



3 Reasons Oil Prices Are About to Fall

Description

If you hold blue-chip stocks such as **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)), **Canadian Natural Resources Ltd.** ([TSX:CNQ](#))([NYSE:CNQ](#)), or **Crescent Point Energy Corp.** ([TSX:CPG](#))([NYSE:CPG](#)), the next few months could get quite messy. After rebounding slightly earlier this year, oil prices look set to fall again.

Below we take a look at three reasons why.

1. The U.S. dollar

Generally speaking, the U.S. dollar and oil prices tend to move in opposite directions. Put more simply, when the U.S. dollar appreciates, oil prices tend to decline and vice versa.

And these days, there are two big reasons to believe the U.S. dollar will gain in value. First of all, the U.S. Federal Reserve could easily raise interest rates later this year. September seems the most likely month, according to several officials.

Secondly, the crisis in Europe should compel investors to seek safer currencies. And that usually means the greenback.

There is a silver lining here for Canada's oil producers. A stronger U.S. dollar is a definite positive for the bottom line, and helps to soften the impact of lower oil prices.

2. Inventories

American oil inventory levels had been declining for two months going into last week, and analysts expected more of the same. On average, they forecasted inventories to decline by two million barrels.

Instead, oil inventories *rose* by 2.4 million barrels. What made this even more surprising is when it happened. We are now in the midst of the summer driving season, so gasoline demand is high, and refineries are running at 94% capacity to meet this demand.

To put it more simply, oil supply is having no trouble keeping up with (and even exceeding) demand, which doesn't bode well for oil prices.

3. Iran

In recent years, Iran's oil industry has been hampered badly by international sanctions, a product of the country's nuclear program. But Iran is nearing an agreement to have these sanctions lifted over time—the deadline for these talks has just been extended to July 7th.

There are plenty of opponents to these talks, including Israel, some Arab States like Saudi Arabia, and Republicans in the United States. But even if the talks break down, countries such as China and Russia will likely ignore the sanctions regime in the years ahead. So, one way or another, Iran's oil will find a way to market.

Meanwhile, the stocks of Canada's major oil producers have held up relatively well. The three companies mentioned before have each declined by only 5-6% in 2015. This could be a great opportunity to unload these stocks.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. NYSE:SU (Suncor Energy Inc.)
3. NYSE:VRN (Veren)
4. TSX:CNQ (Canadian Natural Resources Limited)
5. TSX:SU (Suncor Energy Inc.)
6. TSX:VRN (Veren Inc.)

Category

1. Energy Stocks
2. Investing

Date

2025/07/22

Date Created

2015/07/06

Author

bensinclair

default watermark