3 Catalysts That Will Support Higher Oil Prices

Description

It's been a tough year for energy investors with the sharp collapse in oil prices taking a heavy toll on some of the energy patches biggest names. Even dividend stalwart **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) slashed its dividend by 57% because of declining cash flows and a growing share count.

Now some pundits are claiming that oil prices could fall even further, but these claims, as I will explain, are significantly overblown. This is because there are emerging signs that oil prices may, in fact, be due for a modest recovery in coming months, giving the energy patch some much-needed relief.

Now what?

The Saudi's have flagged that they remain committed to their strategy of keeping oil prices low as a means of regaining market share, but there are a range of indicators that global oil output may, in fact, fall.

Firstly, low oil prices are having a significant financial impact on the majority of OPEC members.

While member states with weak economies, such as Venezuela and Nigeria, are particularly vulnerable, oil prices are even having an impact on Saudi Arabia. According to the IMF, Saudi Arabia will incur a 2015 annual budget deficit equal to 20% of its GDP, which equates to a massive funding shortfall of about US$140 billion.

In order to plug this gap, the Saudi's are drawing on their foreign currency reserves, which are down by 9% since January, and they have redeemed around US$70 billion in investments.

Clearly, this is unsustainable over the long term for a country that was engaged in a costly war in Yemen and is determined to remain a dominant regional power.

Secondly, fears of a significant uptick in oil exports from Iran are overblown.

Market observers remain concerned that since reaching a sanction-lifting deal in its nuclear program, Iran will flood the market with an additional million barrels of crude daily.

However, what many don't realize is that Iran needs a sizable capital investment of US$100 million or more along with external expertise if it is to boost its oil output. When coupled with the long lead in times required to bring additional oil production online, it is highly unlikely that there will be any marked increase in output from Iran for some time.

Finally, the sharp decrease in the U.S. rig count will eventually translate into lower production.

The U.S. oil industry thus far has proven resilient, with output remaining unchanged since the start of 2015, despite the rig count falling by half over that period. This can be explained in part by the amount of time required to wind down production, which will cause U.S. output to fall by up to 400,000 barrels per day during 2016, according to the International Energy Agency.

So what?

For these reasons, I don't believe that the sustained weakness in oil prices can continue, and investors should now consider dipping their toe into the patch.

With this in mind, one of the best ways to play any rebound in oil is Crescent Point. The company is attractively priced and possesses a portfolio of high-quality light- and medium-oil assets.

More importantly, even if I am wrong, it is well positioned to weather the harsh operating environment because of its hedging program and highly liquid balance sheet with unused credit totaling $2.6 billion and $20 million of cash at the end of June 2015.

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