3 Reasons You Should Expect Oil to Fall Back into the $40s

Description

Back in June, oil prices seemed to be on the road to recovery. Rig counts in the United States were dropping, as were inventory levels, and geopolitical events across the globe were bringing about supply fears.

But now oil is back in bear-market territory, and the news could get a lot worse. As of this writing, oil has sunk back into the low US$50s after surging into the US$60s last month. This is not good news for Canada's large energy producers, such as **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) and **Suncor Energy Inc.** (TSX:SU)(NYSE:SU).

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And the news could easily get worse. In fact, one energy trader, while speaking to *Business News Network* predicted that oil prices could range between US$46-54 over the next few months. Below are three reasons why he's so bearish.

1. Greece

The situation in Greece has gone from bad to worse, and it's had a big effect on the oil market in two ways.

First, this mess does not bode well for the European economy, and for that reason oil demand could easily slip. Second, the euros uncertainty is bullish for the U.S. dollar, which tends to put downward pressure on oil prices.

It's hard to know what happens from here. Perhaps a deal will be reached. But there's a real chance that Greece could exit from the euro, and that would be uncharted territory for the currency. If that happens, I wouldn't want to hold any oil stocks.

2. The rig count

For 29 consecutive weeks, the oil rig count in the United States fell, signaling a reduction in drilling. All told, the number of rigs fell from 1,609 in October to 628 two weeks ago. Yet oil production held up relatively well because rigs were more efficient than ever before.

But last week, the rig count actually rose to 640, defying expectations. Inventories also rose for the first time in nine weeks, even though we are in the midst of the summer driving season. Both developments signal rising oil production, and are very bearish for prices.

3. China

All eyes are on Greece right now, but China's stock market is crashing. In fact, it's down by about 30% since mid-June. Attempts by the Chinese government to prop up the market haven't borne fruit thus far.

If this market crash worsens, it could wide-ranging effects on the economy. And that would be a big negative for oil markets.

Like Greece, it's very hard to know what the future holds here. But we can't forget that the Great Depression started with a stock market crash in the late 1920s.

So, instead of holding oil stocks, now is a perfect time to hold safer securities, such as consistent dividend stocks.

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