

Oil Prices Bring Fiscal Upside?

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Oil prices have rallied this year well beyond relatively conservative expectations built into 2018 provincial budgets. Indeed, Alberta (\$59), Saskatchewan (\$58) and Newfoundland & Labrador (\$63 for Brent) now all appear to be looking at meaningful revenue upside in FY18/19 if prices hold near current levels. To boot, these provinces also assumed that the Canadian dollar would trade in a 78-to-80 US cent range. The weakness in the currency (below 76 US cents as we write) despite strength in oil prices is a double bonus for royalty-generating provinces. Indeed, WTI converted to C\$-terms recently pushed near \$100, effectively back into the range seen before the oil price shock took root in late-2014. While there are many moving parts in any budget, here is a quick look at how much revenue upside these provinces might have this year, all else equal, as fiscal updates begin to roll in.

Alberta's published sensitivity to oil prices for FY18/19 is \$265 mln for every \$1 change in WTI. Assuming WCS spreads behave (so far, so good), and combined with a weaker-than-forecast loonie, the Province could be looking at roughly \$3 bln of upside, or more than 1% of GDP (the deficit is pegged at \$8.8 bln for FY18/19). Also keep in mind that Alberta's royalty structure is not linear—the Province's take rises as WTI moves through the \$60-to-\$120 range. As a result, the sensitivity to oil prices has likely increased since Budget 2018, providing additional upside. And, we already know that the FY17/18 bottom line came in \$1 bln better than expected as well. That said, the boost from prices could be partly offset by the outage at Syncrude, and any desire to ramp up program spending in-year. On the latter point, Alberta has an election coming in 2019 and, while we won't speculate on political strategy, this could be taken as an opportunity to rebuild fiscal credibility in a province that has historically been the most conservative in Canada.

Saskatchewan should also benefit from the run in oil prices, but the Province is less sensitive from a share of total revenue perspective. Economic activity has also been slower to come back than in Alberta, with consumer spending, housing and employment lagging. Still, an upgraded oil price forecast would go a long way toward closing the \$365 mln budget deficit by FY19/20, as currently projected.

For **Newfoundland & Labrador**, this is a much-

Commodity Price Assumptions and Sensitivities

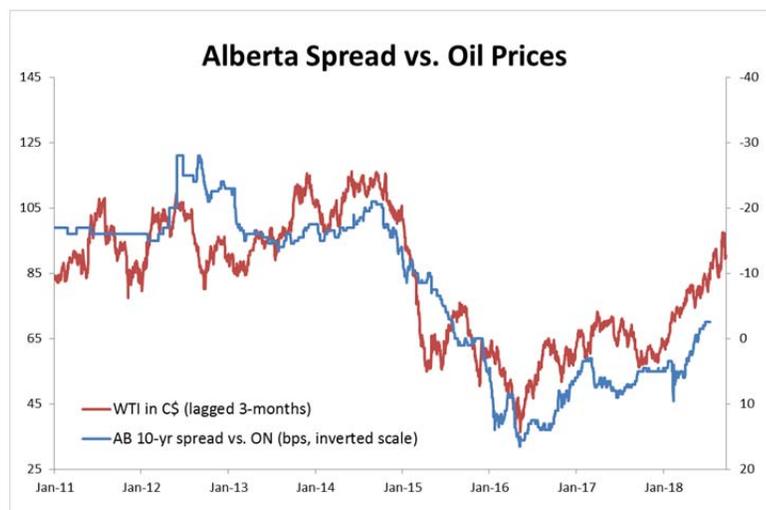
FY18/19

	WTI Oil (US\$)	WCS Spread (US\$)	C\$ (US cents)	Potash (US\$)	Est. Impact \$ mlns (% of GDP)
Alberta	\$59.0	-\$22.35	80.00	n/a	\$3,000
<i>sensitivity</i>	\$265	\$210	-\$200	n/a	1.2%
Newfoundland*	\$63.0	n/a	79.00	n/a	\$235
<i>sensitivity</i>	\$23	n/a	-\$17	n/a	0.7%
Saskatchewan	\$58.2	-\$16.0	78.34	\$191	\$220
<i>sensitivity**</i>	\$16	\$12	-\$21	\$35	0.3%

Note: Sensitivities are \$mlns per: \$1 (oil), \$1 (WCS Diff.), 1 cent (C\$), \$10 (potash)

* Oil is Brent crude (spread added for impact calculation) **WCS sensitivity estimated

Assumed Levels:	WTI Oil	WCS Spread	C\$	Potash
Full-yr FY18/19	\$67.0	-\$22.0	76.00	\$220



needed positive given that the Province still faces a \$683 mln (2.1% of GDP) deficit this fiscal year, despite a wave of aggressive tax and restraint measures over the past two years. We judge that the upside in oil prices, if it holds, could cut that shortfall by roughly a third, all else equal.

From a **spread perspective**, Alberta has already come in meaningfully versus Ontario (now trades through again), partly because of the run in oil prices, and partly because of a shift back into deficit by Ontario (and we still await the new government's fiscal plan). That said, if the historical relationship between Alberta spreads and C\$ oil prices is any guide, there could be more room to move on the spread front (a similar picture holds versus B.C., where economic and fiscal momentum appear to be peaking). This is particularly true if the fiscal messaging in Alberta changes in the fall update and pre-election budget.

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