The Simple Reason Why Oil Stocks Will Be Top Performers in 2015

Description

Oil was a major newsmaker in 2014 as the price continuously dropped to where it is now, trading near the cost of production. This development has been hard on oil producers, and stock values have suffered as result. The positive news is that due to recent developments, oil simply will not stay this low for much longer, making right now the time to purchase oil producers such as **Crescent Point Energy Corp** and **Canadian Natural Resources Limited** (TSX:CNQ)(NYSE:CNQ).

2014 and oil, a quick recap

Oil's downward trajectory started to pick up speed around the Memorial Day holiday when demand for gasoline came in below expectations. This was largely due to a hurricane that prevented many drivers from hitting the roads for a weekend getaway; however, over summer, the peak driving season, the trend continued, with fewer drivers on the roads, reducing gasoline demand and putting oil prices under pressure. At the same time, U.S. oil production continued at a rapid pace. This high-supply/lower-demand scenario was enough to even overshadow geopolitical tensions in oil producing regions, and oil prices languished.

Production cuts around the corner

Currently, West Texas Intermediate crude is trading around $76 per barrel, whereas its overseas counterpart, Brent crude is trading at $80.12 per barrel. There are two major forces in the oil market now, OPEC and North America. Now, according to estimates by **Morgan Stanley** and **Goldman Sachs**, the cost of production for U.S. oil is around $72-$76 per barrel. That means oil is already trading at or near the cost of production.

Now, while OPEC does not give an average production cost for its oil, according to statements from oil officials, the cartel is "used to" $100 per barrel oil (Brent crude). Therefore, the organization is already considering production cutbacks and officials think that if Brent hits $70 per barrel there will be some rapid action from the organization in the form of major supply cutbacks.

So, we have two possible situations that will continue to develop into 2015. Either anemic oil prices will result in the gradual curtailment of North American oil production, and as these production cutbacks lower oil supply, we will see prices gradually ascend.

Or oil prices will continue their descent, to where Brent crude hits the key $70 per barrel price point and then OPEC will announce a production cutback. OPEC's production cutbacks, because they are coordinated and swift, will result in a dramatic drop in supply and then in turn prices will quickly ascend.

Either way you look at it, soon we will see oil prices ascend and this is why oil producers such as Crescent Point Energy and Canadian Natural Resources Limited could be top performers in 2015. During the last bull run in oil prices, Canadian Natural Resources' stock almost quadrupled in value, whereas Crescent Point Energy's stock gained over 230%.

CATEGORY

1. Energy Stocks
2. Investing

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2. TSX:CNQ (Canadian Natural Resources Limited)

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Author
lklingel