are engaged in assembling portfolios incorporating individual marketable securities. The Committee leverages the broad market outlook as developed by the RBC Investment Strategy Committee, providing additional tactical and thematic support utilizing research from the RBC Investment Strategy Committee, RBC Capital Markets, and third-party resources.

Global Portfolio Advisory Committee members:

Janet Engels – Co-chair; Head of U.S. Equities, RBC Wealth Management Portfolio Advisory Group, RBC Capital Markets, LLC

Jim Allworth – Co-chair; Investment Strategist, RBC Dominion Securities Inc.

Maarten Jansen – Head, Investments & Trading, RBC Wealth Management Global Wealth Services Group, RBC Dominion Securities Inc.

Mark Allen – Portfolio Advisor, RBC Wealth Management Portfolio Advisory Group, RBC Dominion Securities Inc.

Rajan Bansi – Head of Fixed Income Strategies, RBC Wealth Management Portfolio Advisory Group, RBC Dominion Securities Inc.

Matt Barasch – Head of Canadian Equities, RBC Wealth Management Portfolio Advisory Group, RBC Dominion Securities Inc.

Craig Bishop – Lead Strategist, U.S. Fixed Income Strategies Group, RBC Wealth Management Portfolio Advisory Group, RBC Capital Markets, LLC

Kelly Bogdanov – Portfolio Analyst, RBC Wealth Management Portfolio Advisory Group, RBC Capital Markets, LLC

Frédérique Carrier – Director, European Equities, Royal Bank of Canada Investment Management (U.K.) Ltd.

George King IV – Head of Portfolio Strategy, Royal Bank of Canada Investment Management (U.K.) Ltd.

René Morgenthaler – Head of Investment, RBC (Suisse) SA, RBC International Wealth Management

Alan Robinson – Portfolio Advisor, RBC Wealth Management Portfolio Advisory Group, RBC Capital Markets, LLC

Jay Roberts – Head of Equity Advisory, Wealth Management Hong Kong, RBC Dominion Securities Inc.

The RBC Investment Strategy Committee (RISC), consists of senior investment professionals drawn from individual, client-focused business units within RBC, including the Portfolio Advisory Group. The RBC Investment Strategy Committee builds a broad global investment outlook and develops specific guidelines that can be used to manage portfolios. RISC is chaired by Daniel Chornous, CFA, Chief Investment Officer of RBC Global Asset Management Inc.

Required Disclosures

Analyst Certification
All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

Important Disclosures

In the U.S., RBC Wealth Management operates as a division of RBC Capital Markets, LLC. In Canada, RBC Wealth Management includes, without limitation, RBC Dominion Securities Inc., which is a foreign affiliate of RBC Capital Markets, LLC. This report has been prepared by RBC Capital Markets, LLC which is an indirect wholly-owned subsidiary of the Royal Bank of Canada and, as such, is a related issuer of Royal Bank of Canada.

Non-U.S. Analyst Disclosure: Mark Allen, an employee of RBC Wealth Management USA's foreign affiliate RBC Dominion Securities Inc., contributed to the preparation of this publication. This individual is not registered with or qualified as a research analyst with the U.S. Financial Industry Regulatory Authority ("FINRA") and, since he is not an associated person of RBC Wealth Management, he may not be subject to NASD Rule 2711 and Incorporated NYSE Rule 472 governing communications with subject companies, the making of public appearances, and the trading of securities in accounts held by research analysts.

In the event that this is a compendium report (covers six or more companies), RBC Wealth Management may choose to provide important disclosure information by reference. To access current disclosures, clients should refer to http://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?EntityID=2 to view disclosures regarding RBC Wealth Management and its affiliated firms. Such information is also available upon request to RBC Wealth Management Publishing, 60 South Sixth St, Minneapolis, MN 55402.

References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by RBC Wealth Management or one of its affiliates. RBC Wealth Management recommended lists include the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Large Cap (RL 7), the Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: Midcap 111 (RL9), the Guided Portfolio: ADR (RL 10), and the Guided Portfolio: Global Equity (U.S.) (RL 11). RBC Capital Markets recommended lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

Distribution of Ratings
For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets, LLC ratings of Top Pick (TP)/Outperform (O), Sector Perform (SP) and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described below).

Distribution of Ratings - RBC Capital Markets, LLC Equity Research
As of June 30, 2015

			Investment Banking Services Provided During Past 12 Months	
Rating	Count	Percent	Count	Percent
Buy [Top Pick & Outperform]	935	53.16	293	31.34
Hold [Sector Perform]	707	40.19	124	17.54
Sell [Underperform]	117	6.65	6	5.13

Explanation of RBC Capital Markets, LLC Equity Rating System
An analyst's "sector" is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average. Although RBC Capital Markets, LLC ratings of Top Pick (TP)/Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described below).

Ratings: Top Pick (TP): Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio. **Outperform (O):** Expected to materially outperform sector average over 12 months. **Sector Perform (SP):** Returns expected to be in line with sector average over 12 months. **Underperform (U):** Returns expected to be materially below sector average over 12 months.

Risk Rating: As of March 31, 2013, RBC Capital Markets, LLC suspends its Average and Above Average risk ratings. The **Speculative** risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.

