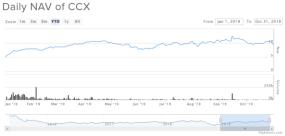


Canadian Crude - Update for October 2019

- CCI traded sideways for much of the month before selling off sharply as the WCS differential widened substantially.
 - 1. While down on the month, the CCX ETF and the CCI (Canadian Crude Index) remains the strongest oil market to be up 89% in 2019 while WTI has gained only 18%.
 - 2. The rolling 90-day exposure had a beneficial effect to the CCX NAV.
- CCX ETF (NPU) was lower at \$9.56, down \$1.10 from \$10.66.
 - 1. One of the bank market-makers has stepped up to vastly tighten up the bidask spread for CCX. Currently being shown at 5-6 cents.
- CCI = WTI + WCS \$35.03 = \$54.20 + (\$19.17) US/bbl
 - 1. CCI (Canadian Crude Index) softened \$4.80 from \$39.83 US/bbl to \$35.03 while WTI added \$0.28.
 - WCS discount widened substantially by 36% from -14.08 to -19.17 (90-day term structure covered).
 - 3. See Auspice website.



What's new in Canadian Crude?

• A number of factors pushed the WCS differential wider right from first week of October, towards and then beyond the long-term average of \$-18.50. US Gulf Coast basis

widening in general was part of the early explanation and \ldots

- we believe the significantly underutilized rail system coupled with the required incentives to rail economics are playing a substantial role given the Alberta government is looking to unload rail contracts while the buyers are in the driver seat.
 - There will have to be incentives or a sufficiently wide differential to support this economically and the market appears to be pricing this in.

Current CCI™ Weightings				
Month	WTI	WCS*	CCI	Weight
DEC	\$ 54.18	\$ (19.25)	\$ 34.93	33.33%
JAN	\$ 54.25	\$ (19.25)	\$ 35.00	33.33%
FEB	\$ 54.16	\$ (19.00)	\$ 35.16	33.33%
CCI Reference Price			\$ 35.03	

The WCS price is the mid-market price of the ICE TDX futures contract to 4:30 FT

- As of mid-month, facilities turnarounds in the province came to an end with upgraders and bitumen producers ramping up supply.
- The month ended with the Government of Alberta announcing curtailment relief for producers on oil shipped by rail in an effort to boost rail usage by approximately 200k bblpd, the effective underutilized capacity.
- Recent sizeable draws in Alberta storage levels have now seen inventory draw below year ago levels.
- Globally tensions are rising as continued Middle East terrorism had an Iranian oil tanker (carrying 1mm bbl) stuck by missiles.
 - This did not have a lasting significant impact on prices but highlights growing geopolitical tensions in the region.
 - Russia added Saudi to the list of "fragile" producers including the traditional five countries of Iran, Venezuela, Libya, Iraq, and Nigeria.
- Geopolitical premiums appear to be overtaken by rhetoric around weaker demand growth, US-China trade wars, and the prospect of a wave of new oil production coming on stream as Norway's big Johan Sverdrup project started up this month and will reach 440kb/d by mid-2020.
- Canada's election the new Trudeau minority government affirmed the goal to complete TMX
 - TransMountain Pipeline website reflects hiring of thousands of local workers.
- With a lack of pipeline takeaway capacity and no tidewater access, rail remains an important tool. Recent concerns of a CN rail strike are on the radar again and may pressure WCS differentials.





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