



4 Reasons Why Crude Prices Will Remain Low

Description

The oil rout continues to hit oil companies hard. It is also having a marked impact on Canada's economy, but according to some industry insiders, relief is in sight as crude is expected to rebound by as much as 30% in the second half of 2015.

Now what?

Despite the positive outlook taken by industry insiders regarding the outlook for crude, there are growing signs that any significant rebound may still be some way off.

First, despite U.S. shale oil producers continuing to shutter production and U.S. rig counts being at their lowest level since 2010, U.S. oil production continues to grow. February 2015 U.S. crude production was up by just under 1% compared to the previous month and 15% compared to the same month in 2014.

Second, crude inventories are at record levels. U.S crude inventories have hit their highest level in over 80 years to now stand at 449 million barrels. With crude production still growing and global demand waning, these inventories can only increase in the foreseeable future.

Third, a sanction-ending deal with Iran regarding its nuclear program is fast emerging. The OPEC member has agreed to a framework for the nuclear deal and if it acquiesces to Western demands about ending its nuclear program, trade sanctions will be eased or possibly even lifted. This will allow Iran to ship even more crude into an already flooded market where supply is outpacing demand.

Finally, Saudi Arabia appears to be determined to keep crude production at present levels. The Saudis are hell-bent on regaining their declining market share at all costs by keeping prices low and not cutting production. This is pressuring high-cost oil producers out of the market.

Pressure from OPEC members including Venezuela, Nigeria, and Iran will not be enough to force the Saudis to cut production, given their robust economy and considerable foreign currency reserves.

So what?

With all of these factors in play, you could be forgiven for thinking that investors should avoid the patch. However, as a contrarian deep-value investor I believe it has created a once-in-a-lifetime buying opportunity, because a number of upstream producers now have attractive valuations.

Those that stand out because of their high-quality assets and solid balance sheets include **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG), **Bonterra Energy Corp.** ([TSX:BNE](#)), and **Vermilion Energy Inc.** ([TSX:VET](#))([NYSE:VET](#)). Vermilion also has the added benefit of accessing premium Brent prices, giving it a financial edge over those companies that can only access West Texas Intermediate pricing.

I also like integrated energy major **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) for the same reasons and also because of its refining operations. These, by virtue of their increased profitability because of weak crude prices, will help to offset lost earnings from its upstream operations.

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2. NYSE:VET (Vermilion Energy)
3. NYSE:VRN (Veren)
4. TSX:BNE (Bonterra Energy Corp)
5. TSX:SU (Suncor Energy Inc.)
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