



Could Oil Reach \$20?

Description

With oil currently floating between \$45-50 a barrel, oil producers are struggling to readjust operations that were built on \$100+ oil prices. Margins have plummeted, capital expenditures are being slashed, and most oil companies have seen their stocks crushed.

In the past 12 months, **Enerplus Corp.** is down 67%, **Encana Corporation** is down 62%, **Canadian Natural Resources Limited** is down 42%, and **Imperial Oil Limited** is down 25%.

What if this was just the beginning?

The latest report out of **Goldman Sachs Group Inc.** says that a global supply surplus could force prices as low as \$20 a barrel. This would be a death blow to dozens of Canada's largest producers. Is this scenario possible?

Supply, supply, supply

Goldman's thesis revolves around the belief that the world's oil glut is even bigger than most investors think: "The oil market is even more oversupplied than we had expected and we now forecast this surplus to persist in 2016."

With the U.S./Iran deal set to go through and OPEC pretty much saying that they are not going to change their production, the supply glut could easily get even worse. While Saudi Arabia's crude oil production dipped by 100,000 barrels per day in August, OPEC continued to produce close to record volumes. Russia and Mexico have also indicated they will not cut production. And while gasoline demand is at a multi-year high due to lower prices, slowing growth from China could more than wipe out any recent demand gains.

Never-ending supply matched with a major demand headwind is the right combination for continued price declines.

The IEA disagrees

The International Energy Agency (IEA) also recently released a report that sings a vastly different tune. The IEA is now forecasting non-OPEC oil supplies to fall by roughly 2% to 58 million barrels per day in 2016.

Leading the charge is the U.S., which has already seen some pretty immediate supply declines. New data shows that U.S. oil production is down over 5% from its 9.7 million barrels per day peak in April. With the rig count continuing to fall, it's unlikely that this supply shrinkage will reverse any time soon.

Still, the IEA appears to agree with Goldman Sachs on the subject of OPEC. Led by Saudi Arabia, the cartel has been pumping more oil than the market needs. With OPEC expected to produce 32 million barrels per day by the second half of 2016, this has the potential to offset the dramatically falling U.S. production.

How to invest?

Clearly, opinions on the future price of oil have been fluctuating wildly. Despite the short-term fluctuations, it's always best to remain focused on the long term, taking advantage of any mispricing the market may give you from time to time.

The Motley Fool's [Top Stocks for September](#) has a few energy-related names to consider for the long haul. One in particular, **Enbridge Inc.** ([TSX:ENB](#))([NYSE:ENB](#)), forecasts cash flows to grow an average of 18% per year from 2014 to 2018. This growth supports Enbridge's estimates of growing dividends at an average of 14-16% per year over the same time period.

Sticking with long-term winners such as Enbridge Inc. is your best bet at navigating the current market profitably.

CATEGORY

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1. NYSE:ENB (Enbridge Inc.)
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