



Have Canadian Oil Producers Finally Bottomed?

Description

A sudden change in sentiment has sent the battered and bruised Canadian energy sector surging higher, and investors are wondering if this is the start of a new rally or simply a head fake before another move to lower lows.

Brent crude dropped below \$60 in early trading on December 16, to the lowest price since May 2009. West Texas Intermediate (WTI) briefly hit the \$54 mark. Then, something happened.

WTI quickly rebounded back above \$56 and investors suddenly piled into the energy sector. Short sellers scrambled to cover positions and investors who had been sitting on the sidelines decided to pull the trigger and pick up some bargains, or so they thought.

As an example, **Crescent Point Energy Corp.** (TSX: CPG)(NYSE: CPG), **Baytex Energy Corp.** ([TSX: BTE](#))(NYSE: BTE) and **Encana Corporation** (TSX: ECA)(NYSE: ECA) all initially surged more than 10% and many companies in the sector enjoyed gains of 5% or better.

Is the move sustainable?

The sudden optimism comes as a surprise considering global economic news is anything but encouraging. A Chinese economic gauge, the Purchasing Managers' Index (PMI), recently dropped below 50 to its lowest point in more than six months and is signaling a contraction in the economy.

Slowing economic growth in China doesn't bode well for the demand side of the oil price equation, given the fact that Chinese demand represents more than 10% of expected 2015 global oil consumption.

At the same time, global oil producers continue to say they will not back down in a standoff that has OPEC members playing a game of chicken with Russia and the North American producers. The United Arab Emirates' energy minister recently said OPEC plans to maintain current production levels, even if oil drops as low as \$40 per barrel.

The consortium does not even plan to meet again until June 2015.

Currency devaluations in Russia, Brazil, Mexico, Turkey, and Indonesia now have some pundits talking about a possible financial meltdown similar to that experienced in 1998. Bond defaults by Venezuela and Russia are looking more likely every day, and the strong U.S. economy could actually be the spark that sets it all off.

U.S. employment numbers are improving to the point where many economists now believe a rate increase is in the cards for 2015. A hike in U.S. interest rates could trigger more volatility in emerging market currencies and impact international bond prices even further.

Again, none of this is positive for oil prices.

What should investors do?

Volatility is likely to continue in the oil market, and investors in Canadian energy stocks might want to wait until the dust settles on the current rout before committing new money to the space.

As 2014 comes to a close, the recent instability in the Canadian equity market has many investors wondering where to invest in 2015. The following free report is worth reading if you have been thinking about adding a few U.S. stocks to your watch list.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:VRN (Veren)
2. TSX:BTE (Baytex Energy Corp.)
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