Top Oil Trader Sees No Relief for Beaten-Down Oil Sector

Description

As the layoffs and dividend cuts continue to pile up in Canada's oil sector, one of the world's top independent oil traders says weak oil prices will continue well into 2016. Supplies are continuing to overwhelm demand, says Vitol Group BV chief executive officer Ian Taylor, meaning stockpiles will keep expanding for the next few quarters, and inventories might not clear until 2017*.*

"Oil prices will be stuck between $40 and $60 a barrel this year and in 2016," Taylor said in an interview with *Bloomberg.* "I don't see much reason to go higher and we can go lower," and this is because the physical crude oil market is "quite weak" right now.

Vitol, which handles more than five million barrels a day of crude oil and refined products, hasn't been hurt significantly by lower prices as independent producers benefit from a structure known as contango, where forward prices are higher than current costs, allowing traders to buy oil, store it, and lock in a higher selling price for a later date using derivatives.

Other oil producers haven't been so lucky. On Tuesday **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE) announced plans to cut its workforce by 400 jobs and said it would suspend dividend payments to shareholders after its next payment in October in the wake of stubbornly low oil prices. The oil and gas producer also said it would reduce drilling and other operating costs.

Penn West said it expects to save about $45 million per year from the reductions, for which it will record a charge in the current quarter. In March, Penn West reduced its quarterly dividend to one cent per share from 14 cents. The company expects to save about $20 million by suspending the payout altogether.

Penn West reported a net loss of $28 million in the second quarter compared with net income of $143 million in the second quarter last year. Revenues fell 45% to $360 million as production in the quarter averaged around 91,000 barrels of oil equivalent per day, down from about 106,000 last year, but still within the company's guidance range.

Meanwhile, **Pengrowth Energy Corp.** (TSX:PGF)(NYSE:PGH) announced plans to cut its dividend in half to one cent per share in response to weak oil prices. The cut will take effect in December after the oil company makes a previously scheduled payment of two cents per share on Sept. 15.

University of Calgary energy economist Michal Moore told *CBC News* he expects there will be more oil patch layoffs this fall. “The long term picture is—at least over the next 18 months or so—is pretty bleak. And the companies are hunkering down trying to make sure they can survive that period,” he said.

So, the evidence suggests that weak oil prices will continue for at least another year, leading to more layoffs and dividend cuts. It’s a clear signal for investors to avoid the sector until it shows some signs of life.

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