

# MARKET SPOTLIGHT - SEPTEMBER 2021

## Will oil keep climbing?

Inflation is on everyone's mind. Higher prices are showing up in many goods and services, from groceries and restaurant meals to gym memberships and travel. Some of this inflation stems from shortages of input materials, the result of COVID-induced supply disruptions that will eventually be resolved. But we're also experiencing strong consumer demand as some accumulated lockdown savings are spent.

Commodity prices have also risen, sharply in some cases, as economic global growth booms. The Canadian economy, with its heavy dependence on the energy trade, especially benefits from higher oil prices. This has been reflected in the rally in the TSX energy sector (up 30% year-to-date to August 31, 2021) and the recent lift in the Canadian dollar, which often responds to higher energy prices. Has the rally played out for the moment or can the momentum in this sector continue? Resource Team Director Dan Greenspan tells us what factors he's been considering.

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## Could the Delta variant limit oil's rebound?

### Daniel Greenspan

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As the global economy recovers, is oil a good way to play a reopening trade? We've already seen industrial production as well as air and road travel rise as vaccination rates gather pace. But could another jump in COVID cases tied to the Delta variant limit oil's rebound?

The oil price has already jumped an impressive 55% in the first half of 2021, rising from about \$48 to \$75 a barrel. Strength was driven by accelerating vaccination rates and the return of more normal routines as economies reopened. The supply side remained disciplined in its approach to bringing barrels back to the market, as OPEC managed supply by setting reasonable production targets.

### What's next?

We believe rising global demand and continued supply discipline should help support the oil price.

Here are some recent developments we're considering to gauge **demand**:

- We expect end-user demand to continue to grow as vaccination rates increase and more people return to a closer-to-normal lifestyle. Of course, oil could weaken somewhat if global distribution of the vaccine slows, proves less effective against new variants, or remains unavailable for children under 12.

- Saudi Aramco, the world's biggest oil producer, trimmed October selling prices for all its crude grades sold to Asia. This signaled that consumption in the world's largest oil-importing region remained tepid as lockdowns were reinstated across Asia to curb the Delta variant.
  - A reduction in Chinese demand from the Delta outbreak could prove temporary, as China has shown the ability and the will to quash outbreaks quickly. Also, China continues to build strategic oil reserves.
  - While the Delta variant has slowed U.S. and Asian consumption somewhat, Europe surprised on the upside in August with increased demand for gasoline.
- Here are some things we're considering to gauge **supply**:
- Will OPEC manage supply by setting reasonable production targets?
  - How long will it take for producers to restore production capacity after Hurricane Ida caused a record 1.5 million-barrel decline in daily crude output from offshore Gulf of Mexico oil production?
  - Can Iran and the U.S. reach a deal to lift sanctions on the Islamic Republic's oil exports?
  - Will U.S. and Canadian producers remain disciplined on capital returns and not chase production growth at a higher energy price?



## CryptoCorner: Answering your questions



**Michael Sager**

*Vice-President, Multi-Asset and Currency Management*

### Bitcoin supply is limited - Is that a good thing?

- A limited supply of bitcoin has advantages and disadvantages.
- The established protocols allow a maximum of 21 million bitcoins to be created over time, while 18.7 million have been created so far.<sup>1</sup> In this sense, bitcoin is similar to gold—historically, the gold supply has only grown by about 1.7% per year.<sup>2</sup>
- Those who favour bitcoin view this as a positive feature, as the value of bitcoin can't be arbitrarily devalued by excessive production—unlike a fiat currency such as the U.S. dollar.
- However, gold has experienced significant historical price swings despite limited supply growth. This suggests outsized price volatility could be a permanent characteristic of cryptocurrencies.

Limited supply can also be a negative feature. We can draw on lessons from the classical Gold Standard period (1870-1914):

- During this period, with policy linked to the supply of gold, central banks didn't have the flexibility to smooth cyclical economic conditions. As a result, economic booms and busts were frequent and large.
- If bitcoin becomes a primary means of payment and unit of account, a fixed supply could imply much more economic volatility than experienced in the past fifty years (a period when policy had no link to gold).

- This problem could be accentuated for bitcoin because a significant amount of bitcoin supply has already been lost (e.g. private keys used to access your bitcoin account have been misplaced).

**Cryptocurrency** is a digital asset designed to work as a medium of exchange. Individual coin ownership records are stored in a ledger in a form of computerized database using strong cryptography to secure transaction records, control the creation of additional coins, and verify the transfer of coin ownership. It typically does not exist in physical form (like paper money) and is typically not issued by a central authority.<sup>3</sup>

**Blockchain** is the digital platform behind Bitcoin and other cryptocurrencies. It is intended to create faster, more efficient ways to transmit, receive, and track orders using secure data.<sup>4</sup>



<sup>1</sup><https://coinmarketcap.com>. As at June 18, 2021.

<sup>2</sup>Source: World Gold Council. <https://www.gold.org/goldhub/research/gold-and-cryptocurrencies>. As at September 2021.

<sup>3</sup><https://en.wikipedia.org/wiki/Cryptocurrency>. As at September 2021.

<sup>4</sup><https://www.investopedia.com/blockchain-4689765>. As at September 2021.

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