



3 Reasons Not to Worry About the Oil Price Slide

Description

In recent months, it seems that oil prices have only moved in one direction: straight down. The West Texas Intermediate (WTI) oil price, which is the main American benchmark for crude, is now hovering around \$85, down from over \$100 earlier this year. And many observers believe the slide will continue.

There are plenty of reasons for this view. Production is very strong in the United States and elsewhere. Europe and China are both growing slower than expected. And other issues, like the Ebola outbreak in West Africa, are weighing on people's concerns.

Canadian energy stocks have felt this pain. Shares of **Suncor Energy Inc.** ([TSX: SU](#))([NYSE: SU](#)), Canada's largest energy company, are down by nearly 25% since June. Likewise, **Canadian Natural Resources Ltd.** ([TSX: CNQ](#))([NYSE: CNQ](#)) has slid by 25% since July.

That being said, there are reasons to believe that the oil price slide is temporary. And there's no better way to make that bet than the two companies above.

3 reasons to bet on oil

1. Supply in the United States is not all it's cracked up to be

The shale revolution has been nothing short of transformational. From 2008 to 2013, U.S. oil production has surged by 64%, and the country has become the world's largest producer, ahead of Saudi Arabia and Russia. Understandably, prices have reacted negatively as a result.

But there are some serious red flags. For one, shale wells come with steep decline rates. By one estimate, the average well in North Dakota's Bakken region declines by 44% in the first year. In other regions, the declines can be much higher. As a result, producers are always having to spend big dollars just to maintain existing production.

To pay for these new wells, many producers are racking up big debt loads, which in many cases will become too much of a burden — especially with depressed oil prices.

2. World supply is getting pricier

Meanwhile, the cost of extracting oil around the world is not getting any cheaper. More and more of the world's reserves are in deep water or ultra-deep water, and this can be prohibitively expensive. Many of the best reserves have been drilled already, and without high prices, production could suffer longer term.

This could lead to big problems in oil-producing nations. For example, Saudi Arabia needs an oil price of roughly \$87 to balance its budget, and the figure is higher in Iraq. Countries like Venezuela and Libya are also particularly unstable, and low oil prices could lead to big problems. How that affects production is anyone's guess.

3. World demand should be resilient

This is something that separates oil from something like materials. Many commodities, such as steel, are dependent on building activity – so if China suffers a property bubble, then demand could fall off a cliff.

But oil is more dependent simply on economic activity. So while sluggish growth has not been helpful, the risks are not as great as they are for mining companies.

Therefore, with Europe's currency on solid footing, and China growing its energy usage, there will always be plenty of demand. As a result, there should be plenty of support for the oil price when the next supply disruption comes.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. NYSE:SU (Suncor Energy Inc.)
3. TSX:CNQ (Canadian Natural Resources Limited)
4. TSX:SU (Suncor Energy Inc.)

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