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TUESDAY, MARCH 17, 2009

MARGIN CALLS

FROM HERALD NEWS SERVICES

Markets pull household worth down

CONSUMERS • Tumbling stock markets stripped a record 4.4 per cent, or \$252 billion, from the net worth of Canadian households in the fourth quarter of 2008, Statistics Canada said Monday.

Per capita household worth fell from \$179,300 in the second quarter of 2008 to \$165,300 in the fourth quarter — a drop of \$14,000, the federal agency said.

“The turmoil on equity markets significantly reduced the value of shareholdings as well as that of pension and life insurance assets of households,” it said.

“The decline in households’ assets was partially offset by the increase in non-financial assets, specifically residential structures.”

By comparison, Statistics Canada said household net worth in the United States fell nine per cent in the fourth quarter — the sixth consecutive quarterly decline.

Pattern found in stock market period analysis

MARKETS • The performance of U.S. stocks and the economy since 1998 is similar to the period between 1965 and 1974, when investors were also battered by two recessions and three bear markets, according to the Leuthold Group.

The 1973-74 and 2007-09 stock routs were accompanied by the worst recessions since the Great Depression.

“We don’t want to overdo the macro comparisons between two different market periods,” Leuthold’s Eric Bjorgen wrote.

“That said, there are certain undeniable similarities in the way these two periods of U.S. stock market cycles are playing out.”

After bottoming in 1974, the S&P 500 more than doubled through November 1980 before sinking 27 per cent through August 1982.

INSIDE FP TODAY



In the wake of OPEC’s decision not to adjust its crude oil quotas, many suggest it’s time to hedge oil prices

Page D8

Housing sales stronger

Monthly stats climb; annual results weaker

MARIO TONEGUZZI
 CALGARY HERALD

There were more preliminary signs Monday that the residential real estate market may be starting to pick up.

The Canadian Real Estate Association in releasing its monthly MLS numbers said housing activity in Canada was up in February from seasonally adjusted levels the previous month.

In Calgary, combined residential sales (including single-family homes and condominiums) numbered 1,392 units in February compared with 928 units in January. The average sale price last month was \$370,198, up slightly from

\$362,143 in January. New listings for February were 3,662 units compared with 3,767 units in January.

However, when compared with year-ago levels, the number of sales in February here fell by 35.6 per cent while the average sale price was down by 10.8 per cent and new listings were off by 29.3 per cent.

“The change from the January to February period (showed) there was some strengthening in the mar-

ketplace,” said Lai Sing Louie, senior market analyst in Calgary for Canada Mortgage and Housing Corp. “But I would say it would be a little too early to say that the market has bottomed and is turning up now. There have been some positive developments, though, with a pick up in sales here in Calgary. And prices appear to be a little more stable. But it’s only a month of data.”

SEE HOUSING, PAGE D7

CALGARY RESIDENTIAL MLS SALES FOR FEBRUARY

Dollar volume:	\$515.3 million
Yearly Change:	-42.6%
Unit sales:	1,392
Yearly change:	-35.6%
Average price:	\$370,198
Yearly change:	-10.8%
New listings:	3,662
Yearly Change:	-29.3%

Source: Canadian Real Estate Association

DIGGING DEEP TO SAVE MONEY



Calgary Herald Archive

Drilling industry wage guidelines are being reviewed and could be rolled back as soon as this week, say observers.

Oil rig pay cuts threaten as drilling activity slides

Ensign Energy exec predicts costs will fall

LISA SCHMIDT
 CALGARY HERALD

The head of one of Canada’s largest drillers expects a significant wage rollback for rig workers amid a slump in oilpatch activity.

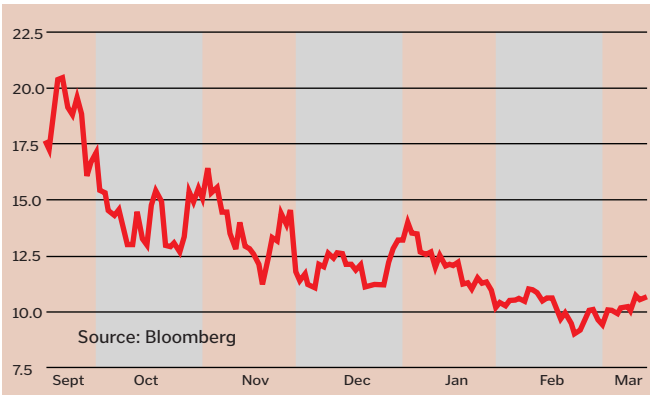
Bob Geddes, chief operating officer of **Ensign Energy Services Inc.**, said Monday he believes recommended minimum wage rates will be cut, possibly as soon as this week.

The Canadian Association of Oilwell Drilling Contractors has been reviewing its wage levels that serve as an industry guide for companies.

Geddes said he expects the biggest reductions will be for entry-level rig jobs — the so-called roughnecks — which experienced large pay increases over the past

Ensign Energy shares on the TSX

Monday’s close: \$10.60, up nine cents



few years as drillers competed with the booming construction sector for workers.

“On the bottom end you might see quite a healthy adjustment, and on the top end, which is the drillers, the career guys that are invested in the business, you’ll see a marginal rollback,” he said in a conference call to discuss the driller’s fourth-quarter financial results.

“That’s what we’re anticipating, but we believe the CAODC has some solidarity in this thought now and that probably by the end of this week you might see some guidance on that.”

Any reduction would be significant for the industry where a labour shortage sent salaries soaring, analysts said, and allow companies to lower rig rates to help spur more drilling activity.

“There has never been a decrease in wages, there has only been increases,” said Kevin Lo of FirstEnergy Capital Corp. in Calgary.

“If you roll back wages, that would make the rigs that much cheaper for producers to use.”

Facing dwindling oilpatch demand and a glut of drilling equipment, Ensign said it is idling more rigs and ratcheting back plans to build new ones.

After posting a small profit gain in the final quarter of 2008, Canada’s second largest driller said a worse-than-expected winter season has made for an even dimmer outlook as lower commodity prices have slowed oilpatch activity and cut into rates as much as 30 per cent.

“Obviously there’s going to be some tough pricing pressure coming out of breakup, it doesn’t look like there’s going to be a lot of work,” Geddes said.

SEE ENSIGN, PAGE D7



DEBORAH YEDLIN

Verenex caught in Libyan property tussle

The challenges facing the world when it comes to who has the oil producing assets and who doesn’t were vividly illustrated on Monday with the announcement by Libya that it might scuttle the sale of Calgary-based **Verenex Energy Inc.** to the **China National Petroleum Corp.**

Verenex announced a few weeks ago that it had struck a deal to sell the company, with assets in Libya, to CNPC for \$499 million.

The latest announcement was made following a meeting in Vienna of the Organization of Petroleum Exporting Countries, which took place over the weekend and resulted in no change to existing production quotas, by the chairman of Libya’s state-run oil company.

As the reaction of Verenex’s shares clearly showed, the prospect of any kind of uncertainty the deal with CNPC would go through was enough to send the shares falling below the bid price of \$10.

The announcement of the sale to CNPC on Feb. 26 sent the company’s shares soaring 22 per cent to \$9.55; they had traded as low as \$3.77 in October.

The fact Libya is pondering whether it wants to get involved by exercising its right of first refusal is a pretty good signal that the sale process is going to take a bit longer to resolve itself than expected.


Apart from the fact Verenex shareholders have to wait to get their cash, Libya’s announcement effectively pits a country with a need for supply against an OPEC member country that needs the same resource for revenue-generating purposes.

SEE YEDLIN, PAGE D7

ALSO SEE

■ Libya musings sink Verenex

D4




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FROM DI

HOUSING: True recovery in market expected during 2010

Louie said CMHC expects the market to expand at some point, but it's early to make that call now.

"There are positive signs in the marketplace now. In Calgary, for example, it was only a month ago that we had 10 months' of supply (in houses for sale). Now it's been cut to between five and six months. It has improved. But still the supply levels are elevated and we're still seeing demand reduced compared to the past."

Louie said the CMHC projections are for the market to turn this year and 2010 will be a recovery year.

In February, MLS sales in Alberta were down 29.8 per cent from a year ago to 3,231 units and the average sale price fell by 9.2 per cent to \$326,785.

CREA, which represents real estate agents, said 28,669 homes traded hands across the country on a seasonally adjusted basis — 8.6 per cent above seasonally adjusted levels in January, and the first monthly increase in activity since September 2008. Seasonally adjusted activity in February also surpassed levels reported in November and December of 2008.

Monthly seasonal increases in activity were largest in British Columbia (14.4 per cent), Nova Scotia (12.7 per cent), and Alberta (11.9 per cent).

Actual (not seasonally adjusted) transactions numbered 25,373 units in February. This was 31 per cent below MLS



"We're still seeing demand reduced compared to the past"

LAI SING LOUIE, CMHC

sales levels a year earlier, but it is the smallest year-over-year decline since October 2008.

In a research note, Sal Guatieri, a senior economist with BMO Capital Markets, said the Canadian housing downturn is more than a year old, with sales dropping by over 40 per cent and average sale prices off by 13 per cent.

"A comparison of recent trends in housing indicators with historical benchmarks suggests the year-long correction in Canada's housing market is around the halfway mark," said Guatieri. "Growing job losses and an overhang of unsold homes will continue to depress activity and prices this year."

