3 Reasons Why the Price of Oil Could Surge

Description

Thanks mostly to fighting between Sunni rebels in the northern part of Iraq, the price of oil has been on a tear lately, surging more than 5% in just a little over a week. There's little evidence the situation there is going to settle down any time soon, since the militants are calling for an independent Sunni state that includes parts of northern Iraq and southern Syria.

The Iraqi government knows it has a problem, and has called on the United States for help. President Obama did respond by committing to send a small army of military consultants to the country, but is reluctant to send any combat personnel. There's little doubt that sending troops would be a disaster, at least politically.

While sympathetic to the people who are being affected by the tensions in the country, as investors we're curious about something — how will the price of oil be affected? Obviously I don't have a crystal ball, but I believe that this could be just the start of a new, multi-year bull market in energy. Here are three reasons why.

1. Increased tensions

Forget about Iraq for a moment, even though the latest developments have the rebels capturing the country's largest oil refinery. The entire region is unstable, and investors have seemingly forgotten all about it.

Libya still hasn't replaced the one million barrels per day worth of production it lost because of its civil war. Although Syria's production was just 400,000 barrels per day, the constant talk of its civil war on the news has had a psychological effect on investors. Even Iran, which is the second-largest producer in the region after Saudi Arabia, constantly sabre-rattles with the United States and Israel when it comes to issues affecting the area. In contrast, these aren't issues that affect Canadian producers.

One producer which could be affected by these tensions is **Talisman** (TSX: TLM)(NYSE: TLM), which has undeveloped assets in the region. Still, an sustained increase in oil prices should be more than enough to make up for the small part of Talisman's assets that are located in Iraq.

2. U.S. supply issues

Much has been made about the United States and its increased energy production, particularly from North Dakota and Texas. However, things may not be a rosy as first advertised.

An increasing percentage of production is coming in the form of condensate, which is difficult to refine and is made into other petrochemical products, not gasoline. Condensate is technically an oil product, and therefore can't be exported because of U.S. government rules unless it is refined into something different. Refiners are doing this, because demand just isn't there domestically.

Because much of the country's production growth is in the form of condensate, U.S. oil inventory numbers just aren't as rosy as they seem on first glance. This will inevitably lead to higher prices, especially as world demand keeps increasing.

3. Oil sands issues

Unfortunately for Canada's heavy oil producers, we have our own set of problems with the oil sands, even though in the long term they are terrific assets. It costs too much to get oil out of the ground.

Many oil sands projects have been held back by cost overruns. Not only does it cost a whole lot more to build the infrastructure needed for these giant projects, but it's becoming more difficult to attract staff to work in the region. **Suncor Energy** (TSX: SU)(NYSE: SU) has been affected the most, pulling the plug on two planned projects in the region in just the past year.

That's why **Canadian Oil Sands** (TSX: COS) may be the best choice for investors looking for exposure to the oil sands. The company has been producing in the region for decades, and doesn't have nearly the cost overrun risk that a producer just expanding into the area would encounter. Also, based on current production, the company has more than 40 years' worth of reserves remaining. Canadian Oil Sands should continue producing without a hitch for decades, and investors are treated to a 5.8% dividend to hold it.

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