Valuation and Price Target Impediments
When RBC Wealth Management assigns a value to a company in a research report, FINRA Rules and NYSE Rules (as incorporated into the FINRA Rulebook) require that the basis for the valuation and the impediments to obtaining that valuation be described. Where applicable, this information is included in the text of our research in the sections entitled "Valuation" and "Price Target Impediment", respectively.

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of RBC Capital Markets, LLC, and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets, LLC and its affiliates.

Other Disclosures

Prepared with the assistance of our national research sources. RBC Wealth Management prepared this report and takes sole responsibility for its content and distribution. The content may have been based, at least in part, on material provided by our third-party correspondent research services. Our third-party correspondent has given RBC Wealth Management general permission to use its research reports as source materials, but has not reviewed or approved this report, nor has it been informed of its publication. Our third-party correspondent may from time to time have long or short positions in, effect transactions in, and make markets in securities referred to herein. Our third-party correspondent may from time to time perform investment banking or other services for, or solicit investment banking or other business from, any company mentioned in this report.

RBC Wealth Management endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. In certain investment advisory accounts, RBC Wealth Management will act as overlay manager for our clients and will initiate transactions in the securities referenced herein for those accounts upon receipt of this report. These transactions may occur before or after your receipt of this report and may have a short-term impact on the market price of the securities in which transactions occur. RBC Wealth Management research is posted to our proprietary Web sites to ensure eligible clients receive coverage initiations and changes in rating, targets, and opinions in a timely manner. Additional distribution may be done by sales personnel via e-mail, fax, or regular mail. Clients may also receive our research via third-party vendors. Please contact your RBC Wealth Management Financial Advisor for more information regarding RBC Wealth Management research.

Conflicts Disclosure: RBC Wealth Management is registered with the Securities and Exchange Commission as a broker/dealer and an investment adviser, offering both brokerage and investment advisory services. RBC Wealth Management's Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on our Web site at http://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?EntityID=2. Conflicts of interests related to our investment advisory business can be found in Part II of the Firm's Form ADV or the Investment Advisor Group Disclosure Document. Copies of any of these documents are available upon request through your Financial Advisor. We reserve the right to amend or supplement this policy, Part II of the ADV, or Disclosure Document at any time.

The authors are employed by one of the following entities: RBC Wealth Management USA, a division of RBC Capital Markets, LLC, a securities broker-dealer with principal offices located in Minnesota and New York, USA; by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada; by RBC Investment Services (Asia) Limited, a subsidiary of RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Hong Kong, China; and by Royal Bank of Canada Investment Management (U.K.) Limited, an investment management company with principal offices located in London, United Kingdom.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by RBC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

Disclaimer

The information contained in this report has been compiled by RBC Wealth Management, a division of RBC Capital Markets, LLC, from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Wealth Management, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Wealth Management's judgment as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients, including clients who are affiliates of Royal Bank of Canada, and does not have regard to the particular circumstances or needs of any specific person who may read it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. To the full extent permitted by law neither Royal Bank of Canada nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of Royal Bank of Canada. In the U.S., RBC Wealth Management operates as a division of RBC Capital Markets, LLC. In Canada, RBC Wealth Management includes, without limitation, RBC Dominion Securities Inc., which is a foreign affiliate of RBC Capital Markets, LLC. This report has been prepared by RBC Capital Markets, LLC. Additional information is available upon request.

To U.S. Residents: This publication has been approved by RBC Capital Markets, LLC, Member NYSE/FINRA/SIPC, which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. RBC Capital Markets, LLC, is an indirect wholly-owned subsidiary of the Royal Bank of Canada and, as such, is a related issuer of Royal Bank of Canada. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC. International investing involves risks not typically associated with U.S. investing, including currency fluctuation, foreign taxation, political instability and different accounting standards.

To Canadian Residents: This publication has been approved by RBC Dominion Securities Inc. RBC Dominion Securities Inc.* and Royal Bank of Canada are separate corporate entities which are affiliated. *Member-Canadian Investor Protection Fund. ®Registered trademark of Royal Bank of Canada. Used under license. RBC Wealth Management is a registered trademark of Royal Bank of Canada. Used under license.

To European Residents: Clients of United Kingdom subsidiaries may be entitled to compensation from the UK Financial Services Compensation Scheme if any of these entities cannot meet its obligations. This depends on the type of business and the circumstances of the claim. Most types of investment business are covered for up to a total of £50,000. The Channel Islands subsidiaries are not covered by the UK Financial Services Compensation Scheme; the offices of Royal Bank of Canada (Channel Islands) Limited in Guernsey and Jersey are covered by the respective compensation schemes in these jurisdictions for deposit taking business only.

To Hong Kong Residents: This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited and RBC Investment Management (Asia) Limited, licensed corporations under the Securities and Futures Ordinance or, by Royal Bank of Canada, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited or Royal Bank of Canada, Hong Kong Branch at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).

To Singapore Residents: This publication is distributed in Singapore by RBC (Singapore Branch) and RBC (Asia) Limited, registered entities granted offshore bank status by the Monetary Authority of Singapore. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance.