



This Middle Eastern Event Could Be a Game-Changer for the Oil Patch

Description

As far back as most investors can remember, the Middle East has been a volatile place.

Each of the last few decades has seen some sort of major geopolitical event. The 1980s saw a devastating war between Iran and Iraq, which dragged on for most of the decade. The 1990s saw the United States invading Iraq in the first Gulf War, as well as Israeli Prime Minister Yitzhak Rabin being assassinated. In the 2000s, tensions in the area were raised again as the United States invaded Iraq for the second time.

Each of these events led to big spikes in the price of crude oil as investors reacted to the news. Generally, conflict has the potential to lead to lower oil output from the region, since oil workers don't want to be caught in the line of fire. Depending on how widespread a conflict gets, production can suffer a little or a lot.

Right now, such an event is unfolding in Iraq.

This week, militants seized the northern city of Mosul and forced repairs of the country's main pipeline to the Mediterranean to be put on hold. This event turned what was previously viewed as a small conflict into something that's obviously much bigger. Now, observers are concerned the country could slip back into a civil war.

The new Iraqi government has requested the assistance of the U.S. in the conflict, but there's no indication that the Obama administration is willing to lend a helping hand. The war in Iraq continues to be unpopular with American voters, so sending in troops could be a political disaster. Obama also is personally against the conflict, and made winding it down one of his priorities as president. Iraqis could be waiting a long time for American support.

At this point, the conflict is centered in the northern part of the country, with the vast majority of oil production happening in the south. Still, as the rebels continue to have success, there's always the potential that they could affect more of Iraq's five million barrels' worth of daily production.

The price of oil shot up on this news, gaining 1.5% yesterday, adding to its gain of nearly 10% since

April lows. As always, Canadian oil producers are set to reap the benefits from Middle Eastern instability, especially if the Canadian dollar remains weak and further pushes up the value of oil exports.

A big winner of this situation should be **Suncor** ([TSX: SU](#))([NYSE: SU](#)), the largest player in Canada's oil sands, which produces more than 400,000 barrels per day of bitumen. The company continues to be a favourite producer for investors because of its low-cost oil sands operations, huge reserves, and improving production. Dividend investors also like the company's 2% yield and rapidly growing dividend.

Not everything is rosy in the oil sands, though. It's an area plagued by ballooning costs and pipeline shortages. Perhaps investors would be better suited to **Arc Resources** ([TSX: ARX](#)), which has operations spread out between all four of Canada's western provinces in both oil and natural gas.

Arc's most recent results showed that the company grew production 11% compared to a year ago, and also increased revenue 46% on a year-over-year basis thanks to much higher natural gas prices. The company's netback also increased substantially, which is a key metric of profitability. Things are looking up for Arc and its 3.7% dividend yield.

One energy company that is likely to underperform on this news is **Talisman Energy** (TSX: TLM), which owns more than 119,000 acres in northern Iraq in a joint venture. The company has been looking to sell its share of this asset for months as it focuses on domestic production, but has been unable to find a buyer.

The Iraqi project hasn't actually started production yet, as the company continues drilling test wells. Still, who knows what the future will hold for the region. It could be years until the situation in Iraq becomes clear, and it seems all but certain this will slow any progress significantly.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
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