The Oil Drum: Canada
DISCUSSIONS ABOUT ENERGY AND OUR FUTURE

The Round-Up: December 6th 2006

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Topic: Site news
Tags: debt, deep integration, housing market crash, oil sands, pipelines, recession, stelmach [list all tags]

Executives cash in

When reading this quote, remember what happened to the markets in 1987. Executives are voting with their feet.

> Top executives sold $63.18 worth of stock in their companies for every $1 they bought in November -- the widest margin since 1987. Analysts said the numbers suggested that corporate chieftains -- including Microsoft's Bill Gates and Google's Eric Schmidt -- didn't share the investor confidence that has pushed markets to new heights. "They're pretty savvy market guys," said Wayne Wilbanks, chief investment officer of Wilbanks, Smith & Thomas Asset Management. "They see things are slowing down and they're like, 'Man, I'm taking some money off the table.'"

Canadians plunging further into debt

Will Canada follow the American trend in this regard?

> While Canadians continue to go deeper into debt and the cost of carrying that debt continues to rise, the proportion who are falling behind in making their mortgage payments -- one measure of how well consumers are handling their debt -- has fallen to a record low of just 0.24 per cent, it said.
>
> "Note that this trend is very different than the situation in the U.S. where delinquency and foreclosure rates have risen notably in recent months," it said, crediting the healthier situation here to the strength of Canada's job market.

$1B prediction

> Weaker than expected economic growth will erase $1 billion from next year's projected federal budget surplus and eventually push the Bank of Canada into cutting interest rates, an economic think-tank forecast Monday.
>
> Global Insight's downward revision to what was an already "miserable" forecast for next year follows last week's surprisingly weak report card on the Canadian economy and comes in advance of today's expected decision by the central bank to keep interest rates steady for now.

So much for myth of a soft landing

> We now have a U.S. manufacturing sector officially contracting, a housing market falling apart brick by brick, and Canadian growth slowing to its weakest pace in three years.
>
> An ugly string of figures rudely intruded on our raucous stock-market party last week, driving home the cold, hard fact the North American economy is officially slowing.

An Update on: Four Investors' Fairy Tales...and Five Ugly Realities About the Coming Severe U.S. Recession

Floors, Ceilings, Camels, Straw

> Inquiring minds are probably wondering what happened to that systemic risk at Fannie Mae that the Fed and the Treasury department had both been harping about for several years now. Bear in mind that Fannie Mae also has a derivative mess so big that it still has not filed is annual report for 2004 or any quarterly reports since then....
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> ....As Bill Gross points out, it is easier to estimate the bottom than the top, but if credit standards and credit spreads are at the bottom, it is likely to imply the top is near at hand on all kinds of things. The top is clearly in on housing starts and housing permits, and in spite of a significant plunge in both, they remain much closer to the ceiling than the floor on a historical basis.

EWI Independent: Housing Hollowed Out By Alan Hall

> The housing market is beginning to resemble a watermelon I once floated in a pond overnight to cool. The next day a small hole was in one end and the red interior was completely gone, hollowed out to the sour green rind, sculpted by little teeth. Some muskrat had a feast.
>
> That memory returned when I saw a chart in this month's Elliott Wave Financial Forecast titled, "A Historic Hollowing of the Housing Stock." It shows a recent near-vertical rise to a half-century record high in the percentage of unoccupied U.S. homes. No stealthy muskrats at work in this case; it's a bear market in plain sight.
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> During the housing mania, the risky, sub-prime segment of the mortgage industry grew 520% between 2001 and 2005. Lenders ceased demanding full documentation of income and assets. They offered "piggyback" loans financed at 90% to 100% of the home price, and didn't require private mortgage insurance on profitable, high-risk, "sub-prime" mortgages. Loan officers and mortgage brokers coached borrowers to inflate their incomes, and many couldn't even make their first payment. After short-term rates began rising, lenders kept "teaser" rates low, meaning that the first payment adjustment would be big. Then, in further arcane chicanery, many of these loans were packaged and sold to investors in collateralized debt obligations (CDO's), glazing another pane in the glass house of derivatives.
>
> Newspaper articles today describe an accelerating wave of mortgage defaults. As bankers, asset managers and the credit-poor awake from easy-credit dreamland, they find the sub-prime ship submerging. "We are a bit surprised at how fast this has unraveled," said the head of asset-backed securities research at U.B.S.

