



2 Reasons Why Oil Prices Will Remain Low for the Foreseeable Future

Description

The price of crude has fallen yet again and with it is another slew of data indicating there is a long way to go before the rebound in crude occurs. In fact, it's not hard to see from this data why oil prices will remain stubbornly low for the remainder of this year and into the next.

Now what?

Among this negative data was that the U.S. rig count has risen for the last four straight weeks. In an environment where global oversupply is the key driver of lower crude, this is particularly bad news, indicating that U.S. oil supply is set to increase for the foreseeable future.

For many oil companies, the sharp collapse in crude was a wake-up call that made them focus on reigning in costs and improving the commercial viability of their operations. As a result, many of their breakeven costs per barrel have fallen to the point where they can turn a profit even with WTI trading at US\$60 per barrel or less.

You only need to look at **Crescent Point Energy Corp.'s** (TSX:CPG)(NYSE:CPG) operations in the Saskatchewan Bakken to see this at work. Over the last quarter it focused on boosting output from its assets in this region because this part of the Bakken formation is estimated to have an average breakeven cost of less than US\$50 per barrel.

Next, there is the phenomenon of growing U.S. oil output despite lower rig counts and sharply diminished investments in developing oil acreages.

This, in part, can be attributed to many oil companies electing to complete unfinished wells when WTI was hovering at US\$60 per barrel only weeks ago. Among them was Canadian oil producer **Enerplus Corp.**, which announced in June that it would complete eight unfracked wells on its Bakken acreage. This is a smart move for companies like Enerplus that have built up a backlog of uncompleted wells, and I expect this trend to continue over the remainder of 2015.

You see, the costs associated with completing a well are far lower than drilling, so once the well is finished and starts pumping, they will receive at least some return on the tremendous amount of capital

invested to drill the wells. With a U.S. backlog of about 4,000 uncompleted wells estimated to hold additional daily production of 500,000 barrels, I expect this to continue having a profound impact on North American oil prices.

So what?

This is certainly not a good time to be invested in oil, but let's not take our eyes off the long-term picture. Demand for oil, like many commodities, is cyclical, and will bounce back over the long term, making it imperative that investors not only hold their ground, but also invest only in those energy companies capable of weathering a prolonged downturn.

My favourite remains Crescent Point because of its solid financial position and quality oil assets. The integrated energy majors like **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) also continue to do well because of their deep pockets and ability to offset declining margins in their upstream operations because their refining business is capable of generating higher margins for as long as crude remains low.

CATEGORY

1. Energy Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. NYSE:VRN (Veren)
3. TSX:SU (Suncor Energy Inc.)
4. TSX:VRN (Veren Inc.)

Category

1. Energy Stocks
2. Investing

Tags

1. Editor's Choice

Date

2025/09/09

Date Created

2015/07/16

Author

mattdsmith

default watermark