He Was Right About an Oil Collapse. Now He's Calling for $130 Oil

Description

Most of us have never heard of Emad Mostaque, but in the summer of 2014, the London-based analyst predicted a crash in oil prices. At the time, oil was trading for over $100 per barrel and few were predicting such a sharp fall in prices. But he has since been vindicated.

Now Mr. Mostaque has changed his tune. In an interview on *The Business News Network*, he predicted that oil could reach US$130 per barrel by 2017. This would be excellent news for Canada's energy producers, including **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG), **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE), and **Canadian Natural Resources Limited** (TSX:CNQ)(NYSE:CNQ).

So, why exactly is Mr. Mostaque so bullish on oil? We look at the top three reasons below.

1. The Wile E. Coyote moment

As oil prices continue to languish, production in the United States has finally started to fall. According to the most recent monthly data from the U.S. Energy Information Administration, crude oil production peaked in April before dropping by 3% over the next four months.

Mr. Mostaque thinks this trend will accelerate in the coming months. He even predicted that production will fall off a cliff, calling it a "Wile E. Coyote" moment. That would result in a massive shortage and a big price increase.

A common belief is that if oil prices rally, shale producers can simply ratchet up supply. But Mr. Mostaque believes it's not that simple. He said that by 2017, the most prolific basins, such as Eagle Ford, could be depleted, and that new production will require further exploration. This will be problematic because we are currently seeing exploration budgets getting slashed.

2. Supply issues elsewhere

It's no secret that world oil production comes from some very unstable regions. We've all seen the recent news from Egypt, in which a Russian plane was downed. There is no end in sight to the conflict in Syria. Mr. Mostaque didn't even mention Venezuela, which could easily become a failed state by next year. Bluntly speaking, geopolitical risk remains a big threat to global supply.

There's another factor that could limit international supply: a lack of financing. Mr. Mostaque called this a "mass definancialization" of the world oil market, which has been caused by massive funds leaving the sector after losing tonnes of money.

This lack of financing will be particularly relevant in Iran, where US$30-40 billion is needed to revive that country's oil industry.

3. Demand should hold up

Part of the bear case on oil has to do with the demand side, specifically with what's going on in China. As the narrative goes, China's economy is on shaky ground, and if the country's economy falters, then oil demand (and oil prices) will collapse.

Interestingly, Mr. Mostaque is bearish on China as well. He sees economic growth slowing to 2% per year, well below the 6.5% goal that China outlined in its recent five-year plan. Yet he thinks the supply side will have much more impact, resulting in a worldwide shortage before long. That would be excellent news for Canada's energy producers in particular.

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