



## Why Friday Could Be Judgement Day for Canada's Oil Producers

### Description

On Friday, the Organization for Petroleum Exporting Nations (OPEC) will meet in Vienna, Austria, and they will decide whether or not to adjust the cartel's production quota.

This is a very important event for all oil producers, especially those in Canada. So, if you own shares in a Canadian oil company, such as **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) or **Imperial Oil Limited** ([TSX:IMO](#))(NYSE:IMO), you should be watching very closely.

We will take a look at what to expect from the meeting, and also examine how you should react.

### Steady as she goes

OPEC last held such a meeting in late November. At the time, they decided to hold production levels steady, despite declining oil prices. The move sent oil prices tumbling farther. We all know what followed next for Canada's oil producers: disappearing profits, slashed dividends, balance sheet problems, and plummeting stock prices.

At this meeting, we should expect a similar outcome from the cartel. In a *Bloomberg* survey of analysts and traders, 33 out of 34 respondents predicted OPEC would hold its quota at 30 million barrels per day.

Because this result is so widely expected, you shouldn't expect oil prices to collapse like they did last time. But if you're counting on a production cut leading to a bounce-back in prices, you'll surely be disappointed.

### Will it work in the end?

There's plenty of disagreement on the efficacy of OPEC's strategy thus far. Some point to declines in the U.S. rig count, along with the stabilization of prices, as proof that the strategy is working. Others claim that OPEC's approach is failing by pointing out that American producers have cut costs and held production steady.

But there is one thing most of us can agree on: OPEC's strategy is the best one available. If the cartel were to cut production, there's little doubt that North American producers would fill the void. So, at this point OPEC's only choice is to defend its market share, and hope it can outlast the Americans in a price war.

If you're a Canadian producer, this is not good news. Canadian production is generally viewed as high cost, and a weak loonie isn't enough to bridge the gap. So, as American producers get caught in a price war, Canadian companies are facing collateral damage.

### **How should you react?**

Despite this dire outlook, Suncor and Imperial are forging ahead with major oil sands projects. And both their stock prices have been relatively unaffected; Suncor's share price is down only 14% in the last year, while Imperial's stock has dropped just 9%.

So, these companies' management teams, as well as their shareholders, seem to be expecting a big oil rebound. If that doesn't happen, then there could be some pain ahead, starting Friday. You should stay away.

### **CATEGORY**

1. Energy Stocks
2. Investing

### **TICKERS GLOBAL**

1. NYSE:SU (Suncor Energy Inc.)
2. NYSEMKT:IMO (Imperial Oil Limited)
3. TSX:IMO (Imperial Oil Limited)
4. TSX:SU (Suncor Energy Inc.)

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