Sleepyheads are still soothed by the lullabies of economists. the pseudo-savvy seers don't "expect any significant harm to the nation's economy or financial systems." That said, the news articles continue like a Klaxon alarm in the Nautilus:

H&R Block is considering the sale of its sub-prime lending company that lost $39 million in the second quarter.
KeyCorp "changing strategic priorities," and selling its sub-prime Champion Mortgage for 40% below what they expected.

The National Association of Realtor's index for pending home sales fell 1.7% from September to October and was down 13.2% from a year earlier.

Delinquency rates rose steadily in the last half of 2005 and spiked in 2006. The figures don't include quickly defaulted loans that lenders were forced to repurchase.
In October, borrowers were 60 days or more behind on payments on nearly 4% of the sub-prime loans packaged in mortgage securities.

Toll Brothers, the largest builder of luxury homes in the US has seen its stock price slide 45 % over the last 18 months, and said fourth-quarter net income plunged 44%.
Believing that the real estate decline will be confined to certain regions and sectors -- like the new ghost towns near Phoenix -- and that effects of it won't spread through our financial house of cards may be like trusting a muskrat with a watermelon.

[Stelmach will fight for Alberta 'nation']

Stelmach said he's concerned about a handful of intergovernmental issues, including the debate about a new equalization formula and the fiscal imbalance, as well as the notion of Quebec as a nation within Canada.

"I'm going to fight for the same rights and privileges that may be assigned to this nation within a nation," the usually low-key Stelmach told reporters, gesturing with his hands to drive home his point.

[Stelmach's stand worries oilpatch]

Alberta's petroleum sector is hoping tough talk from Premier-designate Ed Stelmach about adjusting the royalty break offered to oilsands developers is merely rhetoric left over from the campaign trail.

Mr. Stelmach said he will make good on a campaign promise to conduct a review of the 10-year-old incentive program that hands companies a big break and is largely credited with kick-starting the now-booming industry.

[Quest for the oilsands Grail]

A replacement for natural gas as the power source for oilsands production is the industry's Holy Grail, an instant panacea for volatile operating costs.

Such a discovery would also silence critics who cringe at the thought of huge volumes of a scarce, relatively clean-burning fuel being swallowed up to produce bitumen, a lower-grade fuel.

> The great quest has turned into a sprint in recent weeks between three Alberta-based teams, all of which are entering the homestretch neck-and-neck, riding different technologies towards a potentially massive payoff.

[Fallout on home front]

> The Task Force on the Future of North America reported in May 2005. The proposals were breathtaking. They included a North American "brand name;" a North American security perimeter incorporating air, land, and sea; common exclusion lists for people from Third World countries; joint legal responses to terrorist organizations; biometrics identification at the borders; joint planning for terrorist attacks; a North American passport; common powers for customs and immigration agents; trilateral customs and immigration; a North American currency union; elimination of all exemptions for culture and agriculture; a North American electrical grid and free trade in water.
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> The report said contentious issues might take time to "ripen politically," but stated that nothing -- "not Canadian water, not Mexican oil, not American anti-dumping laws -- is off the table."
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> The U.S. never cedes sovereignty. So whenever "North America" appears in any treaty, task force or pact, Canadians and Mexicans should simply read United States: U.S. dollar, U.S. brand name, U.S. currency, U.S. passports; etc.

[Norsk, Husky: 'Encouraging' find offshore]

> Newfoundland and Labrador's hard-luck offshore energy industry yesterday got a second injection of positive news in recent weeks when Norsk Hydro and Husky Energy Inc. said they had uncorked a oil and gas discovery near the Terra Nova oilfield.
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> The partners said a recently drilled discovery well and follow-up delineation well encountered hydrocarbons in the West Bonne Bay formation in the Jeanne d'Arc Basin, 320 kilometres southeast of St. John's.
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> The basin is home to Canada's three existing offshore oil projects, Hibernia, the largest, Terra Nova and White Rose.

[Enbridge delays pipeline project]

> Enbridge Inc. has advised the National Energy Board it won't submit regulatory paperwork for its proposed oil pipeline from Edmonton to the West Coast. The Calgary-based pipeline giant confirmed yesterday its Gateway project is being delayed by two to three years and could be operational between 2012 and 2014.