3 Reasons Why Oil Prices Will Remain Low for the Remainder of 2015

Description

Despite industry insiders remaining confident that oil will rebound later this year, there are signs that sharply lower oil prices are set to become a feature of the economic landscape for longer than expected.

Now what?

There are headwinds set to impact the demand for crude and even increase its supply.

First, global demand for crude remains weak.

Economic activity is a key driver of demand for crude, and while the U.S. economy continues to perform strongly, the outlook for other economies is not as rosy.

Growth in the world's second-largest economy, China, remains in terminal decline. The 2015 GDP is expected to expand at its lowest rate in almost three decades. This comes after a significant fall in manufacturing and construction activity, which has applied considerable pressure to commodity prices.

Weak oil and commodity prices are having a significant impact on a number of emerging economies because they are key exports that generate much-needed hard currency and economic growth. This is creating an economic slowdown across emerging markets, further contributing to global macro-economic uncertainty.

The outlook for the Eurozone also remains uncertain, despite the ECB's recently implemented economic stimulus. The region has found itself caught in a deep structural slump, with it still dealing with the fallout from a number of economic crises. This certainly don't bode well for any short-term spike in demand, placing further pressure on crude prices, especially with the global supply glut set to continue.

Second, a nuclear deal with Iran will relax trade or even lift sanctions, allowing it to boost crude sales.

While it may take some time for the deal to be completed, it will eventually give Iran greater access to global oil markets. This could create an additional one million barrels of crude daily, hitting global energy markets that already have a surplus of around 1.5 million barrels daily.

Finally, U.S. oil inventories are at record levels.

While we haven't heard of growing U.S. crude production since late March, oil inventories are at their highest level in 80 years and there are no signs of them declining any time soon. The increased demand from U.S. refiners has yet to have any meaningful impact on oil inventories and significant withdrawals from onshore oil storage is critical to boosting oil prices.

So what?

The impact of sharply lower oil prices will not only be confined to the energy patch. It is set to have a broad impact on Canada's economy. This makes it imperative for investors to avoid those companies with significant direct and indirect exposure to crude and the energy patch.

Regional bank **Canadian Western Bank** (TSX:CWB) is just one such stock. It has 42% of its loans in Alberta, which will be among the hardest-hit regions, thereby having a significant impact on the bank's earnings.

Investors are better off hedging against economic uncertainty with defensive dividend stocks like **Fortis Inc.** (TSX:FTS). The demand for electricity remains steady even in the worst of economic times and this has allowed Fortis to consistently grow its earnings and dividends. In fact, Fortis has hiked its dividend almost every year since commencing payments in 1972.

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Author
mattdsmith