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Canadian Crude – New Opportunities in the discount

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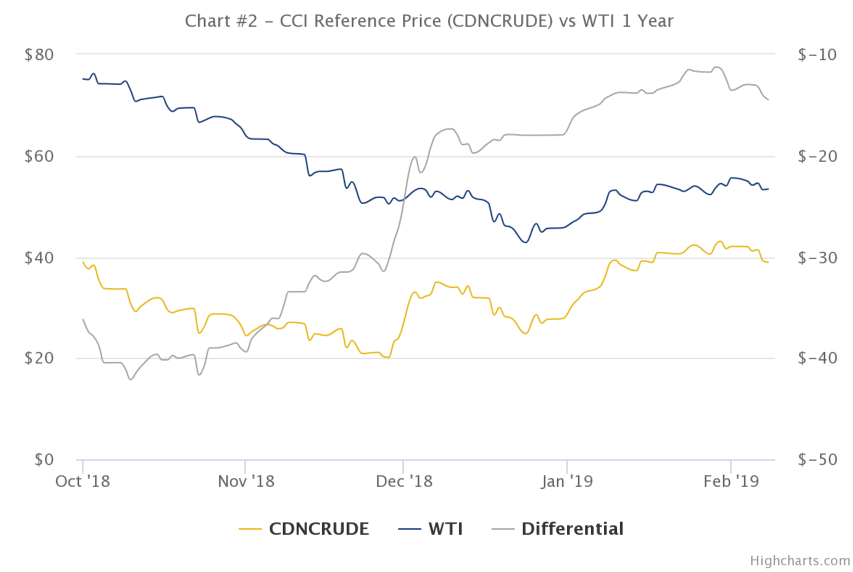
In the fall of 2018 we published two important pieces: one in October regarding the opportunity in the deep discount in Canadian Oil and in November on how to trade the WCS spread. Both of these were fantastic opportunities. SIA has had the ETF ranked in top 5 performance of all ETFs in Canada to start February at www.sianewsletters.com

Since bottoming near $20 US/bbl and a discount of over $40/bbl, 4 standard deviations from average of $18, both the global crude price has rallied and the discount of Canadian WCS has narrowed as illustrated using the Canadian Crude Index at right. Factors leading to this change include cuts to OPEC supply, curtailment by producers and via government mandated cuts in Canada, and a dropping supply from Venezuela while demand remains robust long-term.



Since that time, the discount narrowed briefly to $10 but is now moderating with future months resembling more like the long-term average. It begs the question, "What is the opportunity?"

The answer is simple – **the discount price of Canadian oil means it could materially outperform WTI as prices rise.**

By simple example, a $10 gain on CCI at the current $40 US/bbl is a 25% return while the same $10 gain is only 18% for WTI at $55. This occurs because the discount creates a leverage effect.

While it is possible the discount widens, the demand for heavy-sour crude remains strong. The US refinery system relies on it and cuts to supplies from Venezuela means Canadian heavy is the most important feedstock and the U.S. is a net importer of these barrels. As such, the differential may have an opportunity to be more stable. If and when Canada makes progress on the Trans Mountain extension or other pipeline projects such as Enbridge Line 3 or Keystone XL that could mean further narrowing enhancing upside opportunities.

As such, if you're bullish oil, the Canadian Crude market represents a potential opportunity and there is one way to access this market – the Canadian Crude Index ETF: CCX.TO. This is the only product linked to discounted heavy-sour oil globally.

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AUSPICE Capital Advisors
SUITE 510 - 1000 7TH AVE SW
CALGARY, ALBERTA CANADA T2P 5L5
888 792 9291
auspicecapital.com

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SUITE 510 - 1000 7TH AVE SW
CALGARY, ALBERTA CANADA T2P 5L5
888 792 9291
auspicecapital.com