"However, barring a long recession, the improvement in affordability will support demand, which in turn should stabilize prices and anchor a

modest recovery in homebuilding next year."

CREA said the supply of homes for sale nationally remains high, but has been trending lower.

The housing supply is expected to continue easing, but it will take time before it realigns with lower demand, said CREA chief economist Gregory Klump. "Economic uncertainty is keeping home buyers in a cautious mood, so homes are taking longer to sell than in recent years."

The national average sales price was \$281,972 in February, 9.2 per cent below February 2008. That's smaller than year-over-year declines observed in the past four months. It is also the first time that the national average price has decelerated since July.

The national average price continues to be pushed downward by lower activity in some of Canada's more expensive housing markets and by fewer transactions in higher price ranges.

"Consumer confidence will continue to be depressed by a barrage of negative economic news in the months ahead," said Klump. "Heightened job insecurity will keep many potential homebuyers on the sidelines. Those who are confident about their job situation will benefit from improving affordability in a number of housing markets."

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FROM DI

ENSIGN: Incentives will help

A \$1.5-billion package of drilling incentives and royalty breaks announced by the Alberta government earlier this month will have a positive impact, he added.

"The challenge, of course, though is whether or not oil and gas companies have enough cash to get after this, they have the balance sheet squeeze as well," he said.

Ensign also operates in the United States and has a growing international division, with rigs now operating in the Middle East, Africa, Australia and South America.

Despite the slowdown, the company said it will proceed with plans to build 12 new rigs, destined for U.S., African and

Middle East markets, down from 27 previously planned.

Analysts noted that the majority of those new rigs are already contracted. About one-third of Ensign's drilling fleet operates under long-term contracts.

The company said it will shut down about 20 of its older rigs, which are more expensive to maintain.

In the fourth quarter, Ensign earned \$73.8 million, or 48 cents a share, a two per cent increase from the same quarter a year ago. It included a \$11.3-million depreciation charge for old rigs.

Revenue rose nearly 20 per cent to \$460.4 million, with growth in U.S. and interna-

tional operations offsetting declining sales in Canada.

The driller posted stronger margins in the fourth quarter, but said it will continue to rein in costs through a previously announced hiring freeze and other measures.

For the full year, Ensign earned \$260 million in 2008, or \$1.70 per share. That was a four per cent increase from the same period a year earlier.

Ensign shares rose nine cents to \$10.60 a share on the Toronto Stock Exchange on Monday. The shares have fallen nearly 50 per cent from a high of \$20.49 last fall.

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FROM DI

YEDLIN: Geopolitics in play

Bear in mind, too, that Libya made this announcement after OPEC said it is not going to push for any more production cuts. This suggests that with all the spare capacity created as a result of the almost 4.2 million barrels per day that have been chopped, oil prices are unlikely to spike until demand starts to recover and the consequences of the downturn in investment start to be felt. This means that companies and/or countries looking to take advantage of a recovery in the oil price will start to make those moves now. And this is especially true in the context of conventional oil.

Libya, like China, is positioning itself for the future, though for different reasons.

Libya needs the cash from its oil reserves to pay for its budget priorities while China needs the barrels to satisfy the needs of its growing population. And both want the resource at the lowest possible price.

What this shows is that there are two types of players that are going to shape

the new energy playing field beyond the current downturn — those with the long time horizons and those beholden to the short-term mindset of the markets and shareholders.

For the longer term players — like China and Libya — a five- or seven-year time horizon is irrelevant. They know that oil prices will recover and have the luxury of not having to report to shareholders. But for publicly traded companies, that same time frame may as well be an eternity.

While it's interesting that Verenex has unwittingly found itself in a battle between two national oil companies, the very fact this is taking place shows there is another factor that will shape the energy world in the years to come.

That would be the element of geopolitics. In the current example, it's OPEC against China. And Libya has already shown it's not shy when it comes to renegotiating existing contracts to get a bigger share. Libya is in no position to control the oil price but it can play with royalties and taxes.

For its part, China has not been shy of late in looking for opportunities to secure supply and is wielding a big chequebook.

In addition to striking the deal to buy Verenex, it has agreed to buy between 100,000 and 160,000 barrels a day from Brazil as well as provide Petrobras with loans of as much as \$10 billion. China also signed a \$25-billion deal with Russia's Rosneft that will see oil produced from the fields in eastern Siberia flow into China.

How the new twist in the sale of Verenex will play out is anyone's guess. Obviously, much depends on whether the Libyans choose to exercise their right of first refusal. If they do, and CNPC is not included in the final outcome, it raises the question of how long it takes before China and its associated players cast their collective sights toward Alberta's oilpatch and a move is made on one of the moribund oilsands projects in need of cash.

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